



IZA



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## **Activating the unemployed: What OECD countries do and how have they adapted the activation stance during the crisis**

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- 1. The context: from relatively low unemployment to the jobs crisis**
- 2. Key features of activation measures and strategies**
- 3. The policy response during the jobs crisis and possible new directions**

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# The jobs crisis



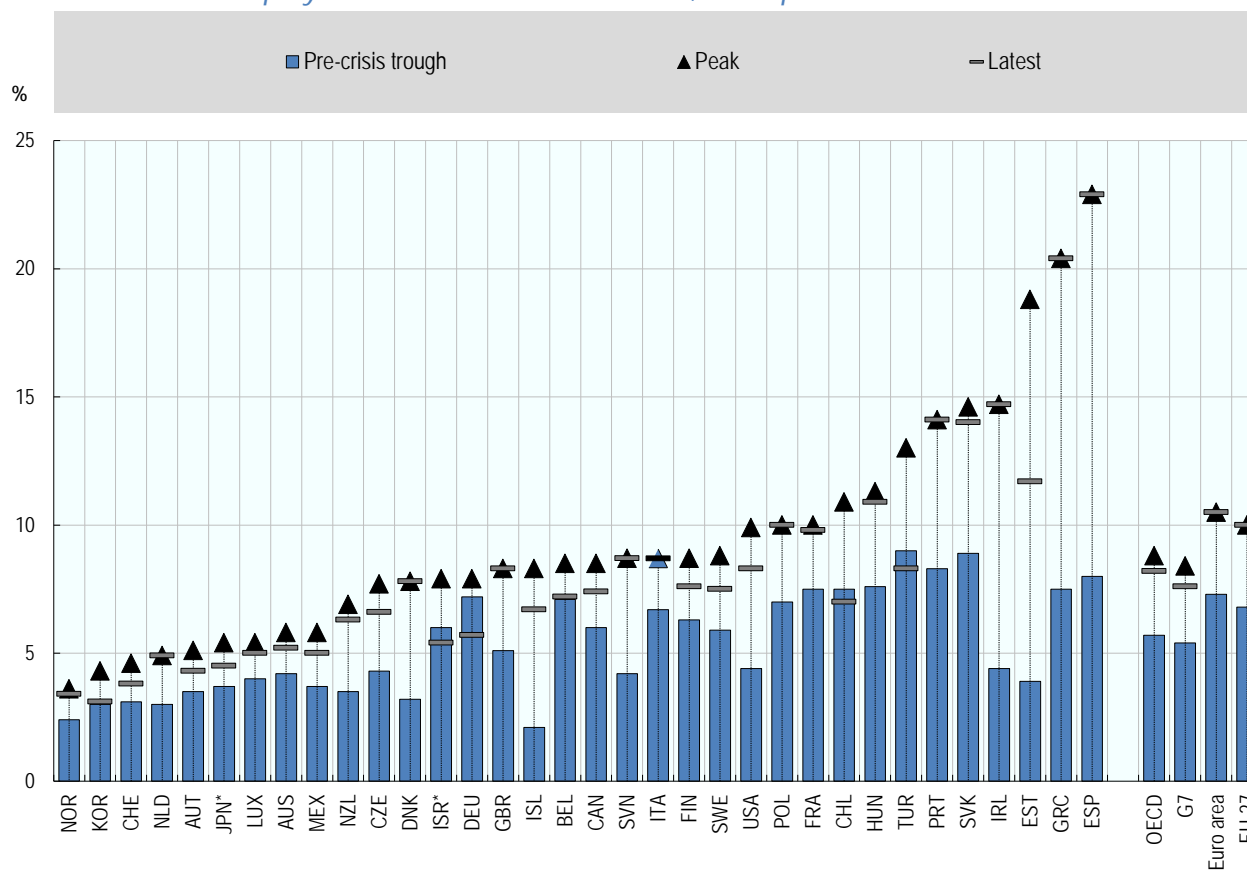
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- **Relatively good LM outcomes before the Great Recession**
  - In 2007, the OECD avg. UR was 5.6%, one of the lowest in the post-war period
  - About 2/3 of WAP was in employment
- **The 2008-09 economic crisis:**
  - Rapid rise in unemployment in many OECD countries, but wide cross-country differences in labour market adjustment
  - Adjustment on the extensive margin (**employment**) but also on the intensive (**hours**) in a number of countries
- **Limited impact of the (weak) recovery on job creation**
  - The OECD unemployment rate is still close to the historical peak (8.2% in February 2012)
- **Serious risk of unemployment becoming entrenched**
  - The share of long-term (LT) unemployment is increasing rapidly, and some of the LT unemployed are at risk of dropping out of the labour market
- **With a faltering recovery, policy choices become very difficult**
  - How to tackle budget deficits while, at the same time, sustain the recovery and provide adequate support to the many unemployed?

# Uneven impact of the crisis on the labour market: unemployment rates

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Unemployment rates before the crisis, at its peak and its latest value<sup>a</sup>



Note: Countries are shown in ascending order of the jobs gap in 2011 Q4.

a) Counterfactual employment level is obtained by assuming that it has grown as rapidly as the working-age population between the business-cycle peak and the date considered. Peak (trough) dates are defined as the start of the longest spell of consecutive decreases (increases) in real GDP since 2006 Q1.

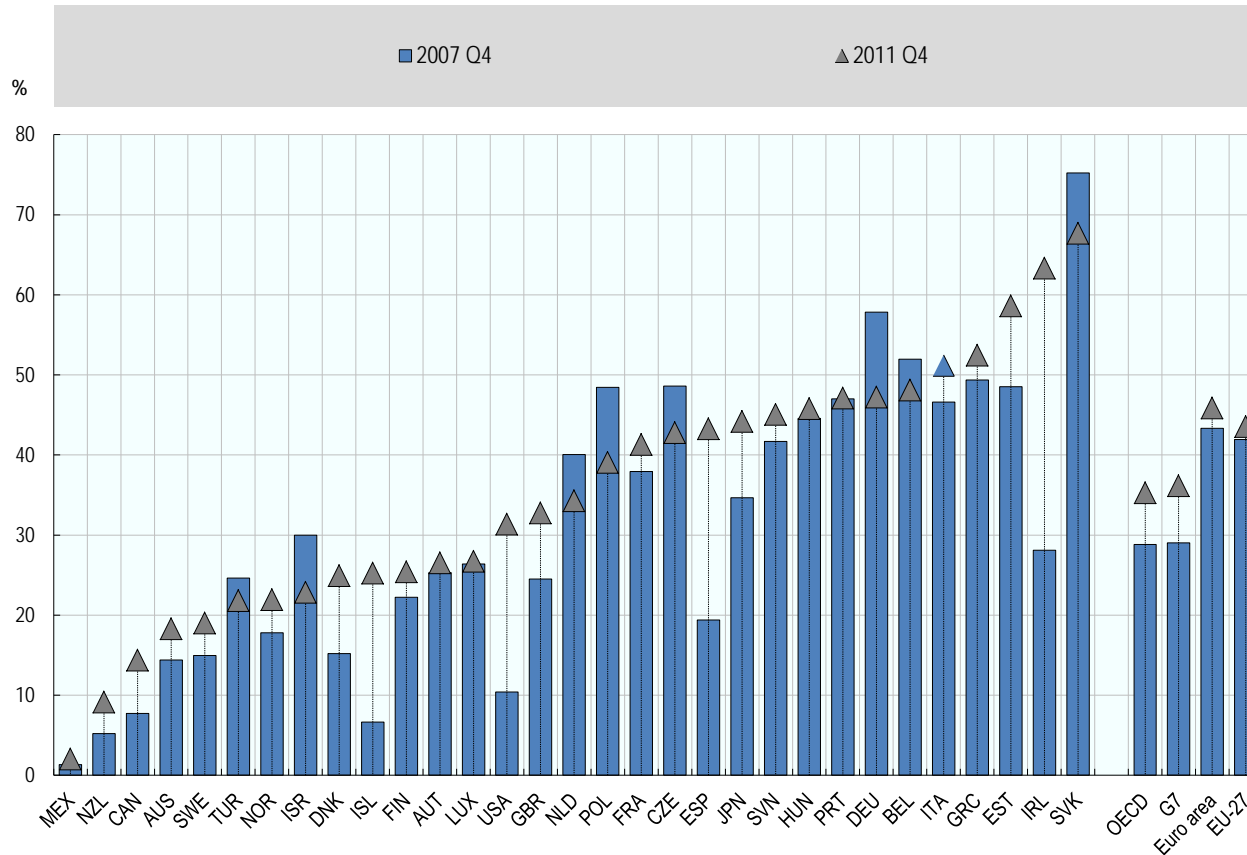
b) Weighted averages.

c) The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law. d) Adjusted series taking into accounts the break in series due to the introduction of the 2010 Census for Mexico and the change in the LFS questionnaire for Portugal in 2011, respectively.

Source: OECD calculations based on the *OECD Economic Outlook No. 90*.

# Long-term unemployed has increased in many OECD countries

Long-term unemployed (more than one year) as a percentage of total unemployed<sup>a</sup>



Note: Countries are shown in ascending order of the incidence of long-term unemployment in 2011 Q4.

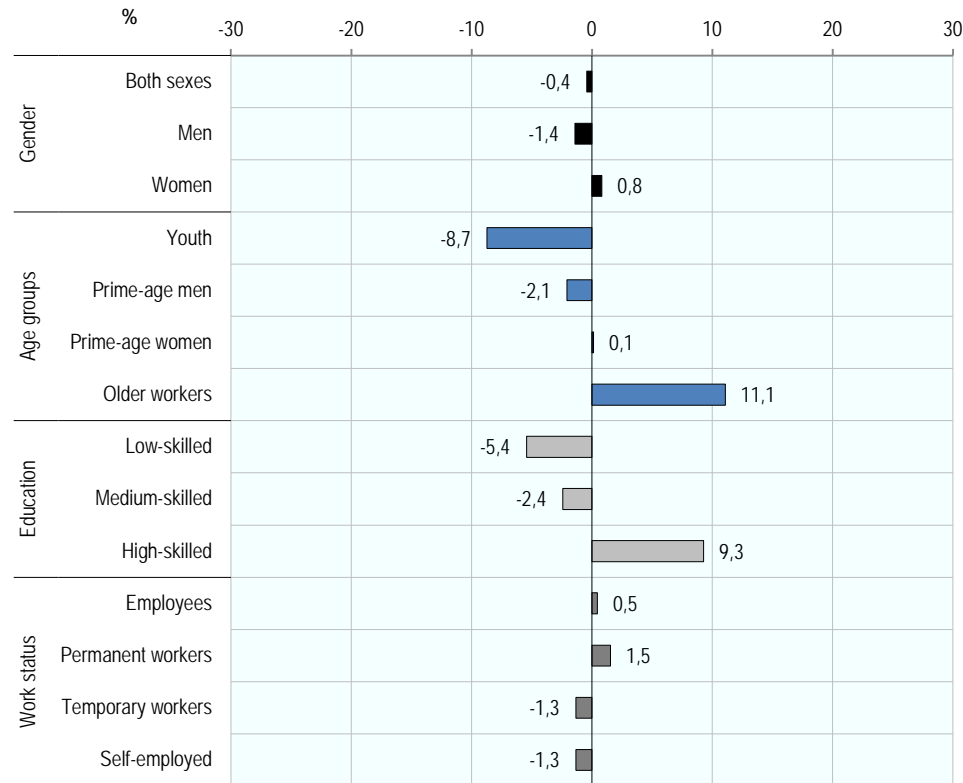
a) Data are not seasonally adjusted. OECD is the weighted average of 32 OECD countries excluding Chile and Korea.

Source: OECD calculations based on quarterly national Labour Force Surveys.

# Falling employment has particularly affected youth, low-skilled and men

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Percentage change in employment, 2007 Q4-2011 Q4



a) Weighted averages of 33 countries (excluding Chile) for statistics by gender/age groups and employees and self-employed; of 31 countries for statistics by education (excluding Australia, Chile and New Zealand); and 29 countries (excluding Australia, Israel, Mexico and the United States) for statistics on permanent/temporary workers. Statistics by education refers to persons aged 25-54 and to persons aged 15 or more/15-74 (for the European countries) for the statistics by work status.

Source: OECD calculations based on national labour force surveys.

## ■ Short-term labour market challenges vary a lot across countries:

- **Promote job** creation when pressure to cut large budget deficits is high and growing
- Provide an **adequate safety net** to the unemployed, including the many LTU
- Adapt **active labour market programmes**



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# Labour market policy: new orientations in OECD countries



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- **Activation measures are actions which:**
  - are targeted at people of working age not in employment but who are apt to work and are receiving income-replacement benefits
  - encourage jobseekers to become more active in their efforts to find work and increase their employability
  - make benefit payments conditional on a set of behavioural criteria (mutual obligation principle)
- ***Key elements include *inter alia*:***
  - Early intervention in the spell and high contact density with the PES;
  - Regular reporting on work availability;
  - Direct referrals of unemployed clients to vacant jobs;
  - The setting up of back-to-work agreements and action plans;
  - Referral to ALMPs (active period of benefits).

- **Unemployment benefit recipients**
  - An intensive intervention and mutual obligation regime implemented by the public employment service will keep the unemployed in contact with the labour market and increase their chances of a return to work
  - Activation measures are particularly called for and have greatest impact in countries with long-duration or indefinite duration (when followed by social assistance) benefits.
- **Recipients of social assistance benefits**
  - Important to distinguish between employable and non-employable recipients. The former are de facto unemployment benefit recipients and should be subject to availability-for-work and activation requirements.
- **Recipients of “inactive” benefits**
  - A number of countries have experienced significant increases in working-age recipients of inactive benefits, such as people with disabilities or lone parents.
  - Recipients of such benefits can often work and have gradually become another target group for labour market policies and activation measures.

- **Institutional make-up of Employment Services**

- Integration of placement and benefit functions (long advocated by OECD) facilitates jobseeker follow-up and implementation of mutual obligation requirements.
- If separate institutions for benefit payments are in place, the placement service should remain responsible for control of job search and work-availability
- An increasing number of countries is now bringing together the employment service (placement and benefit) plus the management of social assistance, disability and lone parent benefits, to enable more coherent activation of target groups (NOR, NZ, UK; to some extent FIN, GER)

- **Role of financing arrangements**

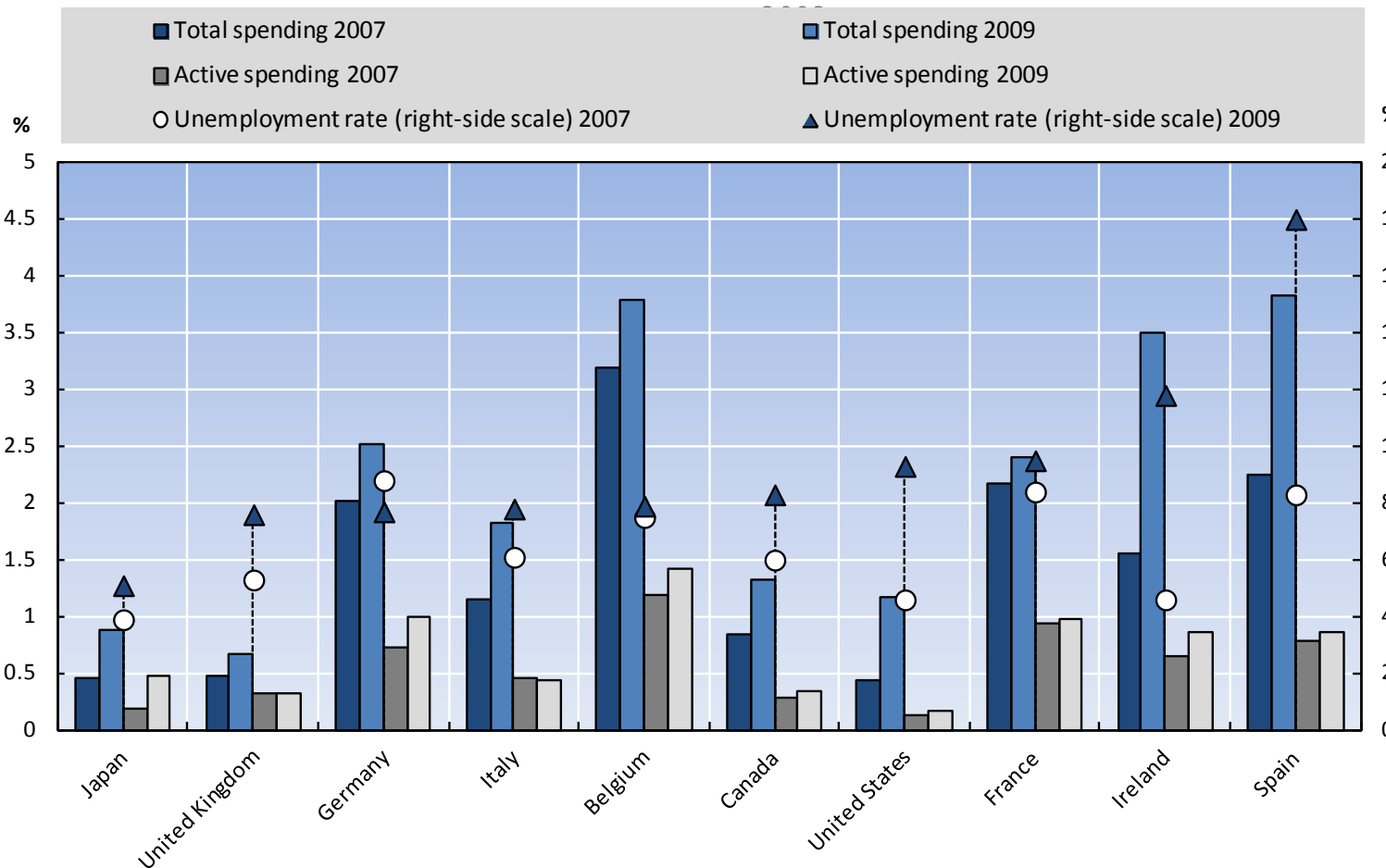
- Local and regional financing of benefits – mainly social assistance – tends to be associated with lower caseloads.
- In several countries where financing arrangements were changed from the national level towards greater responsibility of local levels (US, CAN, NL, FIN), the implementation of activation measures was encouraged, not the least by ending “free rider” attitude.

- **Increasing tendency to rely on private intermediaries for activation strategies**
  - Within OECD area, Australia was first to set up a large-scale reintegration market with contractual arrangements, followed by the Netherlands and most recently the UK
- **Key characteristic: purchaser/provider split, where private sector and non-profit organisations compete for the acquisition of publicly-funded tenders**
- **AU/NL/UK: trial and error process of continuous adaptation of reintegration market features:**
  - Role of price in deciding among bids vs. pricing fixed by purchaser
  - Proportion of funding for commencement/service delivery/”outcomes”
  - Definition of “outcome” in terms of job durability
  - Complete selection by tender vs. roll-over of best performers
  - transfer of all jobseekers to private providers vs. only of hard-to-place

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# Spending on labour market programmes varies a lot across countries

Harmonised unemployment rates and labour market programme spending as a percentage of GDP, 2007-



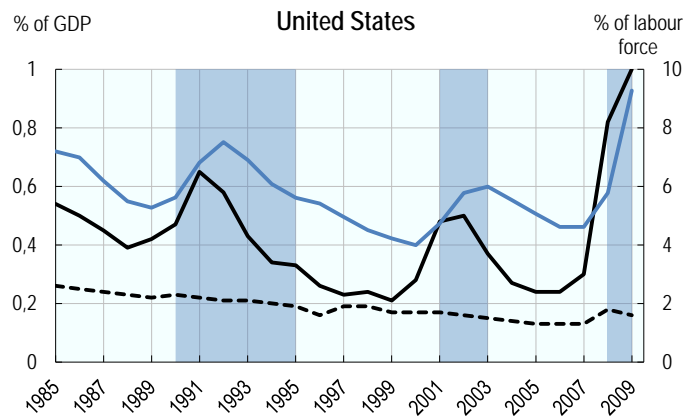
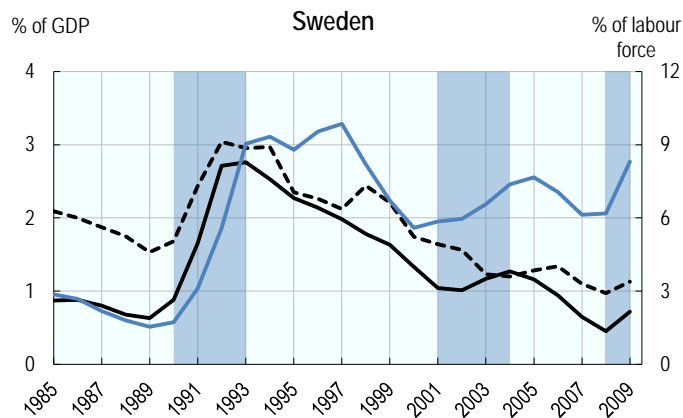
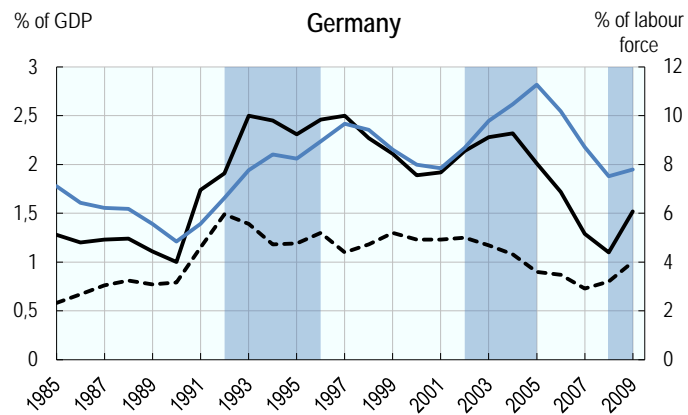
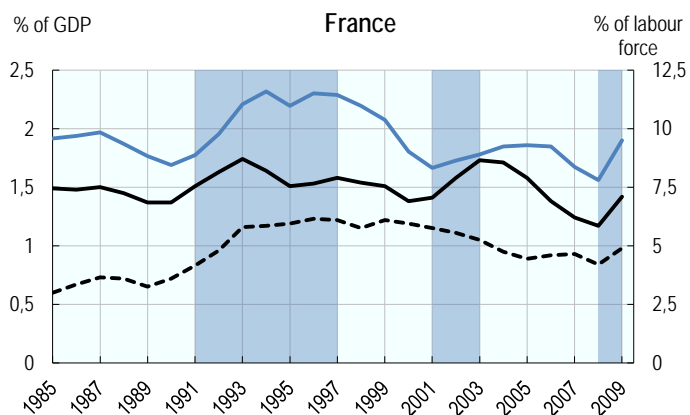
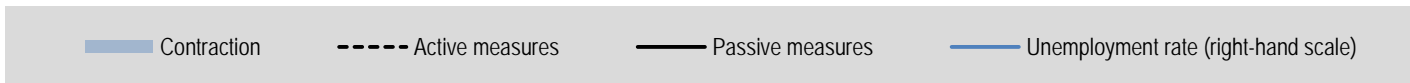
Countries are shown in ascending order of the unemployment rate in 2009.  
 Source: OECD calculations based on the OECD Main Economic Indicators and OECD Labour Market Programmes Databases.

# Expenditure on active and passive measures over the business-cycle, 1985-2009

Percentages of labour force



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Note: Business cycle are based on output gap.

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



# What was the early response to the jobs crisis?

The qualitative responses to the OECD/EC questionnaire



## Discretionary changes in labour market policy in response to the economic downturn

	Number of OECD countries that have taken different types of measures
<b>Measures to support labour demand for job seekers and vulnerable workers</b>	
Job subsidies, recruitment incentives or public sector job creation	15
Reductions in non-wage labour costs	16
Short-time work schemes	20
<b>Measures to help unemployed find work</b>	
Activation requirements	11
Job search assistance and matching	21
Job-finding and business start-up incentives	8
Work experience programmes	11
Training programmes	23
<b>Income support for job losers and low-income earners</b>	
Generosity or coverage of unemployment benefits	17
Social assistance	5
Other payments or in-kind support	15
Fiscal measures for low earners	15
<b>Other training measures</b>	
Training for existing workers	14
Apprenticeship schemes	10

a) Statistics based on 29 countries, Iceland being excluded.

b) Does not include measures to increase aggregate labour demand such as fiscal stimulus packages.

- The jobs crisis led to **longer average unemployment spells**
  - Where unemployment benefit durations are short, temporary extension during the crisis helps reducing the poverty risk among the long-term unemployed. Extension of benefits in e.g. Canada and especially the United States (with some changes also in Finland, Japan, Portugal)
- Increasing numbers of **ineligible jobseekers** due to the increase in non-standard work in some countries
  - Some countries have extended coverage, e.g. Finland, France, Italy, Japan
- **Extensions should be temporary** and targeted to the most vulnerable with enforcement of job-search requirements
- **The crisis can also be an opportunity to reform unemployment benefits** to provide a more adequate safety nets to vulnerable groups, conditional on job search, and participation in ALMPs

- **Threats to previously successful strategies:**
  - PES staff and ALMP funds have most often not increased in line with the rising stock of unemployed.
  - Risk for intensity of interventions in the unemployment spell (job search controls; in-depth interviews; action plan follow-up...) to decrease
  - Vacancy flows decline, resulting in a lower number of direct referrals.
- **Overriding goal: prevent job losers from becoming disconnected from the labour market. Consequently:**
  - Core elements of activation regimes and mutual obligation principle should not be allowed to lapse or be overly diluted
  - Adequate increase in resources is needed to:
    - handle client flows and maintain the range of PES interventions
    - compensate for the fall in vacancy notifications by scaling up short-term programmes such as job clubs, work trials or internships
    - increase institutional capacity for active programme offers to the long-term unemployed.

# Concluding remarks



- Over the past 15 years, many OECD countries have introduced or reinforced strategies to **“activate”** the unemployed and other benefit recipients
  - Significant differences across countries, but all combine effective re-employment services with strong job-search incentives, enforced by the threat of moderate benefit sanctions
  - If well designed, these strategies have contributed to better LM outcomes
- ...but then the **crisis hit**, with rapidly rising, and increasingly, persistent unemployment
- Addressing the challenges of the jobs crisis raises a number of issues
  - **Administrative capacity** to scale up LM programmes and possible role of private providers
  - **How to reach out those who are not (no longer) eligible for first-tier income support schemes**
  - **Automatic vs. discretionary adjustments**: while spending for passive LM policies increases automatically in downturns, this is not the case for ALMPs, with a few exceptions.

# Thanks

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