

Chapter 3

Making Work Pay Making Work Possible

Pay is a major determinant of the employment of under-represented groups. Sometimes, work is not financially rewarding for would-be workers. On the other hand, if pay is too high vis-à-vis market realities, it will act as a demand barrier to employment. And non-financial factors, such as the possibility for women to reconcile work and family life, also matter. How can “make work pay” policies help improve the employment prospects of under-represented groups? To what extent can family-friendly policies and flexible work arrangements, such as part-time jobs, facilitate access to employment for these groups?

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Introduction

Both participation and employment remain unequally distributed across work-force groups in virtually all OECD countries. In particular, as documented in Chapter 2, women, lone parents, older workers and disabled persons are under-represented in the labour market. Whether under-representation in employment is a problem is a question that encompasses fundamental issues of a social, cultural and economic nature that differ both within and across countries, and from one population category to the next. Nevertheless, lack of training or occupational skills are factors common to a large proportion of those outside the labour market. Among young women, older workers and disabled persons, non-employed persons are much more frequently less-educated than those who are employed (see Table 3.A1.1 in the annex). In addition to specific barriers to employment, there is the broader issue of the insecure employment status of low-skilled workers.

For groups with an insecure employment status to return to employment, it must *pay* for them to work. Part of the problem lies in the fact that the market wage available to these groups is sometimes too low compared with welfare benefits to encourage labour supply. This explains why many poorer households often move between work and welfare without always managing to escape the poverty trap (OECD, 2001a, Chapter 2). So for governments, one problem is how best to make work pay by modifying taxes, benefits and minimum wages.

But attention should also be devoted to the demand-side. Employment should be financially rewarding for workers, but it also needs to be *affordable* for employers. High non-wage labour costs can reduce demand for low-skilled workers. Hence, various employment subsidies can be an important link between work that “pays” and is “affordable” for the low-skilled, at least in the short run. These measures should ensure that every individual receives a decent income, sufficient to avoid poverty, without imposing excessive labour costs on employers. They play an important distributional role, but also shape labour market behaviour.

Work must also be *accessible*. Parents in particular will seek to balance the competing demands of work and family life. Lone parents may experience specific difficulties in participating in the labour market arising from inflexible working-time arrangements. Perceptions and expectations may also play an important role. For example, disabled persons, in addition to possibly being affected by a non-work oriented design of existing benefit schemes and the lack of appropriate activation policies, may have to face attitudinal and organisational hurdles keeping them outside of the labour market, even if they are only slightly disabled. Examining these non-financial factors and taking them into account through integrated and multi-dimensional policy approaches may help encourage these different groups to return to work.

The purpose of this chapter is to discuss these specific issues. The related issues of activation strategies and training policies are discussed in Chapters 4 and 5, respectively. The first part of this chapter addresses the question of pay. It reviews measures aimed at making work pay, in particular assessing their capacity to promote both participation and employment. The second part addresses more specific supply- and demand-side barriers

to employment, by looking in turn at the participation/employment choices of women, lone parents, the working-age disabled and older workers. It gives particular attention to the ways in which policies can respond to the specific needs of these groups without weakening their attachment to the labour market.

Main findings

- Making work pay policies can provide effective incentives to find a job, while being an important redistributive tool. For instance, the United States and the United Kingdom have longstanding experience of employment-conditional benefits. While being both a pillar of their redistribution systems and accounting for substantial transfers, evaluations have shown them to provide effective incentives to return to employment, particularly for lone parents.
- Several factors influence the ability of employment-conditional benefits to promote employment. If they are not closely targeted, their effects on employment appear limited, compared to what may be a prohibitive cost for every job created. Restricting such benefits to groups well outside the labour market (with little incentive to work otherwise) and time-limiting payments to encourage genuine self-sufficiency in the labour market appear to be the keys to success.
- For disadvantaged groups, a minimum wage often plays a key role in making work pay. But it is a doubled-edge one. When the statutory minimum wage is high relative to the average or median wage, it usually pays to work but labour demand is likely to be reduced; and very broad measures directed at encouraging labour supply, like employment-conditional benefits, are in this case ineffective, since the priority is to enhance labour demand. Conversely, broad measures such as those introduced in the United States and the United Kingdom (or countries moving towards more flexible wage structures) need to be backed up with a moderate minimum wage to act as a floor below which wages cannot fall.
- Subsidies aimed at reducing labour costs can enhance labour demand for disadvantaged groups, where the common characteristic is low education attainment or low skills. In countries such as Belgium, France and the Netherlands that have implemented such schemes, evaluations show positive impacts on unskilled employment. But the windfall effects are likely to be substantial, at least in the short run. Moreover, employment subsidies are more effective in facilitating access to work for disadvantaged groups when closely targeted. In addition, interventions that support employment in the private sector lead to better integration into the world of work than direct job creation in the public sector.
- Striking a better work/life balance is vital, particularly since a fairly high number of women who have left work to care for their families appear to miss the workplace. The opportunity to take paid maternity leave may increase women's attachment to the labour market. But extended leave is likely to make more difficult and uncertain the return to employment, especially for women with insecure employment status. Female labour supply is relatively sensitive to childcare costs, particularly for women with low skills and low pay. Thus, providing subsidies to reduce the costs of child-care services can help young mothers return to work. Finally, the expansion of part-time work has been instrumental in countries with high female participation rates. Measures aimed at facilitating access to part-time jobs or flexible working-time arrangements are one way of preventing young mothers from leaving work.

- Lone parents are among the groups with the highest level of joblessness in many OECD countries. Addressing the disadvantages of this group is very important in the context of reducing child poverty and social exclusion. This implies that welfare support for this group should be made more work-oriented. It is important to recognize that long-term or indefinite receipt of benefits is only likely to deepen and prolong poverty. The components of such a work-oriented safety net will vary across countries, depending on existing institutional features (child care, education, family benefits, health care and labour market programmes). Preferences for working part-time and for reconciling work and family life also need to be taken into account. But in the context of a comprehensive approach, better outcomes can be achieved.
- Health problems are one of the main reasons for withdrawing from the labour market. Here too, a considerable proportion of those no longer in work for health reasons would like to return to work. Yet employment rates among disability benefit recipients are relatively low. Early intervention may often be the best way of preventing long-term benefit dependency. As soon as the disability is recognised, it should immediately trigger an individually-tailored intervention process. The package of arrangements should also include job rehabilitation and training, job-search assistance, choice among a wide range of different forms of work (normal, part-time, subsidised or sheltered employment) and benefits in-cash or in-kind based on the person's ability to work.
- Improving the employment prospects of older workers is especially important in the face of population ageing. This will require a comprehensive range of coordinated measures to influence both labour supply and demand: raising the normal age of retirement as life expectancy improves and reducing incentives to early retirement; reforming income support programmes that offer alternative pathways to early retirement, particularly disability programmes, long-term sick leave and unemployment benefits; providing effective active labour market programmes and training schemes to assist older workers to stay in employment or re-enter employment; promoting flexible working arrangements, including consideration of flexible retirement, and improving working conditions to make them appropriate to older workers; and addressing age discrimination in employment.

1. Financial incentive schemes: making work pay and facilitating access to employment

In assessing programmes to make work pay, it is important to recognize that specific programmes will reflect the institutional environment of each country. Thus, the type of support for low-income working individuals and their families that will be appropriate in different countries will depend on the level of the minimum wage, the level and composition of taxation, the nature of the social insurance and social assistance schemes operating in each country, the degree of reliance on social assistance compared to insurance, the nature and level of family payments, and other forms of support, for example for child care or for health care costs.

To take a simple example, reductions in employer social security contributions will be a more relevant option to consider in countries where these taxes are high. Countries that rely to a greater extent on income-tested payments than on social insurance or universal payments may have overall lower levels of social expenditure, and therefore aggregate tax levels will tend to be lower. However, income-testing will increase effective marginal tax rates over the range of income in which benefits are withdrawn. While the overall tax

wedge may be lower in these countries, the distribution of effective tax rates will differ, and there may be groups, presumably in the lower half of the income distribution, who would receive lower returns from additional work effort than corresponding income groups in countries with higher aggregate levels of taxation.

The level of provision and the costs of child care, the age at which children start school and the availability of pre-school care will also impact on the design of programmes to make work pay. Even in countries that appear to be similar, there are important differences in the design of benefit systems, which complicate the lessons that can be drawn. For example, receipt of income support in the United Kingdom requires social assistance recipients to be working less than 16 hours per week. In contrast, in Australia and New Zealand there are no such hours rules and the income tests use much lower withdrawal rates than in the United Kingdom or many other OECD countries. This means that in Australia and New Zealand social assistance itself can help subsidize low-paid work. This does not mean that lessons cannot be learned from the experiences of different countries, but it is important to bear in mind these and other relevant differences in drawing conclusions from these differing experiences.

It is also important to recognize that programmes to make work pay may have a number of *competing* objectives, and thus their effectiveness cannot be judged solely on the basis of their effects on employment. In particular, some programmes of benefits for working families with children are also designed to alleviate child poverty, or have broader distributional goals. As a result, such programmes may be much more expensive than targeted employment subsidies, for example. These multiple objectives may further complicate comparisons across countries.

A. Encouraging labour supply by making work pay: employment-conditional benefits

The United States and the United Kingdom have longstanding experience of employment-conditional benefits. *They are one of the pillars of their redistribution systems.* Initiated in the 1970s, these make-work-pay schemes gradually increased in scale and are now widely used in both countries. The experiment has spread, and a large number of OECD countries are making such benefits a feature of their redistribution and/or employment policies (OECD, 2002c).

Different forms of employment-conditional benefits

In both countries, these benefits are directed at families with low earned incomes, particularly those with children. The amounts actually paid are relatively high. In the United Kingdom, the benefits are conditional upon a minimum number of hours of work and are highest for households with the lowest earned incomes. In the United States, the benefit is phased in as earnings rise up to a threshold. In both cases, the benefit is not time-limited but depends on household income, with a very simple exit arrangement: benefits are gradually reduced over a set income level. People targeted by such policies should be able to rely upon *sustained* support, reflecting the fact that their difficulties in entering the labour market are in no way cyclical (Blundell and Meghir, 2002).

There are some variants on this basic structure (see also Table 3.A1.2 in annex):

- Some benefits are *individually based*, no longer targeting the family as a whole but individual family members. This is the case in a number of countries (including Australia, Canada, Belgium, France and the Netherlands) and it shifts the thrust slightly away from redistribution and towards a work-incentive policy.¹ The reason is that basing

the benefit on overall household income may reduce the incentive for the spouse to work and such a risk may be crucial in those countries where non-employment is concentrated among spouses. However, this perverse effect may be attenuated when eligibility requirements are individually based.

- The *generosity* of these benefits varies substantially across countries, and necessarily depends on other components of redistribution policy and on institutional features of the social welfare system (e.g. the minimum wage, whether or not there are universal payments, family or housing benefits, etc.).
- *Eligibility* for benefits may depend on the recipient's prior status, rather than just being income-tested. More precisely, in a number of countries only people leaving welfare or the long-term unemployed have access to benefits such as tax credits or employment-conditional benefits. Household composition may also be a criterion.
- The benefit may be *time-limited*. The argument in favour of time limits is that it strengthens incentives. Limiting the payment of benefits over time may encourage recipients to progress more rapidly in their jobs, for instance through training, and eventually achieve real self-sufficiency in the labour market (Blundell, 2002). How long it takes to eliminate job insecurity and, consequently, how long a programme should be remains an open question.

In some countries, tax policy has been used to make work more attractive to individuals. For instance, the Belgian in-work tax credit (currently being introduced) can be seen as a component of a more comprehensive tax reform aimed at promoting employment. In the context of this reform, employee social security contributions have been cut for low-wage workers, leading to a substantial increase in the lowest net earnings. In Germany, the tax and transfer system in the low-wage sector has been recognized to be an impediment to employment. The Federal Government has therefore undertaken a phased reduction of the burden imposed by taxation and other charges on labour, as part of the “employment-friendly reforms” (European Commission, 2002). Among other things, the objective of this reform is to increase disposable income after tax and social security contributions, especially for low-wage workers.² The reduction in taxes on low income people recently enacted in Italy provides another case in point. This reform is part of a more ambitious programme of across the board tax cuts, while also raising incentives to start participating in the labour market, particularly for spouses.

Employment-conditional benefits can provide effective incentives to work, under certain conditions

The impact of make-work-pay policies depends on a number of features, including eligibility criteria and the generosity of benefits.

First, in both the United Kingdom and the United States, tax credits appear to be an effective means of encouraging entry or a return to employment by lone-parent families and households where no-one works (Table 3.1). But there is also evidence of the perverse effect that is to be expected among two-earner households with regard to the labour supply of spouses. Income-tested tax credits make it less worthwhile for the second family member to earn additional income, particularly if they move the household into the withdrawal phase of the tax credit scheme where effective marginal tax rates are very high. In this case, some people will find it worthwhile to stop working or reduce their hours of work. The same conclusions are reached by a large number of evaluations, regardless of the methodological approach (controlled experiments, natural experiments or micro-simulations). Both the

Earned Income Tax Credit in the United States (EITC) and the Working Family Tax Credit in the United Kingdom (WFTC), for instance, are reported to have lowered the employment rate of married women with working spouses (Table 3.1). Therefore, the employment effects of this type of measure, which targets household income, differ across groups and may, overall, be relatively modest. And from a purely employment point of view, it may be preferable to have individually-based eligibility criteria, or to differentiate the intervention according to the target group, lone parents and other people.

Table 3.1. **In-work benefits and their effects on labour-market participation and employment: lone parents, a highly receptive group**

	Working Family Tax Credit (UK)	Earned Income Tax Credit (US)	
Costs	GBP 5 billion (0.6% of GDP)	USD 32 billion (0.33% of GDP)	
Number of recipients	1.3 million households (1 household in 20)	20 million households (1 household in 5)	
Employment effects	Effects of the 1999 reform which increased the generosity of benefits (corresponding to a GBP 1.5 billion increase in public spending)	Effects of the 1987 expansion of the EITC, passed as part of the Tax Reform Act of 1986 and representing the first major expansion of the EITC (the maximum credit increased from USD 550 to USD 851)	
	Percentage points change in transitions from non-employment to employment (evaluation based on simulations) ^a	Percentage points change in participation rates (evaluation based on natural experiments)	
	Lone parents	Single mothers ^b (1985-1991)	2.4
	Married women with:	Married women ^c (1986-1994)	-2.4
	– a non-working spouse		
	– a working spouse		
	Married men with:	Married men ^c (1986-1994)	0.2
	– a non-working spouse		
	– a working spouse		
	Number of additional jobs		27 500

a) Blundell and Hoynes (2001), Table 5.2.

b) Eissa and Liebman (1996).

c) Eissa and Hoynes (1998), Table 7.

Second, in terms of eligibility criteria, another question is whether income-testing is sufficient in itself or whether a more selective approach is better, for example, restricting eligibility for benefits to the most disadvantaged categories of recipients (*e.g.* long-term unemployed, long-term welfare recipients, lone parents). This solution has been recommended by various authors (Blundell, 2002), but it has certain risks. First, narrower targeting may increase the stigma attached to the measure, which can undermine the recipient's labour-market integration. Second, confining eligibility to welfare recipients alone may alter welfare-claiming behaviour, with longer and more frequent periods on welfare that offers entitlement to tax credits or similar benefits. Third, restricting generous measures to a small sub-set of the population may raise concerns about equity – former welfare recipients may receive higher disposable incomes than people doing otherwise similar jobs. In turn, this may have undesirable incentive effects. Nevertheless, there is some evidence that this sort of targeting can be effective. Canada's experience with the Self-Sufficiency Project, targeted at single parents who have been welfare recipients for a year, suggests that this group is particularly receptive to make-work-pay policies (Box 3.1).

Third, imposing a minimum-hours requirement for eligibility for payments may have ambiguous effects on labour supply. On the one hand, it may be ineffective in helping those with young children take a job that involves too many hours of work. But on the other, the prospects for career development and wage progression are often better in full-time employment (Corcoran and Loeb, 1999). And a minimum-hours requirement reduces the

Box 3.1. Canada's Self-Sufficiency Project (SSP): promoting employment and reducing poverty among lone parents

The Self-Sufficiency Project (SSP) was launched in Canada in the mid-1990s. The scheme was a large-scale “controlled experiment”, which ran for five years and is now concluded. Enrolees (i.e. persons offered the supplement) were assigned on a random basis, and their behaviour was compared with persons not offered the supplement. The SSP paid an earnings supplement targeted at single parents who had been welfare recipients for at least a year. The supplement was paid for up to three years and equalled half the difference between a participant's earnings from employment and an “earnings benchmark”, provided that the recipient worked for at least 30 hours per week. The supplement roughly doubled the earnings of many low-wage workers (before taxes and work-related expenses). Recipients of this earnings supplement were not entitled to receive welfare but were eligible for other cash transfer payments such as employment insurance and child benefit. However, the SSP was a voluntary scheme and enrolees could at any time opt out of the programme and return to welfare.

SSP impacts on employment and earnings

	Year				5	
	1	2	3	4	1st quarter	2nd quarter
			end of programme			
Monthly employment rate (%)						
Programme group	29.7	40.6	39.9	41.2	42.1	41.8
Control group	25.4	30.1	32.6	36.8	39.8	41.9
Difference (Impact)	4.3	10.5	7.3	4.4	2.3	n.s.
Monthly full-time employment rate (%)						
Programme group	18.0	28.5	27.7	28.5	28.3	28.0
Control group	11.6	16.0	18.4	22.3	25.0	26.5
Difference (Impact)	6.4	12.5	9.3	6.2	3.3	n.s.
Average monthly earnings (CAD)						
Programme group	233	370	387	476	499	496
Control group	186	269	317	424	462	488
Difference (Impact)	47	101	70	52	n.s.	n.s.

n.s.: not statistically significant.

The same individuals have been followed during five years. Persons offered the supplement (the programme group) had one year to take advantage of the offer. They could sign up for the supplement if they found a full-time job within the year after random assignment. If they did not sign during that year, they could never receive the supplement. Overall, about 36% of the programme group received at least one supplement payment, but the number receiving supplement payments in any given month was never that large, peaking at 25% of the programme group near the beginning of the second year.

Source: Michalopoulos et al. (2002), Table ES.1.

The findings of SSP evaluations are encouraging.^a The scheme brought a large number of people back into work, a feature noticeable throughout the period of eligibility for the earnings supplement (the first three to four years). As the SSP promoted a return to full-time work, it also had substantial effects on wages and hence on income and poverty, reducing the proportion of families with incomes below Statistics Canada's low-income cut-offs by up to 12.4 percentage points (among the programme group by comparison to the control group). The effect of the supplement offer was mostly to speed up by two or three years the entry into employment of lone parents who had been on welfare at least one year prior to random assignment. Indeed, the impact on employment and earnings gradually wore off once payment of the earnings supplement ceased. This was mainly due to the fact that the employment rate of the control group gradually caught up to that of the programme group.

Box 3.1. **Canada’s Self-Sufficiency Project (SSP): Promoting employment and reducing poverty among lone parents** (cont.)

To a lesser extent, the SPP effects on employment fell over time because some people in the programme group who went to work lost their job. The supplement might have been more effective and might have produced a longer-lasting effect if it had been combined with job-retention or reemployment services (Michalopoulos *et al.*, 2002; see also Box 3.3). In addition, it appears that when the programme was offered to *new* entrants to welfare, the positive employment and earnings effects were especially large and long-lasting.^b This suggests that the effectiveness of SSP would increase over time if it was operated as a programme (Ford *et al.* 2003).

- a) See also Box 3.2 for the financial aspects.
- b) A sub-experiment which offered the financial incentive to lone parents who had been on welfare exactly one year produced longer-lasting positive effects on full-time employment and larger effects on earnings while participants received less overall in supplements payment.

scope for the main household earner to use earnings supplements to cut down on hours of work or to manipulate hours to become eligible for payments. In any case, this type of requirement definitely has an impact on labour supply behaviour. In the United Kingdom, for instance, there is a very clear “spike” in the number of hours worked by single mothers, a spike that corresponds exactly to the number of hours required to become eligible for the WFTC and is not found among single women without children who are not eligible (Blundell, 2002).

Fourth, the fact that the benefit is paid as long as wages remain below a given threshold does not encourage recipients to develop their skills and competences. A recent study by Heckman *et al.* (2002) suggests that EITC recipients may have cut down on their training effort, since their wage profiles remained relatively flat (owing to their participation in the scheme). Nevertheless, entitlement to benefits should last for a sufficiently long period because career prospects and wage progression among the low-skilled and/or low-paid are both limited and slow. For instance, although the Canadian SSP increased the number of people who experienced high wage growth over a three-year period (10.9% of the programme group saw their wages increase by 20% or more between the end of the first year and the end of the fourth year of the experiment, compared to 7% of the control group), average wages were still fairly low for many workers at the end of the period (Michalopoulos *et al.*, 2002).

Fifth, the impact of employment-conditional benefits on labour supply behaviour is highly contingent on the generosity of the benefits and their ability to raise earned income above the level of welfare. In many cases, the benefits provide only small financial gains (Table 3.A1.2 in the annex). The avowed success of the EITC in the United States, particularly among single mothers, stems partly from the fact that the scheme provides relatively strong financial incentives³ (Blundell and Hoynes, 2001), particularly at a time when access to welfare benefits was being restricted. The generosity of the earnings supplement awarded under Canada’s SSP also partly explains the scale of the employment effects observed among programme members⁴ (Blank *et al.*, 1999). Conversely, *ex-ante* evaluations of France’s *Prime pour l’emploi* (PPE) are pessimistic. Financial support for recipients is very low, accounting at most for 4.7% of declared income⁵ (compared with 40% on average for the EITC). The anticipated effect on employment is fairly marginal, particularly as the scheme partly excludes from the target group those with the lowest earned incomes, *i.e.* those for whom there may be a real trade-off between welfare and work (Cahuc, 2001; and Box 3.2).⁶

Box 3.2. Making work pay policies: different costs for different goals

It is hard to generalise about the costs associated with tax credit schemes and speak of their economic efficiency without placing them in their context. Such schemes fulfil different functions depending on the country and, while their stated goal – regardless of country – is to promote employment, their role with regard to the welfare system and redistributive issues may differ substantially.

The EITC and the WFTC are expensive schemes (Table 3.1),^a but they also redistribute resources to a significant proportion of low-income families with children, who are making an effort to support themselves through work. For instance, Liebman (1998) suggests that the EITC would have offset 23% of the decline in income between 1976 and 1996 for households in the lowest fifth of the income distribution, and offset 10% of the decline for households in the second fifth. To some extent, the EITC acts as a welfare benefit for low-wage earners. According to estimates by Grogger (2003), the increased generosity of the scheme during the 1990s helped reduce the number of entrants into the welfare system over the same period: “each percentage-point increase in the credit rate reduces initial entry by 3.2%. Thus the increase in the mean credit rate for multiple-child families between 1993 and 1999 would have decreased initial entry by more than a half.” Some potential welfare recipients are said to have operated a trade-off and opted for the EITC, and hence for work. Reducing poverty, in particular among children, was also one of the key goals of the UK Government in its 1999 and subsequent reforms which featured the WFTC and made the tax credit system more generous (HM Treasury, 2000). The reforms have also increased family payments for jobless parents, without undermining financial incentives to return to employment.

In this particular context, when employment-conditional benefits are intended to substitute for income-support expenditures, they cannot be expected to be financially neutral. Duncan and MacCrae (1999) estimate, for instance, that labour supply behaviour induced by the expansion of the WFTC resulted in a cut of some 14% in the *ex-ante* cost of the measure. Apparently, then, the reform costs less in terms of public expenditure than straightforward welfare payments with no requirement to work. If one were to assess this programme solely on the basis of the employment goal, however, the outcome would appear to be extremely inefficient, with 86% of the very significant cost shouldered by the public purse. Clearly, this is not the appropriate way to assess such programmes, given their important distributional objectives. In order to assess their economic efficiency it is necessary to make a comparison of their cost with that of social transfers, which may provide significant disincentives to work. Moreover, this means that it may not be meaningful to compare the costs and apparent outcomes from such programmes with more selective measures focussing purely on encouraging the transition from welfare to the world of work.

Canada’s SSP, for instance, maximises employment impacts by targeting single-parent families only, but also limits costs by targeting welfare recipients who must give up income assistance in order to receive the SSP earnings supplement. Thus, this scheme does not involve very significant redistribution since it covers a small group, but it provides large financial incentives to those who are entitled. As the scheme also promotes full-time employment, the earned income of those on the project is relatively high, as are the taxes they pay. Overall, the net cost per person has been low, since benefits (in terms of higher taxes collected on re-employed individuals and lower welfare payments) have been relatively high.^b These results have been contested, however. The conclusions derive from a controlled experiment and are based on partial equilibrium results. A general equilibrium analysis, namely one that analyses the results of a broad programme available

Box 3.2. Making work pay policies: different costs for different goals (cont.)

to all welfare recipients and takes into account displacement effects and entry effects,^c has been estimated to lead to significantly less positive outcomes (Lise *et al.*, 2003). However, even this model is limited as it does not apply to a fully national programme. The conclusion appears to be that a scheme like the SSP may be effective if limited to a small subset of the population, where it would not be expected to have large equilibrium impacts. Conversely, France's PPE has very little targeting and the financial gains for beneficiaries are relatively small. The stated goal of this scheme was to promote employment and payments are effectively too low to have a significant distributional effect. But PPE generates far too high a cost per job creation, since the financial incentives are too small for there to be any substantial effects on employment (Laroque and Salanié, 2002).

- a) However, they are also part of the overall system of other OECD social protection, which in the case of the United States has significantly lower budgetary costs than in many European countries.
- b) SSP cost the government only about CAD 2 700 more than income assistance for each program member over a five-year period. The bulk of the cost of SSP came in the form of supplement payments. However, the financial gains to the government from increased income taxes made up for most of the losses in increased transfer payments (Michalopoulos *et al.*, 2002, Chapter 7).
- c) Welfare recipients as well as unemployed persons may delay their return to employment in order to become eligible for the supplement.

B. Supporting labour demand by lowering labour costs

Employment-conditional benefits may encourage disadvantaged groups to (re)enter the labour market. But there is also a labour demand issue: the cost of labour may effectively limit a firm's ability to hire low-skilled individuals. The idea of lowering labour costs to promote the employment of under-represented groups has shaped employment policies in some OECD countries, particularly in those European countries where social security contributions are high relative to average earnings. Measures to reduce labour costs can take a variety of forms, but fall into two main categories: broad measures covering all those in low-paid work, and schemes more closely targeted at those who are jobless and not easily employable.

Reducing labour costs at the bottom of the wage ladder: substantial effect on unskilled employment, but high deadweight costs

Support to the demand for low-paid jobs can take the form of a reduction in employers' social security contributions. As the wage level is the only qualifying condition, the reduction applies to both new recruits and longstanding members of the workforce. The reduction in contributions remains in effect as long as the monthly wage remains below a pre-defined ceiling, with no other limit as to duration. When the reduction is based on the monthly wage alone and not on the number of hours worked, this type of measure leads to substantially more part-time work at what may be relatively high hourly rates. If low-skilled, low-paid jobs are the real target, the reduction in employers' contributions should be proportional to the hourly wage.

In countries that have implemented this type of measure (mainly Belgium, France and the Netherlands), most available macroeconomic evaluations report significant effects on employment, in particular for low-skilled labour (Table 3.2). Broad measures to reduce employers' social security contributions for low-paid jobs pose, however, a major funding

Table 3.2. Examples of broad reductions in social insurance contributions for low-paid jobs

Description of measure	Evaluations
<p>Belgium</p> <p>Sliding-scale reduction for low wages, decreasing with relevant pay ceiling and ranging from 50% to 10% of overall amount due in employers' contributions. Measure abolished on 1 April 1999.</p> <p>Measure introduced on 1 January 2000.</p> <p>Reduction in employers' social insurance contributions that declines as the gross wage increases. The largest reduction, for the EUR 2 565 to EUR 3 333 wage bracket, is EUR 736 (a reduction of between 28.7 and 22% of the gross wage). In the upper wage bracket, there is a sliding-scale reduction limited to EUR 246 as from EUR 4 614 (or at most 5.3% of the gross wage). For part-time workers, the reduction is commensurate with the number of hours worked, providing they exceed $\frac{1}{2}$ of full-time work. From $\frac{1}{5}$ of full-time work, the reduction in contributions is at its highest.</p>	<p>The measure abolished on 1 April 1999 has been evaluated by Sneessens and Shadman (2000). These authors used a general equilibrium model calibrated on the Belgian economy, with two categories of labour (skilled and unskilled), to simulate a 21% cut in employers' contributions for unskilled jobs. The result was an increase of 6.7% in low-skilled employment and 3.2% in total employment (market sector), for an overall cost amounting to 1% of GDP (the funding effects were not taken into account^b).</p>
<p>France</p> <p>Measure initially introduced in 1993 in a slightly different form.^a</p> <p>Reductions in employers' social security contributions on low wages. Sliding-scale reduction, which may exceed 18.2% of gross salary at the SMIC (minimum wage) level and stops at or over 1.3 SMIC. For part-time workers, the cut in contributions is commensurate with the hours worked.</p>	<p>This measure has given rise to numerous evaluations based on macroeconomic models calibrated on French data. For instance, Laffargue (2000) and Audric <i>et al.</i> (2000) reach a figure of between 110 000 and 440 000 jobs created (or between about 0.7 and 2.9% of employment in the business sector), for a total annual cost of 0.5% of GDP (with various funding hypotheses).</p> <p>On the basis of econometric estimates using individual data on firms, Crépon and Déplatz (2001) put the number of jobs created at between 255 000 and 670 000 (orders of magnitude similar to those found by Sneesens and Shadman, 2000). However, the funding effects of these reductions are not taken into account.^b</p>
<p>Netherlands</p> <p>SPAK: introduced in 1996: reduction in employers' contributions on low wages. The reduction declines as the wage rises and ceases when the wage reaches 115% of the statutory minimum wage. The reduction is highest at the level of the statutory minimum wage, and cuts employers' contributions by around 60%, or 13% of gross pay (or just over 10% of all wage costs). Below 36 hours per week, the reduction is commensurate with the number of hours worked (thereby excluding part-time workers earning high hourly rates).</p> <p>T-SPAK (Transitional SPAK): measure introduced in 1997 to cushion the increase in the tax burden of employers who raise the pay of workers receiving SPAK benefits. For workers earning over 115% but less than 130% of the minimum wage, employers may apply for half of the normal SPAK. This measure is only granted for workers who have received the SPAK. The T-SPAK is awarded for two years from the date on which entitlement to SPAK ceased.</p> <p>SPAK and T-SPAK have been abolished over a period of four year as from 1 January 2003.</p>	<p>Evaluations were based on a general equilibrium model of the Dutch economy (MIMIC: Bovenberg <i>et al.</i>, 1998; European Commission, 1999). The simulations predicted a total increase in employment of almost 1%, with an increase of over 5% in less-skilled employment, for an overall cost of 0.5% of GDP, funded by a cut in public spending.</p> <p>A recent evaluation based on a comparison between firms applying for the wage subsidy and non-applying firms suggests that the effect of SPAK on employment would have been very low or even zero (Mühlau and Salverda, 2000). But the study covers the period 1996-1998, where the subsidy was about EUR 500. In 1998, the SPAK was increased to EUR 1 800.</p>

a) The reductions introduced more recently under legislation on the 35-hour week cannot be equated to measures to cut labour costs. They were introduced to maintain monthly wages following the reduction in working hours, without increasing hourly labour costs for employers.

b) For instance, such schemes can be funded by lowering public expenditures or increasing other taxes, and the evaluated employment effects depend on the funding source which is chosen.

Source: OECD (2002b); SPF (2001, Belgium); DARES (1999, France); European Commission (1999, Netherlands).

issue. The deadweight effects are likely to be substantial as a broad group of workers is covered and with fast-expanding companies receiving the same subsidy as those in decline. This is the main criticism levelled at this kind of policy, which also subsidises existing jobs that are not under threat and job creation that might have occurred anyway.

For instance, according to employer surveys in the Netherlands, between 20 to 60% of *new* recruits would have been hired without the financial support.⁷ These views may also reflect the fact that, in the short term, companies basically tailor employment to demand for their goods or services. The longer-term impacts to be expected from these measures are probably underestimated in employer surveys, since lower labour costs may give companies a financial boost and enhance their capacity for job creation.

From the recipients' standpoint, there is also a risk of seeing low-pay traps emerge. This is because payroll tax reductions for low-paid jobs make the tax system more progressive (or at least less regressive), and make it more expensive for companies to award wage increases at the bottom end of the wage ladder. To address this problem, the Netherlands has launched an interesting initiative. It has introduced a complementary measure (T-SPAK), which temporarily subsidises wage increases that would otherwise cause employers to lose their entitlement to the broader reduction in contributions (Table 3.2).⁸

Closely targeted hiring subsidies effectively help under-represented groups

One obvious way of reducing the “pure” windfall effects of measures designed to lower labour costs is to introduce tighter targeting. The target groups may range from the long-term unemployed to welfare recipients or low-skilled single parents. Their common characteristic is the problems they tend to face in finding work. Targeted employment subsidies are found throughout the OECD area and account for a significant share of expenditure on active labour-market policies (Table 3.3).

Under certain conditions, these special measures may prove useful in improving the employment prospects of target groups:

- First, these schemes produce better outcomes when programme participants are allowed to do more *regular* work. In this regard, the evaluation evidence suggests that private sector wage subsidies are more effective than direct-job creation in the public sector in helping unemployed people return to employment in the open labour market (Martin and Grubb, 2001). Most jobs provided through direct job creation do not offer opportunities to gain work experience that could be transferable to “normal” jobs in the private sector (Table 3.4). The risk is that recipients may become marginalised, and for this reason, it is important for such policies to be targeted at highly disadvantaged groups with little prospect of entering the “normal” labour market, helping them to maintain contact with the labour market.
- Targeted employment subsidies may help people in the targeted groups in finding a job, but this can happen largely at the expense of other groups. If deadweight and substitution effects cannot be eliminated, the evaluation evidence suggests that it may be possible to raise *net* employment gains associated with private sector wage subsidies to 20-30% or more through effective targeting of the measures to specific groups (*e.g.* the long-term unemployed) and close monitoring of employer behaviour in order to curb abuses (Martin and Grubb, 2001). However, such measures may have the drawback of stigmatising the group in question, and this may undermine the chances of people in the group of finding work. It is therefore preferable to restrict eligibility to those having significant difficulties in the labour market.
- Many of the highly targeted schemes have a low take-up rate among employers, who may be unaware of their existence or put off by the restrictions imposed. Moreover, most

Table 3.3. Targeted employment subsidies account for a significant share of expenditure on active labour market programmes

Subsidies to regular employment in the private sector and direct job creation (public or non-profit), 2001

	Employment subsidies		Distribution of employment subsidies	
	As a percentage of total public spending on active labour market programmes	As a percentage of GDP	Subsidies to regular employment in the private sector	Direct job creation in the public sector
			(% of total employment subsidies)	
Australia	18.6	0.08	8.0	92.0
Austria	18.0	0.09	63.6	36.4
Belgium	53.8	0.69	41.1	58.9
Canada	6.0	0.03	15.5	84.5
Czech Republic	39.9	0.08	49.3	50.7
Denmark (2000)	10.7	0.17	11.6	88.4
Finland	27.7	0.26	55.4	44.6
France	26.2	0.34	46.9	53.1
Germany	17.8	0.21	13.5	86.5
Greece (1998)	10.5	0.06	100.0	–
Hungary	58.6	0.28	32.3	67.7
Ireland	47.0	0.53	32.4	67.6
Italy	..	0.29	82.0	18.0
Korea	44.1	0.14	10.5	89.5
Luxembourg (1997)	23.3	0.06	96.7	3.3
Mexico	39.3	0.02	–	100.0
Netherlands	24.0	0.38	12.6	87.4
New Zealand (2000)	11.6	0.06	81.2	18.8
Norway	0.6	0.01	100.0	–
Poland	..	0.04	60.1	39.9
Portugal (2000)	9.7	0.06	18.6	81.4
Spain	39.3	0.33	74.8	25.2
Sweden	13.3	0.19	98.4	1.6
Switzerland	23.1	0.10	36.8	63.2
United Kingdom	7.3	0.03	63.2	36.8
United States	8.1	0.01	37.7	62.3
OECD unweighted average^a	24.1	0.18	47.8	52.2

.. Data not available.

– Nil or less than half of the last digit used.

a) For above countries only.

Source: OECD database on labour market programmes.

of the subsidised contracts are with major companies (which are often more aware of the schemes than small and medium-sized firms). It might be worthwhile to promote such measures among smaller firms, many of which are unaware that the support is available and yet would stand to gain relatively more from it than large firms. The visibility of these measures for employers could be enhanced by not having a host of different schemes, many of them based on the same rationale and competing with one another, rather than being complementary.

- The measures should be designed to ensure that labour market integration is as sustained as possible. The temporary nature of the subsidy may increase labour turnover, if employers continue to fill the same post using workers recruited on subsidised contracts. Some measures contain clauses aimed at employers who may, for instance,

Table 3.4. Targeted employment subsidies: recipient outcomes and employers' views (examples drawn from recent evaluations)

Description of measure	Available evaluations
A. Effects of employment subsidies on recipient outcomes	
Germany , eastern Länder (Sachsen-Anhalt) Subsidised jobs in public institutions, a private non-profit organisation or a firm. The job subsidised must not replace an existing job and the work done must be useful for the public. This scheme is targeted at the unemployed for at least six months, with priority going to the unemployed aged 50 years and over, the long-term unemployed, unskilled youth, the disabled. The duration of the programme is around one year at most.	Eichler and Lechner (2002) One to two years after having been in the programme, participants have a higher employment probability compared with non-participants having the same observable individual characteristics (<i>e.g.</i> age, gender, education).
France Subsidised jobs in the non-market sector, targeted at individuals with serious difficulties on the labour market (very long-term unemployed, long-term unemployed aged 50 and over, welfare recipients, the disabled). The duration of the programme is five years at most.	Bardaji (2001) While subsidised employment contracts help to maintain the worker in the non-market institution, it is highly detrimental when people do not stay: very few subsequently find work. Thus, experience gained in a subsidised job does not appear to be highly valued (no adjustment for selection bias).
Slovak Republic Subsidised private-sector jobs, targeted at unemployed and school-leavers aged under 18. The duration of the programme is two years minimum. Subsidised public-sector jobs targeted at low-skilled. The duration of the programme is nine months maximum.	van Ours (2002) Employment subsidies may increase unemployment exit rates, provided the programme is not too long. Very long programmes may have adverse effects on the rate of return to unsubsidised employment.
Sweden Six main types of Swedish programmes that were available to adult unemployed workers entitled to unemployment benefits in the 1990s: labour market training, workplace introduction, work experience placement, relief work, trainee replacement and employment subsidies. Eight active measures available for unemployed persons. These programmes can be classified in four categories: self-employment services, subsidised on the job training, wage and employment subsidies and, classroom training services.	Sianesi (2002) Employment subsidies for private companies are by far the most effective type of programme to help bring people back into work (notably in terms of sustained employment). Carling and Richardson (2001) Programmes in which the participants obtain subsidised work experience and training provided by firms have better outcomes than programmes providing classroom vocational training. Further, the more regular work the participants are allowed to do, the better the programme is relative to other ones.

B. Private-sector subsidies and their impact on hiring decisions: employers' views

	Percentage of subsidised hiring that can be considered as...		Total
	Deadweight ^b	Substitution effect ^c	
Belgium , van der Linden (1997) ^a Reduction in employers' contributions for a period of eight months (<i>Voordeelbanen</i>), targeted at young, jobless and other disadvantaged groups.	53	36	> 89
France , Belleville (2001) Reduction in employers' contributions (CIE), targeted at long-term unemployed, young people with no skills, jobless aged 50 and over, welfare recipients, the disabled.	19-39	45	64-84
Netherlands , van Polanen Petel <i>et al.</i> (1999) ^a Reduction in employers' contributions (VLW), target at long-term unemployed.	27-60	37-63	57-87

a) In Marx (2001).

b) Employer states that the worker would have been hired without the financial support, and the same person would have been hired.

c) Employer states that recruitment would have occurred without the financial support, but the support influenced the profile of the person hired.

lose the right to benefit from the subsidy if they refuse to extend the contract of a worker hired in this way. Another solution is to make payment subject to a training requirement, thereby strengthening the ties between the person hired and the employer investing in the training. The Job Training Partnership Act (United States, 1983-2000) included such measures, offering employers temporary subsidies while promoting the training of new recruits and monitoring employer behaviour (see also Box 3.3).⁹

By and large, employment subsidies can be effective provided they are carefully targeted at groups experiencing serious difficulties in the labour market. In fact there are two possible interpretations of the evaluation evidence (Table 3.4). On the one hand, employer surveys report major deadweight effects. On the other, studies on recipient outcomes are more optimistic. This suggests that targeted subsidies do redistribute employment opportunities to the more disadvantaged, without necessarily creating many more jobs. Moreover, such schemes may also prevent the long-term unemployed from becoming discouraged and quitting the labour market, so they can also help to mobilise labour resources. Finally, such measures can only lead to sustained integration in the labour market if the jobs enable people to develop their human capital. But career progression is very slow among those with few skills, which is a common feature in the groups targeted by these schemes. This raises the issue of tying the subsidy to a training requirement. A few experiments along this line have been tried with promising results and further experimentation would be desirable.

C. Subsidising workers or employers? Relevance and drawbacks of each option

Tax-credit schemes and employer subsidies have both been the subject of an extensive literature. But seldom have the two options been addressed on a comparative basis, and the issue of when one is preferable to the other remains open.¹⁰ Moreover, tax-credit schemes and employer subsidies pose questions about the minimum wage and the level at which it should be set.

The role of the minimum wage

The minimum wage is an important element in the making-work-pay-policy toolbox. By setting a wage floor below which employers cannot legally pay, a statutory minimum wage aims to reduce wage inequality and to reduce poverty among working households (OECD, 1998). But while the minimum wage can make work pay, it also makes work less accessible for some groups of workers and may thus be an inappropriate tool for helping the most disadvantaged groups. To the extent that the minimum wage has undesirable effects on the level of unemployment, then its redistributive impact will be reduced. Overall, a high minimum wage (compared to the average or median wage) might have only a limited effect on poverty, with the risk of excluding from the labour market those on the borderline between employment and unemployment (Neumark and Wascher, 1997, 1998).

Indeed, while available cross-country evidence suggests that statutory minimum wages, at the levels at which they are currently set in OECD countries, do not have major perverse effects on aggregate employment (OECD, 1998; Dolado *et al.*, 1996), a high statutory minimum wage undermines the employment prospects of disadvantaged groups (Neumark and Wascher, 1999; Kramarz and Philippon, 2001; Laroque and Salanié, 2000). For these groups, the most effective solution in terms of employability would therefore be to lower the minimum wage. But this could reduce the attractiveness of work compared to welfare receipt for some

groups (for example, young people). A second-best solution would be to offer employers a reduction in non-wage labour costs for those employed at or around the minimum wage. That is, a high minimum wage appears to call for policies that support labour demand.

Moreover, since employment-conditional benefits are mainly directed at enhancing labour supply, a high minimum wage makes it more difficult to justify the introduction of such schemes. Unless these benefits are closely targeted at individuals who experience difficulties in moving from welfare to work, for instance, they will mainly support those who are already in jobs or are likely to find work. And they will overlook those outside the core labour market, with weak employment prospects. In addition, a high minimum wage compresses the wage distribution at the bottom of the wage ladder, which makes it very expensive to introduce broad in-work benefits since targeting low wage earners may, in fact, represent a relatively large proportion of those in employment (Bassanini et al., 1999). In terms of both equity and economic efficiency, employment-conditional benefits therefore appear to be inappropriate in the presence of relatively high minimum wages. However, it is possible that tax-credits or in-work benefits could lead to lower increases in minimum wages if seen as a package.¹¹ Nevertheless, earnings supplements are not perfectly substitutable with wages, since the latter have broader implications for unemployment insurance benefits, the level of future pensions, and related entitlements, which in-work benefits generally do not have.

Finally, while the introduction of tax credits may be theoretically ineffective in the presence of a *high* minimum wage, this does not rule out keeping a moderate minimum wage. The introduction of employment-conditional benefits should increase labour supply which, in turn, is likely to put downward pressure on wages. Some of the positive repercussions expected from these benefits might thus be cancelled out by the drop in wages at the bottom of the wage ladder. Hence, it may be desirable to set a wage floor below which employers cannot go. This is in fact the option chosen by the United Kingdom, which introduced a minimum wage just as its tax-credit policy was being extended (European Commission, 2000). Various evaluations consider this to be a sound option, stressing its beneficial impact on low wages with no apparent repercussions on employment (UK Low Pay Commission, 2001).

Common disadvantages: towards more comprehensive schemes for sustained returns to employment

Policies targeting groups experiencing the greatest difficulty in the labour market are shifting to more comprehensive schemes, which pay specific attention to the career development of disadvantaged groups. The Joint Report on Social Inclusion by the Council of the European Union (2001), for instance, advocates an “integrated and multi-dimensional approach to policy development” which may include individually-tailored benefits. In the United States and the United Kingdom, there are numerous debates on the services to be provided for people moving from welfare to work, to give them optimal support and improve their chances of sustained employment (Karen et al., 2002; Bloom et al., 2002). Certain experiments combining financial incentives, job-search assistance and training are already showing how worthwhile it is to have schemes that provide more than just financial support (Box 3.3).

Employment-conditional benefits also raise the issue of the *quality* of the jobs available to disadvantaged groups. The chance of an earnings supplement may prompt some to accept poorly paid, temporary work with weak career prospects. In the United

Box 3.3. Combining training, job-search assistance and financial incentives to strengthen job attachment

Supplementing financial incentives with training provision and/or job-search assistance is one path taken in some countries. Two interesting experiments have been conducted in the United States and Canada. One is the Minnesota Family Investment Program (MFIP) which offers an income supplement and job-search assistance. The other is Canada's SSP (see Box 3.1 above). Some people on the MFIP received only financial support while, in the Canadian project, those on "SSP Plus" benefited from additional employment services such as low-cost job search and job counselling services (help writing résumés, job-finding clubs, etc.). In both cases, those on the fuller programmes obtained higher wages, possibly indicating better jobs. The observed effects of the MFIP have been substantial and sustained, while those of SSP Plus are slightly more mixed as many programme members lost their jobs fairly soon (Bloom and Michalopoulos, 2001). However, when jobs were kept in the short term, they proved more stable than those taken by enrollees on the ordinary SSP project, with fewer people exiting once payment of the earnings supplement ceased (Michalopoulos et al., 2002). This suggests that those on SSP Plus managed to become more self-sufficient with regard to welfare than those on the ordinary SSP programme.

Combining hiring subsidies for the employer with job-search assistance and training can also be effective. Following a detailed review of the leading wage subsidy programmes in the United States, Katz (1998) was somewhat sceptical as to the scope for increasing labour demand for highly disadvantaged groups using subsidies alone. But he concluded that this kind of policy, backed up with training or job-search assistance, could be quite effective, based on evaluations of the temporary (6-month) subsidy programme set up by the Job Training Partnership Act (United States, 1983-2000). Thirty months after the programme was launched, there were still beneficial impacts on employment and wages, whereas evaluations of programmes confined to subsidies alone showed fairly disappointing outcomes. Likewise, Cockx et al. (1998) present evaluations of various subsidy programmes in Belgium. They draw a distinction between pure wage subsidies and subsidies combined with training, and look explicitly at the impact of each programme on the length of job tenure. Only measures combining subsidies and training have a positive, statistically significant effect on the length of job tenure.

States, the majority of those moving from welfare to work are subject to great insecurity, with regular spells of unemployment and very low wages (Campbell et al., 2002). Very few manage to find stable employment. While a rapid return to employment remains a priority, it should be tempered by the fact that the quality of the jobs people accept is likely to play a key role in determining how long their return to the world of work will last. This highlights the need for a balanced approach in which make work pay policies are complemented by other measures which, through both demand and supply channels, improve career prospects.

In terms of good-quality, sustained returns to employment, various studies refer to the Portland JOBS programme, which has had encouraging results (Campbell et al., 2002; Bloom and Michalopoulos, 2001). Programme members are given a short training course and assistance with their job search. Although the aim is to promote a rapid return to employment, members are encouraged to keep searching until they find a "good" job, i.e. full-time positions, paying above the minimum wage and offering a range of other advantages (in particular, employer-provided health benefits). Bloom and Michalopoulos

(2001) have surveyed the evaluations of some thirty schemes for welfare recipients, and in their review the advantages of the JOBS programme stand out quite clearly. Training provision, combined with job-search assistance, is an important key to success here (overall, programmes combining these two services stand out from those focusing on only one of them, which are less successful). But emphasis on the need to accept good jobs may also be important and further experimentation would be desirable.

2. Promoting employment while taking specific situations into account

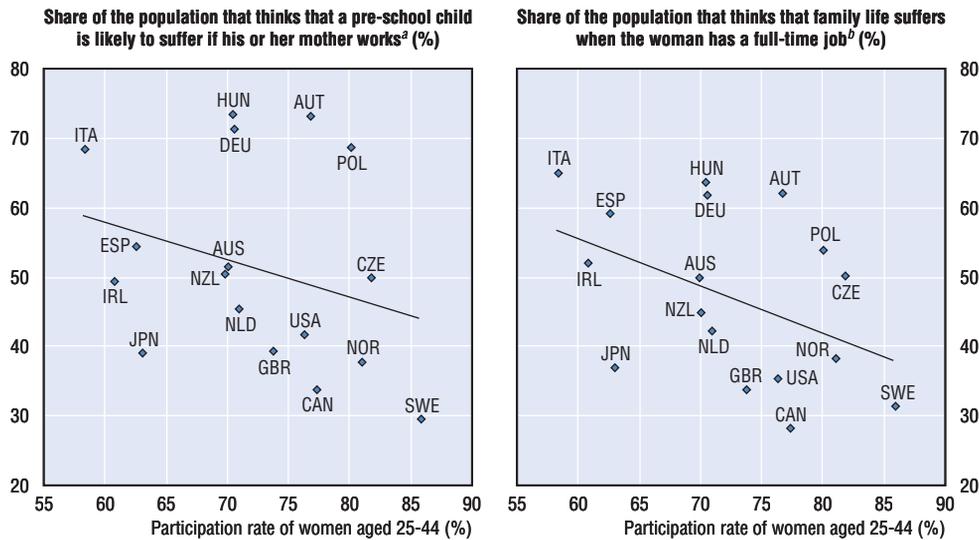
Making work pay is a fundamental and necessary step towards motivating and helping under-represented groups enter the labour market. But as has been seen, this is not enough. For instance, even if the incidence of low-paid employment is slightly higher among older workers (see Chapter 2), it is not sufficient to explain their low participation in the labour market. Factors, such as working conditions and employer behaviour, as well as pension schemes, are likely to play a more important role. In addition, family responsibilities and health problems explain a significant share of labour market outflows (see Chapter 2). This involves considerations which go beyond the question of pay. And although a certain pessimism is sometimes perceptible in debates about the employment prospects of non-active persons, a significant proportion of these persons state that they would like to have a job, not only for financial reasons, suggesting the existence of other barriers to work. For instance, a recent French survey shows that, apart from financial considerations, one of the important reasons given by interviewed women for leaving the labour market is that they were unable to find working-time arrangements that would have made it possible for them to combine work and family-life (DARES, 2003). Moreover, child-care costs loomed large among the financial considerations in question.

A. Mothers with young children

The differences in overall labour market participation rates between countries are to a significant extent due to differences in women's participation behaviour (see Chapter 2). Female participation rates are influenced by whether they have children; maternity is one of the main reasons why some women leave the labour market (OECD, 2002f, Chapter 2). The idea that young children may suffer if their mother works is relatively widespread in all countries and has an impact on the labour force participation of women of child-bearing age (Chart 3.1). Although opinions vary considerably across countries, the countries in which young women's participation rates are lowest are also those in which there is relatively wide agreement among the population that it is detrimental to family life and to young children for their mothers to work. This suggests that policies which would help to reconcile work and family life would likely have positive effects on employment among mothers of young children. In this regard, the experience of the Nordic countries is enlightening. Their family policies have a long tradition of offering facilities and subsidies to encourage mothers to combine family and work. And studies on female labour supply show that, contrary to most other countries where young children have a large negative impact on mothers' labour supply, this effect is much smaller or non-existent in the Nordic countries. Thus, the positive effects on the labour market tend to outweigh the costs of implementing such policies (Pylkkänen and Smith, 2003).

Chart 3.1. **Women working and family life: differing opinions**

Percentages



Note: Data for Germany only concern the western Länder.

- a) Question V5: "A pre-school child is likely to suffer if his or her mother works." Strongly agree or agree. The regression line is: $y = -0.54x + 90.26$ ($R^2 = 0.09$, $t = -1.19$) and without Austria, Germany, Hungary and Poland, the line would be: $y = -0.82x + 103.78$ ($R^2 = 0.50$, $t = -3.25$).
- b) Question V6: "All in all, family life suffers when the woman has a full-time job." Strongly agree or agree. The regression line is: $y = -0.68x + 96.61$ ($R^2 = 0.20$, $t = -1.91$).

Source: International Social Survey Programme (ISSP), 1994; OECD database on Labour Force Statistics.

Maternity leave may increase women's attachment to the labour market, under certain conditions

Maternity leave is a partial and temporary response to the problems of reconciling family life and work. Nevertheless, when people are surveyed, the right to paid maternity leave receives over 80% support in all countries (except for Australia, the Netherlands and New Zealand, see Table 3.5). The availability of this leave can also have an impact on the patterns of women's labour force participation.

Table 3.5. **Near unanimous support for the right to paid maternity leave**Percentages^a

Australia	41.7	Japan	96.1
Austria	83.3	Netherlands	69.8
Canada	82.6	New Zealand	50.7
Czech Republic	96.8	Norway	90.9
Germany, western Länder	93.9	Poland	94.7
Germany, eastern Länder	99.1	Spain	93.9
Hungary	98.1	Sweden	90.4
Ireland	95.1	United Kingdom	83.8
Italy	91.2	United States	75.8
		OECD unweighted average^b	84.9

a) Share of persons answering "strongly agree" or "agree" to "working women should receive paid maternity leave when they have a baby" (question V42).

b) For above countries only.

Source: International Social Survey Programme (ISSP), 1994.

Paid maternity leave with a job guarantee makes work more attractive for young women, as it enables them to care for their children on a full-time basis while maintaining their labour market attachment. Consequently, this kind of leave can raise women's participation rates, since the prospect of benefiting from it may stimulate young women without children to enter the labour market, while it encourages young mothers to return to work on the termination of the leave. The length of this leave is an important factor in this regard, for very long leave may in the medium term cut women off from the labour market, leading to a decline in their future employment rate and earnings (Box 3.4). Moreover, employers may be discouraged from hiring female workers of child-bearing age. However, it is difficult to assess a "reasonable" length for maternity or parental leave, which would not be damaging for career prospects and labour market participation. For instance, employment rates of Danish or Swedish women are amongst the highest of OECD countries, while they are entitled to relatively generous leave schemes (both in terms of duration and compensation). But these systems are part of a comprehensive family-friendly policy that helps mothers to combine family and work (Pylkkänen and Smith, 2003).¹²

Finally, it is important to determine which women leave employment most readily after having a child. Various studies have shown that education and the type and quality of the job held before going on maternity leave play a key role here. Having a low level of education and having held a precarious or unstable job seem to lower the chances of returning to work.¹³ However, the possibility of taking relatively long parental leave, especially when it is combined with financial benefits, is particularly attractive to women in precarious job situations,¹⁴ i.e. precisely those women who subsequently find it most difficult to return to work. There are many inequalities related to education and training in the female labour market – even more than for the male population (see Chapter 2) – and policies should take this specific characteristic into account.

Child-care services and working-time facilities for better reconciliation between work and family life

Child-care services, their costs and their ability to give mothers time to work, can also play an important role. Child-care costs may be a barrier to employment, particularly at the lower end of the wage scale, among women with the lowest education levels. Studies that distinguish between various individual characteristics such as education and income show that the lower the income or the education level, the higher the sensitivity of labour supply to child-care costs (see Anderson and Levine, 1999, for a review of US studies). Even though these costs are generally covered, at least partially, subsidies are often employment-conditional. And the fact is that unemployed young mothers are often in a less favourable situation regarding access to child care. Except for certain activation programmes targeting specific groups (lone mothers and mothers receiving subsistence benefits), the presence of young children can make it very costly to look for a job because of the lack of resources available to young unemployed mothers. It would be preferable for subsidies to be conditional on a genuine job-search requirement (as in Denmark), rather than only on employment.

In addition to the problem of costs, there is the issue of the availability of different types of child-care and the number of places that they can provide. Although there is a positive relationship between women's participation rates and the availability of formal

Box 3.4. The impact of the length of maternity/parental leave on wages and employment: some recent studies

Rhum (1998) considers that the introduction of job-protected paid maternity leave has made it possible to increase the employment rate of women significantly without having a major impact on wages, when this leave has been relatively short (approximately three months). Longer leave (around nine months) seems to produce comparable results in regard to employment rates, but leads to a decline in relative wages (the study covered nine OECD countries: Denmark, Finland, France, Germany, Greece, Ireland, Italy, Norway and Sweden, during the 1969-93 period). Gupta and Smith (2002) have re-examined the case of Denmark using individual data that enable them to take into account experience acquired in the labour market. Although maternity leave does have the effect of lowering wages, this is only temporary. This is due to the fact that there is no human capital accumulated during the period when the career is interrupted, and consequently no potential wage progression. However, this does not rule out the possibility of a progressive recovery of lost ground, which will be longer the more protracted the length of leave.

Ronsen and Sundstöm (2002) have compared the patterns of women returning to work in Finland, Norway and Sweden (over the 1972-92 period). During the three years following the child birth, women who are entitled to paid leave have a higher employment rate than women who are not entitled (i.e. working women who did not have enough work experience before their child was born to entitle them to this type of leave). As the women who take this leave tend to use the totality of their entitlement, the higher employment rates are concentrated in the period following the end of their leave (except in Sweden, where they are higher during the entire leave period). In all countries, the lengthening of maternity leave causes the mothers concerned to return to work later. Lastly, according to German experience, giving women the opportunity to take very long parental leave (three years) may make it difficult for them to return to work, even though employers are required to reinstate them. Faced with such requirement, companies may also become reluctant to hire young women of child-bearing age. Some studies do show that return-to-work rates are lower after protracted parental leave and that when women return, their chances of wage increases are far poorer (results for the western Länder, Ondrich *et al.*, 1999; and Ondrich *et al.*, 2002). A recent survey (conducted by IAB, see European Foundation, 2001) also shows that 41% of women who had stopped working when they had a child had still not returned to work after an interruption of three years (16% of them were registered as unemployed).

Allowances that enable mothers to stop work for a considerable time without job protection may have an even more marked impact on the employment trajectory of recipients. For example, Ronsen and Sundström (2002) consider that the Finnish system of allowances for mothers at home reduces the likelihood of their returning to work. In France, the Parental Education Allowance (APE) enabling women with at least two children to interrupt their work until the youngest child reaches the age of three has had a considerable influence on the pattern of labour force participation of the women concerned. After rising slowly for several years, the participation rate of mothers with a second child under the age of three fell from 69% in 1994 (the year when this group became eligible for the APE) to 53% in 1997 (Afsa, 1998). This downturn was especially sharp for women with low skills, for whom the APE had two advantages: it was attractive financially and could be used as a stop-gap measure if they were in a difficult job situation (between 1994 and 2002, employment rates of mothers with a second child under the age of three, decreased by 25% for the low-skilled, compared to 16% for skilled

Box 3.4. The impact of the length of maternity/parental leave on wages and employment: some recent studies (cont.)

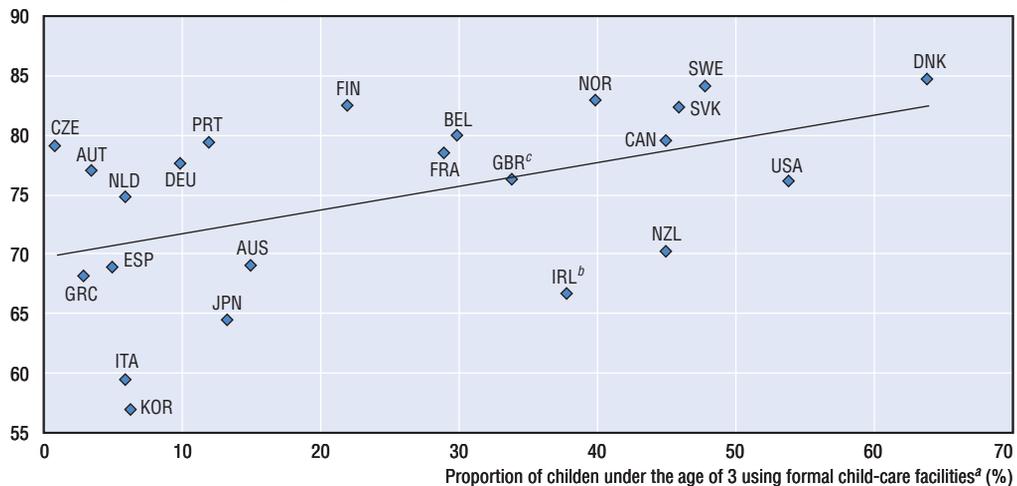
women). In 1999, a survey was taken of women who had been without employment for three years and in receipt of the APE for the second child. Half of the women who had held a job before they stopped working had not returned to work during the period of six months to one year after they had exhausted their APE entitlement, and 20% of women saw their situation deteriorate, going from a stable job to a precarious job or unemployment (Simon, 1999).

child-care arrangements (Chart 3.2), the direction of causality is unclear. In Denmark, for example, child-care capacity was not developed prior to the high level of women's labour force participation, but was a response aimed at meeting the expectations of women who had already a job (OECD, 2002d). Nevertheless, surveys in the United States and the United Kingdom show that a far from negligible number of young mothers remain outside employment because they do not have access to a satisfactory child-care system. Chevalier and Viitanen (2002) focused explicitly on direction of causality between the participation rate and child-care possibilities (in the United Kingdom). It appears that an extension of child-care support might increase women's labour force participation.

Chart 3.2. Female labour force participation and child care

Late 1990s, percentages

Participation rates of women aged 25-44 (%)



Note: The regression line is: $y = 0.20x + 69.69$ ($R^2 = 0.25$, $t = 2.62$).

- a) The data include both public and private provision, and cover the following types of formal child-care facilities:
- Group-care in child-care centres (nurseries, kindergarten, play-schools), sometimes organised within the educational system.
 - Residential care, including specialist services such as care for disabled children.
 - Childminders, based in their own home, looking after one or more children.
 - Care provided by a carer who is not a family-member but frequently lives in with the family.
- b) Proportion of children under five.
- c) England only.

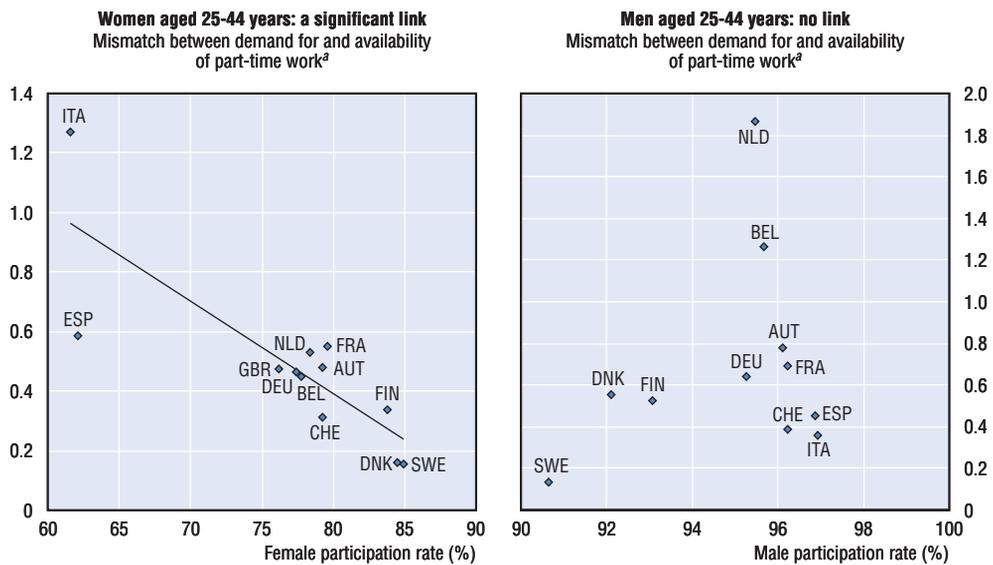
Source: OECD (2001a), Table 4.7; OECD database on Labour Force Statistics.

The number of places available to care for children whose mothers are working is not the only consideration. The hours available must also be compatible with working hours. In Italy, for example, child-care systems do not allow mothers to work on a full-time basis, even though part-time work opportunities are very limited. Together with the limited number of child-care places, this is one of the reasons for the low participation rate of Italian women (Del Boca, 2002). In the Netherlands, the child-care system mainly provides part-time care but, as part-time employment is very widespread, this does not raise any particular problems (since women often wish to work on a part-time basis), and the female participation rate remains high (OECD, 2002d).¹⁵

For mothers, working time is a key aspect of working and employment conditions. A recent study by the European Foundation for the Improvement of Living and Working Conditions stresses that long and atypical working hours are the factor most detrimental to family life in the opinion of households (Fagan and Burchell, 2002). In this regard, part-time work can be a good compromise between non-participation and full-time work, facilitating the reconciliation between work and family life. The criticism often levelled at part-time employment is that it does not provide women with the same career prospects as men. Although there is truth in this argument, it fails to consider the fact that, without part-time employment, some women would involuntarily remain outside the labour market and the gap between men's and women's personal income might be even greater.

As part-time work can be a means of entering employment or obtaining permanent status, the possibilities of access to part-time jobs influence the patterns of women's labour force participation. In this regard, Euwals (2001) has examined the relationship in the United Kingdom between satisfaction with working hours and the likelihood of going from employment to non-employment. Women who say that they wish to reduce their working time significantly are more likely to leave employment. Along similar lines, Gutiérrez-Domenech (2003) considers that the employment rates of young mothers in Germany, Italy and Spain might be higher if access to part-time work was facilitated, and Germany has taken steps in this direction.¹⁶ To illustrate this, Chart 3.3 shows the relationship between the participation rates of young women in various European countries and a crude indicator showing the "mismatch" between demand and availability of part-time employment.¹⁷ The lower this indicator, the better is the match between the wishes of those looking for a job and the type of job that they may be offered. And there is an inverse relation between the value of this indicator and female participation rates, showing that some women seem to give up employment altogether if they cannot work part-time. This decision may be more or less imposed by outside circumstances, and this is probably more often the case when the types of child care available are not compatible with full-time work. Lastly, this type of relation is not characteristic of the male labour market, where part-time employment is generally involuntary.

However, the solution of part-time work entails certain risks and should be backed up by appropriate policies, for part-time employment is often confined to a limited number of jobs and offers fewer career prospects (OECD, 2002f, Chapter 2). In addition, it does not always enable working women to achieve real financial independence from their spouses or the social assistance system. The specific institutional arrangements governing part-time work are important. For example, since July 2000, many Dutch employees have had the *right* to change their working hours to part-time or full-time

Chart 3.3. **Part-time work: a bridge to female labour market participation**

Note: For women, the regression line is: $y = -0.03x + 2.86$ ($R^2 = 0.68$, $t = -4.6$).

d) This is measured as the rate of “demand” for part-time jobs to the observed rate of part-time jobs. The rate of “demand” for part-time jobs is defined as the ratio of the sum of the number of unemployed persons looking for a part-time job and of employed persons looking for a job with fewer hours, to the sum of the total number of unemployed and employed persons looking for another job.

Source: European Union Labour Force Survey, Eurostat, 2001.

work, although employers can refuse to allow them to do so if it is impossible (in which case they must justify their refusal) or if it threatens the company’s financial stability (OECD, 2002d, Chapter 6). In Germany, the “Part-Time and Fixed-Term Employment Act” has introduced, since 2001, rules for entitlement to part-time employment similar to those in the Netherlands. In particular, the Act gives employees greater control over working hours. However, there is no entitlement for workers in part-time work to a full-time job. They merely have an entitlement to preferential consideration.

Lone parents and employment

Lone parents face particular labour market and social problems in most OECD countries. Despite improvements in employment rates among lone-parent families in many – but not all – OECD countries, non-employment remains high and many lone-parents tend to remain in receipt of benefits for long periods. The high incidence of joblessness among lone parents raises significant policy concerns. In particular, child poverty is much higher in families where the lone parent is not working – and indeed the employment status of parents appears to be the most important determinant of whether children are poor or not (Table 3.6).

Most lone parents are women, but their age and the age and numbers of their children vary significantly. Generally, it is younger, less qualified and never-married mothers with young children who have the lowest rates of employment. In contrast, lone fathers tend to be older than lone mothers, have fewer children, have higher educational qualifications and they are more likely to be widowed or divorced (Bradshaw *et al.*, 1996). As a result, they are more likely to be employed than lone mothers. In some countries, there are higher

Table 3.6. **Non-employment among lone-parents: a factor behind child poverty**

	Lone-parent non-employment rates, 2001 ^a	Poverty rates, ^b 1993-95	
		Non-working single parents	Working single parents
Australia	57	57.1	9.3
Austria	17	20.8	8.9
Canada	49	72.5	26.5
Denmark	26	34.2	10.0
France	35	45.1	13.3
Germany	34	61.8	32.5
Greece	34	36.8	16.3
Italy	26	78.7	24.9
Mexico	34	31.0	27.2
Netherlands	40	41.3	17.0
Norway	39	29.6	4.6
Sweden	13	24.2	3.8
Turkey	55	39.9	16.3
United Kingdom	51	65.0	22.7
United States	23	93.4	38.6

a) Data refer to 1996 for Australia, Canada and Mexico, 1995 for Norway and Sweden, 1994 for Denmark and Turkey.

b) Percentage of persons living in households with incomes below 50% of the median adjusted disposable income of the entire population.

Source: For non-employment rates, OECD (2001b); for poverty rates, Förster (2000).

rates of lone parenthood in ethnic minority groups, who may face additional barriers to employment.

The absence of a partner's income should provide a significant incentive for lone mothers to seek employment, and in a number of OECD countries employment is higher among lone mothers than among married/partnered mothers. However, such incentives are not enough, particularly when confronted with generous benefits. Policies are needed to support the labour market participation of lone parents, while also providing adequate income support (see Box 3.5). Social attitudes to the employment of mothers more generally are also likely to be influential. In most countries, it is still the case that most lone-mother families are formed out of separation, divorce or widowhood. Expecting lone mothers to seek employment may be less effective where it was not expected before lone parenthood.

B. Working-age disabled persons

The disabled are a highly diverse population that is not easily defined. Among non-active persons who have a disability or at least are classified as having one, some could work and would like to do so. As has been seen, a significant proportion of non-active persons who have left employment for health reasons would like to work again,¹⁸ even though this does not prompt them to look actively for a job (see Chapter 2). This situation points to a contradiction that social policy and employment measures must seek to resolve.

Employment, a real asset for economic integration of disabled persons

The OECD recently carried out an in-depth study of the situation of the working-age disabled in 20 member countries (OECD, 2003a). The report emphasises repeatedly the difficulty of defining the concept of disability. Although the term is naturally thought of as

Box 3.5. Lone parents and employment: towards a work-oriented safety net

There is considerable debate about how to provide adequate income support to lone parents, while enhancing their incentive to participate in the labour market. This is an important issue since, as stressed in Chapter 4, benefit systems can affect employment rates.

In this regard, the conditions under which benefits are granted may play a key role. Non-employment is particularly high in countries where lone-parent benefits are effectively available on an indefinite basis until the youngest child reaches school-leaving age. In contrast, in countries where benefits are restricted to those with younger children, or where duration is limited, or where there are work tests or similar obligations, benefit receipt is lower and employment tends to be higher. Rules regarding requirements to work for lone parents are changing in many countries, and lone mothers are now very likely to be expected to be available to seek work once their children reach school or nursery school age. Thus, in the countries with the lowest employment rates among lone parents there does seem to be a more common acceptance of the idea that it is appropriate to support lone parents of pre-school children to provide full-time care, but once children reach school-age then employment expectations should be imposed (Millar, 2001). Some countries also use a “stepping-stones” type model, in which work requirements become more stringent as children get older. However, there is need for flexibility to ensure that people with younger children can also participate in labour market programmes if they wish to do so.

Other policies can improve incentives to work for lone parents, while maintaining social objectives to reduce poverty. Receipt of child support from the absent parent can provide an important addition to the income of lone parents, and substitute for income-related benefits, reducing problems with high effective marginal tax rates. There may be incentive implications for the parent paying maintenance, however.

A fundamental issue is the acceptance of the expectation that for most lone parents employment should be regarded as the basis of a sustainable safety net. As noted by Waldfogel *et al.* (2001) “(...) following this path requires a range of policy and services (...) that would more completely transform a cash-based safety net into a work-based safety net”. The components of such a work-based safety net will vary across countries depending on already existing services (child care, education arrangements, general family benefits, health care and labour market programmes). But in the context of a *complete* package, good results can be obtained. Chapter 4 examines the role of activation strategies in supporting the employment of lone parents.

referring to severe, lifelong disabilities, in many countries the real situation of the disabled is far removed from this image. Although countries tend to have their own definitions of what constitutes a disability, the general conclusion to emerge is that the disabled population is highly diverse, and that a large proportion of the disabled have disabilities that are fairly minor, and may even be curable. A growing proportion of them suffer from mental illness and psychological problems. Given this diversity, the first major difficulty is to identify disabilities correctly, distinguishing between minor and major disabilities. This entails two major risks. The first is that of excluding some disabled by failing to include within the social protection system persons whose health condition should be partially or fully covered by disability benefits. The second risk is that of mistakenly including persons in the disability benefits system, thereby limiting their possibility of entering the labour market for no real reason.

No country can avoid these two major difficulties. This is borne out by the very imperfect correlation between the fact that people are receiving disability benefits and whether they actually consider themselves to be disabled (Table 3.7). One out of three recipients does not acknowledge the disabled “status” that he or she has nevertheless been granted, and a considerable proportion of those who do state that they have a disability receive neither income from work nor disability benefits. Obviously, there is reason to be

Table 3.7. Disability benefits: some disabled who are excluded, some recipients who do not acknowledge that they have any disabilities and very low exit rates

Late 1990s, percentages

	Proportion of disability benefit recipients declaring that they are not disabled	Proportion of disabled persons aged 20-64 years with neither income from work nor income from benefits	Annual rates of outflow from disability benefits
Australia	15.2	15.7	0.49
Austria	27.7	14.2	1.04
Belgium	43.4	16.2	..
Canada	..	..	0.85
Denmark	26.2	6.3	..
France	33.3	11.7	..
Germany	..	11.9	1.25
Italy	43.9	28.8	..
Korea	0.0	49.5	0.05
Mexico	91.4 ^a	52.5	..
Netherlands	30.6	19.5	3.34
Norway	28.4	12.2	..
Portugal	28.6	20.9	0.97
Spain	18.3	28.0	0.57
Sweden	48.9	1.1	..
Switzerland	29.8	14.2	..
United Kingdom	43.3	9.1	5.64
United States	46.7	18.8	1.16
OECD unweighted average^b	34.7	19.4	1.5

.. Data not available.

a) In 1999, the disability benefit recipiency rate was 0.6% in Mexico, compared with 5 to 9% in the other OECD countries (with the exception of Korea, where the proportion of persons receiving disability benefit was 0.3%; OECD, 2003a, administrative data). Thus, the extremely high proportion of Mexican disability benefit recipients declaring that they are not disabled represents, in fact, a relatively small number.

b) Average for countries having non-missing data for the reported indicator.

Source: OECD (2003a).

wary of data based on such statements, particularly when the question being asked is relatively subjective – i.e. questions on whether or not a person has a health problem that is limiting activities of daily living. Moreover, self-assessed disability prevalence derived from a national survey is related to receipt of disability benefit, which is based on a quite different definition of disability. However, these data suggest that there is a real problem in identifying disabilities, and this constitutes a major policy challenge. There can be no simple solution to this problem, for there is a continuous range of situations between being disabled and not disabled and between being able and unable to work. For example, although making access to disability benefits more difficult makes it possible to reduce errors of inclusion, it also increases the risk of exclusion. Employment policies also have a role to play in “activating” those with disabilities. The term “disabled” should no longer be equated with being unable to work. However, the outflow from disability benefit systems is

extremely low in most countries, despite the fact that one-third of recipients do not consider that they have any disability at all.

Even among those who say that they have minor or moderate disabilities, employment rates rarely exceed 70% of those of the non-disabled population. Nevertheless, employment is the best guarantee against poverty and social exclusion even though, on the whole, the situation of the disabled with regard to poverty does not give particular cause for concern. In most of the countries studied, the incomes of households with a disabled person are very close to those of households in which no one has a disability. However, the *personal* income of the disabled depends greatly on their employment status and the unemployed disabled have much lower incomes than those who work (Table 3.8). On average, the total personal income of an unemployed disabled person comes to barely half of the income received by a disabled person who is working. At the same time, there is little difference in earnings between disabled and non-disabled persons. In most countries, the work incomes of the disabled are on average scarcely lower than those of other wage-earners, with the gap in earnings between the two categories ranging between 5 and 15%. Consequently, in many cases, the disabled who work appear to be successfully integrated into the labour market.

Table 3.8. Employment, a real asset for the economic integration of disabled persons

Late 1990s, percentages

	Relative employment rate of disabled persons aged 20-64 compared with the non-disabled aged 20-64	Relative income from work of disabled over non-disabled persons ^a	Relative average personal income of disabled persons working over disabled persons not working
Australia	0.55	0.93	..
Austria	0.60	0.97	1.96
Belgium	0.54	0.90	1.91
Canada	0.72	..	..
Denmark	0.61	0.88	1.38
France	0.72	..	1.83
Germany	0.67	0.92	1.79
Italy	0.60	0.94	1.94
Korea	0.74	..	..
Mexico	0.77	..	9.76
Netherlands	0.60	0.87	1.45
Norway	0.72	0.88	1.71
Poland	0.29	0.91	..
Portugal	0.59	..	1.81
Spain	0.41	0.86	2.07
Sweden	0.69	0.70	1.37
Switzerland	0.79	0.98	..
United Kingdom	0.53	0.84	1.61
United States	0.58	0.71	2.84
OECD unweighted average^b	0.62	0.88	2.39

.. Data not available.

a) Relative average personal income from work of disabled over non-disabled persons who work. Median income for Australia and equivalised household income for Poland and Switzerland.

b) Average for countries having non-missing data for the reported indicator.

Source: OECD (2003a).

Managing work-limited capacity with vocational rehabilitation and training

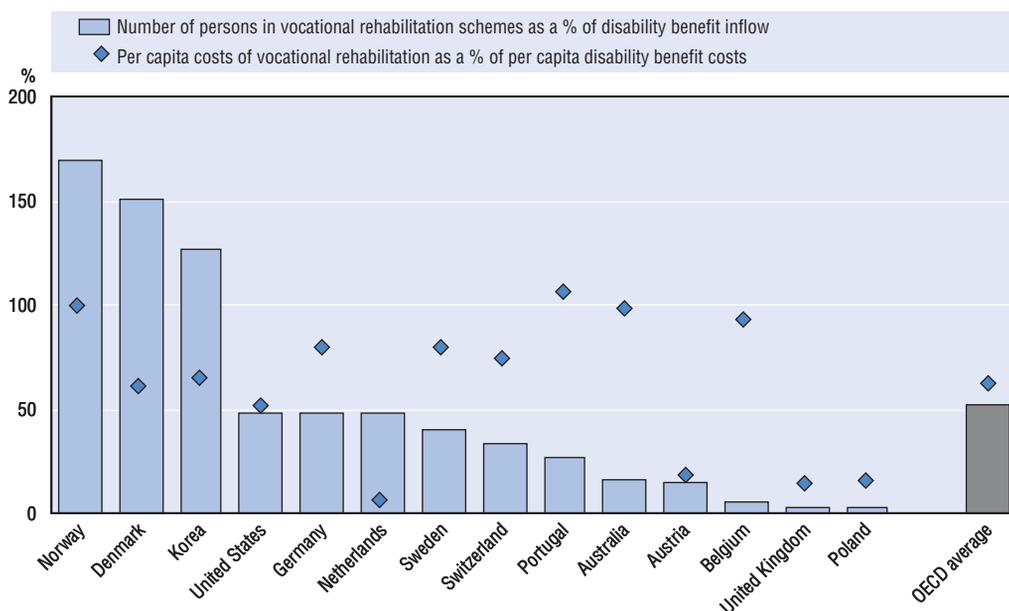
In many cases, receiving disability benefits goes along with a quasi-permanent exit from the labour market. These benefits should not be used to offset a difficult labour market situation and many disability benefit recipients who have the potential to work should not be encouraged to settle permanently into the status of non-active disabled persons. In this regard, disability benefit systems all too often still generate a certain inertia and “activation” policies could help move people out of benefit dependency (see Chapter 4 for a discussion).

Vocational rehabilitation and training can be critical to achieve or secure employment. A person becoming disabled may, even after completion of the medical rehabilitation process, not be able to continue to work in his or her previous occupation. Similarly, a disabled person trying to enter the labour market for the first time may need additional vocational training at an adult age. Participation in such programmes may be compulsory before a disability benefit is granted or entirely voluntary (see Chapter 4). In all countries, eligibility is bound to the expected returns to the programme, usually defined as the prospect that another job can be carried out by the applicant. In mandatory rehabilitation schemes, this prospect may be restricted to jobs commensurate with the person’s qualifications (as in Austria, Spain and to some extent also in Switzerland), or could include “inferior” jobs (Denmark, Sweden).

Too few resources are generally devoted to vocational training and rehabilitation. Only in Denmark and Norway do more people go through vocational rehabilitation and training each year than are granted a disability benefit, the ratio being only slightly lower in Korea – though the data do not tell what proportion of those ultimately being granted a benefit have received vocational measures beforehand (Chart 3.4). The per capita expenses for people in rehabilitation services are as relevant for the programme assessment as the

Chart 3.4. **Too few resources devoted to vocational rehabilitation**

Number of persons in vocational rehabilitation schemes as a proportion of disability benefit inflows,^a percentages, 1999



Note: Countries are ranked in decreasing order of the ratio of people in vocational rehabilitation over benefit inflows.

a) Contributory disability benefits, except non-contributory disability scheme for Australia and Denmark.

Source: OECD (2003a).

number receiving the services. Two groups of countries can be identified (Chart 3.4): those in which expenditures per rehabilitee are small compared with the per capita cost of a disability benefit (the Netherlands, Poland, the United Kingdom and Austria) and those in which rehabilitation costs on average are between 60 and 100% of an average disability benefit. Some countries appear to have high relative rehabilitation expenses mainly because they have relatively low disability benefits (Australia and Portugal).

Vocational training and rehabilitation are often made available too late, since *early intervention* can play a decisive role, the chances of reintegration into employment declining with the time that the disabled person spends outside employment. Often, participation in vocational rehabilitation plans is only considered after the individual's health condition has stabilised, and it can take months (and often a year or more) before the person concerned comes into contact with the rehabilitation assistance services. Very few countries react at a sufficiently early stage to effectively prevent the risk of the disabled exiting employment on a long-term or permanent basis. Incentives to promote an early return to work are used in Germany and Sweden, where rehabilitation programmes are explicitly designed to be made available during the first stages of an illness. In Germany, the authorities responsible for rehabilitation (Federal Institute for Employment, pension insurance funds, welfare offices, etc.) decide whether a vocational rehabilitation procedure is required before, during and after medical rehabilitation. In the case of progressive diseases, for example, this system enables the persons concerned to reorient their career at a very early stage towards activities compatible with their state of health and work capacities. In Sweden, employers are directly involved in the rehabilitation process, which can begin while the persons are still employed, on a preventive basis, before the post that they hold becomes unsuited to their work capacities.

Although all countries provide vocational training and rehabilitation measures that specifically target the disabled, the approaches differ sharply across countries and relatively little is known about the impact of these measures on the future work history and well-being of recipients. However, the data suggest that even the highest average per-capita costs will pay off in the medium run should the vocational intervention result in successful and durable labour market re-integration.

Supporting employment with individual work/ benefit packages

Of the 20 countries covered in the OECD report (2003a), none can be considered as having a really satisfactory policy for reintegrating the disabled into work. Nevertheless, there are differences in results in this respect. These differences are linked to the choices made by countries and can provide some lessons as to the best-practice policies. The report strongly emphasises the need to provide each disabled person with a “participation package” adapted to individual needs and capacities. Merely looking after the financial needs of disabled people through cash benefits is insufficient; this would still leave many excluded from the labour market and sometimes even from society more generally. These packages could contain rehabilitation and vocational training, job-search support, choices from among a wide range of forms of employment (regular, part-time, subsidised, sheltered) and benefits in-cash or in-kind. In practice, four categories of employment assistance schemes are available to the disabled (in addition to vocational rehabilitation and training measures):

- Employment subsidies.
- Supported jobs, the term “supported” referring to any type of individual employment assistance granted to employers or employees (guidance or training).

- Continuing assistance with disability aids and related costs once a person makes the transition from benefits to paid employment.
- Sheltered jobs, *i.e.* which are carried out in a separate environment, such as a special workshop or social enterprise or a sector (or job) that is sheltered from the labour market.

Subsidised jobs and protected jobs specifically targeting the disabled have their equivalents in the more general active policy measures mentioned in the first part of this chapter (Section 1.B), and lessons from the evaluations of such policies are largely applicable to the situation of people with disabilities. Some of the critique, *e.g.* regarding deadweight or substitution effects, is less relevant, because of the permanent productivity loss of some groups of disabled people.

While sheltered employment is increasingly seen as inappropriate and in need of being replaced by supported employment-type initiatives, it still continues to be the dominant mode of employment for disabled persons on special employment support schemes (Table 3.9). For the disabled, this type of scheme provides the possibility of returning to work but not of real reintegration into the labour market. Sheltered jobs

Table 3.9. Sheltered employment remains the most common employment assistance scheme for disabled persons

Participation rate and per capita costs of various employment assistance schemes, 1999

	Persons in special employment programmes for disabled persons per 1 000 of the total population of working age				Per capita employment programme expenditure in percentage of per capita disability benefits			
	Subsidised employment ^a	Supported employment ^a	Sheltered employment ^a	All	Subsidised employment ^a	Supported employment ^a	Sheltered employment ^a	All
Australia	0.2	1.6	1.5	3.4	43	58	73	63
Austria	3.6	0.7	2.7	7.0	26	9	24	24
Belgium	0.7	0.0	2.9	3.6	90	..	146	135
Denmark	3.0	0.6	2.4	5.9	62	98	44	58
France	6.3	^b	3.2	9.5	23	..	102	49
Germany	0.2	0.6	3.3	4.1	128	54	78	78
Italy	0.3	^b	0.6	0.8	39	..	..	39
Korea	0.1	0.0	0.2	0.3	57	42	57	57
Netherlands	^b	^c	9.2	9.2	..	..	184	184
Norway	2.4	0.5	4.3	7.2	139	66	67	91
Poland	2.0	×	10.1	12.1	153	..	37	56
Portugal	0.1	×	0.1	0.2	185	..	78	133
Spain	0.6	×	0.6	1.2	23	..	72	49
Sweden	10.8	0.2	5.2	16.2	120	..	164	135
Switzerland	×	×	5.6	5.6	..	..	42	42
United Kingdom	0.5	0.7	^c	1.2	24	150	..	93
United States	^b	1.1	^c	1.1	..	41	..	41
OECD unweighted average^d	..	..	..	5.2	80	65	83	78

.. Data not available.

× No such programme up to the present.

a) Three major categories of employment assistance schemes are available to the disabled: employment subsidies; supported jobs, the term “supported” referring to any type of individual employment assistance granted to employers or employees (guidance or training); sheltered jobs, *i.e.* that are carried out in a separate environment, such as a special workshop or social enterprise or a sector (or job) that is sheltered from the labour market.

b) Minor programme, no data available.

c) Significant programme, no data available.

d) For above countries only.

Source: OECD (2003a).

generally have characteristics that are too specific for the work experience acquired to be easily transferable, and the “normal” or “competitive” labour market becomes increasingly less accessible. Consequently, sheltered jobs must be carefully targeted at persons whose work capacity is very limited on a permanent basis, and for whom it would be very difficult to attain the “productivity norm” required in the competitive sector, even if they receive assistance in performing in their work.

Employment subsidies must be adapted to the public that they target. This implies an individually-based approach and stringent medical monitoring. Some countries already have experience with this type of measure (Table 3.10) and first evaluations are promising. In Denmark, a qualitative study on *flexjobs* (see European Commission, 2001) shows that the scheme appears to satisfy both employees and employers. However, the study does point out one negative aspect in this positive assessment, mentioning possible stigmatisation effects. The *flexjob* is half way between social protection and employment, and some people seem to have difficulty in accepting assisted-person status and prefer not to declare their disability. In this regard, supported jobs can be an effective compromise,

Table 3.10. Subsidised and supported jobs: examples of good practice

Employment subsidies: adjustable subsidies, i.e. tailored to a person's ability to work	
Belgium	Firms employing disabled workers are eligible for subsidies to offset the reduced productivity of disabled workers. They are granted through collective agreements (CCT 26, 50% of labour costs) or regional agreements. Most of these subsidies are renewable and can become permanent. Disabled claimants must enrol with the regional disability agency. Their ability to work is assessed by a doctor, and external multidisciplinary teams make recommendations to the responsible authority (the federal inspectorate of labour for CCT 26, or regional administration for other subsidies).
Denmark	<i>Flexjobs</i> : subsidised jobs for the long-term disabled (permanent disability). Depending on the seriousness of the disability and the person's ability to work, the subsidy may cover one-third, one-half or two-thirds of the minimum wage, for an unlimited duration. The disabled persons assisted must necessarily have completed vocational rehabilitation and are eligible if the competent authorities decide they cannot occupy “normal” or make-work jobs. <i>Flexjobs</i> are necessarily full-time positions and cannot be combined with receipt of disability benefits. In the future, <i>flexjob</i> availability is expected to increase considerably (from 9 000 in 2002 to some 40 000), gradually replacing partial-disability benefits (the ability to handle a <i>flexjob</i> will become the determining factor when awarding disability benefits).
Korea	Employment subsidies for any disabled worker for a period of three years (with declining subsidy rate) were abolished in 1999 and replaced by far more generous subsidies, of unlimited duration, only for employment in excess of the mandatory employment quota; the new subsidy varies with the degree of disability and gender – the basic rate is 100% of the minimum wage, topped up by another 50% if severely disabled and another 25% if female.
Sweden	Flexible wage-subsidy scheme to promote recruitment of the disabled: subsidy covers up to 80% of wage costs (and on average 60%). The subsidy can also vary over time, depending on changes in health status. Eligibility is assessed on the basis on a medical certificate and the type of work that the person is to carry out. The subsidy is awarded for up to four years and is regularly re-adjusted. It can be resumed after three years in non-subsidised work.
Job support: individually tailored for better labour-market integration	
Austria	Vocational counselling (<i>Arbeitsassistentz</i>) is aimed at facilitating access for the disabled in the open labour market, and making their career paths more secure; it is provided by non-profit organisations and qualified social workers, psychologists or other specialists. Financed by the rehabilitation authorities, it consists of five phases: <i>i</i>) contact with the disabled person, <i>ii</i>) preparation of an occupational or training plan, <i>iii</i>) information and entrance phase (reconciling employer and employee needs), <i>iv</i>) follow-up assistance (a few weeks or months) and <i>v</i>) intervention whenever needed. <i>Arbeitsassistentz</i> involves: developing skill profiles, identifying and minimising obstacles to employment, finding the right job for the person concerned, introduction to the workplace, psychological and social assistance in the workplace, developing personal working methods and organisational structures, installation of working aids, establishing communication, exchange of information between the disabled, their colleagues and supervisors, conflict management, and crisis management in the event of pending dismissal.
Denmark	Personal assistant can be hired to assist with practical occupational functions arising from specific employment; this type of assistance is of unlimited duration, and for up to 20 hours per week for a full-time job of 37 hours a week. The subsidy is given to the employer (or the self-employed disabled person), because the assistant is a regular employee. The assistant must be approved by the disabled person. Similar assistance can be granted in work-related education and during vocational rehabilitation.
Germany	Severely disabled people can be granted additional support to make full use of their skills and capabilities and secure full integration (this assistance is also provided for temporary jobs or part-time employment of at least 15 hours per week).

Source: OECD (2003a), Tables A4.5 and A4.6.

since they offer a broad array of different types of support, ranging from the psychological to the vocational. As a result, they have a greater chance of ensuring real acceptance of the disability in the work environment – by fellow-workers and disabled persons alike. Unfortunately, as Table 3.9 shows, supported jobs are still not very widespread and are available to too few disabled persons in too few countries.

Finally, no matter how good the policy framework in place is, promoting more access to employment for the disabled requires profound changes in behaviour, especially on the part of employers (see Box 3.6). But policies can help change negative attitudes to the

**Box 3.6. Promoting employment among disabled persons:
involving employers in the process**

Existing employer-employee relationships should be utilised as much as possible – both through positive incentives and through mandated obligations. Many countries have regulations which legally oblige the employer to make an effort for disabled employees. In Italy, employers have recently been required to assign the disabled person equivalent tasks or, if not possible, lower-graded tasks but with the same remuneration. Similarly, Swedish employers must equip the workplace appropriately for their disabled workers or, if possible, provide them a different job in the company. In Germany, employers have a general obligation to promote permanent employment of severely disabled employees – via provision of adequate workplaces according to skills and capabilities, preferential selection for in-house training and support for external training measures. In practice, however, many of these regulations are difficult to enforce, despite the possibility of imposing sanctions for non-compliance. The same holds true for anti-discrimination legislation, which is often undermined by the undue hardship clause. Even in those countries that have mandatory quotas for employment of disabled persons, fines for non-compliance are often so low that employers may find it easier to pay than comply.

Apart from legal loopholes, another reason for ineffectiveness appears to be that employers need help to fulfil their obligations. Workplace and job adjustments generally require small financial investments. More crucial are technical assistance and guidance, including assessment of the problem and development of an intervention strategy for the participation plan. Recent disability management service pilots in the Netherlands, which aim to match job requirements with the disabled person's possibilities, are a good example to follow. Employers who make an effort to (re)employ disabled persons should not be penalised financially compared with employers who fail to make an effort. In some cases, compensation payments for the higher cost of employment of disabled persons may therefore be appropriate. The justification, however, would depend on the system in the individual country. If quotas or strong anti-discrimination legislation exist, for example, compensation payments would theoretically be unnecessary and could even be inconsistent with legal obligations. Special employment protection for disabled people per se, on the other hand, will only help people to stay in work or go back to their workplace if accompanied by individual assistance. The Netherlands had a negative experience with a regulation forbidding employers to dismiss an employee because of sickness for a period of two years. In the absence of measures to promote re-entry into the labour market, the regulation proved ineffective, merely shifted costs and delayed the transfer of the beneficiary to a long-term disability benefit. People often waited on sickness benefits without any intervention until applying for a disability benefit – a problem that Dutch policy makers have been addressing with several reforms since the mid-1990s.

disabled in the workplace by launching information campaigns, providing incentives and even imposing requirements (see also Chapter 4).

C. Improving employment prospects of older workers¹⁹

Developing policies to improve the labour market situation of older workers is important from a number of perspectives. First, as noted in Chapter 2, unless the participation rate of older workers is increased, population ageing will strongly affect the availability of labour resources, economic growth and the sustainability of social protection systems. Second, ensuring a smooth work-retirement transition is also important from the point of view of individual well-being. In some firms, there is considerable pressure on older workers to accept early retirement packages. And, more generally, older workers suffer from negative perceptions regarding their employability.

A mix of policies that would successfully increase employment at older ages, and thereby increase the *effective age of retirement* could help to alleviate the economic and social effects of ageing populations. Eliminating incentives for early retirement would help raise participation of older workers in the labour market. But this is obviously not enough: demand would have to rise to match the higher supply, otherwise unemployment would rise among older workers.

Enhancing labour supply through pension reform is an important medium-term requirement...

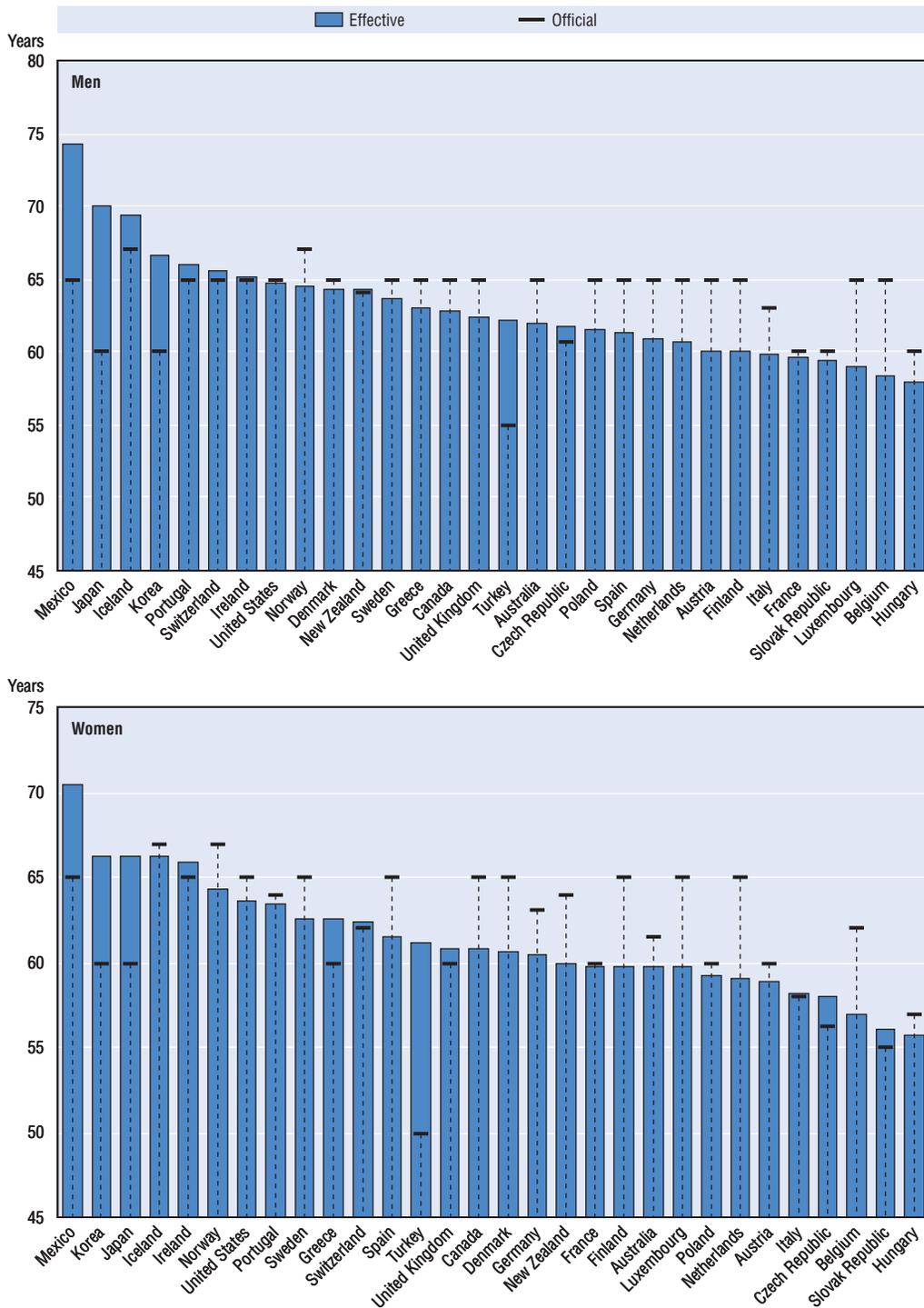
To encourage later retirement in line with improvements in longevity, some countries are considering the possibility of extending the official retirement age. The standard official retirement age to qualify for a public pension is currently 65 in most OECD countries. The chief exceptions to this are France and Korea, where it is 60, and Norway, where it is 67. Increases in the standard retirement age of women to match that of men are being phased-in in Australia and Germany. Such initiatives may affect both male and female retirement ages, since the retirement decision is often made jointly by the members of the household rather than by each member separately. In other countries (e.g. Hungary, Italy, Japan, Korea, the United States), increases in the standard retirement age are being phased-in for both men and women. Another approach, as in France and Hungary, is to prolong the contribution period needed to qualify for a full pension.

... and phasing out subsidies to early retirement is needed urgently

Nevertheless, the effectiveness of pension reforms will crucially depend on whether or not incentives to early retirement have been tackled.²⁰ It is indeed important to note that, on average, people retire three to five years earlier than the standard official age (Chart 3.5).²¹ And there is a weak correlation between the effective retirement age and the official age, suggesting that raising the effective age to match the official age should be a high priority.

Several countries offer early retirement pensions allowing people to retire two to five years before the standard age. In many cases, these schemes were introduced in a context of prolonged recessions and mass lay-offs. Early retirement was expected to reduce unemployment, especially among younger workers. But studies have shown that such solutions are counter-productive and costly (OECD, 2003c) and have fostered an early retirement culture in many countries. Reversing this trend, therefore, constitutes a major policy challenge in a number of OECD countries. In Belgium, for example, retirement is

Chart 3.5. **Effective age of retirement: lower than the official age in many OECD countries^a**



a) The effective age of retirement refers to the average age at which persons aged 40 and over left the labour force during the period 1995-2000. The official age of retirement refers to the earliest age at which workers are entitled to a full old-age public pension.

Source: OECD estimates.

stated as the reason for inactivity by almost 29% of those aged 50 to 64, which is a much higher proportion than in other countries for which data are available, and the attachment to the labour market has become very weak after 50 (see OECD, 2003d).

Other avenues to early exit from the labour market need to be addressed too. As underlined in Chapter 2, in a number of countries, disability pensions, long-term sickness benefits and unemployment benefits have been used as an early retirement device. Thus, restraining the availability of early retirement programmes may lead to an increase in other forms of benefit receipt (see the discussion on benefit substitution in Chapter 4). A comprehensive approach is therefore needed.

More flexible work-retirement transitions may also help

While raising the average effective age of retirement is a desirable objective, it is also important to recognize that older workers are a very heterogeneous group. In all countries, depending on skill, work experience, geographical location and a range of other personal factors, there is a wide variation in labour force status, in pay and working conditions for those in employment, and in the timing of retirement. There is also wide variation in the household situation of older people within countries, which will also affect their work and retirement choices. Thus, it is desirable that older workers should have more choice about when they retire and whether this is done abruptly or progressively. But one crucial issue is how to build more flexible pathways to retirement without actually decreasing labour supply in terms of aggregate hours worked by older people.

More choice in the timing of the retirement decision has been introduced in Spain, Sweden and Switzerland by allowing both early and later retirement, but with a corresponding adjustment in the old-age pension (although not always strictly on an actuarially-neutral basis). This reduces pressure on pension funding by ensuring that benefits are more in line with contributions. Finland, Germany, Iceland, Italy, Netherlands, Norway, Sweden and the United States are all moving in this direction. In contrast, Australia has introduced a pension bonus scheme to encourage people to postpone taking a pension until after the official retirement age. One important characteristic of these reforms is that they provide financial incentives to stay longer in the labour force.

Creating greater opportunities for working-time reductions is often mentioned as another way of encouraging older people to postpone retirement. Progressive retirement schemes have been introduced in many European Union countries (see Table 3.A1.3 in the annex for details). These allow older workers nearing retirement to reduce their working hours and to receive some form of income support to compensate for the loss in wages. It should be noted, however, that the take-up of these schemes is very variable.²² In addition, the net effect on hours worked is unclear, while the financing of the subsidy entails a deadweight loss: on the one hand, a subsidy may raise the participation and number of hours worked of individuals who would have retired otherwise, but on the other hand it may induce others to reduce their working hours. Thus, progressive retirement schemes should be carefully targeted and limited, for example, to workers experiencing difficult working conditions or suffering from health problems. Spain and Sweden abolished their partial pension schemes as part of recent reforms to their old-age pension systems. Instead, under their new systems, there is considerable flexibility in combining full- or part-time work with an old-age pension (either in full or in part) but with no implicit subsidy of part-time work. In Japan, workers aged 60 and over are entitled to a full pension

(but at a reduced rate compared with the rate at age 65) if they work part-time but not if they work full-time.²³

But policies also need to tackle the demand-side of the equation, first by reducing obstacles to firms' retention of older workers...

The above-mentioned policies will undoubtedly help reduce disincentives to early retirement. However, demand-side barriers to the retention or hiring of older workers need to be addressed as well. There are concerns that older workers bear the brunt of layoffs as a result of company restructuring and bankruptcies and yet face the biggest hurdles in terms of finding new jobs. This has prompted the Belgian government to introduce a measure requiring firms laying-off older workers to pay the costs of outplacement services to help find new jobs for these workers. Likewise, in Spain, firms that lay-off older workers have to compensate the social security system for the shortfall in social security contributions entailed by the lay-off. However, a policy that increases the effective costs of firing older workers is likely to lead to lower hiring rates of older workers and thus could make it harder for older job seekers to find jobs. Thus, one issue to be resolved is how best to protect older workers from job loss and its consequences without lowering the incentives of employers to hire older job seekers.

Age discrimination is another factor affecting retention of older workers. For instance, setting a mandatory retirement age well below the official age for receiving the full old-age pension is standard firm practice in both Japan and Korea. And many older workers face a substantial cut in wages once they reach their firm's mandatory retirement age and have to switch to a new job, whether within or outside of the firm. It is now forbidden in Japan to set it below 60 years of age, but there is no such compulsory rule in Korea.²⁴ In both countries, there is an active debate about whether firms should be obliged to raise their mandatory age of retirement or abolish it altogether.²⁵ In contrast, in the United States, firms are prohibited from setting a mandatory retirement age. Within the European Union, the United Kingdom has taken the most comprehensive approach to tackling age discrimination but one that is based on a voluntary code of practice rather than legislation. However, all EU countries will be required to comply with the EU Employment Directive on Equal Treatment (2000/78/EC) to introduce by 2003 legislation prohibiting direct and indirect discrimination at work on the grounds of sexual orientation, religion and belief, and by 2006 on the grounds of age and disability.

In many countries, wages tend to increase with age. This may reflect the increasing productivity of workers as they gain more experience. However, the age-profile of earnings may also be the result of an implicit contract between the employer and the employee. Accordingly, wages would grow with seniority in order to enhance employee's commitment to the firm and work effort, especially when it is difficult for firms to monitor work effort (Lazear, 1979). Moreover, in a number of OECD countries, wage determination is strongly influenced by collective agreements and seniority wages may also be present in wage-setting practices. In Spain, for instance, although seniority has been playing a less important role over the past few years, about 80% of collective agreements still include seniority clauses. In countries such as Korea and Japan, seniority wages are a deeply embedded part of their national wage practices, and this means that setting a mandatory age of retirement lower than the official age is also a standard firm practice in these countries. Beyond a certain age, the wage may exceed the employee's marginal productivity, which would explain employer's incentive to encourage early retirement.

... *second, by facilitating hiring of older workers*

There are considerable differences across countries in the risk of unemployment and in the incidence of long-term unemployment for older people. In general, the unemployment rate for those aged 50 to 64 is either the same or somewhat lower than for those aged 25 to 49, while the opposite is true in terms of the incidence of long-term unemployment. It is not clear how country differences in these unemployment patterns should be interpreted. In some countries, early retirement schemes are much more pervasive than in others and thus a higher proportion of older job losers may move out of the labour market altogether before experiencing either a short or long spell of unemployment. In addition, in countries where older persons are not obliged to register as actively looking for work, their unemployment rate may be artificially lowered. However, one stylised fact is common across all countries: once they lose their job, it is especially difficult for older workers to find a new one.

Employment subsidy schemes are often used to promote the labour force participation of older workers. Policies to provide subsidized employment for older workers in both the private and public sectors have been developed in many countries (see Table 3.A1.4, in the annex for details). As discussed above, the results of evaluations in a number of OECD countries indicate that there are likely to be large deadweight and displacement effects associated with wage subsidy programmes. In Korea, the employment promotion subsidy for older workers is also reported to have a large deadweight effect (Jang, 2000). A further problem is that subsidies for older workers as a group may lead to stigmatisation and reinforce negative attitudes to hiring and retaining older workers on the part of employers. A wage subsidy that is granted solely on the basis of age may not be a very effective measure as opposed to a subsidy targeted at older, low-paid workers only or at long-term unemployed job seekers. For example, for the “New Deal 50 plus” in the United Kingdom, while there are a number of positive reports on this programme, some job centres also report cases of negative experiences for older workers (Joseph *et al.*, 2002). Moreover, the fact that older workers are a very heterogeneous group also suggests that policies which are targeted on age alone risk being quite blunt instruments.

It is also necessary to consider other aspects of active labour market policies. While older workers do not always face a higher risk of becoming unemployed than younger workers (partly because they may leave the labour force altogether), they generally face a higher incidence of long-term unemployment. While age discrimination and a general lack of job opportunities may account for some of the difficulties that older unemployed people face in finding work, there is room to improve the employment services that are offered to them (see also Chapter 4). In some countries, eligibility rules for unemployment benefits that require active job search on the part of the benefit recipient are either explicitly or implicitly waived for older job seekers, and thus the incentives and help given for job search are minimal or non-existent. “Activation” policies that have tied the continuation of unemployment benefits to either the acceptance of a job offer or participation in active labour market programmes have often been directed at younger people. In Spain, recent active measures have also been introduced for older unemployed people. There may also be a need to tailor active labour market programmes to the individual needs of older workers. For example, older job seekers can and do participate in Sweden’s extensive range of programmes, but they do not appear to rate these programmes as being very effective in terms of improving their employment chances, which is partly borne out by the relatively high incidence of long-term unemployment among the older unemployed in Sweden.

Towards a life-cycle approach to preserve employability and attachment to the labour market

While raising the average age of retirement is a desirable objective, especially in those countries where it is currently very low, it is important to consider the quality of the jobs that older people would be able to obtain if they remain longer in the labour market. Since the incidence of health problems rises strongly with age, adapting the working environment and working arrangements may play a key role in retaining older workers in the labour force. Moreover, as has been seen (see Table 3.A1.1 in the annex), non-employed older workers are much more frequently low-educated than those who are employed. In many OECD countries, more than the half of the non-employed persons aged 55 to 64 are low-educated. Insuring that skill and competencies match firms' productivity requirement throughout the working life is crucial to maintain the employability of older workers.

Providing greater training opportunities for older people is an important issue. However, relatively few significant initiatives have been put in place targeted specifically at older workers. But, providing training opportunities to older workers without any provision of vocational training at an earlier stage of their working-life is unlikely to be very effective. Employers may be reluctant to give training to older workers because they do not expect these workers to remain long enough with the firm to gain a sufficient return on their training investment. Older workers may be reluctant to invest in training themselves because existing training programmes are not well adapted to their needs or because the opportunity costs of investing in further training are too high *versus* the expected financial returns (see Chapter 5). Thus, a life-cycle perspective suggests that it is necessary to promote greater training opportunities for workers at earlier stages in their careers and not just after they reach the age of 50.

Improving working conditions in order to reduce health-related problems may have a positive effect in delaying exit from the labour market and extending the work life of older workers. In this area, there have been only a few initiatives taken in some OECD countries. In 2001, the Swedish Government introduced the *11-point programme for better health in working life* (Ministry of Health and Social Affairs, 2001). This focuses on measures for a better working environment and clearer employer responsibilities, as well as measures for an early return to work after illness. It provides a framework rather than a ready-made package of specific measures to be implemented immediately. The programme will be carried out in close liaison with the social partners. At this stage, nothing has so far been implemented. In Japan, employers who improve workplace facilities and equipment to facilitate employment of workers aged 60-64 years, and actually increase the number of such employees, or those who open new plants where they have many older employees, can receive benefits of JPY 250 000 to JPY 20 million for three to five years. In addition, since 2000, employers can also receive two-thirds of the cost if they create barrier-free workplaces for older workers. A loan programme with special interest rates is also available for investments such as remodelling the workplace. In Korea, according to the proposed "Aged Employment Promotion Act", the government will be able to provide financial support to those companies improving working conditions for older workers, with financial resources coming from either the general budget or the EIS fund.

Conclusions

Across OECD countries, work is unequally distributed, with the main groups under-represented in the labour market including women in general, and mothers and lone

mothers in particular, older workers and people with disabilities. To assist these groups to enter or return to the labour market, work should pay and be accessible, but work also needs to be affordable for employers. Governments that wish to make work pay need to consider the possible financial incentives and subsidies that are most appropriate and most likely to be effective in the specific circumstances of their countries. Employment-conditional benefits such as tax credits can in the right circumstances provide effective incentives for increased labour supply and enhance employment, but it is also necessary to bear in mind their broader distributional objectives and their institutional context. Interactions with the minimum wage are important, also in regard to subsidies aimed at reducing labour costs for employers. Appropriate targeting of either form of assistance is important, and appropriate time limits should be considered. The labour supply of older workers can be increased if existing incentives to early retirement in pension systems are removed, and other benefits are also reformed so that they do not offer alternative paths to early retirement. Similarly, disability benefit schemes should be reformed in order to prevent long-term dependency and encourage work.

Such reforms also need to be accompanied by effective initiatives to increase demand for these groups. Enhancing accessibility requires consideration of different issues for different groups. Striking a better balance between work and family life is vital for parents, in particular, while for people with disabilities, there should be individually-tailored interventions, including rehabilitation and training. Older workers may also need retraining and flexible working arrangements. Effective policies to combat discrimination in the workplace are also important. Most importantly, particularly for a wide range of beneficiary groups it is necessary to recognise that employment is the most sustainable and secure foundation for effective social protection. Building this more effective system of social protection requires a comprehensive policy approach.

Notes

1. A stated aim of the UK initiative, for instance, is to tackle the adverse effects of poverty on children (Brewer, 2000). This objective is less relevant when the eligibility requirements are based on individual criteria, regardless of whether or not there are children in the household unit.
2. The basic rate of income tax will be reduced to 15% by 2005 (starting from 25.9% in 1998) and the top tax rate to 42% (from 53% in 1998). In addition, households in the lowest income tax bracket benefit from a substantial increase in the basic tax-free allowance. Moreover, in the context of a special labour policy programme, tests of the so-called Mainz Model have been extended to Germany as a whole on 1 March 2002: upon taking up employment, low-income workers receive a sliding-scale subsidy towards their social security contributions. Overall, low-wage workers will see their disposable income (after tax and social security contributions) increase by a significant amount, which should encourage them to enter regular employment.
3. The employment effects of the WFTC scheme in the United Kingdom are not as positive. One explanation might be the differential nature of the WFTC, since entitlement to these payments means the partial loss of other welfare benefits.
4. Visibility can play an important role when it comes to benefits. Individuals cannot be expected to react well to a policy if they are unable to evaluate with accuracy how much they stand to gain from it. The publicity given to Canada's SSP probably contributed to its success (Greenwood and Voyer, 2000). Enrolees were given clear, detailed information on its content and main goal, which was to make work pay. This aspect is sometimes overlooked. US taxpayers, for instance have only a very vague idea how much tax credits can help to increase their incomes (Hotz and Sholz, 2000). The British experiment, when reforming the WFTC, of delegating to employers the responsibility for paying the benefit along with wages, is an interesting recent innovation in this respect.
5. In 2004, the generosity of the PPE should be increased. It would then account at most for 7% of declared income.

6. Workers earning less than 30% of the monthly minimum wage are not eligible for the PPE, while the welfare benefit (RMI) is higher than this threshold.
7. A survey reported in van Polanen Petel *et al.* (1999) indicates even larger deadweight losses, accounting for over 90% of new recruits.
8. This complementary measure was not based on any evidence of a decline in wage mobility at the bottom of the wage ladder (European Commission, 1999). More generally, there is as yet no evidence of low-pay traps emerging once employers have benefited from payroll tax reductions, but this is because most of the evaluation work to-date has focused mainly on the employment effects of such measures.
9. Companies were supposed to provide workers hired in this way with genuine employment prospects, and would not be eligible for further subsidies if they shed them too rapidly. Evaluations of this scheme have highlighted its sustained impact on employment and on the wages of those concerned (with the exception of young people; see Katz, 1998).
10. Employment-conditional benefits or tax-credit schemes and employer subsidies targeted at the low end of wage distribution or to the hiring of disadvantaged groups are in principle equivalent when wages are fully flexible. In practice, they may be not equivalent, as wages are not fully flexible, so that the presence of a wage floor would suggest acting through employers if the goal is to maximise employment gains. Moreover, specific aspects of the wage determination process may be relevant, as stigmatization issues may become relevant.
11. In this respect, the introduction of employment-conditional benefits may ease the transition to a more flexible wage structure, with more decentralised wage bargaining institutions.
12. Among other things, this includes: a legal framework which guarantees the same or a comparable position upon the parent's return from leave and the possibility to work shorter hours for parents with young children (in both the private and public sector in Sweden, but only for publicly employed parents in Denmark), access to highly subsidised, publicly provided childcare services, etc.
13. In the case of Germany, various measures have been taken to facilitate access to long-term maternity leave. Ondrich *et al.* (1996) show that women are much more likely to return to work when they previously had a strong job attachment (significant work experience and a full-time job). Similarly, studies that make it possible to distinguish patterns of participation on the basis of the level of education show that women with higher education more frequently return to work (for example, see Dex *et al.*, 1996, for the United Kingdom; Gutiérrez-Domenech, 2002, for Spain; and Bratti, 2001, for Italy).
14. In France, for example, women who use the APE to stop all paid activity for three years have very specific characteristics: "Two types of women use the APE: those with high job security and those with a history of very precarious jobs" (Simon, 1999). Consequently, this type of measure might further widen the employment gap between the skilled and less skilled that is observed more generally.
15. The quality of child-care services provided is also a key aspect that experts on the development of very young children have emphasised when seeking to determine whether it is detrimental to children's development for mothers to work. Relatively little is known about the relationship between the quality of child-care services and whether women work, partly because it is difficult to measure the quality of these services. In practice, this issue is often raised last, after the problems of availability and cost of child care have been solved or at least addressed (OECD, 2002d). For example, Denmark has a very extensive child-care system that provides full-time, institutionalised care starting at the youngest ages. It has become standard practice for parents to use it, and the vast majority of women return to work after having a child, often on a full-time basis. As a result, the focus is now mainly on the quality of the various types of child care provided.
16. Since 1992, combining part-time work with raising children (until the 10th year for the youngest child) has been 50 % better valued in terms of the subsequent pension entitlement. Moreover, the "Part-Time and Fixed-Term Employment Act", introduced in 2001, aims at facilitating access to part-time work in all occupations, for both men and women. The key elements of the act are the improvement of protection against discrimination for part-time employees, greater transparency about part-time work opportunities, and the promotion of part-time work by extending employees' rights.
17. The indicator proposed is imperfect, for it does not permit to distinguish between a relative shortage of part-time jobs and a poor distribution of part-time jobs (since involuntary part-time employment can coexist with unsatisfied demand for part-time jobs).

18. The match between non-active persons who state that they stopped working for health reasons and non-active persons who state that they have a disability is obviously imperfect, but it is reasonable to believe that these two groups overlap significantly.
19. For the purpose of this discussion, and as far as available data permit, older workers are defined as workers aged 50 and over. This age is not meant to be a watershed in itself in terms of defining who is “older” and who is not. However, in many countries, the age of 50 marks the beginning of a decline in participation rates.
20. The OECD has calculated two measures of early retirement incentives in public pension schemes. The first is the replacement rate – a person’s pension as a percentage of his or her working income prior to retirement: the higher the replacement rate, the higher the incentive to retire. The second measure is the change in net pension wealth from working an additional year; the principle here is that the incentive to retire early would rise if working an extra year implied paying additional contributions with little or no increase in future pension gains. Using this measure for 15 countries, it is clear that there are incentives to retire early in the regular old-age pension system, though not before the age of 60. The exceptions are Italy (where the earliest retirement age is 57 and the replacement rate of pension income is above 50% of previous earnings) and Australia (where individuals can draw on their mandatory savings from 55). In the United Kingdom and Canada, complementary occupational pension schemes also provide incentives for early retirement – the retirement age in some UK companies that have their own private pension schemes is 60, and not the UK standard of 65.
21. Only in the United States does the effective retirement age correspond to the current official age (65). Even so, the United States is gradually raising the retirement age to 67, and is debating the merits of later retirement. The average worker in Japan and Korea retires at 69 and 67, respectively four and seven years later than the official age. But these are the exceptions.
22. In Belgium, for instance, only just over 1 000 persons in 2001 opted for early retirement on half normal working hours. This measure is quite complex and needs the cooperation of several actors (the unemployment benefit institution, the employer, the pension institution). In contrast, around 37 000 persons aged 50 and over chose a career-break in 2001. Similarly, the scheme in Luxembourg is very complex and has very low take-up.
23. Another concern is whether older workers or all workers more generally, should be given the right to work part-time and what impact this would have on firms’ performance. In Belgium, for example, under the “*crédit temps*” scheme introduced in January 2002, employers with ten or more employees are obliged to allow workers to switch to part-time work, if they so wish, within a limit of 5% of their total workforce.
24. In Korea, the mandatory retirement age was set at 56 years of age or less in half of medium-to-large firms in 2001.
25. The Korean Government has urged firms to raise their mandatory age of retirement to 60, but only on a voluntary basis. Similarly, in Japan, firms have been urged to raise it to 65.

ANNEX 1

Tables 3.A1.1 to 3.A1.4

Table 3.A1.1. **Non-employment among young women, older workers and disabled persons: a low level of education as a common factor**

Percentages

	Women aged 25 to 44, 2001			All persons aged 55 to 64, 2001			Disabled persons aged 25 to 64, 1997		
	Share of low educated in total non-employed ^a	Share of low educated in total employed ^a	Ratio	Share of low educated in total non-employed ^a	Share of low educated in total employed ^a	Ratio	Share of low educated in total non-employed ^a	Share of low educated in total employed ^a	Ratio
Australia	52.6	32.6	1.6	66.9	44.5	1.5	..	..	..
Austria	32.1	17.5	1.8	39.8	23.5	1.7	43.9	20.9	2.1
Belgium	50.6	19.9	2.5	67.4	40.7	1.7	59.8	32.2	1.9
Canada	22.1	8.3	2.7	40.9	25.3	1.6	..	..	..
Czech Republic	16.6	7.9	2.1	31.3	10.8	2.9	..	..	..
Denmark	32.7	13.2	2.5	38.9	19.9	2.0	52.2	23.9	2.2
Finland	18.9	8.9	2.1	57.5	39.2	1.5	55.0	29.6	1.9
France	44.1	21.4	2.1	59.2	44.4	1.3	69.9	39.2	1.8
Germany	27.9	12.3	2.3	28.9	16.8	1.7	34.6	21.2	1.6
Greece	43.8	25.0	1.7	71.5	73.9	1.0	80.1	63.9	1.3
Hungary	35.7	15.3	2.3	64.0	30.4	2.1	..	..	..
Iceland	46.8	37.1	1.3	52.0	43.1	1.2	..	..	..
Ireland	47.8	20.5	2.3	72.8	55.5	1.3	76.0	53.6	1.4
Italy	57.6	30.2	1.9	82.5	61.3	1.3	89.1	52.7	1.7
Japan	5.7	4.1	1.4	39.8	35.7	1.1	..	..	..
Korea	14.4	22.1	0.7	68.7	71.1	1.0	..	..	..
Luxembourg	48.9	34.9	1.4	60.6	26.7	2.3	..	..	..
Mexico	83.0	63.7	1.3	90.3	87.6	1.0	..	..	..
Netherlands	48.1	21.3	2.3	57.5	37.2	1.5	41.1	26.3	1.6
New Zealand	30.0	14.9	2.0	51.7	32.4	1.6	..	..	..
Norway	14.0	5.4	2.6	43.0	22.0	2.0	..	..	..
Poland	18.1	7.4	2.4	44.8	33.4	1.3	..	..	..
Portugal	84.3	66.5	1.3	92.8	90.2	1.0	96.4	88.9	1.1
Slovak Republic	18.6	6.0	3.1	40.9	10.1	4.0	..	..	..
Spain	61.1	35.9	1.7	88.6	73.8	1.2	89.8	78.1	1.1
Sweden	18.7	8.3	2.2	44.3	30.3	1.5	36.9	27.0	1.4
Switzerland	13.9	9.5	1.5	28.1	15.0	1.9	..	..	..
Turkey	83.9	62.7	1.3	85.0	90.0	0.9	..	..	..
United Kingdom	27.3	8.0	3.4	39.6	22.6	1.8	..	..	..
United States ^b	20.5	7.9	2.6	24.9	12.1	2.1	39.8	16.1	2.5
Unweighted OECD average	37.3	21.6	2.0	55.8	40.7	1.6	61.7	41.0	1.7
Standard deviation	21.7	17.4	0.6	19.7	24.2	0.6	21.6	22.9	0.4

.. Data not available.

a) Low educational attainment corresponds to less than upper secondary degree.

b) For disabled, data refer to persons aged 20 to 64.

Source: OECD (2002g); OECD (2003a).

Table 3.A1.2. **Examples of employment-conditional benefits^a**

	Name	Type of recipient	Maximum benefit (% of full-time median wage) ^b	Minimum hours worked	Description of benefit	Unit
Australia	Employment Entry Payment	Lone parents and long-term income support recipients (12 months or more)	AUD 104/year (0.3%)	–	Lump sum paid when entering employment (eligible only every 12 months)	Both individual and household criteria
Belgium	Refundable tax credit (being introduced)	Wage earners or self-employed with an earned income of between EUR 3 260 and EUR 14 140 per year	EUR 440/year in 2004 (1.3%)	None	Lump sum	Individual
Canada ^c	Individual provinces provide employment-conditional benefits: e.g. Ontario's Start Up Benefit	Social assistance recipients	CAD 253/year (0.8%)	None	Lump-sum paid to social assistance recipients who begin/change employment or join training programme (once every 12 months only)	Individual
France ^d	Employment allowance: <i>Prime pour l'emploi</i>	Individual with an earned income of between EUR 3 265 and EUR 15 235 per year (or EUR 23 207 for a married person with an unemployed spouse)	EUR 720/year in 2004 (3.3%)	None	Entry phase: benefit increases with income. Exit phase: benefit decreases with income. Supplement for dependants	Individual
Ireland ^e	Family Income Supplement	Families with children and low wages (threshold from EUR 362 to 539 per week depending on number of children)		19 hours per week	Amounts to 60% of the difference between effective income and eligible income	Families with children
	Back-to-Work Allowance	Long-term unemployed (min. 12 months) and welfare recipients	75% of previous allowance	20 hours per week	Limited to three years, decreasing over time (50% then 25% of previous allowance in 2nd and 3rd years)	Individual
Netherlands ^f	Employment-conditional tax credit	Wage-earners or self-employed	EUR 920/year (3.4%)	None	Entry phase: benefit increases with income	Individual
New Zealand	Family Tax Credit	Families with children and low earned income (under NZD 18 368 before tax, per year)		30 hours per week for a couple, 20 hours for a single parent	Provides a minimum income of NZD 18 368 per year, or NZD 286 after tax per week	Families with children
United Kingdom ^g	Working Family Tax Credit	Working parents with low income (threshold depends on household composition)	GBP 88.95/ week (one-child family) (10.3%)	16 hours per week (supplement for 30 hours or more)	Exit phase: benefit decreases with income (depends on hourly wage). Supplements for extra dependent children	Families with children
United States ^h	Earned Income Tax Credit	Working families with children and individuals with low salaries	USD 2 428/year (8.1%)	None	Entry phase: benefit increases with income. Exit phase: benefit decreases with income	Families with children/ individual
			USD 4 008/year (13.4%)			
			USD 364/year (1.2%)			

a) The benefits presented here fall into two categories: tax credits for earned income or cash supplements to offset benefits foregone upon return to employment. Other countries (e.g. Spain, Finland and Japan) grant wage-earners tax relief, which amounts to exempting a share of their earned income (the relief is usually higher for low incomes). Such exemptions are not included here (for more details, see OECD, 2002b).

b) The figure in brackets refers to the percentage of full-time median earnings in 1998 for Belgium, 1999 for France and the Netherlands, 2000 for others countries.

Table 3.A1.2. **Examples of employment-conditional benefits^a** (cont.)

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- c) The previous Working Income supplement has been replaced by the National Child Benefit (NCB) supplement. This is a nationwide measure targeted at all low-income families; it does not really constitute an employment-conditional benefit. However, each Canadian province has special benefits for welfare recipients who enter or re-enter employment.
 - d) In 2003, the maximum benefit was EUR 479.
 - e) Ireland has other employment-conditional subsidies, including an allowance for returning to part-time work (fewer than 24 hours per week) after a long period of unemployment (at least 15 months).
 - f) In 2001, the Netherlands tax system underwent radical change, including the introduction of a variety of tax credits. Some families, for instance, can deduct some of their childcare costs from taxes. Welfare recipients are also eligible, under certain conditions, for a back-to-work allowance.
 - g) As from April 2003, this tax credit for working families is being replaced by two separate benefits, one being employment-conditional and the other covering childcare costs.
 - h) The first figure applies to one-child families, the second to families with two children or more, and the third to families with no children.

Source: OECD (2002a), Department of Family and Community Services (Australia), Ministry of Finance (Belgium), Internal Revenue Service (United States), Cahuc (2002 – for France), Department of Social and Family Affairs (Ireland), Inland Revenue (New Zealand), Gradus and Julsing (2001 – for the Netherlands), Inland Revenue (United Kingdom); OECD database on earnings.

Table 3.A1.3. **Main features of progressive retirement schemes**

Country and year of introduction	Scheme and hours reduction	Minimum age and career requirements	End of the scheme	Income and incentives (besides part-time pay)	Compensatory recruitments
Austria 2000	Part-time work for older workers. Full-timers can work up to 28 hours per week and part-timers up to 70% of previous hours.	55 for men, 50 for women. Unemployment insurance contributions for at least 15 years in the last 25 years.	Early retirement age (61.5 for men and 56.5 for women).	Worker: at least 50% of the pay reduction. Employer: the Labour Market Service pays 25% of gross pay and covers social contributions exceeding actual working hours.	Repealed in 2000. No longer required.
Austria 1993	Partial pension. Hours reduction of 40%-60%.	61.5 for men, 56.5 for women (new limits progressively implemented up to October 2002). Pension contributions for at least 450 months.	Retirement age (65).	Worker: proportionate "partial pension".	None.
Belgium 2002	Time credits. 1) Right to a time credit for a maximum of one year, employees can interrupt work or reduce it to half-time without breaking contract of employment or losing social security rights. Can be extended to maximum of five years by agreement at sectoral or company level. 2) During their career, for a maximum of five years, an employee has a right to reduce working hours by one-fifth, generally four-day working week instead of five. Workers over 50 entitled to reduce working hours indefinitely by either 20% or 50%.	All, but special conditions for 50 and over. For over-50s, 20 years' employment and five years' service with current employer.	Indefinite for those 50 and over.	Worker: career break benefit of around EUR 500 per month.	None
Belgium 1994	Early retirement on half working hours. Hours reduction of 50%.	55 a) Full-time employment in same enterprise for at least 12 months prior to reduction of working hours; b) entitled to unemployment benefits; c) 25 years of working life.	Retirement age.	Worker: half-time salary, unemployment benefit and supplementary compensation from employer.	Obligation to replace employee with unemployed worker (some exceptions).
Belgium 1985 until 2001	Career break. Hours reduction of 20% or 50%.	None. For over-50s, 20 years' employment and five years' service with current employer.	For over-50s, the career break will be re-examined every six months.	Worker: career break benefit of around EUR 300 per month.	Employer must hire an unemployed worker (some exceptions).
Denmark 1998	Flexible early retirement. Variable hours reduction.	60. Eligibility for early retirement, <i>i.e.</i> membership of unemployment fund for 25 years.	Retirement age (65), or early retirement.	Worker: a) proportionate partial early retirement pay; b) a tax-free payment if worker postpones full early retirement.	None.
Denmark 1990	Working hours reduction and part-time work (as part of older workers policies). Variable hours reduction.	Usually 60 but 55 in the public sector. Varies by sector and firm.	Retirement age (65).	Varies according to collective agreements and usually includes provision of a partial pension.	None.

Table 3.A1.3. **Main features of progressive retirement schemes (cont.)**

Country and year of introduction	Scheme and hours reduction	Minimum age and career requirements	End of the scheme	Income and incentives (besides part-time pay)	Compensatory recruitments
Denmark 1986	Partial pension. Hours reduction of at least seven hours or 25%, part-time hours of 12-30 hours per week.	60. Full pension contributions for ten years during last 20 years.	Retirement age (65).	Worker: partial pension.	None.
Finland 1987, 1989	Progressive retirement. Weekly working time must be reduced to 16-28 hours.	58 (56 on an experimental basis until 2002). Private sector: <i>a)</i> full-time employment for 12 months during last 18 months; <i>b)</i> five years of pensionable employment during the last 15 years. Public sector: full-time employment for three years during previous five, of which six months just before starting part-time work.	Retirement age (65).	Worker: <i>a)</i> part-time pension of 50% of difference between full-time and part-time earnings; <i>b)</i> no significant reduction in old-age pension entitlement.	None.
France 1998	Gradual retirement. Variable hours reduction.	60. <i>a)</i> Enough pension contributions to qualify for full pension; <i>b)</i> only one part-time activity.	"Late" retirement after the age of 60 (or return to full-time job or second part-time job).	Worker: partial pension proportionate to percentage of full-time hours worked.	None.
France 1996	Progressive early retirement. Average hours reduction of 50%.	55. <i>a)</i> Service in firm for at least one year; <i>b)</i> affiliation to a social security scheme for ten years; <i>c)</i> in full-time work. Workers over 60 must have fewer pension contributions than needed to qualify for full pension.	Retirement age (60). Scheme continues after 60 only if worker cannot qualify for full pension.	Worker: <i>a)</i> benefit of c.30% of previous basic wage; <i>b)</i> social contribution reductions; <i>c)</i> company agreements may grant special bonus. Employer: contribution to financial costs of scheme – contribution level depends on compensatory recruitment.	Employers' financial contribution depends on level of compensatory hiring and proportion of recruits from priority groups: contribution lower for more compensatory recruitment.
France 1992	Phased-in retirement (for public sector employees only). Hours reduction of 50%.	55. <i>a)</i> Full-time job; <i>b)</i> 25 years' service as state employee.	Retirement age (60). Scheme continues after 60 only if worker cannot qualify for full pension.	Worker: 30% of basic wage.	None.
Germany 1996	Progressive retirement. Hours reduction of 50%.	55 (possible to enter programme until 2009). <i>a)</i> Unemployment contributions for 36 months during last five years; <i>b)</i> not entitled to full pension.	Retirement age (65)	Worker: at least 70% of former net full-time income. Employer: if employers hire new workers, they receive payments to compensate the difference between actual working hours (50%) and wage (at least 70%) and 90% of full-time worker's pension contributions; incentives may last up to six years.	Needed in order for employers to benefit from economic incentives.
Netherlands 1980	Progressive retirement (part of pre-pension schemes). Variable hours reduction.	60. Varies according to collective agreements	Retirement age (65).	Varies according to collective agreements.	None.

Table 3.A1.3. **Main features of progressive retirement schemes (cont.)**

Country and year of introduction	Scheme and hours reduction	Minimum age and career requirements	End of the scheme	Income and incentives (besides part-time pay)	Compensatory recruitments
Norway 1988, 1997	Partial pension. Variable hours reduction.	62. a) Employed in company for three years, or covered by agreement on early retirement for five years; b) ten years of pension contributions since age of 50.	Retirement age (67).	Worker: partial pension.	None.
Spain 1997	Deferred retirement (still awaiting implementation). Variable hours reduction.	61. 35 years' pension contributions in order to benefit from incentives.	"Late" retirement after age of 65.	Worker: a) a higher pension on retirement; b) reduction of social contributions. Employer: social contribution reductions.	None.
Spain 1984	Early retirement through hand-over contracts. Hours reduction of 50%.	60. Eligibility for early retirement, <i>i.e.</i> 30 years of pension contributions.	Retirement age (65).	Worker: partial pension proportionate to working hours reduction.	Obligation to recruit replacement.

Source: European Industrial Relations Observatory (2001), Table 5.

Table 3.A1.4. Employment subsidy schemes for older workers in selected OECD countries

	Description of measure
Austria	There are employment subsidies for older workers that are large (100%) and available for up to two years. From 1996, the employer's share in unemployment insurance contributions could be halved, if over 50-year-olds were recruited, and completely dropped for workers over 55. Since 2000, the employer's share in unemployment insurance contributions can be dropped completely for those hiring workers aged over 50. This "bonus" is the first half of Austria's Bonus-Malus system, where the "malus" is a penalty payment for dismissing workers over the age of 50. In addition, the Austrian government has been implementing a progressive retirement programme, under which it compensates at least 50% of the lost income due to the shorter working hours.
Belgium	Since 1996, employers who hire job seekers aged 50 or over, who had been unemployed at least six months, can claim a 50% reduction in their social security contributions, for the first year following recruitment, and thereafter employers can get a 25% reduction for an unlimited period.
Denmark	Early retirement rules have been tightened and a pilot scheme has been introduced between 2000 and 2001 by the Ministry of Labour to subsidise public sector employment of long-term unemployed people aged over 48. The subsidy of DKK 100 000 is paid to the employer as long as the older workers remain with the organisation.
Finland	Private firms and municipalities can claim subsidies for six months if they employ people aged 55-59 who have recently become unemployed.
France	<i>Contract to promote employment – Contrat Initiative Emploi (CIE)</i> . The target group for subsidy is unemployed persons aged 50 and over. Other individuals are also eligible, including the long-term unemployed, recipients of social assistance benefits, disabled workers, single parents, low-skilled, unemployed youth, and former prisoners. The firm must not have laid-off workers in the preceding six months for economic reasons, and must not dismiss a previous employee on a permanent contract or make someone redundant in order to take on a subsidized employee. The subsidy provides an exemption from employer social security contributions (including for work accidents) for the part of wages corresponding to the level of the minimum wage, <i>i.e.</i> around 40% of gross minimum wages. The subsidy is normally for 24 months for a permanent employment contract or for the length of a fixed-term contract. The subsidy is Indefinite in the case of an older person (aged 50-64) who has been either unemployed or on social assistance for more than one year or is disabled
Germany	In keeping with the goals of the European employment strategy, older workers are an explicit target group of the Act for Modern Services on the Labour Market (1 January 2003). A number of measures are being taken with this special group in mind. On the supply side, the so-called wage safeguard for older workers has been introduced for workers 50 years of age and older. The wage supplements, to which there is a legal right, consist of two elements. On the one hand, there is a grant of 50% of the "net difference" between the wages earned before and after the unemployment phase. This wage supplement is tax-free and not subject to social contributions. In addition, the reduction in old-age security resulting from the lower wage level is partially offset by increasing coverage in the statutory pension insurance. The insurance contributions are boosted to 90% of those paid in the previous job. The benefits of the wage safeguards are granted exclusively to older jobless persons who have a (residual) claim to at least 180 days of unemployment benefit or, in the case of workers threatened by unemployment, have a corresponding potential claim. The wage safeguards are granted for the maximum period for which there is a claim to unemployment benefit. To prevent free-riders from cashing in on the benefits, their granting is prohibited in various situations. The last possibility of eligibility for this support is 31 December 2005; benefits may be paid out until 31 August 2008 at the latest. On the demand side, employers are given incentives to hire older workers. Employers who hire jobless persons who have reached the age of 55 are exempt from paying their share (3.25 %) of unemployment insurance. The measures to provide more flexibility in employing older workers have also been extended to cover the field of labour law. The age limit that is laid down in the Part-Time and Fixed-Term Employment Act and that defines the age from which fixed-term employment contracts may be concluded without citing any objective ground and without setting a maximum time period is being lowered, initially for a period of four years, from the age of 58 to that of 52. This provision is aimed at improving older jobless persons' chances of re-integration in the labour market. The Job-AQTIV Act (1 January 2002) has also improved incentives for the further training of employees aged over 50. The costs of their further training can be assumed by the Federal Institute for Employment. To be entitled to this, they must at least be employed in a small or medium-sized firm with up to 100 employees and be entitled to pay during the further training.
Greece	Under a scheme operated by the Manpower Employment Organisation, companies hiring workers aged 55 and over can receive subsidies for 12 months.
Italy	Employers hiring older workers are exempt from paying social insurance contributions for one year.
Japan	The Japanese government provides various subsidy programs for older workers based on the "Law for Employment Stabilisation for Older People". A subsidy can be given to employers who either continue employment of existing older workers or who hire older persons. The amount of subsidy for continuing employment ranges from JPY 500 000 to JPY 250 000. Employers who raise the mandatory retirement age or introduce a continued employment system can receive a subsidy of JPY 500 000 to JPY 3 000 000, up to maximum of five years. Employers employing more than 15% of 60-64 years old among their total employees can be given benefits of JPY 15 000 per month. For small and medium-sized enterprises, additional 60-64 year old employees exceeding the 15% can be given JPY 20 000 up to maximum of five years.

Table 3.A1.4. **Employment subsidy schemes for older workers in selected OECD countries (cont.)**

Description of measure	
Korea	<p>1) <i>Bounty to Promote Employment for Many Aged Workers</i>. To be eligible the number of older workers (aged 55 and over) should exceed 6% of a firm's workforce. The number of part-time workers working fewer than 13 days per month or less than 15 hours per week is excluded from both the denominator and numerator when calculating the employment share of older workers. The subsidy is KRW 150 000 per quarter for every older worker exceeding the 6% requirement, <i>i.e.</i> around 2% of average wages per month, and is available indefinitely, as long as the 6% requirement is met.</p> <p>2) <i>Bounty to Promote New Employment of Aged Workers</i>. In order to access this subsidy, the firm must hire an older worker (aged 55 and over) who has been registered as looking for work with the Public Employment Service for at least three months. The firm must not lay-off any older workers during the period of three months prior to, or six months after, applying for the subsidy. The subsidy is KRW 250 000 per worker per month, <i>i.e.</i> 13.9% of average wages for six months</p> <p>3) <i>Bounty to Promote Re-employment of Aged Workers</i>. A firm is eligible for the subsidy for all retired workers (aged between 45 and 60) that it re-hires within a period of between three months and two years after they originally retired from the firm. However, as with the New Employment Bounty, it must not lay-off any older workers either during the period of three months prior to and six months after applying for the subsidy. The subsidy is KRW 300 000 per worker per month, <i>i.e.</i> 16.7% of average wages, for a maximum duration of six months.</p> <p>In addition to the existing subsidy programmes in Korea, the government is planning to introduce a further subsidy programme to boost the re-employment of retired workers through the revision of the "Aged Employment Promotion Act", which authorizes subsidies to employers. The government plans to provide subsidies from the EIS Fund to employers when they re-hire older workers after their retirement, with the subsidy planned to be about KRW 300 000 for six months.^a</p>
Luxembourg	Financial incentives are provided for employers to take on unemployed workers aged over 50.
Spain	Measures were introduced in 1997 in the form of lower social security contributions for companies for hiring workers aged over 45.
Sweden	" <i>Special Employment Subsidies</i> ". This subsidy introduced in November 2000 is also intended to encourage employers to recruit at an earlier stage. The target group is persons over 57 years, and unemployed for two years or more. The subsidy is paid to employers for a maximum period of 24 months and covers up to 75% of the wage costs to a maximum of SEK 525 per day, <i>i.e.</i> SEK 10 500 per month (roughly half of the average salary for a full-time worker). In 2001, only around 1 900 persons participated in the programme.
United Kingdom	<i>New Deal 50+</i> . Persons aged 50 and over who have been on benefits for six months or more are assisted. Financial help also includes a tax-free Employment Credit. This Employment Credit is paid on top of an individual's wages when they go back to work, and can be paid for up to 52 weeks. "New Deal" programmes are also available for other target groups, including youth and long-term unemployed, disabled people, and lone parents. A New Deal Employer Agreement must be signed by the firm with the local labour office, and the firm is required to retain New Deal employees at the end of the six-month period provided they show aptitude and commitment. If not, this must be agreed in advance with the local labour office. The firm must pay New Deal employees the going rate for the job, which must be at least as much as the subsidy received, and must not dismiss a previous employee or make someone redundant in order to take on a New Deal employee. The subsidy is GBP 75 per week for each New Deal employee working full-time (at least 30 hours per week) and GBP 50 for those working part-time (16-29 hours a week), for six months.

a) In addition, large-scale public work programmes used after the financial crisis in 1997 absorbed significant numbers of older workers, with data (in 1999) showing that more than one-third of participants were aged over 50 (OECD, 2000).

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