

Active Labour Market Policies: Theory and Danish Experiences

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Active labour market policies/workfare (ALMP/WF):
Activity/participation requirements as part
of the eligibility conditions for transfers
(unemployment benefits, social assistance)

- **Generous social benefits – can incentive structure be maintained by ALMP?**
- **Work first: Target transfers to those working, but having low income (working poor)**
- **More acceptance of ALMP than benefit reductions?**
- **Easier to get support for a "pro-active" social safety net**

Aims of ALMP

- **Targeting:**
Ensuring that transfers go to the intended recipients (“deserving”)
- **Job-search incentives:**
Strengthen incentives to search for regular jobs (job search intensity, and reservation demands/wages)
- **Qualifications:**
Address skill constraints/barriers (technical, cognitive, non-cognitive/social) lowering job finding chances

Targeting – the selection problem

- Target transfers to individual with low earnings ability
- Unconditional transfers: Some high-ability individuals may claim benefits
- ALMP-conditions: Higher opportunity cost for individuals with high earnings ability to claim transfers
 - high-ability types self-select not to claim transfers
 - transfers better targeted to the "deserving"
- Possible to implement higher transfers for given fiscal costs

ALMP and labour supply

Extensive margin:

- **Transfers not a "passive" alternative to work**
- **ALMP lowers the reservation wage**
- **Higher labour force participation for given transfer and tax levels**

ALMP and targeting

- Workfare does not have to be productive (direct treatment effect) to affect labour market outcomes!
- It is a screening device!
- Screening paradox:
 - The target group for transfers is exposed to the ordeal of ALMP
 - The problem was the "non-deserving" claiming the transfer
 - The mechanism works by making it unattractive for the non-target group to claim the transfer!
- Welfare case for ALMP?
 - Higher transfers
 - Disutility from ALMP (less leisure time)

Job search

- **Trade-off insurance vs incentives**
- **Generous benefits = insurance protection income/consumption**
- **Reduces incentives to search for jobs (search intensity, reservation demands to jobs)**

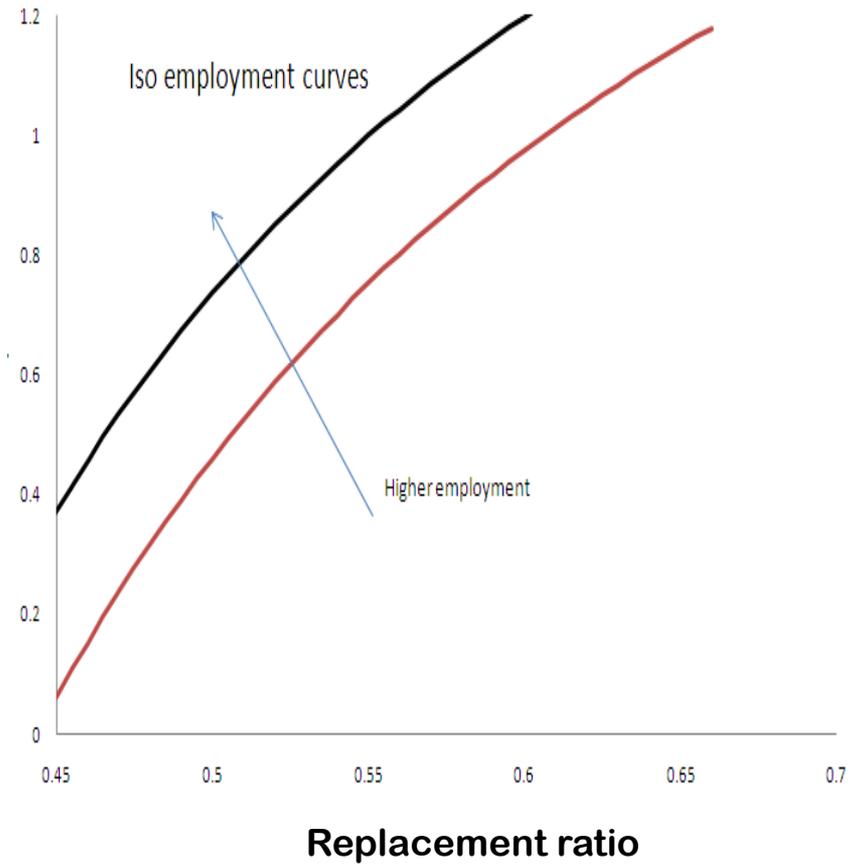
Search and ALMP

- **Search**
 - Prior to participation: more search (threat/motivation effect)
 - During participation: less search (locking-in)
- **Wages – outside option is changed = wage moderation**
- **General equilibrium effects: search and wages affect job-creation**

ALMP and employment

- ALMP improves employment for given benefit levels
- (Utilitarian) Welfare may improve
- Optimal policy – small intensity (few) but demanding activity

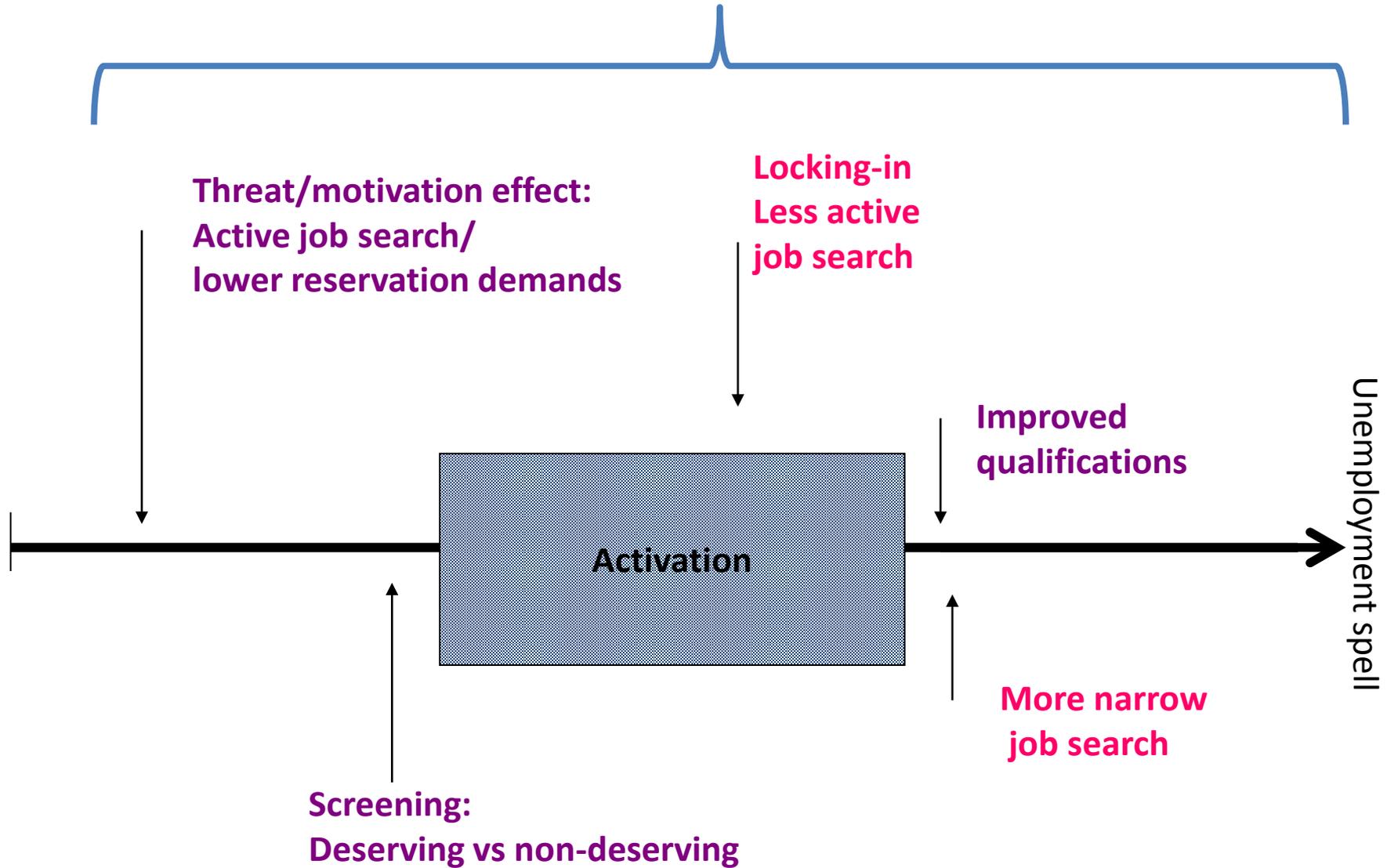
Workfare requirement



Qualifications

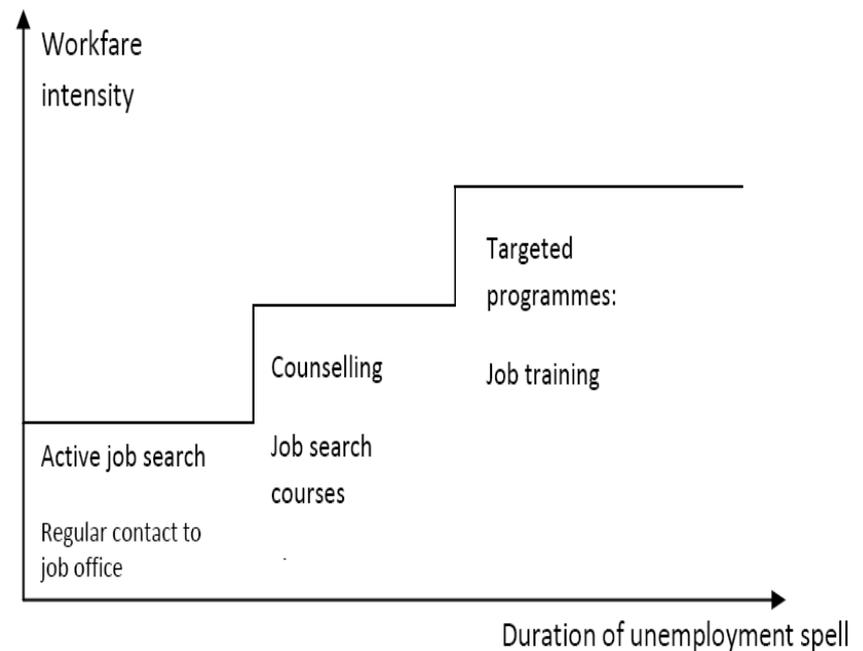
- **Overcome barriers for job-finding**
 - Individual characteristics and market developments
 - Targeting problem (who and what?)
- **Duration dependent loss of human capital**
 - Strengthens the incentive to search up-front
 - ALMP may be a carrot (will solve my problems)
- **Ex post to participation**
 - Improved qualifications
 - Changed reservation demands

General equilibrium effects via wage formation and job-creation

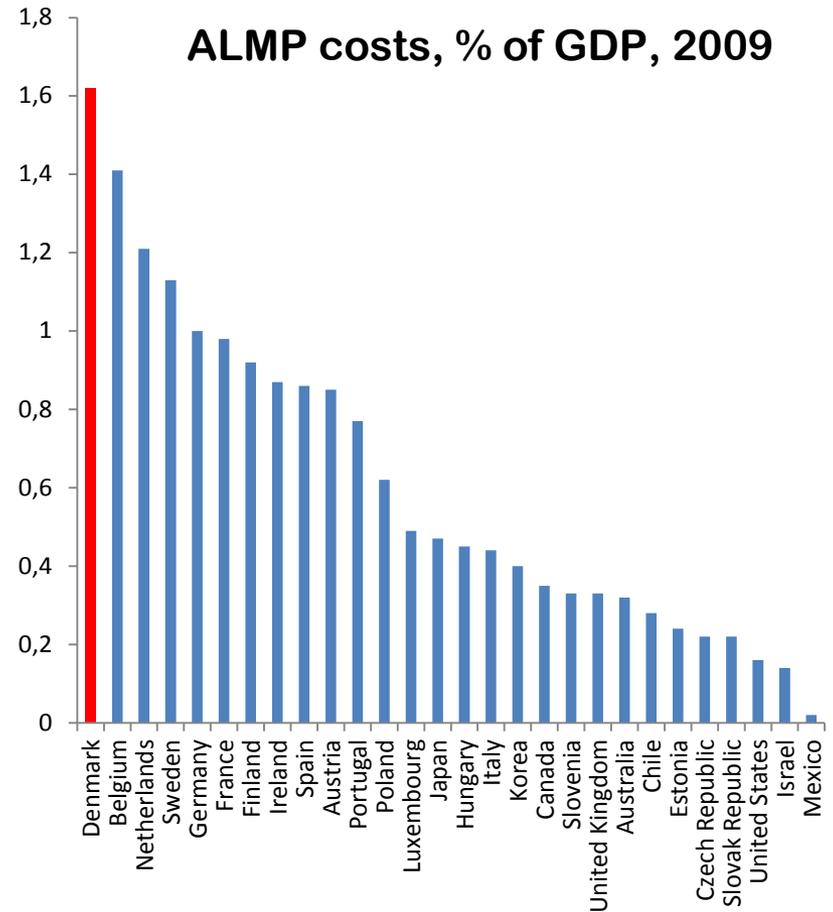
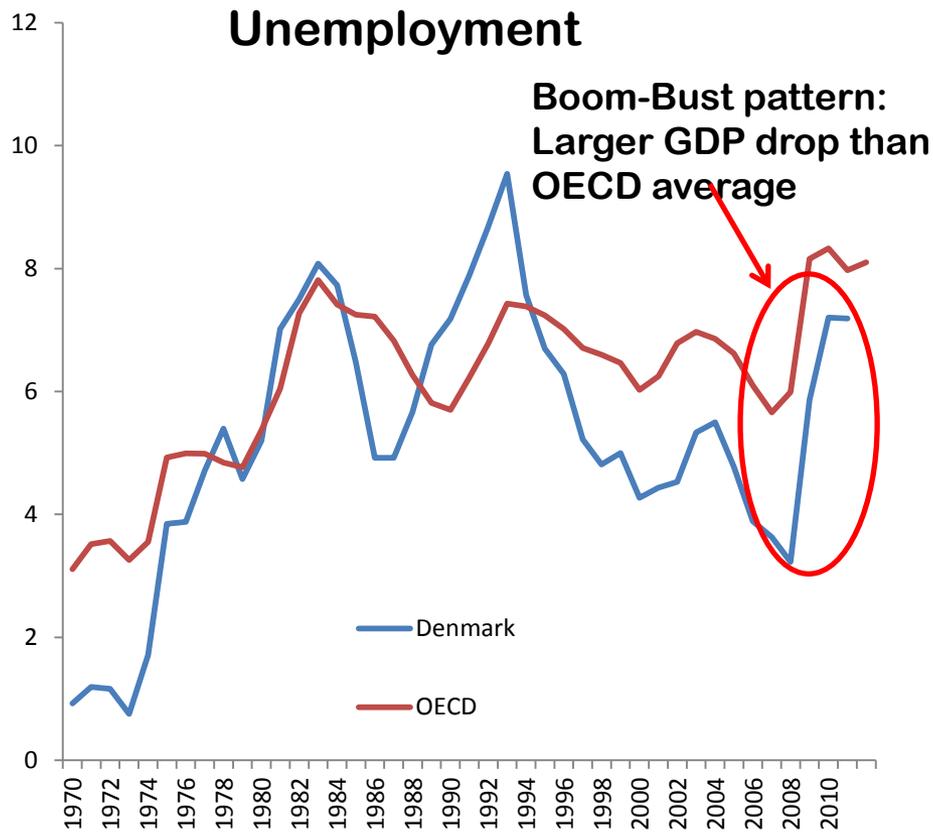


Programmes are costly time profile: stepping up

- How to avoid dead-weight losses?
- Programme assignment (profiling)
- Administration – incentives and monitoring



The Danish case: Low unemployment and extensive use of ALMP



The three pillars of the Flexicurity-model

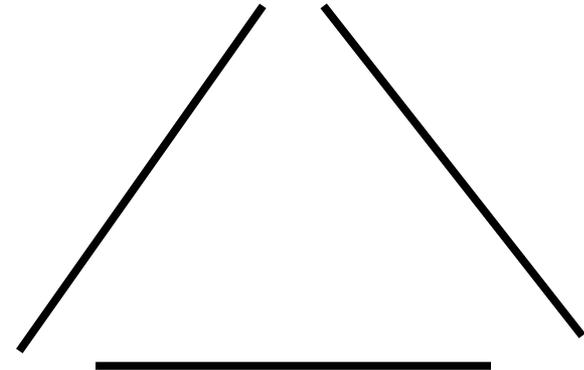
- Lax employment protection = **flexibility** for firms
- Generous unemployment benefit scheme = insurance/**security** for workers

but

reduces incentives to be actively searching for jobs

- The model presumes that unemployment is a temporary state
- Balanced via ALMP

Flexible hiring/firing rules



Unemployment
Insurance

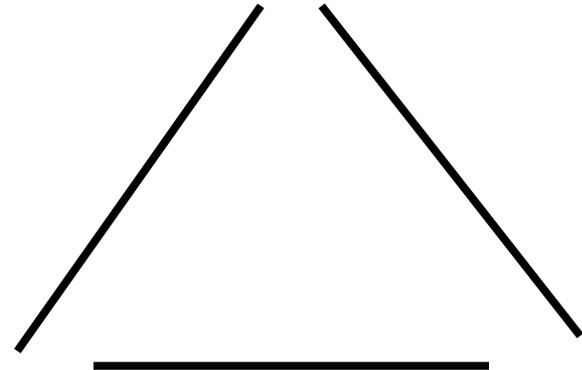
Active labour
market policy

Labour market reforms in the 1990s

- Shorter duration of the benefit period
- Stricter eligibility conditions
- Activation (workfare)
 - Condition for eligibility
 - Not qualifying for UIB

Short term insurance elements maintained, but incentives strengthened

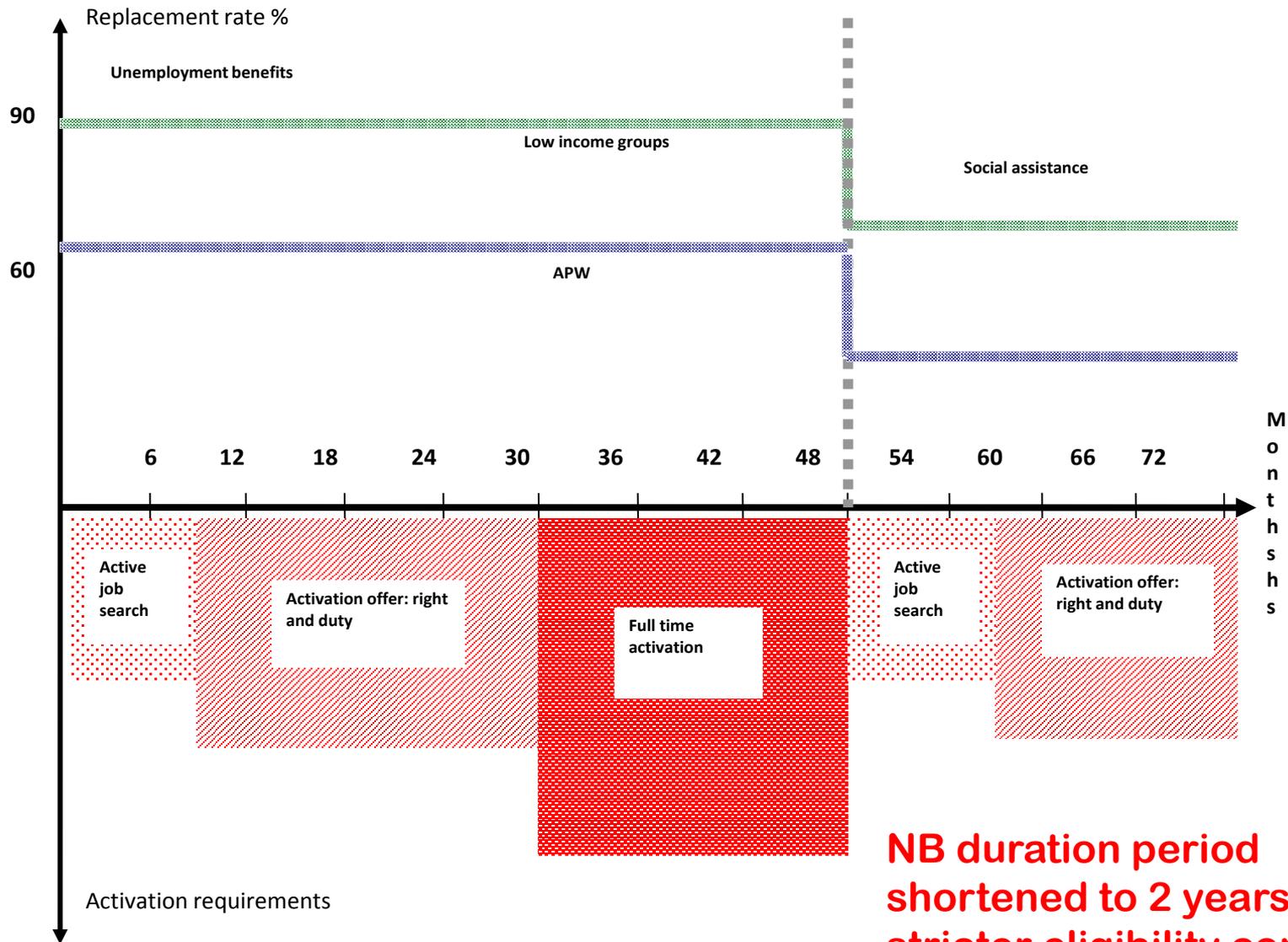
Flexible hiring/firing rules



Unemployment
Insurance

Active labour
market policy

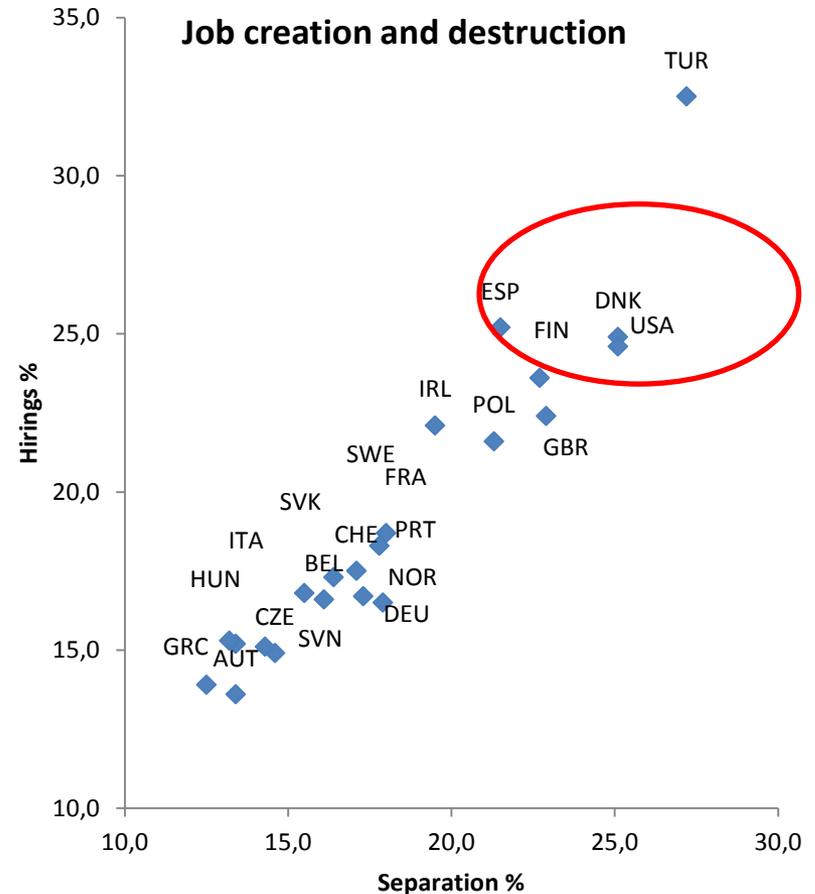
The Danish System: Unemployment insurance benefits, Social assistance and ALMP



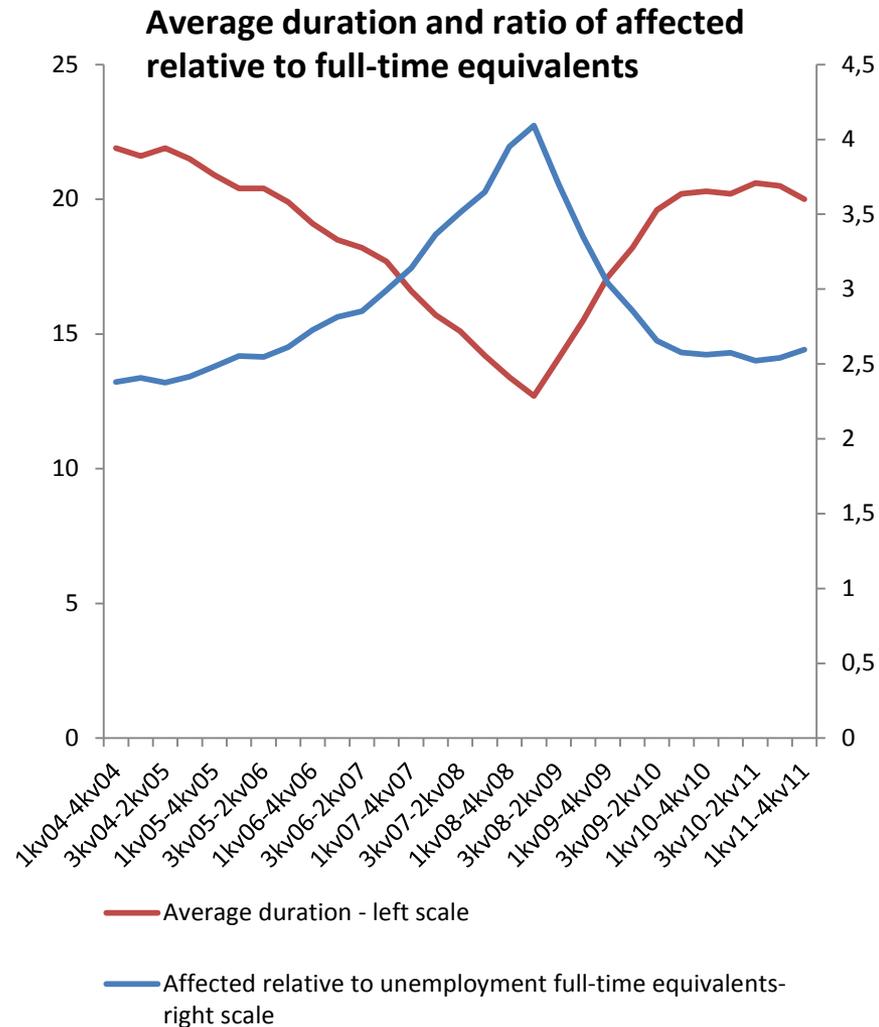
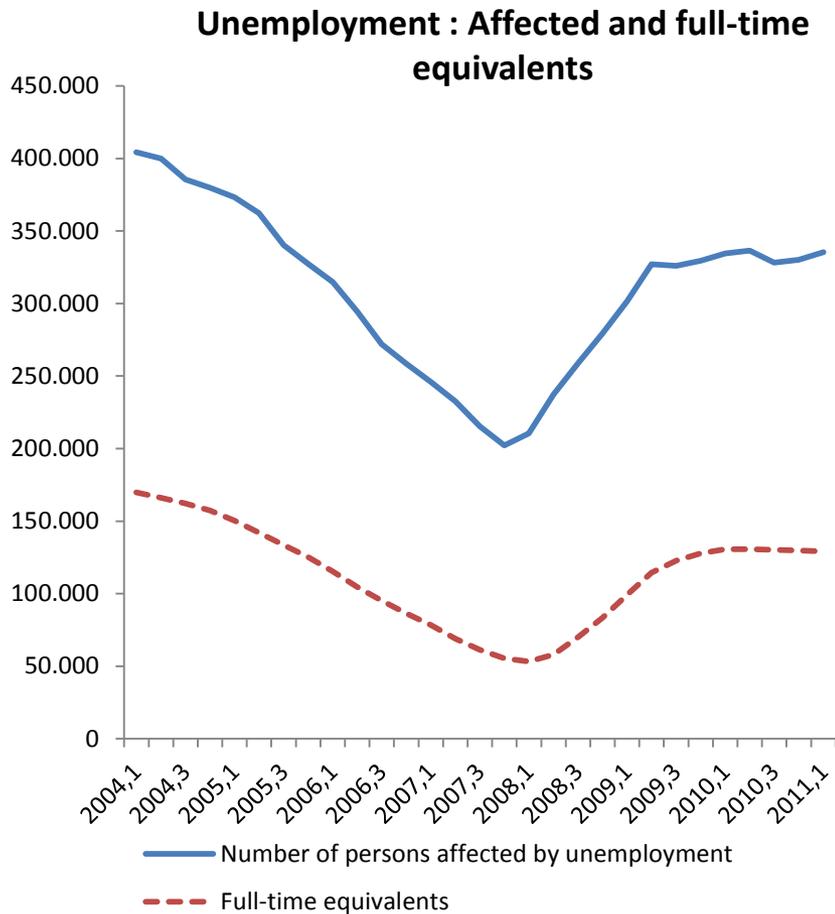
NB duration period shortened to 2 years + stricter eligibility conditions

The Danish labour market

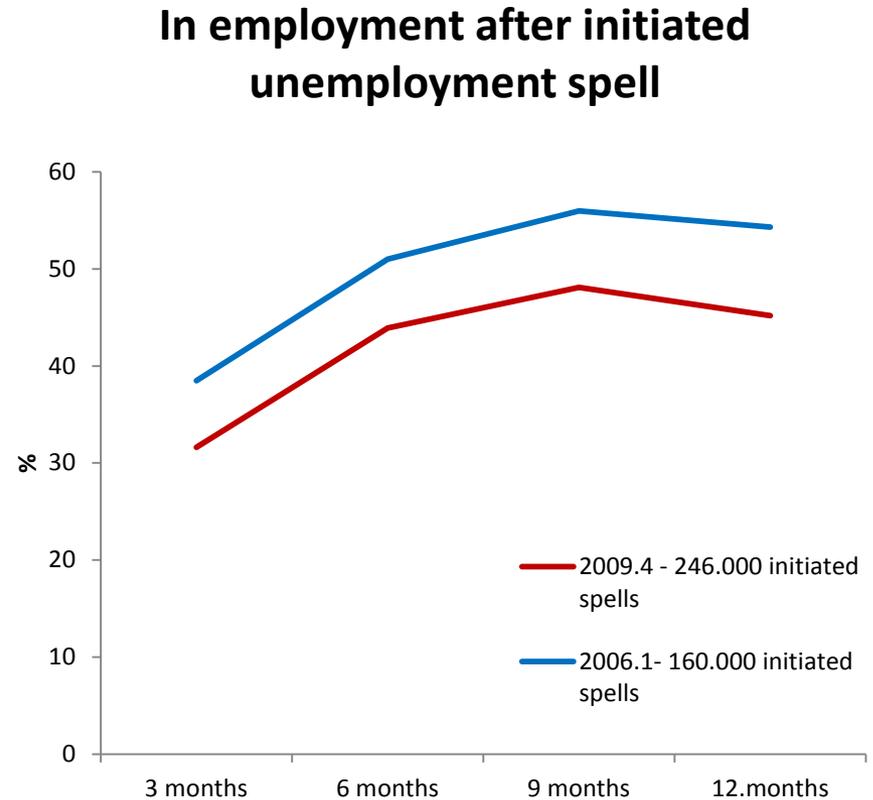
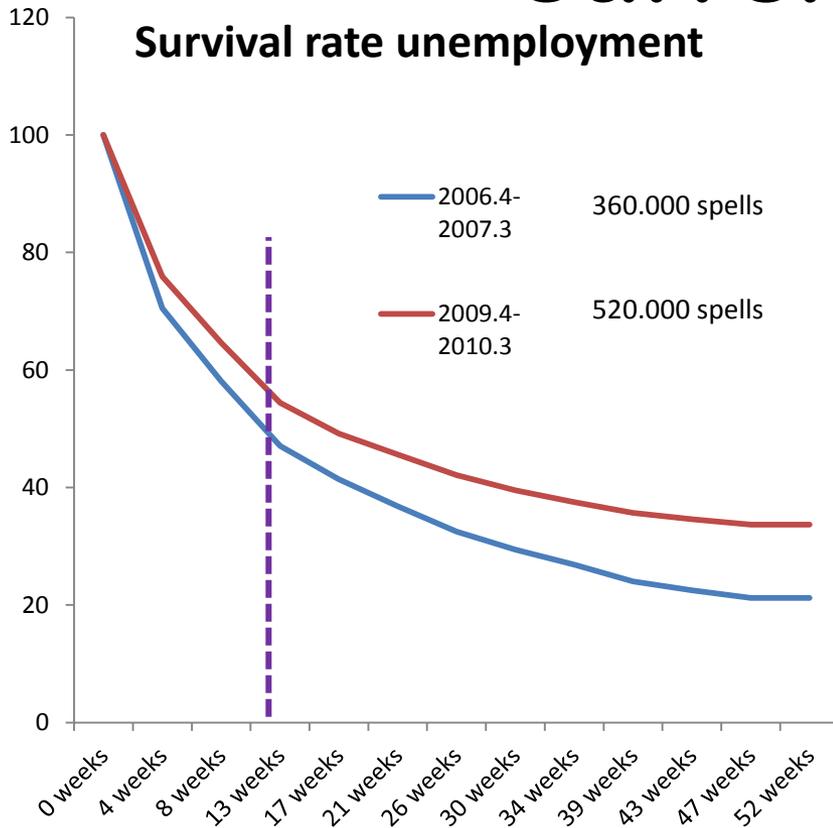
- High level of job-turnover
- High incidence of short term unemployment
- "Entry friendly"
Relatively low level of long-term and youth unemployment
- High level of perceived job security (=ability to find a job)



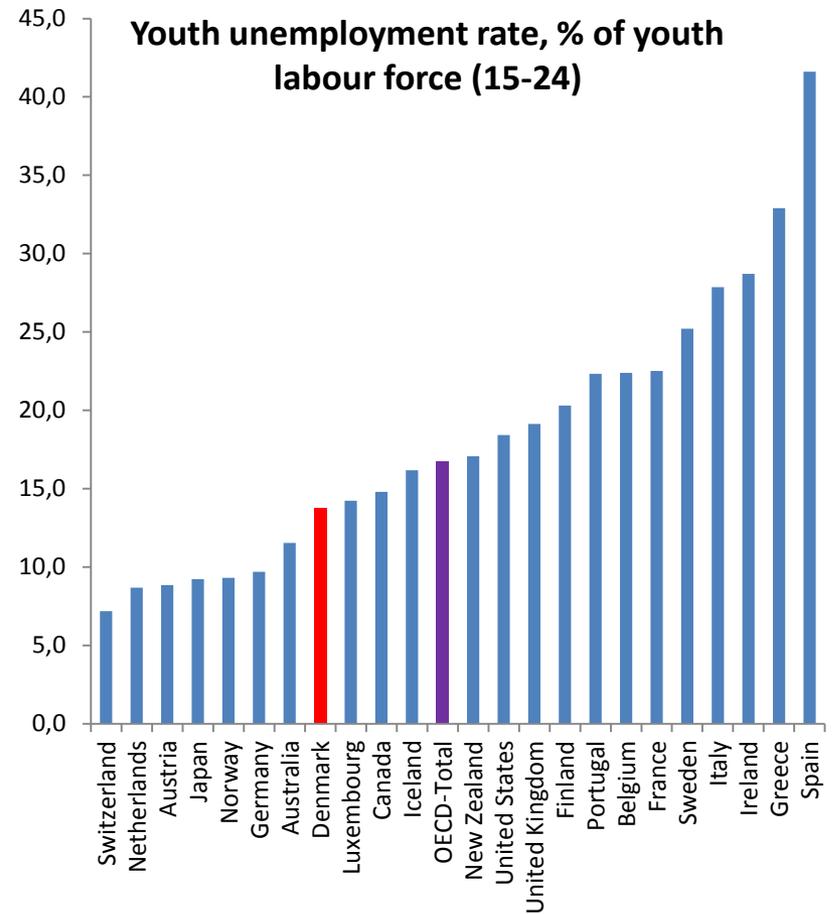
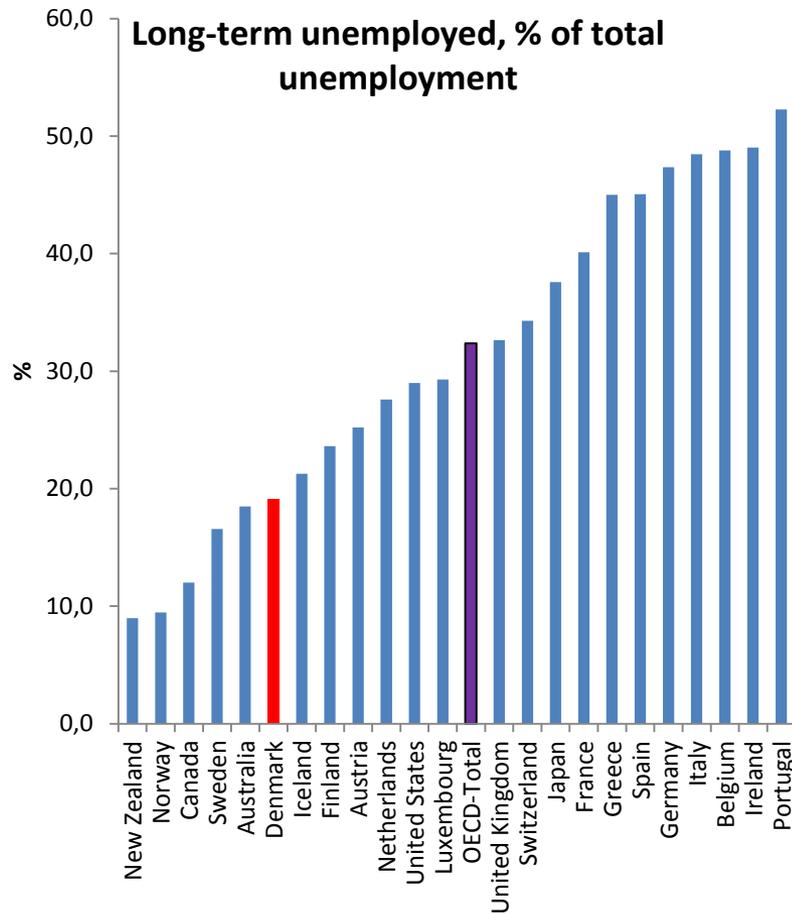
High incidence of unemployment but short duration



Quick transition out of unemployment – also in the current crisis



Low level of long-term and youth unemployment



ALMP – requirements and activities

- Up-front job search requirement
- ALMP within first 9 months, different rules for the young
- Activation rate = 1/3 for unemployed
- Most programmes are short (< 13 weeks)
- Most in work related ALMP (internship, employed with wage subsidy)
- Continuous change in requirements and contents
 - Business cycle situation
 - Evidence
- Recently much focus on interviews and monitoring of jobs search
- Increasing demands on the young
 - Youth package – earlier and more demanding ALMP (=education)
 - Immediate full-time activation for the very young

ALMP -administration

- **Specific institutional structure: Unemployment insurance funds (Unions) and municipalities**
- **One-stop shop**
 - **Job-centres (municipalities): For all unemployed (Social Assistance and Unemployment benefits)**
 - **Easier for the unemployed**
- **Incentive structure for job-centres**
 - **Reimbursed based on quantitative measures. What about quality?**
 - **Effect on job counselling (area vs skills)**
 - **More lean administration?**

Requirements and programme assignment: Match-groups

- **Group I (job-ready): No problems except unemployment.**
- **Group II (ready for activity): Not ready to start working, but is capable of participating in a program activity aiming at later employment**
- **Group III(temporarily passive): Neither ready for a job nor for participation in a program activity aiming at later employment**

The achilles heel: Long-term unemployment

- Extended welfare state critically dependent on maintaining a high employment rate!
- Financial crisis = increasing inflow into ALMP
- How to maintain programme effectiveness?
- How to identify problems (different composition of the pool of unemployed, structural shifts)?
- Maintaining political support for ALMP when unemployment is high?

Concluding remarks

- **ALMP has important effects on the incentive structure in the labour market**
- **Can be used to balance incentives with insurance (distributional goals)**
- **Programmes are costly – programme administration and assignment are critical**
- **Danish experience:**
 - **ALMP can be used to support a flexible labour market which is "entry-friendly"**
 - **Continuous adaptation of policies to curb costs and maintain effectiveness**
 - **It has coped reasonably with the crisis – implicit work sharing**
 - **Can it prevent a significant increase in long term unemployment?**