

**From:**  
**OECD Employment Outlook 2013**

**Access the complete publication at:**  
[http://dx.doi.org/10.1787/empl\\_outlook-2013-en](http://dx.doi.org/10.1787/empl_outlook-2013-en)

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## **Activating jobseekers: Lessons from seven OECD countries**

**Please cite this chapter as:**

OECD (2013), "Activating jobseekers: Lessons from seven OECD countries", in *OECD Employment Outlook 2013*, OECD Publishing.  
[http://dx.doi.org/10.1787/empl\\_outlook-2013-7-en](http://dx.doi.org/10.1787/empl_outlook-2013-7-en)

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## Chapter 3

# Activating jobseekers: Lessons from seven OECD countries

*This chapter provides a comparative review of key developments in the design and implementation of benefit systems, employment and training programmes and employment service arrangements in seven OECD countries. An active orientation of these policies helps to mobilise jobseekers into employment and avoid benefit dependency. The chapter draws on a series of country reviews of activation policies in Ireland, Norway, Finland, Switzerland, Japan and Australia as well as on the preliminary findings from the United Kingdom review. It provides insights into the lessons that can be learnt from the activation policies that have worked in these countries as well as the pitfalls to avoid.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

## Key findings

OECD reviews of activation strategies for getting the unemployed and inactive into work have been completed for Ireland, Norway, Finland, Switzerland, Japan and Australia, and preliminary findings are available from the review of the United Kingdom. One key finding is that the design and implementation of benefit systems, employment and training programmes and employment service arrangements are important drivers of the levels of unemployment and benefit dependency rates.

All seven countries had, prior to the global financial and economic crisis, relatively good labour market performance with higher employment and lower unemployment than the OECD average. All but Ireland also weathered the crisis relatively well. Ireland was hit hard by the crisis: the employment rate for 15-64 year-olds reached a pre-recession peak of 69.2% in 2007, above the OECD average, but it fell to 58.8%, and unemployment reached 15.3%, in 2012. Even in the other countries, specific demographic and labour market challenges remain: Finland, Norway and the United Kingdom have above-average disability benefit recipiency rates; Australia's lone-parent employment rate remains relatively low; the incidence of long-term unemployment in Switzerland remains fairly high; and Japan's low unemployment is not reflected in a high employment rate for women.

However, this comparatively good labour market performance in six out of the seven countries reviewed reflects different activation strategies. Across the review countries, there are substantial differences in eligibility conditions for benefits and their generosity, in the operation of the public and private employment services and resources devoted to active labour market programmes (ALMPs). While the formal conditions attached to unemployment benefits are strict in all of the review countries, there is some variation in the types of jobs that an unemployed person must accept, the degree of geographical mobility that is required and requirements concerning job referrals and active job search.

Moreover, the standard range of active labour market measures for unemployed workers rarely applies across the whole target group for activation as the measures may be very different for people with partial work incapacity, lone parents and social assistance recipients. The review countries also have distinctive arrangements for unemployed youth including "youth guarantees" in the Nordic countries and the prioritisation of education over job search for early school leavers in Australia. Programmes that fully exempt older unemployed workers from job-search requirements have now generally been abolished, and partial exemptions from intensive activation measures are also becoming more restricted.

### General lessons for policy

Although institutional arrangements, benefit systems and other components in labour market policies are often unique to each country, a number of general lessons for activation strategies emerge from the reviews:

- *All countries with a well-developed system of income support for unemployed people can benefit from a strong employment-focused activation system which assists with job search, matching*

and reducing barriers to employment, backed up where necessary, and certainly after six months or a year of unemployment, by mandatory referrals, enforced by benefit sanctions, to employment and training programmes. However, there is no unique formula for effective activation. Simple “best practice” measures which at first sight are the same in two countries may not be equally effective, due to differences in detailed implementation and the country-specific context. A few techniques such as the “individual action plan” are quite widely used, but the detailed procedures remain very variable, and such a technique is at most one element in an activation strategy.

- *Reforms to activate recipients of benefits that previously were not conditional on availability for work require care and may take time to show up in higher employment rates for these groups.* Measures in the review countries along these lines included reforms of lone-parent benefits in Norway in 1998 and parenting payments in Australia in 2006 and 2007; and steps that halted earlier growth of disability benefit caseloads by the mid-2000s in Australia, Switzerland and the United Kingdom. Since 2008 Ireland has restricted access to lone-parent benefits and the United Kingdom has restricted access to both lone-parent and incapacity benefits. Reforms of this kind tend to increase unemployment rather than reduce it, but if unemployment is kept fairly low through activation measures, the net effect is to increase the employment rate. However, care is needed to avoid overloading employment services with new client groups. In particular, the transfer of workers with restricted work capacity to unemployment benefits risks a build-up of long-term unemployment, and this could divert resources that are needed to contain levels of unemployment among workers with full capacity to work. Activation requirements may be targeted on new claimants to test and refine new provisions, and only extended later, or not at all, to people who were already on the inactive benefit at the time of the policy reform.
- *Institutional reforms have been a critical component of activation strategies.* Reforms have included organisational mergers or co-location of services that combine employment assistance with benefit administration. In the case of Norway, it is too early to tell whether the ambitious recent reform effort has been successful. The UK experience suggests that merging the public employment service and benefit agency has improved employment outcomes and services for clients and has been cost-effective. Experience from other countries, such as Finland, Ireland, Switzerland and Australia, suggests partnership approaches between organisations and agencies (including those in the private and not-for-profit sector) can improve the co-ordination of service delivery, especially for disadvantaged client groups or high-unemployment areas. In Finland, the alignment of institutional incentives, as national government and local governments agreed to share the cost of benefit payments to the target group, accompanied the development of jointly managed service centres for the very-long-term unemployed.
- *The effectiveness of public and private employment services can be improved through performance management.* Performance is often measured in terms of job placements and, especially for harder-to-help groups, longer-term employment outcomes. However the targets for these outcomes are often set at the national, regional and local office levels, by ad hoc methods such as negotiation or incremental improvements on the previous year’s performance. Australia and Switzerland, by contrast, rate local employment office performance in terms of gross outcomes with regression adjustments for jobseeker and local labour market characteristics. This approach encourages the robust operational measurement of the variables involved, and helps to identify further factors influencing performance and, when well-developed, it generates relatively accurate and objective

ratings of local office performance. In practice, a mixed approach is needed to allow all the available information to be fully used, since some types of data are not accurate and available at the level of every individual employment office.

### **Lessons from national experiences**

The OECD's activation reviews also highlights a number of interesting lessons based on the experience of individual countries which may be of interest to other countries facing similar issues or with a similar institutional set-up:

- In *Japan*, employment services can be effective at relatively low cost in the context of a “chasm” in benefit coverage which helps to keep unemployment low relative to other countries. Unemployment insurance (UI) entitlements are quite restricted: for a person aged less than 45 with less than five years of contributions since their previous claim, duration is limited to three months, and social assistance is restricted by asset tests and strict administration. UI recipients are required to attend counselling sessions once a month, listing two job-search actions, which helps to maintain contact with the jobs market and the range of employment services available. The ratio of registered vacancies to registered unemployment approaches one, far higher than in most EU countries. The integrated structure of the public employment service (PES) ensures the consistent implementation of national policies in a cost-effective way. For example, after the Great East Japan Earthquake, the nationwide network of placement agencies provided effective support for displaced workers. ALMPs (e.g. vocational training and hiring subsidies to aid the placement of disadvantaged workers) support the job placement work. Japan's experience may be relevant for other countries that do not provide broad benefit coverage of unemployment, but do aim to tackle labour market problems by providing both basic social protection and publicly funded employment services.
- *Ireland* had fairly high levels of expenditure on ALMPs, but little activation, illustrating that there is no automatic link between the two. In the 2000s, ALMP expenditure was about 0.6% of GDP but the unemployed had (almost) no obligation to visit employment offices or report their job search. A range of employment services were funded, but with participation being voluntary some of them struggled to attract clients. The ratio between unemployment benefit recipients and labour force survey unemployment (B/U ratio) was among the highest in the OECD. A number of reforms have been recently introduced to address these issues. The Irish experience demonstrates that the activating nature of ALMPs depends on factors such as the voluntary/compulsory nature of participation, the level of income support paid and content in terms of job search and links to the labour market.
- *Australia*, where employment services are delivered by contracted employment service providers, now has relatively low unemployment and a high employment rate. The Australian experience demonstrates that a quasi-market for employment services can operate effectively but it requires an active national management framework. The benefit administration body, Centrelink, implements the Job Seeker Classification Instrument and other jobseeker assessment tools, manages job-search requirements so that only people who are somewhat able to benefit from employment services are referred to a provider, and investigates reports by providers of individual non-compliance that may justify a benefit sanction. The Department of Employment defines complex contracts with employment service providers, maintains a national database of jobseeker characteristics and estimates comparative measures of employment service provider performance as the basis for renewing or terminating contracts. It also audits provider activity on an ongoing

basis using a range of techniques, which helps to ensure uniformity in the criteria for payment of Service Fees and Outcome Payments to providers. Although the management framework has a cost, it does tend to ensure that the quasi-market rewards the right outcomes and that only high-performing providers can remain in the market.

- In *Switzerland*, unemployment benefits are financed at the national level and local employment-services offices are managed by cantons. However, cantons follow the national objective of minimising the duration of unemployment spells. This is in their interest because the assistance benefits paid after UI exhaustion are fully funded at the cantonal or municipal level. Employment services are federally funded, and local employment office placement performance is regularly rated using information on the national IT system. Public employment service (PES) caseworkers are relatively experienced professionals, responsible for referring their client to jobs or ALMPs or for benefit sanctions. Thus, while there is a risk that national funding of unemployment benefits with local management of employment services could lead to a weak activation stance, Switzerland has been able to avoid this through federal performance oversight and disciplined management.
- *Finland* has a unique labour market policy history, and in the 1990s it had particularly high unemployment. Although local PES staff are employees of the national government, PES management is highly decentralised: local employment offices enjoy a high degree of flexibility, and have direct management contacts only with regional-level Employment and Economic Development Centres. Until recently, Labour Committees attached to each employment office, with local representation, interpreted benefit eligibility criteria and took decisions about benefit sanctions in individual cases. National financing of benefits and ALMPs with *de facto* local management was a factor behind the policies of the 1980s and the persistent high unemployment in the 1990s, but recently outcomes have progressively improved. Local actors do not appear to support strict job-search reporting requirements for jobseekers, while they do support activation through referrals to job vacancies and to ALMPs with benefit sanctions in cases of refusal. In 2006, municipalities accepted responsibility for half the cost of assistance benefit payments to the very-long-term unemployed, and new structures jointly managed by employment service offices and municipal welfare offices were set up. Finland's experience illustrates both the risks and potential rewards of its local-consensus-based system, with increasing attention to activation principles and willingness to prioritise them in recent years.
- In *Norway*, activation measures for the unemployed – along with possible substitution towards incapacity benefits, including the sickness benefit which pays 100% of the previous wage – have kept unemployment low. However, it may be preferable to treat more of the people who are currently on sickness, rehabilitation and disability benefits as unemployed, albeit addressing the specific barriers they may face through appropriate job-search assistance. The review identified a need to strengthen the gatekeeping function of the PES, expanding the role of the occupational doctors employed by the PES and increasing their number, along with the need for new measures to assess employability, which were subsequently introduced in 2010 together with the Work Assessment Allowance.

## Introduction

During the last three decades governments in many member countries of the OECD have sought to activate their welfare states. There is no common definition of activation but core objectives are to bring more people into the effective labour force, to counteract the potentially negative effects of unemployment and related benefits on work incentives by enforcing their conditionality on active job search and participation in measures to improve employability, and to manage employment services and other labour market measures so that they effectively promote and assist the return to work.

Activation strategies first emerged as governments grappled with increased youth and long-term unemployment associated with the economic shocks and policy errors of the 1970s and 1980s. Rapid increases in unemployment were initially viewed as cyclical or transitory, and at least into the 1980s there was a tendency to increase the level and duration of unemployment benefits, expand large-scale temporary employment programmes and encourage older workers to leave the labour market.

By the late 1980s there were marked differences in how well countries with developed welfare states were dealing with high levels of unemployment and increased benefit caseloads. In response, the OECD and the European Commission undertook comprehensive studies of how member countries had responded to prolonged recession and long-term unemployment. These studies assessed relative levels of joblessness and economic performance and how they were influenced by labour market institutions and welfare state arrangements. The studies sought to explain how some countries had kept unemployment relatively low, whilst others had not, and the analysis informed the policy recommendations outlined in *The OECD Jobs Study* (OECD, 1994) and the European Employment Strategy that was developed following the Delors White Paper on “Growth, Competitiveness and Employment” (European Commission, 1993).

High levels of unemployment, and persistent long-term unemployment were found to be more entrenched in countries where lengthy periods of unemployment benefit entitlement were combined with weaknesses in related policies and institutions. In several countries this included unco-ordinated delivery of employment services and unemployment benefits and the weak definition and implementation of benefit conditionality. It was argued that unemployment levels either had been contained or would more rapidly be reduced in countries that prioritised and effectively managed active measures to encourage a return to work of those on welfare benefits.

OECD policy makers since then have encouraged member countries to implement activation reforms for the unemployed, and increasingly in the 2000s argued for the extension of such policies to employable people of working age in receipt of disability, early retirement, and lone-parent or other “inactive” minimum income benefits (OECD, 2006). Activation policies are intended to bring long-term unemployed and inactive people into the effective labour supply, enhance their employability and prevent long spells on benefits from occurring in the first place. They are regarded as a response to the challenge of ageing populations and an effective way to reduce poverty and social exclusion whilst containing the costs of social protection systems.

Activation measures are particularly important in the wake of the global financial crisis of 2007-08 when demands on social protection systems have increased at the very time when their financing becomes more difficult. In most OECD countries the first priority was to stabilise the economy and to mitigate the impacts of economic contraction on those who



had lost, or were at risk of losing, their jobs. These measures, and wider stimulus packages, limited the negative effects of the immediate crisis but outcomes have varied with unemployment increasing to very high levels in several countries whilst others have experienced smaller increases. Some countries have contained or reversed any increase in unemployment through maintaining strong activation regimes, as in Austria or Switzerland, or with restricted benefit coverage and milder activation, as in Japan. Other countries that had implemented activation reforms in the 1990s and 2000s, such as Australia, Germany and the United Kingdom, were better placed to contain subsequent increases in unemployment after the global financial crisis.<sup>1</sup>

The purpose of this chapter is to take stock of the lessons that can be learned from country experience over the past two decades with implementing activation policies. While it builds upon the findings of previous reviews of country developments (OECD, 2001; 2003; 2005; 2007), the main focus of the chapter is the findings from recent in-depth reviews of seven OECD countries that give further insight into the design and implementation of activation policies. Of these, six country reviews were completed by the OECD between 2007 and 2012, covering Ireland (Grubb et al., 2009), Finland (Duell et al., 2009a), Norway (Duell et al., 2009b), Japan (Duell et al., 2010a), Switzerland (Duell et al., 2010b) and Australia (OECD, 2012a). A review of the United Kingdom is ongoing, and this chapter includes some information about its policies. The timing of these reviews should be borne in mind when interpreting the findings reported in the chapter.<sup>2</sup>

Activation principles can be successfully implemented in different ways depending on the national context. The studies provide a wealth of grounded insights into pitfalls to avoid and the activation policies that have worked in particular circumstances and contexts. They also often give particular attention to unique national policies that could be adapted and adopted by other countries. For example, the Australia review describes and evaluates many features that are specific to the management of a quasi-market for employment services.

The chapter is structured as follows. Section 1 gives an overview of expenditure on labour market programmes in the review countries. Working-age benefits in each country are described in Section 2. The key findings in the country reviews on how benefit caseloads and employment levels are shaped by the interaction between entitlements, labour market trends and employment services are discussed in Section 3. Specific types of intervention in the unemployment spell are considered in Section 4. In particular, an in-depth assessment is given of the intervention regimes in two countries with contrasting activation strategies, Switzerland and Ireland. In Section 5, the focus switches to general institutional arrangements, including the front-line organisation of benefits and employment services and the monitoring and management of performance of providers of employment services. In the concluding section, some general considerations for activation policy are put forward, especially in the context of dealing with the long shadow that the economic and financial crisis has cast on the labour market.

## 1. Patterns of spending on labour market programmes

There are marked variations in the balance between what are categorised as active and passive programmes. ALMPs can be activating in nature if they increase jobseeker obligations (e.g. participation is compulsory, and participants stay on unemployment benefits) or have close links to the regular labour market (improving the prospects of a

regular job offer). However with voluntary participation, levels of income support above the unemployment benefit level or little opportunity for job search during participation, the “active” measures can also slow the return to regular work, perhaps favouring patterns of cycling between open unemployment and programme participation. Time-series relationships between unemployment and active spending are similarly complex. In a recession, active expenditure may not keep pace with increases in passive expenditure.

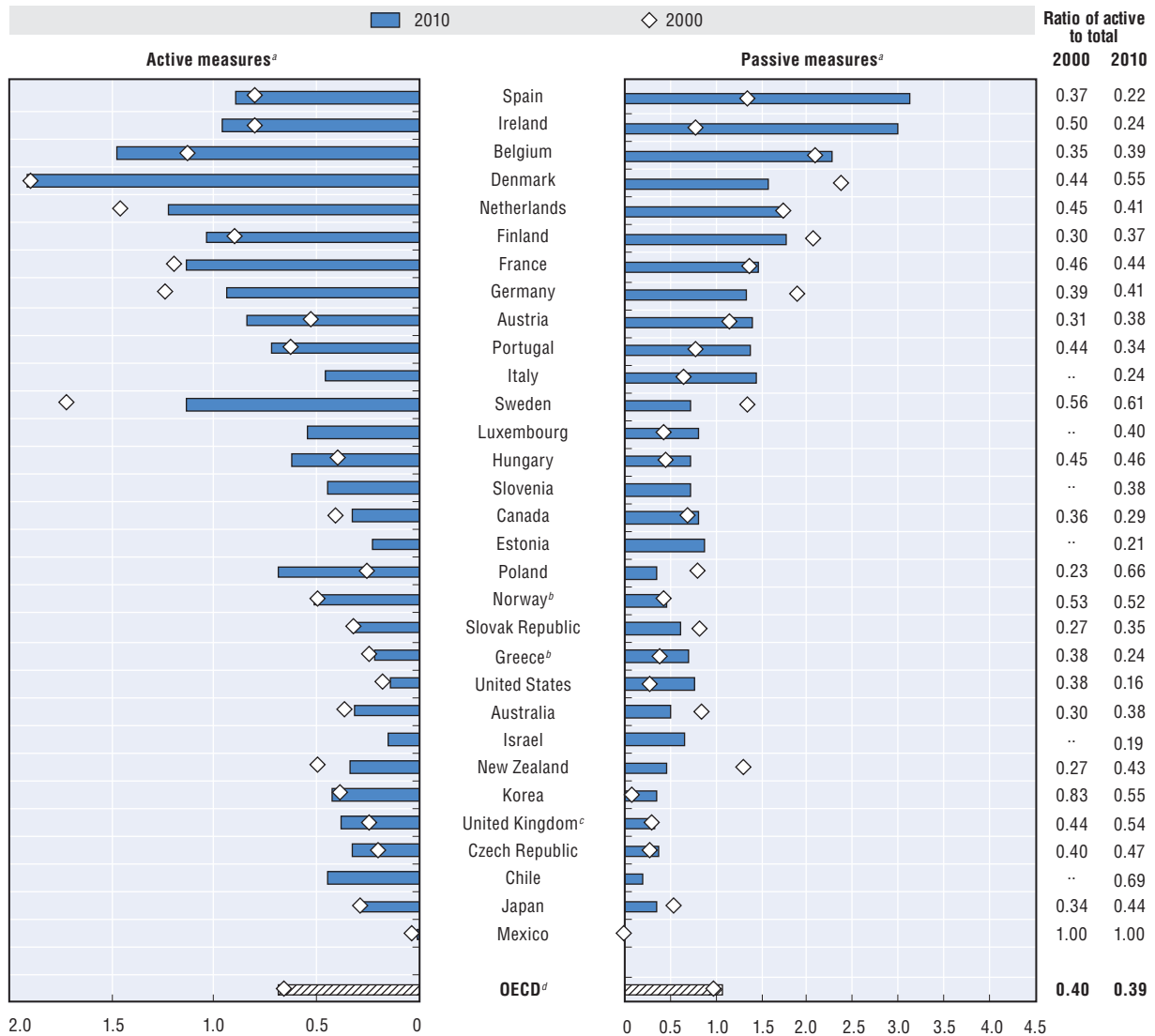
### ***Expenditure on active programmes***

Figure 3.1 shows how patterns of labour market policy expenditure in OECD countries (where such data are available) changed between 2000 and 2010. Recent declines in the share of total spending devoted to active programmes in many countries reflect the impact of the global economic and financial crisis, with increased expenditure on unemployment benefits. Relative to GDP, spending on passive measures in Ireland in 2010 was more than three times its level in 2000. In Australia and the United Kingdom, both active and passive spending have been consistently below the OECD average. There is no obvious cross-country relationship between the proportion of GDP spent on ALMPs and unemployment levels (see Figure 3.2). Patterns of expenditure reflect policy choices in the different countries, as well as cyclical unemployment variations.

Detailed breakdowns of expenditure by programme are invaluable for understanding national policies, but it is important to recognise limitations in the cross-country comparability of category aggregate data.<sup>3</sup> In Finland and Norway, participants in training programmes are paid allowances rather than unemployment benefits and these are included within the total spent on training programmes. In Australia, by contrast, up to 80 000 unemployed people participating in training programmes continue to receive unemployment benefit payments. If they were identified as training participants and their unemployment benefit payments were classified as active expenditure, consistent with definitional guidelines, reported “active” expenditure would be about 20% higher and “passive” expenditure would be lower.

Despite data limitations, levels of expenditure on public employment service (PES) and administration and on other active programmes are an important indicator of the capacity of national systems to implement activation policies. For example, as self-reported job search and occasional interviews alone do not constitute reliable evidence of availability for work, front-line PES advisers need other options to which they may refer unemployed people, especially when jobs are scarce, to help offset the disincentive effects of high earnings-related unemployment benefits. At the same time it is noticeable that Norway and Switzerland, which have enjoyed consistently low unemployment rates, have only intermediate levels of ALMP expenditure, which they combine with a focus on job search and placements of jobseekers into unsubsidised jobs. High levels of ALMP expenditure have not necessarily been more effective. It is clear that programmes in the same broad category vary greatly in their effectiveness. Indeed in Australia, Finland and the United Kingdom, more-effective activation regimes were developed partly due to a perception that earlier large-scale training and employment programmes “warehoused” the unemployed and then recycled most of them back into unemployment.

Figure 3.1. **Active and passive labour market programmes in OECD countries**  
Public expenditure as a percentage of GDP



Note: Countries are ranked in decreasing order of the total of both active and passive measures. Data refer to fiscal years 2010-11 for Australia, Canada, Japan, New Zealand and the United States.


a) Active measures refer to Categories 1-7, passive measures to Categories 8-9 of the OECD/Eurostat Labour Market Programme Database.

b) Expenditure on PES and administration is not included.

c) Data refer to fiscal year 2009-10.

d) Unweighted averages for countries where both active and passive measures are shown for 2000 and 2010, i.e. except Chile, Estonia, Israel, Italy, Korea and Slovenia.

Source: OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>.

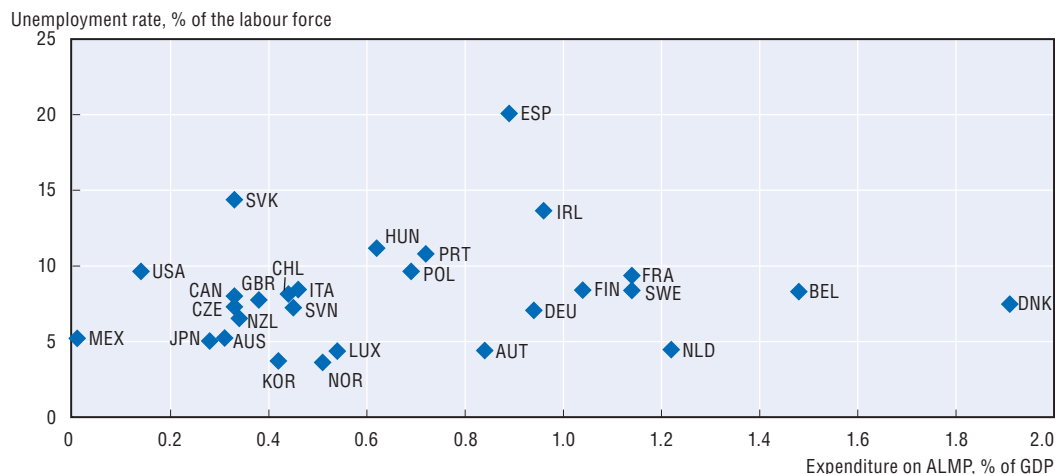
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### Adjustment of active expenditure in the recession


The review countries increased active expenditure as a percentage of GDP in response to the recession that resulted from the global economic and financial crisis.<sup>4</sup> By 2010, expenditure on the PES and administration as a percentage of GDP had increased (relative to fiscal year 2007/08) by nearly 50% in Ireland, and (relative to calendar or fiscal year 2008) by 20% in Finland, Japan, Switzerland and the United Kingdom, but only by 5% in Australia. This expenditure increases automatically in a recession in Switzerland because the federal

Figure 3.2. **Incidence of unemployment and expenditure on active labour market programmes, selected countries**

Percentages, 2010



Note: For Norway, expenditure on PES and administration is not included. Data for the United Kingdom refer to 2009-10. Source: OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>; OECD Labour Force Statistics Database, <http://dx.doi.org/10.1787/data-00309-en>.

StatLink  <http://dx.doi.org/10.1787/888932852941>

grants to cantons to cover the administrative costs of running the local and cantonal employment offices depend on the yearly average number of jobseekers. It is also linked to the number of jobseekers in Australia, since fees are paid to employment service providers on a per-jobseeker basis, but here the change in expenditure was modest.<sup>5</sup> In the United Kingdom, a very large budget increase (which in the end was not fully spent) was allocated at the start of the recession; at first, less time-consuming activities with clients were prioritised but by 2011/12 the number of staff in local jobcentres had increased by more than 50% (see Box 3.7 and NAO, 2013).<sup>6</sup> In Ireland, the number of registered jobseekers increased by about 150%, far outstripping the increase in PES resources.

Expenditure on other ALMPs such as training, recruitment incentives and direct job creation is often several times greater than expenditure on the PES and administration. Japan reported an increase of over 100% in 2009/10, followed by some scaling-back in 2010/11 and renewed expansion of direct job creation measures in 2011/12 in response to the Great East Japan Earthquake. This expenditure increased by 30% in Finland and by 50% in Ireland, as compared with two or three years earlier. It may be difficult to achieve a rapid expansion in these measures in an efficient way, since employer take-up of recruitment incentives tends to fall slightly in recessions (Grubb and Puymoyen, 2008), and time is needed to hire new supervisory staff and set up infrastructure such as training centres.

## 2. Working-age benefits in the review countries

Each review country has a distinctive combination of income-replacement benefits for people of working age. The main benefits include unemployment benefits (UB), health-related (sickness and disability) benefits, early retirement, social assistance, and targeted benefits for other groups such as students and lone parents. The configuration of each country's benefit system has an important bearing on its overall activation stance. Where unemployment benefits are high and of long duration, activation measures for the unemployed need to be intensive to limit benefit costs and caseloads, although in some

extreme cases (such as unemployment benefits paid through to retirement) this effort has not always been considered worthwhile. In European countries, unemployed people who exhaust Unemployment Insurance (UI) benefits often move onto assistance benefits and commonly UI benefits are nationally financed and managed, while assistance benefits are locally financed and managed. However, deviations from this pattern are also common and then activation measures may be ineffective due to misalignment of financing and management responsibilities. Eligibility conditions for unemployment benefits can be seen as activation measures, but the strength of this activation will depend on interventions in the unemployment spell such as job-search monitoring that implements the conditions. Activation measures are not targeted only on unemployment benefits and the reduction of unemployment. Measures have also been introduced to shift target groups from inactive benefits onto unemployment benefits, so that availability-for-work requirements apply to them. This strategy is expected to increase the employment rate, rather than reduce the unemployment rate. In some cases, full availability for work is not required but participation in work-preparation activities is required, resulting in complex configurations of benefit subcategories associated with distinctive and interrelated activation measures.

The reviews provide brief histories of the benefit systems for working-age people in each country, and information on contribution and job-search-related eligibility rules, wage-replacement rates, coverage, levels of expenditure, and trends in caseloads. The thumbnail descriptions below give an overview of the primary working-age benefits at the time of the reviews but do not attempt to cover all of the detailed provisions and unique features within each national system.

Each country, except for Australia, combines a contribution-based social insurance system with more-or-less comprehensive safety-net benefits for eligible poor people who either do not qualify for insurance benefits or have exhausted them. In Switzerland, federal social insurance schemes cover unemployment, sickness and accidents, old age and maternity leave. Unemployment benefits are comparatively high relative to previous wages, and potential benefit duration is one to two years, depending on age and contribution record. The schemes are controlled at the federal level, but 38 unemployment funds administer UI claims, with 26 cantonally managed public funds handling about 60% of the claims. PES funding is national but is also channelled through the cantons. The main element of federal control is through legislation and the publication and benchmarking of the comparative performance of local PES offices. Social assistance is managed and financed at the cantonal level or, in some areas, at the municipal level.

The two Nordic countries, Norway and Finland, both have a UI benefit duration of about two years, and also both have social assistance (SA) benefits that are financed and administered by municipalities, but in other respect their benefit systems differ significantly.

In Norway, unemployment benefits, sickness benefits, rehabilitation (medical and vocational), disability and old-age pensions, as well as benefits related to pregnancy, birth and childcare, are part of a National Insurance System. The component funds are financed by employer and employee contributions, with 29% of total expenditure financed out of the national budget. Out-of-work social insurance benefits are generally determined in relation to a basic amount of annual earnings with the amount adjusted by Parliament once or several times a year. In contrast with the situation in other Nordic countries, UI contributions are compulsory and there are no independent UI funds. Those not

covered by the social insurance system, or whose entitlements are low, can receive means-tested SA which is financed by the municipalities, although they receive from central government a block grant based on estimated expenses.

In Finland, the 36 independent unemployment funds and the national Social Insurance Institution (KELA) are responsible for financing and delivering social insurance benefits. Fund membership is voluntary. Employee contributions finance only a small proportion of the benefits paid to members, the remainder being covered by employer contributions and a state subsidy. The funds pay their qualifying members earnings-related unemployment, sickness and other benefits and KELA pays a basic allowance to those who are not members of any unemployment fund, if they fulfil earnings and employment duration conditions. The earnings-related and basic allowance unemployment benefits are normally paid for a maximum of 500 days (100 weeks). Jobseekers who are not entitled to an allowance or who have exhausted their allowance can claim “Labour Market Support” (LMS), a nationally financed means-tested unemployment assistance (UA) benefit. Municipalities provide also relatively generous SA benefits, but these most often function as a “top-up”: in 2006 and 2007 an estimated 35% of LMS recipients lived in households receiving SA, and nearly 90% of SA recipients had some income from another income-replacement benefit.

The benefit systems of the English-speaking countries, Australia, Ireland and the United Kingdom, share some common features. Replacement rates (i.e. the ratio of benefits to former or average earnings) are significantly lower for a single person than for a single-earner married couple. They are below the OECD average in the initial phase of unemployment, but are above the OECD average when considering long-term claims taking SA “top-ups” into account. The unemployed rely significantly more on assistance benefits than in the three other European review countries. Working-age benefits are managed nationally, with only a limited role played by local government.

Ireland and the United Kingdom have social insurance schemes, financed by worker and employer contributions and central government, which cover risks such as unemployment and sickness or disability. Ireland’s Jobseeker’s Benefit for most of the 2000s paid benefits for up to 15 months (reduced to 12 months in 2008 and to 9 months in 2013), and was paid to 40% of unemployment benefit recipients. The United Kingdom pays a flat-rate Jobseeker’s Allowance for up to six months, paid to 20% of unemployment benefit recipients. In both countries, the unemployed can claim a means-tested Jobseeker’s Allowance if they do not qualify for the insurance benefit or if the means-tested benefit payment will be higher. There are also separate national benefits for people with health problems and disabilities and, in Ireland, for lone parents. Both countries currently have safety-net SA benefits – Supplementary Welfare Allowance in Ireland and Income Support in the United Kingdom (where it is payable to lone parents). As in other countries, the receipt of means-tested unemployment benefits often gives access to “secondary” or “passport” benefits that can provide, for example, support with rent and other costs.

The Australian social security system, in contrast, is solely funded from general taxation and provides flat-rate, means-tested, income support payments for people of working age. The primary benefits are Newstart Allowance for the adult unemployed; Youth Allowance for unemployed young people or those participating in allowable full-time education or training; Disability Support Pension for those with a long-term disability; and Parenting Payments for partnered or single principal carers of dependent children up to six or eight years of age. Each payment type has different eligibility criteria including, in

specified circumstances, job-search or other “participation” requirements. All the payments are both income- and asset-tested, with benefit levels being significantly higher for “pensions” than for the “allowances”, although in the case of lone parents this distinction is blurred and intermediate levels of benefit are paid.

In the 2000s, UB replacement rates declined significantly in Australia and rose significantly in Ireland. In Australia, this reflects a decision in the 1990s to index unemployment benefits to prices rather than wages, which led to an increasing gap between the level of unemployment and disability benefits. In Ireland, in connection with the National Anti-Poverty Strategy the government made a commitment to raise the lowest rate of benefit by more than 25% from 2002 to 2007. According to recent OECD estimates, net replacement rates for a basket of typical cases increased by about 20% on average between 2002 and 2009, and by 2009 the average across a hypothetical five-year unemployment spell was the highest or second highest among OECD countries, although the representativeness of these estimates has been questioned.<sup>7</sup> Since then both benefit levels and UI duration have been cut back, due to fiscal pressures as well as a desire to boost work incentives.

In Japan, contributions for Labour Insurance (Workers’ Accident Compensation and Employment Insurance) and Social Insurance (Health and Pension) have been harmonised and levied together from 2007. Employment insurance (EI) is calculated in relation to previous earnings and paid for a period that varies from 90 to 360 days according to age, the reason for job loss and the claimant’s contribution record. Until recently, a large proportion of all employees – according to some sources over a third – were not contributing to EI, since some types of non-regular work, in particular, until 2009, any work expected to last for under a year, did not qualify for coverage. Local authorities finance 25% of the costs of Public Assistance (which is Japan’s SA benefit). Few unemployed people qualify for it, and it was estimated that in Japan in 2004 recipients of EI and SA (not including payments on grounds of disability) totalled only 1.2% of the working-age population – far below the nearly 7% average rate for 15 other OECD countries with data.

The low benefit coverage of the unemployed indicates success in terms of limiting benefit dependency and costs, but may also be seen as a sign of inadequate social protection. The Japanese model of unemployment provision may be particularly relevant to many middle-income countries with a significant informal sector, because the short-duration benefits conditional on contribution record ensure initial jobseeker contact with the PES, and the PES plays a significant role in the hiring process and jobseekers without a benefit entitlement continue to use it (see Box 3.1).

### 3. Employment rates, benefit caseloads and participation requirements

As noted above, the employment rate for 15-64 year-olds is above the OECD average in six of the seven review countries. In Ireland, it reached a pre-recession peak of 69.2% in 2007, but fell to 58.8% in 2011. Also unemployment rates in 2011 were at or below the OECD average in six of the countries. Norway and Switzerland have some of the highest employment rates and lowest unemployment rates (3.3% and 4.0% respectively) in the OECD.

Despite the comparative success of most of the review countries in terms of their labour market outcomes, each has faced and continues to negotiate particular challenges. Some common factors included the decline of manufacturing and the growth of service sector employment; increased female labour force participation, especially in part-time

### Box 3.1. Japan's unemployment protection and activation policies

Japan's unemployment rate has been continuously below 6%: in early 2013 it stood at 4.2%. The core elements of the Japanese approach to activation can be summarised as:

- Short potential benefit durations (except for some long-tenure older workers): Employment Insurance benefits cover only about 25% of the unemployed as measured in labour force surveys.
- A strong PES with mandatory attendance at a briefing session for new claimants and in-person reporting to the PES every four weeks, with relatively low participation in other ALMPs, although there are training options and some hiring subsidies for people with disabilities or other barriers.
- Very strict conditions for Public Assistance (Japan's social assistance benefit), such that relatively few unemployed people qualify. The key factors seem to be the asset test, which prevents unemployed people from qualifying until they have exhausted their savings and disposed of non-essential household goods; the eligibility requirement for "full use of one's capacity to work", which often leads to rejection of applications or the provision of assistance only for short periods, except for the most highly disadvantaged applicants; and strict administration by local welfare offices, which includes home visits that check on the ownership of assets. Lone parents are entitled to a separate Child-rearing Allowance which, although it is not high enough to live on by itself, facilitates the strict administration of Public Assistance for this group (see Section 3 of the main text).

These arrangements limit the disincentive effect of benefit entitlements, while also ensuring that:

- Job losers receive basic advice and familiarisation with the available job openings and employment services.
- There is significant take-up by the unemployed of PES services which include, for example, action plan procedures for some target groups. The PES does not need to make participation in its specialised services compulsory because unemployed jobseekers are generally well-motivated.
- Unemployed people who exhaust UI benefits generally avoid destitution, usually through their own efforts or means (re-entering work or family support), but also through social assistance in cases with relatively severe problems.

Social assistance coverage has increased since the ministry advised local welfare offices in the early 2000s that work capacity should not in itself preclude applicants from eligibility for Public Assistance. Job losses in 2009 also increased the number of applicants. Although welfare offices should strictly monitor job search, they and the PES face a new challenge to ensure the more systematic organisation of activation measures for this group.

*Source:* Duell, N., D. Grubb, S. Singh and P. Tergeist (2010), "Activation Policies in Japan", *OECD Social, Employment and Migration Working Papers*, No. 113, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5km35m63qqc-en>.

employment; and the wider development of more-flexible and non-regular employment patterns. Other common challenges included population ageing, the increased participation of young people in full-time education, and changes in family formation.

In each country the impacts of economic and demographic changes on unemployment and welfare caseloads were shaped and for some groups in large part explained by interactions between benefit entitlements, activation requirements, administrative



structures and labour market institutions. This section reviews the impact of benefit entitlements and other labour market policy parameters on the caseloads of benefits for the unemployed, disabled, older workers, and lone and couple parents.

### **Unemployment benefit caseloads and labour force survey unemployment**

Activation measures are expected to reduce the number of people who are receiving unemployment benefits, but are not unemployed as recorded in the labour force survey (LFS) because they are not searching for work. However, the relationship between administrative data and LFS data is complex since, for example, unemployment benefit recipients may not be LFS unemployed for a range of reasons, including part-time work. The reviews do not provide cross-tabulations showing unemployment benefit recipients distributed by LFS status and vice versa, which would be helpful. Nevertheless, data is available to calculate the ratio between the number of unemployment benefit recipients and the number of LFS unemployed (the B/U ratio) and this ratio varies widely across the review countries (Table 3.1). An examination of this ratio helps to identify the target group for activation measures and how activation is likely to influence the LFS measure of unemployment.

Several country-specific factors influence the ratios shown in Table 3.1, notably:

- On the one hand, the UB recipient total includes some people who are not unemployed, as defined by the detailed conditionality requirements of their benefit payment. In Australian official statistics about 50% of the recipients of Newstart or Youth Allowance (other) – conventionally described as Australia’s unemployment benefits – are not formally classified as jobseekers, although there are borderline situations and the

**Table 3.1. Ratio of the number of unemployment benefit recipients to the number of labour force survey unemployed (the B/U ratio)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2000-11 average
Australia	1.06	0.95	1.03	1.00	1.03	1.01	1.00	1.01	0.97	0.94	1.04	1.01	1.00
Finland	1.23	1.30	1.29	1.33	1.34	1.31	1.25	1.22	1.37	1.39	1.30	1.37	1.31
Ireland	1.43	1.81	1.68	1.67	1.48	1.32	1.28	1.30	1.80	1.32	1.27	1.20	1.46
Japan	0.34	0.34	0.30	0.25	0.23	0.23	0.23	0.23	0.25	0.27	0.21	0.23	0.26
Norway	0.73	0.73	0.72	0.80	0.82	0.66	0.55	0.47	0.38	0.68	0.67	0.63	0.65
Switzerland	0.80	0.76	0.89	0.88	0.88	0.82	0.81	0.72	0.70	0.77	0.75	0.66	0.79
United Kingdom	0.66	0.68	0.61	0.62	0.58	0.59	0.55	0.50	0.54	0.61	0.58	0.59	0.59

Note: Benefit caseload data relate to end June in Australia, end December in Finland and Ireland (in these countries the B/U ratio is calculated using the average of December data for the current and the previous year), annual averages of monthly data in Japan (data for the fiscal year starting in April), Norway and Switzerland, and an average of figures for February, May, August and November in the United Kingdom. Benefit caseload data exclude unemployment benefits paid to participants in active labour market programmes (OECD/Eurostat Labour Market Programme Database, Categories 2 to 7) if possible, but the data for Australia include participants in vocational training. They omit unemployed recipients of social assistance benefits. Labour force survey unemployment data relate to ages 15-64, on an annual average or similar basis.

Source: FaHCSIA (2012), “Income Support Customers: A Statistical Overview 2011”, *Statistical Paper*, No. 10, [www.fahcsia.gov.au/about-fahcsia/publications-articles/research-publications/social-policy-research-paper-series](http://www.fahcsia.gov.au/about-fahcsia/publications-articles/research-publications/social-policy-research-paper-series); Kela (2012), *Statistical Yearbook on Unemployment Protection in Finland 2011*; Department of Social Protection (2012), *Statistical Information on Social Welfare Services 2011*, Table C9; Table 4.3 in Duell et al. (2010a), updated using [www.mhlw.go.jp/toukei/itiran/roudou/roukei/shihyou/index.html](http://www.mhlw.go.jp/toukei/itiran/roudou/roukei/shihyou/index.html) for regular EI beneficiaries and Japan Statistical Yearbook (online), for beneficiaries of employment insurance for daily employees; Ministry of Labour (2012), “Proposal for State Budget 2013”, Chapter 2541, [www.regjeringen.no/nb/dep/ad/dok/regpubl/prop/2012-2013/prop-1-s-20122013/7/8/1.html?id=701419](http://www.regjeringen.no/nb/dep/ad/dok/regpubl/prop/2012-2013/prop-1-s-20122013/7/8/1.html?id=701419), and earlier numbers in this series and as cited in Carcillo, S. and D. Grubb (2006), [www.amstat.ch/v2/index.jsp?lang=fr](http://www.amstat.ch/v2/index.jsp?lang=fr); Benefit Caseload National Statistics (WPLS) data at [http://83.244.183.180/100pc/jsa/tabtool\\_jsa.html](http://83.244.183.180/100pc/jsa/tabtool_jsa.html).

StatLink  <http://dx.doi.org/10.1787/888932853397>

proportion not subject to any type of job-search requirement is probably closer to 40%. The benefit paid in other cases is functionally equivalent to a training allowance (a payment to people participating in vocational training), an in-work benefit (a payment to people who are working at least part-time that is not conditional on being available for additional hours of work), or an inactive benefit (in cases where the job-search requirement is waived on grounds of personal circumstances, such as short-term illness). Some exemptions from job-search requirements for UB recipients apply also in other countries, but they are not so frequent and not so well documented.

- On the other hand, the UB recipient total does not include the following groups that receive a benefit payment that is subject to labour market conditionality:
  - ❖ Social assistance recipients who are not also receiving UI or UA, and are considered fit for work (rather than unable to work): this group represents roughly 20% of the unemployed in Norway and Switzerland and a smaller proportion in Finland and Japan.
  - ❖ In Australia, recipients of parenting payments that are subject to work-availability and job-search requirements: they correspond to about 20% of the conventional UB caseload.
  - ❖ In Norway, recipients of rehabilitation benefit “in between measures”: they corresponded to about 50% of the number of UI recipients, and were (until a benefit-system reform in 2010) reported as unemployment benefit recipients in the *OECD/Eurostat Labour Market Programme Database*. They are required to participate in ALMPs to prepare for work. They are not usually required to be actually available for work, which is the defining feature of an unemployment benefit, but some proportion of them are likely to be unemployed as recorded in the LFS.

Abstracting from problems of data comparability, benefit-system entitlements can be seen as influences on the benefit coverage of LFS unemployment:

- In Finland, the high B/U ratio partly reflects the combination of relatively long duration UI benefits (nearly two years) with a UA benefit (LMS) payable separately to each member of an unemployed couple, including payments (at a reduced rate) to spouses with a partner in work on close-to-average earnings (see Box 3.4).
- In Japan, the low B/U ratio reflects the relatively short duration of UI benefits except for people with a long contribution record (for example, people aged less than 45 with less than five years of contributions since their previous claim are entitled to at most three months).
- In the United Kingdom, the low B/U ratio reflects the short duration of the UI entitlement (six months), the payment of the UA benefit to only one member of a couple even when both members are subject to job-search requirements, and strict means-testing, with a one-for-one reduction in the benefit amount for any income (including spousal income) above a low threshold. Here, a spouse with a partner in a full-time job, even with relatively low earnings, does not qualify for a payment. Several of these factors also apply in Ireland but with less force (e.g. the UI duration was 15 months until 2009, whereas in the United Kingdom it has been six months since 1996).

Other factors can be seen as influences on the number of UB recipients who are not LFS unemployed:

- Some countries impose work-availability conditions but not regular reporting of job-search activity, and some tolerate infrequent job-search activity, or rarely verify it. Due to these factors, UB recipients can be recorded as inactive, rather than unemployed,

in the LFS. High B/U ratios in Finland and Ireland appear to arise primarily because a significant group of unemployed benefit recipients do not report that they have actively looked for work in the past four weeks.<sup>8</sup>

- A person who works one or more hours in the survey reference week is employed in terms of their LFS status, but can still be a UB recipient if he/she has relatively low earnings and the benefit is conditional on continuing availability for additional hours of work or for a full-time job. The proportion of UB recipients who are employed, according to administrative records, seems to be relatively low in Japan and the United Kingdom. A seventh of UB recipients in Finland, an eighth in Ireland,<sup>9</sup> and nearly a fifth in Australia either receive an adjusted payment, or are in casual or part-time work, or have some work income (however, different countries use different concepts, and the reference dates for these estimates vary). In Norway, about 30% of unemployment benefit caseload is on partial lay-off or is available only for part-time work. In Switzerland, beneficiaries of the intermediate earnings (“intermittent pay”) scheme total around 20% of the UB caseload, but these beneficiaries are not in the UB caseload used to calculate Table 3.1.

Between 1990 and 1994, Finland experienced the sharpest recession of any OECD country since 1945. The employment rate fell from 74.9% in 1989 to 60.7% in 1994. The recovery from high unemployment took longer than in other OECD countries and even at the low point of 6.4% in 2008, the unemployment rate remained above the levels of the 1980s. The scale and “stickiness” of Finland’s unemployment was largely attributable to poor design of benefit policies, their interactions with temporary employment programmes, and the comparatively slow introduction of activation measures (see Box 3.2).

Analogous factors help to explain why Ireland has at most times over the past two decades had the highest ratio of unemployment benefit recipients to survey unemployment of any OECD country. Despite favourable economic conditions between 2000 and 2007, recipiency rates (caseloads as a percentage of the working-age population) for both unemployment payments and disability payments increased relative to the rates in the two other English-speaking review countries with comparable benefit systems, becoming the highest for unemployment and equal highest for disability. Australia and the United Kingdom had by 2007 done more in terms of activation and benefit gatekeeping. At the same time, by the late 2000s benefit replacement rates in Ireland were closer to those of Nordic countries, which are able to contain benefit dependency only through strict and expensive activation measures, which Ireland did not have in place. Benefit administration and employment service delivery were fragmented, with weak enforcement of job-search and other activity requirements, as there was no requirement on UB recipients to regularly visit the employment service offices.

### **Disability benefits**

Older worker and lone-parent caseloads are often successfully activated by applying the types of measures used for unemployment benefits to new subgroups defined by age, or children’s ages. However, sickness and disability are typically the largest category of working-age income-replacement benefits, and the design of activation measures for disability benefit recipients is relatively complex. Reforms involve revised or new assessment procedures and categories, specialised employment and rehabilitation services, and ongoing support and/or permanent wage subsidies for people with disabilities who are in employment. Participants in disability assessment procedures and activation measures have an added incentive to minimise their apparent employability if they hope to be transferred to partial work incapacity or full work incapacity status.

### Box 3.2. **Activation and the unemployment aftermath of the 1990-94 recession in Finland**

Finland's experience in the early 1990s provides strong evidence that benefit and activation policies can be amongst the key drivers of employment outcomes during and in the wake of recessions. In this period Finland experienced shocks to export demand and the financial sector, but recovery in these areas was rapid, whereas the scale and subsequent persistence of high unemployment was unprecedented. Several policy variables contributed to this hysteresis outcome.

Before 1985, UI benefit in Finland was low, unrelated to past earnings and limited to 40 weeks. The reform which introduced earnings-related UI led to an increase of about 50% in typical benefit levels net of tax, and increased potential benefit duration to 100 weeks. However, the 1987 Employment Act guaranteed a six-month subsidised public-sector job for people who had been unemployed for 12 months. This job generated an entitlement to a new period of UI benefit, which after another 12 months would generate entitlement to another temporary job. This "carousel effect" made UI entitlements effectively indefinite. By a special rule, benefit levels after a temporary subsidised job were not reduced in line with the typically lower level of earnings in the subsidised job, and this feature created a long-term disincentive to taking a new job in the open labour market with lower earnings than the previous job.

The job guarantee applied also to UA recipients with no work record: they were entitled to a temporary subsidised job, after which they moved onto the UI benefit. In other countries, municipal social assistance administrations sometimes use subsidised jobs to generate a UI entitlement for their SA recipients, but this is usually seen as a dysfunctional procedure that should be suppressed; certainly no other country ever made this into a legal entitlement for SA recipients. Public-sector employers were required to create posts for the long-term unemployed, and the PES was also generating temporary subsidised jobs in the private sector for them (by paying large wage subsidies), so that job vacancies increasingly were not open to short-term unemployed candidates. Conventional job broking and placement in unsubsidised jobs were squeezed out.

From the mid-1990s as the economy recovered, direct job-creation programmes were scaled back and training programmes were expanded. The policy settings were significantly modified by reforms in 1997 for UI recipients and in 1998 and 2000 for LMS recipients. Finland, however, still has an earnings-related benefit of nearly two years' duration, without requirements for full-time participation in active measures after a certain time comparable to those in Denmark in the 1990s and Sweden in the 2000s. The social protection system prevented hardship associated with unemployment and mitigated the sense of crisis, and this helps to explain why there was not a strong consensus in Finnish society for significant benefit reductions or more-intensive activation measures and new types of activation measures such as job-search monitoring were implemented only cautiously. The gradual nature of reforms may also be related to the high cost of any intensive activation measures when benefit caseloads are high, and the limited ability to implement decisions taken at the national level in a country where PES offices and decisions about individual benefit eligibility are managed largely at the local level.

Source: Duell, N., D. Grubb and S. Singh (2009), "Activation Policies in Finland", *OECD Social Employment and Migration Working Papers*, No. 98, OECD Publishing, Paris, <http://dx.doi.org/10.1787/220568650308>.

The reviews identified a combination of “push” and “pull” factors that contributed to increases in the number of people claiming disability and health-related benefits in most of the countries with stricter activation regimes. “Push” factors included the relative laxity of medical and eligibility tests and the strictness of the activation regime for the unemployed. At certain points employers, the PES and other agencies seem to have encouraged groups such as older unskilled manual workers to claim disability benefits. “Pull” factors included the relative generosity of invalidity and disability benefits compared with those paid to the unemployed. Other factors in play include an increase in the number of people reporting qualifying mental health conditions and new types of work incapacity associated with changing patterns of employment.

In Norway, Switzerland, Australia and the United Kingdom, stricter activation of the unemployed in the 1990s was associated with higher numbers of working-age people claiming sickness, rehabilitation or disability benefits. Each of these countries has introduced reforms of disability and long-term sickness benefits, combining a tightening up of eligibility rules and work capacity assessments with changes to employment services, and except in Norway the upward trend in disability benefit caseloads was halted in the mid-2000s.

In Norway, where the LFS unemployment rate is just over 3%, some 18% of the working-age population receive health-related income-replacement benefits, which partly represent disguised unemployment and early retirement. About a third of disability benefit claimants are aged below 50, but they have little contact with PES services, and in 2008 just 0.5% exited their benefit to enter employment. Successive agreements between the government and social partners have sought to contain the problem by reducing sickness absence and promoting re-entry to work by disabled people, but the changes have had only limited success.

In Switzerland, after 1990 the inflow into the invalidity pension system was amongst the highest in OECD countries and the stock of claimants aged 20 to 64 years doubled, reaching over 5% of the age group by 2006. Over the past decade the number of invalidity pensioners has been about twice as high as the number of unemployment beneficiaries. Entitlement changes from 2003, establishing a principle of “integration over pensions”, were coupled with the introduction of new regional medical services operated by the cantonal authorities, with the aim of reducing the benefit role of GPs and providing uniform and qualitatively better disability assessments throughout the country. Such changes have contributed to a fall in new disability benefit claims from 2004 with the overall caseload slowly declining from 2006. Other changes included the introduction of placement services and employment programmes specifically targeted at disability benefit recipients. These are voluntary programmes delivered through cantonal offices separate from the PES.

In Australia and the United Kingdom, reductions in claimant and survey unemployment in the 1990s were offset by increased recipiency of inactive working-age benefits, especially disability benefits but also lone-parent benefits. In both countries inflows to disability and lone-parent benefits were relatively steady but the average duration of benefit claims increased.

Australia in 2006 restricted new claims of Disability Support Pension to those capable of working less than 15 hours a week (previously it was less than 30 hours a week). In the United Kingdom, reform started slightly later but was more comprehensive (see Box 3.3). In

### Box 3.3. From Incapacity Benefit to Employment and Support Allowance in the United Kingdom

The Employment and Support Allowance (ESA) replaced Incapacity Benefit (IB) for new claimants from 27 October 2008. The change transformed an inactive benefit to an active benefit for many of its claimants, and also removed incentives to stay on the benefit for a long period of time. Under the previous system the IB payment increased after six months and then again after one year. An age addition for those who started their claim before the age of 45 years was also removed.

There are two forms of ESA: contributory ESA, for those who have a sufficient National Insurance contribution record; and income-related ESA, which is means-tested. Longer-term qualification for ESA depends on a Work Capability Assessment (WCA), which should be applied to most claimants within the first 13 weeks of their claim. The WCA first determines whether the individual has a limited capability for work, and if so, whether the person is placed in the Support Group or the Work-related Activity Group. For those in the latter group, access to the full rate of benefit is conditional on participation in Work-focused Interviews and undertaking other work-related activity, but not on being available for work or applying for jobs. For this group, from April 2012 contribution-based eligibility for benefit was limited to one year. Those who are found by the WCA to be fit for work usually apply for Jobseeker's Allowance.

The WCA is based on the principle that a health condition or disability should not automatically be regarded as a barrier to work. Points to determine capability for work are scored against descriptors for different physical, mental, cognitive and intellectual functions, looking at the impact of a health condition or disability on an individual's ability to carry out a range of everyday activities such as walking, reaching, speech, hearing, sight, memory and concentration. Developments in healthcare and the modern workplace, and certain additional criteria that do not directly measure function (such as terminal illness), are taken into account. A DWP decision maker uses the WCA along with all other available evidence (including any medical evidence provided by the individual's GP or specialist) to determine an individual's capability for work and work-related activity.

The design and implementation of the ESA has been controversial with much criticism of Atos Healthcare, the private sector company with which the DWP contracts to deliver WCAs, which employs the healthcare professionals who undertake the assessments. The assessment methodology has been subject to revisions following internal and external reviews. Despite continuing controversy, the UK Government has pushed ahead with reform, including the reassessment of 1.5 million IB claimants from 2010 to 2014. The outcome of reassessments of the first 600 000 people has been that over 30% of IB claimants were assessed as fit for work, 41% allocated to the Work-related Activity Group and 27% to the unconditional Support Group, although the proportion finally assessed as fit for work is likely to be lower due to decisions on appeal.

Source: DWP (2010), "Incapacity Benefits – The Reassessment Process", available at [www.dwp.gov.uk/adviser/updates/ib-reassessing-claims/ib-reassessment-process/](http://www.dwp.gov.uk/adviser/updates/ib-reassessing-claims/ib-reassessment-process/); DWP (2013), *A Guide to Employment, and Support Allowance – The Work Capability Assessment*, Department for Work and Pensions, available at [www.direct.gov.uk/prod\\_consum\\_dg/groups/dg\\_digitalassets/@dg/@en/@disabled/documents/digitalasset/dg\\_177366.pdf](http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/@disabled/documents/digitalasset/dg_177366.pdf); DWP (2013), "Employment and Support Allowance – Incapacity Benefits Reassessments: Outcomes of Work Capability Assessments, Great Britain", *Quarterly Official Statistical Bulletin*, No. 29, Department for Work and Pensions, available at [http://research.dwp.gov.uk/asd/workingage/esa\\_ibr/esa\\_ibr\\_jan13.pdf](http://research.dwp.gov.uk/asd/workingage/esa_ibr/esa_ibr_jan13.pdf); DWP (2013), "The Universal Credit Regulations 2013", available at [www.legislation.gov.uk/ukdsi/2013/9780111531938/pdfs/ukdsi\\_9780111531938\\_en.pdf](http://www.legislation.gov.uk/ukdsi/2013/9780111531938/pdfs/ukdsi_9780111531938_en.pdf).

both countries, the reforms to disability benefits combined tighter eligibility rules, changes to tests of work capacity and increased engagement with employment services. In Australia, rates of return to work for the group of people targeted by the reform increased, but they remained lower than for most other groups of disadvantaged jobseekers.

### **Older workers**

The importance of the design and implementation of activation policies is evident also in the deterioration and subsequent improvement in employment rates for older workers. Historically, benefit entitlements may often have been contribution- and age-related in order to promote participation in social insurance schemes. Policies in the 1980s and sometimes the 1990s then sought to reduce unemployment by encouraging and facilitating early retirement. In the 2000s, many OECD countries reversed these policies. Increases in the employment rates of 60-64 year-old males correspond closely to restrictions on benefits, mainly the abolition of early retirement benefits, the reduction or removal of extensions of UI benefit durations for older workers, and the reintroduction of job-search obligations which previously were waived for older workers on unemployment benefits. In many countries, there is still some remaining scope for eliminating exemptions and relaxation of benefit rules targeted at the older unemployed, encouraged by evidence of the impact of the reforms that have already been implemented.

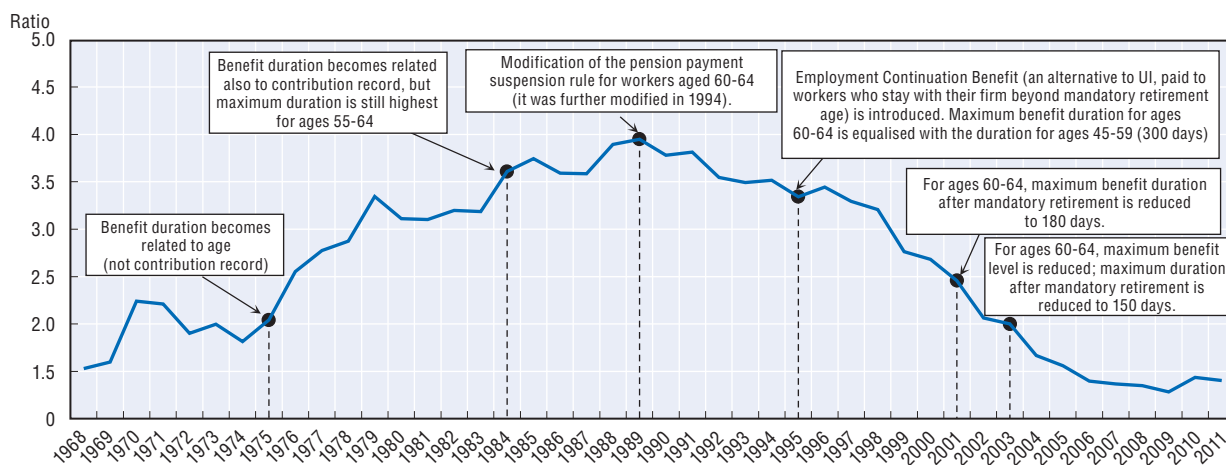
Finland is experiencing particularly rapid population ageing, and was among the first OECD countries to act to tackle it. After the deep recession of the early 1990s, the employment rates of older workers grew faster than those of other age groups, and the unemployment rate for workers aged 55 to 64 fell from roughly 20% in the mid-1990s to 7% or less since 2004. Several factors led to this change. They included sustained high growth rates and labour market reforms which increased employment across all age ranges; reforms of the pension and disability benefit systems; a cohort effect as the baby boom generation, which had relatively high employment rates, entered the older age range; and the changing educational background of older workers. Since the early 1990s, Finland has conducted extensive research into occupational health in the workplace and introduced a series of programmes, involving information campaigns and training of workers and managers, to enhance the “workability” of older employees. However, whilst the hiring rate of older workers (aged 50-64) was comparatively high, the prospects of finding a new job were comparatively poor for unemployed older workers (rather than job changers). One factor continues to be the so-called “unemployment tunnel”, which refers to the extension of unemployment benefit to the statutory retirement age for people who enter unemployment after a certain age. Before 1997, this “tunnel” started at the age of 53 years and one month. After reforms in several steps, from 2007 it started at 57 years and one month, and from 2013 it starts at 58 years and one month.

Similar developments occurred in Australia which, in response to high unemployment, in 1994 introduced the Mature Age Allowance, an inactive benefit paid to men aged over 60 who had been unemployed for 12 months or more.<sup>10</sup> By 2003, when this allowance was closed to new entrants, it had a caseload of over 40 000, which was about 8% of the 60-64 year-old male population. By 2009 the number of such claimants had fallen to zero. About 40%-50% of the fall in the Mature Age Allowance caseload appears to have been offset by an increase in the number of unemployed older men claiming Newstart Allowance (NSA): even within the comparatively strict NSA regime, participation requirements are reduced for those aged 50 or more. The closure of another benefit,

Partner Allowance, also tended to increase older-male employment rates. In Ireland, the Pre-Retirement Allowance was closed to new entrants in 2007. In the United Kingdom, income support is still paid without an availability requirement to men above the female pension age, which for many years was 60, but is now being increased to 65.

In Japan, because many workers have a relatively low age-pension entitlement, workers above 60 – and even workers above 65 – have a stronger incentive to work than in most other OECD countries. This contributes to the willingness of older people to accept work with relatively low wages. From 1975, however, Japanese unemployment benefit entitlements were made age-related, reaching a peak of ten months for workers aged 55 or more. After this reform, it increasingly became standard practice for workers to claim UI when they reached the age of mandatory retirement from their “lifetime” job (which in the 1970s could be as low as 55, but by the 2000s was typically set at 60), illustrating the powerful influence of unemployment benefits on labour market outcomes. Indeed, from 1979 to 1998, the unemployment rate for 60-64 year-old Japanese males was three to four times the rate for prime-aged (25-54 year-old) males – which itself more than doubled over this period (Figure 3.3). Towards the end of this period, around 70% of workers in their early 60s collected unemployment benefits and only about 20% of those who started a ten-month benefit claim found a job during those ten months.

Figure 3.3. **Ratio of the unemployment rate of 60-64 year-old males to the unemployment rate of 25-54 year-old males, Japan, 1968-2011**



Source: Duell, N., D. Grubb, S. Singh and P. Tergeist (2010), “Activation Policies in Japan”, OECD Social, Employment and Migration Working Papers, No. 113, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5km35m63qqc-en>; and OECD Labour Force Statistics Database, <http://dx.doi.org/10.1787/data-00309-en>.

StatLink  <http://dx.doi.org/10.1787/888932852960>

In 1995, in an early measure aimed at tackling the systematic claiming of UI from the date of mandatory retirement, Japan introduced an Employment Continuation Benefit, which is paid to workers who are rehired by their employer after their company’s age of mandatory retirement. In the 2000s, legislation was introduced requiring companies to increase their age of mandatory retirement beyond 60, but it left them the option of implementing this by systematically offering rehiring to all employees who want it and who meet certain criteria, the details of which can be determined by the company. Rehiring is usually on a non-standard contract with a significantly lower wage, supplemented by payment of the company pension and, to a limited extent, by the Employment



Continuation Benefit. As compared with European arrangements, this approach sharply lowers the cost of continuing employment for employers, and encourages older workers to switch to a different job when this meets their needs and suitable opportunities exist, rather than going directly from their “lifetime” job into retirement.

In 2001 and 2003, the maximum benefit entitlement at mandatory retirement age was also reduced from 300 days to 150 days, and the ceiling level of benefits in this case was lowered. By 2006, most of the difference between the unemployment rates of 60-64 year-old males and prime-age males had been eliminated. Older workers continue to be seen as relatively difficult-to-place – as in other countries – but the combination of “soft” legislative requirements on companies to raise the age of mandatory retirement and retain older staff, PES efforts, EI reforms, subsidies and the flexible labour market for older workers are keeping their unemployment spells far shorter than the multi-year unemployment spells ending in retirement that became a major feature of labour market outcomes, and to some extent continue, in some other OECD countries.

### ***Lone parents and the treatment of spouses and partners in couple-households***

#### ***Lone parents***

The employment situation of lone parents has also been shaped by their treatment within the benefit system. For example, until recently in Australia, the United Kingdom and Ireland, lone parents were expected to care for their children full-time, and were not required to seek employment until their youngest child left school or full-time education. In Ireland this exemption could last until the youngest child was aged 18, or 22 if the child was in full-time education. Higher benefit levels as compared with unemployment benefits, the high cost and restricted availability of childcare services, and poor maternal and parental leave provision, were also disincentives to work. The employment rates of lone parents in these countries are exceptionally low in comparative terms, especially when contrasted with Japan.

Australia promoted part-time work through generous benefit tapers, and from 2003 significantly increased lone-parent participation in employment services and labour market programmes. However, efforts to improve work incentives and access to employment and training programmes and related services had more impact when work-availability and job-search requirements were introduced. This was mainly in 2006 and 2007 in Australia (now applying to lone parents with a child aged 6 or over), and progressively from 2008 to 2012 in the United Kingdom (now applying to lone parents with a child aged 5 or over). In Ireland, which has the lowest lone-parent employment rate in the OECD, some changes to the One-Parent Family Payment were made in 2011, and benefit claims that started after April 2012 will be closed when the youngest child reaches age 12, but it is too early to assess the impact of the changes.<sup>11</sup>

The Nordic states generally have high employment rates of mothers in both couple and single-parent households, but in Norway by the mid-1990s lone-mother employment rates were lower than for married mothers, and ten percentage points lower than in Sweden and Denmark. Until 1998, no work test or time limit applied to Norway’s “transitional benefit” for lone parents, which could be claimed until the youngest child was aged 10, and was rapidly withdrawn as earnings increased. In 1998, lone parents with children aged over 3 years (now 1 year) were required either to work part-time, enrol in education or a labour market programme, or register with the PES and be actively involved

in job search. Earnings disregards were made more generous. The benefit was time-limited: as a general rule, it is now granted for a maximum of three years, until the youngest child is 8 years old, although eligibility may be extended for a further two years for those parents participating in education that is necessary for employment. From 2013, lone parents who have previously received a full period of transitional benefit can only receive benefit until the new child is entitled to child care, which is when the child is 1 to 2 years old.

Evaluation results indicate that by 2001 the 1998 reform resulted in increased earnings by lone mothers with young children aged between three and nine, but had insignificant effects on earnings of mothers with younger children although there were positive impacts on their participation in education (Mogstad and Pronzato, 2012). The policy changes were successful in improving labour market attachment of both new lone mothers (i.e. those whose claim started in 1999 or later, who were subject to the reformed regime from the outset) and “persistent” lone mothers (i.e. those who had been on transitional benefit for at least four years before the reformed regime applied to them). The persistent lone mothers experienced larger gains in earnings than the new lone mothers, but they also experienced a much larger loss of out-of-work benefits, resulting in a net decrease in mean disposable income and increase in the poverty rate. From a policy perspective, the positive impact on outcomes for new lone mothers gives a more representative view of the expected long-term impact of the reform. The 2006 Welfare to Work reforms in Australia also had much less impact on job-finding rates for existing claimants of Parenting Payment Single as compared with new claimants, but this was partly because the existing claimants stayed on a higher rate of payment (further reforms are taking place in 2013).

The exceptionally high employment rate of Japanese lone parents, at 85%, is also related to their differential access to benefits in and out of work. Estimates vary but there are at least 600 000 and may be up to a million single-mother households in Japan, of which only 93 000 were receiving Public Assistance in 2006. In addition to the social stigma of claiming the benefit, municipal welfare offices are inclined to evaluate lone-parent capacity to work rigorously and suggest also that other family members support them.

By contrast, 956 000 single mother households in Japan in 2006 were receiving the Child-rearing Allowance, which is means-tested but not conditional on labour market status. This can be claimed until the youngest child is aged 18. The benefit amount is set well below subsistence level, which enables the benefit withdrawal rate in relation to earnings to be set at a low level. This more easily available benefit leaves a stronger financial incentive to work long hours than is present in most other OECD countries. The benefit, when combined with preferential access to places in day-care centres, at heavily subsidised rates for mothers on low incomes, makes it possible even for mothers with rather low earnings capacity to achieve net incomes similar to – although probably still below in some cases – Public Assistance rates. These factors help to explain why a large proportion of this group works full-time and Japan has nearly the highest lone-parent employment rate in the OECD. Unfortunately, the high lone-parent employment rate does not translate into low levels of child poverty and many single mothers report that their lives, working full-time with still relatively low net incomes, are difficult.

### ***Spouses and partners***

In several countries, the focus on lone-parent dependency rates has been accompanied or followed by greater attention to the treatment of spouses and partners

who are supported by family-based payments. When social assistance is claimed, job-search and related requirements now usually apply to a partner or spouse unless they are the principal carer for young children, which was not always the case in the 1990s. However, in Finland the unemployment assistance benefit has long been paid separately to both members of a couple, if both register as unemployed, and this is associated with high female employment rates (see Box 3.4).

**Box 3.4. Individual benefit treatment of couples  
in Labour Market Support (LMS) in Finland**

A significant feature of the LMS unemployment assistance benefit in Finland is that, although means-tested, it is payable separately to both members of a couple if both are registered as unemployed. Although each spouse's benefit is means-tested on the couple's joint income, high disregards ensure that this does not reduce the amounts payable if the couple has no income from other sources. This seems to have been a feature of LMS and the previous form of unemployment assistance ever since its introduction in 1971.

The rate of reduction of LMS when the household's income is above a disregard level was reduced from 75% to 50% in 1997. In situations where the spouse is working, a spouse's earned income disregard applies, and this was sharply increased to EUR 236 per month in 2000, and further to EUR 536 per month in 2003. Calculations suggest that since 2003 even a person with a spouse on Average Production Worker earnings could qualify for LMS, although the rate of payment would be significantly reduced by means-testing. In the 2013 budget, means-testing with respect to spousal income was abolished.

Unemployment benefit claimants, even the parents of young children, must declare themselves to be seeking full-time work. The financial incentive for spouses to register independently, which in turn requires them to be available for full-time work, probably contributes to the high incidence of full-time work in Finland. Van Gerven (2001) notes that "the statistics also reflect that women rather register themselves as unemployed rather than remain at home as housewives. This tells us about the strong norm of wage work... (the) Finnish welfare state supports women strongly to enter the labour market with universalistic and individualistic benefits and services". If the women added to total labour supply are on average one-quarter unemployed and three-quarters (full-time) employed, the taxes and social security contributions paid on the salaries of the additional employed women will probably more than cover the cost of the benefits paid to the additional unemployed women. Although the high rate of unemployment benefit reciprocity in Finland with low levels of active job search is a cause for concern, the potential positive effects of benefit arrangements such as this should also be kept in mind.

*Source:* Duell, N., D. Grubb and S. Singh (2009), "Activation Policies in Finland", *OECD Social Employment and Migration Working Papers*, No. 98, OECD Publishing, Paris, <http://dx.doi.org/10.1787/220568650308>; Ministry of Finance (2012), *Budget Review 2013*, available at [www.vm.fi/vm/en/04\\_publications\\_and\\_documents/01\\_publications/01\\_budgets/20120917Budget/Budget\\_review\\_september2013\\_MEDIA.pdf](http://www.vm.fi/vm/en/04_publications_and_documents/01_publications/01_budgets/20120917Budget/Budget_review_september2013_MEDIA.pdf).

In 1995 Australia individualised means-tested benefits along the same lines as in Finland. Women in couples who had previously been considered dependent spouses were required to claim benefit in their own right. Those without children could in most cases only claim unemployment benefits, which imply participation in job-search monitoring and assistance measures. Those with children who were designated as the "principal carer" could claim Parenting Payment (Partnered). This was at first an inactive benefit, but reforms in 2002 introduced activity requirements for recipients of Parenting Payments

(both Single and Partnered) with teenaged children, and from 2006 Parenting Payment (Partnered) was restricted to parents with a child aged less than 6, approximately matching the reforms applied to lone-parent benefits.

In the United Kingdom, Joint Claims requirements are applied to a variety of out-of-work benefit payments. In the case of means-tested unemployment benefit (Jobseeker's Allowance) claims, requirements for able-bodied spouses or partners without children to make a Joint Claim (i.e. separately register as unemployed) were applied in 2001 to couples with one member aged 25 or less, and then progressively extended to cover couples of all ages from 2012. However, until 2013, couples with a child were not required to make a Joint Claim until the child reaches age 16 (or 20 in some circumstances).<sup>12</sup> In Ireland, one member of a couple can still claim Jobseeker's Allowance with an addition for a dependent spouse who does not sign on as unemployed, although a wide-ranging reform is under discussion.

### ***The impact of extending activation requirements***

The country reviews contain considerable evidence suggesting that for demographic groups with work capacity, a lack of activation requirements attached to their entitlements contributed to increased benefit caseloads. Conversely, the extension or reinvigoration of activation requirements for such groups can reverse increases, sometimes significantly.

As discussed previously, Australia targeted reforms at such inactive groups from 1995, but particularly from 2003 to 2007, and for most inactive benefits activation has been a success. The reforms in some cases lowered the benefit amount payable to a particular demographic group. However, their impact can mainly be attributed to the participation requirements and employment assistance measures associated with unemployment benefits, without which claims would merely have been diverted from one benefit to another. By 2010 or 2011, the combined caseloads of Mature Age Allowance, Partner Allowance, Widow Allowance, and the two Parenting Payments were about 400 000 below peak levels prevailing earlier in the 2000s, equivalent to 4% of the labour force. In most cases where access to an inactive benefit was restricted, long-term and net transfers of the target group to other inactive types of income support were relatively small. In many cases, people in the target group no longer claimed income support at all. For those who did make a claim for unemployment benefit, claim durations tended to be shorter than had been the case when they could claim an inactive benefit. Although only partial evidence is available concerning the impact of the reforms on employment rates, before-and-after comparisons suggest that lower benefit reciprocity was fully matched by higher employment rate in the case of older workers, but only about 2/3 matched by higher employment rates in the case of lone parents.

The Australia review highlights experiences when Partner Allowance, an assistance benefit without job-search requirements that previously was payable to older spouses, was closed to new entrants. Inflows by 45-64 year-old married women onto Partner Allowance fell from about 2 000 per month to zero, while their inflows onto unemployment benefits (which had the same monetary value increased by only 800 per month. However, at the same time inflows to income support by older married males also fell by slightly more than 1 000 per month. It seems that in the case of a couple with one partner unemployed, the closure of Partner Allowance represented an increase in total participation requirements, and in many cases this led to male partner to start work (or in some cases, retain an existing job).

#### 4. Activation regimes and interventions in the unemployment spell

Interventions in the unemployment spell by PES offices can include the direct placement of jobseekers by employment counsellors (a process which requires work on vacancy acquisition), encouragement and monitoring of independent job-search efforts, help to tackle or better manage barriers that diminish employability and capacity to take jobs, and referrals to different types of ALMPs.

OECD comparative studies have documented the design, sequencing and intensity of these interventions. Evaluation studies of particular interventions often report that they increase the rate at which jobseekers enter employment or otherwise cease claiming benefits, and are relatively cost-effective, although for some interventions (e.g. benefit sanctions) a more-rapid return to work may be associated with lower earnings.

A “work-first” approach may be implemented through intensive interventions with a focus on job search, job matching and referrals. It would typically start with an emphasis on a speedy return to work from the very first contact, and the early agreement of an individual action or “back to work” plan. This would be followed by regular monitoring, seeking information on job-search activities and confirmation of unemployment status. Regular face-to-face contact with an employment counsellor (also called a personal adviser, or a case manager) is an important determinant of system effectiveness. The counsellor can check job-search activity, raise awareness of job-search techniques, make referrals to vacancies, improve motivation and self-confidence and, where necessary, refer a claimant to a “menu” of further support, ranging from job-search training, Job Clubs, skills assessment, and short basic skills or training programmes, through to longer-duration skills or employment programmes. Often all types of referral may in principle be compulsory, although some programmes such as Job Clubs and longer-term vocational training are suitable for mainly voluntary participation.

This section reviews some of these issues and then considers in more detail the pattern of interventions implemented in Switzerland which was considered to have a strict activation regime for the unemployed, contrasted with the situation in Ireland where the regime was not effectively activating the unemployed.

##### ***Interventions in the unemployment spell***

Interventions in the unemployment spell help to enforce eligibility criteria for unemployment benefits, achieve immediate job placements and improve the chances of future job entry. The requirements for reporting, attendance, or participation as a condition for benefit often also deter some claims and/or have a motivation effect, increasing rates of exit from benefit.

Each of the review countries participated in an earlier and more comprehensive survey of PES “interventions in the unemployment spell” which summarised findings from 29 member countries based on a survey distributed in 2004, with results published in OECD (2007). National practices reported in the reviews identified additional features of the situation and additional practices, and recent or planned changes.

Table 3.2 gives comparative information on processes at the start of a claim to unemployment benefit and the subsequent frequency with which claimants had to confirm their unemployment status and report any changes in circumstances. The focus here is on reassessing the summary information reported in 2007 (given the risks of misreporting due to varied interpretations of the concepts, and difficulties in defining a unique correct response) using the information in the reviews.

Table 3.2. **Registration procedures, benefit entitlement and confirmation of status**  
As reported in 2007

	Benefit entitlement starts before (B), simultaneously with (S) or after (A) registration for placement <sup>a</sup> R = benefit pay retroactive back to date of loss of work	Length of waiting period (for which benefit is not payable at the start of unemployment), if any	Timing of first intensive interview and extent of profiling and Individual Action Plan (IAP) at that interview	Reporting of status, by being regular (R) or not, length of intervals, and in-person attendance (P) or not
Australia	B	Seven days	At registration, often with profiling and IAP	R, P, every two weeks
Finland	S	Seven days	Within a month, with profiling	R, every month
Ireland	B, R (if justified)	Seven days	After one month	R, once a month, P (in most cases)
Japan	A	Seven days	At registration	R, P, every four weeks
Norway	A	Four days	Within three weeks	R, every two weeks
Switzerland	B	Five days	After 16 days on average	R, P, every month
United Kingdom	S	Three days	Usually within a week	R, P, every two weeks

a) Classification as B = before includes countries that offer retroactive pay, and those where the first contact with the PES has no or little placement contact.

Source: OECD (2007), "Activating the Unemployed: What Countries Do?", Table 5.1, Chapter 5 in *OECD Employment Outlook 2007*, OECD Publishing, Paris, [http://dx.doi.org/10.1787/empl\\_outlook-2007-en](http://dx.doi.org/10.1787/empl_outlook-2007-en).

### Profiling

Jobseeker profiling procedures allocate jobseekers across a small number of categories. Frequently profiling is implemented at the start of the unemployment spell; a specific questionnaire is addressed to clients to gather additional information about their characteristics; allocations to categories are based upon a regression model, which predicts the client's probability of becoming long-term unemployed as a function of their characteristics; the categories range from easiest-to-place to hardest-to-place; and the different categories are referred to different services.

In 2007 a jobseeker profiling procedure, conducted not long after initial registration, was reported for Australia and Finland. Australia has profiled all people claiming unemployment benefits since 1998, and the review describes this background and details the 2009 revision of the Job Seeker Classification Instrument (JSCI) and its implementation processes. Conduct of the JSCI questionnaire is a significant task for Centrelink (the benefit agency), and there are debates about its adequacy, and procedures for revising an individual's JSCI score if new information becomes available. By contrast, in Finland the IT system generates a score representing the risk of long-term unemployment automatically based on existing data. Counsellors can use this to allocate jobseekers to two categories of service requirements (information services, or development of working life skills), but this is not mandatory, and the actual impact of the profiling tool has been limited (Riipinen, 2011). Norway introduced, from 2010, a procedure where future clients of all working-age benefits are assessed to determine their "work-capability" as defined by their personal characteristics and the counsellor's judgement of the need for special assistance. As part of this procedure, people with health problems will get an individual action plan involving employment-related activity. Evaluations find that implementation of the procedure has been a challenge. Ireland's Department of Social Protection (DSP) now also implements a profiling model as part of its new activation policy (see Box 3.6).

### **Individual Action Plans (IAPs)**

Individual Action Plans (IAPs) are written plans for job-search-related actions by the client and services to be delivered by the PES, established in an interview between the client and a PES counsellor. Frequently participation in the IAP procedure is a requirement for benefit and failure to carry out the actions in the plan can lead to a benefit sanction. Frequently IAPs are set up at the start of the unemployment spell and then updated at intervals, although the earliest IAP procedures in the 1990s tended to be implemented after some months of unemployment, and of limited duration, and often expired after some months.

Table 3.2 did not report an IAP procedure at the time of the first intensive interview in Norway, Switzerland and the United Kingdom, but the reviews identified procedures that merit mention under this heading. In Norway at the initial interview, all registered unemployed sign an “individual service declaration” which outlines job-search activities to be carried out in the period up to the next interview with the employment officer. In Switzerland, the cantons could use a profiling system and set up an IAP with new jobseekers, but most did not except for Geneva, which identifies hard-to-place jobseekers for possible outsourcing to a private provider. However, new jobseekers had to sign a “personal job-search agreement” with their counsellor acknowledging the approximate number of job-search actions that they have agreed to report per month. Similarly, the United Kingdom requires new jobseekers to have a Jobseeker’s Agreement, which sets out their actions to find work and any agreed restrictions on the type of work sought, before unemployment benefit can be paid.

Finland and Japan each had several types of IAP. In Japan, participation was voluntary and participant numbers were only about 4% of the annual jobseeker inflow. In Finland, the “initial job search plan” was not set up at the first intensive interview or subject to any general rules about its timing, and the measures within it were not obligatory. Updated plans designed for use later in the unemployment spell could foresee obligatory measures, including participation in ALMPs, but PES officials tended to see them as helpful for finding the path towards the open labour market, or for the accurate targeting of information concerning jobs or other relevant services. An “activation plan” was established after 500 days (100 weeks) or 680 days of unemployment, which is the time at which the municipality becomes responsible for paying half the cost of the LMS benefit, and at which the jobseeker can be referred to a joint service centre (LAFOS) (see further below).

### **Regular reporting of status and regular counselling interviews**

As reported in 2007 (see Table 3.2), the review countries all required regular reporting of unemployment status every two or four weeks, with in-person attendance except in Finland and Norway. In Finland, this procedure is being increasingly implemented through e-services: in 2012, 32% of these reporting procedures were carried out in person, 40% through local PES phone services, 6% through national phone services and 22% by Internet. In Australia, from July 2010 jobseekers already assigned to an employment service provider have been allowed to and encouraged to submit fortnightly payment renewal applications by telephone or online; and there are likely to be similar developments in other review and non-review countries.<sup>13</sup>

In Japan, Switzerland, and the United Kingdom, the reporting sessions with in-person attendance requirements shown in Table 3.2 include employment counselling and possible referral to vacancies, which is not the case in Ireland. In Australia, the 2010 revision added

counselling content to Centrelink interviews for non-disadvantaged (Stream 1) jobseekers in the first three months of unemployment, who are not expected to visit their Job Services Australia (JSA) provider.

In Australia, except for non-disadvantaged (Stream 1) clients in the first three months of unemployment, as a condition for payment employment service providers are required to have in-person interviews with clients once a month during the first year of unemployment and once every two months subsequently (when the client is in the Work Experience Phase, which involves different types of contact). In Finland, after initial registration a second interview is held within a month, and after that there is no set procedure, although one local office reported that during the first three months people are asked to visit every four weeks. In Norway, intensive interviews covering a range of topics take place at least once every three months.

### *Job-search requirements*

Table 3.3 shows much variation in the number of job-search actions that claimants were required to report. Often this involves listing job applications and providing suitable documentation when required, although in several countries guidelines allow a variety of actions or steps other than direct job applications, such as researching advertised vacancies, to count as job search. Requirements could be from as little as two job-search actions per month in Japan to as many as 20 in Australia.

**Table 3.3. Job-search requirements**  
As reported in 2007

	Frequency at which unemployed have to report on their job search	Number of actions to be reported in a month
Australia	Every two weeks	From 8 to 20
Finland	From one week to one month	Variable requirements (depending on individual action plan)
Ireland	Variable requirements	Not specified
Japan	Once every four weeks	Two
Norway	Every three months	Not specified
Switzerland	Once a month	From four to ten
United Kingdom	Every two weeks	Ten

Source: OECD (2007), "Activating the Unemployed: What Countries Do?", Table 5.2, Chapter 5 in *OECD Employment Outlook 2007*, OECD Publishing, Paris, [http://dx.doi.org/10.1787/empl\\_outlook-2007-en](http://dx.doi.org/10.1787/empl_outlook-2007-en).

In Japan, attendance at a PES seminar can count as a job-search action, whereas in Europe attendance would typically be obligatory, and not counted as an independent search action. The Australia review reports that short-term unemployed jobseekers are issued with a Job Seeker Diary requiring up to ten job-search actions per fortnight, but often fewer outside active urban labour markets; in this case actions involving some kind of employer contact seem to be expected. However this procedure is not used for the longer-term unemployed; they may instead report job-search actions in regular interviews with the benefit agency Centrelink, or job-search activities may appear in their Employment Pathway Plan, which is set up and monitored by their employment service provider, with cases of non-compliance being referred to Centrelink. The Swiss review confirms the information in Table 3.3, noting that counsellors have substantial leeway to reduce the number of actions required per month below ten, but jurisprudence has considered that three actions per



month are normally insufficient. In the United Kingdom, the number of actions can be below the ten per month shown in Table 3.3 but requirements of three actions per week, and recently sometimes six actions per week, are also reported.<sup>14</sup>

In Norway, although the number of job-search actions per month is not specified, the initial interview specifies job-search activities to be carried out for the next interview, and jobseekers must report their independent job-search activities either by showing copies of job applications or by filling in a “job log” which lists the jobs and employers contacted and their outcomes. This seems fairly similar to the situation in Australia, Switzerland and the United Kingdom. In Ireland, job search was verified only through availability reviews conducted after seven months and again after 12 or 15 months of unemployment, and there was no evidence of jobseekers being given a required number of actions per month. In Finland, a 1998 reform called for the employment service to establish job-search plans and monitor independent job search after five months of unemployment, but in 2004 it was reported that employment offices had found this procedure not at all useful. The review did not find evidence that regular job-search reporting as shown in Table 3.3 is taking place, and it states that job-search monitoring procedures still had little effect at local employment office level.<sup>15</sup>

### **Direct referrals**

Direct referrals are procedures where the PES counsellor refers a client to a job vacancy, with benefit recipients being at risk of benefit sanction if they fail to apply. Direct referrals can assist employers by speeding up the matching process, bring jobseekers who use inefficient job-search strategies into contact with vacant jobs and serve as a work-test. OECD (2007) estimated the annual frequency of direct referrals per person in the average stock of registered unemployed and concluded that, even in high-referral countries, the number of referrals was “surprisingly low” given the potential advantages and the opportunity counsellors had during intensive interviews to orient their clients to advertised vacancies. However detailed procedures are quite varied – for example the counsellor may refer the client to a list of job vacancies, suggesting that they apply for one or two – and the coverage of any statistics reported is likely to vary. Statistics may relate only to procedures where the jobseeker is given a form to be returned by the employer, not necessarily including referrals when this explicit reporting procedure was not required.

The reviews report that in Ireland direct referrals were used to only “a minor degree”, but there was more or less regular use of direct referrals in Finland, Japan, Norway, and Switzerland:

- In Finland, the Ministry of Labour set itself a target of increasing the number of direct referrals, and 80 800 referrals were made in 2007, which is about 0.34 per year per person in the average stock of UB recipients.<sup>16</sup> The proportion of notified vacancies filled by direct referrals was still only 8.6% in 2007 compared with 30% ten years previously, reflecting the advance of self-service matching and expansion of PES e-services. However, the number of placements achieved through direct referrals fell less sharply, and annual benefit sanctions for refusal of suitable work increased from 2.5% of the stock of claims in 1997 to 5% in 2007, a high level in international comparative terms.
- The Japan report cites the existing estimate (OECD, 2007) that in 2006 about 4.2 direct referrals per year per registered unemployed person were made.

- In Norway in 2006, about 38 600 direct referrals were made for 48 000 UI recipients, an average of about 0.8 per recipient. Here PES officers usually send out letters to unemployed clients detailing the vacancy, including a warning of possible sanctions upon job refusal.
- In Switzerland, in the latter 2000s, counsellors made between 200 000 and 300 000 referrals per annum for a stock of 100 000 to 150 000 unemployed people, i.e. about two direct referrals per UI recipient. PES vacancy registrations in Switzerland in 2007 were only 11% of the number of hirings (compared with over 50% in Finland, Japan, Norway, and the United Kingdom) which suggests that many jobseekers find jobs through independent job search, and that direct referrals are concentrated at the lower end of the labour market.

In Australia, direct referrals are made by Job Services Australia (JSA) providers and there are no national statistics for them. However, larger employment service offices tend to employ one “reverse marketer” for every five or six counsellors, whose role is to find undeclared job vacancies in the local economy or, more often, persuade an employer to create a vacancy suitable for a particular jobseeker client. This suggests that direct referrals play a large role in the placement process for disadvantaged jobseekers. Although short-term and non-disadvantaged unemployed might get useful advice from their service provider, they are usually motivated to find work independently.

#### ***Referrals to active labour market programmes (ALMPs)***

Mandatory referrals can be to short job-search assistance courses or to longer term work experience or skills programmes. Referral to more-intensive ALMPs (i.e. a full-time or significant part-time activity other than job search) also may act as a quasi-work test and assist participants in improving their employability and other skills. In Japan, with its short UI eligibility period, participation in more-intensive programmes was voluntary. In all the other review countries benefit recipients were liable to sanctions if they failed to comply with certain types of referral to an ALMP by a PES counsellor. The risk with longer-duration programmes is that the advantages of participation may be reduced by a “lock-in” effect due to lower levels of job search. This is partly offset where job-search and work-availability requirements continue to apply during programme participation. However, in the case of vocational training where course completion is required to acquire an adequate skill set and certification, interruption of participation to take up a job offer may be counterproductive.

Only Australia has a general obligation to participate in an ALMP, usually training or work experience, at a certain threshold in the unemployment spell. Non-disadvantaged clients also have to complete 40 or 60 hours in job-search training or another activity after their first three months of unemployment. Until 2009, the main obligation applied after six months of unemployment, but it now applies after one year, when clients enter the Work Experience Phase and their JSA provider must organise up to 390 hours of participation in work experience, training and related activities. Participants who remain unemployed stay in the Work Experience Phase in subsequent years; from 2012, the maximum annual hours requirement applying in the second year was increased. In the United Kingdom, since 2011, unemployed claimants enter the Work Programme after nine months if aged 18 to 25, or a year if older, but providers are not obliged to refer clients to an ALMP at a particular time, or at any time. In Norway, in parallel with the introduction of the National Employment and Welfare Service (NAV), the role of municipal workfare has been

reduced for social assistance clients, as the Qualification Programme gave them greater access to state ALMPs with a new benefit set at a higher level than social assistance (Schafft and Spjelkavik, 2011).

In Finland, Ireland and Japan, vocational training is a significant ALMP, and participants in full-time training are not treated as jobseekers. In Ireland, a participant in part-time training or the Community Employment scheme might in principle be required to apply for a job vacancy. In Norway, participants in ALMPs are required to be available for ordinary work but “the PES will seldom instruct jobseekers to discontinue ALMP participation since completion is considered to increase job possibilities” (Venn, 2011). In the three other countries, jobseeker status is maintained during participation in certain types of ALMP:

- In Switzerland, participants in ALMPs are still registered with the local employment office and must in principle continue their job-search activities, with exceptions for Start-up incentives and occasionally for other kinds of ALMP.
- In Australia participants in Work for the Dole, which involves attendance for no more than 15 hours per week, can still be required to report multiple job applications each fortnight to Centrelink, or referred to job vacancies by their employment service provider. Since 2009, Work for the Dole activities are delivered by the client’s employment service (JSA) provider, which facilitates such referrals. However, since 2010 the average stock of participants in Work for the Dole has been around 10 000, whereas about 80 000 UB recipients in training programmes are generally exempt from job-search and related requirements.
- In the United Kingdom, apart from specialist disability programmes which typically are not targeted on unemployment benefit recipients, until 2010 the main longer-term programmes were the New Deal options for young people (Full-time Education and Training; Voluntary Sector; Employment Option; and Environmental Task Force), and the “Intensive Activity Period” for long-term unemployed claimants aged over 25. Both variants required participation for 30 hours per week and the programmes by design included elements of job-search training. However, participants went onto a wage or training allowance and would not normally be referred to unrelated job vacancies or required to report their independent job applications each fortnight. Currently, jobseeker status is maintained during participation in Mandatory Work Activity but this is a short (four-week) programme. As in Australia, the contracted employment service providers can probably refer clients to job vacancies even during their participation in training or work-experience activities.

### ***Variation of activation requirements***

In the review countries, benefit regulations only sheltered all benefit recipients from strict activation requirements to a very limited extent. In Australia and Norway, from the start of the unemployment spell the person should accept any kind of work they can do. In Finland, Ireland and the United Kingdom, jobseekers are able to restrict their job search to work in their normal occupation, or refuse work that does not correspond to their skills (the exact concept differs by country), for the first three months of their unemployment spell, but after three months any job is considered suitable, subject to standard safeguard clauses (which concern ability to perform the job, and regular work conditions). By contrast, legislation in Switzerland states that a suitable job should take reasonably into

account the jobseeker's ability and previous occupation (although this clause is not applicable to people aged less than 30), and should not significantly compromise prospects of a return to the previous occupation, if there are prospects for this within a reasonable time. However, this sits alongside a provision that the unemployed person must do everything within their power to avoid unemployment or shorten their unemployment period, and statements that the first clause can be waived "if necessary", which leaves counsellors with considerable discretion.

In Switzerland, unemployed persons can refuse a job offer if it pays less than 70% of previous salary, but elsewhere references to previous conditions are time-limited or not allowed at all. However, there are other circumstances in which the general requirement to search for and be available for full-time work is relaxed, allowing claimants to limit the hours, conditions and locations in which they are expected to take employment:

- In Australia, unemployment benefits are maintained during sickness, and this is probably true in several other countries.
- Until the 2000s and sometimes into the 2010s, as discussed in Section 3, many OECD countries paid older workers an unemployment benefit or similar benefit without an availability-for-work requirement but have now reapplied this requirement. However, some age-related variations of activation provisions are still in place. In Australia, workers aged 55 who are engaged in voluntary work are required to accept a suitable offer of paid work, but are otherwise exempt from activity requirements. In Finland, the UI benefit entitlements extended to retirement age are not formally exempt from availability requirements, but job-finding rates for this group are low in practice.
- In Australia and the United Kingdom, parents with child-care responsibilities can claim full unemployment benefits while being available only for part-time work. When working part-time, in Australia the benefit claim can be maintained at a reduced rate (depending on earnings) without further activity requirements. By contrast, in the United Kingdom for work of less than 16 hours per week, job-search and related requirements are maintained, and for work of 16 or more hours, an in-work tax credit, without job-search requirements, is often payable instead, although this will change with the introduction of the Universal Credit (DWP, 2013c).
- Claimants with reduced work capacity are only required to be available for hours of work in line with their assessed capacity. Assessments that allow a person working at capacity to retain an unemployment benefit payment on a long-term basis are probably rare in some countries.

In Switzerland, when workers with full requirements take up part-time work, and continue to receive unemployment benefits under the "intermittent pay" scheme, the requirements are relaxed. Although these workers must continue their search for better-paid work, they have PES counselling interviews every two months rather than monthly, and they are allowed up to two months to give notice to their part-time employer, whereas wholly unemployed workers must be available to start a job immediately.

Requirements for participation in longer-term ALMPs are also varied for certain client groups:

- Certain groups of youths are systematically required to participate. In Australia since 2009 early school leavers (defined since 2011 as people aged up to 21 who have not completed 12 years of school) no longer have job-search requirements. To qualify for income support, they must participate full-time (or part-time in combination with other

activities such as part-time or voluntary work) in education and training. Finland has a long history of “youth guarantees”; starting 2005 every unemployed young person was to be offered training, trainee work or a workshop place after three months, although this was not systematically enforced. Since 1994, Norway guarantees an offer of an ALMP to all young people aged 16 to 19 not in education and/or regular work. Currently youths aged 20-24 year-olds are guaranteed an activity plan within one month.

- In Australia, the maximum Work Experience Activity requirement in the second year of unemployment for participation in Work for the Dole, for those who take up no other option, is 390 hours, but the requirement is reduced to 150 hours for parents with child-care responsibilities, those with partial capacity to work, and people aged 40-49, and to zero for those aged 50 or more. There is no formal reduction in this type of participation requirement for older unemployed workers in Finland, Norway, Switzerland or the United Kingdom. However, the actual participation rates of older workers are reported to be relatively low in Norway, and relatively high in Switzerland. (As already noted, in Ireland and Japan ALMP participation has not generally been obligatory.)

Some modulation of general availability and ALMP participation requirements is arguably necessary to allow the extension of requirements to wider groups of beneficiaries, who have greater constraints on their availability or more-limited work capacity. In Australia, where inactive benefits have been (from 2003 onwards) phased out for several large population subgroups, about a quarter of the non-voluntary jobseeker caseload has a reduced-hours work requirement related to partial incapacity or child-care responsibilities, and close to 20% are exempt from Work Experience Activity requirements due to age. Also over 15% of unemployment benefit recipients (of whom some would be already in the above-mentioned groups) are exempt from job-search requirements for temporary reasons such as illness and personal crisis and sometimes for longer-term reasons such as responsibility for caring for four or more children. None of the other review countries appears to define and record the reasons for exemptions from immediate job-search requirements with similar precision. In the United Kingdom, this may be related to a view that jobseeker profiling (except by duration of the unemployment spell) is inefficient: here, counsellors and programme evaluations describe some jobseekers on active benefits as “not job ready”, but these assessments are not recorded administratively. Even in Australia the authorities are reluctant to spell out in detail what counts as a “personal crisis” situation.

### **Work-related activity requirements**

The review countries define some work-related requirements that fall short of requiring either job search or immediately availability for work. These intermediate requirements acknowledge reduced work capacity and enable policy makers to negotiate the political opposition that is likely to be experienced when extending activation requirements to the target group. As mentioned above, in Norway recipients of Work Assessment Allowance (previously occupational rehabilitation benefit) are generally required to participate in work preparation measures and ALMPs, but not to be immediately available for work.<sup>17</sup> In the United Kingdom, for several target groups, “Work-focused Interviews” were introduced in 2001 (see Box 3.5) and disability benefit reforms introduced a Work-related Activity benefit status (see Box 3.3 above). In Australia, when “participation requirements” were first extended to lone parents whose youngest child was aged between 13 and 15 years in 2003, the regulations required participation in 150 hours of approved work-related activities each 26 weeks. In

### Box 3.5. **Work-focused Interviews and mandatory work preparation in the United Kingdom**

Mandatory “Work-focused Interviews” (WFIs) for working-age benefit claimants not subject to job-search and work-availability requirements were introduced in 2001. All working-age claimants are required to attend a face-to-face WFI at the start of their claim, albeit a Jobcentre Plus Personal Adviser has discretion to “defer” the WFI and there are some limited exemptions for prescribed groups. At the WFI a claimant must be prepared to answer questions (if asked) about such matters as:

- Educational qualifications/vocational training.
- Employment history and employment related skills.
- Any current paid/unpaid employment.
- Caring responsibilities.
- Any medical condition which puts the person at a disadvantage in getting a job.

After the initial compulsory interview at the start of a benefit claim, different groups of claimants are subject to different attendance requirements and the WFIs develop into a flexible activation instrument for lone parents, partners and people on disability benefits.

Since October 2005, most claimants who attend a WFI have been required to complete an action plan agreed with a personal adviser, which might include referral to an employment programme. Personal advisers now have discretion to encourage and require such claimants to participate in an unspecified range of work-related activities but may not require a person to apply for a job, undertake work, or undergo medical treatment.

This work preparation regime is underpinned also by a differentiated sanctions system. It is not as strict as that which applies to the unemployed and the penalties involved reflect the nature of the rule breached, the conditionality group of the claimant, and any hardship that might be caused to children.

Australia and the United Kingdom, it was only after several years of testing such intermediate activation requirements that job-search and availability requirements were extended more generally to lone parents.

#### **Sanction provisions and sanction rates**

In each country, people subject to job-search requirements could incur penalties if they rejected job offers, failed to seek work or to attend appointments or employment programmes, or otherwise made themselves voluntarily unemployed. Sanctions often are of fixed duration. Where they are designed to ensure compliance with activation requirements, they often escalate in severity when non-compliance is repeated, but may be suspended or withdrawn if the individual reengages with the service and/or undertakes specified actions. When sanctions are imposed for assistance benefits, there are often safeguards designed to stop family incomes falling below a given subsistence level or specific rules to mitigate the impact on children in families or on other vulnerable clients. Compliance activities might start with a warning, as in Japan or in some cases Australia and the United Kingdom. Failure to attend scheduled appointments with the benefit administration would often result in the suspension of benefits until the client complies, but in Australia a client’s first failure to attend a scheduled appointment with an employment service provider rarely if ever had consequences for benefits, and in 2009/10

only one sanction was actually imposed for around every 400 missed appointments (with attendance at these appointments being in principle obligatory in many, though not all, cases). A failure to attend a mandatory employment programme could result in a fixed period of non-payment, or be construed as indicating that the individual is not available for work, and therefore is ineligible for benefit.

The reviews did not identify significant use of benefit sanctions for UI in Japan. They also concluded that in Ireland, sanction rates for voluntary job leaving, refusal of work and refusal of an ALMP place were close to the lowest among OECD countries, while annual sanction rates for insufficient job search, which is assessed through reviews of job search after seven months, again after 12 or 15 months and annually thereafter, were about 0.7% of the stock of benefit recipients, which is roughly comparable with rates in other countries that assess job search via occasional retrospective interviews, but below levels for countries that require job-search actions to be reported every two or four weeks.<sup>18</sup> The reviews of Australia, Finland, Norway and Switzerland indicated that sanctions were more widely used:

- As regards social assistance benefits, in Switzerland national guidelines indicate that basic social assistance benefit can be curtailed by 15% for a maximum period of 12 months, but policies are determined by cantons. For example, three cantons have no provision for sanctions, but in Zurich employable applicants for social assistance must first take part in a four-week basic employment programme where they are paid a wage, which facilitates more-rigorous sanctions where necessary. In Finland, since 1998 municipalities have been expected to apply a 20% reduction in social assistance cases when a first sanction is applied to an LMS benefit, and a 40% reduction in the case of repeated infraction. Prior to this, municipal social assistance often made up the difference when a sanction was applied to an individual's LMS benefit (see Box 3.2 above).
- Sanction rates for UI benefits are high in Finland, Norway and Switzerland. In Finland (where statistics relate to both UI and the LMS benefit), no sanctions for insufficient evidence of job search are recorded (although there are some sanctions for failure to agree or carry out an action plan), but in 2007 sanctions totalled nearly 5% of the stock of benefit claims for refusal of suitable work and 17% for refusal or quit of an ALMP. These are high sanction rates in international comparison, and the usual sanction is a two-month loss of benefit. In Norway the annual number of sanctions was about a sixth of the average stock of UI recipients in 2003 but, as unemployment fell, by 2007 this ratio increased to nearly two-fifths. In Switzerland, about a quarter of all UI claimants were sanctioned in 2008, with an average benefit suspension of two and a half weeks; the largest category of sanctions was for insufficient personal effort, usually lack of sufficient job search, for which the sanction is relatively mild.
- In Australia, policy controversy and innovations, including “clean slate” provisions (where behaviour prior to a policy reform is not taken into account when assessing persistent or repeated non-compliance), have generated vast swings in sanction rates through time. Since 2000, the annual number of sanctions imposed (aggregating sanctions of very variable severity, but not counting the current category of “connection failures” which result in no loss of benefit) has ranged from over 300 000 to below 25 000. It was about 140 000, equivalent to 20% of the stock of benefit claims, in 2011/12.

In Norway, the propensity to strictly apply eligibility criteria reportedly varies at local level. In Switzerland the sanction rate in 2008 varied from a minimum of 18% in Geneva up to 39% in Nidwalden – a range that is small enough to suggest that benchmarking efforts have achieved a degree of national uniformity in the application of eligibility criteria.

### ***Activation regimes and their impact in Switzerland and Ireland***

The country reviews provide detailed information on how “interventions in the unemployment spell” were delivered in practice. This section gives some additional description of the interventions in Switzerland and Ireland, and briefly summarises findings from statistical evaluations of them.

### ***PES organisation and interventions in the unemployment spell in the two countries***

In Switzerland, unemployed people claiming UI must be “apt for placement”; undertake pro-active steps to shorten their unemployment spell; be ready to take up suitable work; regularly report their job-search actions; and participate in job-search assistance courses and employment programmes. Although similar conditions are stated by other countries, the review implies that the emphasis on them in Switzerland is significant. The PES is relatively well-staffed: in 2008 out of 2 829 staff there were 1 428 PES counsellors, with an average caseload of approximately 109 jobseekers, and PES resources fluctuate in line with unemployment.

Applicants must first register with the municipality: they are then referred for an initial PES interview within 15 days. At the initial registration interview, they must present adequate evidence of job-search actions taken since they left their job or were given notice that their employment was ending. Reintegration goals and strategies are discussed during the intake interview and results entered into the data file, and the counsellor formulates the personal job-search agreement (see above). During subsequent monthly face-to-face meetings, jobseekers report their actual job applications during the intervening period, listed on a spreadsheet, with attached documentation if requested. Referrals to programmes are at the discretion of the counsellor; they are not made at any specific unemployment duration, but become more likely the longer the unemployment spell. During participation in active measures, placement efforts by counsellors and personal job search are expected to continue (as mentioned above). When there are grounds for a benefit sanction, in some cantons counsellors take the decision directly and in others they submit the evidence to the jobseeker’s UI fund to take the decision. Sanction rates are high (see above), with the main motives being insufficient personal effort (usually lack of sufficient job search), voluntary quit, and non-compliance with instructions (mainly job or programme refusal).

In Ireland in the 2000s, local Social Welfare offices determined that new UB claimants were available for and capable of employment, but claims could then be maintained by monthly in-person “signing-on”. Subsequent job search was verified only at availability-review interviews that took place after 7 and 12, or 15, months of unemployment. In these interviews, job-seekers were required to cite various steps they had taken, including registration with the Training and Employment Authority – Employment Services (FÁS-ES), as evidence that they were “genuinely seeking work”. The sanction rate in the mid-2000s was around 25 times lower than rates in Finland, Norway and Switzerland (see above). This reflects the low staff resources engaged in availability reviews and a lack of feedback from placement services. After registering with FÁS-ES, benefit recipients were not obliged to



have further contact with FÁS-ES or another strand of the employment service, except for participating once in the NEAP (Individual Action Plan) process. In the initial NEAP interview, the jobseeker might be referred to a vacant job, subsidised placement, a job club, training course or the Community Employment (CE) programme, but these were presented as options, not potential obligations with follow-up and enforcement, and claimants were not referred to the NEAP process a second time even in cases of repeat unemployment.

In contrast to its relative absence of activation, Ireland recorded relatively high levels of expenditure on ALMPs at 0.6%-0.7% of GDP in the mid-2000s compared with about 0.3% of GDP in Australia and 0.4% in the United Kingdom. One factor is that despite relatively low LFS unemployment (below 5% prior to 2008), Ireland still had a relatively high rate of long-term unemployment-benefit reciprocity (see Table 3.1 above). At the same time, the Training and Employment Authority (FÁS) invested over half its resources in its training centres: tackling skills deficits had been the priority during the period of high employment growth and low unemployment, and until the onset of the recession, FÁS was considered effective at delivering apprenticeships, which were in retrospect overly concentrated in the construction sector. In the absence of participation requirements, client flows did not justify high levels of expenditure on the FÁS-ES strand of the service.

Another large component of ALMP expenditure was the Community Employment (CE) scheme, which created part-time jobs delivering services for local communities. In contrast with job-creation programmes in some other OECD countries, which involve mainly compulsory referral and participation, in Ireland the CE programme – which paid slightly more than passive benefit levels for the regular unemployed, but significantly more for lone-parent and disability benefit recipients, and offered work in the local community – attracted voluntary participation. In response to falling unemployment, CE participant numbers were reduced from 40 000 in 1998 to 20 000 in 2003, but this was still equivalent to over 1% of the labour force. CE spells tended to be lengthy even though, as a measure to discourage repeat participation, an individual's total participation in CE was capped at three years (except for workers aged over 55) (Pina, 2011). As in Finland (see above), relatively broad access to benefits and some ALMP options arguably mitigated the sense of national crisis associated with rising unemployment, but long-term unemployment then stayed at high levels through a period of economic upswing.

### ***Insights from national evaluation studies in the two countries***

The results of several evaluations give greater insight into how the respective PES intervention regimes were implemented at the “front line” in Ireland and Switzerland and why they were more or less successful.

Switzerland is one of few countries that have high-quality evaluations of the performance of different placement strategies, rather than particular ALMPs. Egger and Lenz (2006a, 2006b) found that, after correction for exogenous factors, local employment office outcomes in terms of the average duration of unemployment spells varied by +/-10%, and in terms of the percentage of jobseekers who enter long-term unemployment varied by +/-20% (+/-5 percentage points) (figures refer to the top and bottom decile of offices, ranked by these outcome variables). The study identified several major success factors at the office level, including a rapid start of the re-integration process and strong guidance by competent caseworkers; contacts with employers by all job counsellors; and the recruitment of motivated and highly trained personnel with good staff/client ratios.

Frölich et al. (2007) and Behncke et al. (2007) used individual data for all new jobseekers registering in 2003, together with a standardised survey of all job counsellors and office managers, to investigate whether jobseekers registered with a specific type of employment office and advised by case managers with specific attributes had higher or lower chances of finding a job. Employment rates over the following 24 to 36 months were positively correlated with various factors, including:

- Good staff relationships with employers, in particular knowledge of employer needs and careful use of direct referrals, rapid reaction to vacancies, careful pre-selection of candidates, and co-operation with private placement agencies.
- “Tough” rather than more co-operative attitudes of caseworkers to their clients.
- The use of work-first strategies giving priority to job placement over training measures.
- The organisational separation of counselling and sanctions (in the sense that the counsellor sends evidence to the UI fund for a decision).

Behncke et al. (2010) similarly report that non-cooperative caseworkers – who view controls and sanctions and assignments to jobs and ALMPs to apply pressure as important instruments for placement – achieve employment rates about 2 percentage points higher over the follow-up period. Behncke et al. (2008) also found a positive employment effect of about 4 percentage points when counsellors and jobseekers are identical in several (more than two) characteristics, including age, gender, education and mother tongue. Similarities seem to make it easier to agree on common goals and motivate the jobseeker to engage in effective job search. Lechner (2011) highlights that performance rating gives counsellors (non-monetary) incentives to perform, and that they have considerable leeway to operate autonomously within their organisation and powers in relation to unemployed clients in terms of withdrawing benefits.

Behncke et al. (2010) report that increased employment is not obtained at the cost of reduced stability of the subsequent jobs. However Arni et al. (2012), using time-series data with information about when jobseekers had received a warning letter and whether this was followed by a benefit sanction, find that although warnings and sanctions increase exits to employment they also reduce the duration of the first job. Although rapid placement is given considerable weight in Switzerland when measuring local office performance, repeat unemployment is also taken into account (with a negative weight) (see Section 5) so as to give some weight to the job-stability objective. Activation strategies should not necessarily seek to achieve take-up of the first available job, but ideally should maintain steady pressure and provide ongoing assistance, to ensure that no opportunities for a reasonably good job match are missed.

There has been no similar investigation of the activities and strategies of front-line counsellors and placement services in Ireland but there have been several evaluations of the NEAP, the main mandatory activation measure throughout the 2000s. Early evaluations concluded that, by and large, the NEAP procedure had been an effective labour market policy tool and was successful in achieving an additional movement off the Live Register (which measures unemployment benefit claims) (O’Connell, 2002; Indecon, 2005). The impact probably arose because in 2000 the programme was relatively new and intensive (NEAP clients had an average of five “contacts with their case officer” per initial interview), and more often resulted or was expected to result in referral to an ALMP. This was feasible partly because the NEAP target group was at first (in terms of age and duration of

unemployment) relatively restricted. In addition, some activation measures were introduced between 1996 and 2000, the welfare department introduced a “Customer Activation” strategy and benefit sanctions were somewhat more frequent.

In the early 2000s the NEAP target group was expanded, and from late 2006, the NEAP process was applied to unemployed individuals after three months on the “Live Register”. A subsequent evaluation (McGuinness et al., 2011) followed outcomes for people who initiated a UB claim in late 2006, and found that participation in the NEAP referral and interview process was associated with lower chances of entering employment, as compared with a control group of those who were not referred. The authors suggest that the negative effect may be the result of NEAP clients learning through the process that they were unlikely to face monitoring or sanctions in the future: this seems plausible given that, by 2006, clients would often have known that they would not need to participate a second time, and benefit sanctions for not genuinely seeking work had fallen to less than a third of their 2001 level.

The Irish Government has since embarked on a radical reform of its institutional arrangements for benefit administration and employment services, aiming to implement a new activation regime based on best international practice (see Box 3.6).

## 5. Institutions and the organisation and delivery of employment services

It is relatively easy to define interventions in the unemployment spell and benefit eligibility criteria or sanction provisions at the national level, but it is more difficult to achieve effective implementation at ground level. For this reason, activation strategies, in the sense of reforms that have achieved good results historically and those which might achieve a good result in the future, focus particularly on institutions. The country reviews document the structure of the PES – according to the broad definition of it, which includes all organisations responsible for the administration of active benefits, the placement function, and referral to active labour market programmes – and the institutional incentives resulting from financing arrangements, the internal management of each organisation and the incentives facing local office managers or front-line counsellors, and the barriers to co-operation between institutions. One objective of reforms has been to reduce institutional fragmentation and draw together delivery agencies so that they co-operate and work to common objectives. Other themes have been performance management within the public sector, and competitive outsourcing of the placement and counselling functions.

The remainder of this section first lists the most important institutional reforms and cases where new services were introduced, then outlines some general issues related to the institutional context. A third subsection considers in more detail some of the ways in which individual countries tried to improve co-ordination and co-operation between institutions and services, including relationships between central and local government. The fourth and fifth subsections then assess developments in PES performance management and how the systems introduced in Switzerland and Australia have helped drive increased performance in placing the unemployed. A final subsection considers the contracting-out of employment services and the quasi-market arrangements through which Australia and the United Kingdom now deliver employment services.

### Box 3.6. Pathways to Work and Intreo – the new Irish activation service

In 2011, the reformed Department of Social Protection (DSP) was given responsibility for developing an integrated one-stop system to administer working-age benefits and employment services. This involved the absorption of some 1 700 FÁS-ES and Community Welfare Services staff into DSP and the development of systems and procedures to deliver the new service.

In February 2012, the Irish Government launched its wider Pathways to Work strategy that combines reforms to the benefit system, employment programmes and services for jobseekers and employers (Government of Ireland, 2012). The strategy aims to prevent high unemployment from becoming entrenched by transforming the comparatively passive system described in the OECD country review. The new approach is primarily focused on those claiming benefits and the target is to get 75 000 people currently long-term unemployed back into the workforce and to reduce the average time spent on the Live Register from 21 months to less than 12 months by the end of 2015.

The new service was officially launched as Intreo in four local offices in October 2012, with a full network of 70 offices to be established by the end of 2014. Key elements of the service delivery approach include the development of a personal progression plan and a “social contract” whereby clients commit to engage with the Department’s employment services. In addition to job search and availability for work, clients will be required to attend meetings and participate in employment programmes. Since April 2011, benefit rates can be cut by almost a quarter for refusal to engage in job search or in activation programmes (Pina, 2011). These reforms are also being launched in a context of recent reductions in UI duration and benefit levels.

On entry to the system, unemployed people are asked to complete a profiling questionnaire which is used to assign a “Probability of Exit” (PEX) rating. Clients with a high PEX rating (i.e. high probability of finding employment) are encouraged and helped to search for work. Clients with a mid-point rating will be invited to participate in Group Advisory Sessions which provide guidance regarding programmes to improve their employment prospects. Clients with a low PEX rating, and those still on the register after 12 months, will receive intensive one-to-one support from an experienced advisor and may be directed to particular work experience and/or training programmes. It was intended that over 90% of local employment offices will be operating the PEX Profiling System by the end of 2012. As a target for 2012, new clients signing onto the Live Register should, as a minimum, benefit from a group engagement after three months, and a referral to job placement/training after a maximum of 18 months.

Whilst the new approach reflects aspects of international best practice, Intreo has not incorporated locally delivered LES services as recommended in the OECD review, and the former FÁS training centres now come under a separate public institution, SOLAS, with a risk of continuing low participation by disadvantaged clients, since Intreo is not funded to directly purchase suitable training for them. There is also concern that due to resource constraints, the roll-out of Intreo will be slow, and that profiling and group activities are being targeted at the newly unemployed rather than long-term claimants. Early results are encouraging, however, and in pilot offices the new case management approach reduced the time taken for clients to meet with employment counsellors from three months to about two weeks and attendance at activation meetings and group engagements was up from about 60% to over 95% (Irish Government News Service, 2012). The challenge will be to maintain the focus and ensure the delivery of the new intervention regime as it is rolled-out, and to translate increased contact between jobseekers and the employment services into job outcomes.

Source: As cited, and Sexton, J. (2012), *EEO Review: Long-term Unemployment, 2012: Ireland*, European Employment Observatory, available at [www.eu-employment-observatory.net/resources/reviews/Ireland-LTU-July2012.pdf](http://www.eu-employment-observatory.net/resources/reviews/Ireland-LTU-July2012.pdf).

### Organisational reforms

Governments could at any time implement specific changes to work incentives, the design of interventions in the unemployment spell, or the range of labour market programmes available, but the larger changes were often coupled with organisational reform. Among the largest organisational reforms were:

- *Australia*: Job Network (competitive outsourcing of the placement function), 1998; the Active Participation Model, 2003; Welfare to Work, 2006; Job Services Australia (integrating the management of employment services and Work for the Dole), 2009; and the reorganisation of disability employment services, which took place in multiple and overlapping stages, but particularly from 2005 to 2010.
- *Finland*: creation of 15 regional Employment and Economic Development (T&E) Centres with the responsibility for managing 180 unemployment offices, 1997 (subsequently absorbed into Economic Development, Transport and Environment, ELY, Centres in 2010); mergers leaving 74 independent local offices (called T&E Offices or TE-Offices) managing approximately 200 service units, 2001-09; creation of the Labour Force Service Centres (LAFOS), jointly managed by municipalities, the national employment service and the social insurance institution (KELA), 2004-07; transfer of responsibility for decisions about unemployment benefit entitlement from local Labour Committees to the T&E (now ELY) Centres, 2009.<sup>19</sup>
- *Ireland*: funding and management reforms partly co-ordinating the Local Employment Service (LES) with FÁS-ES (approximately) 2002-06; the abolition of FÁS with the transfer of employment services to the Department of Social Protection and training services to SOLAS, a new organisation under the Department of Education and Skills, 2011-13.
- *Norway*: creation of NAV, which partially merges services for UI, social assistance and sickness/disability beneficiaries, 2006-08.
- *Switzerland*: UI legislation and the creation of a national network of employment service offices (with cantons responsible for operational management), 1996; some increase in cantonal autonomy (the national requirements for jobseekers to have two interviews per month and for each canton to create a minimum number of ALMP places were dropped), 2000 and 2001.
- *United Kingdom*: new unemployment benefit (Jobseeker's Allowance) legislation, 1996; creation of Jobcentre Plus (see Box 3.7), 2001 to 2006; transfer of some lone parents to Jobseeker's Allowance, and the transfer of people with reduced work capacity in relevant cases to a new Employment and Support Allowance – Work-related Activity Group, 2008 to 2014; systematic referral of long-term unemployed jobseekers to private-sector employment service providers, from 2009 (Flexible New Deal) to 2011 (Work Programme).

During the 2000s, these organisational reforms arguably had a broad impact in Australia, Norway and the United Kingdom. The structural reforms in Finland have also tended to centralise the management of local employment offices at regional level, where it is co-ordinated with broader economic development strategies. The LES reform in Ireland and the LAFOS reform in Finland affected only a limited proportion of clients and employment service staff, and in Japan and Switzerland, no major organisational reforms took place. However institutional set-ups inherited from earlier years, in some cases decades earlier, continued to structure national labour market policy.

### Box 3.7. **Work-focused Institutional integration in the United Kingdom – Jobcentre Plus**

Before 2002, employment services and benefits (except for unemployment benefits) for working-age people in Britain were delivered through two separate agencies. In April 2002, these agencies were merged to form Jobcentre Plus (JCP). This new agency provided a single point of delivery for cash benefits and activation services for about 4.5 million working-age claimants.

The agency inherited a network of 1 500 offices and 90 000 staff. In the new service delivery model, benefit claims were administered through a network of “contact” and “benefit delivery” centres, with benefits paid directly into each recipient’s bank account. Employment services and the monitoring and enforcement of activity requirements were handled through some 800 integrated front line Jobcentres. Full-time equivalent staff numbers fell to about 69 000 by 2008 when the reorganisation was complete.

The objective was to create an employment-first front-line service. New benefit claims are made on-line or via telephone, with free phones being available in Jobcentres. Nearly all claimants are required to attend a Work-focused Interview with a Personal Adviser, usually within three to four working days. The task of the Personal Adviser is to assess employability, identify barriers and provide employment assistance. This may include matching and submitting the individual to vacancies. Claimants are then subject to activity requirements related to their benefit, with unemployed claimants subject to full conditionality.

The direct cost of JCP’s modernisation was GBP 1.9 billion, some GBP 300 million below the original budget. A detailed evaluation of impacts, based on tracking outcomes as the JCP model was rolled out in different areas of the country over a four-year period, supplemented by macroeconomic modelling, found that the reorganised delivery agency had helped to reduce the number of people on all the main working-age benefits and increase the effective labour supply. The net contribution to GDP was estimated in various ways and in all cases the JCP investment appeared to have been more than self-financing, with one estimate showing a net increase of 0.1% of GDP worth a cumulative GBP 5.5 billion by 2015.

In 2011, JCP’s Executive Agency status was revoked. A staff total for the regional and national offices and the 31 contact centres and 79 benefit processing centres is no longer cited; however, in the recession, front-line services were given priority and there were in 2011/12 nearly 37 000 staff in local jobcentres, an increase of more than 50% on the level in early 2008.

Source: Coleman, N., E. Kennedy and H. Carpenter (2005), “Jobcentre Plus Service Delivery Wave Two: Findings from Quantitative Research”, *Department of Work and Pensions Research Report*, No. 284; Work and Pensions Committee (2006), “The Efficiency Savings Programme in Jobcentre Plus”, Vol. 1, Second Report of Session 2005-06, House of Commons, available at [www.publications.parliament.uk/pa/cm200506/cmselect/cmworpen/834/834i.pdf](http://www.publications.parliament.uk/pa/cm200506/cmselect/cmworpen/834/834i.pdf); NAO – National Audit Office (2013), *Department of Work and Pensions: Responding to Change in Jobcentres*, available at [www.nao.org.uk/publications/1213/jobcentres.aspx](http://www.nao.org.uk/publications/1213/jobcentres.aspx); Riley, R., H. Bewley, S. Kirby, A. Rincon-Aznar and A. George (2011), “The Introduction of Jobcentre Plus: An Evaluation of Labour Market Impacts”, *DWP Research Report*, No. 781, National Institute of Economic and Social Research for the Department for Work and Pensions, London; and Daily Hansard Written Answers, 26 November 2008 and 28 January 2009.

Some degree of organisational change also arises when an existing PES organisation introduces new types of service or sets up new co-ordination arrangements with related organisations. Some examples are:

- In Finland, the introduction of Change Security, a programme for workers who are dismissed after at least three years of service, providing a temporary increase in UI benefits together with more-intensive employment services.
- In Ireland, the joint development by FÁS-ES and Welfare Offices of a High Support Process from 2003, and local and regional structures for co-operation in the management of the NEAP, from 2004.
- In Japan, the introduction in 2003 and 2007 of several individual action plan procedures for particular groups (annual participant numbers, approximately 300 000, total about 4% of the flow of new jobseeker registrations); the creation of 12 Mothers Hello Work Centres, 12 Banks of Human Resources and various other specialised delivery points, 2006 to 2009; and a joint Employment Support Programme for welfare recipients, to which some employment service counsellors are allocated, from the early 2000s.

Examples of new co-ordination arrangements are also given in the section below on improving co-ordination and co-operation between institutions and services. The relatively specialised innovations are often significant, but would not have a very visible impact on the main labour market aggregates, comparable to what can be achieved through broader reforms.

### ***The broad institutional framework***

In each of the review countries, labour ministries played a central role in setting activation policies but divisions of responsibilities for benefits and services were not straightforward and other ministries, such as those responsible for education or training, social insurance, social welfare and health services, also had significant roles. These differences were complicated further where they overlapped with the division of responsibility between levels of government.

In Norway, local government, and in Switzerland, local and regional governments, are wholly responsible for financing social assistance benefits, and they determine benefit levels and eligibility criteria. In Finland and Japan, assistance benefit levels are determined nationally. In Finland, local government is mainly responsible for financing and management of social assistance benefits but these rarely function as the main form of income support for unemployed people, since those who are regarded as fit for work usually are required to register with the PES and qualify for the national unemployment assistance benefit (LMS). In Japan, social assistance is financed and managed jointly by local and national governments, but it functions only to a limited extent as an unemployment benefit. In Australia, Ireland, and the United Kingdom, regional and local governments are not responsible for unemployment assistance or other minimum income assistance benefits. However, regional governments in Australia, and since the late 1990s the Scottish and Welsh governments within their areas of the United Kingdom, are primarily responsible for apprenticeship, skills and training policies.

Apart from the local and regional levels of government, responsibility for the delivery of benefits and employment services for working-age people was also allocated in varying degrees to placement, social insurance and training delivery organisations with quasi-independent status. Trade unions, employers and community or interest group organisations exercise have varying levels of influence and control.

Complex institutional and delivery landscapes create scope for diverging objectives and interests and misaligned incentives (Immervoll, 2009). Different levels of multi-tiered policy systems may have strong incentives to shift costs to other levels and to resist reform. Social insurance funds that receive central government funding may have incentives to increase rather than reduce caseloads, and may resist policy change. In several Nordic countries, including Finland, many of the independent insurance funds are associated with particular trade unions, and fund membership indirectly promotes union membership (Clasen and Viebrock, 2008). The national PES may focus on recipients of UI benefits, and seek to shift hard-to-place UI claimants onto other benefits and invest little in hard-to-place social assistance claimants. Municipalities which finance social assistance expenditures may act to shift clients onto benefits financed by insurance funds or general taxation. Municipalities and community-based organisations may also, as in Ireland and Finland, come to rely on central government subsidies that fund large-scale and long-lasting temporary job programmes to deliver certain local services, and place less emphasis on the objective of participant employability in the open labour market.

The poor alignment of incentives can limit the impact of measures targeted on the unemployed, or even perversely increase benefit dependency, as arguably happened in several of the review countries where strict activation regimes for the unemployed resulted in transfers to disability benefits with few work-related requirements and low rates of return to work.

### ***Improving co-ordination and co-operation between institutions and services***

*The OECD Jobs Study* (OECD, 1994) recommended integration of the three main functions of the broadly defined PES: job broking, benefit administration and referral to active measures. In principle, such integration helps to ensure that the placement objective of a rapid return to work is supported by benefit sanctions in cases of non-co-operation; that the benefit administration's objective of enforcing eligibility criteria is implemented through job-search monitoring and referrals to job vacancies and ALMPs by the placement service; and that training services and job-creation projects accept referrals of clients who are disadvantaged, poorly motivated or otherwise at risk of long-term unemployment, which may not be the case when they are autonomous bodies that can select their own participants.

In several countries, service delivery reforms have been designed to facilitate access to services and co-ordination between them through "One Stop", "single counter" or "single gateway" access to related employment, benefit and other social services. It is convenient for clients to be able to access services through a single point, and this also helps to reduce duplication of intake processes and facilitate information-sharing, target interventions to suit individual needs and local circumstances, and co-ordinate service delivery. However, the co-location of the offices of different organisations at local level with a common reception desk is not the same as integration at the management level. Conversely, "integrated" PES organisations often have a regional network of large benefit offices distinct from a denser network of smaller placement-service offices, as in Britain following the introduction of Jobcentre Plus (see Box 3.7).

Full-scale service integration is more easily secured in a unitary and highly centralised country like the United Kingdom. In most other countries, such an option is not feasible constitutionally or sought after politically. Therefore, policy makers have devised various ways of requiring or encouraging different agencies and levels of government to co-ordinate and sometimes co-locate service delivery.



In Japan, Switzerland, Australia and (until recently) Ireland, reforms that increased inter-institutional collaboration concerned only specific groups of jobseekers. A common theme was co-operation between the PES, benefit agencies and other organisations in delivering services for the most disadvantaged clients and/or local areas:

- In Japan, legislation in 2000 allowed local government to implement other employment measures and provide regular job-matching services, and since then, prefectures and municipalities have become key players, managing Job Cafés (small employment service offices for young jobseekers), employment and work-preparation centres for single mothers, and job-creation projects.<sup>20</sup> Since the mid-2000s, as part of the Employment Support Programme which is administered jointly with welfare offices, Hello Work has introduced some 300 “navigators”. They provide advice and referrals and develop action plans with recipients of Public Assistance or Child-rearing Allowance. The co-ordination is relatively small-scale, but could become more significant if more unemployed people qualify for welfare benefits.
- In Switzerland, models of co-operation between local employment offices, social assistance offices and disability insurance were developed in most cantons from the early 2000s. Through the Medico-Labour-Market Assessments with Case Management (MAMAC) project, public bodies in 16 cantons committed themselves to co-operate particularly in the case of individuals with multiple barriers to employment. The objective was to better combine benefit payments, placement and reintegration activities and to have a wider tool-kit of possible measures delivered through a single case manager. An evaluation found that MAMAC intensified co-operation between public agencies, increased client satisfaction and promoted earlier activation (although there was room for further improvement), but it found no positive effects on employment rates, and considered the procedure to be too complicated to be extended to cover a larger target group (Egger et al., 2010). The MAMAC project finished in 2010, but since 2011 a modified principle of institutional co-operation in this area is applied to all cantons (AOST, 2011).
- In Australia in 2010, Centrelink, the national benefits agency, implemented Local Connections to Work (LCTW) in five disadvantaged areas. Under this initiative, participating organisations called Community Partners co-locate within the Centrelink office to deliver their services on a scheduled basis to highly disadvantaged clients. The organisations include employment services providers,<sup>21</sup> as well as health, housing, training and community welfare organisations. They co-locate without additional funding, but their presence in the Centrelink office gives them better access to potential clients and an opportunity to strengthen connections with other local agencies. Clients participating in LCTW had an average of two to three joint interviews and the trials were considered a success. From 2012, the approach has been extended to cover a total of 24 disadvantaged areas with a further 44 locations testing the delivery of “case co-ordination” interviews to disadvantaged individuals outside LCTW locations.
- In Ireland, area-based partnerships considerably widened the range of organisations involved in delivering employment services.<sup>22</sup> The most important is the Local Employment Service (LES), originally established in the mid 1990s. The LES targets services at the long-term unemployed and other disadvantaged groups. LES personnel operate in 25 areas from a large number of community-based “Contact Points”. They act as a gateway, providing information on and referrals to training, education and

employment options, and they also provide a more-intensive Mediation Service. The LES received funding from the partnership bodies in each area which in turn received funding from FÁS-ES tied to contracts with quantitative performance targets, but against this complex organisational background they remained relatively separate from FÁS-ES.

These national experiences represent different ways in which policy makers have sought to give greater local coherence to the delivery of employment services and programmes. However, in Switzerland and Australia the initiatives mentioned above are small in scale. In Ireland, the LES became a significant part of the PES, but only loosely co-ordinated with the main placement services and with no direct role in enforcing eligibility criteria for unemployment benefits, such as job search or clients' use of programmes and additional services to which they are referred.

### ***Institutional co-ordination and co-operation in Norway and Finland***

The development of single gateways that give co-located access to benefits and employment services is a central feature of recent reforms in Norway and Finland. In Norway, the reform involved the integration of the PES and social insurance agency and co-location with municipalities. In Finland the reform involved a change in benefit funding and the setting-up of new offices co-locating PES and municipal services for long-term LMS recipients.

In Norway, between 2006 and 2009 the PES and the National Insurance Administration were merged and co-located with municipal social services, which were still legally separate, to create NAV, the combined Labour and Welfare Service. The main objectives for the new arrangements were to have a single contact point for clients which deals with all of the needs of each individual and ensures that the office is experienced by service users as a single unit.

The reorganisation included some 14 000 staff under government control and 4 000 municipal employees. The front-line offices had 6 000-7 000 staff when the network was finalised. In 2008, services were provided to an average stock of 150 000 unemployment benefit, social assistance and vocational rehabilitation recipients and about 100 000 jobseekers who are not benefit recipients (e.g. people registered for a potential change of job). Annual client inflows from the three benefit-recipient categories totalled about 600 000. Both in stock or flow terms, staff/client ratios seemed adequate in international comparison.

Local NAV offices were established through agreements between NAV at regional or national level with the municipalities. These agreements related to the design and operation of the office and the interaction between the two organisations and can further determine that, apart from cash social assistance, other municipal social services may be provided. This has led to variation in the character of the agreements and in the services provided in local NAV offices. With two "different owners" (municipalities and central government), local level NAV offices have no single chain of command, staff groups are on different salary scales, and at the time of the 2009 review IT systems were not integrated to create a joint client database. This made it difficult to build a common service culture and tensions were reported between the approaches of NAV counsellors and those of social workers.

NAV offices typically have two departments: reception and long-term follow-up. The former department offers self-service and limited guidance to jobseekers and to employers with jobs to offer. The latter gives follow-up assistance to the unemployed, to people on long-term sick leave and with disabilities, and to those on vocational rehabilitation benefits. Preliminary evaluations of the merger process showed that it had increased

co-operation across the previous agency borders, but NAV offices still differed in how they defined the integrated approach. Caseworkers in some offices were handling the whole spectrum of clients and problems. The provision of different services under one roof had not automatically led to a better co-ordination of processes and institutional objectives. More recent evaluations point to wide variation in the implementation of the employability assessment, which is central to the management of the new Work Assessment Allowance (Proba samfunnsanalyse, 2012).

In Finland, from 2004 most Employment Offices created an area (called the Job-Seeking Centre) with self-service facilities and e-services for work-ready jobseekers, including those still in employment. Also during the 2000s several types of individual action plan were introduced. The first individual action plan procedure, introduced in the 1990s, attempted to introduce systematic job-search monitoring, but this was not successful, and it is not clear that the more recent plans have had a large impact on the pattern of interventions in the unemployment spell.

However, employment services for long-term LMS recipients were significantly changed. Following a period of experimentation, 39 Labour Force Service Centres (LAFOS) were introduced for this client group between 2004 and 2007. They are based on local, rather informal, co-operation contracts between the partners, and act under management jointly defined by them. The “contracts” agree on the following elements (EJML, 2011):

- Clients and operating model.
- Management arrangements and supervision of operations.
- Personnel to be allocated to the services.
- Budget and monitoring of expenditure.
- Services to be outsourced or purchased from external service providers.

Organisational models vary, with the lead managerial position being taken either by the Employment Office or a municipality, or sometimes shared between them in a rotating system. The core of LAFOS personnel are comprised of counsellors from the Employment Offices and municipal social workers, with a limited number of personnel contributed by KELA, the social insurance agency. In addition, health professionals, such as nurses, doctors, and psychologists, also may be on site, or part of multi-professional teams. The size of the LAFOS centres varies with the largest offices offering a wide range of professional services. Participation can last for two to three years, after which clients without another outcome usually return to the PES or municipality. In 2010, of the 9 149 clients completing the service, about 10% were in open employment and nearly 12% were participating in ALMPs (EJML, 2011).

The introduction of LAFOS was co-ordinated with a 2006 reform which made municipalities jointly responsible for financing LMS benefits for the potential LAFOS target group, while also funding them to organise active measures for this target group (see Box 3.8). The Netherlands introduced a similar but more radical reform in 2004.<sup>23</sup> Such reforms, by aligning funding responsibility with management responsibility, improve institutional incentives. However, the 2007 LAFOS caseload of 23 500 represented only about half of the number of LMS recipients subject to joint financing. A LAFOS centre was not always geographically accessible (the centres are established only in densely populated areas, although one centre often serves several municipalities), and clients are referred to the LAFOS centre by the Employment Office or the municipality based on a needs assessment.

### Box 3.8. Finland's reform of benefit financing

In Finland in 2006 the financing arrangements between central and local government were changed to increase the incentive for municipalities to organise activation measures. Municipalities now are responsible for financing half the cost of LMS payments after 500 days (100 weeks), or after 180 days if an insurance benefit was paid for 500 days prior to the LMS spell. In 2007, central government still paid more than 75% of the total costs for LMS, since only about 50 000 LMS recipients (around a half of all LMS recipients and a quarter of all unemployment benefit recipients) are subject to joint financing.

Municipalities do not have to pay the costs if recipients are participating in Rehabilitative Work, which is regarded as an active measure, and they were also paid EUR 10.09 per participant per day in 2007 to organise such activities. This change led to a large increase in the supply of such places.

Although the financing arrangement created a new cost for the municipalities, they gain financially if they reduce the size of the target group below its 2003 level. Another factor is that the social assistance payments to LMS recipients, previously financed by the municipalities, also were divided between the state and municipalities. If the net result is nevertheless negative, municipality-specific compensation is paid because the starting point of the reform was that the municipalities must not lose financially.

*Source:* Duell, N., D. Grubb and S. Singh (2009), "Activation Policies in Finland", *OECD Social Employment and Migration Working Papers*, No. 98, OECD Publishing, Paris, <http://dx.doi.org/10.1787/220568650308>.

The combined impact of the financing and LAFOS reforms in Finland may have contributed to subsequent declines in unemployment: the numbers receiving LMS, in particular, fell quite sharply from 2004 to 2008, and despite some recessionary increase remain considerably lower than in 2004.

### **Performance management of public employment services**

Each review country uses a number of quantitative performance indicators, mostly based on PES administrative operations. In most cases the relevant ministry sets targets for some of these indicators, which often are nominally linked to budgets and programme allocations. The administrative indicators often include both the immediate results of PES or programme activity, such as the number of action plans created or courses completed, and administrative records of outcomes, such as registered vacancies filled, and "off-benefit" and job-placement rates differentiated by client groups.

Central authorities use performance indicators to hold the PES and other delivery agencies to account for their use of the resources allocated. Transparency is important where responsibilities for funding unemployment benefits and active measures and for managing employment services are fragmented, but indicators are also needed by large integrated organisations to allow them to track their operations at lower levels. It is a challenge to ensure that targets and indicators are well designed, and do not induce perverse incentives. This requires a significant investment of organisational resources in management information and reporting systems, although modern IT capacities facilitate the collection and processing of data, incurring lower costs and bureaucracy than that associated with traditional highly regulated forms of public administration (Mosley, 2011). At their best, well-designed reporting systems link performance indicators in a way that

shows the relationship between inputs and final outcomes, giving policy makers and senior managers greater insight into the relative performance of different parts of the organisation and into what appears to be working (Nunn, 2011).

In the review countries except for Ireland, national targets were set for some national PES outcome indicators, but only according to ad hoc criteria, recognising that outcomes would also be affected by unpredictable factors such as the economic cycle. In Finland, Japan, Norway and the United Kingdom, the national targets were also used as the basis for setting outcome targets for PES regional and local offices. In Finland and Japan, these offices could negotiate targets that take regional/local circumstances into account. In Norway, top-down target-setting was restricted to the central government (UI and disability-related) line of financing for NAV, because municipalities are free to set objectives for social services. Local offices might also allocate their placement-related objectives across individual counselling staff, but the extent of this practice was not well documented by the reviews.

Management-by-objectives systems are often fairly complex in the sense of defining multiple outcome indicators, but they are often not able to measure local office performance with much precision, because the outcome and control variables are not measured with sufficient accuracy at the detailed level of local offices, benchmarks are calculated in a relatively crude way and specific targets may be influenced by ad hoc negotiations with each local entity.<sup>24</sup> Because outcomes relative to benchmarks are only approximate measures of impact, and due to the negotiated character of the targets, the use of the indicators to penalise poor performance would not be appropriate. The authorities use them mainly to discuss apparent shortfalls in performance, and perhaps as an input to staff assessments, but not as the basis for published performance ratings.

By contrast, Australia and Switzerland record a relatively rich broad set of jobseeker characteristics in their PES systems, and use this, as well as separate survey-based information about local labour markets, to estimate performance on a regression-adjusted basis. Comparative ratings of recent local-office performance are published. Unlike the “management-by-objectives” procedure, this approach does not (since the information used to estimate benchmarks is not available in advance) generate national or local-level targets for the year ahead – although local entities know roughly what level of performance will be needed to achieve a good rating.

In Switzerland, the introduction of federal funding for the delivery of PES services through cantons in 1996 was followed by detailed research into the relative effectiveness of local employment offices. In 2000 a system of rating local performance in terms of off-benefit outcomes was introduced, with plans to link cantonal PES funding to measured performance. After criticism from the cantons, the link with funding was terminated but performance rating continued. There are four regularly monitored primary indicators of PES performance which are assigned different weights:

- *Speed of reintegration of the unemployed into the labour market*, as measured by the average duration of unemployment benefit entitlement per unemployed (weighted 50%).
- *Prevention of long-term unemployment*, as measured by the share of those remaining unemployed among those who were registered as unemployment benefit recipients 13 months before (weighted 20%).
- *Prevention of benefit exhaustion*, as measured by the share of unemployed no longer entitled to federal unemployment benefits in the total number of unemployed (weighted 20%).

- *Prevention of repeated registration for benefit*, as measured by the share of previous unemployed who have de-registered but re-apply for unemployment benefits within four months (weighted 10%).

The benefit-payment system provides data on these indicators and a range of variables is used in an econometric model to adjust the raw results. Although the Swiss system no longer has the immediacy of financial sanctions for poor performance, it gives cantons performance data for the management of their own offices. It also exerts influence through the “naming and shaming” and peer pressure. Should cantons underperform repeatedly, an in-depth performance evaluation can be undertaken by the ministry with a view to improving performance. A similar system has been introduced to highlight variation and to improve performance in the cantonal disability offices. The national supervisory body has strengthened competition between cantons through the introduction of a better reporting and monitoring system, with annual rather than tri-annual reporting. This is complemented by assessment and employment-focused target agreements with each cantonal office, similar to those used in the PES system.

In Australia, Star Ratings are used to measure the comparative job-entry performance at over 2 200 sites: many of the sites are small with only a few, perhaps part-time, employees. The ratings were first published in 1999. The methodology has been improved through research and evaluation and adjustments made to reflect changes in successive employment service contracts. The ratings are calculated mainly on the basis of job placements and outcomes of continuous employment for 13 and 26 weeks employment, which are variables used for payment by results, with smaller weights on the time taken to move off benefits for easier-to-place jobseekers and the time taken to achieve a 13-week employment outcome for those harder to place. The regression residuals for each JSA site represent performance above or below average. Separate regressions are run using different performance indicators as the dependent variable, and the results are averaged. Sites are given an overall rating of five stars for performance 40% or more above average, and one star for performance 50% or more below average. This means that five-star sites have achieved approximately three times as many placement and employment outcomes as one-star sites, taking into account differences in client characteristics and local labour market conditions. Providers are given weekly reports on the raw performance of the sites that they manage, and the Star Ratings are calculated and published every three months.

The Star Ratings play an important role when the Department awards three-year contracts. In 2000, when the second Employment Services Contract started, the providers retained had a placement performance nearly 25% above the average across providers who operated the first contract. On several occasions, providers with average and above-average performance – on average across the sites they manage at the level of one of the 116 Employment Service Areas in Australia – have had their contracts (for that Employment Service Area) automatically renewed. The ratings also probably identify good and bad performance, at the level of the 100 or more individual sites typically run by large provider organisations, more accurately at lower cost and with greater authority than provider management could do itself. This level of detail gives the Department and the large providers insight into performance that would be missed if performance was assessed solely at provider level. It encourages providers to act rapidly to fix poor performance at particular sites they manage,<sup>25</sup> and the Department’s contract managers also intervene where necessary.<sup>26</sup>

There are limitations in coverage and accuracy of the Swiss and Australian performance ratings. The Swiss system uses exits from UI, rather than proven entry to a job, as the outcome measure. Outcomes for people without a UI entitlement are not taken into account. Therefore, other things being equal, offices which focus on reducing the number of UI recipients will be rated more highly than those which prioritise social assistance beneficiaries. In Australia, providers are required to obtain statements from their client's employer as the basis for claiming a three-month or six-month Outcome Payments, but the stability of employment outcomes beyond the six-month point is not taken into account. However, it can be argued that the outcome measures used are adequate approximations for most purposes, or are at least as good as those available to the PES in most other countries.

The accuracy of performance ratings is also strongly dependent on the quality of the explanatory variables used in regressions. If significant factors that are beyond the influence of the provider are not taken into account, or if the available data are inaccurate, performance ratings will not capture the *net* impact of employment services on the chosen outcome measure. To the extent that local employment services influence the local unemployment rate, regressions that use the latter as an explanatory variable understate the impact of good employment service performance. The issues are complex, and doubts expressed by employment service providers about the accuracy of their ratings can be partly justified. The Australian country review notes that the Star Rating regressions over-predict expected outcomes for providers who specialise in certain disadvantaged client groups, and suggests that research should investigate possible technical reasons for this. But again it can be argued that regression-based estimates are far better as measures of comparative performance than comparisons of outcomes against relatively crude benchmarks or negotiated targets, the methods used by the PES in most other countries.

The two comparative performance-rating systems currently use, as outcome measures, only data on individual benefit and/or employment outcomes, variables that involve payments and thus are relatively robustly measured. Management-by-objectives systems are able to use, as performance indicators, other variables that are more qualitative in nature, or less-robustly measured or unavailable for some offices due to sample size or other local issues. These include the speed of claims processing and service delivery, customer complaints, and survey data for customer satisfaction. Australia devotes significant resources to an additional "quality" indicator system that looks at a range of further qualitative and quantitative data, but the findings are used for internal management and to give providers feedback on an individual basis, rather than for publication.

Notwithstanding their limitations, the disaggregated and competitive character of the Swiss and Australian performance rating systems plausibly has improved aggregate performance. The underlying principles merit consideration in other countries, recognising that true performance ratings, based on a few relatively "hard" outcome indicators with full regression adjustments, need to coexist with a more flexible or tentative use of a range of other indicators of performance.

### **Contracting out the delivery of employment services and programmes**

There are a number of reasons why ministries, the PES or other public agencies contract out labour market programmes to external providers.

### *Training and job-creation programmes*

The longer-term labour market programmes which consist mainly of income support or subsidies, i.e. start-up incentives where the main content is the payment of unemployment benefit without job-search requirements during the start-up period, and recruitment incentives which are most often paid to the employer, are often managed directly by the PES or the national social security administration. However, vocational training, supported employment for people with disabilities and job-creation measures are not so often implemented directly by the labour ministry, because they tend to involve distinct skills, infrastructure and local-level management, and these are often located within separate state or regional government training organisations, for-profit training service providers, community organisations, social enterprises, and for-profit employers.

Among the review countries, Ireland has state-owned centres which implement labour market training and apprenticeships for some industrial sectors, but even here the PES contracts with private providers and with public education institutions (managed by a separate ministry or by local governments) for vocational training for other industrial sectors.

Job-creation measures are usually implemented with a range of organisations acting as the participant's direct employer, which can include government, para-public agencies such as hospitals, and community-based or national non-profit organisations. The main sponsors of projects for Ireland's large Community Employment scheme and Australia's Work for the Dole programme up to 2009 were in these areas.<sup>27</sup> In Finland in 2000, state employers still played some role, but almost half of the subsidised job entries were into municipal employment, while 20% were into work with a community or private employer and only 15% were into enterprises: by 2007 their shares were 32%, 26% and 30%, respectively. The Finland review also describes the "social enterprise" model, where at least 30% of the employees must be either long-term unemployed or disabled and the enterprise generates significant business income, but it notes that while the outcome is attractive, its growth has been slow because it depends on entrepreneurs identifying profitable market niches.

Supported employment and rehabilitation measures in the review countries are usually delivered by separate vocational rehabilitation and sheltered employment organisations. Australia has achieved a remarkable transformation from a situation in the 1980s where there was one block-grant-funded public provider of vocational rehabilitation services, the Commonwealth Rehabilitation Service, and a multiplicity of local non-profit sheltered workshops organised as charities but also largely dependent on block-grant public funding with each organisation managing its own intake. The central government started to shift funding towards "open" employment services (promoting the employment of people with disabilities in the regular labour market) in the 1980s. A first experiment with case-based funding, where individuals are identified as needing disability-related services by Centrelink and providers receive funding tied to the individuals that they service, started in late 1999. Especially between 2005 and 2013, case-based funding was generalised and key features of the Job Network (now JSA) model – Outcome Payments, Star Ratings of provider performance and competitive tenders open to new entrants – were applied to this sector. Rehabilitation and open employment services are now organised along similar lines within Disability Employment Services (DES). One feature additional to the Job Services Australia model is an externally administered Ongoing Support Assessment, which determines the need for and the funding of continuing payments to the DES provider in respect of people with disabilities



who have already been placed into stable private-sector employment but need long-term support, for example in terms of travel to work, resolution of workplace conflicts or support for their employer.

### **Employment services**

Ministries, the PES or other public agencies may contract out employment services to external providers to complement the public services. Outsourcing can bring in specialist skills unavailable in the public sector. Competition and open tendering for contracts can potentially reduce delivery cost and stimulate innovation in service delivery. These developments also may spur improved performance in the PES through competitive pressure and best-practice transfer. They also allow the expansion of service delivery capacity without the long-term commitments involved in public sector employment – although some stability of the contracting framework is desirable to build up private sector capacity, and in Australia, where service provision is fully privatised, private sector providers have become a vocal lobby group.

Most PES outsource some specific functions. In Finland, local employment offices have outsourced most job-search training activities as well as other group activities for jobseekers. In Norway, most Job Clubs are run by external providers, and at least some Job Clubs are outsourced also in Ireland and Japan. Japan also outsources a number of call centres. The Norwegian and Swiss reviews also identify some outsourcing of placement services, noting that this is standard practice in the Canton of Geneva, but these reviews did not analyse in much detail how the PES does, or should, commission and manage outsourced delivery. In Australia and the United Kingdom, contracting-out was radically different in its scale, and these countries' experiences provide essential lessons for any countries that might be contemplating similar developments.

### **Quasi-market arrangements and large-scale contracting in Australia and the United Kingdom**

#### **Job Services Australia**

In 1998, the Australian Government created the Job Network (JN), a fully outsourced employment placement market where outcome-based contracts gave providers flexibility to personalise service provision. The network comprised of for-profit and non-profit providers<sup>28</sup> evolved through three contracting rounds with the introduction of comparative Star Ratings in the first contract period (1998-2000) and greater prescription of service standards for jobseekers in the second (2000-03) and particularly the third (2003-09) contract period. Its performance has improved over time, with early evidence suggesting that the Job Network delivered similar outcomes for half the cost of the previous system, a first major improvement in outcomes with the elimination of low-performing providers in 2000, and record levels of placements and employment outcomes being achieved overall and for a range of disadvantaged target groups by the mid-2000s. In this process, providers used the flexibility they were given to develop new service delivery models that, at their best, allowed case managers to tailor services to different participants, test methods for motivating jobseekers, and provide continuity of support. The incentive system also focused providers and their case managers on achieving entry into sustained employment (with Outcome Payments when clients reach 13 weeks in employment and again when they reach 26 weeks), rather than on simply managing inputs and programme commencements.

Among the early problems were low levels of service for hard-to-place clients and the behaviour of some providers who used their flexibility to manipulate the incentive system. As the Job Network was adapted to minimise these negative features and meet new objectives, flexibility was reduced by compliance and reporting requirements, and transaction costs increased. Also, as many of the easier-to-place unemployed had left the caseload over the years, and the Welfare to Work reforms of the mid-2000s resulted in the transfer of harder-to-place groups from inactive benefits to an unemployment status, by 2009 the JN caseload was much more disadvantaged than had been the case at the start of the decade. At the same time, specialist programmes for disadvantaged groups had low employment outcome rates. These factors encouraged a thorough overhaul of the employment services model.

In 2009 a single Job Services Australia (JSA) contract integrated JN provision with previously separate programmes targeted at highly disadvantaged youths and adults and with the management of the Work for the Dole programme. Jobseekers now are categorised into one of four Streams, with the most job ready referred to Stream 1 and those with severe barriers referred to Stream 4. On completion of one Stream, usually after 12 months, participants move into the Work Experience Phase (see Section 4 above).

On entry into the system, the JSA provider develops an individually tailored “Employment Pathway Plan”, which is updated periodically and maps out training, work experience or additional assistance that the jobseeker might need to find sustainable employment. Providers are paid a Service Fee related to the jobseeker’s participation in services (during Stream Services, the key requirement is for in-person interviews once a month) as well as Placement Fees and Outcome Payments. They also have access to an “Employment Pathway Fund”, which funds the recreation of Work Experience activities and can be used at any time to purchase services that tackle individual barriers to employment.

As compared with the JN model, in the JSA model the level of funding per client is less-strongly related to their unemployment duration and more-strongly related to other indicators of disadvantage as identified by the JSCI (see Section 4 above), with a supplementary evaluation of capacity limitations as precondition for allocation to Stream 4. In the early years of JSA, providers were able to instigate re-evaluations of their clients’ disadvantage indicators that quite often resulted in them being reallocated to a higher Stream, and some devoted considerable energy to this. In the JSA system, the maximum total payment (including Service Fees, Outcome Payments and the allocation to the Employment Pathway Fund) for a client who is placed in the second year of the Work Experience Phase can exceed AUD 10 000, whereas in a similar scenario under the JN arrangements it was about AUD 6 600. At the same time, payments to providers for job entries by non-disadvantaged clients have been sharply reduced. In parallel with sharper differentiation in the structure of Outcome Payments, the Star Rating system was similarly reweighted to strengthen its focus on performance for the hardest-to-help jobseekers (now those in Streams 3 and 4).

The OECD country review suggests potential refinements of the design and management of Australia’s employment services, but it concludes that the interlocking elements in place in this quasi-market are now highly effective and, together with strategy of activating inactive benefits (see Section 3 above), support the high aggregate employment rate that Australia has achieved progressively since the mid-1990s.

### *The UK Work Programme*

The UK Government has now implemented a very different approach. Jobcentre Plus (JCP) had previously been responsible for the competitive procurement of a wide range of employment programmes targeted at different groups, such as the young and long-term unemployed, lone parents, and people on disability benefits. The content of such programmes was often specified in some detail, with a diverse network of providers paid according to a set of uniform national fees. The multiplicity of separate JCP and Department of Work and Pensions (DWP) contracts and the associated transaction costs were perceived as inefficient, and in 2007 the government centralised the procurement of employment services provision within DWP. At this time a review (Freud, 2007) promoted the prime contractor model of employment assistance for the longer-term unemployed and other harder-to-help groups. Providers would be awarded long-term regional contracts, subcontracting as they wished with smaller providers, and share the savings in benefits made when a participant obtains sustained employment. These “multi-billion pound” contracts would encourage larger for-profit and non-profit organisations to borrow and invest against an expected income stream from outcome fees over an extended period. Although this model was not adopted immediately, its main features were implemented in the Work Programme, which replaced some 20 existing employment programmes and was expected to assist 3.3 million participants over a five-year contract period.

After a complex procurement process, 40 contracts were awarded to 18 prime providers – most having just one contract but some having several – with either two or three providers competing in a given Contract Package Area. Although subject to DWP oversight, the prime contractors have been able to engage subcontractors without the tendering rules that apply in the public sector, and are responsible for managing and monitoring the performance and quality of their subcontractors as well as their own performance. The “black box” nature of the contract gives providers great flexibility in how they secure job outcomes. Referrals to providers started in July 2011 and continue for up to five years, after which there will be a further two-year period for them to place and sustain participants in employment.

The main target groups for the Work Programme are young and long-term unemployed people receiving Jobseekers’ Allowance, and people with health problems or disabilities who receive ESA and are assessed as capable of work-related activity. Although providers have been paid an initial attachment fee, they are being paid mainly through job outcome payments (when their client has been employed for 13 or 26 weeks) and, in the case of more-disadvantaged groups, through longer-term monthly “sustainment payments” for one to two years when clients remain in employment.

The first performance results for the Work Programme, published at the end of 2012, were disappointing relative to assumptions made at the time the contracts were awarded. Referrals of long-term unemployed Jobseeker’s Allowance claimants have been higher than anticipated, while referrals of claimants who were moved to Jobseeker’s Allowance or to ESA through the IB reassessment procedure have been lower. Employment outcome rates have been low and financial pressures have required prime contractors to rapidly reorganise their service delivery capacity.

It is not yet clear if the early problems indicate systemic weaknesses. After a major organisational reform, it can take a year or two before outcomes improve. In Australia, poorly performing providers as identified through the Star Rating system were replaced within two years of the initial launch of the Job Network, but there may be less scope for this with the prime contractor model.

## Conclusions

Despite the clear risk or tendency for activation of the unemployed to push greater numbers onto disability or other inactive benefits, the four review countries with steady low unemployment rates (Japan, Norway, Switzerland and, since the mid-2000s, Australia) all had employment rates well above the OECD average. There seems little reason to doubt that, especially in countries with high levels of benefit coverage of the non-employed working-age population, the success of activation policies in relation to unemployment is critical to achieving high employment rates. Thus, the country reviews confirm that the design and delivery of benefit systems, their eligibility conditions and employment services are important influences on the level and persistence of unemployment and benefit dependency.

In five of the review countries, the exceptions being Ireland and the United Kingdom, unemployment in the current economic and financial crisis did not reach the same level as in the recession of the early 2000s, which itself was relatively mild. However, as a result of a slow and uneven recovery, unemployment remains at a high level in many other OECD countries. In this context, it will be difficult to maintain existing activation measures or ensure the effectiveness of new measures without a significant increase in resources to provide support to the greater number of unemployed, and activation procedures will need to be adapted to ensure that jobseekers are both encouraged and helped to return to work. Three areas where resources particularly need to be increased in line with caseloads are:

- *Handling client flows*: there should be enough staff to monitor benefit claims, register client details, set up individual action plans and interview clients at regular intervals.
- *Compensating for the fall in vacancy notifications per unemployed client*: focused measures promoting a rapid return to regular work should be expanded. These include: job-search training; short vocational or remedial training; job clubs, work trials and internships. These interventions can help to ensure some continuing contact with the labour market and job readiness during a potentially lengthy unemployment spell.
- *Activating the long-term unemployed*: an adequate volume of programme places may be required for the long-term unemployed to enter a gateway process and active benefit period. Public employment creation can provide a backstop measure for the long-term unemployed but the experience of OECD countries suggests that it may be rather ineffective and costly unless strictly timebound and associated with training to provide useful skills to find work in the open labour market.

Nevertheless, the recent experience of OECD countries suggests that it may be difficult to scale-up active labour market programmes in a recession in both a timely and effective manner (OECD, 2012b, Chapter 1). One way to ensure that funding for employment services can increase in line with increases in unemployment, while limiting long-term commitments, is to contract more services out to private sector providers. Service Fees are paid to private sector providers on a per-client basis, so that the funding of employment services automatically increases with demand. As a further measure in Australia, where employment services have already been contracted out, there was a temporary increase in 2009 and 2010 in both Service Fees and Outcome Payments per client for redundant workers.

The country reviews have highlighted a number of innovative measures and strategies for activating the unemployed which provide pointers both for dealing with the crisis-induced rise in unemployment and for strengthening long-term labour market performance. However, there remains a great need for further comparative high-quality information about activation policies, involving for example more publication of administrative statistics with better documentation. Activation policy reviews for further countries would be helpful in this respect and would no doubt uncover more examples of national measures that would be of interest to other countries.

## Notes

1. The activation policy reviews synthesised here primarily document national policies and their microeconomic or semi-macroeconomic impact (e.g. trends in the employment rates of older workers in Japan and lone parents in Australia). Activation policies are usually characterised as “structural” influences, but they can affect unemployment outcomes with lags as short as a year or two (e.g. as seen in OECD, 2005, Chart 4.1), ranging up to a decade or more when there are successive rounds of organisational reform and new legislation. When unemployment rates are low, the policy focus often turns towards the activation of inactive benefits, which is liable to increase rather than reduce unemployment, but increases employment rates. Activation measures interact with the cycle as, for example, workers are more likely to make concessions to avoid layoffs when strong conditionality is attached to unemployment benefits; and in recessions caseworkers may make fewer direct referrals to job vacancies and greater use of other types of intervention in the unemployment spell.
2. Most of the country-specific information in this chapter is drawn from the country reviews without in-text citation of them as the source. The reviews document policies most fully for the last few years before publication, with some coverage of developments back to the late 1990s and sometimes earlier. This chapter adds some selective information on more recent policy changes.
3. Data for individual national programmes, from 1998 or 2001 onwards, are provided as an annex in the reviews for Australia (51 programmes), Finland (41 programmes), Norway (43 programmes) and Switzerland (24 programmes).
4. For a more detailed assessment of how passive and active labour market expenditures have changed following the global economic and financial crisis, see Chapters 1 of OECD (2011) and OECD (2012b).
5. In Australia, the Job Services Australia (JSA) model introduced in mid-2009 was designed to deliver budget savings (as several former programmes were rolled into one). It also reduced service and outcomes fees for placements of the short-term unemployed. As a discretionary response to the recession, redundant workers were temporarily allocated automatically to Stream 2 where higher fees are paid.
6. The United Kingdom increased the number of staff in local jobcentres but it also (since 2009) reorganised its benefit processing centres and (since 2011) moved the national management function for jobcentres into the Department, allowing staff savings (NAO, 2013).
7. See [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives) and Callan et al. (2012). In Ireland, work disincentives are also exacerbated by “secondary” benefits which are withdrawn or reduced when people enter regular employment. As in Australia, the loss of a medical insurance card provided to the long-term unemployed is a significant disincentive.
8. According to a time-use survey, in 1999-2000, the unemployed in Finland only spent three minutes per day on job search on average (including the days with no search), the lowest rate reported among 12 countries with such data.
9. Since the recession about one-fifth of UB recipients in Ireland have casual or part-time jobs, working up to three days a week with earnings disregards in the determination of their benefit (Pina, 2011).
10. Women aged over 60 were entitled to an age pension rather than the Mature Age Allowance.
11. For information about UK and Irish lone-parent policy reforms, see [www.dwp.gov.uk/policy/welfare-reform/lone-parents](http://www.dwp.gov.uk/policy/welfare-reform/lone-parents) and [www.inou.ie/workingforwork/4/changes-to-the-one-parent-family-payment](http://www.inou.ie/workingforwork/4/changes-to-the-one-parent-family-payment).

12. Bewley et al. (2005) and DWP (2008) document the introduction and extension of Joint Claims to ages 45 or less in 2002, ages 60 or less in 2008 and up to 64 in 2012; and the exemption from it when one member is treated as responsible for either a child or a young person. The concept of a “young person” can include people up to age 19, but not those in advanced education (DWP, 2012). The benefit payment is made to one “nominated recipient”. In August 2010, there were only 20 500 active Joint Claims (Daily Hansard, Written Answers, 22 March 2011). Under Universal Credit, which from 2013 to 2017 will replace most previous means-tested working-age benefits, an applicant couple with dependent children will be required to nominate a lead carer who will be subject to work requirements depending on the age of youngest child as for lone parents (DWP, 2013c).
13. The Netherlands in 2011 set out the objective that 90% of the interactions with the unemployed managed by the Social Insurance Agency (UWV) should be online (Murray, 2011).
14. Daguerre (2009) stated the requirement as three actions per fortnight (about six per month); Robins (2009) reports a personal adviser at Jobcentre Plus explaining that they are “looking for claimants to take three active steps to look for a new job every week”; in 2012 a thread about “How many activities do you have to list on the JSA log book?” (<http://forums.moneysavingexpert.com>) suggests that six steps per week were often being required, at least some of them needing to be job applications.
15. Finland had not introduced a legal requirement for reporting of job-search actions. Requirements within IAPs would have limited applicability, because the initial job-search plan was typically set up about five months into the unemployment spell and the measures in it were not obligatory.
16. OECD (2007), assuming that direct referrals are made to 20% of vacancies with an average of three referrals per vacancy, estimated an annual average of 1.1 direct referrals per unemployed jobseeker in Finland – probably more than appear in administrative records.
17. OECD (2013) updates the information for Norway in Duell et al. (2009a), mentioning also sanctions in relation to the employer’s obligation to prepare the follow-up plan after four weeks of sickness absence and to hold a meeting with the employee after seven weeks, and fines for doctors not compliant with the sickness certification rules.
18. Sanction rates for a number of OECD countries in the 1990s are reported in Gray (2003). Sanction statistics for Australia do not include cases where benefits were stopped due to failure to list job-search actions in the fortnightly reporting process, since this is treated as failure to maintain the benefit claim.
19. The description of organisational reforms in Finland given here is based partly on advice from national authorities, PES Monitor (2009) and Viljamaa (2011).
20. Local governments in Japan also manage Silver Human Resource Centres, a much larger programme than the Job Cafés. They were introduced in the 1970s, expanded rapidly in the 1990s, and now have approximately 760 000 members, which is 15% of the number of employed workers aged 65 or more. They accept contracts for work to be performed by their members, who are aged over 60 and commonly over 70.
21. When bidding to deliver services from 2009 onwards, JSA providers had to outline their plans for Local Strategies and Collaborative Arrangements with other agencies and organisations.
22. In Ireland, Community Employment (CE) projects also involve multiple community sector organisations. For example, a national network of “Congress Centres”, which provides welfare advocacy and employment services under the direction of the Irish Congress of Trade Unions and local trade union councils, is staffed mainly by CE participants.
23. In the Netherlands, under the “Work and Income Act” (2003) municipalities have an “income fund” which helps to pay for means-tested assistance payments and a separate flexible “work fund” which can be used only to pay for employment or reintegration services. The municipality can keep any surplus in the “income fund”, but must return any surplus in the “work fund” to the ministry.
24. In Finland, multiple objectives (such as establishments facing recruitment problems, the unemployment rate for people under 25 years of age) are defined at the level of ELY (regional) offices; the ELY offices then decide how to allocate targets across local offices.
25. Provider organisations will in principle allocate resources across their sites so as to maximise their average rating, and they might in some cases leave some individual sites understaffed and with a poor rating.
26. DEEWR (2012) compares Star Ratings at the site level with separate measures of participant experience. The results identify that a combination of factors contribute to performance, including the use of goal-oriented, employer-focused strategies that lead to individually tailored services for jobseekers.

27. In Australia until 2009, Community Work Coordinators, contracted to the Department of Employment through a tendering process, organised and assisted the creation and management of Work for the Dole projects by sponsor organisations, which included not-for-profit organisations (including charities, religious groups, and local community associations) and local or central government organisations and agencies. Currently, JSA providers may typically offer to reimburse the cost of materials and other project costs, but potential host organisations are advised that they need to provide the workplace and supervise the participants.
28. In the first JN contract period (1998-2000), the former government provider had a one-third share of the market, but since then the share of government providers has been low.

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