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ALMPS IN OECD COUNTRIES: STYLISTED FACTS AND EVIDENCE ON THEIR IMPACTS ON THE LABOUR MARKET

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Part 1: Concepts underlying OECD/Eurostat LMP Data



General

1. Publicly-financed programmes only
2. Mainly programmes targeted on *individuals administratively identified* as facing difficulties in the labour market (unemployed or on notification of layoff)
3. The targeting criterion excludes general employment or fiscal policies which act in a non-selective way, and social policies which do not prepare people for the regular labour market



Data comparability issues

- Borderline issues:
 - Treatment of public spending on apprenticeships differs
 - For Spain, inclusion of reduced SS contributions on conversion of temporary to permanent contracts results in a high 13% of the labour force in an ALMP
- Data for non-EU countries can suffer from the omission of entire programmes that should be included or vice versa
- Where programme management is fragmented and statistics are weak, income support payments to participants are not easily associated with the services delivered, which tends to result in low reported ALMP expenditure
- Coverage of ALMPs at sub-national level may be spotty, especially in federal countries

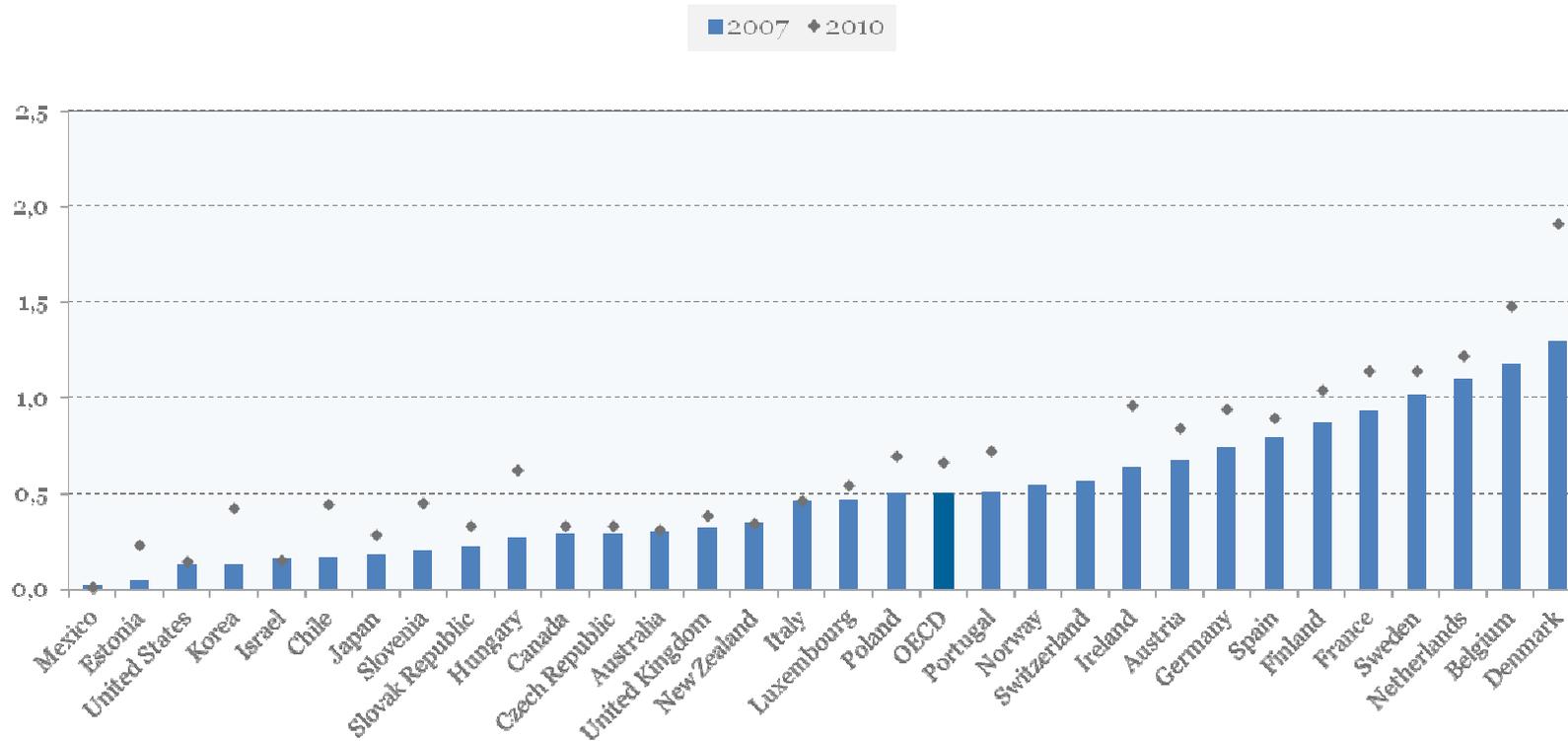


Recent trends in the *ALMP* spending effort and participant numbers



The importance of the active spending effort differs significantly across countries

Expenditure on ALMPs as a percent of GDP



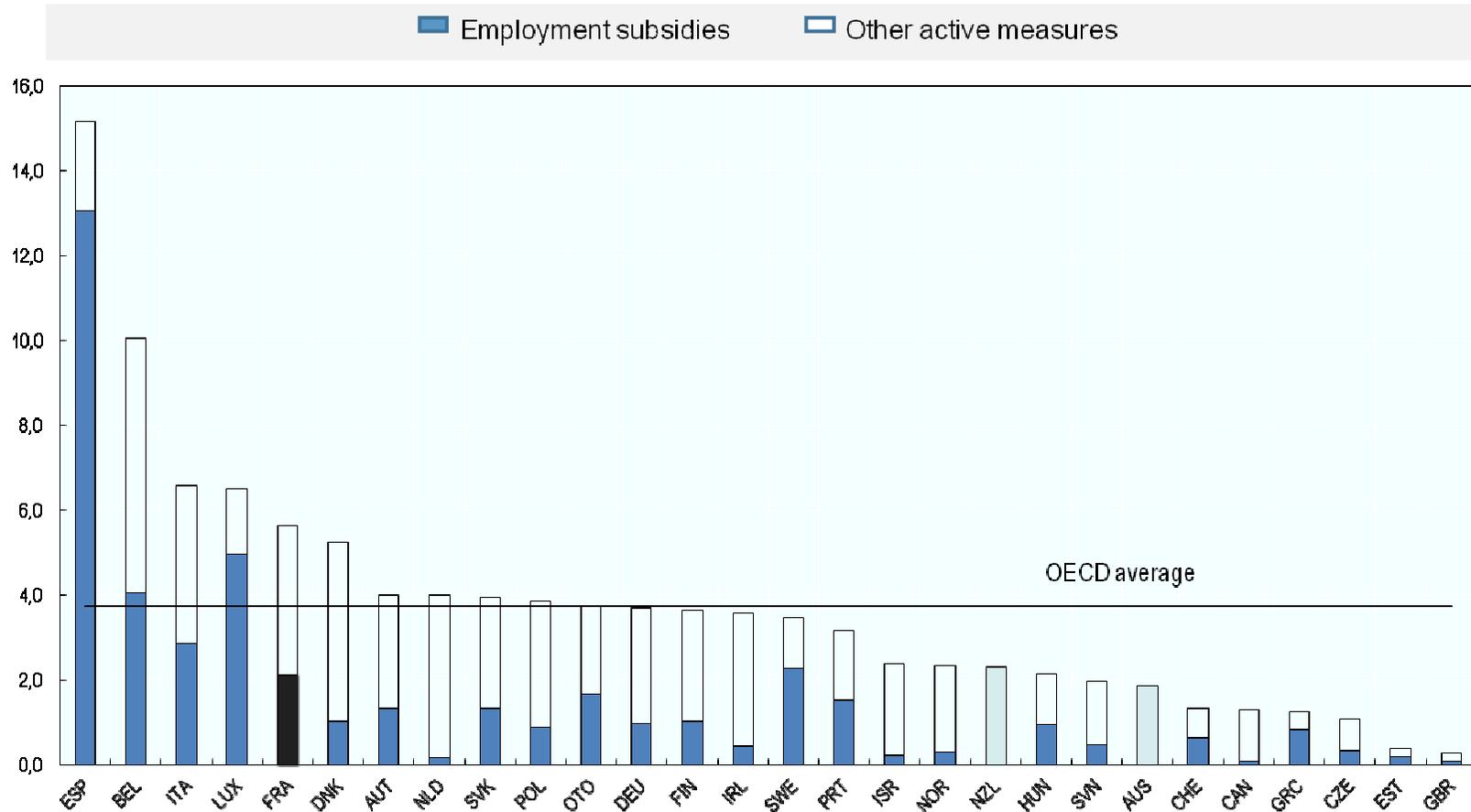
Note: 2009 for the United Kingdom. Data are missing after 2007 for Norway and Switzerland.

Source: OECD/EU database on labour market programmes.



... as does the number of participants in ALMPs

As a percentage of the labour force, 2005-10

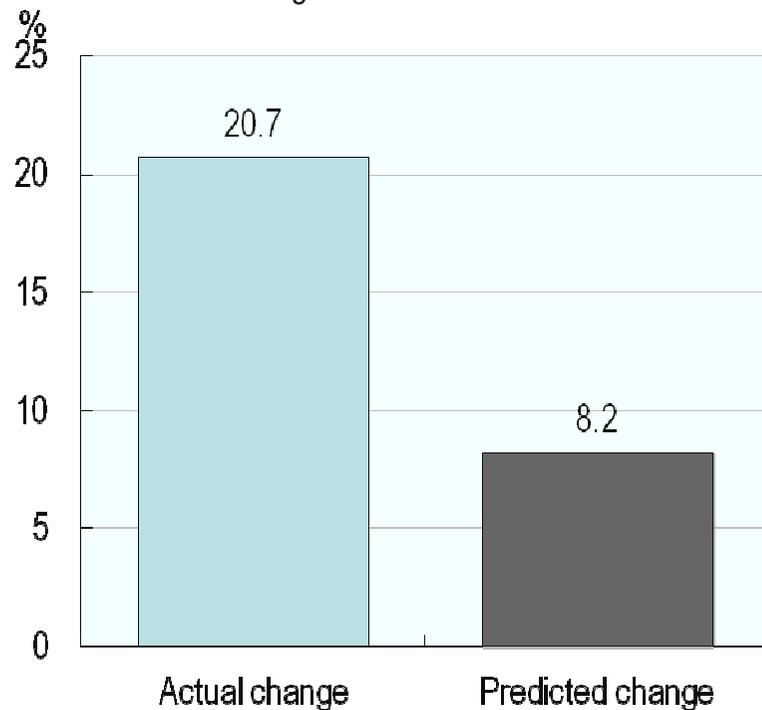


Source: OECD calculations based on the *OECD Main Economic Indicators* and *OECD Labour Market Programmes Databases*.

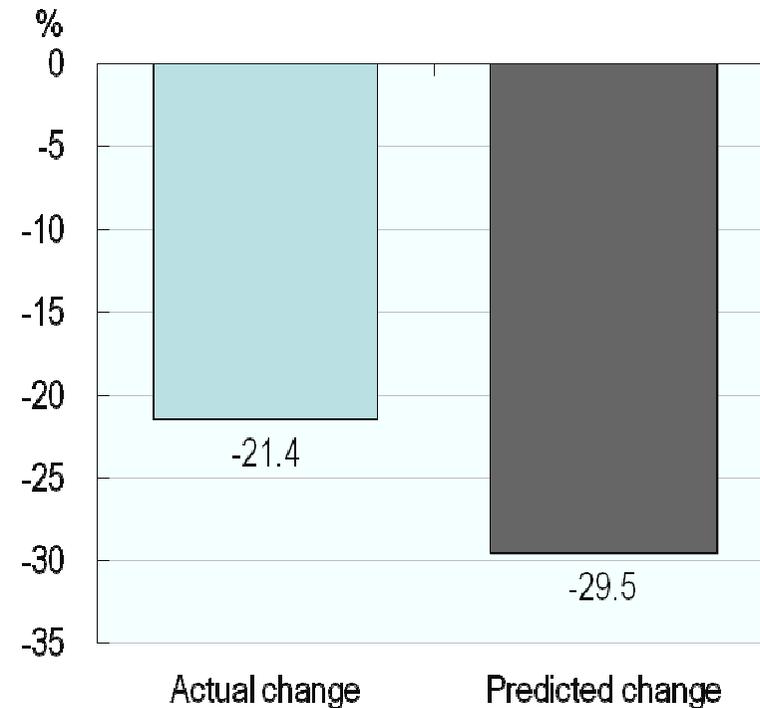


Active resources per unemployed person have declined significantly since the start of the crisis ...

Actual and predicted change in ALMP spending since the start of the crisis^{a,b}
% change between 2007 and 2010



Actual and predicted change in ALMP resources per unemployed persons^b
% change between 2007 and 2010



a) The predicted change in ALMP spending is obtained by taking the difference between the out-of-sample prediction for 2010 and the prediction for 2007.

b) Data refer to weighted averages of 26 OECD countries (excluding Chile, Estonia, Iceland, Israel, Korea, Slovenia, Turkey and the United Kingdom).

Source: OECD (2012).





Part 2:
Macroeconomic Evidence
on the Impact of ALMPs on
Employment Unemployment



Macro-econometric evidence of the impact of ALMPs on unemployment

| Study | Outcome | Comments |
|--|---------|--|
| Murtin, de Serres and Hijzen (2013) | ** | ALMP spending on placement and employment services, and to a lesser extent employment incentives, reduce unemployment inflow and fosters unemployment outflow, with a large total impact on unemployment. |
| Murtin and Robin (2013) | ** | Same results obtained with a structural model. |
| De Serres and Murtin (2013) | ** | ALMP, and in particular placement and employment services, reduce unemployment and its persistence over time. |
| Bassanini and Duval (2006) | ** | Spending on labour-market training significantly lowers unemployment; high ALMP spending also reduces the increase in unemployment associated with generous unemployment benefits and negative shocks. |
| Baker, Glyn, Howell and Schmitt (2005) | No | |
| Boone and van Ours (2004) | ** | ALMP spending on labour-market training lowers unemployment substantially, smaller negative impact for PES spending and none for subsidised jobs; higher spending on training reduces the impact of unemployment benefits in raising unemployment. |
| Fitoussi, Jestaz, Phelps, Zoega (2002) | * | No longer significant with Sweden excluded from sample. |
| Bertola, Blau and Kahn (2002a, 2002b) | n.a. | ALMP only entered in interaction terms which generally are not significant. |
| Blanchard and Wolfers (2000) | n.a. | ALMP only entered in interaction terms; higher ALMP spending reduces responsiveness of unemployment to negative shocks. |
| Elmeskov, Martin and Scarpetta (1998) | * | Also evidence that unemployment benefits increase unemployment most strongly when ALMP spending is low. |
| Nickell (1997, 1998) | ** | For long-term unemployed only in Nickell (1997). |
| Scarpetta (1996) | * | Small impact that becomes larger and more significant with Sweden excluded. |

No: No significant direct impact on unemployment.

n.a.: Not available

* : Significant positive/negative impact on unemployment in most but not all cases.

** : Significant negative impact on unemployment in all cases.



Part 3: OECD Activation Policy reviews



Benefits, activation, unemployment, employment

- Unemployment rates are partly determined by the balance between unemployment benefit generosity and activation measures targeted on benefit recipients
- Employment rates are influenced by the activation of recipients of “inactive benefits” – partial/ complete closure of inactive benefits (e.g. tighter gatekeeping for disability benefits), or additional conditions converting them into a type of unemployment benefit



What Can we Learn from the OECD Activation Reviews?

They help us understand the outstanding features of national experiences:

- The reviews document policies in particular areas, e.g. benefit generosity, PES decentralisation, or specific “interventions in the unemployment spell”
- Problems are country-specific and the “same” measure in two countries is often different (although UI systems are somewhat comparable given the duration rules, etc.)
- Simple “good-practice” examples depend on context
- A few techniques such as the “individual action plan” or “case management” have fairly wide applicability but do not cover the big picture



Japan

Employment services experience the positive side of a “chasm” in benefit coverage



Japan (1)

- A “chasm” in benefit coverage:
 - UI benefits restricted, e.g. 10 years of contributions are needed to qualify for more than 6 months of UI (if aged <45)
 - Social assistance very restricted by asset tests and strict administration. After UI exhaustion, a typical unemployed person does not qualify for social assistance until they run assets down to almost zero and appear visibly destitute
 - Unemployed people with no other income are strongly motivated to work because benefits do not support long-term unemployment. So not much activation is needed.



Japan (2)

- Attendance at employment counselling sessions once a month, listing two job-search actions
- This mild procedure does not offset UI disincentives, but it familiarises recipients with the PES service offer
- ALMPs are low in cost and support placement work e.g. hiring subsidies aid the placement of disadvantaged workers; some long-term training offer
- Job-broking, counselling services and (some) action plan procedures are used by general jobseekers - not limited to benefit recipients
- The ratio of registered vacancies to unemployment approaches 1, far higher than in most EU countries
- No benefit support for LTU, not much for repeat unemployment, fairly effective PES, UNR < 5%



Ireland

High ALMP expenditure with no activation, proving no link



Ireland

- The unemployed had (almost) no obligation to visit employment offices or report job search
- But ALMP expenditure ~0.6% of GDP in 2000s:
 - Overlapping dispersed local employment services: participation voluntary, struggled to attract clients
 - Labour market training: helped youths, improved productivity, did not address long-term unemployment
 - Largest ALMP was Community Employment: tackled social exclusion; provided local services; conditions financially attractive in some cases; no impact on the regular-job outcomes.



Finland

**Unique PES structure, unique history,
and past bad outcomes - but now
looking better**



Finland

- The PES has no national-level management; local Labour Committees determine benefit eligibility and sanctions in individual cases
- National financing with *de facto* local management led to unique policies from the 1980s, and persistent high unemployment in the 1990s
- Local actors do not support job-search monitoring, but support activation through referrals to jobs and ALMPs
- In the LMS (assistance benefit) reform of 2006 , municipalities accepted responsibility for half the cost of benefit payments
- Increased awareness of activation considerations has gradually had an impact, in local-consensus-based system



Australia

Active national management behind the success of the quasi-market for employment services



Australia

- Centrelink
 - Implements Job Seeker Classification Instrument
 - Manages individual job-search requirements
 - Manages compliance/sanctions and referrals to different employment services
- DEEWR
- Outcome: Relatively good performance
 - Defines complex contracts with extensive consultation
 - Maintains and updates a national database of jobseeker characteristics; estimates Star Ratings for providers
 - Supervises spending from the “Employment Pathway Fund”; audits detailed provider activity within a “Quality” framework: this creates a “level-playing field” for competition
- Outcome: Relatively good performance



Switzerland

**Controlled decentralization and
Germanic discipline as a formula for
effective activation**



Switzerland

Decentralization

- Federal UI legislation in 1996 created the network of employment offices
- After UI exhaustion, assistance benefits are 100% financed at cantonal/municipal level

Performance

- Legislation requires the unemployed to do all they can to shorten the duration of their unemployment
- This is the main outcome measure in the national performance rating system for local employment offices
- Caseworkers are seen as central to success: referring clients to jobs, to ALMPs or for sanctions



Norway

Effective activation keeps unemployment low... but too low, since more rehabilitation beneficiaries should be unemployed



Norway

Effective activation

- An unemployed person can be referred to a job anywhere in the country; the benefit sanction rate is relatively high
- Low unemployment (>4%) but at the cost of high sickness/vocational rehabilitation recipient rates
- Rates of return to work are high for unemployment benefit, but relatively low for rehabilitation benefit

Need to strengthen the gate-keeping function



Bottomline

- The public spending effort on ALMPs varies widely across OECD countries
- During the jobs crisis, OECD countries increased their ALMP spending but not enough to match the sharp increases in unemployment in many countries
- Cross-country econometric evidence suggests that ALMPs do help cut unemployment
- Country reviews suggest that effective activation strategies embodying « mutual obligations » -- integrating UI benefits, job-search support and monitoring, participation on ALMPs and benefit sanctions – work.
- But the mix of policies underlying activation strategies needs adjustment in a steep downturn.