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From Inactivity to Work: The Role of Active Labour Market Policies

Stéphane Carcillo,

David Grubb

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By Stéphane Carcillo and David Grubb

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SUMMARY

Many OECD countries have in recent decades experienced periods of relatively rapid growth in non-employment benefit expenditures and recipiency rates which have not subsequently been reversed. By contrast, in a number of OECD countries the number of unemployment benefit recipients has declined fairly sharply since the mid-1990s. Although national situations for particular benefits vary greatly, a variety of evidence suggests that there is now often substantial scope for bringing people currently in the sick and disabled, lone-parent, old-age and non-categorical social assistance groups into employment.

Although replacement rates for non-employment benefits might be reduced in countries where they are relatively generous, this is not an appropriate general strategy given that some recipients of non-employment benefits are genuinely unable to work. The introduction or enforcement of work-availability requirements makes it possible to apply activation strategies similar to those used for unemployment benefits. Work-availability requirements can be extended in many ways, *e.g.* by abolishing early retirement benefits, introducing more restrictive conditions for entitlement to lone parent and disability benefits, tightening the administration of benefits (particularly gatekeeping at entry in the case of disability benefits), and identifying groups of benefit recipients which can be required to participate in employment-related services. This paper gives various examples from OECD country experience.

Improved employment-related services for particular groups, such as conditional management counselling for the disabled and child care assistance for lone parents, make work requirements more politically acceptable and effective, while also contributing to a spirit of mutual obligation. The measures which are effective with hard-to-place unemployed – such as personalised employment counselling – often work for other target groups with specific or multiple barriers to employment.

Strategies for activating those on non-employment benefits can be interpreted as measures that transfer certain client groups from non-employment benefits to unemployment benefits where the Public Employment Service (PES) becomes responsible for delivering employment services. Such transfers need to be implemented carefully, starting with groups that have relatively good employment prospects and continuing as long as the PES is able to keep the average duration of unemployment spells reasonably short. The risk of unsuccessful transfers that overwhelm PES resources, and thus may even increase overall benefit dependency rates, should be kept in mind. Finally, as for unemployed client groups, PES performance management and provider reward systems should recognise that work may not increase welfare for all groups to the same extent. In general, as in other areas of employment policy, measures bringing inactive groups into work should subject to experimentation and evaluation.

RÉSUMÉ

De nombreux pays de l'OCDE ont fait l'expérience ces dernières décennies d'une hausse des prestations de non emploi, tant en termes de dépenses qu'en termes de taux de perception, sans que cette tendance ait été inversée. En comparaison, dans un certain nombre de pays, le nombre de bénéficiaires de prestations de chômage a connu une nette décrue depuis la seconde moitié des années quatre-vingt-dix. Bien que la situation pour chaque type de prestation varie fortement selon les pays, un certain nombre d'éléments suggèrent qu'il existe désormais des marges de manœuvre pour ramener vers l'emploi des personnes qui bénéficient actuellement de prestations au titre de la maladie, du handicap, de leur statut de parents isolés, de leur âge, ainsi que les bénéficiaires de l'assistance sociale non catégorielle.

Mis à part quelques cas où les prestations sont particulièrement généreuses, en diminuer le niveau ne semble pas devoir être une stratégie à généraliser dans la mesure où certains des bénéficiaires sont réellement incapables de travailler. L'introduction ou le renforcement des obligations de disponibilité pour l'emploi permet de mettre en œuvre des stratégies d'activation similaires à celles utilisées dans le cadre des prestations de chômage. Cette obligation peut être étendue à de nouvelles populations, et ce de plusieurs manières : en supprimant, par exemple, les dispositifs de préretraite ; en durcissant l'accès aux prestations pour les parents isolés ou les handicapés ; en améliorant la gestion actuelle des dispositifs (en contrôlant mieux l'entrée dans les dispositifs) ; en identifiant les bénéficiaires qui peuvent, à des degrés divers, être soumis à l'obligation de participer à des programmes variés. Ce papier contient de nombreux exemples de ce type tirés de l'expérience des pays de l'OCDE.

L'amélioration des programmes pour l'emploi ciblés, par exemple au moyen de l'introduction d'une aide à la gestion des conditions de santé pour les handicapés, ou d'une aide à la garde d'enfant pour les parents isolés, rend les exigences en termes de disponibilité à la fois plus acceptables politiquement et plus efficaces, tout en contribuant à établir un climat d'obligation mutuelle. Les mesures efficaces pour placer les chômeurs les plus éloignés de l'emploi – comme le conseil personnalisé – sont également susceptibles de marcher pour d'autres populations présentant des barrières spécifiques ou multiples à l'emploi.

Les stratégies d'activation des bénéficiaires de prestations de non emploi peuvent être interprétées comme des transferts de certaines populations des dispositifs de non emploi vers les dispositifs d'indemnisation du chômage. Le Service Public de l'Emploi (SPE) doit alors contribuer à leur retour vers l'emploi. Ces transferts doivent être progressifs et débuter avec les populations les moins éloignées de l'emploi, puis se poursuivre tant que le SPE parvient à maintenir des durées de chômage relativement faibles. Le risque que les transferts non réussis, en surchargeant le SPE, pourraient même augmenter les taux de dépendance à l'ensemble des prestations ne doit pas être oublié. Enfin, les performances du SPE, ainsi que le système de rémunération des prestataires de services, doivent tenir compte du fait que l'emploi n'augmente pas toujours le bien-être dans les mêmes proportions pour toutes les populations visées. En général, comme pour d'autres politiques de l'emploi, les mesures qui visent à ramener les populations inactives vers l'activité doivent être l'objet d'expérimentations et d'évaluations.

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FROM INACTIVITY TO WORK: THE ROLE OF ACTIVE LABOUR MARKET POLICIES

Introduction

1. About 35% of working-age individuals do not have a job, on average, in the OECD area. Unemployment is only part of the problem and indeed the majority of working-age individuals who are not in work are inactive in the labour market. Over the past decade, as many countries have reformed active measures for the unemployed (OECD, 2003*a*; 2005) and levels of unemployment have fallen, labour market inactivity has received increased attention.

2. Several factors motivate this increased attention. First, reductions in unemployment alone will not be sufficient to meet the challenges of population ageing. Unless employment rates increase, the overall proportion of the population relying on benefits (pensioners and working-age individuals on benefits) may rise to unsustainable levels. In countries for which data exist, on average about a quarter of working-age individuals on an income-replacement benefit are on an explicit unemployment benefit and another eighth are on a social assistance benefit where many (but not all) recipients are expected to actively seek work. This leaves usually a large majority in mainly-inactive categories such as disability, early retirement[1] and in some countries, lone parent benefits. Second, the tightening of eligibility conditions and associated requirements for unemployment benefit schemes may have a limited impact and not result in higher employment if the unemployed transfer to non-employment benefits[2] which are pathways to inactivity. Third, while inactivity may reflect individual or family circumstances, evidence suggests that a large proportion of "inactive" individuals would like to work, should the right conditions exist (see OECD, 2003*a*). Thus, there is room for policies to meet both economic and social objectives. Indeed, part of the challenge is to enhance individual choice, while at the same time maintaining adequate social protection and incentives to work.

3. The purpose of this report is to examine how "activation" strategies which have been applied to the unemployed can be extended to the inactive with a view to promoting transitions to work. Activation includes both the provision of employment services and obligations on individuals who are able to work to look for jobs and participate in programmes. Activation reforms can take two main forms: i) limiting access to non-employment benefits by individuals who are considered able to work: in this case, individuals may still qualify for an unemployment benefit, where activation measures apply; ii) applying certain requirements, usually short of requiring full work-availability, to a significant proportion of all individuals on non-employment benefits. This report does not focus on regular unemployment benefits that require full work availability (an issue addressed extensively in earlier OECD work) or the role of active labour market programmes (ALMPs) in general. However ALMPs targeted on the inactive, such as those with recognised caring/disability constraints are considered. Of course, policies in many other areas such as education, labour market regulations and general taxation, could also play an important role in

1. Early retirement benefits were extensively studied in OECD (2006*b*), with the general prescription to abolish them, and they are excluded from the scope of this report, with the exception of unemployment-pension schemes and exemptions from job-search requirements applying to older workers on unemployment benefits.

2. Non-employment benefits are defined in Box 1.

promoting labour market participation. This report does not cover these topics unless policies are precisely targeted at the inactive (*e.g.* specific make-work-pay provisions for inactive benefits). Overall, this focus reflects the concerns of countries which have found that unemployment benefit reforms and ALMPs are effective in managing unemployment but tend to leave a continuing problem of employment rate shortfalls and/or dependency on non-employment benefits.

4. This report has been prepared as part of the OECD Job Strategy reassessment. The main policy conclusions are summarized in the OECD *Employment Outlook* 2006.

5. The report is structured as follows: after summarizing the main findings of the paper, Section I identifies trends in benefit expenditure and recipiency rates and presents evidence that many currently-inactive people could be employed if the right conditions were present. Section II investigates strategies to reform non-employment-benefit schemes in order to improve gatekeeping and in some cases introduce requirements for work. Section III then sets out examples of how to make active labour market programmes and employment services more effective in promoting job prospects to those inactive who can work. The final section draws conclusions.

Main Findings

- **The working-age population on non-employment benefits is, on average, over two times larger than working-age population on unemployment benefits**. Recipiency of non-employment benefits increased quite rapidly until the mid-1990s. Since then, and despite growing awareness of the problem, **the proportion of individuals of working age receiving a non-employment benefit has at best stabilized and may still be slightly increasing,** on average, for countries with data presented here. This contrasts with a fairly sharp decline in the average number of unemployment benefit recipients. These contrasting trends suggest that measures to move people off unemployment benefits run the risk of increasing flows into other benefits (*e.g.* disability, social assistance or early retirement schemes), rather than into jobs. Expenditures on incapacity benefits alone now often equal or exceed unemployment benefit expenditures. In 2001, spending on disability, social assistance and lone parent core benefits totalled 2.4% of GDP, compared with 0.9% of GDP for unemployment benefits – on average in the seventeen countries for which data were collected.

- **Gate-keeping measures and early rehabilitation can help reduce flows into disability benefits by people who have remaining work capacity.** First, long-term sickness leave is the initial step to disability in many countries, and making firms responsible for the cost of sickness leave can reduce inflows to long-term benefits (experience rating can be an option in this respect). Second, it is possible to keep people in work through a step-by-step process ensuring better control and assessment of social, personal and health conditions (as in Luxembourg, for example), rather than transferring them to disability benefits more or less automatically. Personal doctors should be aware of the consequences of repeated sickness leave on the risk of inactivity. Third, after entry to a disability benefit, continued monitoring of health status can be effective (notably by paying benefits on a temporary basis in most cases). The evaluation of health status should include the possibility of part-time work or employment in certain occupations, instead of focusing on barriers to continuing past work. Gatekeeping measures of this kind transfer some clients to unemployment benefits, because when claims for disability or other non-employment benefits are refused clients often still can qualify for unemployment insurance or unemployment assistance.

- **A requirement for non-employment-benefit recipients with remaining work capacity to be available for work at least on a part-time basis can be effective**. For some groups on

non-employment benefits, assistance measures may help to ensure that this requirement is reasonable. For instance, childcare provision is central for helping lone parents get back to work. Groups that are required to accept suitable part-time work may be treated as unemployment beneficiaries, albeit with some constraints on their work capacity (as in the cases of partially disabled persons and many lone parents after the Welfare to Work reform in Australia). Such work requirements have been effective in reducing benefit caseloads and enhancing welfare-to-work transitions in countries such as Australia, Canada, and, to some extent, the Netherlands.

- A number of reforms have applied **full availability-for-work requirements to target groups that were not previously required to work at all.** Welfare Reform in the United States had this effect for most lone parents, and activation strategies were then able to reduce caseloads sharply. This may often be the most effective approach, but it is inappropriate when disability or care responsibilities genuinely prevent full-time work. Strong availability requirements can be applied within **social assistance programmes managed on a non-categorical basis**, *i.e*. without any formal classification of clients into those required and not required to accept work. The existence of an assistance benefit specifically for lone parents (like in most English-speaking OECD countries) can prevent the application of availability requirements to those who are able to work, probably because the categorization itself creates a focus on the work impairment. The non-categorical approach, where work-availability requirements are applied by employment counsellors on an individual basis, is widely used in continental Europe and seems to have often been more effective in promoting lone-parent employment.

- **To be effective, work-availability requirements imposed on formerly inactive groups need to be accompanied by a system of sanctions** when requirements are not respected. Although the effect of sanctions is difficult to assess independently of other measures, there is some evidence that enforcing sanctions, even on a temporary basis, can improve welfare-to-work transitions. Sanctions may take the form of reductions in benefit levels. The United Kingdom proposes to structure the main non-employment benefits to include a "Support component" or "Work-Related Activity Premium" which would not be paid in cases of failure to participate in appropriate work-related activities.

- Even in the absence of a specific requirement to be available for work, benefit recipients with work capacity limited by disability or care responsibilities may be required to **participate in certain active labour market programmes** such as "work-focused" or "employment preparation" interviews or rehabilitation measures. Periodic interviews are expected to maintain contact with the labour market and provide information about job opportunities, and assess the personal situation and motivation of the benefit recipient (as in Australia, New Zealand and the United Kingdom, for example). Recent evaluations of obligatory "work-focused interviews" in the United Kingdom have found evidence of a small direct impact on benefit off-flows for lone parents and a larger impact on participation in more intensive New Deal programmes. These interviews also contribute to the positive impact of the recent Pathways to Work pilot programme for short-term Incapacity Benefit clients.

- Effective placement techniques for the **inactive groups to be "activated" will often be similar to those used for the unemployed**. Often the Public Employment Service (PES) becomes formally or *de facto* responsible for delivering employment services to recipients of non-employment benefits. **In some cases, there is a need for relatively specialised employment-related services**, managed by specific institutions or providers, and the PES should be able to allocate hard-to-place people to these on an individual basis. To the extent that activation of inactive groups involves the transfer of hard-to-place clients to the PES,

transfers need to be progressive and conditional on the PES having the resources to keep the average duration of unemployment spells reasonably short. Otherwise the new caseload of transferred clients may remain unemployed and divert key PES resources (such as job referrals and counsellors' time) away from more-employable clients. **PES performance management or provider reward systems should reflect the value of different types of employment outcomes**. Although disability benefit or lone-parent clients will in some cases only enter part-time work, placements of these clients may be particularly valuable because they would otherwise have remained out of the labour market for long periods.

- **Financial incentives such as in-work bonuses can also help promote transitions to work, but should be adapted to the situation of particular groups in the labour market**. For groups which, due to a health condition or a caring responsibility, are only required to take part-time work, benefit tapers or in-work benefits should ensure that this transition pays. Where appropriate, disabled people should receive financial help with living expenses (in order to hire paid help, or buy commodities that can help in work, as is the case in Germany for example) indefinitely during employment.

- Although **inactive individuals who do not receive benefits** can be hard to reach, appropriate programmes and employment policies can support their job-search (*e.g.* through counselling, placement, job-search training) and improve job prospects (through vocational training and make-work-pay policies). Scandinavian countries provide several examples of extended services that are also available to inactive people who are not on benefits.

I. The scope for activation

Trends in inactivity and non-employment-benefit recipiency

Figure 1. Participation rates, OECD average, 1990-2004[1]

6. The average labour force participation rate in OECD countries has increased from 69.3% in 1990 to 70.1% in 2004.[3] Nevertheless, as already noted in OECD (2006*a*), there is substantial scope for further rises in participation rates among women as well as youth and older people (Figure 1). Moreover, the slight overall improvement of participation rates has not been accompanied by a reduction in the proportion of working-age individuals (15 to 64-year-olds) who receive non-employment benefits. Given the large number and heterogeneity of individual benefit programmes, it is difficult to construct a full international overview of non-employment benefits in terms of either recipient numbers or spending. Estimates of benefit recipiency rates for unemployment benefits, six categories of non-employment benefits – early retirement, survivors, sickness, disability,[4] maternity and parental leave, care and labour market leave – and a final category called "lone parents and non-categorical social assistance" (see Box 1) were presented in OECD (2003*a*, Chapter 4). For the 16 OECD countries included in the estimates, the unweighted average recipiency rate increased from 14.2% in 1980 to 19.7% in 1999.[5] These estimates have not been

3. In most countries increases in participation rates have been greatest for women aged 25 upwards. This increase has been greatest in some countries where female activity rates were relatively low in the past, such as Belgium, Ireland, Luxembourg, the Netherlands and Spain.

4. In the current paper, the term "invalidity" is preferred when sickness benefits are not included.

5. As reported in OECD (2003*a*), the average increase in benefit recipiency rates between 1980 and 1999 included an increase from 6.1% to 6.9% for sickness and disability (invalidity) benefits combined, from 2.1% to 3.7% for old age benefits (only those received by people aged less than 65), from 2.9% to 4.5% for unemployment benefits, and from 1.2% to 2.6% for lone parent and non-categorical social assistance benefits, with little net change across three smaller benefit categories (the decline in recipiency rates for survivors' benefits was almost as great as the increase for maternity and parental leave and care benefits).

updated, but this report examines trends in terms of two related sources of information: recipiency rates for the main incapacity (sickness and invalidity), lone-parent, social assistance and unemployment benefits; and expenditures on these benefits.

Box 1. A taxonomy of income-replacement benefits and their recipients

Non-employment benefits (which may also be called "inactive" benefits), include all income-replacement benefits (except for education allowances) which are paid to individuals of working age without work-availability requirements. Income-replacement benefits are benefits which are not normally paid to people who are in full-time work and which are expected to provide — perhaps only in conjunction with secondary benefits such as child allowances, health insurance and housing benefits – enough income to live on.

Given the diversity of existing schemes, it is necessary to understand the key features which distinguish between benefits. The first main dimension differentiating benefits is *insurance* vs. *assistance*:

- Insurance benefits are conditional on a record of past contributions to an insurance scheme.

- Assistance benefits (also called means-tested benefits) are conditional on current income falling below a certain level (the "means test").

A few benefits are conditional on both past contributions and a means test.[6]

The second main factor distinguishing income replacement benefits is the category of *social risk* that they cover, which is in four main areas:

- Demographic risk — old-age benefits and survivors' benefits (paid to widows and orphans).

- Health status — sickness, maternity and disability benefits.

- Caring responsibilities — benefits for parental leave, lone parents and those caring for invalid relatives.

- Unemployment — benefits for people who are available for work but have not been able to find work.[7]

The benefit levels, benefit administration and associated services are often adapted to the specific needs of each category. In this case, benefits are termed "categorical", and require proof of the social risk: to qualify for old-age benefits, there must be evidence that the claimant is in the category "old age"; to qualify for sickness benefits, there must be evidence that the claimant is sick, etc. Categorical benefits other than those for unemployment - in the areas of demographic risk, health status and caring responsibilities – can be considered non-employment benefits.

Many countries have a social assistance benefits which is conditional on need (it may be called a minimum income benefit) and is not restricted to a particular social risk, among those listed above. Here this type of benefit is called "non-categorical social assistance" (NCSA). The basic legislation defining NSCA requires people who are able to support themselves — through work or otherwise — to do so. At the level of practical administration, claimants are typically managed by caseworkers (or "social workers") who require some claimants to be available for work and exempt others from this requirement because they are assessed as falling into one of the other social risk categories described above.

Because NCSA is a tax-financed benefit of last resort, work requirements for NCSA claimants are frequently stricter than they are for unemployment insurance benefits.[8] Often only a limited proportion of the NCSA caseload is exempted from work requirements and thus, is receiving a *de facto* non-employment benefit.[9]

6. For instance, in France, the ASS is an unemployment assistance programme which is only available to long-term unemployed people who contributed to the insurance system in the past, but have exhausted their contribution-based rights and have limited resources.

7. Note that unemployment benefits are not defined by loss of a previous job – benefits conditional only on job loss are severance payments, and many countries have assistance-based unemployment benefits which can be paid irrespective of job loss or previous work record.

Figure 2. Evolution of incapacity, core social assistance and unemployment cash benefit expenditures in selected countries, 1980-2001 (*cont.)*

7. Using the OECD Social Expenditures data base (SOCX), Figure 2 reports for seventeen countries expenditures on benefits paid in cash for incapacity (including sickness and invalidity), lone-parent or (depending on the country) non-categorical social assistance, "non-employment" (defined as the sum of the previous categories[10]) and unemployment.[11] Based on Figure 2, features of the trends in expenditures from 1980 to 2001 include:

- First, countries spend a sizeable amount of money in these schemes, and by 2001 all countries except Australia for which detailed data are available were spending more on incapacity benefits than on unemployment benefits. On average (unweighted) for the countries shown in 2001, the sum of expenditures on incapacity benefits plus social assistance or lone parent benefits was 2.4% of GDP, whereas unemployment benefit expenditures represented 0.9% of GDP.[12] Unemployment benefit expenditure in 2001 averaged around 1% of GDP in continental Europe and less than 1% in English-speaking countries and Japan. Spending on incapacity benefits in 2001 averaged 3% of GDP in the Nordic Countries, was about 2% in Spain, Portugal and the United Kingdom and mainly from 1% to 2% elsewhere in Europe, and below 1% in Japan and North America. Spending on core social assistance benefits[13] was highest in New Zealand at

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8. For example, in Nordic countries activation policies have changed to a more "workfare" oriented approach — tightening formal obligations for the unemployed and connecting welfare receipt with strict work requirements — especially in the context of social assistance schemes (Hanesch and Balzter, 2001).

9. Institutional processes do not necessarily lead to a clear-cut classification of claimants: for example, NCSA may be paid on the understanding that a claimant cannot start work tomorrow, but must cooperate in measures (*e.g.* drug rehabilitation) that will — among other things — facilitate return to work at a later date. In some cases, NCSA claimants required to register with the PES can be classified as unemployed while all others are classified as inactive, but often even this type of statistical breakdown is not available or not relevant.

10. This measure of non-employment benefits is not comprehensive since it does not include other categories, notably old age benefits paid to people of working age, survivor and parental leave benefits. However, it was not possible to gather information on the latter at this stage.

11. The SOCX data base includes three categories of benefits (Family, Health and Housing) that in many cases supplement rather than replace income (and thus are not targeted at inactive people), Old Age benefits (the bulk of which are not paid to people in the working-age population), and ALMP spending. The other spending categories in this database are Survivors, Incapacity, Unemployment, and Other non-categorical expenses. Survivors and Incapacity benefits are usually paid only to individuals below retirement age, but there are some exceptions.

12. Note however that these data do not include all unemployment-related benefits. Income support payments to individuals participating in training or job creation programmes, and wage subsidies for participants in subsidized employment are usually not counted as cash unemployment benefits. Unemployment benefit expenditure is often about two-thirds of total spending on labour market programmes for the unemployed. Also, the unemployment benefit data omit social assistance benefits paid to the unemployed in some countries.

13. "Core" social assistance benefits in SOCX data correspond approximately to the "non-categorical" social assistance and lone parent benefit series in benefit recipiency data (Figure 3). But there are some differences in coverage, e.g. when social assistance benefits supplement the income of individuals with another main source of income, recipients may be allocated to a different category in benefit recipiency data.

1.3% of GDP, about 0.5% of GDP in Australia and Nordic and Central Western Europe, and lower elsewhere.

- Second, there are several examples of sharp increases of spending on incapacity benefits (expressed as a percentage of GDP) in all geographical areas, but there is heterogeneity both between and within regions. English-speaking countries except for Ireland experienced significant increases in the 1980s and/or the 1990s. Some continental European countries, such as Germany, also experienced significant increases in the 1980-2001 period but in others (Finland and the Netherlands) public spending as a percentage of GDP declined towards the end of the period.

- Third, spending on core social assistance benefits on average remained more stable over the two decades,[14] with a slight rising trend from the mid-1980s or from the beginning of the 1990s, and stabilization or a slight decrease from the mid-1990s. As expected, non-employment-benefit expenditures tend to be less cyclical than unemployment benefit expenditures. Over the 1993-2001 period, incapacity and social assistance/lone parent benefit expenditures in percent of GDP decreased by 20% on average, while unemployment benefit expenditures in percent of GDP decreased by 50%.

Figure 3. Evolution of incapacity, social assistance or lone parents, and unemployment benefit caseloads in selected countries, 1970-2004

8. Figure 3 shows long-term trends in selected benefit recipiency rates, defined as numbers of beneficiaries as a proportion of the working-age population. The three same categories as in Figure 2 are considered here: unemployment, incapacity (including sickness whenever available), and social assistance benefits (or lone parent benefits, depending on countries). The latter two schemes account for the bulk of non-employment-benefit recipients in many countries.[15] These data tend to confirm that recipiency rates for non-employment benefits continued to increase, relative to recipiency rates for unemployment benefits, over the decade to 2004. Not surprisingly, unemployment recipiency is more volatile than social assistance and much more volatile than disability recipiency. The statistics shown here indicate, subject to the proviso that they are not fully comprehensive,[16] that the percentage of the working-age population receiving either

14. The relative stability, on average, of core social assistance spending as percentage of GDP between 1983 and 2001 contrasts with the rise in average recipiency rates for lone-parent and non-categorical social assistance benefits from 1980 to 1999 (as shown in OECD, 2003*a*) and to 2001 (as shown in Figure 3). Factors in this contrast probably include differences in the years under consideration, general differences in coverage between spending and recipient data, time-series breaks particularly in the spending data, and (as noted for European countries in the 1990s by Cantillon *et al.*, 2004) a decline in the level of social assistance benefits relative to average wages.

15. According to the OECD/NEI estimates (OECD, 2003*a*), the other non-employment benefits — maternity, parental, care, labour market leave, survivors' and old age benefits paid to individuals aged less than 65 – in 1999 accounted for about 30% of total recipients and over 40% of non-employment recipients, on average for 16 countries. This share ranged from below 25% in six of the 16 countries to above 50% in Austria, Belgium, France and Japan and possibly the Slovak Republic (countries with high recipiency rates for early retirement benefits).

16. For Figure 3, in some cases only relatively large schemes were taken into account, *e.g.* incapacity benefit totals do not always include individuals receiving war disability pensions or pensions from workers' compensation schemes. Recipiency data were if possible gathered ensuring additivity, *i.e.* recipiency in one scheme is exclusive of recipiency in other schemes so that no individual is counted twice. Assistance benefits paid to the unemployed in Denmark and the Netherlands in Figure 3 are counted under social assistance (in contrast to the treatment in OECD labour market spending data and OECD, 2003*a*). For some countries there is some uncertainty stemming from the definitions of the statistical sources, or from

disability or social assistance benefits now commonly exceeds the percentage receiving unemployment benefits. This reflects the combination of a variety of trends:

- Sharp falls in recipiency rates for unemployment benefits in Australia, Canada, Denmark, Finland, Ireland, New Zealand, Spain and the United Kingdom.

- Increases in recipiency rates for incapacity benefits in Australia, Denmark, Japan, New Zealand and Norway and the United Kingdom. Together with growth in the 1980s, from 1980 to 2003 the share of the working age population receiving incapacity or disability benefits increased from 2.8% to 5.1% in Australia, from 4.9% to 6.3% in Ireland, from 1.2% to 4.3% in New Zealand, from 6.2% to 10.1% in Norway, from 9.9% to 12.7% in Sweden[17] and from 2.0% to 6.6% in the United Kingdom. In the Netherlands, the main growth took place even earlier, in the 1970s. In 12 of the 16 countries shown, the exceptions being Canada, France, Germany and Spain, caseloads for incapacity or invalidity are now larger than those for unemployment or social assistance.

- Similarly sharp increases in recipiency rates for lone-parent benefits in Australia, Ireland and New Zealand. In 2003, the recipiency rate for lone-parent benefits was 3.3% in Australia and Ireland and 4.1% in New Zealand — twice or more the 1980 level. However a similar rise which occurred in the United Kingdom has been partly reversed since the mid-1990s, and the rate in the United States has fallen sharply.

- A doubling of social assistance caseloads in France over the past two decades, to reach 3.4% in 2004, contrasting with significant decreases in caseloads starting from the mid-1990s in Canada and the Netherlands.

9. These trends suggest that although dependency on non-employment benefits has tended to increase, relatively to dependence on unemployment benefits, detailed developments have varied significantly from country to country. In a number of countries, falls in unemployment have been counteracted by increased dependency on non-employment benefits.

10. It can be argued that faced with stricter unemployment benefit eligibility conditions or more forceful activation measures, those who cannot easily enter employment tend to claim non-employment benefits instead – thus generating a negative correlation between changes in unemployment and changes in non-employment benefits. On the other hand, it can be argued that when unemployment grows, dependency on welfare programmes is nourished by rising exclusion from the labour market, and conversely when unemployment falls, public authorities are able to tighten gatekeeping measures applying to non-employment benefits – thus generating a positive correlation between changes in unemployment and changes in non-employment benefits. In practice, using the data presented here, there is no clear correlation between long-term changes in unemployment and changes in non-employment benefits expenditures or recipiency. This finding is in line with the absence of a general correlation between changes in recipiency rates for unemployment and related benefits and changes in rates for non-employment benefits over 1980 to 1999 (see OECD, 2003*a*, Chart 4.10).

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the rules governing recipiency in the schemes themselves. For instance, problems can arise for disability when disabled people receive only partial compensation.

17. The incapacity recipiency rates cited here do not include statutory employer-paid sickness benefits. In Sweden there were no recipients of such employer-paid benefits in 1980, but they have averaged probably 2% to 3% (and perhaps more) of the working-age population since 1992 (according to OECD/NEI estimates), suggesting that the full incapacity recipiency rate by 2003 was 15% or more. This issue arises in other countries, but it appears to be particularly significant in Sweden (see also OECD, 2004, Table 1.5).

Work capacity among inactive population groups

11. There are reasons to think that there is substantial labour reserve among the inactive in most OECD countries, although some sub-categories appear closer to the labour market than others. Disabled people could at first sight be considered distant from the labour market. However, a study of employment rates and survey findings shows that many people classified as disabled are not fully unable to work. A significant proportion of disability benefit recipients do not classify themselves as disabled (OECD, 2003*b*, Chart 3.9). In population surveys, only about one third of the working-age people who consider themselves to be disabled (either registered as disabled or not) report that their disability is severe (OECD, 2003*b*, Chart 3.1). Nevertheless, in the late 1990s about two-thirds of disability benefit recipients were inactive, ranging from 80% or more in Australia, Austria, the Netherlands, Norway and Spain to 49% in the United Kingdom and 23% in Sweden (OECD, 2003*b*, Chart 3.7).[18] Overall, patterns of self-reported disability, disability benefit receipt and employment suggest that disabilities vary in intensity and are frequently compatible with some types of employment. The growth of disability benefit caseloads has involved an increasing share of recipients claiming benefits for back pain and mental disorders (Figure 4), which in the past were less frequently compensated and in many cases appear to have been compatible with continuing employment.

Figure 4 Disability recipients by diagnosis in selected countries

12. There is more general evidence that people from other inactive groups would like to work. In EU countries about two-thirds of inactive people of working age (more than three quarters, in the 25 to 54 year-old age group; and close to 60% among those with health problems) would like to have a paid job at some time – *i.e.* now or in the future – as reported in international social surveys (OECD, 2003*a*, Table 2.A1.1). By contrast, for the same countries only 12% of inactive people would like to have work now as reported in labour force surveys. On either basis, low-skilled workers and particularly older workers show substantially lower work motivation, and thus may be harder to bring back to the labour market than other categories of inactives.

13. Importantly, rates of participation in voluntary employment programmes do not necessarily reflect work intentions as expressed in surveys. In the United Kingdom, about half of all disability benefit recipients self-report work or job search in the last year, or expect to work in future (Woodward *et al.*, 2003). However in the first 18 months of nationwide implementation of the New Deal for Disabled People, only 2% of the eligible population registered for the programme, despite extensive marketing efforts (Stafford *et al.*, 2001): mass mailings inviting people to attend introductory meetings have response rates well below 1%.

14. In sum, non-employment-benefit caseloads and associated expenditures are important policy outcomes. Growth in these caseloads often seems to have been excessive, sometimes counteracting falls in unemployment benefit caseloads. Increasing employment rates among groups that are currently inactive will require reforms: i) to ensure that people with work capacity above a certain threshold are not enrolled in non-employment-benefit schemes, and ii) to reinforce incentives and provide the right help for those already on non-employment benefits who could potentially work.

18. According to OECD (2003*b*, Chart 3.7) a significant share of people receiving disability benefits are actually employed. Depending on the country, this might reflect coverage in the statistics of non-income-replacement benefits (disability living allowances), partial disability benefits paid to people who regularly work part-time, and long-term sickness benefits paid to individuals who are technically still employed but are not actually working.

II. Strategies for setting appropriate availability-for-work requirements

15. Requiring work availability for beneficiaries who can work is the first step towards activation. Several strategies are possible, depending on the targeted population and the existing system of benefits. In many cases, it is possible to impose *new* work-availability requirements for specific groups of potential non-employment-benefits recipients: some groups can be required to be full-time available for work and thus transferred to regular unemployment benefits. Likewise, efficient gatekeeping can result in some claimants entering unemployment rather than non-employment benefits. But only *partial* work-availability requirements can reasonably be imposed on some groups who face partial or temporary barriers to working. In this case, beneficiaries cannot be sanctioned for refusing full-time work, but may be sanctioned for refusing part-time work, or for failure to participate in measures intended to enhance their employability. Although partial availability requirements are a possible policy option, the thrust of many policy reforms has been to apply full or near-full availability requirements to groups that were previously subject to no such requirements.

16. Work-availability requirements should also be accompanied by the provision of employment services and support measures appropriate to particular target groups (*e.g.* disability specialist advisers, or childcare facilities for lone parents), as discussed further in Section III. The requirements may actually depend on the assistance that is available, as in Germany which requires parents to be available for work only when institutional childcare is available. Poor childcare provision may explain the absence of requirements for lone parents whose children are below school age in some countries (notably English-speaking countries except for North America).

Benefit cuts as an alternative to tighter availability requirements

17. This report focuses mainly on activation policies, and not on benefit levels. However given that some individuals with significant work capacity are able to claim non-employment benefits, high non-employment-benefit levels relative to earnings (or to unemployment benefit levels) may exacerbate disincentives to re-enter work. In some countries assistance benefits for lone parents are relatively generous compared with assistance benefits for other household types (Figures 5 to 7). In eight countries, for a single person the presence of two young children either increases the replacement rate relative to the net earnings of an average production worker (APW) by 25 percentage points or more (Czech Republic, Japan, and New Zealand), or doubles this replacement rate (Korea), or both (Canada, Poland, Portugal and the United States). In several of these countries as well as Belgium, Germany and the Netherlands, net income on social assistance increases when children are present much more for a single person than it does for a couple. And in many countries with wage-related insurance benefits, the contrast between the indefinite duration of disability insurance benefits and the limited duration of unemployment insurance benefits creates a potentially strong incentive to claim disability rather than unemployment benefits.

Figure 5. Financial incentives to work at the APW level for lone parents and other social assistance beneficiaries, 2004

Figure 6. Financial incentives to work at the minimum wage level for lone parents and other social assistance beneficiaries, 2004

Figure 7. Singles with children tend to be favoured compared to couples by benefit systems, 2004

18. For the United States, estimates based on cross-state variability in the level of lone-parent (AFDC) welfare benefits (usually before the 1996 TANF reform) suggest that benefit levels have a rather small impact on the duration of welfare dependency (Moffitt, 1992). However, such comparisons are complicated by the tendency for higher benefits levels to be accompanied by stricter requirements and

increased spending on employment services.[19] Relatively few empirical studies have examined the impact of benefit levels on the length of spells on lone parent or non-categorical assistance benefits for other countries. Fortin *et al.* (2004) assess the impact of a reform in the Province of Quebec (Canada) in 1989, which increased the level of provincial social assistance benefits by over 145% for individuals and childless couples under the age of 30. The estimated duration elasticities for both men and women were positive but small, respectively 0.25 and 0.28.

19. Though cuts in benefit levels could be regarded as a substitute for activation policies, the conditions under which such permanent cuts would be efficient and improve activity rates vary across countries and also depend on the type of benefit considered. In general, reinforced gate-keeping, along with a redefinition of the groups which should claim unemployment benefits instead of non-employment benefits, is probably a first-best solution vis-à-vis cuts in non-employment benefits which could be detrimental to the welfare of recipients who have no discretion in their labour market participation decisions.

Reforms extending work-availability requirements to new target groups

20. In the 1990s, many English-speaking and some European countries started to implement "welfare-to-work" strategies seeking to achieve rapid return to work by recipients of several types of benefits. Measures for unemployment insurance and assistance caseloads included requirements for job-search activity, earlier and more intensive participation in programmes and increased contact with employment counsellors, enforced with more frequent sanctions. Caseloads can be significantly reduced through such strategies when work-availability requirements are first applied to groups that previously faced few requirements (Box 2).

Box 2. Examples of caseload impacts from the introduction of work-availability conditions

Experience suggests that the imposition of work-availability conditions on a particular labour market group, used in conjunction with labour market programmes or regular PES interventions, can have a large impact on assistance benefit caseloads.

In Ontario (Canada), a province that favoured a "work-first" approach, the social assistance caseload declined by about 21%, after the introduction of the "CHST reform" in 1996 (Gray, 2003, p.22).

In the United States, Welfare Reform coincided with a decline in benefit recipient caseloads by about two-thirds between 1994 and 2000. Schoeni and Blank (2000) confirm that Welfare Reform was a major cause of the decline of benefit caseloads recorded in the late 1990s. Many US studies have also found a positive impact on levels of working by lone parents.[20] The impact of Welfare Reform on income and poverty is less clear-cut. By the end of the 1990s most single mothers had higher incomes, but this could reflect factors such as better economic conditions, higher minimum wages and a higher level of the Earned Income Tax Credit. Econometric studies (Moffitt, 1999; Shoeni and Blank, 2000) suggest that the reform slightly reduced the poverty rate among low-income women (by around 2 percentage points).

21. This subsection gives examples of different ways in which work-availability requirements can be extended in different situations, depending on the targeted population and the existing system of benefits.

19. Also, the estimated impacts could be altered by adjusting the data on benefit levels for cross-state differences in the cost of living and other compensating factors.

20. See OECD (2003*a*, Box 4.9, Table 4.4; 2005, Chart 4.6) for a summary of US Welfare Reform, activation measures and evaluations.

22. Although in cases such as those cited in Box 2 benefit caseloads for a particular target group have been reduced by extending work-availability requirements to it, success remains conditional on the employability of the target group and the placement performance of public employment services (Box 3). If intensive activation measures are applied to a target group on indefinite-duration benefits that is scarcely employable, the main outcome may be an unproductive diversion of PES resources (see Section III for some further discussion).

Box 3. How Job Network performance and Welfare to Work are reducing benefit dependency in Australia

The job-placement performance of Australia's Job Network, created in 1998, improved after July 2000 when poorly-performing providers were eliminated for the first time, and improved further when regression-adjusted measures of placement performance became available in March 2001 and were used to further select providers for contracts operational from July 2003 (OECD, 2005, Chapter 5). After a brief economic recession, total numbers on unemployment benefits (Newstart and Youth Allowance (other)) in Australia have fallen steadily. In September 2003, two non-employment benefits — Mature Age Allowance (MAA) and Partner Allowance — were closed to new entrants. People who previously would have qualified for these non-employment benefits have often had to choose between finding work, living without benefits or claiming unemployment benefits.

MAA recipients were in a particular demographic group (mainly males aged 60-64). Broader labour market outcomes for this group suggest that the closure of MAA to new entrants has reduced overall levels of benefit dependency. The number of MAA recipients fell from 43 000 to 19 000 in the two years to September 2005, while the number of unemployment beneficiaries aged 60 and more rose from 6 000 to 14 000. After two years, the increase in numbers on unemployment benefit (8 000) was only about one-third of the reduction in numbers on the inactive benefit (24 000). Apparently two-thirds of potential MAA recipients, who after this change could only claim unemployment benefit, found an alternative, probably in many cases finding a new job or staying in work.[21]

From July 2006, Australia's Welfare-to-Work strategy will, subject to transitional arrangements, transfer 81 000 disability beneficiaries who are able to work at least part-time and 95 000 lone parents to other benefits, mainly unemployment (www.acoss.org.au/upload/publications/factsheets/288__welfare%20reform.pdf; DEWR (2005) and www.budget.gov.au/2005-06/bp2/html/expense-09.htm; Caldwell, 2005). This represents a potential increase of nearly one third in the total number on unemployment benefit *ex ante*, but if experience with the Mature Age group is repeated, the *ex post* increase will be much smaller. This change will increase financial incentives to work, insofar as the benefits formerly paid were "Pensions" which are, in Australia, somewhat more generous than "Allowances" such as unemployment benefit.

One key to this strategy's success is the incentive structure for the Australian employment services (Job Network members). In other countries, PES organizations may regard proposals to transfer clients from inactive benefits to regular unemployment as an increase in their workload without a comparable increase in resources. But for Job Network members, transfers from inactive benefits to regular unemployment status represent an increase in levels of business. A second key to this strategy's success is Job Network's continuing good placement performance, which so far has prevented long-term unemployment from rising as clients are transferred from inactive benefits to unemployment.

Transfers of older workers from inactive benefits to regular unemployment benefits

23. Some European countries in the 1980s and 1990s (Belgium, France, Germany and the Netherlands), as well as New Zealand, allowed older unemployed workers from around age 55 to enter a special category of unemployment benefit, without obligations to look for work actively or participate in employment services. This was partly due to a belief that unemployment levels would decrease if senior workers were to retire earlier. This policy proved to be counter-productive and a number of countries have started to reverse it (see OECD 2003-2005 series *Ageing and Employment Policies*, and OECD, 2006*b*).

21. Consistent with this interpretation, statistics for 60-64-year-old males available so far show a recent upturn in their employment rates relative to other demographic groups, and do not show an increase in rates of dependency on Disability Support Pension.

However, changing workers' mentalities and firm practices is a challenging task which will take time. In the meantime, other schemes such sickness or disability programmes must also be reformed so that they do not act as functional equivalents to the early retirement schemes being phased out.

24. Exemptions from job-search requirements for older workers on unemployment benefit are still common. It remains possible to receive unemployment benefits without any job-search requirements from age 55 in France (unemployment assistance benefit); the same is true in the United Kingdom in the case of social assistance for recipients from age 60 and over. One way to extend the scope of work-availability requirements is to restrict access to, or abolish, these exemptions. In Belgium[22] in 2002, the exemption policy was restricted to people aged 57 and over and, in 2004, the age limit was extended to 58, with the exception of people who had 38 years of contributions to a retirement pension. The Netherlands in 2004 reintroduced the obligation for people on unemployment insurance aged 57.5 and over with recent work experience to look for a job. Municipalities still have discretionary powers to waive the corresponding requirement for older workers on assistance.

25. Some other countries in the 1980s and 1990s created "unemployment pension" benefits, which more recently have been reformed. For example:

- Australia's Mature Age Allowance (MAA) benefit for unemployed 60 to 64-year-olds (introduced in 1994) was closed to new entrants in 2003, implying that this group would need to continue to claim unemployment benefits. Unemployment benefit job-search requirements tend to be less demanding for recipients aged 60 and over: for instance, jobseekers over age 60 are only required to make a minimum of two job applications every two weeks instead of four for people aged 50 to 59. Nevertheless, the transfer of this group back to regular unemployment benefits appears to have had a large impact (Box 3). The relaxed requirements will be tightened from 2006.

- Finland's unemployment pension was created in 1971 and the lower age limit was reduced to 55 years in 1980, after which it was increased again to reach 60 years in 1990. It will be phased out between 2009 and 2014 and replaced with ordinary unemployment benefits and associated requirements. For the time being, the qualifying age for what is known as the "unemployment tunnel" (the possibility to receive unemployment benefits followed by the unemployment pension until retirement age is reached) [23] has been raised from 55 to 57.[24]

- In Poland, from 1991 onwards pre-retirement schemes for the unemployed extended benefits through to pension entitlement age (from the age of 58 for women and five years later for men, and from 55 in the case of group redundancies; Kwiatkowski *et al.*, 2001). In 2002, one pre-retirement scheme was closed to new inflows (MGIP, 2005).

26. In some countries, older unemployed people who are no longer able to transfer to an unemployment pension may suffer income loss as their unemployment insurance entitlements expire.

22. In Belgium, the policy of paying unemployment benefits with an exemption from job-search requirements dates from 1985, and was extended in 1996 to people aged between 50 and 54 inducing a large rise in the number of long-term (probably inactive) beneficiaries of unemployment benefits.

23. In theory older unemployed workers in Finland are not exempted from job search, but the "unemployment tunnel" entitlements are considered to leave people with little incentive to look for a job.

24. However, the impact of this reform will certainly be mitigated by the fact that the eligibility rules for obtaining an ordinary disability pension for workers 60 years and older will be relaxed in parallel, which may lead to an increase in the proportion of older workers on this benefit.

Where unemployment benefits are assistance-based, people who are no longer able to transfer to an unemployment pension can continue to claim unemployment benefit, so the only change is that availability-for-work conditions continue to apply to their benefit income.

Extending availability requirements within lone-parent and non-categorical assistance systems

27. Assistance benefits of last resort (minimum income) often define requirements in a general way that allows for a variety of interpretations regarding exemptions from work-availability requirements. Since the mid-1990s, welfare-to-work strategies for assistance benefits have often involved a reduction in the range of situations that qualify for exemption. For example:

- In Denmark, activation measures for social assistance beneficiaries were developed in conjunction with far-reaching reforms of the unemployment insurance scheme from 1994 to 2000. The Act on Active Social Policy of 1997 (implemented in 1998), specified individual responsibilities in relation to receiving social assistance more precisely. Immediate activation was required for any welfare recipient under 30 and sanctions were imposed in case of refusal.

- In 1996, the Netherlands abolished the unemployment assistance benefit (RWW), thus requiring its former beneficiaries to claim the social assistance benefit (ABW) while at the same time ABW legislation was revised to allow stronger work-availability requirements. The 1996 legislation stated that lone mothers could be required to work when their youngest child reached five years old, compared to 12 years under the previous legislation. In addition, for many years the national government financed 90% of the social assistance costs actually incurred by municipalities. This rate was reduced to 75% in 2001 and to zero (with municipalities receiving a grant related to expected, rather than actual costs) in 2004.[25] In 2004 municipalities were also given additional freedom to define work requirements, and some municipalities now apply them to lone parents with children of any age, depending on circumstances.

- In Canada, the Canada Assistance Plan (CAP), which had provided for federal matching of provincial expenditures at a dollar-for-dollar rate, was replaced in 1996 by an unconditional block grant, the so-called Canada Health and Social Transfer (CHST)[26] which motivated the local governments to further activate recipients. With this change the provinces also gained increased flexibility in the design and administration of their social assistance programmes. Most provincial governments extended work requirements to groups that were previously not treated as "employable". Thus, before 1996, single parents were not required to work until their children finished school while, since then, work expectations are applied in situations where the youngest child is six months old in Alberta, ranging up to seven years old in British Columbia.[27]

- In the United States, Welfare Reform (PRWORA) legislation in 1996 similarly replaced federal co-financing of welfare benefits (mainly for lone-parents families) by a system of block grants.

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25. Struyven and Steurs (2002) and van der Veen and Moulijn (2004) describe these funding arrangements.

26. In 2004, the CHST was split into two distinct schemes with separate funding, the Canada Health Transfer (CHT) in support of health care and the Canada Social Transfer (CST) in support of other social programs.

27. See HRDC (1999) and Gray (2003) for descriptions of reforms to social assistance in Canada. According to the Fraser Institute (www.fraserinstitute.ca/shared/readmore.asp?sNav=pb&id=217), in contrast with the situation in the United States only one province (Alberta) systematically uses diversion tactics (*i.e.* trying to divert new claimants to other options). One province (Ontario) requires participation in workfare programmes: however actual rates of participation in workfare are low both for social assistance in Ontario and for TANF benefits in most states of the United States (OECD, 2003*a*, Chapter 4).

Moreover, while federal legislation prior to 1996 gave individuals (mainly lone-parent families) meeting state eligibility criteria a legally enforceable right to social assistance (AFDC) benefits, PRWORA legislation expressly denies individuals automatic entitlement to such benefits (now TANF). This change has made it easier for state administrators to deny benefits or impose sanctions when they consider a claimant's availability for work insufficient, and not only when they have formal evidence.

- In Australia, as from 2006, new lone-parent benefit applicants whose youngest child is aged 8 to 15,[28] who until now would have entered the lone-parent benefit, will instead normally qualify for the unemployment benefit with a requirement to seek at least part-time work (Box 3). Similar measures apply to individuals with disabilities who can work part-time.

28. Despite major reforms in some countries, the circumstances in which lone parents should be available for work in order to qualify for benefits vary enormously (Table 1). In Ireland, New Zealand and the United Kingdom they face no formal requirement to be available for work until the youngest child has reached at least 16, whereas several other countries require work availability when the young child is aged 3 or more, and several more countries have no formal guidelines and leave decisions to case-worker discretion. These contrasts illustrate the scope for radical reform, subject to considerations of political consensus and feasibility, in countries where requirements are currently relatively limited.

Table 1. Work tests for lone parents, selected countries, around 2006

Requiring partners of assistance benefit recipients to seek work

29. In most countries, levels of social assistance benefit vary with household composition and are means-tested on household incomes, with couples paid a higher level of benefit than single adults. However, traditionally a benefit has been paid to couples when only one member of a couple is assessed as eligible on grounds of incapacity, care responsibilities, old age or unemployment. The other partner in a couple on assistance benefits has not had to prove that these conditions apply to them as well. Therefore, policy change that requires the partners of social assistance beneficiaries to be available for work (or otherwise qualify for benefit) can potentially bring a significant share of the inactive population into the labour force. There are several examples of such reforms:

- In 1995, Australia individualised benefit entitlements so that both members of a couple had to prove unemployment or entitlement to another benefit in order to claim the full amount of benefit. At the same time, changes in benefit phase-out rates encouraged part-time work (Vroman, 2002).

- In 1997, in Denmark the Active Social Policy Act required that both partners in a couple receiving social assistance should accept participation in job training programmes (Bendix Jensen, 2004, p.260). If both partners participate, each receives about EUR 1 125 per month (before tax, at 2004 rates), but if one partner refuses they receive nothing directly and only a supplement to the active partner of about EUR 350 per month is paid.

- Since 2002 in the United Kingdom, couples without dependent children where both partners are aged above 18 but at least one was born after 1957 have been required to make a joint claim for social assistance, thus enforcing the obligation for both partners to actively look for a job and attend separate, as well as joint interviews. If one partner fails to participate, the active partner's

28. Temporary exemptions from the new requirement on lone parents to seek work may be granted in special circumstances (Andrews, 2005).

benefit falls to the single-person rate (www.dwp.gov.uk/advisers/socialfundguide/sfguide/part4.pdf). These interviews aim at motivating each partner to look for a job and encourage the other to do so through mutual support. Partners may also enter a voluntary programme called New Deal for Partners.[29] The 2002 reform extended an earlier provision to older age groups. For the newly-covered age groups, it appears to have reduced the proportion of new Jobseeker's Allowance (JSA) claims that were still in effect 3 months later by 5 to 10 percentage points and to have increased the proportion entering jobs (Bewley *et al.*, 2005; Dorsett, 2005).

Vocational assessment criteria for disability benefits

30. Most countries have disability benefits or pensions which in principle are granted only to individuals assessed with a large, permanent or near-permanent loss of work capacity. For example, US disability programmes (the Supplemental Security Income assistance benefit and the Disability Insurance programme that compensates wage loss) use a strict definition of disability (not being able for at least 12 months to engage in an activity earning more than USD 800 a month). Since beneficiaries of these programmes are in principle fully and permanently invalid, work-availability requirements are not imposed.

31. However, some countries do not apply such a strict definition of inability to work. OECD (2003*b*, Table 3.8) lists "vocational assessment" criteria for disability benefits, which in some cases (sometimes only for older workers) allow benefit claims on the basis that the individual can no longer work in his/her former occupation, or if there is a lack of jobs suitable for the medical condition in the local labour market. Italy, Poland, and Spain pay partial disability benefits in cases of inability to work in the usual job, and full disability benefits only in cases of inability to work in any job. A tightening of these criteria will typically disqualify some handicapped individuals from the disability benefit so that they need to claim an unemployment benefit instead.

Tighter gate-keeping of entry to incapacity benefits

32. As already noted, evidence suggests that disability beneficiaries may have considerable remaining work capacity. At the same time, despite some success of various programmes that promote return to work, rates of exit from disability benefits due to either recovery or work resumption remain low (about 1% per year or less, for all but two countries with statistics reported in OECD, 2003*b*).[30] Low exit rates suggest that tighter gate-keeping, to avoid initial entry into a long-term incapacity benefit status, is critical for increasing long-term activity and employment rates among people with partial work incapacity. In addition, rehabilitation measures appear to be most effective when they are implemented early. A six-country comparative study of return to work after work absence due to back problems found that — although rates of return to work vary across countries — if there was no return to work during the first year of sick leave, the chances of return to work the following year were always low (Bloch and Prins, 2001).

29. These measures target bringing partners into the labour market: before the reform usually only the head of the household claimed benefit. Benefits are still assessed on the couple's *joint* income and are usually paid to only one partner (although on request, each member of the couple can be paid half the total benefit separately on request).

30. For example, the voluntary New Deal for the Disabled (NDDP) programme developed in the United Kingdom in the 1990s is often effective in terms of job entries for its participants and (compulsory) work-focused interviews promote this programme, but only a small fraction of benefit recipients participate in it. Some OECD countries (Australia or France for instance) always grant benefits temporarily at least in principle, with cases reviewed at frequencies ranging from two to five years, but low outflow rates imply that temporary benefits are rarely discontinued in practice (OECD, 2003*b*).

Ways to improve gate-keeping include: i) increase the responsibility of actors throughout the process, ii) evaluate sickness or disability status early in the benefit spell; iii) increase the strictness and frequency of evaluations, and iv) introduce compulsory rehabilitation measures.

33. First, *financial incentives for firms can reduce the level of inflows into disability schemes*, since firms share responsibility for monitoring sickness leave. In many countries, inflows from long-term sick leave are the main route into a disability pension. Consequently, some countries[31] have tried to reinforce incentives for employers to monitor sick leave by making them financially responsible for paying the first months of sickness benefits. For example:

- In the United Kingdom, since 1986 employers have had to pay Statutory Sick Pay during the first 28 weeks (see www.nationalarchives.gov.uk/recordsmanagement/selection/ospintro.htm).

- In Sweden, after 1992 employers had to pay sick workers during the first 14 days of sickness. In 2003, the payment period was increased to three weeks, and as from 2005 employers are required to contribute up to 15% of benefits for the rest of the spell unless the individual is working part-time or is engaged in rehabilitation activities (Hesselius, 2006).

- In the Netherlands, since 1995, employers generally must pay sick workers their last wage for a maximum of a year and from 2004 they must pay at least 70% of the last wage in the second year. Also, from 2002, employers have been made responsible for the rehabilitation of their sick employees either within or outside their companies (www.internationalezaken.szw.nl – occupational disability).

34. Differentiation of employer health insurance premia can create similar incentives for gate-keeping entry to disability schemes. In the Netherlands, since the 1998 reform introducing experience rating (PEMBA), the calculation of disability premia is based on the "disability risk" which is calculated on the basis of actual disability costs "induced" by firms. This strategy, along with the extension of responsibility for financing employee sickness benefits, appears to be having an impact. Inflows to disability benefits fell in 2002 and 2003, and declined still further in 2004. Koning (2004) concludes that experience rating has reduced inflows to the programme by 15%.

35. The issue of allocation of management responsibility for benefits to private employers versus government, or some division of responsibility between the two, needs to be properly addressed. For instance, if employers are responsible they must be able to query initial medical decisions so that they can effectively prevent abusive claims. This, however, requires the involvement of government so as to guarantee employee rights. In addition, the policy may make employers reluctant to hire individuals with above-average risk of future disability, so that measures to counteract this are needed.

36. Second, a key to efficient gatekeeping is that *sickness and invalidity status be verified early enough in the process*. Personal doctors often play a major role in the management of initial sickness absence. Doctors are not always prepared to deal with frequent claims from recurrent patients, and sometimes find it difficult to assess in a limited time the patient's health condition and the demands of his/her work. This is often true for mental health and back pain cases. Subjective and non-medical elements can then influence decisions (Hiscock and Ritchie, 2001). Doctors are not always aware of the impact of prolonged or repeated sickness on the risk of inactivity. The availability of additional medical or occupational specialist advice could help personal doctors prevent recurrence of absence, as well as help them propose work adaptation or rehabilitation to avoid long-term sickness when needed.

31. MISSOC (http://europa.eu.int/comm/employment_social/missoc/2003/missoc_71_en.htm) describes employer sick-pay obligations in an number of other EU countries.

37. In all countries, applications for disability benefits involve an evaluation of health and capacity status, with some countries relying more heavily on medical evidence and doctors' discretion (France, Germany, Austria, Belgium for instance) while others (the United Kingdom and the Netherlands) emphasise the application of rules and administrative discretion (European Commission, 2002). Medical evidence and doctors' discretion make it crucial to cross-check evaluations and ensure that doctors have the right incentives and information about decision criteria. Independently of the relative role of doctors *vs.* administrative procedures in the assessment of incapacity, a key factor is to examine options other than inactivity early in the process:

- Efficient gate-keeping requires early checks during the initial period of sickness absence from work, which can envisage alternative solutions to long sickness leave. In a Swedish controlled experiment in 1988, postponing the medical check on sickness by one week increased the duration of compensation by 6.6% (Hesselius *et al.*, 2005). Employers and other actors can be helped and encouraged to provide occupational health support and adopt best practices for the rehabilitation of employees with health problems (DWP, 2002). In 2004, Norway reinforced medical assessment procedures through an intensified focus on the behaviour of medical doctors and a nationwide programme of courses addressed to them (they should assess patients' capacity to work within eight weeks on sick leave). A significant cut (about 10%) in the number of sick-leave days (which are often the first step towards disability benefits in Norway) followed the media attention towards the new regulation (see also Bellone and Bibbee, 2006, Figure 9 and Box 4).

- Efficient reintegration procedures can also significantly reduce disability benefit applications among sickness benefit recipients. A large-scale controlled experiment was set-up in two Dutch regions in 2003 where disability insurance case workers were instructed to screen reintegration reports more intensively upon receiving applications: employers and/or sick employees were contacted or visited when people had not resumed work for more than 50% of their working hours and were not severely disabled. The cost of this intensified procedure was only a fraction of the saved disability benefits. This procedure reduced sickness absenteeism and disability insurance applications by approximately 5% without an identifiable spillover effect on unemployment insurance (de Jong *et al*, 2006).

- In Denmark, expansion of so-called "flex-jobs" which provide employers with a permanent subsidy has made it possible to offer full-time work to people who are not able to obtain or sustain employment with normal working conditions. Partially disabled people are now offered a "flex-job" adapted to their medical condition, rather than any kind of cash benefit (see Box 4).

- Luxembourg has recently implemented a four-stage evaluation strategy, covering all stages from sick leave to invalidity pension entitlement. The recipient's status is re-assessed and alternatives are examined. The stages are: (1) assessment of health status during the fourth month of sickness benefit recipiency; (2) if invalidity pension is not granted, further examinations to determine work ability; (3) cases where people are found not to be disabled in a general sense but unable to work in the previous job are considered by a special commission. The commission may require the current employer to provide the person with suitable work, notably in the case of firms with more than 25 employees where the number of disabled employees is below the quota required by law. If the commission allows the person to be laid off, unemployment benefit is paid with requirements for active job search and participation in labour market programmes. In either case, upon re-entry to work a benefit can be paid to compensate the employee for lower earnings and the employer can receive subsidies for hiring a handicapped person; (4) upon exhaustion of unemployment benefit entitlements, a waiting allowance is paid which requires continuing

availability for work (www.cepl.lu/ceplweb/av2002/2002-av008.htm, Ministère de la Sécurité Sociale, 2005).

Box 4. Tightening eligibility conditions: the development of flex-jobs in Denmark

Like many other OECD countries Denmark has experienced a growth of the percentage of working age population receiving incapacity benefits, from slightly more than 3% in 1985 to over 5% in 2003. Given the strong reduction in unemployment experienced in the 1990's and potential labour shortages, and the low probability of return to the labour market once people have started to receive disability benefits, the government initiated a reform in 1998.

Flex-jobs are full-time jobs which are subsidized for an unlimited period of time and targeted at people with permanently reduced working capacity. The rate of subsidy is one half or two thirds of the minimum wage of the relevant collective agreement, depending on ability to work.

The number of flex-jobs has increased continuously reaching approximately 35 000 at the end of 2004, about 1.3% of total employment. There are private and public flex-jobs, although development in the private sector has tended to be recent. In five municipalities where this programme was investigated in detail (Communal Project Group, 2005), from one third to three quarters of the jobs were in the private sector, depending on the area and the degree of subsidy. The growth of flex-jobs has been supported by a strong financial incentive on municipalities: they have to pay 65% of the cost of disability benefits and half that of rehabilitation activities, whereas the cost of flex-jobs is fully reimbursed by central government. Flex-jobs still represented only 3% to 8% of total social expenditure in the municipalities studied by the Communal Project Group, suggesting that further extension of the scheme is possible.

Disability benefit cannot be combined with a flex-job, and applications for disability benefit can be refused if a suitable flex-job is available. Given the availability of flex-jobs, in a far-reaching reform in 2003 and 2004 partial disability benefits were abolished. Now only people who are fully unable to work in a regular or flex-job can claim a disability pension (Samoy, 2005). From 2000 to 2005, the number of disability pension recipients declined by about 30 000 (20%).

38. Third, the *strictness of criteria used in the process of evaluation and the frequency of retesting* are important. This is especially true in the countries where disability status is established through a one-shot evaluation defining a work capacity profile, as can happen when a time limit for sickness benefit entitlement is reached, rather than through a long-duration process. It then becomes critical to make sure that initial evaluations of work capacity are sound, and that capacity is re-evaluated as frequently as necessary. Several countries have recently reinforced assessment procedures and tightened eligibility criteria for non-fully-disabled people:

- Since 1996 in Austria and 2001 in Germany, disability benefits have been granted only on a temporary basis except in cases of full disability (OECD, 2003*b*, pp.147-8).

- Twenty years ago, Italy went through a series of reforms that strongly influenced disability evaluation. Since 1984, disability status has been systematically re-tested after three and six years, and permanent benefits have only been granted to fully disabled people. This change was followed by a strong decline in disability caseloads.[32] Rules for access to a non-contributory benefit programme were tightened in 1988, and re-testing of certain beneficiary groups led to loss of benefit in 25% of the tested cases in 1996 (OECD, 2003*b*, p.63, pp.148-9).

32. The creation of early retirement schemes such as "solidarity contracts" the same year (for men aged 58 and women aged 53) could have eased the process and account for a part of the drop in entries to disability benefits.

- The Netherlands has undertaken several administrative drives to re-examine existing claims, resulting in some claimants losing their entitlement to disability benefit.[33]

- The United Kingdom, following the introduction of the "All Work Test" in 1995, introduced in 2000 a new incapacity assessment procedure. Previously the focus was on whether levels of incapacity were high enough to qualify for incapacity benefits. The Personal Capability Assessment (PCA) focuses on what kind of work people can do in various functional areas. In addition to an "Incapacity Report" this assessment generates, in relevant cases, a "Capability Report" for the Personal Adviser assisting the person's return to work (DWP, 2002).[34]

39. Fourth, several countries, along with measures to reduce inflows to disability benefits, have strengthened *requirements for disability benefit recipients or claimants to participate in rehabilitation measures early in the process*. But many OECD countries propose rehabilitation only on a voluntary basis and/or when workers are already in medium- to long-term spells of sickness (OECD, 2003*b*, Table 5.2). Rehabilitation in some cases aims to prepare partially disabled people for return to their former employer; in other cases it provides skills for another occupation which is more appropriate given their medical condition. Some examples are as follows:

- In Austria, large disability caseloads led to interest in activation measures.[35] The 1996 reform introduced the principle that "rehabilitation comes before pension" along with the possibility of granting temporary invalidity benefits. Rehabilitation teams now act early on in the disability process. Rehabilitation can take place even before requirements for a disability pension are met. The measures proposed are far-reaching and can even include university-level training.

- Sweden introduced rehabilitation in the social insurance system in 1992. Acquiring a disability status in Sweden is the outcome of an extended process during which rehabilitation will be envisaged whenever the national insurance office deems it necessary. The spectrum of rehabilitation measures is quite broad, and includes training for low-paid jobs.

- In the United Kingdom, the "Pathways to Work" pilot programme, introduced in selected areas in 2003 and 2004, targets short-term claimants of Incapacity Benefit (IB) with the objective of increasing rates of return to work. A first mandatory "work-focused interview" takes place after eight weeks on IB and in appropriate cases claimants must attend a further five interviews with their personal adviser over the next three to six months. These interviews should be coordinated with earlier implementation of the Personal Capability Assessment, and should complete an

33. In the Netherlands, a programme of retesting launched in 1994 and completed in 1998 led to reclassification of disability benefit entitlements – in some cases, benefit loss – in 30% of all cases. In October 2004, a large-scale re-examination of people below the age of 50 receiving disability benefit was started: large numbers of employees were reassessed as having work capacity greater than had originally been assessed (http://dlapiperglobal.admin.hubbardone.com/files/upload/NewsletterApril2005.pdf).

34. DWP (2006) proposes a new Employment and Support Allowance to be created in 2008 and applied to new claimants, thus replacing progressively the current Incapacity Benefit. The allowance would depend on the Personal Capability Assessment, would should occur within three months and should focus on capability for work. Qualified people will receive a basic allowance at the Jobseeker's Allowance level with an additional payment for those engaged in work-related activity, and an additional disability premium only for people deemed to be severely ill or disabled.

35. In Austria, disabled people receive about 80% of their 15-year average earnings which is one of the most generous systems in the OECD. In 1994 approximately half of all new pensions granted to men and a quarter of those granted to women (excluding survivor pensions) were disability pensions (Haveman and Wolfe, 2000).

individual action plan and offer a range of further assistance measures (www.disabilityalliance.org/path2.htm; DWP, 2002). Outcomes from the pilot implementation suggest that the caseload impact of the Pathways to Work approach is likely to be greater than that achieved by earlier approaches (the New Deal for Disabled People suffered low take-up rates, even when marketed through compulsory work-focused interviews).[36] Pathways to Work will be implemented nationwide by 2008 (DWP, 2006).

40. Effective gate-keeping implies granting permanent disability status only in a limited proportion of cases. Rejection rates for disability benefit applications are already high, averaging about 40% across a sample of 13 OECD countries, and countries with higher rejection rates generally have lower disability benefit inflow rates (OECD, 2003*b*). This suggests that few countries are able to keep inflow rates low only through measures that assist and encourage return to work, and some recourse to tough eligibility criteria and administrative procedures is also necessary.

Partial work-availability requirements

41. Most OECD countries have a system of categorical benefits (see Box 1 above) with at least one major benefit for the unemployed and other (often two or more) major benefits for the sick and disabled. Within this framework, individuals with partial or temporary limitations on work capacity can be granted a variety of statuses where they are not required to be immediately available for full-time work, but are subject to more limited requirements. The following partial work-availability systems exist:

- *Unemployment benefits with adjusted work-availability conditions*. For instance, as mentioned before, in Australia as from July 2006, new benefit claims by partly-disabled people (capable of 15-29 hours of work per week), and lone parents with a youngest child aged at least eight years old, will qualify for unemployment benefit (Newstart Allowance). Specific availability conditions apply to unemployment benefits for lone parents. They are required to seek work of at least 15 hours a week; jobs involving more hours can be considered suitable, but only if there is appropriate schooling or out-of-school care available during the work time and the costs of out-of-school care do not make the job financially unviable; and lone parents who are working at least 15 hours per week are not required to seek any other job (Media Release 8 November 2005, 'Suitable Jobs Test For Parents', http://mediacentre.dewr.gov.au/mediacentre/).

- *A partial disability benefit combined with partial unemployment benefits*. In the Netherlands and a number of other European countries, partial disability benefits are awarded. In this case, many beneficiaries can and usually do concurrently claim partial unemployment benefits (requiring availability for part-time work) in order to obtain a full replacement income.

- *Requirements to participate in work-related activities or programmes*. In the United Kingdom, lone parents are required to attend work-focused interviews at least once every 12 months (more often for new claims). These interviews are expected to become more frequent in the near future.[37] Incapacity Benefit recipients with potential work capacity are required to attend

36. In the pilot areas, following the initial WFI after eight weeks, between 15% and 20% of people enrolled in some programme with over 10% joining NDDP. This compares with the very low 2% take-up rate nationally (www.dwp.gov.uk/mediacentre/pressreleases/2004/nov/iad-3011-ibr.asp). Following entries to Incapacity Benefit between late 2003 and early 2005, six-month off-flow rates from benefit were about 8 percentage points higher in pilot areas (near 40%, as compared to near 30% in non-pilot areas) (Blyth, 2006).

37. DWP (2006) proposes holding interviews every 3 months with lone parents who have been claiming Income Support for at least a year and whose youngest child is at least 11, and interviews every six months for parents of younger children.

interviews every 36 months. Only attendance at these interviews is compulsory: take-up of job opportunities and participation in further measures proposed (such as the New Deal for Lone Parents and New Deal for Disabled People) remain voluntary for these target groups.

42. The impact of these three types of partial availability requirements on outcomes often seems to be low – despite the fact that many recipients of non-employment benefits have a degree of work capacity. Why is this? Possible reasons are:

- An individual's return to part-time work is often low, since the increase in net income from part-time work is limited and some of its costs (particularly travel-to-work costs) are similar to those of full-time work. Also, the effectiveness of job-search and placement assistance restricted to part-time jobs is limited by the supply of part-time job vacancies with convenient schedules.

- Work-focused interviews may persuade people of the advantages of work over benefits and to participate in more intensive programmes. But requirements to participate repeatedly in such interviews or other employment programmes, but without a clear current or future requirement to accept suitable job offers, seem ambiguous. When benefit levels are high, work-availability requirements may need to be unambiguous if they are to be effective.

- Any increase in the number of possible benefit statuses increases the number of borderline cases and thus administrative complexity and the incidence of contested decisions.

43. Given such factors, many countries have preferred to avoid the multiplication of special benefit statuses implying partial work availability. A requirement to work only part-time is appropriate in some cases, but should not be used where health conditions or other factors have only made work slightly more difficult or less productive and the person can work full-time in jobs with eased working conditions (perhaps also assisted through a wage subsidy paid to the employer, as described in Box 4 above).

Enforcing availability requirements through benefit sanctions

44. Sanctions have tended to prove an effective tool for promoting re-employment chances of recipients of unemployment insurance benefits (Lalive *et al.*, 2002). Could they be also effective for non-employment-benefit recipients? Several studies have shown that welfare reforms imposing job-search requirements along with a system of sanctions, even small, can promote transitions from welfare to work. The threat of sanctions influences the behaviour of those not sanctioned. Van den Berg *et al.* (2004), which treats for potentially strong selection bias, found an increase of 100% in welfare-to-work transitions after temporary sanctions were imposed for the city of Rotterdam. [38]

45. A system of sanctions that concerns all non-employment-benefit recipients is not feasible. For some groups, *e.g.* severely disabled people, work-availability requirements are not imposed. But where adapted (partial) availability requirements are applied, some sanctions are likely to arise. For instance, it is not unreasonable to require lone parents to attend yearly interviews or be available for part-time work-oriented activities and this will lead to sanctions in cases of non-respect.

38. Van den Berg *et al.* (2004) also report that the earlier in the welfare spell the temporary sanctions come into play, the lower is the probability of becoming long-term dependent. This study also reports that welfare recipients are sensitive to the level of benefits, and that the application of small sanctions can be sufficient to activate job search. In the Netherlands about 5% of welfare recipients were sanctioned each year in the mid-nineties.

46. It is not easy to identify the specific effect of sanctions policies. When requirements for participation in job-search and employability-enhancement programmes are increased, it will often be difficult to distinguish empirically between the impacts of the increased level of service provision, the increased intensity of participation requirements and the increased incidence of sanctions.

The motivation effects of obligatory participation in programmes

47. Motivation effects arise when potential recipients apply for benefits less frequently, or leave benefits more rapidly, due to credible requirements for ongoing or future participation in labour market programmes (OECD, 2005). Motivation effects may be important for the impact of job-creation (workfare) programmes and "work first" strategies that require high levels of job-search activity and participation in counselling. For instance, the Worker Profiling and Reemployment Program (WPRS) implemented in the United States in 1993 refers targeted unemployed people who face a risk of long-term unemployment to job-search training and counselling programmes. Black *et al.* (2003) on the basis of an experiment in Kentucky report that this programme significantly reduced the duration of unemployment – by 2.2 weeks on average — but mainly because some people left unemployment just after being notified of their obligation to participate in an orientation session and subsequent referral to further services.

48. In Denmark, evaluations of the motivational aspect of active labour market measures show similar effects in terms of the increased probability of exiting unemployment in the period immediately before having to take part in activation programmes. Rosholm and Svarer (2004) find that the threat effect decreases after one year of unemployment when the participation requirement starts to apply, and suggest that this may be because those who remain unemployed expect to gain from programme participation.

49. Overall these micro-econometric evaluations tend to confirm the existence of motivation effects from obligations to participate in programmes in the future. At the same, the dead-weight (lock-in) effects of participation in programme are relatively small for people are at high risk of long-term unemployment, who less frequently find work by themselves (Roed and Raaum, 2006).

III. Strategies for developing efficient activation programmes for groups with limited work capacity

50. Once measures that require labour market availability have been imposed, placement and activation programmes must be effective in promoting entry to work. There is a risk that new work-availability requirements for individuals who face barriers to employment might simply increase the number of people who are seeking work or are classified as unemployed, with limited impact on employment. Non-employed benefit recipients have traditionally not been required to register with the main public placement service, which has then not adapted its service offer for them. And employment services may for many years have been a secondary concern in the management of non-employment benefits. In this case, there may be an unmet need for programmes that address specific barriers to employment among inactive groups. This section describes and evaluates the efficiency of a variety of assistance strategies targeted on barriers to employment. It also addresses implementation issues and performance management of programmes.

General active strategies for disadvantaged jobseekers

51. Programmes and services can emphasise either motivating recipients to seek work and rapid job placement, or improving the objective employability of their participants (*e.g.* their job-search skills, work habits and vocational skills). Individual case management allows a focus on immediate job entry for some

clients and skills improvement for others: evaluations provide some evidence about the impact of different mixes of employment services.[39] Employment bonuses can also be effective to some extent.

Employment counselling should be personalized

52. A meta-analysis of a large number of random-assignment experiments with welfare (lone-parent) caseloads in the United States found that the impact of employment services, on the earnings of participants over the next two years, was influenced by "emphasis on quick job entry" as the most important factor and "emphasis on personalized service" as the second most important factor, whereas participation in basic education and training did not generally have a positive impact (OECD, 2005, Box 4.3). Another synthesis of US research found that employment-focused programmes tend to be more effective than education-focused programs for the more disadvantaged subgroups within the overall caseload (Michalopoulos and Schwartz, 2001). These findings warn against any prior assumption that training is always appropriate. Careful placement, flexibility in programme assignments, one-to-one personalized "client-consultant" relationships**,** rather than simple top-down prescriptions with only occasional interviews, will help reduce the risk of failure. The quality and stability of the personal relationship with advisers is often mentioned as the key parameter for successful return to work.

Training should be targeted

53. The US National Evaluation of Welfare to Work Strategies, which tracked labour market outcomes for five years, to a considerable extent supported the view that "work first" employment services are effective,[40] but found that the most successful single programme was "mixed" — counsellors could refer more disadvantaged clients to education and training on an individualized basis. Long-term studies from the United States and other countries suggest that intensive employment services and vocational training in certain fields can have positive impacts which take two or more years to emerge, probably because participation in training — even when it has a positive long-term effect — reduces short-term rates of job entry (Friedlander *et al.*, 1997; OECD, 2005).

54. Aakvik *et al.* (2005) for the Norwegian vocational rehabilitation programme suggest vocational training effects are larger (in terms of difference between the probability of transition before and after treatment) for individuals whose characteristics would predict low employment. They conclude that the selection of individuals for training programmes should be based on the expected impact of training rather than on the expected level of post-programme outcomes.

Employment bonuses can be effective

55. Make-work-pay policies, such as tax credits, provide financial incentives for benefit recipients to accept a low-paid job. These provisions have become a substantial part of low-wage employment policies over the years, especially in the United Kingdom and United States where they reach, respectively, 5% and

39. Among the few controlled experiments on which a cost-benefit evaluation could be based, many took place in the United States or in Canada and concerned work-first programmes. Blank (2002, Table 8) reports that the ratio of participant income gains to the cost of transfer payments was 1.95 for Canada's Self-Sufficiency Project, and that the ratio of total participant benefits to total programme costs was 1.21 in the Minnesota Family Investment Plan in the case of single-parent urban long-term welfare recipients. In California's GAIN program outcomes varied across the six sites: at the Riverside site participant benefits were positive while net public costs were actually negative.

40. Although disadvantaged clients often return to unemployment soon after leaving it, empirical studies have found little evidence that "work first" employment services worsen this phenomenon: indeed some studies have found that they increase subsequent job stability (OECD, 2005).

20% of all households. In several countries (*e.g.* Australia, Belgium, Canada, France, Germany, the Netherlands and New Zealand), general making-work-pay provisions are supplemented or replaced by schemes targeted specifically at social assistance benefit recipients to combat inactivity traps. Overall, evaluations show that these provisions encourage benefit recipients to consider job offers, notably part-time jobs. However, their impact depends crucially on design features of the schemes, in particular the amount of the bonus, timing and duration of the payment (Whitehouse, 1996). Also, some evaluations show that the impact tends to disappear after payments end, unless additional support services are provided during the employment period to help people retain employment (see Box 5).

Box 5. Re-employment bonuses

The possibility of receiving supplementary payments in addition to wages upon entry to work can encourage benefit recipients to accept job offers.

In France, in addition to the general tax credit for low-wage earners (PPE), all recipients of social assistance benefits including the minimum income (RMI), unemployment assistance (ASS) and the lone-parent benefit (API) can keep their benefit for several months after starting work. For example, a former RMI recipient who takes a part-time job paid at the minimum wage can keep 100% of the benefit for six months and approximately 50% for the nine following months. This programme was supplemented in 2005 by a EUR 1 000 bonus. Although no major evaluation is available, this device may have supported the take-up of part-time jobs (Gurgand and Margolis, 2001).

Similar devices exist and have been evaluated in some English-speaking countries. A “Back to Work Bonus”, up to £1 000, was introduced in the United Kingdom in 1996 to encourage recipients of the Jobseeker’s Allowance (JSA) or Income Support (IS) to accept part-time jobs. An evaluation of the scheme concluded that it had caused a small but significant increase in the level of part-time work between 1996 and 1998, from 3.3% to 4.4% taking into account other labour market changes. This can be considered significant given the small amount of money offered. The long-term unemployed, married couples and individuals of age 55 and over were especially responsive to the measure. Overall this bonus seems to help people consider part-time work as a viable option for moving off assistance benefits (www.dwp.gov.uk/asd/asd5/115summ.asp).

A more generous scheme, the Back to Work Allowance Scheme (BTWAS), was introduced in Ireland even earlier, in 1993. It is now aimed at lone parents, people getting disability benefit over three years, long-term unemployed and other social welfare recipients. The bonus lasts for three years — which is longer than the duration of the French or British schemes — is payable tax-free to a person working at least 20 hours per week. It provides 75% of the former benefit the first year, 50% the second year and 25% the third year. Secondary benefits (fuel and diet allowances, clothing, etc.) can also be retained under some conditions. A non-experimental evaluation found that the BTWAS promotes employment of a substantial proportion of welfare recipients, although the effects tend to disappear once the bonus is exhausted, with only half of programme entrants expected to remain in regular employment (Ronayne, 1996). This result illustrates the fragility of low-wage (part-time) jobs accessed by welfare recipients under this kind of programme.

A random-assignment experiment in Canada gave similar findings. The Self-Sufficiency Project (SSP) was launched in 1992 and enrolled 9 000 single-parent social assistance recipients (in New Brunswick and British Columbia). It offered a bonus to parents who had been on welfare for at least one year on the condition that, within the year following their enrolment in the programme, they find a job paying at least the minimum wage for at least 30 hours a week. The bonus could be paid for up to three years and was large, making up half the difference between earnings and an “earnings benchmark” which was around twice the level of wages actually earned. The experimental group had an average full-time employment rate about 13 percentage points higher (29% compared with 16% for the control group) in Year 2, and 9 percentage points higher in Year 3. But the impacts on all outcome measures (employment rate, earnings, and welfare receipt) fell to become close to zero by Year 5, about 18 months after the end of the subsidy period. A separate "SSP Plus" group, which had received employment services in addition to financial incentives, by Year 5 had on average much better long-term outcomes, with an employment rate about 6 percentage points higher and earnings nearly 20% higher than either the control group or the regular SSP group, but due to small sample size the differences were not always statistically significant (Michalopoulos *et al*., 2002, Tables 3.1, 8.2, E.2).

Programmes for the disabled

Job-search support

56. For unemployed claimants, employment service interventions are often delivered continuously (*e.g.* verification of job search) or with increasing intensity as spell duration increases (*e.g.* entry to a full-time labour market programme, scheduled after a year of unemployment). Rates of exit from unemployment are high in the early months, and a delayed implementation of obligations motivates independent job search and reduces "lock-in" effects that arise in full-time programmes.

57. In the case of incapacity benefits, even though early intervention is recommended, employment service interventions on their own may be inappropriate during initial recovery (following physical injury or infectious disease). Work-focused interviews in the United Kingdom when first introduced took place at the start of Incapacity Benefit claims, but were found to have little impact (see Box 6 below). In the more recent Pathways to Work programme, interviews are scheduled to start in the eighth week of the claim, inducing higher take-up rates of activation programmes. Along with standard employment services which include a benefit payable upon return to work and immediate access to a variety of existing labour market programmes, Pathways to Work offers participation for six to 13 weeks in "condition management" programmes. "Condition management" programmes are run in co-operation with healthcare specialists and address the needs of individuals who are expected to take longer to get jobs. They aim at helping people cope with their health problems before they can enter more directly-work-oriented programmes.

Integrated services

58. The development of individualised strategies will often require dedicated resources from employment services, working in close co-operation with medical services. Indeed, in general a balance needs to be kept between programmes that focus on the medical condition, and those that focus on conventional return-to-work assistance and incentives. To achieve this, Germany created in 2002 integration agencies to assist the Federal Employment Service and the 16 regional-level Central Agencies for the Disabled, which coordinate the various programmes and services. In the United Kingdom the New Deal for the Disabled, introduced in 1998 and nationally extended in 2001, offers a range of schemes, from on-the-job training to job-match payments for part-time work, and specialist counselling and job-broking assistance. Counsellors work closely with local training providers, medical centres and local employers.

Employment programmes for the disabled

59. The Nordic countries have put a strong focus on *vocational rehabilitation* with early and high take-up rate. Frölich *et al.* (2004) studied the impact of various types of rehabilitation programmes on labour market outcomes for long-term sick people implemented in Sweden between 1991 and 1994. Their results tend to confirm that workplace training outperforms other rehabilitation programmes, such as education programmes or medical and social programmes. However, this focus should not lead to exclusion from training of some individuals who cannot return to work immediately. There is also a risk that these programmes will select those who already have higher probability of returning to work in order to improve their measured employment outcomes (creaming). Indeed, based on an analysis of a Danish five-year micro panel data set starting in the mid-1990s, Høgelund and Holm (1993) find that the impact of educational measures for the long-term sick is limited by creaming, as well as by classic lock-in effects. [41]

41. Lock-in effects reflect the potential negative impact of educational as well as out-of-the job training measures on job entries insofar as participants do not look for a job, and thus remain "locked" into non-employment while following the programme. This might increase their distance from the labour market, reducing their chances of finding a job at the end of a long programme.

60. *Subsidies* to private employment can be delivered in different ways: increasing the net wage for the worker, reducing labour costs for the employer, or adapting the workplace or the work schedule for the handicap. Germany has recently deployed a related strategy: to facilitate job retention, employees with disabilities are entitled to hire people to provide them with special assistance on the job.[42]

61. *Sheltered employment* is understood in various ways, depending on countries: it may imply employment in workshops, factories, small shops, enclaves in private companies, public employment, etc. These arrangements exist in most countries and usually have higher take-up rates than supported employment schemes. However, they usually have high costs[43] with low transition rates[44] towards regular employment. In the Netherlands, a reform passed in 1998 aimed at increasing transitions to regular or supported employment: the Sheltered Employment Act for people with disabilities (WSW) provided financial incentives to municipalities to place disabled workers with regular employers with or without wage cost subsidies and extra coaching. In Norway, a similar reform in 1993 introduced new management rules and support which focused "Labour Market Enterprises" (organisations that provide vocational rehabilitation and work experience) on regular job placements. The yearly probability of transition to the regular market increased by 11 points over six years, when taking into account participants' characteristics (Aakvik and Dahl, 2006).

62. Disabled people need in many cases an *adaptation of the workplace* and *post-employment counselling*. For instance, in Ireland since the Employment Equality Act of 1998 workplace adaptation, personal assistance and coaching have become the central employment maintenance policy through a number of targeted grants.[45] However, such programmes experience low take-up rates in most countries. Part of the sustainability problem also stems from day-to-day difficulties at the workplace faced by disabled people and requires, at least for some time, continuous coaching/counselling or aid.

Voucher systems and competitive outsourcing

63. The process of individualization of activation strategies can go one step further and allow increased autonomy to disabled people in their choice of activity. For instance, an innovative scheme was introduced in the United States in 1999 with the Ticket to Work and Work Incentives Improvement Act to give more weight to individual needs and preferences. Under this act, providers are paid on an outcome basis, and although the "ticket" has no monetary value it allows clients to choose which provider to use, how long and when. The programme has now been phased in nationwide. However, it is not clear whether the system allows individual Employment Networks entities to generate enough job placements for

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42. Disabled workers are entitled to funding of between EUR 250 and EUR 1 000 per month to employ a personal assistant. The costs are usually covered by the regional Central Agency for the Disabled (www.logos-net.net/ilo/159_base/germany/ger_rap/leg.htm, www.eiro.eurofound.eu.int/2001/12/feature/de0112238f.html)

43. The cost of sheltered employment places is usually high: it averages EUR 52 000 per job in Denmark and often close to EUR 20 000 in other countries (European Commission, 2004). Total spending on sheltered employment relative to GDP is particularly high in France, the Netherlands, Belgium, Denmark and Sweden.

44. For instance, in the Netherlands the number of people in sheltered jobs reached 100 000 in 2000 (half of all subsidized jobs in the economy) for a cost of about EUR 1.5 bn, and with only limited transitions regular jobs (15% annually). Little, however, is known regarding the net effectiveness of these subsidy programmes.

45. For instance, the Workplace Equipment Adaptation Grant provides a grant, up to a maximum of EUR 6 349, for the adaptation of a workplace or work equipment to facilitate the employment or retention in employment of people with disabilities.

operations to be profitable. Nor is it clear whether enough quality entities are entering the market (Wehman and Revell, 2006).

64. In Australia, Disability Open Employment Services (also known as Disability Employment Assistance) provide funding for employment and related services to assist jobseekers with permanent disabilities who require ongoing support to find and maintain employment. In January 2005, there were around 225 Disability Open Employment Services organisations around the country from which disabled people could choose. These specialist employment services are independently audited against service quality standards.[46]

65. Between 1992 and 1997, Oklahoma changed the state's fee-for-service reimbursement guidelines into a result-oriented system of "milestone contracting", under which organisations would be paid when their disabled clients reach certain "milestones" toward employment (with a 30% premium for "hard-to-place" clients). Frumkin (2001) reviewed this programme and reported striking efficiency results: the average cost of bringing a case to closure was divided by two and the probability of successful closing was increased by more than 100% including strong increases in first placement successes. However, "creaming" was not measured so it is not certain to what extent the good outcomes were due to this.

Programmes for lone parents

66. Lone parents are often one group among others targeted by broad "welfare to work" strategies. Discussion in this section is limited to two more specific approaches — work-focused interviews, which can be used for this (and other) client groups without applying a full work obligation, and childcare availability which is a key factor facilitating work and making it reasonable to apply work obligations to lone parents.

Work-focused interviews have mixed effects when not compulsory nor accompanied by other measures

67. The United Kingdom and New Zealand currently require lone-parent beneficiaries to participate work-focused interviews (Box 6). In the United Kingdom the interviews take place every six months the first year, and then annually. Most of the interview aims at making people aware of the risks of staying out of the labour market, and showing them that they can be better off by working or participating in various programmes, particularly the New Deal for Lone Parents.

68. In New Zealand, following an initial reform in 1997, from 1999 lone parents living on Domestic Purposes Benefit or Widow Benefit were required to be available for part-time work when their youngest child was aged 7 to 13 and full-time work when their youngest child was aged 14 or more. Also, parents with a child below five had to attend annual work preparation interviews and those with a child aged five and six had to attend employment preparation activities. An evaluation (DOL and MSD, 2001) reported that case managers had placed greatest emphasis on the full-time work-tested groups and spent minimal time on the non-work-tested groups. Clients were not always aware of in-work benefits and employment assistance measures available, and services such as childcare and post-placement support had not operated as intended. The proportion of sole parents not on benefits had increased after the reform, with the increase being greatest for those with a youngest child aged 14 or over, but there had also been a pronounced increase in non-receipt for other groups suggesting that the impact could be largely due to a "signaling"

46. The focus on cost-effectiveness of services could have the disadvantage of decreasing the variety or the quality of services in some cases (Spall, McDonald and Zetlin, 2005). A new quality assurance system, "Disability Service Standards and Key Performance Indicators" for employment and rehabilitation services, took effect in 2002 in order to cope with this problem.

effect. Formal work tests for this group were dropped in 2003, while interview-based programmes have been developed (see Box 6).

Box 6. The employment impact of work-focused interviews

Evidence from the United Kingdom concerning the impact of work-focused interviews (WFIs) has been mixed. In 1999 WFIs (also called mandatory Personal Adviser meetings) were introduced for lone parent and disabled beneficiaries, in conjunction with the introduction of "ONE" pilots which co-located the administration of non-employment benefits with unemployment benefit administration and employment services. However, statistical evaluations found that this model of service delivery — and more specifically the WFIs — had little or no impact on labour market outcomes (Connolly *et al.*, 2003; Kirby and Riley, 2004).

However, more recent evaluation found that an extension of WFIs to new groups of lone parents (new claimants with a child aged 3 to 5 years and ongoing claimants with a child aged 9 to 12 years) in April 2002 induced a 1 percentage point increase in benefit off-flows after 6 months and a 2 percentage point increase after 12 months for the ongoing claimant group. This is a significant increase given that the average annual off-flow rate is about 20% for this group (Knight and Lissenburgh, 2005). There is also evidence that compulsory participation in WFIs has approximately doubled rates of participation by short-term benefit claimants in the voluntary New Deal for Lone Parents (NDLP) programme (Evans *et al.*, 2003, Figure 2.6). Since 2001, integrated Jobcentre Plus offices have progressively been introduced. This arrangement allows WFIs to be conducted in local employment offices, which was expected to increase their impact. As of late 2004, off-flow rates for lone parents were slightly higher at the offices which had integrated first (Corkett *et al.*, 2005). Despite the somewhat mixed nature of the evidence, it seems plausible that compulsory WFIs combined with the voluntary NDLP programme have maintained and reinforced the slow downward trend in lone-parent beneficiary numbers that started in the mid 1990s.

In New Zealand, in 2001-2 a programme providing enhanced case management at the time of initial application for Domestic Purposes Benefit was piloted. The programme did inform participants well about the range of alternative options, but it had no impact on rates of take-up of benefit and was not continued (de Boer *et al.*, 2003). However current recipients of this benefit are since 2003, when formal work tests were dropped, obliged to complete a Personal Development and Employment plan (which considers parenting and family needs as well as employment), and to see their case manager at least annually to discuss implementation and updating of the plan (www.msd.govt.nz/media-information/press-releases/2003/pr-2003-03-06.html). This approach is currently being evaluated.

The key role of childcare availability

69. Take-up rates are sometimes low for voluntary programmes and it can be difficult to motivate lone parents to enrol when they face the additional problem of childcare. Childcare provisions can be efficient in various ways (Booth and Coles, 2004). Childcare support enables lone parents, as well as parents in general, to get back to work. Publicly-provided childcare can also help reduce the length of maternity/parental leave which can be detrimental to employment when it is of long duration (Gupta, Smith and Verner, 2006). Early information about childcare and working possibilities might also be important for child development, which can be harmed by parental lack of paid work and low income.

70. As a consequence, some countries have chosen high levels of childcare spending. For instance, Denmark and France have many public and highly-subsidized day-care centres (crèches) that provide low-cost childcare, with priority given to lone mothers. In France, lone parents also have priority for places in almost-free pre-school education from the age of two. This explains — in part[47] — the high rates of labour force participation of lone mothers in both countries (European Commission 2002). Finland recently introduced similar priority for childcare: from 1996, all children below seven (school age) were legally guaranteed a place in municipal day care. Day care must be provided within two weeks in cases of urgent need such as work constraints.

47. Other factors include job-search requirements in Denmark and a low duration (three years) of lone-parent benefits without work requirements in France.

71. Some other countries that have recently stressed activation have also extended childcare. For instance, in Australia the 2004-08 "Choice and Flexibility in Child Care" programme provides innovative childcare solutions such as "In-Home Care" for families who have no other childcare options (due to non-standard hours, rural, multiple children under school age, children with health problems, etc.). "Jobs, Education and Training Child Care" helps people who receive certain cash benefits, including Parenting Payment, to participate in education, training and employment programmes, and "Outside School Hours Care", for primary school children before and after school and in vacations, has been enhanced (84 300 places over four years starting in 2005, www.budget.gov.au/2005-06/bp2/html/expense-09.htm).

Services for non-benefit recipients

72. Non-benefit recipients seem *a priori* out of reach from activation strategies. This is a very heterogeneous group. Some of them would like to work but cannot or do not want to invest in the necessary search/training activities that would help them get a job. This is because they consider these activities too costly or the returns on them are too small. When average search cost in the labour market decreases, or when the returns from work increase, in times of strong job creation for instance, these people more often undertake the necessary investment and enter the labour market (this causes the well-documented cyclical response of the activity rate).

73. Appropriate programmes and employment policies such as those cited above can increase the incentives for non-benefit recipients to enter the labour market by either reducing search costs (through counselling, placement, search training, and vocational training) or increasing returns from work (through vocational training and make-work-pay policies). One of the advantages of unbundling the right to programme participation from the right to benefits is that employment-related services can be more clearly accessible on a voluntary basis to non-recipients as well.

74. Examples of extended services can be found in Scandinavian countries. For instance, in Sweden activity requirements were strengthened for young people in 1998. The target group is broad, since it comprises even young unemployed people entitled to no benefits. Young people without any work-like activity, training, etc., after 90 days should be offered a place on a municipal work scheme or a competence-development programme for up to 12 months. This policy was inspired by the Danish Municipal Activation Law of 1994.

75. Relatively few voluntary programmes have been evaluated scientifically. Characteristic of the evaluation problem, participants in the UK New Deal for Lone Parents have a much higher rate of entry to work (+24 percentage points over the next 9 months) than a matched group of non-participants (Evans *et al.*, 2003). But this outcome, on the face of it very positive, is unlikely to measure the programme's impact because its participants tend to be those who are more actively seeking work. One exception is training programmes for the disadvantaged in the United States, which are mainly voluntary and have been extensively evaluated through random assignment experiments and other methods. A meta-analysis of evaluation findings concluded that participation on average increased annual earnings by USD 1 400 (about 5% of full-year full-time earnings) for adult women, but had little or no impact for youths and adult men (Greenberg *et al*., 2001).

Implementation requires efficient public employment services

76. The activation of people on non-employment benefits is a labour-intensive activity. Client groups are heterogeneous, with many "special cases", and the creation of a moral obligation often requires a one-to-one relationship sometimes including tight job-search monitoring and counselling. If activation strategies transfer "new" client groups to the regular public employment service (PES), there is a risk that the new client groups will be hard to place and have long spell durations, diverting substantial resources

away from the existing PES client group and reducing its job entry rate. In this case attempts at “activating the inactive” may achieve no reduction — or even provoke an increase — in total benefit dependency rates. When the PES is overwhelmed by high unemployment, it may even be appropriate to exempt some hard-to-place groups from work-availability requirements until the PES has regained a capacity to manage its regular caseload. In general, policy-makers need to judge accurately when to introduce new work requirements with the implication that new client groups will, for example, be referred to PES job vacancies. Australia's phasing out of the Mature Age Allowance which leaves its potential claimants the option of claiming regular unemployment benefit seems to be reducing overall benefit dependency rates for the demographic group concerned, but this positive outcome may be related to the good performance of employment services (see Box 3 above).

77. Additional resources should be allocated to the PES to allow it to handle the new client groups. However at least one key PES resource – the volume of employment in the economy and the flow of job vacancies associated with it – is relatively fixed in the short term. So there is also a case that the PES should be kept relatively fixed in size, making adjustments that bring the most employable new client groups into the labour force when unemployment is low and vacancies are hard to fill, and refocusing attention on the existing stock of unemployed when unemployment is high and there is a shortage of vacancies. If the PES clients who are referred to job vacancies consistently have good work skills and motivation, employers will find that employing them is profitable and a trend increase in the employment rate can continue as long as the supply of new, relatively employable, client groups continues. In this perspective, PES success in reducing the stock of unemployment and spell durations among its existing client groups is a precondition for successful transfer to it of additional, slightly harder-to-place, client groups. A wide range of measures and strategies – for example one-stop shops, adequate resources for case management, effective information systems, performance management arrangements, etc. – can contribute to PES effectiveness, but these are not discussed here in detail.

78. An alternative strategy for "new" client groups is to locate employment services for them outside the structures traditionally responsible for regular unemployment and unemployment benefit recipients. Current practice provides examples where two or more fairly distinct placement-oriented organisations coexist. Vocational rehabilitation services for individuals recovering from work injuries are in many countries separate from the main public placement service. In the United States, employment services for lone parents have traditionally been separate from employment services for the general public and UI beneficiaries, even though both are managed mainly at state level (and One-Stop initiatives aim to break down this separation). In the United Kingdom, the New Deal for Lone Parents is implemented mainly by regular PES staff while the New Deal for Disabled People is implemented mainly by contracted providers. At the same time, in most countries, the main public placement service provides specialist counselling for some groups of job-seekers, particularly people with disabilities and people returning to work after some years out of the labour force. This illustrates the potential for using a unified PES to provide employment services for a wide range of groups.

79. Arguments for integrated management of groups such as the disabled and lone parents include:

- Unnecessary separation of organisations with similar functions involves problems of coordination and additional costs.

- Treating lone-parent, disabled or other formerly non-employed beneficiaries as comparable to other unemployed persons can help sustain their motivation and work expectations.

- If separate employment services exist they should share vacancy information so as to permit the best match for each vacancy. However, sharing vacancy information across organisations can lead to problems of free-riding. If the regular PES devotes resources to vacancy acquisition and

filters job referrals in order to retain employer goodwill, but other employment services are given access to the same information and repeatedly send weak candidates, the vacancy management strategy of the regular PES is undermined. Centralised management of vacancy information avoids such problems.[48]

Counter-arguments in favour of the separation of employment service organisations include:

- Specialised service providers may better understand the needs of groups such as victims of work injuries and lone parents, etc. and enjoy economies of specialisation in handling them.

- In some cases, service specialisation along the lines of client benefit entitlements achieves better integration of placement services with benefit administration. Integration or close coordination with benefit administration arguably makes it more likely that employment services will take the cost of benefit payments into account (cf. Box 8 below).

80. Separate employment service provision for new client groups will often be subcontracted to private providers. Subcontracting may be seen as offering greater flexibility and responsiveness to management objectives – although it is also arguable that a well-managed nationwide public service is often able to implement programmes, particularly new nationwide entitlement programmes, more rapidly. The case for subcontracting employment service provision should be assessed largely in terms of whether the right general conditions – in terms of measurement and active management of provider performance, while giving providers enough powers for them to work effectively – are present or can be created (OECD, 2005). Two potential limitations of quasi-market subcontracting arrangements, in relation to new client groups, are:

- Often the performance management framework for employment services rewards only relatively short-term employment outcomes. If longer-term term training is to be provided, this may need separate funding and management arrangements.

- "Creaming" – which occurs when providers take in only the most employable potential clients – is potentially a more serious problem for competitive provision when client participation in the services is voluntary. Voluntary clients are usually able to choose providers and this implies that providers whose performance is measured in terms of employment outcomes can benefit from advertising-type measures that attract the most "employable" clients to register with them rather than with competitors — which is not necessarily a productive use of resources.

Another issue for performance management, which comes to the fore in cases of quasi-market provision, is how to value entries to employment by members of formerly-inactive client groups. Arguably for disabled or lone-parent client groups the value of employment outcomes per additional month in employment can be lower than it is for the unemployed client group, because the unobserved (disutility) costs of working are greater for them. However it should also be kept in mind that, for people with disabilities, in addition to providing an income work can have health benefits (Box 7).

48. Australia's Job Network arrangements appear to allow providers to develop exclusive relationships with particular employers, but there is an incentive for listing vacancies on the national vacancy database (Job Placement fees are paid when vacancies listed on the national database are filled by eligible job-seekers).

Box 7. Health and work: the role of employment-focused strategies in promoting health outcomes

The case for using general employment service strategies for sick and disabled people is strong if return to work in itself promotes better health outcomes. Direct evaluations of the impact of different types of labour market programmes on health and reported well-being for groups with different medical conditions are not currently available. However, a large body of evidence exists (Dodu, 2005) showing that :

- unemployment can in itself be a cause of poor health,
- work-like activities improve well-being among the unemployed and the retired (independently of any formal employment status), and
- entering formal employment status improves the sense of well-being and social integration among people with both physical and mental disabilities.

Such findings may justify advocating employment to disabled clients for its benefits in terms of health and well-being, and may support the use of intensive or mildly coercive employment promotion strategies for some groups of disabled. For instance, an increasing body of research into the management of lower back pain, the most common musculo-skeletal disorder, finds support for a primarily work-first approach (Lee, 2005): "While 85-90% of musculo-skeletal disorders resolve within 2-3 months regardless of the treatment applied, it is the remaining 10-15% that account for 80-90% of their total costs to insurers, employers and society. Several lines of evidence suggest that greater emphasis should be placed on returning injured employees to work as soon as possible. There is strong support for early reactivation of injured workers and the avoidance of bed rest."

81. The main variables used to measure the value of employment outcomes can be savings on cash benefit payments and participants' earnings from work (Box 8), although it might be possible to use some other variables *e.g.* client satisfaction survey data and perhaps client health status. In quasi-market arrangements where competing providers deal with comparable groups of clients, providers' relative employment outcomes may be used as an approximate measure of their comparative net impact. More generally, as the input to any cost-benefit analysis, estimating the *net* impact of a programme requires taking into account multiple factors that influence measurement: selection bias in programme participation can be large; positive impacts on employment and/or wages can appear after a delay that varies across programmes and individuals; pre-programme (motivation) effects should be accounted for; and at the macroeconomic level displacement/substitution effects and social interaction effects could be significant.

Box 8. Performance management of programmes for recipients of non-employment benefits

It is difficult for the Public Employment Service to identify exactly which services and programmes are cost-effective, and then implement them reliably through administrative authority. An alternative way to increase the efficiency of employment service spending is to allocate comparable batches of jobseekers to different employment service providers, and vary the relative amounts paid to different providers in line with the relative value of their employment outcomes. In this environment, employment service providers that choose an optimal level and distribution of spending across different types of programmes survive at the expense of those that do not. Performance management within a public system should follow similar principles.

For unemployed clients, the employment outcomes achieved by service providers can be valued in terms of differences in "B+tW", where B is savings on unemployment benefit costs and tW is the tax rate multiplied by their earnings from work (OECD, 2005). This formula is based on the idea that most unemployment beneficiaries want to work, which implies that the return to work brings them some net gain in personal utility even after losing benefits and paying taxes. The improvement in government finances resulting from work (B+tW) then represents a net increase in social welfare (OECD, 2005).

Inactivity can as a starting point be seen as a situation where, given handicaps or caring responsibilities, social welfare would not necessarily be improved by requiring beneficiaries to work. For example, before the welfare state existed, families that could afford it often supported disabled family members without expecting them to work.

When benefits are paid, within the non-employment-benefit caseload two situations can be distinguished:

1. Many beneficiaries are not required to work. If gatekeeping for full disability benefits is accurate, there should be no general expectation that pushing beneficiaries into work would increase social welfare. In principle some individuals on disability benefits may be able to work, but only at a disutility level that exceeds the value of their output. However, a small proportion of the caseload will be misclassified, and will be able with assistance to return to work on a voluntary basis, with a net gain in personal utility even after the loss of benefit (B) and the payment of taxes on earnings (tW). According to this argument, employment outcomes achieved through such voluntary programmes are worth at least (B+tW) but they will be few in number.

2. Some beneficiaries are subject to reduced availability requirements. In this case, society appears to believe that a return to work will often increase social welfare, but is not sure that this will be true in every case, and does not expect all beneficiaries to behave as if they prefer work. If entries to work are achieved through relatively "light" requirements, returns to work will still be largely voluntary and worth an amount close to (B+tW). If relatively "heavy" requirements are imposed on many individuals, the disutility of the requirements for those on benefit may be an important cost in itself. Then entries to work are more likely to occur, but their average net worth may be below (B+tW).

If gatekeeping has been very lax – for example, if many in the group with no or only partial availability requirements should have been left on regular unemployment benefits – benefit status is in any case a poor guide to the value of employment outcomes.

In applying such a conceptual framework it should be noted that employment services delivered in one year can potentially have an impact on outcomes many years into the future. For non-employment beneficiaries, a single placement into a stable job may potentially have a relatively large value because in the absence of assistance the person would probably not have re-entered employment, even in the long term.

IV. Concluding remarks

82. As described in this paper, activation principles can be implemented by extending work-availability requirements to new target groups of benefit recipients and by improving employment-related services. However these reforms face several difficulties.

83. The effectiveness of measures for activating non-employment-benefit recipients will often be enhanced by improved coordination - or even integration - of the main PES organisation with welfare services and disability employment services. Where separate administrations exist, they may not regularly share client information and resources such as job vacancies, and they may have different management views on issues such as work-availability requirements. Major reforms may involve costly institutional change.

84. The final objectives of activation strategies should not only be to increase employment outcomes and decrease benefit dependency rates, but also to avoid poverty. Activation measures can involve income losses for affected groups – directly, for example in the case of tighter gatekeeping of access to disability insurance benefits, or indirectly, for example when beneficiaries drop their claim rather than comply with newly-imposed work-related requirements. Activation strategies are more appropriate, and more likely to reduce poverty, when they make only reasonable demands on clients while also being successful in terms of employment outcomes.

85. Activation strategies and reforms should be based on experimentation and continuous evaluation of the net impacts of different measures, an issue that will require further investigation, notably as regards how to assess long-term impacts of policies. A first step is to compare employment and income outcomes between treated and non-treated groups (as is done in controlled experiments), and a second step is to put values on the measured positive impacts and costs of the activation measures. Evaluation processes should be included in the design of reforms. And since programmes may become less effective at least at the margin after several years of successful implementation, the evaluation of current programmes and experimentation with new programmes should be an ongoing process. In practice, evaluation information is incomplete, but partial information and a consideration of the issues within the conceptual framework of programme impact and cost-benefit analysis are still useful inputs to policy-making.

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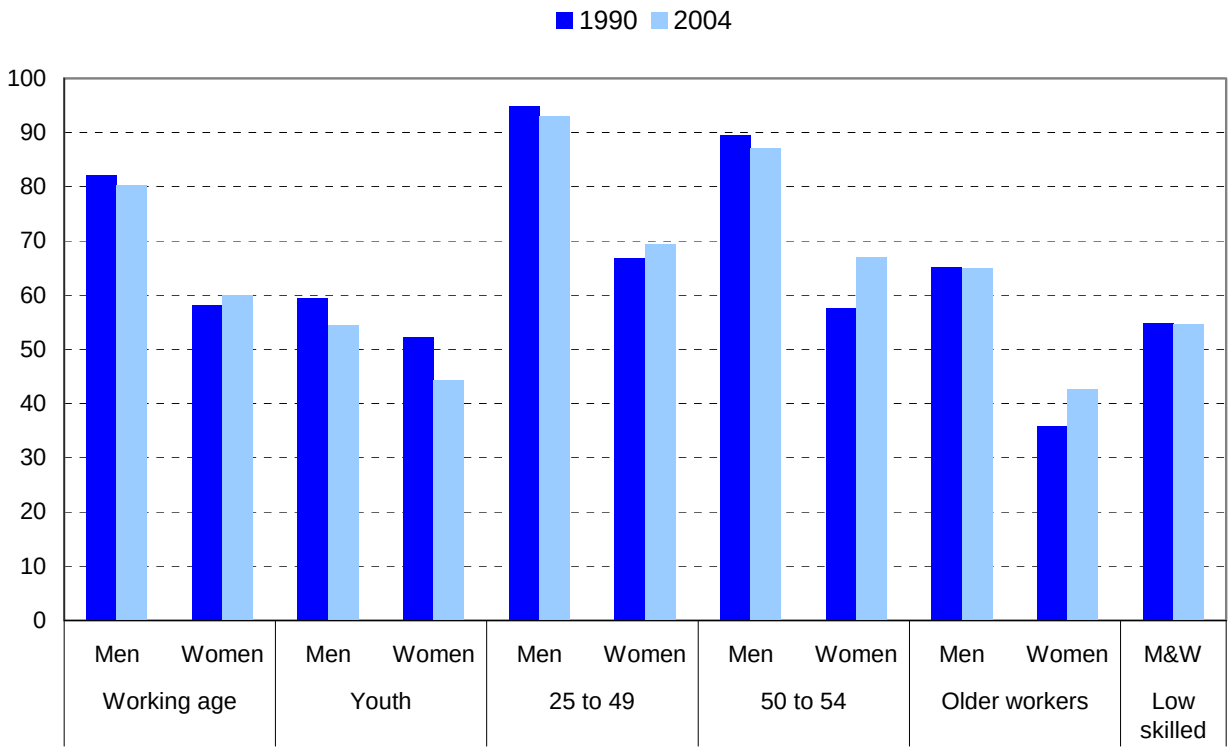
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APPENDIX. FIGURES AND TABLES

Figure 1. Participation rates, OECD average, 1990-2004[1]



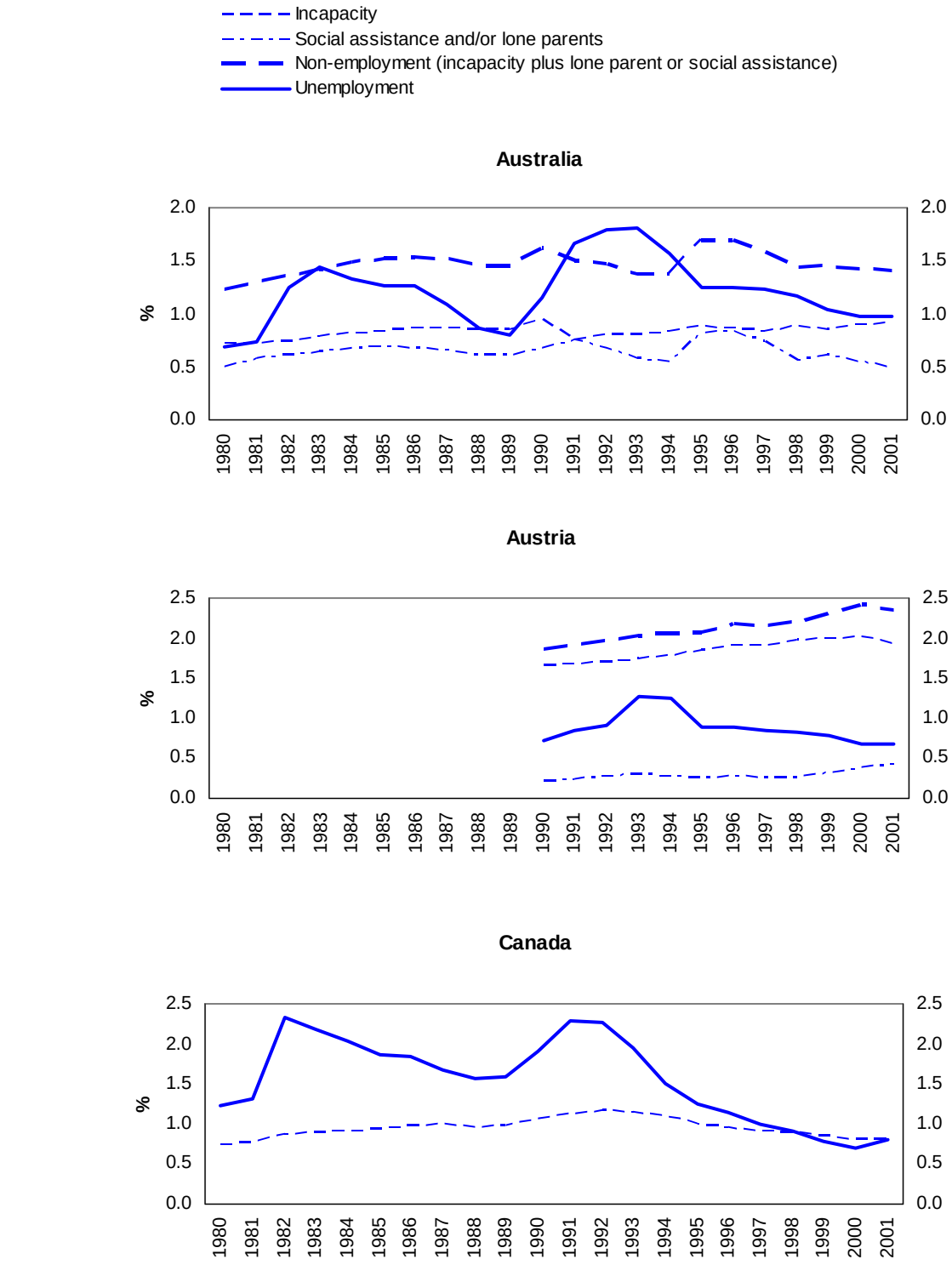
1. Data for the low skilled refer to years 1991 and 2003 and cover the working age population.

Low skilled refers to the persons who have attained less than an upper secondary education.

Source: OECD databases on Labour Force Statistics (LFS) and National Educational Attainment Categories (NEAC).

Figure 2. Evolution of incapacity, core social assistance and unemployment cash benefit expenditures in selected countries, 1980-2001

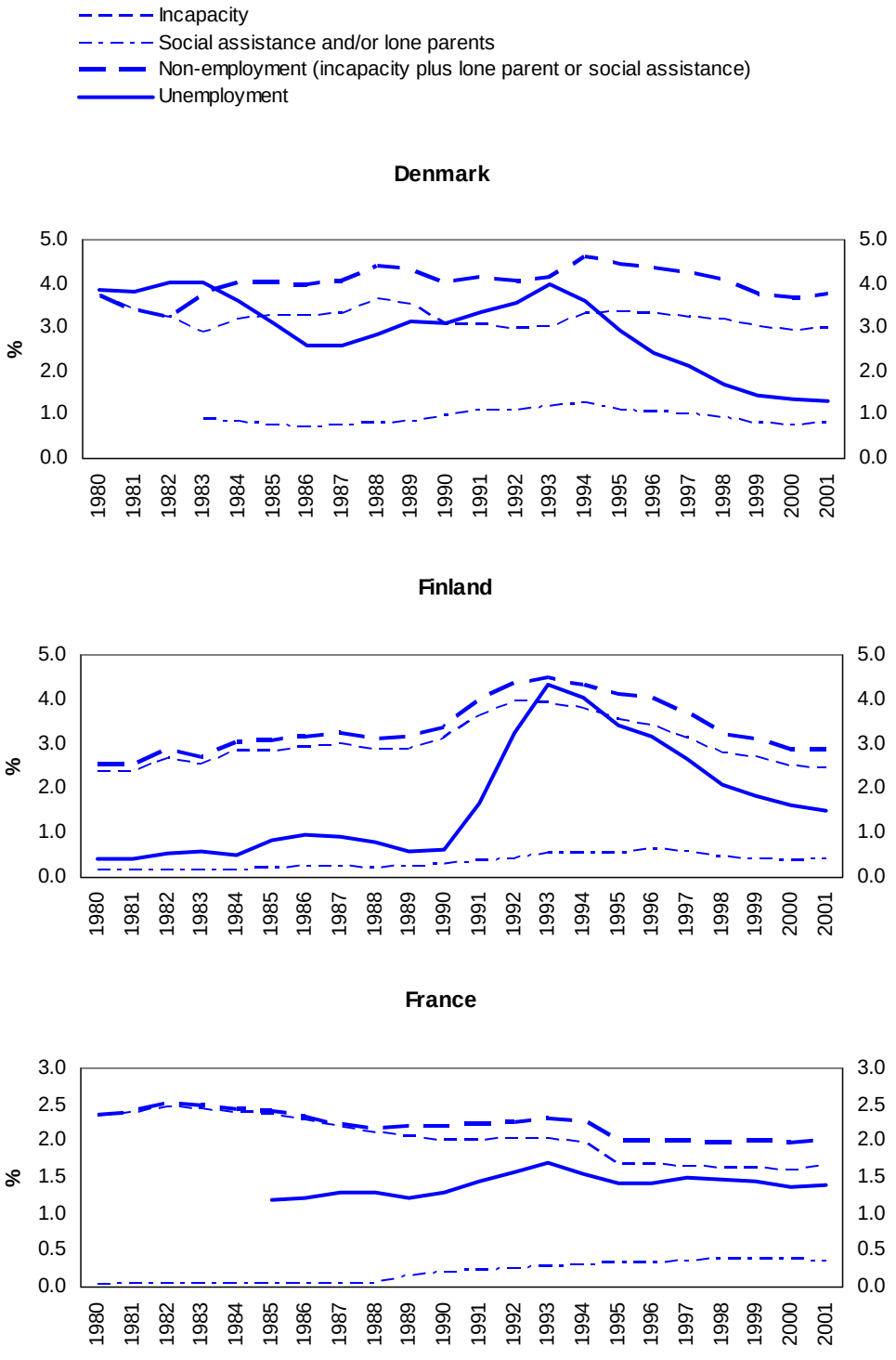
Public cash benefit expenditures as a percentage of GDP



See notes at the end of this figure.

Figure 2. Evolution of incapacity, core social assistance and unemployment cash benefit expenditures in selected countries, 1980-2001 *(cont.)*

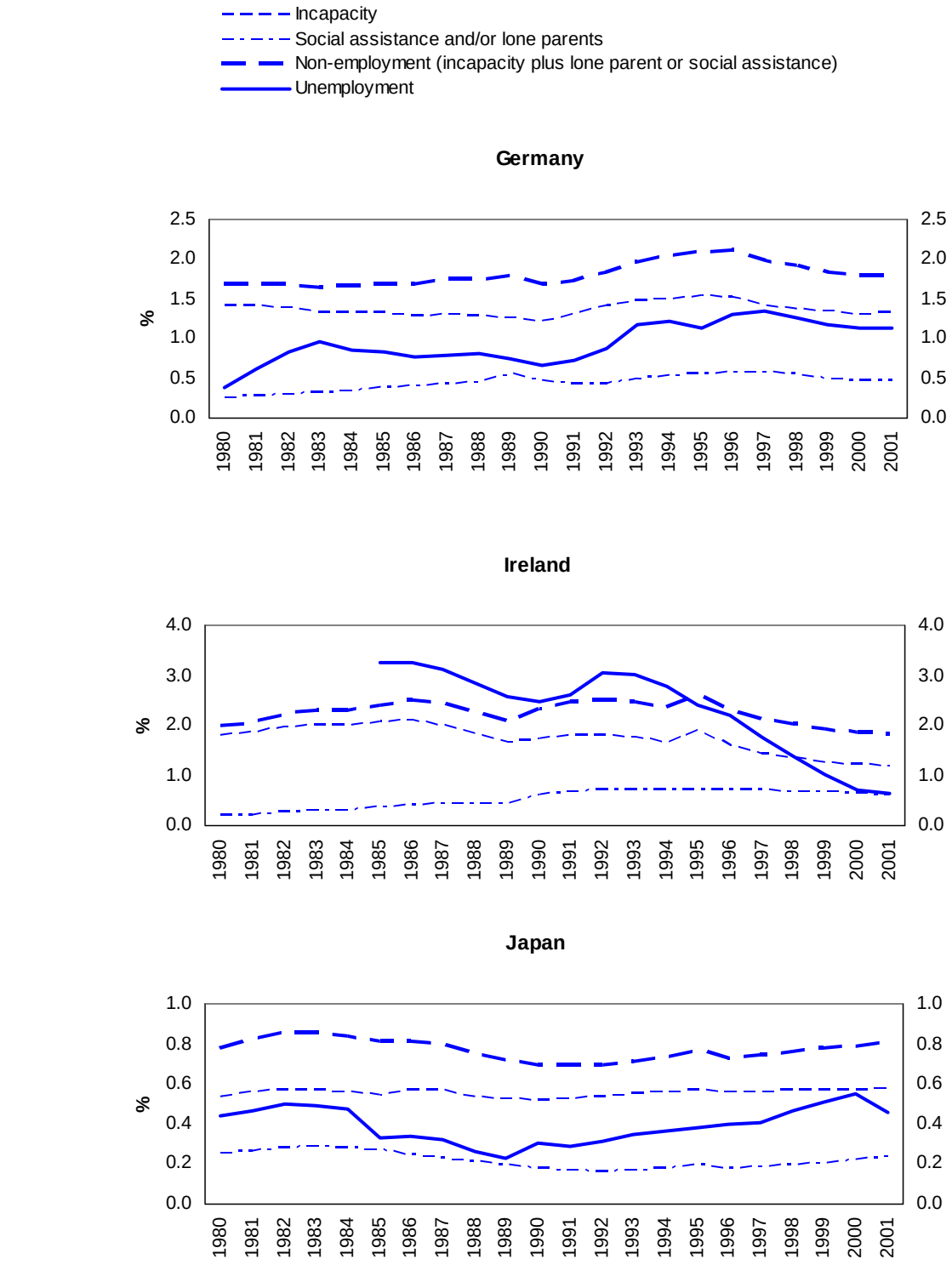
Public cash benefit expenditures as a percentage of GDP



See notes at the end of this figure.

Figure 2. Evolution of incapacity, core social assistance and unemployment cash benefit expenditures in selected countries, 1980-2001 *(cont.)*

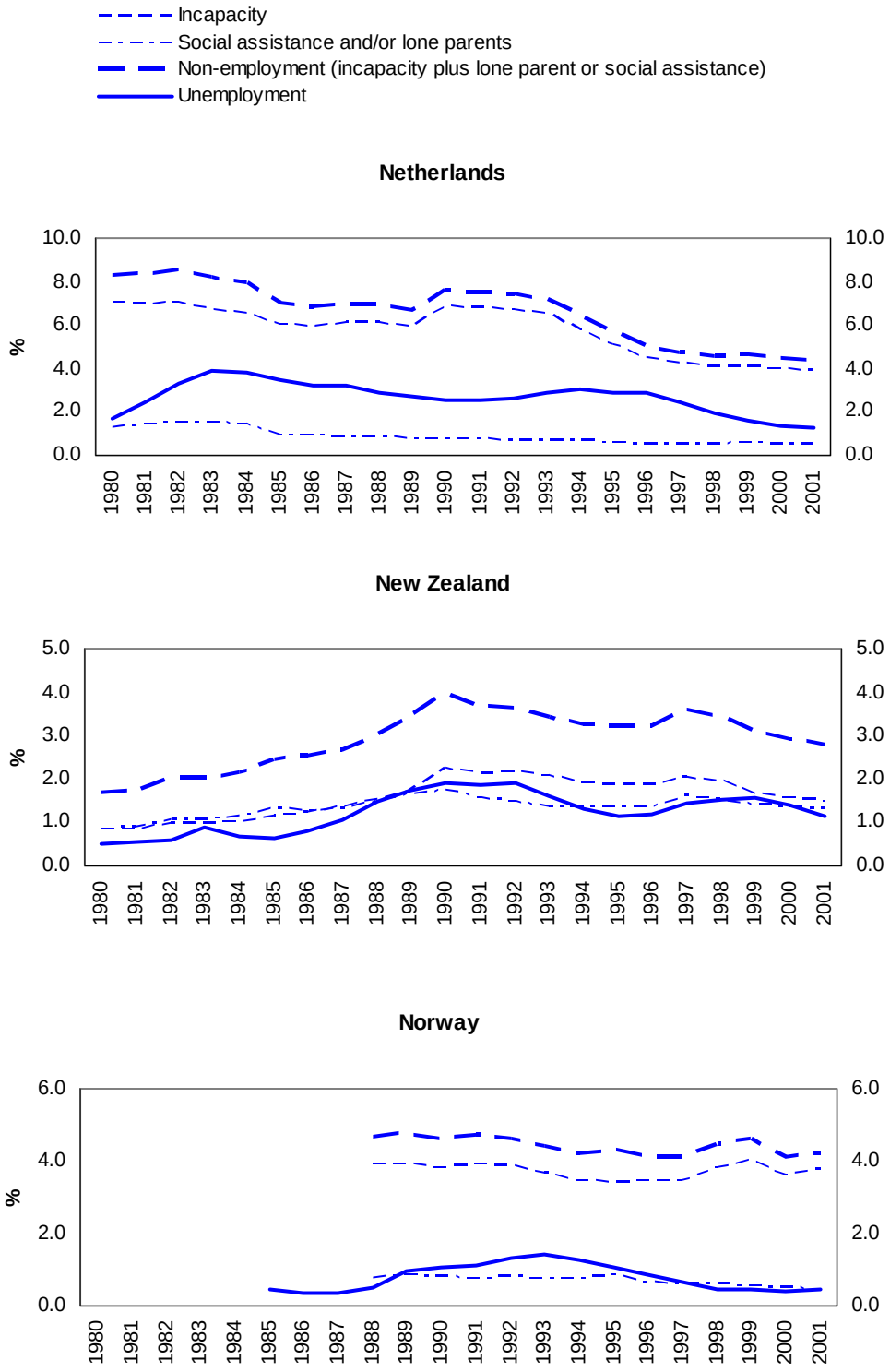
Public cash benefit expenditures as a percentage of GDP



See notes at the end of this figure.

Figure 2. Evolution of incapacity, core social assistance and unemployment cash benefit expenditures in selected countries, 1980-2001 *(cont.)*

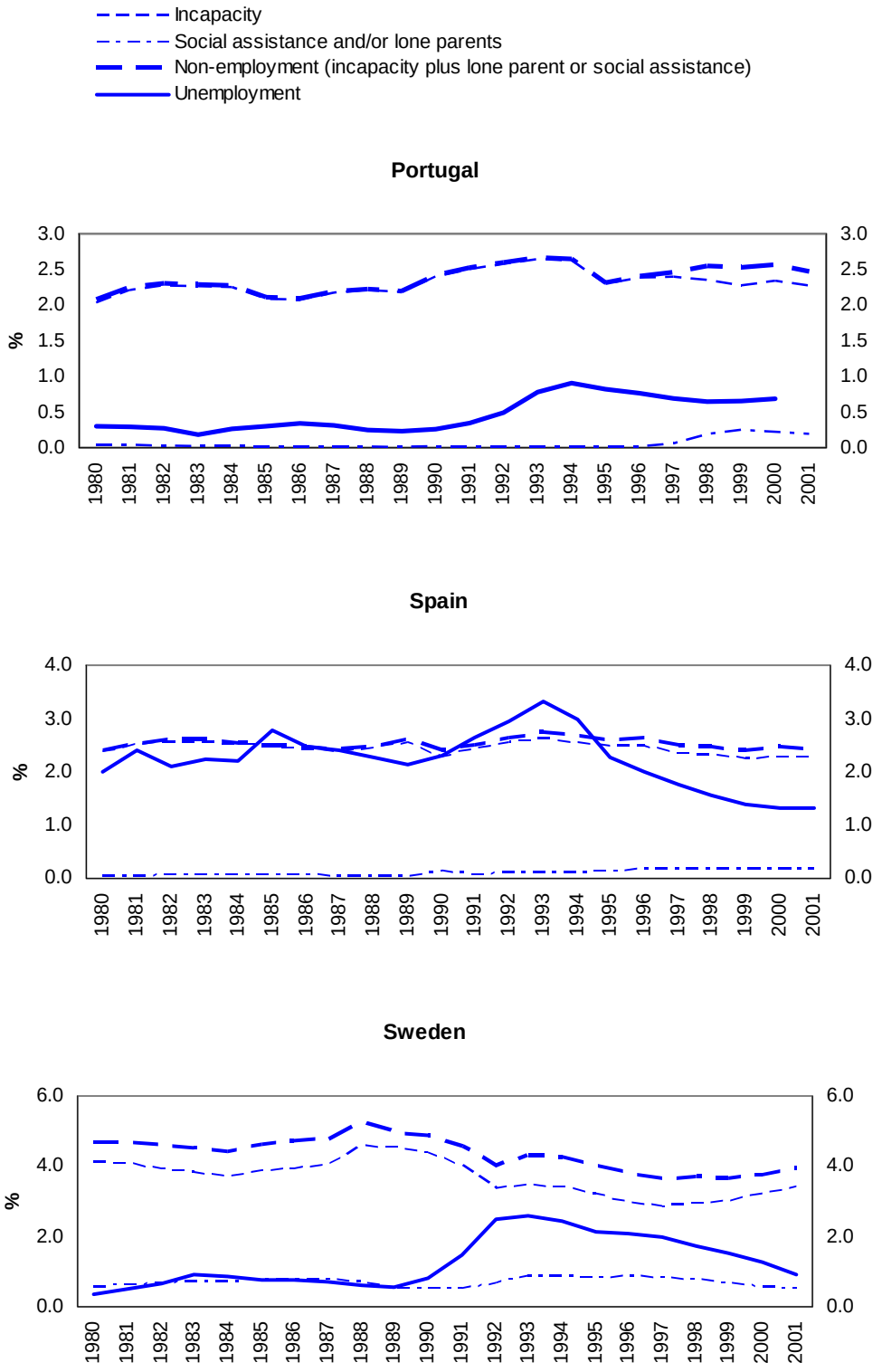
Public cash benefit expenditures as a percentage of GDP



See notes at the end of this figure.

Figure 2. Evolution of incapacity, core social assistance and unemployment cash benefit expenditures in selected countries, 1980-2001 *(cont.)*

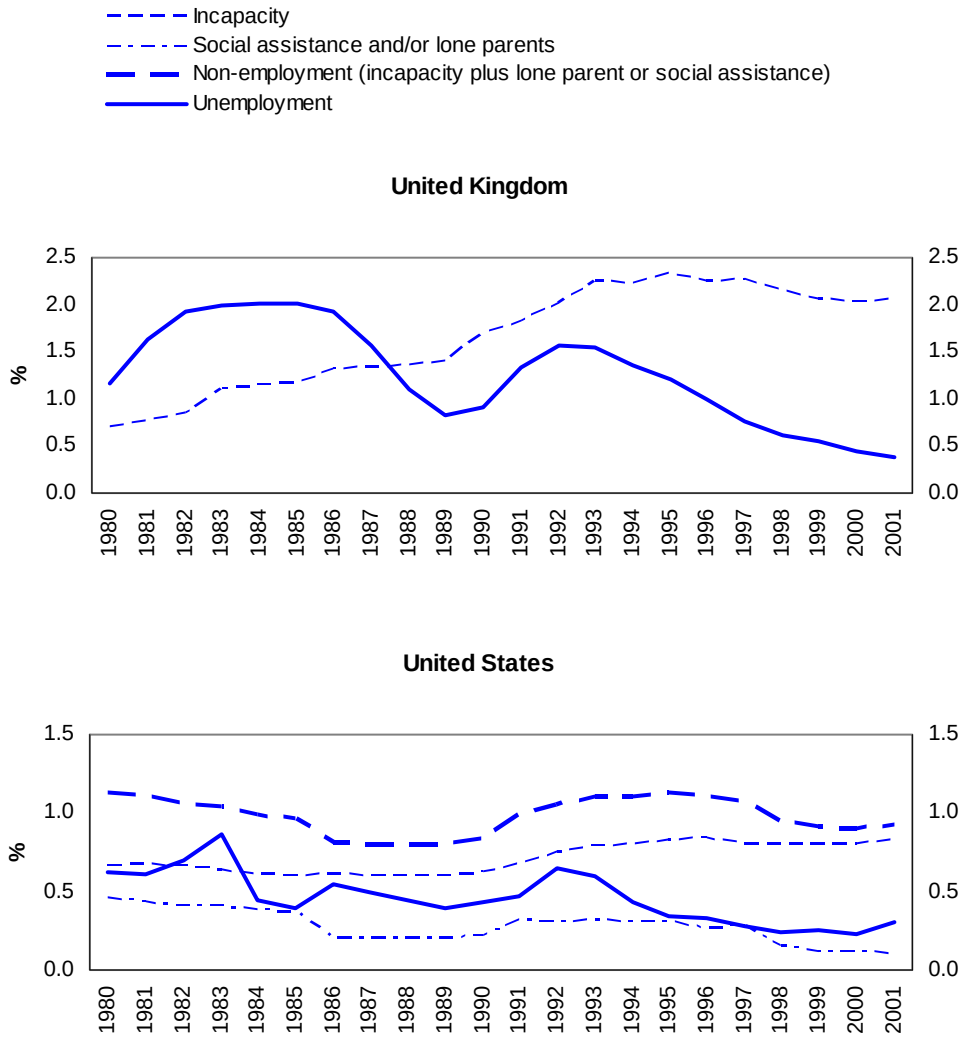
Public cash benefit expenditures as a percentage of GDP



See notes at the end of this figure.

Figure 2. Evolution of incapacity, core social assistance and unemployment cash benefit expenditures in selected countries, 1980-2001 *(cont.)*

Public cash benefit expenditures as a percentage of GDP



Notes

"Social assistance and/or lone parents" refers to core social assistance which usually supports lone parents as well as other groups, except in Australia, Ireland, New Zealand and the United States where it refers to benefits paid principally or exclusively to lone parents.

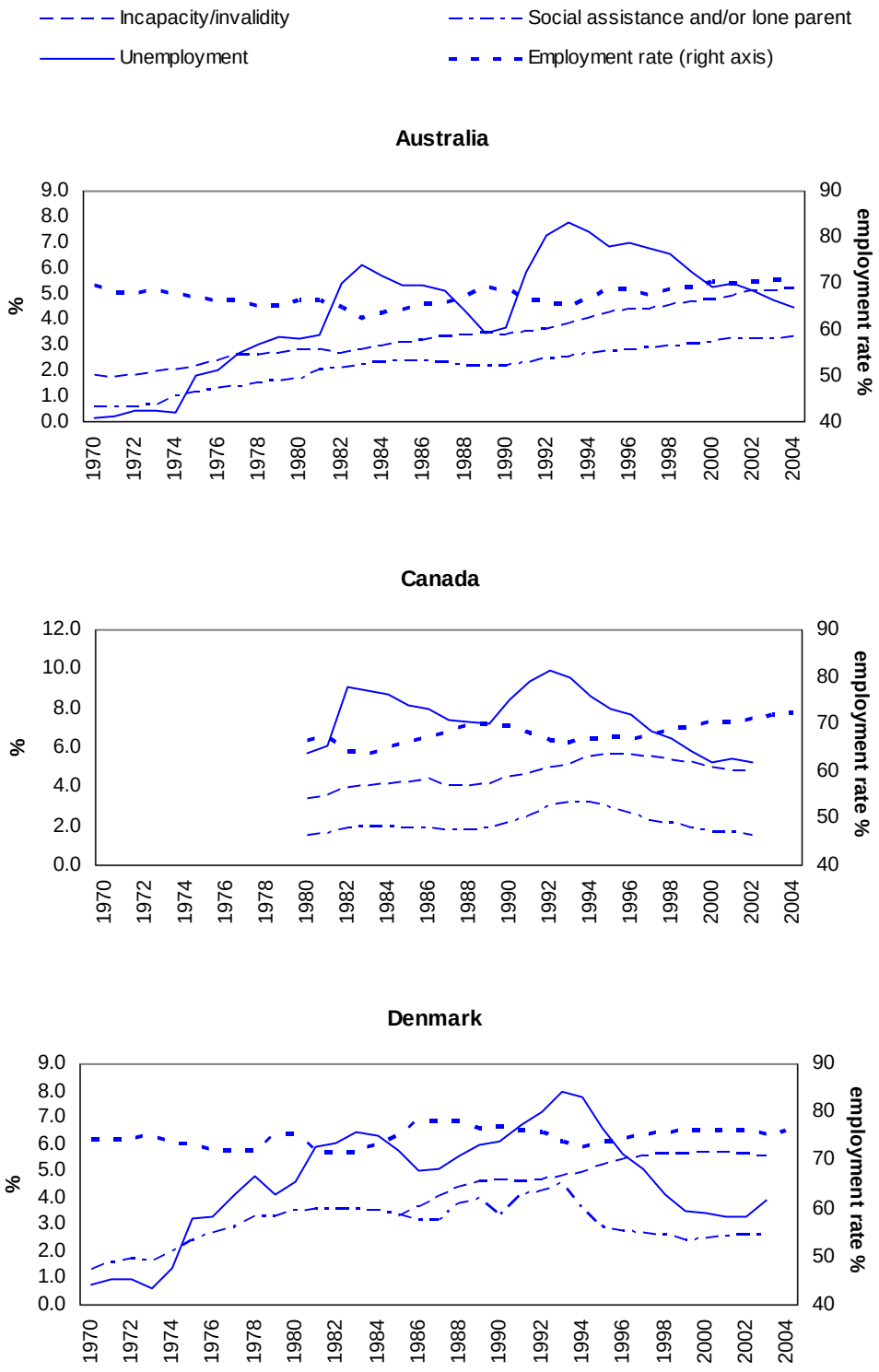
Unemployment benefits often do not include income support paid to labour market programme participants.

Non-employment benefits exclude social assistance for Denmark prior to 1983.

Source: OECD Social Expenditure (SOCX) database (2005) (www.oecd.org/els/social/expenditure).

Figure 3. Evolution of incapacity, social assistance or lone parents, and unemployment benefit caseloads in selected countries, 1970-2004

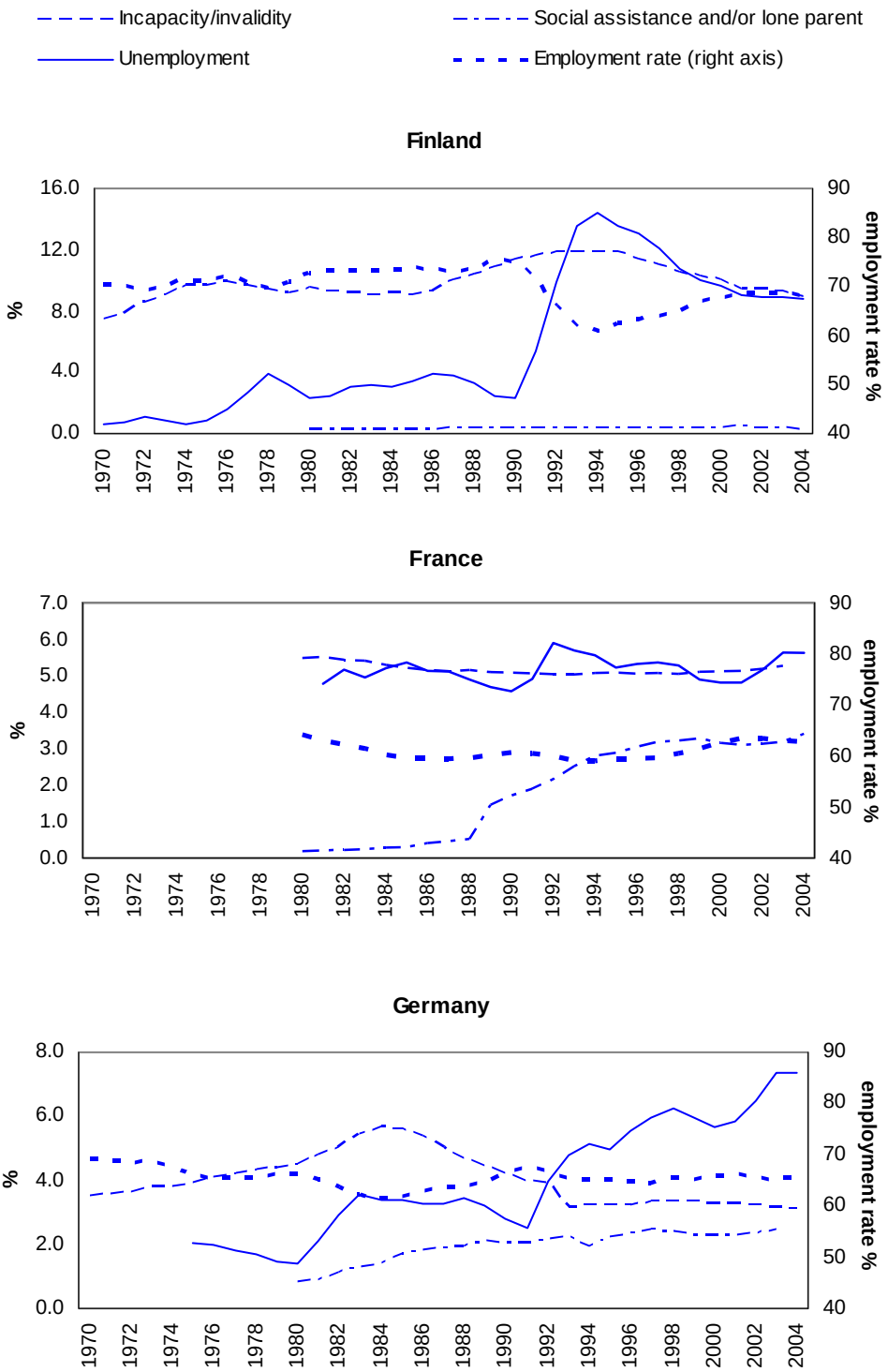
As a percentage of working age population



See notes at the end of this figure.

Figure 3. Evolution of incapacity, social assistance or lone parents, and unemployment benefit caseloads in selected countries, 1970-2004 *(cont.)*

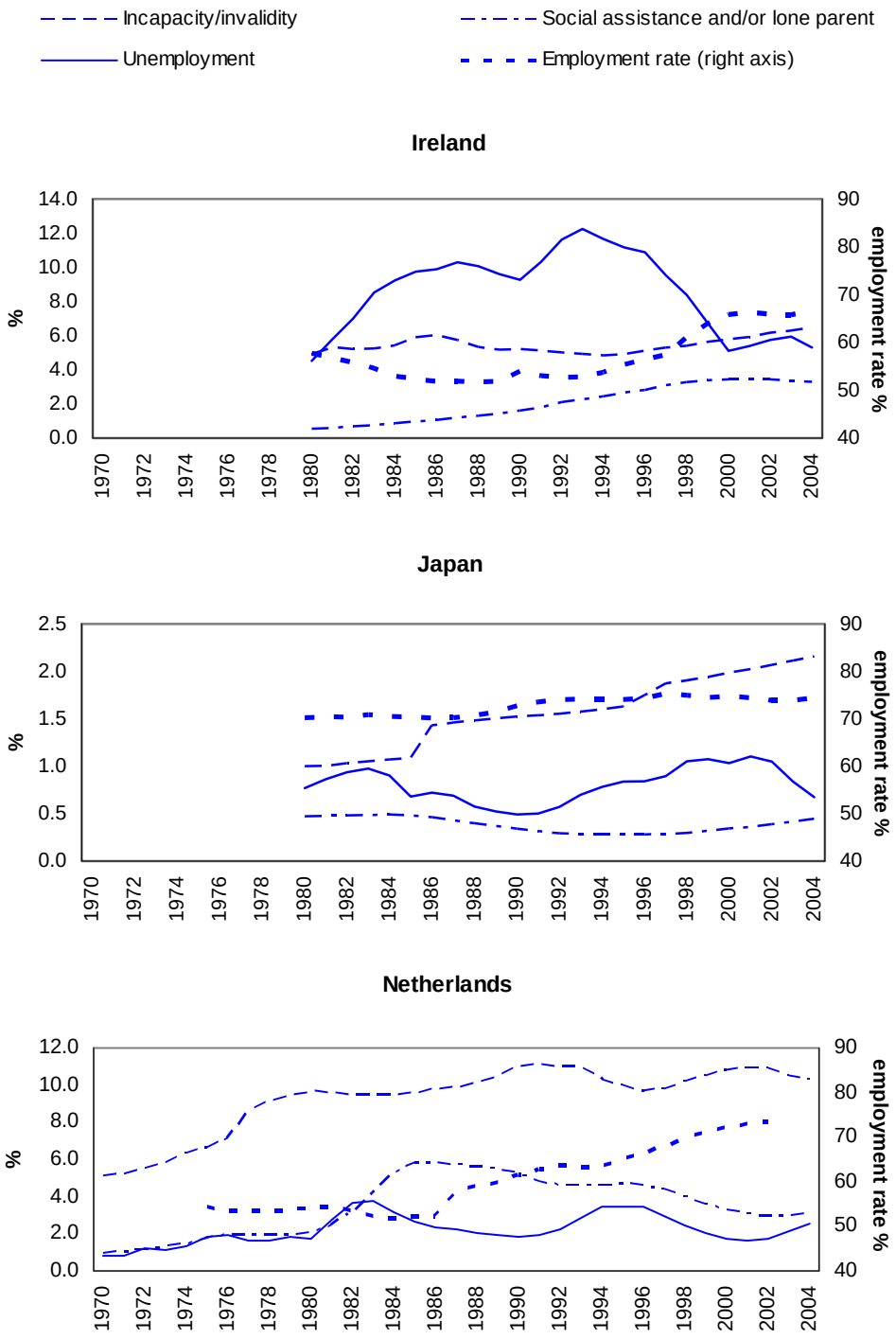
As a percentage of working age population



See notes at the end of this figure.

Figure 3. Evolution of incapacity, social assistance or lone parents, and unemployment benefit caseloads in selected countries, 1970-2004 *(cont.)*

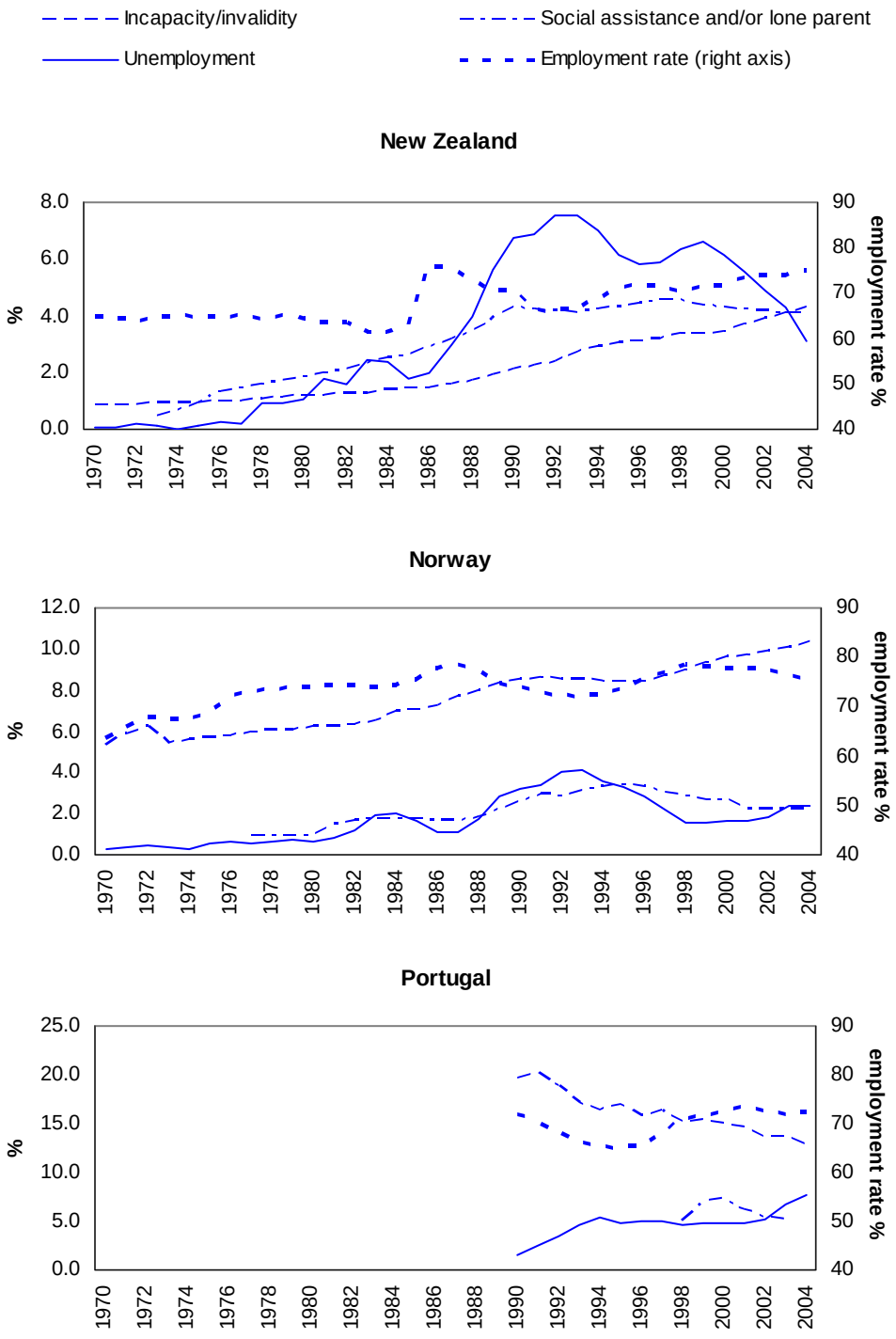
As a percentage of working age population



See notes at the end of this figure.

Figure 3. Evolution of incapacity, social assistance or lone parents, and unemployment benefit caseloads in selected countries, 1970-2004 *(cont.)*

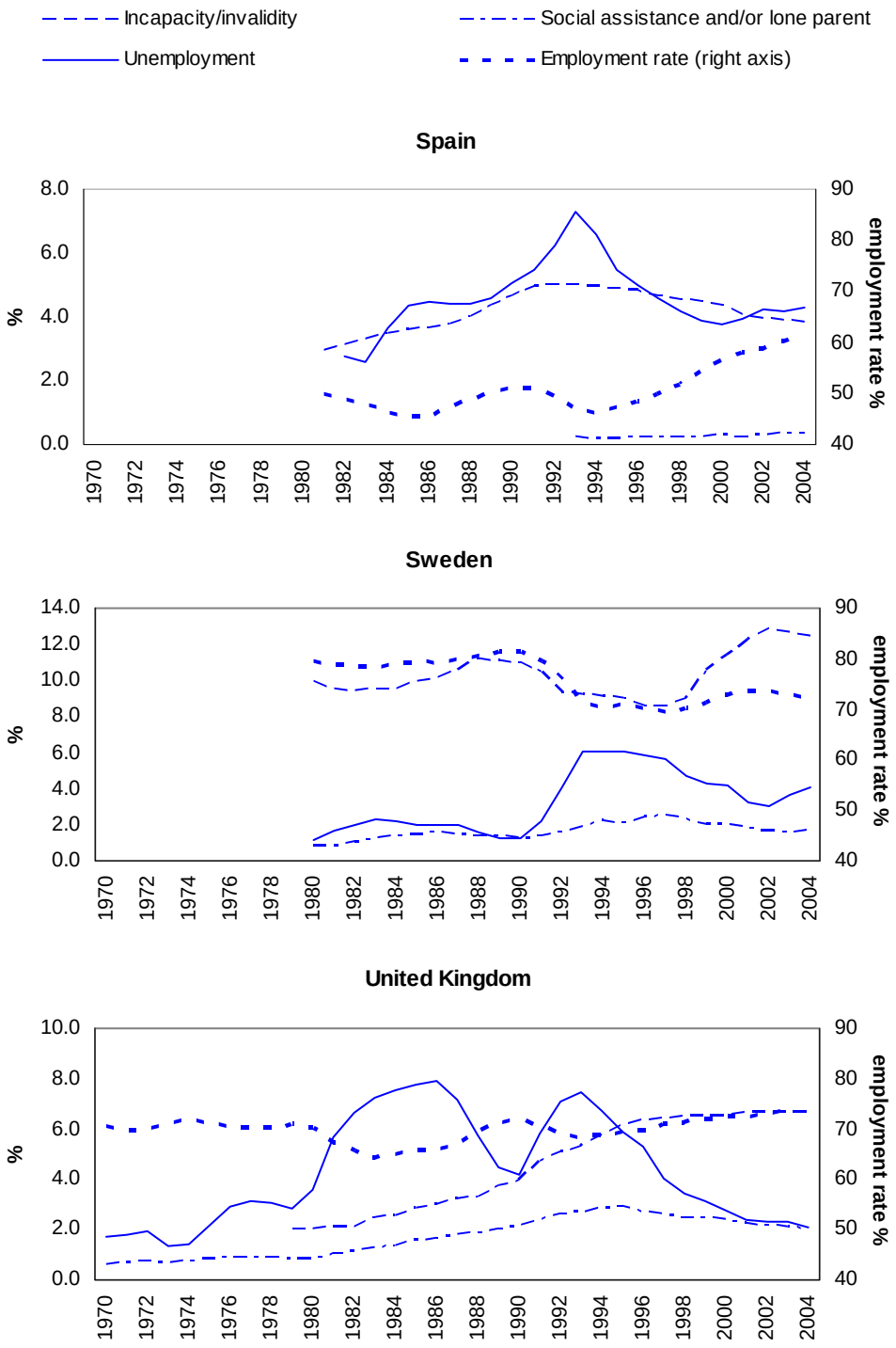
As a percentage of working age population



See notes at the end of this figure.

Figure 3. Evolution of incapacity, social assistance or lone parents, and unemployment benefit caseloads in selected countries, 1970-2004 *(cont.)*

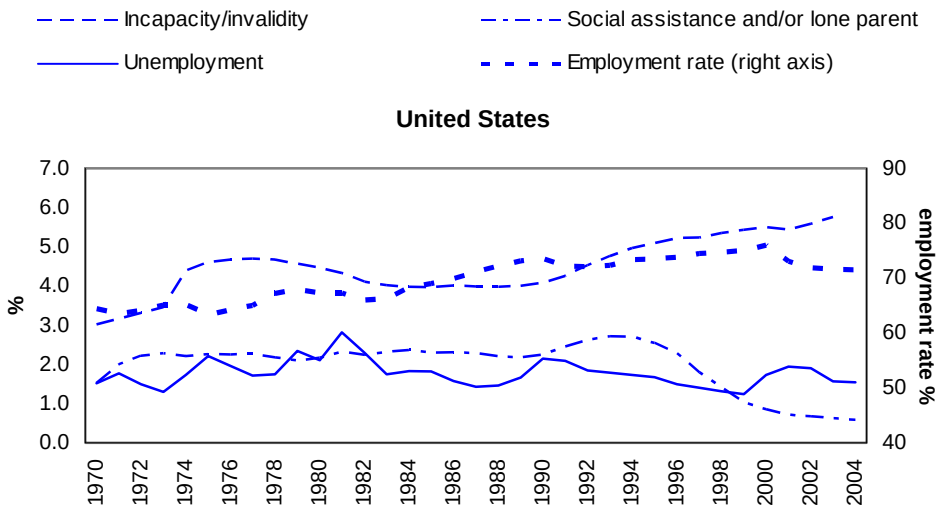
As a percentage of working age population



See notes at the end of this figure.

Figure 3. Evolution of incapacity, social assistance or lone parents, and unemployment benefit caseloads in selected countries, 1970-2004 *(cont.)*

As a percentage of working age population



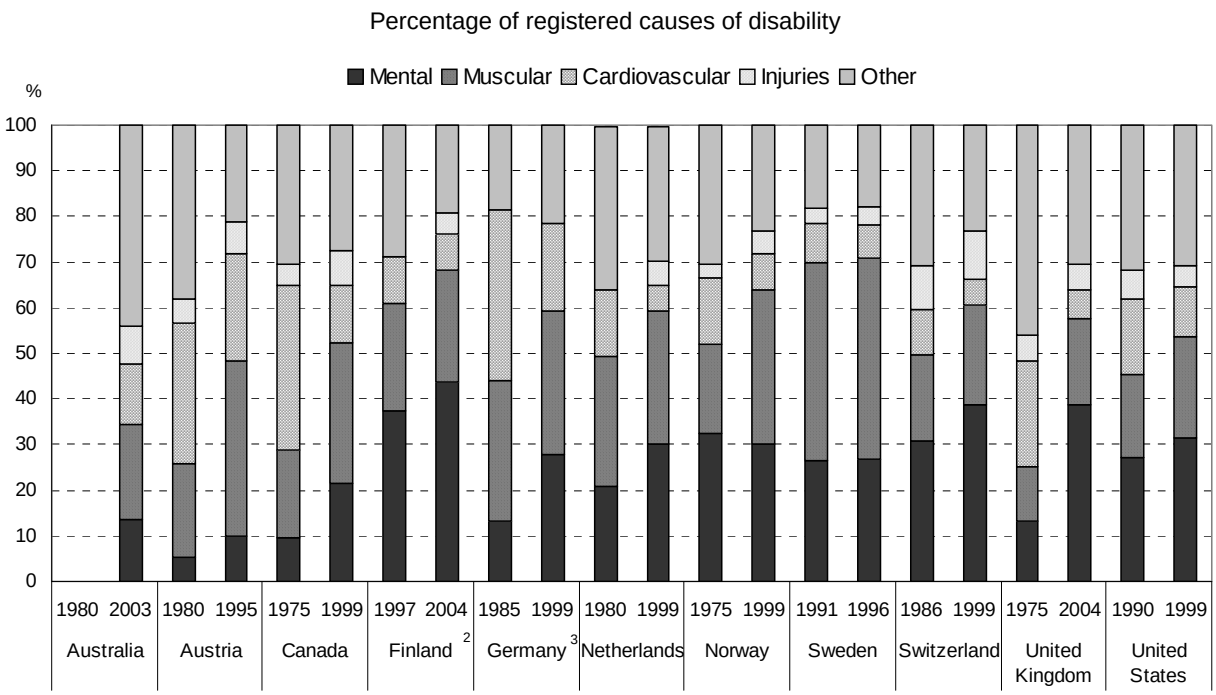
Notes

"Incapacity" recipients are persons receiving either invalidity or sickness benefits. For most countries the series shown refer to incapacity. The exceptions are France, Germany, Japan, Norway and the United States where the series refer to invalidity only.

The series "social assistance and/or lone parents" refers to benefits paid principally or exclusively to lone parents in Australia, Ireland, New Zealand, the United Kingdom and the United States, and to non-categorical social assistance (which usually supports lone parents as well as other groups) in other countries (also including recipients of a specific benefit for lone parents in France and Norway).

Source: For benefit recipients, see Annex 1; for employment rate, MEI database.

Figure 4. Disability recipients by diagnosis in selected countries



1. Data from OECD (2003*b*) (see below) refer to contributory disability benefit recipients.

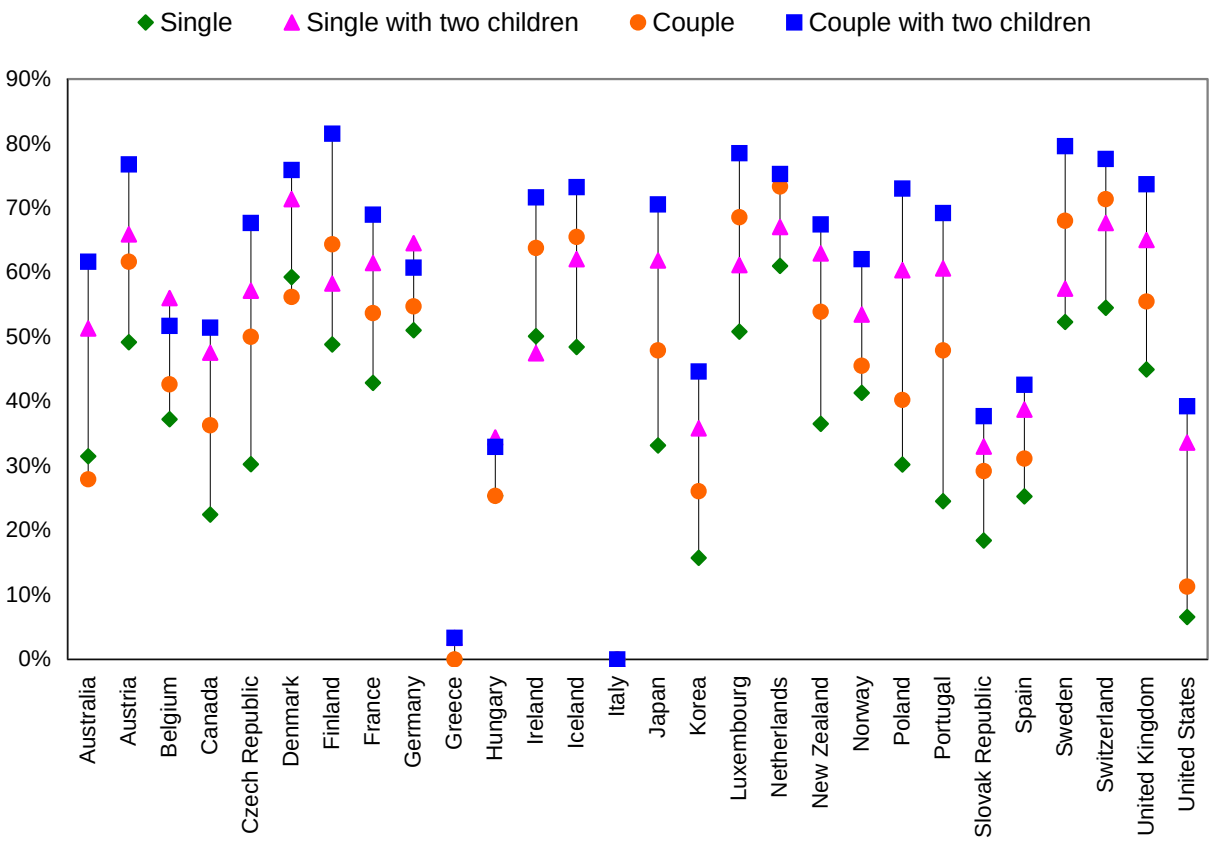
2. New disability pensions granted in 1997.

3. Number of new contributory disability benefit recipients by health conditions and/or degree of disability.

Sources: Australia: *Cat. No. 4430.0.55.001,* Table 2, Australian Bureau of Statistics. Austria, Canada, Germany, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom (for 1975) and the United States: national administrative data supplied to the OECD as described in OECD (2003*b*), *Transforming Disability into Ability: Policies to Promote Work and Income Security for Disabled People*. Finland: Ministry of Social Affairs and Health. *Finland's National Pension Strategy Report 2005 (*www.stm.fi/Resource.phx/publishing/store/2005/07/is1121411544723/passthru.pdf), Table 3.1. United Kingdom (2004 data): "5% IB/SDA" administration data, November, for 2004 www.nomisweb.co.uk.

Figure 5. Financial incentives to work at the APW level for lone parents and other social assistance[1] beneficiaries, 2004

Ratio of net income from social assistance compared to net earned income at APW level



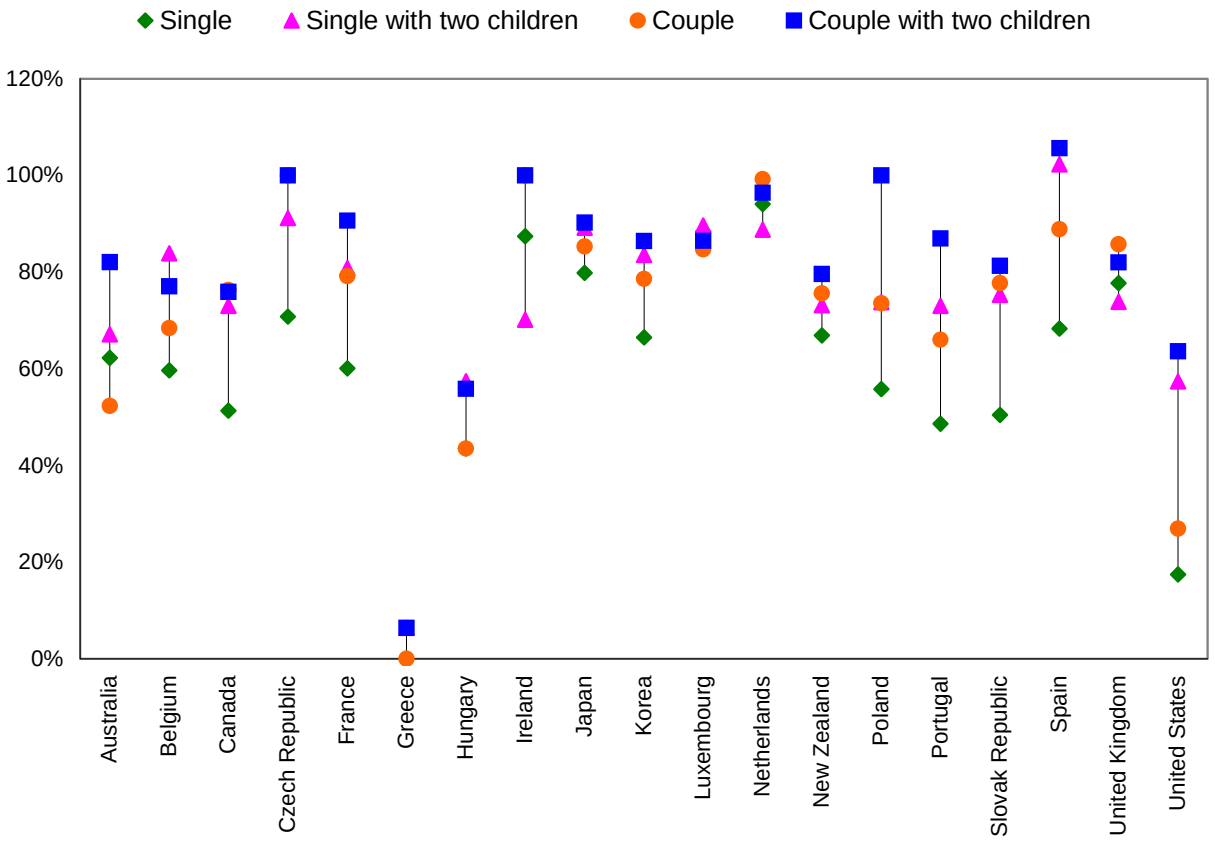
Interpretation: In Australia a couple with two children, not working but with one partner available for work, would receive a net income from social assistance benefits representing approximately 60% of the net income they would receive when one partner only is working with an average production worker (APW) wage. A single person with two children not working but meeting relevant conditions for social assistance or lone parent benefit would receive a net income representing approximately 50% of the net income he/she would receive when working with an APW wage.

1. Net incomes are calculated taking into income taxes and secondary benefits adjusted to each situation. The data include: unemployment assistance, social assistance, minimum income or lone parent benefits (depending on the situation), income tax (net of any tax credits), employee's social security contributions, housing-related cash benefits, family benefits, lone parent benefits and in-work or employment-conditional benefits. They exclude unemployment insurance benefits. Families with children have two children aged 4 and 6.

Source: OECD Benefits and Wages database (www.oecd.org/els/social/workincentives).

Figure 6. Financial incentives to work at the minimum wage level for lone parents and other social assistance[1] beneficiaries, 2004

Ratio of net income from social assistance compared to net earned income at minimum wage level



Interpretation: In Australia a couple with two children, not working but with one partner available for work, would receive a net income from unemployment assistance or social assistance benefit representing approximately 80% of the net income they would receive when one partner only is working at the minimum wage. A single person with two children not working but meeting relevant conditions for social assistance or lone parent benefit would receive a net income representing approximately 70% of the net income he/she would receive when working at the minimum wage.

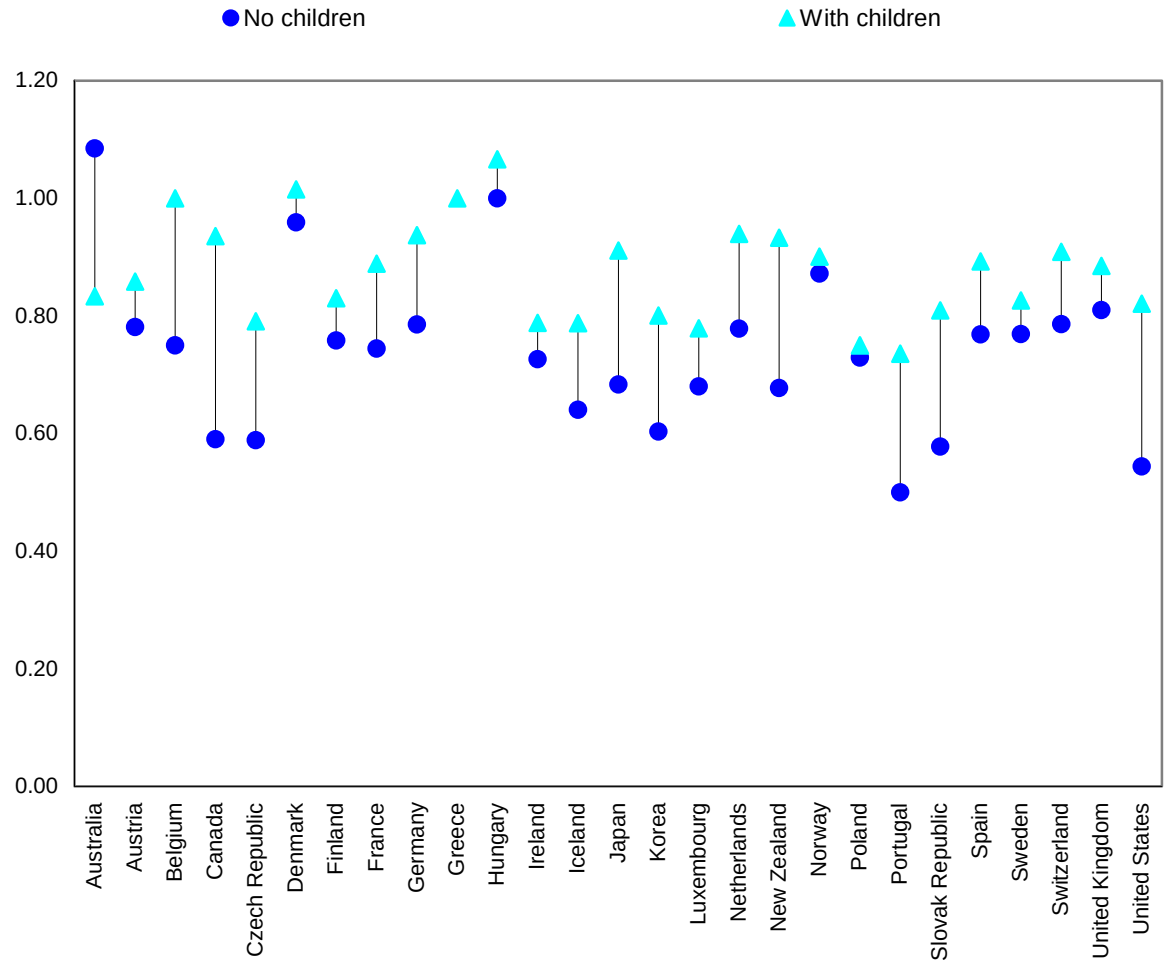
Austria, Denmark, Finland, Germany, Iceland, Italy, Norway, Sweden and Switzerland do not have national minimum wages.

1. See Figure 5.

Source: OECD Benefits and Wages database.

Figure 7. Singles with children tend to be favoured compared to couples by benefit systems, 2004

Ratio of net income from social assistance for singles to that of couples



Interpretation: In Australia, a single person with no children would receive net benefits representing approximately 110% of what a couple with no children would receive, while the ratio is 83% in families with two children.

The data underlying these calculations are the same as for Figures 5 and 6. In Australia the net income for a couple without children is relatively low because the case represented is one where the second partner is inactive (not available for work), resulting in reduced benefits. This factor is not relevant or is not taken into account in calculations for most other countries.

1. See Figure 5.

Source: OECD Benefits and Wages database.

Table 1. Work tests for lone parents, selected countries, around 2006

No work test	Work test	
	Independent of child age	Dependent on child age *(age limit in years)*
Portugal Spain	Belgium[1] *(Discretion)* Denmark *(subject to childcare)* Finland Japan[5] *(Discretion)* Sweden	Ire/land *(18 or 22 if child in full-time education)* New Zealand[2] *(18)* United Kingdom[3] (*16*) Australia[4] *(16/7)* Luxembourg *(6)* Canada[6] *(0.5 - 6)* Netherlands[7] *(5)* Czech Republic *(4)* Austria *(about 3)* France *(3)* Germany *(3)* Norway (3) Switzerland (*3*) United States[8] (*usually 0.25-1, with some exceptions*)

General note: Social assistance programmes vary across countries. In many countries there is a general system of assistance for all low income individuals and families, and lone parents may or may not be treated differently in terms of work-related requirements than other claimants. A number of countries – Australia, France, Ireland, New Zealand, Norway, the United Kingdom and the United States – have special forms of income support for lone parents. Classification as a lone parent depends primarily upon the age of the youngest child. For example in the United Kingdom when the youngest dependent child turns 16 the (former) lone parent can apply for other forms of income support (with work requirements, unless qualified for other benefits on grounds of disability, age, etc.).

1. All social assistance beneficiaries, including single mothers, are in principle required to be looking for work and to be ready to take up employment. However, in the case of single parents, especially those with young children, this requirement is not enforced very strongly.

2. Required to attend planning meetings and preparing a Personal Development and Employment Plan that covers goals for the future and steps to reach those goals.

3. Required to attend a Work Focused Interview with a Personal Adviser on application for Income Support and at intervals during receipt of it.

4. Until 2006, parenting payment recipients with a youngest child aged less than 6 years had no participation requirement; those with a youngest child aged 6 to 12 years were required to attend an annual Personal Adviser interview; those with a youngest child aged 13-15 years had to undertake 150 hours of approved activities each 26 weeks. From 30 June 2006, single parents still receiving the parenting payment recipients when their youngest child turns seven must seek at least part-time work; lone parents with children aged 8 and more making a new benefit application will instead qualify for unemployment benefit (Newstart) with a similar work requirement. There are some exemptions for large families and parents with a child with a disability (Media Release 'Providing Parents With The Support And Assistance They Need To Work', 8 November 2005, http://mediacentre.dewr.gov.au/mediacentre; "Changes to Parenting Payment from 1 July 2006", www.centrelink.gov.au/internet/internet.nsf/services/welfare_parents.htm).

5. Social case workers' discretion is the most important aspects in the Japanese social assistance system. There is no special treatment for lone parents, and in 1993 only one-sixth of working-age recipients of social assistance were lone parents (Eardley, T., J. Bradshaw, J. Ditch, I. Gough, and P. Whiteford (1996), *Social Assistance in OECD Countries: Country Reports*, Department of Social Security Research Report No. 47, London: HMSO).

6. Participation requirements are as follows: Alberta from 6 months; British Columbia from 3 years; Saskatchewan 2 years; Manitoba 6 years; New Brunswick, Prince Edward Island, Nova Scotia and Yukon, no formal requirements; Ontario, school age; Quebec 5 years; Newfoundland and Labrador 2 years; Northwest Territories and Nunavut under 3 years, or under 6 years if 2 or more children.

7. Under national guidelines until 2004, municipalities did not require availability for work when the youngest child was aged less than 5. Since 2004, municipalities are free to determine work-availability requirements and some now require all lone parents to be available for work depending on individual circumstances.

8. A few states have no exemption from work requirements for adult recipients who are caring for a young child, but 44 have some exemption. About half of these (23) exempt adult recipients with children up to age one; another 16 set the child age limit below one year and five set it higher. In addition, 19 states exempt parents who lack child care, 13 of them limiting this provision to cases where the child is aged six or younger (summary of the situation in 2005, based on www.spdp.org/tanf/work/worksumm.htm).

Sources: as cited, and adapted from OECD (forthcoming), *Babies and Bosses - Reconciling Work and Family Life in OECD Countries* (Volume 5), Paris.

ANNEX 1. DEFINITIONS AND SOURCES FOR DATA ON RECIPIENTS OF UNEMPLOYMENT, INCAPACITY AND SOCIAL ASSISTANCE OR LONE-PARENT BENEFITS

General note

The series charted in Figure 3 are selected from national sources with a preference for series which are more easily available as long time-series and/or on a regular basis for possible updating. This approach imposes some limits on definitional consistency. For example, the social assistance series refer to recipients with no other sources of income in Finland, to recipients who are unemployed or not in the labour force (but not those who are employed) in Norway, and to all recipients measured on a full-time equivalent basis in Sweden. Further research could allow some improvement in the cross-country comparability of the definitions applied, but given the variability of national systems and statistics, strict standardisation would require more use of approximate adjustment factors and complex estimation procedures. Despite the preference for relatively easily-available source material, the series charted in Figure 3 are often drawn from several sources with some use of adjustment factors: the definitional and source information here should provide a general guide but may not always include all details.

In principle, "social assistance" refers to non-categorical social assistance, i.e. assistance benefits which are explicitly conditional on availability for work or on disability are classified as unemployment benefits and disability benefits respectively (see Box 1). Borderline cases arise in countries where local administrations treat social assistance beneficiaries as unemployed or disabled, etc. with a greater or lesser degree of formal classification and consistency across localities. Recipients who are treated as unemployed at local level may have been classified in these statistics as recipients of either unemployment benefits or non-categorical social assistance, depending on factors such as the availability of official statistics.

Data for "incapacity" refer to the sum of recipients of sickness and invalidity benefits. Aggregation of these categories may enhance data comparability, since a disabled person may be admitted to an invalidity benefit immediately in some countries but only after a year on sickness benefits in others, and since concern with caseload growth in some countries relates to long-term sickness as well as to formal invalidity benefits. However for some countries where difficulties (issues of data availability or time-series comparability, for example because data do not include employer-paid sickness days) arose in using sickness benefit data, the disability data relate to "invalidity" benefits only.

Notes by country

Australia

Unemployment refers to Unemployment Benefit to 1991, from 1992 Job Search Allowance and Newstart Allowance, from 1995 Job Search Allowance, Youth Training Allowance and Newstart Allowance, from 1997 Newstart Allowance, from 1999 Youth Allowance (other than full-time students) and Newstart Allowance.

Incapacity comprises the Disability Support Pension and Sickness Benefit.

Lone Parent refers to Parenting Payment (Single) from 1 March 1998. For earlier years it refers to the Widows Pension Class A (commenced 5 June 1942), later also Supporting Mothers Benefit (commenced 3 July 1973) then Supporting Parents Benefit (commenced 10 November 1977) and Sole Parent Pension (commenced 1 March 1989).

Sources: Income Support Annual Data Base – Edition 1.0 for data up to 1998 and the Department of Social Security/Department of Family and Community Services for years after. For recent years: Department of Families, Community Services and Indigenous Affairs, *Statistical Paper No. 3* (www.facs.gov.au/research/stps3/sec3.htm), www.abs.gov.au/Ausstats/abs@.nsf/0/9895157A356ED97BCA256F7200832FEA?Open). Figures relate to June of each year.

Canada

Unemployment comprises Regular benefits, Fishing benefits, Work sharing benefits and Social Assistance for the unemployed.

Sources: OECD/NEI database (see OECD, 2003*a*) up to 1999 and (except Social Assistance) for following years CANSIM Tables 223, 231 and 235: http://cansim2.statcan.ca.

Incapacity comprises the Disability Pension (CPP) (in June), Combined Pensions (in June), Disability Pensions (QPP) (end March 31st), Veteran's and Civilians Disability Pensions, Net addition from Workers' compensation, Employment Insurance (Sickness) and Social Assistance for the Disabled.

Sources: OECD/NEI database up to 1999; ISP Stats Book 2004, Human Resources Development Canada: for Disability and Combined Pensions for following years; CANSIM Table 153 (veterans and civilians disability), Table 215 (Canada and Quebec Pension Plan), Table 241 (Workers' compensation): see also www.hrsdc.gc.ca/en/cs/sp/sdc/socpol/tables/page00.shtml.

Social Assistance refers to Provincial and Municipal Social Assistance. Data for total beneficiaries are adjusted for the estimated shares of non-adults, adults aged 65 and over, those also receiving regular unemployment benefits, other unemployed (including employable or expected-to-work recipients) and disabled recipients.

Sources: OECD/NEI database up to 1999; Social Assistance Statistical Report, 2004; as above, Table 435 (Beneficiaries of Provincial and Municipal Social Assistance).

Denmark

Unemployment is " Unemployment daily pay" (*Arbejdsløshedsdagpenge*).

Incapacity comprises Sickness benefits (*Sygedagpenge*), Highest early retirement pension, Increased ordinary early retirement pension and Disability or temporary supplements.

Social Assistance is Cash assistance (Kontanthjælp) and Gross rehabilitation benefit (*Bruttorevalideringsydelse*).

Sources: Danish Economic Council (2005), *Dansk Økonomi forår 2005* (www.dors.dk/publ/index.htm), Tabel II.2 "Modtagere af offentlige indkomstoverførsler", and corresponding annual data supplied by the Council Secretariat.

Finland

Unemployment comprises Unemployed members of insurance funds, recipients of basic unemployment allowance and recipients of Labour Market Support.

Source: Ministry of Labour, *Työpoliittinen Aikakauskirja* (Finnish Labour Review), Table "Unemployment Security" (www.mol.fi/mol/fi/06_tyoministerio/06_julkaisut/04_aikakauskirja/02_edelliset/index.jsp - Tables)

Incapacity comprises Disability Pension, Disability Allowance, Individual Early Retirement Pension and Sickness Allowance.

Sources: for early years, Ministry of Social Affairs and Health, *Trends in Social Protection 2002*, Figure 3 (www.stm.fi/english/tao/publicat/trends02/trends2002.pdf), underlying data supplied by the Ministry; Ministry of Social Affairs and Health; *Pension Strategy Report 2005 (*www.stm.fi/Resource.phx/publishing/store/2005/07/is1121411544723/passthru.pdf); the Nordic Social-Statistical Committee (NOSOSCO), www.nom-nos.dk/nososco.htm; the Social Insurance Institution, *Pocket Statistics* (www.kela.fi/in/internet/english.nsf); Finnish Centre for Pensions, *Statistical Yearbook of Pensioners in Finland 2002* (www.etk.fi/Dynagen_attachments/Att17211/17211.pdf).

Social Assistance refers to the stock of social assistance recipients with no income from other sources (the majority of recipients also have income from wages, unemployment benefits, pensions, sickness benefits, other social security benefits, etc.).

Sources: For 2001-2004: annual publications *Toimeentulotuki* (Social Assistance) (authors K. Lamminpää, and P. Mattila: issues 2002-2004 available at www.stakes.info/2/4/2,4,1.asp); for 1990-2000 (selected years): a table "Households in receipt of social assistance in November by main source of livelihood in Finland, 1990-2000" supplied by Matti Jokelainen of KELA, which provides data from earlier numbers of *Toimeentulotuki*;; for 1980-1989 and interpolated years: data as above, interpolated and extrapolated using data for the number of households receiving social assistance each year from *Toimeentulotuki* 2004, Table 1.

France

Unemployment comprises Unemployment Insurance (AB + AFD + AUD + ARE), Solidarity schemes (ASS + AI + AER) and the Garantie de Ressources (GRL + GRD), less those who are exempted from looking for a job (among RAC and ASS, AER).

Sources: OECD/NEI database (see OECD, 2003*a*) and UNEDIC, www.unedic.fr/unistatis/index.php?idmenu=10491&idarticle=10441&chemin=10491.

Invalidity comprises *Pensions d'invalidité* (Disability pensions)*, Pensions militaires d'invalidité* (Military disability pensions), *Allocation aux Adultes handicapés* (AAH) (Disabled Adults benefit), *Prestations d'incapacité permanente et temporaire liées aux accidents du travail et maladies professionnelles* (Permanent and Temporary Incapacity Benefit for Work Accidents and Occupational Diseases), *Allocations versées par les collectivités territoriales* (Benefits paid by local administrations)*, Allocations temporaires d'invalidité versées par l'Etat* (Temporary disability benefits paid by the state).

Sources: OECD/NEI database and *Annuaire des statistiques sanitaires et sociales* (various issues); *Données sur la situation sanitaire et sociale de la France 2004*; *Les comptes de la sécurité sociale* (various issues); Caisse Nationale de Retraites des Agents des Collectivités Locales, www.cnracl.fr; Caisse Nationale d'Allocations Familiales, www.cnaf.fr; données MINEFI, www.pensions.minefi.gouv.fr.

Social Assistance comprises Lone parent benefit (API) and Guaranteed Minimum Income (RMI) (data for France *métropole* not including overseas territories).

Sources: OECD/NEI database and Caisse Naionale d'Allocations Familiales, www.cnaf.fr/gestionhome/servlet/ServletDisplayFrameSet?codeOrga=001&URL=%2Fweb%2FWebCnaf.nsf%2FVueLien%2FDONNEESANNUELLES%3Fopendocument.

Germany

Unemployment comprises Unemployment Insurance and Unemployment Assistance.

Source: Bundesagentur für Arbeit, Annual Report, various years.

Invalidity comprises Pensions due to Reduced Work Capacity, adjusted for part-time recipients [with the exception of *Beamte* (civil servants)].

Source: Deutsche Rentenversicherung Bund, *Rentenversicherung in Zeitreihen 2005,* Bonn-Berlin.

Social Assistance refers to recipients of Livelihood Assistance to Persons Outside of Institutions, disregarding employed and registered unemployed persons who receive social assistance as a top-up.

Source: Special data submission by Federal Statistical Office, Wiesbaden.

Ireland

Unemployment comprises Unemployment Benefit and Unemployment Assistance.

Incapacity comprises Invalidity Pension, Disability Allowance, Blind Person's Pension, Disability Benefit, Interim Disablement Benefit and Injury Benefit (the last three benefits are considered to be sickness benefits).

Lone Parent comprises the Deserted Wife's Benefit, Deserted Wife's Allowance, Prisoner's Wife Allowance and One-Parent Family Payment. Lone parents receiving Widow's Pension (about 8000 in 2004) and Supplementary Welfare Allowance (about 4000 in 2004) are not included.

Sources: OECD/NEI database (see OECD, 2003*a*); Department of Social and Family Affairs, *Statistical Information on Social Welfare Services 1983-2004* and earlier issues in the same series (www.welfare.ie/publications/annstats/index.html).

Japan

Unemployment is the Unemployment Insurance (benefit-days paid divided by 365).

Invalidity comprises the National disability pension and National welfare pension for the disabled (old system), the Basic pension for the disabled and Welfare pension for the disabled (new system), Disability, Sickness and Injury compensation pensions, several pensions paid by sectoral mutual aid associations and Social Assistance benefits for the disabled.

Social Assistance is an estimate for beneficiaries aged 15-64, excluding those who are sick/injured or disabled or working full-time.

Source:s OECD/NEI database (see OECD, 2003*a*) for totals to 2000; figures were extrapolated over 2001-2004 using recipient data for all the largest components, supplied by Japanese authorities.

Netherlands

Unemployment refers to benefits under the Unemployment Insurance Act (WW / Vorstverlet / IOAW / IOAZ). Note that some other sources include social assistance recipients in the total for unemployment benefit recipients.

Incapacity comprises sickness and invalidity benefits (ZW / AAW / WAO).

Social Assistance is the welfare benefit (ABW); data for years before 1997 include the unemployment assistance benefit (RWW).

Source: Netherlands Bureau for Economic Policy Analysis, www.cpb.nl/eng/data/cep2005/a10.xls.

New Zealand

Unemployment comprises unemployment related and emergency benefits.

Incapacity comprises Invalid's Benefits and Sickness related benefits.

Lone Parent data refer to the total for Domestic Purposes Benefits (DPB) - Sole Parents, DPB - Caring for the Sick and Infirm, DPB - Women Alone, and Emergency Maintenance Allowances. The sole-parent benefits accounted for about 96% of this total in 1989 and 94% in 2004.

Source: Ministry of Social Development, *The Statistical Report* (www.msd.govt.nz).

Norway

Unemployment is calculated as recipients of full daily payments of unemployment insurance (*Helt ledige dagpengemottakere*) plus one half of recipients of partially occupied daily payments (*Delvis sysselsatte dagpengemottakere*).

Source: Aetat (Norwegian Directorate of Labour), *Historisk Arbeidsmarkedsstatistikk: Samlet statistikk til og med 2004,* Table 14

Invalidity is the Disability Pension.

Sources: Statistics Norway, *Historical Statistics 1994*, Table 7.4 (www.ssb.no/english/subjects/00/histstat) for years up to 1992; from 1995, the *Statistical Yearbooks* (*www.ssb.no/english/yearbook/aarbok.html)* and *Monthly Bulletin* (www.ssb.no/en/mb).

Social Assistance is the sum of benefit for one-parent families (a means-tested paid by National Insurance) and municipal social assistance. Municipal social assistance is estimated excluding recipients who are employed, in government measures or in education (as reported in tables for social assistance recipients by labour force status) and those aged over 66 (since statistics for those aged over 64 were not available), and multiplying the number of recipients who received any social assistance during the year by average months of benefits paid per recipient during the year.

Sources: for one-parent benefit: www.ssb.no/english/subjects/00/histstat/tables.html and www.ssb.no/english/yearbook/aarbok.html (figures for 1993 and 1994 interpolated); for municipal social assistance, www.ssb.no/soshjelpk_en; Statistics Norway, *Sosialhjelp, barnevern og Familievern* (Social Assistance, Child Welfare Statistics and Family Counseling Services), various issues (1998 to 2001 at www.ssb.no/emner/03/04/30/nos_sosialhjelp/utg.html and fax copies of selected tables from issues back to 1977 supplied by Statistics Norway).

Portugal

Unemployment is the Unemployment benefit (*prestações de desemprego*).

Incapacity is composed of Illness benefit (*doença*) and Invalidity pension (*invalidez*)

Social Assistance is made up of the Guaranteed Minimum Income (*rendimento mínimo garantido/rendimento social de inserção*)

Source: Institute for Informatics and Statistics of Welfare (IIES), Ministry of Social Security and Labour, www.ine.pt

Spain

Unemployment is the *Prestación por desempleo (contributivo, no contributivo, eventual agrario y renta de inserción*).

Incapacity comprises *Pensiones contributivas de incapacidad* (not including those aged 65+, who were estimated at 50% prior to 1998), *Pensiones Asistenciales* (PAS) *enfermedad* (sickness), *Pensiones no contributivas invalidez* (invalidity), and LISMI (minimum income for the disabled). Prior to 1998 data for the disability pension included recipients aged 65 and over; in 1998, disability pensions for those aged 65 and over were transformed into retirement pensions without a change in eligibility conditions. In order to avoid a large break in the series, recipients aged under 65 have been estimated as half the total for years before 1998.

Social Assistance refers to the *Salario Minimo de Integracion*. Data include those over 65 years of age.

Source: Data supplied by the Ministerio de *Trabajo y Asuntos Sociales, Subdirección General de Estudios*.

Sweden

Data refer to those aged 20 to 64.

Unemployment is the annual number of compensated days of income-related unemployment insurance and basic insurance, converted to a full-time basis and divided by 260 (benefit paid 5 days per week).

Incapacity comprises the disability pension (*förtidspension*) and temporary disability pension (*sjukbidrag*) (replaced by sickness compensation in 2003), sickness daily cash benefit *sjukpenningdagar*), rehabilitation benefit (*rehabiliteringspenning*) and work injury benefit (*arbetsskadeförsäkring*), in full-time equivalent with full-year equivalents calculated as days paid divided by 365. Sickness benefits do not include employer-paid days. Until 2002 data includes those aged 16 to 19.

Social Assistance (*ekonomiskt bistånd***)** is a full-time equivalent estimate, including all adults in households receiving social assistance, but adjusted by the ratio between benefit actually paid and the maximum benefit that can be paid (in cases where the benefit amount is not reduced due to other household income or assets) to that household type.

Sources: For 1990 onwards (except for sickness benefit in 1990 and 1991) estimates for the number of full-time equivalents aged 20-64 in various benefit systems supplied by Statistics Sweden (available at www.scb.se/templates/pressinfo 143551.asp). OECD/NEI estimates (see OECD, 2003*a*), which include public payments in the first fourteen days of sickness, were used for sickness and related benefits from 1980 to 1991 and to estimate the other series on the Statistics Sweden basis for years prior to 1990.

United Kingdom

Unemployment is claimant unemployment (at November).

Incapacity comprises Incapacity Benefit (but not including Incapacity Benefit Short-term Lower, which is paid during the first 28 weeks of sickness), Income Support (Disabled) and Severe Disablement Allowance (at November).

Lone Parent refers to Income Support (Lone Parents) (Supplementary Benefit prior to 1989) (at November).

Sources: Department of Work and Pensions (2004), *Building on New Deal: Local solutions meeting individual needs* (www.dwp.gov.uk/publications/dwp/2004/buildingonnewdeal/mainreport.pdf), charts of caseloads; for unemployment, www.nomisweb.co.uk.

United States

Unemployment comprises Unemployment Insurance (average of weekly claims) plus unemployed AFDC/TANF recipients, assuming one unemployment recipient per AFDC-unemployed parent family to 1997 and one per two-parent TANF family from 1998.

Sources: U.S. Department of Labor, www.dol.gov and as below.

Invalidity includes disability pensions from OASDI, Blind and disabled pensions from SSI, Black Lung Benefit Program and Veterans' Benefits. It excludes the Federal Employees Retirement System and Civil Service Retirement System, the Railroad Retirement System, State and local government pensions and Workers' Compensation (this alone is received by approximately two million persons).

Sources: Social Security Administration, *Annual Statistical Supplement 2004 to the Social Security Bulletin,* Office of Research, Evaluation, and Statistics (www.ssa.gov/policy/docs/statcomps/supplement), Tables 9.D1, 3.C6.1, 5.A17, 7.A9, 7.A3 and 9.F1.

Lone Parent refers to AFDC/TANF number of adult recipients, less unemployed recipients as defined above. Some proportion of the recipients included are full-time employed and a small proportion also receives a disability benefit.

Source: Administration for Children and Families, US Department of Health and Human Services, http://aspe.hhs.gov/hsp/indicators05/apa.htm, Table TANF 1, and www.acf.hhs.gov//programs/ofa/caseload/caseloadindex.htm.

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