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**Tackling the Jobs Crisis**

**The Labour Market  
and Social Policy Response**

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**Maintaining the Activation  
Stance During the Crisis**





## ***OECD Labour and Employment Ministerial Meeting***

### **TACKLING THE JOBS CRISIS The Labour Market and Social Policy Response**

***Paris, 28-29 September 2009***

## **Theme 2 Maintaining the Activation Stance during the Crisis**



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## MAINTAINING THE ACTIVATION STANCE DURING THE CRISIS

### 1. Introduction

Over the past decade, many OECD countries have introduced or reinforced strategies to “activate” the unemployed and other benefit recipients with the help of high-quality employment services. There are significant differences in the way countries have implemented activation principles, depending on labour market conditions and, most importantly, key institutional features.<sup>1</sup> But they all combine effective re-employment services with strong job-search incentives, enforced by the threat of moderate benefit sanctions. Evidence suggests that, if well-designed, such strategies have contributed to better labour market outcomes, by ensuring that benefit recipients have a better chance of obtaining employment and minimising the risks that high and/or long-lasting benefits reduce work incentives (OECD, 2006, *Reassessing the Jobs Strategy*, 2006; OECD, 2005 and 2007a).

While activation strategies were generally launched with the aim of combating high and persistent unemployment, some of their recent successes in mobilising the unemployed took place in a context of relatively strong economic growth and buoyant labour demand, when the number of jobseekers was low relative to the number of vacancies. During the current severe downturn, with a rapidly growing number of jobseekers and low labour demand, activation strategies are facing a hard test. Active labour market programmes (ALMPs) need to be scaled up to provide support to the greater number of jobseekers; and activation procedures need to be adapted to ensure that jobseekers receive the appropriate supports.

This background document is organised as follows. Section 2 reviews the key features of the activation strategies implemented by the OECD countries over the past decade and the social welfare rationale for combining benefit reciprocity with activation requirements. Drawing from the experience of countries that have implemented activation strategies over the past decade, Section 3 highlights the key policy and institutional challenges to providing effective support to jobseekers while maintaining strong incentives for them to regain employment. Section 4 then discusses the challenges for activation strategies during the downturn and policy responses, both for those countries that already have a well-developed strategy but need to adapt it, and for those where decisive progress towards activation is needed to provide better services and prevent the future persistence of unemployment at high levels.

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1. This note draws on experience from the OECD Thematic Review of Activation Policies: see [www.oecd.org/els/employment/almf](http://www.oecd.org/els/employment/almf) for an overview and access to reports.

## 2. Key features of activation measures and strategies

Activation measures are actions at the local level by the Public Employment Service (PES), broadly defined to include the benefit administration function and publicly-financed external service providers, which:

- are targeted at people of working age who are not in work,<sup>2</sup> but who potentially could work and are in receipt of an income-replacement benefit; and
- make benefit payments conditional on compliance with employment- and job-search-related requirements.

Activation strategies feature, *inter alia*, *i*) early intervention by the Public Employment Service (PES) in the unemployment spell and a high contact density between jobseekers and employment counsellors; *ii*) regular reporting and monitoring of work availability and job-search actions; *iii*) direct referrals of unemployed clients to vacant jobs; *iv*) the setting-up of back-to-work agreements or individual action plans; and *v*) referral to ALMPs to prevent loss of motivation, skills and employability as a result of longer-term joblessness. The impact of these strategies on unemployment arises partly because they ensure that jobseekers participate in employment-related services, and partly because the participation requirements and monitoring of compliance with eligibility conditions, backed up by the threat of temporary sanctions, counteract potential disincentives from the payment of benefits. However, in many circumstances, simply instructing the PES to implement measures of this kind would not be effective and activation strategies may also need to change part of the framework for implementation, including factors such as benefit eligibility criteria and institutional arrangements and incentives (Box 1).

### ***Which are the main target groups?***

Activation strategies tend to be most effective for people receiving an income-replacement benefit, which makes it possible to apply a principle of “mutual obligation”.<sup>3</sup>

### ***The unemployed***

Activation strategies tend to have the greatest impact in countries that pay indefinite-duration unemployment benefits or social assistance benefits in cases of unemployment: Australia, Canada, New Zealand, and countries in OECD Europe, except for a few (in southern and eastern Europe) where social assistance benefits are paid at very low rates or are often not available.<sup>4</sup> In this case, even if the level of

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2. Activation measures may also target people who are working less than full-time and receiving benefits, or who are participating in a training or subsidised employment programme and receiving an allowance or wage, but who could move into full-time unsubsidised work.
  3. Governments may encourage population groups not on benefits to enter employment by *e.g.* modifying the structure of income taxation or offering “Return to Work” counselling and advice on a voluntary basis for women who have been out of the labour force for some years.
  4. Precise information is lacking but it seems likely that assistance (unemployment assistance and social assistance) benefit coverage rates, among people who are unemployed (rather than disabled, or lone parents, etc.) and have low personal and household income, are mainly above 60% in the OECD

benefits is rather low, high rates of benefit dependency can develop in the absence of reasonably strong activation measures. Countries which combine wage-related UI benefits with relatively generous indefinite-duration assistance benefits need particularly strong activation measures, although it must be recognised that very intensive activation is quite costly and difficult to maintain, placing limits on how generous benefits can become.

OECD countries that pay relatively short-duration UI benefits<sup>5</sup> often associate these with only relatively light activation measures. This can be justified because:

- the client group has recent work experience and often needs vacancy information but not intensive counselling;
- due to the high volume of short unemployment spells, it would be costly to deliver intensive activation measures within the first month or two of unemployment. And the benefit savings from activation measures delivered later in the spell are small, because only a few months of entitlement remain;
- as the time of benefit exhaustion approaches, most workers have a strong incentive to search for work regardless of activation-related requirements;<sup>6</sup>
- the group not covered by UI benefits is large, and providing labour market services and employment programmes for this non-covered group is often a higher priority than monitoring eligibility or reducing benefit costs for the covered group.

The majority of unemployed people, as identified in the labour force surveys in Japan and the United States, and a significant minority of unemployed people in many other countries (notably married people without a UI entitlement, who are disqualified from assistance benefit because their spouse is employed), do not receive either a UI benefit or an assistance benefit. For these jobseekers, activation principles are only applicable to a limited extent, because reporting, attendance and participation requirements are not enforceable (although good-quality employment services open to voluntary callers and access to ALMPs, with a subsistence allowance paid in targeted cases, should be provided).

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countries cited and below 20% in those not cited. Canada is a borderline case in this regard. Up to the mid-1990s, social assistance caseloads increased in recessions, in line with the unemployment rate; but then provinces “instituted rule and procedural changes that made benefits more difficult and more onerous to obtain” (Finnie *et al.*, 2005). In the early 2000s, caseloads fell even as unemployment rose, and in many provinces only about a quarter of the social assistance caseload was classified as unemployed, suggesting rather low coverage rates (Federal-Provincial-Territorial Directors of Income Support, 2006).

5. These are countries where the typical duration of UI benefits is six months or less, perhaps extended in relatively exceptional circumstances up to a year.
6. This does not mean that short-duration UI systems avoid moral hazard: these systems tend to encourage growth in the incidence of seasonal work and temporary contract work, in contrast to permanent work, which only infrequently (*i.e.* in situations of involuntary layoff) generates benefit claims without a risk of sanction for a voluntary quit.

### Box 1. Changes to the implementation framework as activation strategies

PES management often cannot directly implement activation measures through prescriptive guidelines to employment counsellors. For example, obliging clients to comply with precisely-defined conditions – such as signing-on at an employment-service office once a month – does not necessarily increase their work motivation and independent job search, or signal work motivation to an employer. Likewise, mechanical referrals of clients to job vacancies on a compulsory basis tend to be ineffective – they may not only fail to get the jobseeker into work but are also likely to discourage employers from notifying their job vacancies to the PES. In addition, there is always room within any guidelines for individual counsellors to exercise their discretion in terms of the requirements they impose on individual clients. The objective of national PES management is to encourage counsellors to be personally engaged with clients and use their individual knowledge of them, but this activity is not easily observed and measured.

Besides increasing the number of PES staff to provide better services to the clients, components of particular national activation “strategies” generally include changes to the framework:

- Tightening benefit administration, *e.g.* removing from the target group clients who are already working undeclared or are unavailable for work: counseling for this group is ineffective;
- Monitoring the intermediate outputs of PES local offices and individual employment counsellors, focusing on indicators such as the number of face-to-face interviews conducted with jobseekers. A face-to-face interview implies an investment of time by the jobseeker in travel to the employment office, and this puts the employment counsellor under some moral pressure to prepare for and invest time in the interview;
- Institutional reforms, such as the unification of the placement service with benefit administration.

In activation strategies implemented by some OECD countries, the central government reformed institutional arrangements to give local-level actors more incentive to implement activation measures, and in fact became less prescriptive about the detailed content of activation measures. For example:

- Several OECD countries have shifted responsibility for financing assistance benefits from national to local government. This can influence how the PES at local level acts in a more effective way than issuing national guidelines, because even where local PES offices are funded and in principle managed at national level, local influence on their behaviour is often significant due to the hiring of local staff, local management advisory boards, the PES’s need to co-operate with other local actors to work effectively, and the role of local government in managing training and subsidised employment opportunities. Moreover, when local governments bear the whole cost of financing assistance benefits, they often set up their own employment services.
- In some cases, activation strategies have involved the performance management of PES offices, with a focus on monitoring their outcomes (such as the number of job placements achieved) rather than their procedures.
- Some countries have introduced quasi-market mechanisms, under which employment service providers are responsible for implementing activation measures on a “black-box” basis, *i.e.* without a requirement to apply specified procedures or report the procedures that they actually use.

Institutional changes of such kinds have often been involved in activation strategies that apparently had a long-run impact. Without supporting structural changes, instructions to PES staff to implement individual measures such as stricter surveillance of job search have the character of management “drives”, with a risk that their impact fades after a few years in the face of other national and local-level priorities.

### *Recipients of social assistance benefits*

Some social assistance benefit systems make a formal distinction between employable and non-employable recipients. The former group is subject to availability-for-work requirements and their benefit is *de facto* an unemployment benefit. For the latter group, social assistance is more like an inactive benefit, although an activation strategy should reconsider whether this treatment is appropriate for the target groups involved. But commonly, the boundary between employable and non-employable recipients is blurred, and social assistance caseworkers may in principle combine approaches that help clients to stabilise their daily living arrangements, prepare for work, or enter market work.

Some proportion of workers in low-paid jobs receives in-work benefits, or social assistance benefits at a reduced rate, depending on benefit system parameters. To the extent this occurs, activation principles – with participation in counselling, training, applying for full-time work, etc. potentially being required – may still apply.

### *Recipients of “inactive” benefits*

Traditionally, unemployment benefits were the main form of income support for jobless people who potentially could work. Over the past few decades, however, many countries have experienced a sharp increase in reciprocity rates for incapacity benefits, lone-parent benefits, non-categorised social assistance benefits or other types of benefit.<sup>7</sup> Recipients of such benefits could often work, and have gradually become another target group for labour market policies.<sup>8</sup> The number of incapacity benefit recipients exceeds the number of unemployment benefit recipients in most OECD countries, and an OECD review of this area suggests several directions for policy (OECD, 2009a).

An activation strategy for inactive benefit recipients can involve making benefits for a particular target group conditional on immediate availability for work and acceptance of referrals to job vacancies, either by transferring them to an existing unemployment benefit or converting their benefit *de facto* into a type of unemployment benefit. It can also involve introducing requirements that do not include immediate availability for work and acceptance of referrals to job vacancies, but do include participation in “work preparation” or “rehabilitation” measures. Activation is less relevant for inactive benefits where entitlement conditions and gatekeeping are already strict, since these keep the caseload at a relatively low level, and restrict it mainly to people with relatively severe barriers to employment.

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7. Already by 1980 more than 3% of the population of working age in the United States was receiving lone-parent benefits and about 10% of the population of working age in Denmark, Finland, Sweden and the Netherlands was receiving incapacity benefits: but as these totals stabilized, sharp growth sometimes occurred in other countries, or in another benefit areas (OECD, 2003).
  8. For example, OECD (2007b) documents reforms aiming to ensure that people with partial work capacity remain in or enter the labour market, undertaken recently in Australia, Denmark, Luxembourg, the Netherlands, and Switzerland, and planned in some other countries. Similarly, of the five countries that in the past paid benefit without work requirements for lone parents with children up to age 16 or more, three (Australia, the United Kingdom and the United States) now apply work requirements at lower child ages.

### *The social welfare rationale for providing benefits and activation together*

The three main policy options for handling long-term unemployment are non-coverage, benefits without activation and benefits with activation. In general, although activation strategies make it possible to pay relatively generous unemployment and related benefits, there are limits to their effectiveness. As these limits are approached, cuts in benefit generosity become a more viable policy alternative (Grubb, 2007). Conversely, countries without an effective activation strategy can only afford to create relatively modest benefit entitlements, since otherwise caseload growth occurs and high levels of benefit dependency result, even if the process can take a long time.<sup>9</sup>

#### *Non-coverage*

Where the ratio of unemployment-benefit recipients to labour force survey (LFS) unemployment is around 70% or more, as in most European countries, unemployment benefits are generally fairly effective in terms of preventing poverty related to unemployment (Table 1). Where indefinite-duration assistance benefits exist, some unemployed individuals will not qualify because they have significant assets or other income within the household, and then non-coverage does not imply severe poverty.

In other countries such as Japan and the United States, benefit non-coverage of unemployment is quite frequent.<sup>10</sup> Because incentives to re-enter work are strong, unemployment spells tend to be much shorter than in countries with indefinite-duration benefits. However, low benefit coverage probably more often leads people to run down assets, turn to relatives for help or enter poverty, and imposes higher adjustment costs (e.g. in terms of geographic mobility, or reduced wages) for people who re-enter work. These adjustment costs can, when unemployed individuals are credit-constrained, represent an inefficient use of resources.<sup>11</sup> In the current recession Japan, like the United States and some other countries, extended the coverage and duration of UI benefits. Japan also expanded the system that pays a subsistence allowance during participation in vocational training to those who are not entitled to UI benefit and whose income and assets are under a certain level, while the United States provided additional funding for training under the Workforce Investment Act.

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9. For example, Vodopivec (2009) argues that developing countries due to limited administrative capacity should abandon attempts at monitoring job search or informal employment among UI recipients, and compensate unemployment as long as the person is not in formal employment, but only through individual UISAs (UI Savings Accounts).
  10. Although the figure for Japan in Table 1 suggests low benefit coverage, it should be kept in mind that private sector labour-market adjustment mechanisms tend to limit the level of unemployment. Japan's unemployment rate has for decades been well below the rates in most other large OECD countries. In 2009 the rate in Japan rose above 5%, but this compares with 8% or 9% in the other G7 countries.
  11. For example, a credit-constrained unemployed person may need to relocate, even when due to the costs of relocation, waiting a few months for a local job vacancy to appear would be more efficient.

**Table 1. The ratio of unemployment benefit recipients to the number of labour force survey unemployed in 16 OECD countries, 2004<sup>a,b</sup>**

Australia	1.00
Canada <sup>c</sup>	0.89
Denmark <sup>d</sup>	0.91
Finland	1.26
France	0.81
Germany	0.98
Ireland	1.56
Japan	0.19
Netherlands <sup>e</sup>	0.67
New Zealand	0.82
Norway	0.69
Portugal	0.86
Spain	0.57
Sweden	0.73
United Kingdom	0.63
United States	0.38

- a) Unemployment benefit recipients include recipients of unemployment insurance and unemployment assistance (benefits conditional on a means test as well as on unemployment status). Recipients of social assistance benefits are included only in Canada and Denmark, where unemployed social assistance beneficiaries are administratively identified. Recipients of benefits on other grounds (e.g. disability or lone parenthood) are not included.
- b) This ratio can exceed 1, notably because some unemployment benefit recipients who work part-time are classified as employed in the labour force survey, and some unemployment benefit recipients who are not working are classified as inactive in the labour force survey. These groups vary in size and are large in some countries (see Immervoll *et al.*, 2004, Figure 3.3, for labour force survey tabulations). This ratio differs from the benefit coverage rate of registered unemployment because the number of people registered with the employment service as unemployed may, depending on administrative norms and practices, be much higher or much lower than the number unemployed as reported in the labour force survey.
- c) 2002: the benefit recipient total includes employable recipients of social assistance.
- d) 2003: the benefit recipient total includes employable recipients of social assistance.
- e) In the Netherlands probably the majority of social assistance beneficiaries receive social assistance on grounds of unemployment, although statistics are not widely available: if they were included in the benefit recipient total, the reported ratio would be much higher.

Source: For unemployment benefit recipients, Carcillo and Grubb (2006) and Grubb *et al.* (2009), with revised data for Finland; and for LFS unemployed, *OECD Labour Force Statistics database*.

### *Benefits without activation*

Although European-type benefit systems have been relatively effective in terms of preventing working-age poverty due to unemployment or other barriers to work in the short term, in the longer term they often led to high rates of working-age benefit dependency and expenditure. Where benefits were paid with limited activation,<sup>12</sup> after the

12. Countries such as Norway and Sweden have never abandoned efforts at activation of the unemployed, even if their intensity declined at some points; others such as Austria, Finland and Germany always continued some activation measures, in particular direct referrals of jobseekers to vacant jobs. But OECD experience has included situations where unemployment benefits were paid with only very limited requirements, e.g. signing-on remotely or at a benefit administration office with no placement or job-search monitoring function.

first oil crisis of the early 1970s, unemployment benefit recipient numbers often stayed two or three times higher than previously. After the creation of a new nationally-financed social assistance benefit in some countries (*e.g.* United Kingdom and France), its caseload often grew in time – over a decade or more – to reach levels two or three times higher than those that appeared to cover needy cases in the early years of the benefit, with part of the caseload being unemployed and part being inactive in the sense of the labour force survey.<sup>13</sup> Major problems have also arisen in systems where a relatively short period of contributions provides access to a relatively long period of UI benefit receipt, and at some point use (often repeat use) of UI has rapidly expanded. This has occurred notably in Canada, Denmark (particularly in the 1980s), Finland and Sweden (particularly in the 1990s), and probably to some extent in Japan and recently in Spain.<sup>14</sup>

### *Benefit coverage with activation*

A key argument for activation measures is that they can partially or completely reverse the type of caseload growth described above. For example, the United Kingdom had about 3 million unemployment benefit claimants in the mid-1980s and the United States had over 3 million adult welfare (AFDC) recipients after 1973 (briefly rising to over 4 million in the early 1990s): in both cases, following the reinforcement of activation strategies, caseloads fell and from 2001 (until at least mid-2008) they stayed at around one million. New Zealand introduced several activation measures for its unemployment benefit in 2003 (OECD, 2005) and the unemployment benefit caseload fell to less than a quarter of its 2002 level by 2007.<sup>15</sup> Conversely, in countries with relatively generous benefit systems that have implemented relatively intensive activation measures, such as Denmark, Norway, Sweden, and Switzerland, experience suggests that relaxing activation principles in the past led to an increase in the persistency of unemployment.

In such cases, even costly activation measures can generate net cost savings for the public purse. But there is also a broader social welfare case for benefit coverage with activation:

- This combination provides income protection during unemployment for those who genuinely need it, while also ensuring that the unemployed person searches for work as intensively as he would do if the benefit was not paid, thus avoiding the loss of output that occurs when disincentive effects are allowed to operate.

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13. The United Kingdom's National Assistance benefit introduced in 1947 had an average of 48 000 beneficiaries in the 1950s and 96 000 in 1960-1965, and its successor Supplementary Benefit had an average of 136 000 beneficiaries in the late 1960s and 233 000 from 1970 to 1973: growth was very substantial even before the major recession of the 1970s. France's minimum income benefit (the RMI) introduced in 1988 had 422 000 beneficiaries at end-year 1990, 940 000 at end 2000 and close to 1 million at the end of 2008 (estimated number in 'métropole'). OECD (2003) and Grubb *et al.* (2007) examine similar experiences in a number of other countries.
  14. In Spain contribution requirements are significant (the minimum 12 months of contributions gives a right to 4 months of benefit), but workers often spend years on repeated temporary contracts and acquire rights to long-term benefits before they have found a stable job.
  15. Although falls of this kind may be partly explained by factors other than activation, *e.g.* the state of the business cycle, the falls were not fully reversed in later recessions and there is a plausible case that activation was a significant cause of them.

- Activation measures greatly increase client participation in official job-search assistance:
  - In some cases, official assistance is more effective than unaided job search because the PES has information and labour market expertise that the unemployed person lacks;<sup>16</sup>
  - Client participation in official job-search assistance provides the PES with information about the client's availability for work, which improves the targeting of unemployment benefits;
  - Official assistance promotes and monitors entry to formal employment, whereas unaided job search is more likely to result in entry to informal or undeclared work.
- When caseloads are kept low through activation, more intensive assistance can be provided to the clients most in need of it.<sup>17</sup>

### 3. Common implementation issues and their possible solutions

#### *Expanding the tool-kit*

Before the first oil shock in the early 1970s, a practice of direct PES referral of registered unemployed to full-time job vacancies was often enough to keep unemployment rates fairly low or even very low. Since then, common additions to the activation tool-kit have been:

- *Job-search monitoring.* In principle independent job search should achieve placements that are better matched to personal preferences. However, it remains quite difficult to observe and document the quality of independent job-search efforts.
- *The individual action plan,* where the employment counsellor explores with the unemployed client possible options for leaving unemployment and obtains his/her commitment to a particular strategy.
- *The active benefit period,* where at a threshold duration of unemployment (*e.g.* six to 18 months), if no other measure has been agreed, the client is automatically referred to an ALMP (a job-creation programme or a programme chosen by the counsellor).<sup>18</sup>

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16. In theory, self-interest will ensure that clients take up public job-search assistance when it will be helpful: but in practice some unemployed people are poorly informed about the services available.

17. For example, with low caseloads, team-based delivery of social and employment services and assistance – with multiple counsellors for an individual client – can be feasible as standard PES practice. In the late 1990s, this was reported by Iceland and Luxembourg, which had unemployment rates around 3%. Recently New Zealand – which in June 2007 had 39 000 people, less than 1.5% of the population of working age, on Unemployment-related and Emergency benefits – introduced Community Links centres which deliver similarly holistic services.

18. Since 2007, entry to the active benefit period in Denmark occurs after six months of unemployment for people aged under 30, and after nine months otherwise (Kvist *et al.*, 2008). Other examples of this approach are Mutual Obligation (with Work for the Dole as the default option) in Australia, the New

- *Increased attention to eligibility criteria and their enforcement.* This includes adding new criteria such as independent job search if they previously were omitted, spelling out the application of general principles to specific situations, reviews of the sanction schedule (for example, introducing a mild sanction for the first offence), and operational procedures for notifying potential infractions and taking sanction decisions.

The principles of the individual action plan and the active benefit period can be combined in a “Gateway” period where the individual action plan is set up and implemented prior to entry to the active benefit period.<sup>19</sup> In the Gateway period:

- Since prolonged unemployment leading to mandatory participation in an ALMP is not the most attractive option, clients are motivated to search for work or a more attractive programme option;
- Client choice allows solutions to be tailored to personal preferences, and the counselling helps the client make informed choices;
- The process of counsellors presenting different options, and clients seeking information on what they involve, helps to identify the client’s barriers to employment;
- If the client still does not choose a particular option, the counsellor can make a relatively well-informed direct referral.

### ***Benefit-system complexity and individual variation in employability***

Client barriers to employment vary in scale and in nature. OECD countries have created several categories of benefit for people who are not expected to be immediately available for full-time work, or are temporarily unavailable for work: short-term sickness benefits, disability benefits, carer’s benefits,<sup>20</sup> early retirement and some more minor categories.<sup>21</sup> However, the underlying client barriers to availability for work vary along a continuum, with some people close to the borderline between two benefits.<sup>22</sup> Due to errors in gatekeeping and changes in individual circumstances over time, some people on an unemployment benefit will have greater barriers than some others who are on an inactive benefit, calling for a flexible approach when applying activation requirements.

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Deals in the United Kingdom and the Activity Guarantee in Sweden. Finland, Switzerland, and the Netherlands have introduced partly similar systems. However, Austria, Norway and more recently Switzerland, among the European countries, manage referrals to active programmes through individual counselling, without scheduling a particular deadline for entry to a programme.

19. The “Gateway” period is a feature of the UK New Deals. Kvist *et al.* (2008) report that in Denmark “the obligation of activation is not really imminent at the start of the [active benefit] period”, *i.e.* there is a period during which the client can search for other solutions before the first compulsory referral to an ALMP occurs.
20. Mainly lone parents caring for young children, who are paid social assistance rather than a specific benefit in many countries.
21. Most countries also have separate maternity benefits and rehabilitation benefits.
22. This is suggested or illustrated by cross-national differences in caseloads and, for lone parents, differences in rules about the age of the youngest child when a job-search requirement comes into play.

But the other hand, to ensure that rules are seen as fair and credible and make it easier for PES management to monitor whether local offices are implementing them systematically, it is often better to apply requirements uniformly across all members of a given target group. Steps to minimise the tension between the needs for firm rules and for flexibility include:

- Keeping the structure of benefits reasonably simple, and ensuring accurate gatekeeping for the inactive benefits;
- Coding additional client characteristics in the unemployment and disability registers. In most countries, a certain proportion of people receiving unemployment benefits are classified as having disabilities, which are taken into account in PES procedures. Similarly, there needs to be some coding of people in the disability register, to identify who may be able to work at least part-time, or is able to attend interviews, etc;
- Providing clear guidelines about specific circumstances in which clients can be exempted from requirements.

### *Institutional arrangements*

The OECD has long recommended the integration of the placement and unemployment benefit administration functions of the PES. National experiences suggest that several institutional arrangements can be critical. In each case, it must be kept in mind that institutional arrangements do not directly act in the labour market. They have an impact because they facilitate and motivate the adoption and implementation of effective activation measures.

### *Decentralisation of the financing of benefits*

Local financing of benefits – in OECD countries, mainly social assistance benefits<sup>23</sup> – tends to be associated with low caseloads. Table 2 lists countries where social assistance benefits are partly or wholly financed below national or federal level (*i.e.* by regions or municipalities).

Income-replacement reciprocity rates<sup>24</sup> for social assistance benefits are mainly in the range of 2% to 5% for countries where financing is entirely at national level, 1% to 2% in countries where financing is entirely at regional level, or partly at municipal level, and slightly below 1% in Norway and Sweden, where financing is entirely at municipal level (and also is discretionary, although non-binding national guidelines exist). Canada and the Netherlands are exceptions to this pattern with higher reciprocity rates.<sup>25</sup>

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23. Unemployment insurance in the United States is financed essentially at the State level, but this is exceptional.

24. These rates exclude cases where social assistance is paid as a top-up to a different primary source of income (either another benefit or low earnings from full-time work).

25. In Canada, reciprocity rates for nationally-financed benefits are low in international comparison, implying a relatively great need for social assistance: and two regions, *i.e.* Ontario and Quebec, account for 62% of the population and 71% of social assistance recipients, so that financing is still quite close to the national level. In the Netherlands, 100% municipal financing of social assistance was introduced only in 2004 and its long-term impact is not yet known. In Japan, although reciprocity rates for other benefits

**Table 2. OECD countries with sub-national responsibility for financing social assistance benefits for the unemployed or lone parents, 2005**

Country <sup>a</sup>	Responsibility for administration of payments	Sub-national level of responsibility for financing	Sub-national percentage of financing <sup>b</sup>
Austria	Regional	Regional	100%
Belgium	Municipal/National <sup>c</sup>	Municipal	35% to 50% <sup>d</sup>
Canada	Regional	Regional	100%
Denmark	Municipal/National <sup>c</sup>	Municipal	50%
Hungary	National	Municipal	10%
Japan	Municipal/Regional/National <sup>e</sup>	Municipal	25%
Netherlands	Municipal/National <sup>c</sup>	Municipal	100%
Norway	Municipal	Municipal	100%
Spain <sup>f</sup>	Regional	Regional	100%
Sweden	Municipal	Municipal	100%
Switzerland	Municipal/Regional <sup>g</sup>	Municipal <sup>f</sup>	100%
United States <sup>h</sup>	Regional	Regional	100%

- a) Iceland and Luxembourg are not listed due to low total population. Greece, Italy, Poland, Mexico and Turkey are not listed because social assistance is usually not available. In France, the financing of the RMI has recently been decentralized to departments but this is partly offset by a national grant which is related to the proportion of RMI beneficiaries in the department's population (system of "péréquation"). In Germany, social assistance is financed mainly at the municipal level, but people who are considered able to work are entitled instead to the nationally-financed unemployment assistance benefit (UB II). In Finland, the situation in 2005 was similar, although in some cases municipally-financed social assistance is paid as a top-up to the nationally-financed unemployment assistance benefit.
- b) This column relates to the financing burden for a marginal (additional) social assistance recipient who is not participating in an active measure. In some cases, a state or federal government transfer that does not vary with actual costs is earmarked to cover part of the locally-borne costs, and in some cases the state or federal government fully finances allowances paid to participants in active measures, but these situations are not taken into account in this table.
- c) Administration is municipal, but national legislation governs benefit rates and some other aspects of the system.
- d) In Belgium, central government takes on 50% of the financing, increased to 60% for municipalities with more than 500 beneficiaries and 65% for those with more than 1000 beneficiaries.
- e) Administration is municipal and regional, but national legislation governs benefit rates and some other aspects of the system.
- f) In Spain, social assistance may not be available in all regions.
- g) In Switzerland, social assistance is governed by cantonal law, but is administered and financed mainly at municipal level.
- h) The "regional" classification relates to TANF, a benefit paid mainly to lone parents. Although administration and funding at the margin are primarily at State level, the federal framework is also significant (see the source for details). The United States also has the federally-funded Food Stamp programme, which is not in principle an income-replacement programme.

Source: Eardley *et al.* (1996), updated or confirmed by more recent sources and, for Canada, Gray (2003); for Hungary, country-specific file at [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives); for the Netherlands, van Berkel (2006); for Spain, Arriba and Ibáñez (2002); for the United States, Ways and Means (2008).

are low, social assistance is financed 25% by the local/sub-national level and 75% at the national level and "Public Assistance is provided with fairly strict means and asset tests, which might be a reason for low percentage of population receiving the public assistance" (NIPSSR, 2007): claimants would often have to first rely on other family members and sell assets.

Trends in countries that have changed financing arrangements support the idea that local and regional financing reduces caseloads. Canada and the United States introduced 100% regional financing in 1996, and from 1994 to 2004 or 2005 adult reciprocity rates fell by nearly half in Canada and two thirds in the United States. In Europe, the Netherlands shifted from 10% municipal financing (before 2001) to 100% local financing from 2004, and Finland in 2006 introduced 50% municipal financial responsibility for long-term unemployment assistance recipients. Again, after these changes the relevant caseloads fell for several years.<sup>26</sup> In each case, it can be argued that the localisation of financing supported and encouraged the introduction and implementation of activation measures.<sup>27</sup>

### *Devolution of the administration of nationally-financed benefits*

In Belgium (since 1980), Canada (progressively after 1996), Spain (since 1998-2002) and Switzerland (from the start), although UI benefits are nationally financed, regional governments manage placement services and many of the ALMPs. This creates a potential free-rider problem, since failure to implement activation measures by regional authorities increases regional unemployment, but the costs of this in terms of benefit payments and financing some ALMPs (*e.g.* reductions in social security contributions for employers who hire a long-term unemployed worker) are borne by the national or federal government. Regional governments have little incentive to cooperate with the national benefit administration in enforcing availability-for-work requirements, creating a risk that there will be little activation of the unemployed by either of the institutions.<sup>28</sup>

In Switzerland, the PES remains in practice partly national, with a nationwide PES information system and evaluation and guidance of the cantonal employment services by the federal ministry. Cantonal governments generally agree with this approach. Also, the financing of ALMPs is to a varying extent done by the cantons and the federal budget allocation to the regional public employment offices per unemployed person declines as unemployment increases, which increases the incentive for the cantons to keep unemployment low. Spain's experience since devolving the management of placement services to the regions arguably supports the idea that this tends to increase benefit caseloads: from 2000 to 2008, unemployment according to the labour force survey fell by 5% but the number of unemployment benefit recipients increased 66%.<sup>29</sup>

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26. The declines in social assistance/unemployment assistance caseloads in these European countries may be reversed in the current recession: however, the recession of the early 2000s had little impact on caseloads in Canada and the United States.
27. One example of this was the adoption of work-first and workfare-type measures by some municipalities in the Netherlands described in Tergeist and Grubb (2006). In the United States, the reduction in welfare caseloads is also partly credited to the expansion of the federal Earned Income Tax Credit.
28. Although high unemployment rates in these countries may be partly related to the relative lack of activation measures for UI recipients, they are also influenced by the unlimited duration of UI in Belgium, the role of social assistance in supporting the long-term unemployed in Canada, labour market duality and youth unemployment (without benefits) in Spain, and other factors.
29. The statistic cited refers to average monthly stocks of recipients not including the *Renta activa de inserción*, which was created after 1999. According to some studies at the time of the devolution of responsibility, “a lack of information exchange between INEM's public employment service and the autonomous communities to which this competence is devolved... has a negative impact on coordination of management of supply and demand, leaving some offers of work uncovered” and “Implementation by the autonomous communities of

A similar issue arises in the Czech Republic, where social assistance benefits are nationally financed, but administration of these benefits is devolved to offices managed by municipalities.<sup>30</sup>

### *Integration of the placement and benefit administration functions*

The degree of integration between the placement and unemployment benefit administration functions of the PES varies sharply between countries:

- Countries with institutional integration of these functions include Austria, France (since 2008), Germany,<sup>31</sup> Greece, Japan, Luxembourg, New Zealand, Norway, the Slovak Republic (since 2004<sup>32</sup>) and the United Kingdom;
- In Finland, Portugal, Sweden and the Czech Republic, for UI benefits only, the placement service is responsible for evaluating job search and availability for work. In Denmark and Switzerland, the unemployment insurance funds generate some evidence about client availability for work themselves, but they still mainly act on the basis of evidence presented by the placement service,<sup>33</sup>
- In Ireland, Belgium, Spain and (for UI benefits) Canada, the separate benefit administration generates most of the evidence about clients' job search and availability for work. The employment services do not, on the whole, consider that they are responsible for monitoring and reporting evidence about their clients' availability for work to the benefit administration.<sup>34</sup>

Most of the countries in the first and second groups above implement activation measures vigorously, and have recently had fairly low unemployment rates.<sup>35</sup> Trends in the Slovak Republic, which in 2004 merged labour offices with the social benefit agencies formerly responsible for administering social assistance benefits, support the idea that this contributed to a decline in caseloads: the unemployment rate fell rapidly,

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vertical coordination for social security is diverse and uneven, and perverts the financial adjustment aim which underlies the State's action to control expenditure" (Gavira and Gonzalez, 2002).

30. In 2007, the national government floated a proposal to merge the administration of social assistance with the national network of labour offices, but municipalities opposed this (Kalužná, 2008a).
31. This remained true in Germany after the integration of social assistance and unemployment assistance in 2005 to create the "UB II" unemployment assistance, except that, after intense political debate, it was decided that in some areas municipalities would manage the placement offices for recipients of UB II, which is nationally-financed.
32. More precisely, labour offices were merged with the administration of social assistance benefits, which are *de facto* the main unemployment benefits in the Slovak Republic. In December 2006, there were 22 000 unemployment insurance recipients and 184 000 adult social assistance recipients not entitled to a protection allowance (which is paid in cases of old age, invalidity, sickness for more than 30 days, full-time care for a severely disabled person and lone parenthood with a child aged less than 31 weeks) (Kalužná, 2008b).
33. In Denmark, the labour ministry in 1994 set up a system to supervise the funds' implementation of benefit eligibility criteria.
34. It is not known whether the national benefit administration or the regional placement service actively generates evidence about clients' job search and availability for work in Spain. In Australia and the Netherlands, the situation is complicated by the role of quasi-market providers, and in the United States arrangements are locally variable.
35. Germany in the 1990s before the Hartz reforms is an exception, where the PES had not developed strong mutual obligation requirements and unemployment was high.

from 18.2% in 2004 to 9.5% in 2008. In the case of the United Kingdom, which united the placement and unemployment benefit administration functions in the late 1980s (after separating them in 1971), the unemployment rate fell progressively from about 3 points above the unweighted OECD average in the mid-1980s, to 1.5 points below by 2000.

Three countries – New Zealand (Work and Income New Zealand), Norway (NAV) and the United Kingdom (Jobcentre Plus) – have now integrated the placement function not only with the management of unemployment benefits, but also with the management of lone-parent, social assistance and incapacity benefits. In most other countries, the administration of the different working-age benefits is split between different institutions, so that their complete integration with the placement function is scarcely possible. However, improved coordination may be achieved through a “One-Stop” approach, where the offices of the different institutions are co-located at local level without integrating their funding structures. Norway’s new organisation NAV merges three former organisations: the National Insurance organisation, the National Employment Service and the municipal social welfare system (Duell *et al.*, 2009).

#### 4. The policy response during the downturn

##### *Threats to previously successful strategies in the downturn*

In many countries, including those with generous UI benefits and long-term assistance benefits, the activation measures now in place do counteract disincentives to job search from the benefit system fairly effectively.<sup>36</sup> However, the effectiveness of activation measures might decline in a recession, as the higher stock of unemployment reduces the frequency of PES interventions experienced by the individual unemployed person:

- Unless the number of PES staff and the volume of active labour market programmes (ALMPs) are increased fully in proportion to the increase in unemployment, the frequency and/or intensity of PES interventions such as counselling interviews and ALMP participation experienced by the average unemployed person will decline;
- In recession, vacancy notifications tend to decline and the number of unfilled vacancies on the PES register falls particularly sharply, to a half or a third of its peak level. If the stock of unemployment doubles, the number of job vacancies (probably some combination of the stock and the flow of vacancies is relevant for the matching process) per unemployed person may fall even more sharply. A reduced frequency of compulsory PES referrals to low-paid jobs can erode the incentive to accept slightly better job offers, or actively search for higher-paid jobs.<sup>37</sup>

36. This is suggested by the observation that countries with generous benefits do not systematically have high unemployment rates, but do tend to have relatively high levels of LMP expenditure. At the microeconomic level, Eriksson *et al.* (2002) report that in Finland and Norway receiving a UI benefit increases self-reported job search. They suggest that this might result from the quite close monitoring of jobseekers by employment offices in these countries (although over-reporting of job search and the employment condition for receiving benefits, which selects those more attached to the labour market, could also be involved).

37. Ljungqvist and Sargent (1995) present a model where the job offers to an unemployed person can be monitored with a sanction in cases of refusal, but due to resource constraints the probability of monitoring

Through either of these mechanisms, activation measures which offset benefit disincentives before the recession may no longer do so as effectively in the recession. To avoid this, it is important to maintain the effectiveness of existing activation measures so far as possible during the downturn.

Historically, active and passive LMPs have sometimes been financed from the same fund: in this case the increase in passive spending, driven by entitlements, may force fund managers to reduce active spending. This perverse outcome should be avoided through central government funding of active spending and/or loans to UI funds.<sup>38</sup>

Labour mobility, not only between firms but between occupations, industries, regions and countries, plays a key role in labour market adjustment at all times, and one of the main functions of an effective PES is to facilitate mobility. The recession creates needs and opportunities for mobility related to industrial restructuring and differences in national labour market developments. In many countries, the PES website has a dominant share of the online job vacancy market. For international recruitment, the PES can help employers make the right official contacts. In Europe, the EURES network facilitates mobility as well as cross-border commuting, providing information about living and working in another country.

### ***Increasing the resources for activation measures***

To address the challenges posed by the economic downturn to the activation process, a number of initiatives could be considered. Overall, recession requires an increase in resources, across the range of LMPs, both passive and active programmes.<sup>39</sup> Three areas where resources are particularly needed to match the increase in caseloads are:

- *Handling client flows*: there should be enough staff to maintain the quality of verification of benefit claims, initial registration of client details, setting up of individual action plans, and implementation of interviews with clients at regular intervals, which are activation measures or essential prerequisites.
- *Compensating for the fall in vacancy notifications*: the number of places on, and the variety of, short-term programmes such as job-search training, short vocational training or general and remedial training, motivation and information seminars, job

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declines at high rates of unemployment. In such a model, they show that “A temporary macroeconomic shock may be capable of permanently moving the economy from a low-unemployment to a high-unemployment equilibrium.” According to the authors, in Sweden “Direct controls have been used to counteract the distorted incentives from a generous unemployment compensation. However, [i]t becomes nearly impossible to closely monitor 13% of the labor force which is currently out of regular jobs.”

38. This theme was explored by Bruche *et al.* (1992) with a focus on the German system. In the United States, the federal government makes loans to state UI trust funds in cases of insolvency, allowing several years for the loans to be repaid (Levine, 1997). There is still a risk that funding constraints will lead to a reduction in the share of active programmes in total public spending on LMPs in some countries. For example Poland after 2005, when registered unemployment was falling rapidly, funded a sharp increase in labour market training and may find it difficult to maintain this.

39. The resources needed for different PES interventions and programmes can be simulated using information on whether they service the inflow to unemployment, the total stock of unemployment, or the stock of long-term unemployed. Resources to handle the inflow may need to be increased at short notice. By contrast, although long-term unemployment may rise sharply, major movements in it should to a large extent be predictable about a year in advance, making use of data on outflow rates as well as inflows rates a year earlier.

clubs, work trials and internships should be multiplied, so far as reasonably possible. Participation in these may allow clients to meet activity requirements and counsellors may to some extent refer clients to them as a work test and to maintain some activity during a potentially lengthy unemployment spell.<sup>40</sup>

- *Activating the long-term unemployed*: procedures in which the long-term unemployed enter a gateway process and active benefit period need an adequate volume of programme places suitable for the long-term unemployed. A job-creation programme often plays the role of backstop in the case that the client has not taken up any other type of option, but other types of programme should also remain available.

The scaling-up of resources in the first and third areas can be promoted by scheduling interventions at particular durations of the unemployment spell and then closely monitoring and forecasting performance, in terms of delays in benefit processing and the implementation of other scheduled interventions.

### ***Possible new directions for ALMPs***

Some possible new – or renewed – directions for ALMP spending during the crisis include:

- *Short-time working schemes*: these were used in previous recessions, and have recently been being introduced or expanded in a number of countries. However longer-term structural adjustments involving reallocation of resources, including labour, from declining to expanding industries, should take place, and it is important to avoid granting subsidies that postpone rather than prevent bankruptcies and job losses;
- *Large-volume temporary public works*: even when undertaken with tackling unemployment as at least one primary justification or objective, these are not necessarily counted as ALMPs.<sup>41</sup> This approach was used with some success by Nordic countries before the 1990s. Nevertheless, Finland and Sweden found it progressively more difficult to implement this approach: in Sweden, subsidised work slowly tended to displace regular work.<sup>42</sup> The fiscal stimulus measures adopted by many OECD countries in response to the current crisis – particularly

40. Many short courses and other programme were developed by the PES in the United Kingdom in the early 1990s when (despite the activation strategy launched in 1986) unemployment rose to high levels in recession (for a list of the programmes in 1996/97, see Finn and Blackmore, 2001). Similarly, when unemployment in Finland was falling, but still above 11%, Raisanen and Skog (1998) recommended reducing the average duration of active programmes from the current six months so as to generate a 50% increase in inflows. This was to involve multiplying short training courses (including group job-search training): at the same time, combining two or more measures could become more common, allowing longer total participation by some clients.

41. If the jobs generated by public investment are explicitly targeted on (*i.e.* reserved for) unemployed people, the wages paid may be classifiable as ALMP expenditure (expenditure on direct job creation); without such a condition, the jobs generated are more comparable to those generated by general public investment, motivated by cost-benefit or perhaps broad demand-management considerations.

42. Standing (1988, p.105) explains that in Sweden “The difficulty of combating the underlying rise in unemployment can be illustrated by the fact that in each successive economic *boom* there have been more people in labour market policy measures.”

their infrastructure expenditure components – are to varying extents viewed as public works projects that directly create jobs. Spain in 2008 set up a State Fund for Local Investment in Spanish municipalities with a total budget of 8 billion EUR, which by 30th June 2009 had invested nearly 5 billion EUR and reported the creation of nearly 400 000 jobs.

- *Long-term training* aiming to productively use time that participants would otherwise spend out of work.
  - Evaluations mainly suggest that training programmes have limited net impact, even for disadvantaged groups of jobseekers and in periods of economic downturn. This is related to a number of factors, including the problem of accurately identifying individuals who will become long-term unemployed if not referred to a programme (profiling), and a tendency for employment outcomes to be more positive in a buoyant labour market, one reason being that training can be targeted on occupations where there is a labour shortage.
  - However, a number of studies have reported a favourable impact of training programmes in the long term (beyond the period of one or two years that is usually studied),<sup>43</sup> and this might justify the more widespread use of training for the unemployed in recession, when its short-run opportunity costs are lower. Moreover, recessions tend to be associated with accelerations of structural change, implying that an unusually large number of job losers may need to change industry or occupation to become reemployed and thus need to up-grade their skills.
  - However, there are some reasons for caution about moving too strongly toward a “train-first” strategy. A rapid increase in the number of training slots may compromise quality. Since it takes time to set up new training facilities, up-scaling should involve existing programmes when feasible. Greater involvement of private-sector training providers is a possible way around these capacity constraints. If such an approach is adopted, careful monitoring of the quality and pertinence of any training supported with public funds would be essential.

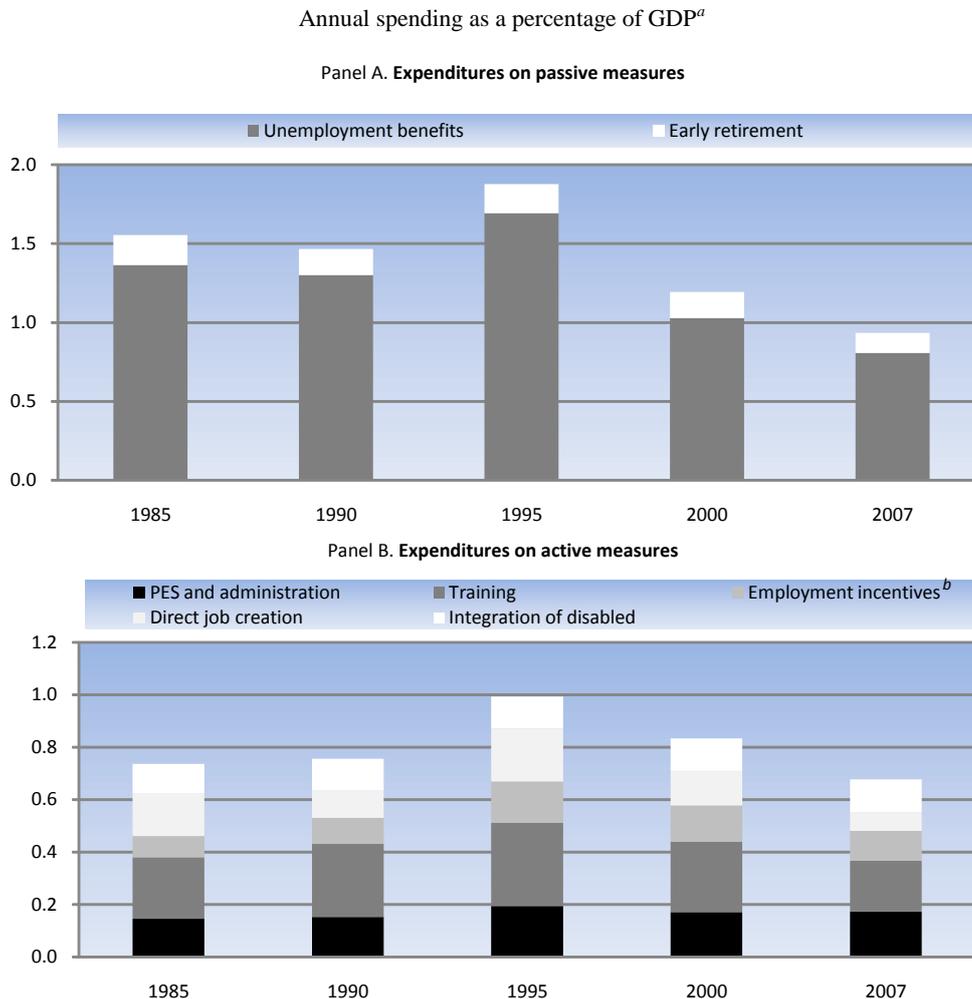
### ***Limits on rapid expansion***

Figure 1 shows a 17-country unweighted average of expenditure on ALMPs as a percentage of GDP in 1985, 1990, 1995, 2000 and 2007. The years 1990 and 2000 were close to trough years for unemployment (a peak of GDP) in the majority of OECD countries, but peak years for unemployment were typically one to three (sometimes four) years before 1985 and 1995.

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43. See OECD (2005) and OECD (2009c).

Figure 1. The evolution of passive and active spending on labour market programmes since 1985



a) Data shown are unweighted averages for Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, the Netherlands, New Zealand (with 2006 for 2007), Norway, Portugal, Sweden, Switzerland, the United Kingdom and the United States

b) Sum of expenditures for employment incentives, job rotation and job sharing, and start-up incentives.

Source: OECD database on Labour Market Programmes.

Subject to this caveat, Figure 1 shows that:

- expenditure on unemployment benefits<sup>44</sup> has moved in line with unemployment;
- expenditure on *early retirement for labour market reasons* stayed relatively high until the mid-1990s, but has declined progressively since then;
- expenditure on the *PES* was slightly below trend in 1990 and 2000, years of low unemployment. It has shown a long-term tendency to increase;

44. These unemployment benefit data in principle include benefits targeted on people with disabilities and general safety-net benefits when the recipients are required to be available for work. However, such benefits are often not included in practice, and the data do not in principle include groups that potentially could be activated.

- expenditure on *labour market training* increased considerably through to 1995: this was probably an important part of the developing policy response from the 1970s recession onwards. After 1995 this expenditure to some extent declined in line with unemployment;
- expenditure on *employment incentives* reached a high level in 1995 and although it has fallen remains higher in 2007 than it was in 1990;
- expenditure on *direct job creation measures* nearly halved from 1985 to 1990, and again from 1995 to 2000, so it proved possible to scale them back fairly quickly: although leaving an issue of whether expenditure should not have been still lower by 2000 and 2007, when labour demand was close to a peak;
- expenditure on *integration of the disabled* was stable over the years, as might be expected given the lesser cyclicalities of the size of the target group.

OECD (2009c) finds that a one percentage point increase in unemployment is for two groups of OECD countries (“market-reliant” and “other successful” countries) typically associated with an increase in passive (mainly unemployment benefit) expenditure of about 0.2% of GDP, and an increase in active (ALMP) expenditure of 0.05% of GDP, or rather less. This indicates that in recession, ALMP spending rises proportionally less so the active share within total LMP spending tends to fall.

Figure 2 shows the evolution of active and passive labour market programme expenditure for 14 OECD countries for which data without a major statistical break after 1985 are available. In these countries, the short-term cyclical movements – as well as, to a certain extent, the long-term trends – in passive expenditure as a percentage of GDP match the movements of the unemployment rate. In the United States and Canada, passive expenditure reaches a cyclical peak or trough before unemployment does, probably related to the short duration of UI payments. As regards active expenditure, it can be seen that:

- In five of the countries – Austria, Belgium, New Zealand, the United Kingdom and the United States – until 2007 active expenditure varied very little with cyclical movements in passive expenditure or unemployment. Movements were also rather limited in two other countries, Canada and the Netherlands.
- In Australia, Finland, France, Germany, and Ireland active expenditure has moved in line with passive expenditure at times, although in Australia and Finland the long decline in passive expenditure in the 2000s was not matched by a comparable decline in active expenditure.
- In Norway and Sweden, active expenditure has moved quite closely in line with passive expenditure. At the microeconomic level, this reflects a tendency for a large proportion of the unemployed to be referred to active programmes fairly early in their unemployment spell.

Figure 2. Expenditure on active and passive measures over the cycle, 1985-2007

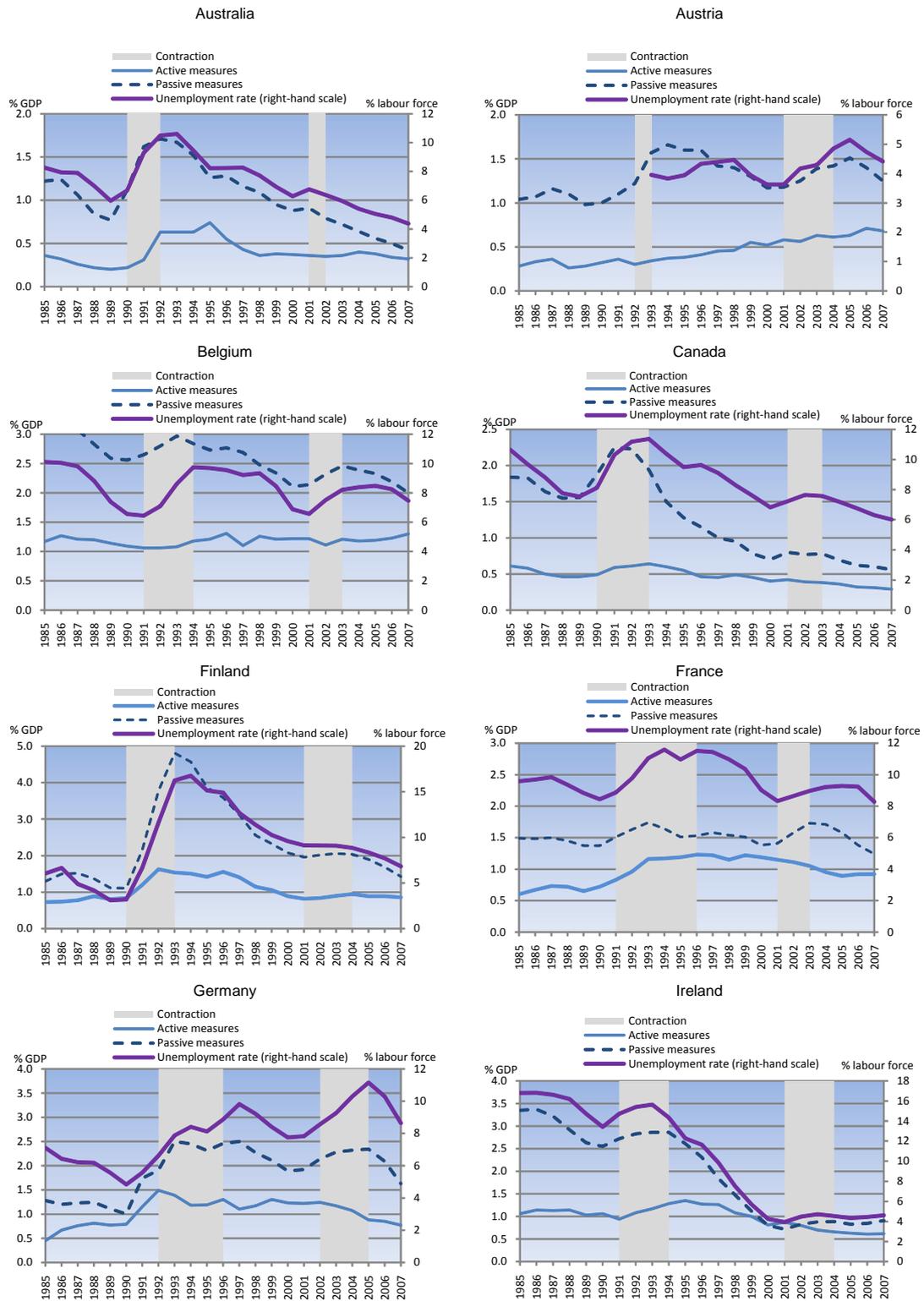
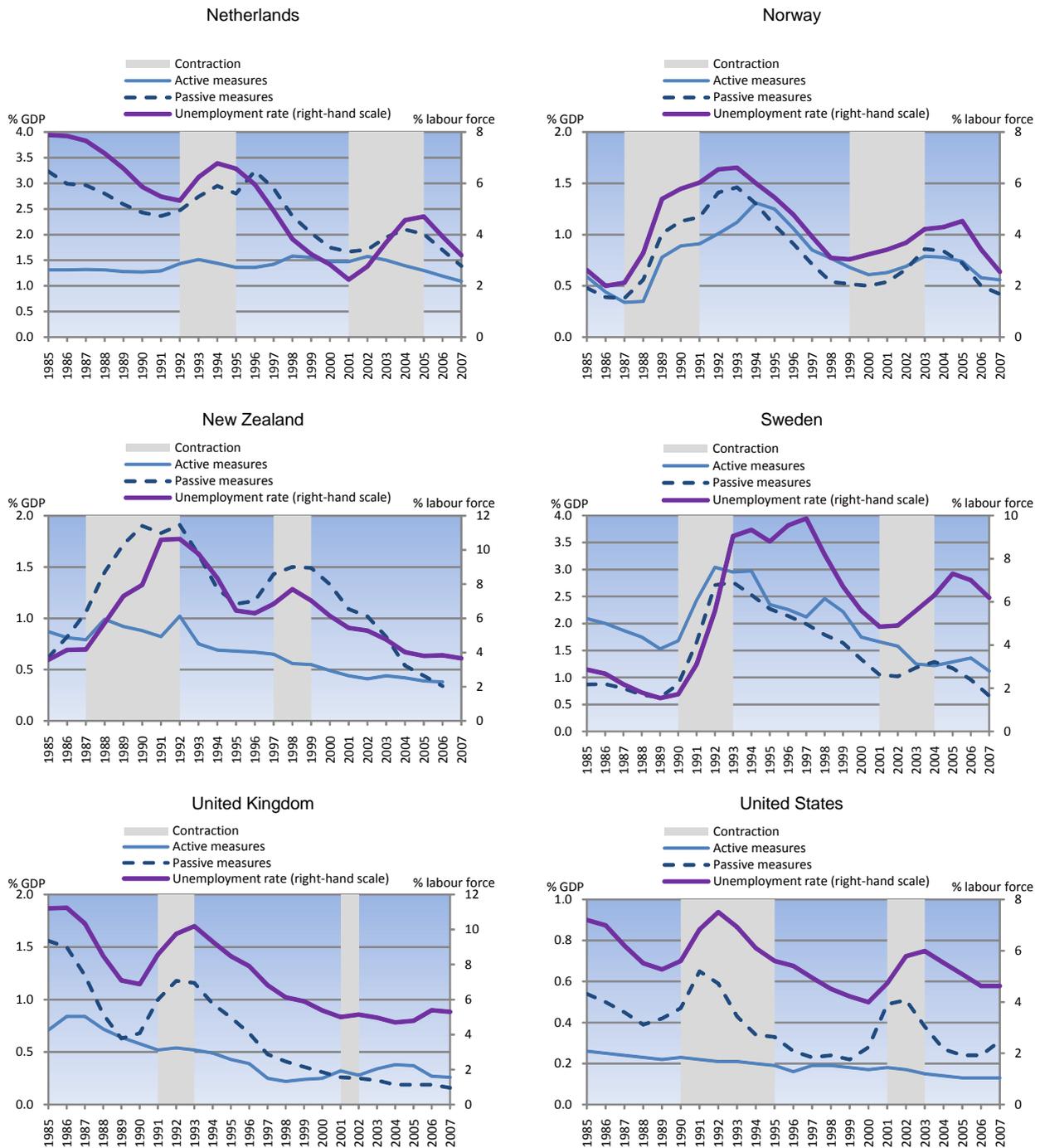


Figure 2. Expenditure on active and passive measures over the cycle, 1985-2007 (cont.)



Note: Business cycle are based on output gap.

Source: OECD database on Labour Market Programmes; OECD Economic Outlook database.

Some patterns can be seen as regards the timing of movements:

- In Ireland and Norway, movements in the level of active expenditure appear to have lagged movements in passive expenditure by one or two years.
- In most other countries, there are few signs that active expenditure lags the actual development of unemployment. Indeed, Finland, Germany and the Netherlands increased active expenditure only early in the 1990s – through to 1992 or 1993 – although the peak levels of unemployment arose slightly later, so that the increase in active expenditure somewhat anticipated the increase unemployment. This pattern may indicate that active expenditure was rapidly increased up to certain limits as imposed by PES capacity constraints and provider infrastructure: it may be relatively costly to go rapidly beyond these limits or to add more infrastructure that will only be used for a relatively short period of time.

These statistics suggest that relatively few countries increase active spending fully in line with passive spending in recessions. Countries that use ALMPs as part of an activation strategy that limits the potential disincentive effects of benefits should, nevertheless, strive to increase funding for ALMPs rapidly in recession. Precaution and foresight are still necessary: the recruitment of permanent PES staff and leasing of buildings still need to be seen in the light of longer-term needs. In particular, long-term spending commitments and the introduction of programmes that will become politically difficult to unwind – such as job-creation programmes that produce useful outputs for the local community in some countries – should be relatively limited.

One way to ensure that funding for employment services can increase in line with demand, while limiting long-term commitments, is to contract more services out to private sector providers. Payments to providers, even if they are not strongly outcome-based, are typically on a per-client basis<sup>45</sup> – every additional client referred to a provider brings additional income that provider, so that levels of funding per client do not decline as they do in the public system.

- Existing employment service providers or private employment agencies may, in recession, be able to handle some PES functions from their own offices or by detaching staff temporarily to the PES. Countries that already use private sector providers, with payment by results or other performance measurement and management arrangements, can significantly increase the size of contracts.<sup>46</sup> Among countries that have recourse to private providers for the first time in the recession, this might be done on a fee-for-service basis with an understanding that any subsequent contract renewals will increasingly be performance-based;

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45. In most countries that deliver employment services through private providers, minor interventions (such as delivery of a short job-search training course) are contracted on a fee-for-service basis, while in contracts for longer-term case management (when the provider has overall responsibility for the client for six months or more), fees are paid partly for service and partly on the basis of employment outcomes. An important additional mechanism used in Australia is so-called “star rating”, which involves assessing comparative provider performance taking into account local conditions, and allocating more business to providers with the best “star rating” track record. Because “star rating” is based on comparative rather than absolute performance, it avoids the problems of under-financing that can arise with outcome-based funding.

46. For example, in late 2008 the UK authorities discussed with providers increasing the funding for and anticipated flows onto the Flexible New Deal, a new programme for the long-term unemployed to be introduced in late 2009, by up to 300% (Work and Pensions Committee, 2009).

- Contracts with vocational training providers may also be expanded. Some client groups, such as the long-term unemployed, may be allowed to continue receiving unemployment benefits during training they have found themselves (this is usually not allowed, so as to avoid an incentive to use unemployment as a route to access free training).

### ***Enhancing the activation content of LMP expenditure***

When expenditure on active programmes is increased, it is important to give them activation content. Countries could consider approaches along these lines:

- Target ALMPs on the long-term unemployed, so the principle of the “active benefit period” can be maintained or implemented. In this approach:
  - the subsistence allowance or wage paid for participation on the ALMP should be below market wage levels to maintain the incentive for finding market work;
  - a variety of programmes (both training and subsidised employment) should be available to allow individual matching and repeat referrals if necessary;
  - the duration of participation in an individual programme should be limited, followed by periods in open unemployment with intensive job-search assistance before referral to another ALMP.
- In the case of hiring subsidies paid to private-sector employers, countries should try to minimise the displacement of ordinary employment and the repeated cycling between unemployment and subsidised work this entails by taking the following steps:
  - Require employers to engage some participants beyond the duration of the subsidy;
  - Restrict hiring subsidies to individuals with likely reduced productivity (the long-term unemployed or other indicators of labour market disadvantage);
  - Limit the extent to which subsidised work qualifies the participant for new UI entitlements.
- Maintain a link between vocational training programmes and the labour market: even in recession, employer demand will be much stronger for graduates in certain areas of work.
- Include provision for job-search assistance and bonuses related to employment outcomes in contracts with LMP providers.

### ***Maintaining the focus on placement and job search***

For the bulk of the unemployed, PES interventions should maintain a focus on rapid return to work, with an emphasis on active job search and the need for realistic jobseeker expectations and willingness to change occupation if necessary. The focus on return to regular jobs should remain central because:

- In recessions, although stocks of unfilled notified vacancies fall sharply, vacancy inflows fall less sharply, and total outflows from unemployment into jobs remains sizeable;
- At higher levels of unemployment, unemployed people on average have better skills and higher employability. A continued focus on re-entry to unsubsidised jobs for the majority of unemployed can limit the build up of a large pool of long-term jobseekers, freeing resources for the PES to focus on hard-to-place clients.

### *Scheduling the activation of “inactive” target groups*

To some extent, in a recession groups that were already hard to place become still harder to place, and at the same time staff and other resources are overloaded by the increased volume of ordinary unemployment. This may justify some postponement of strategies for activating “inactive” target groups until labour demand picks up again:

- In countries where some groups of unemployed are currently not effectively activated – for example, older workers on extended UI or assistance benefits in Austria and Finland – strategies for activating them might be put on hold until the economy starts recovering.
- Strategies for “activating the inactive” (e.g. transferring lone parents and disabled people with remaining work capacity to an unemployment status) might also be temporarily put on hold.

Where plans for the activation of “inactive” target groups are well-advanced, these should go ahead. In some cases, as an alternative to postponement it may be possible to phase the strategy in, starting with more-easily-employable subgroups.

### *Pushing ahead with the long-term strategy*

For national authorities that already had a strategic focus on activation before the recession, changes in response to the recession are more like mid-course adjustments than radical changes in direction. This is not surprising given that implementing an activation agenda will often take quite some time and the expected benefits – lower unemployment and benefit caseloads, accurate targeting of passive measures on those who need them, more intensive assistance for those in difficulty, and generally higher social welfare – then continue for many years, not much depending on the cyclical status of the labour market.<sup>47</sup>

The implementation of activation principles has often involved changes in labour market policy institutions, legislation, and management principles, as well as measures implementing specific programmes. Due to the lags involved in reforms, comprehensive activation strategies planned now are unlikely to bear major fruits before the start of the next upturn. The economic downturn can, therefore, be taken as an opportunity to plan a strategy for activation that will be developed over the medium-term, but whose effects

47. Efficient activation strategies, mobilising potentially-unemployed workers into suitable jobs more rapidly, can reduce the fluctuation of unemployment rates over the cycle in percentage point terms. Moreover, some activation strategies are targeted at social assistance caseloads that, in the absence of activation, are not strongly cyclical: for example in Oslo the social assistance caseload was apparently unaffected by the economic upswing at the end the 1980s, but strongly affected by activation measures (Backer-Røed and Mannsåker, 2001).

could start materialising as the economy moves from the deep recession into the recovery phase. There are many past examples of such timing and the fact that they bear fruit after a certain lag.<sup>48</sup>

Even within a given institutional framework, it is useful to plan the implementation of new activation measures in advance, for example to allow experimentation and testing. Specific measures such as more frequent interviews with clients, referrals to a short job-search training course, a gateway procedure where jobseekers are told some months in advance that they will be referred to an ALMP if no other solution is found, etc., can be implemented at a few offices of the PES network or for a limited target group such as youths in a particular unemployment duration and age bracket. This makes it possible to assess the impact of the measure, so as to decide whether to proceed with it or not, and adjust its detailed characteristics in the light of experience before extending it to a much greater number of unemployed.

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48. Activation strategies introduced near the depth of a recession include those of the United Kingdom in 1986 (Restart interviews), Denmark in 1994 (abolition of requalification through programme participation, and implementation of an active benefit period), the Netherlands in 1995 and 1996 (the introduction of “Melkert I” jobs, and redirection of part of the employment service grant to municipalities and social insurance agencies for them to purchase reintegration programmes), New Zealand in 1998 (the creation of Work and Income New Zealand: unemployment was at a cyclical peak in 1998), and the United States in the early-to-mid-1990s (Welfare Reform: changes started largely at State level before the 1996 federal legislation was passed). Later stages of implementation could then take place during the upswing phase of the economic cycle.

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