



Effectiveness of Active Labour Market Policies (ALMPs) across Europe

Lukas Lehner

lukas.lehner@spi.ox.ac.uk

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Agenda

1. ALMPs in theory
 - A. Definition and types of policies
 - B. Concepts to determine ALMP effectiveness: the Beveridge Curve
2. ALMPs in reality
 - A. European labour markets since the Global Financial Crisis
 - B. Policy responses: ALMPs across welfare states
 - C. Design, Governance and Conditionality
3. Conclusion
 - A. Policy proposals for the benefit of workers

1. ALMPS IN THEORY

What are ALMPs (and what are they not)

- Active Labour Market Policies
 - objectives: actively help the jobless to find employment
 - or to increase wages
- Contrast: Passive Labour Market Policies
 - objectives: consumption smoothing, safety net, poverty reduction
 - income replacement policies such as unemployment benefits (UB)
- Other labour market policies / institutions:
 - Employment Protection Legislation (EPL)
 - Minimum Wages (MW)
 - Trade Unions and Collective Bargaining (CB)
 - ...

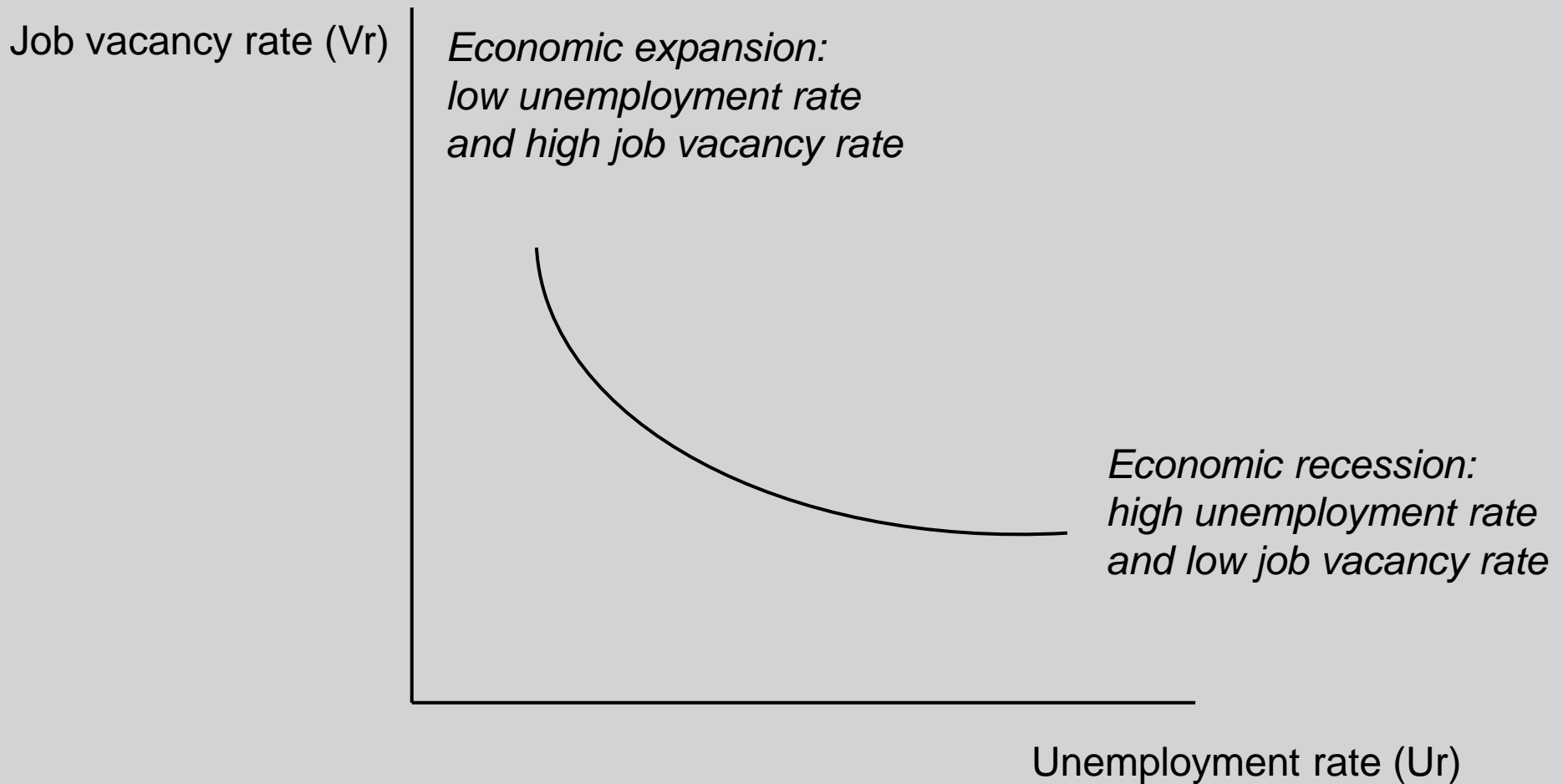
What types of ALMPs exist?

1. Job search assistance
2. Training programmes
3. Incentives to private sector employers
4. Public work programmes

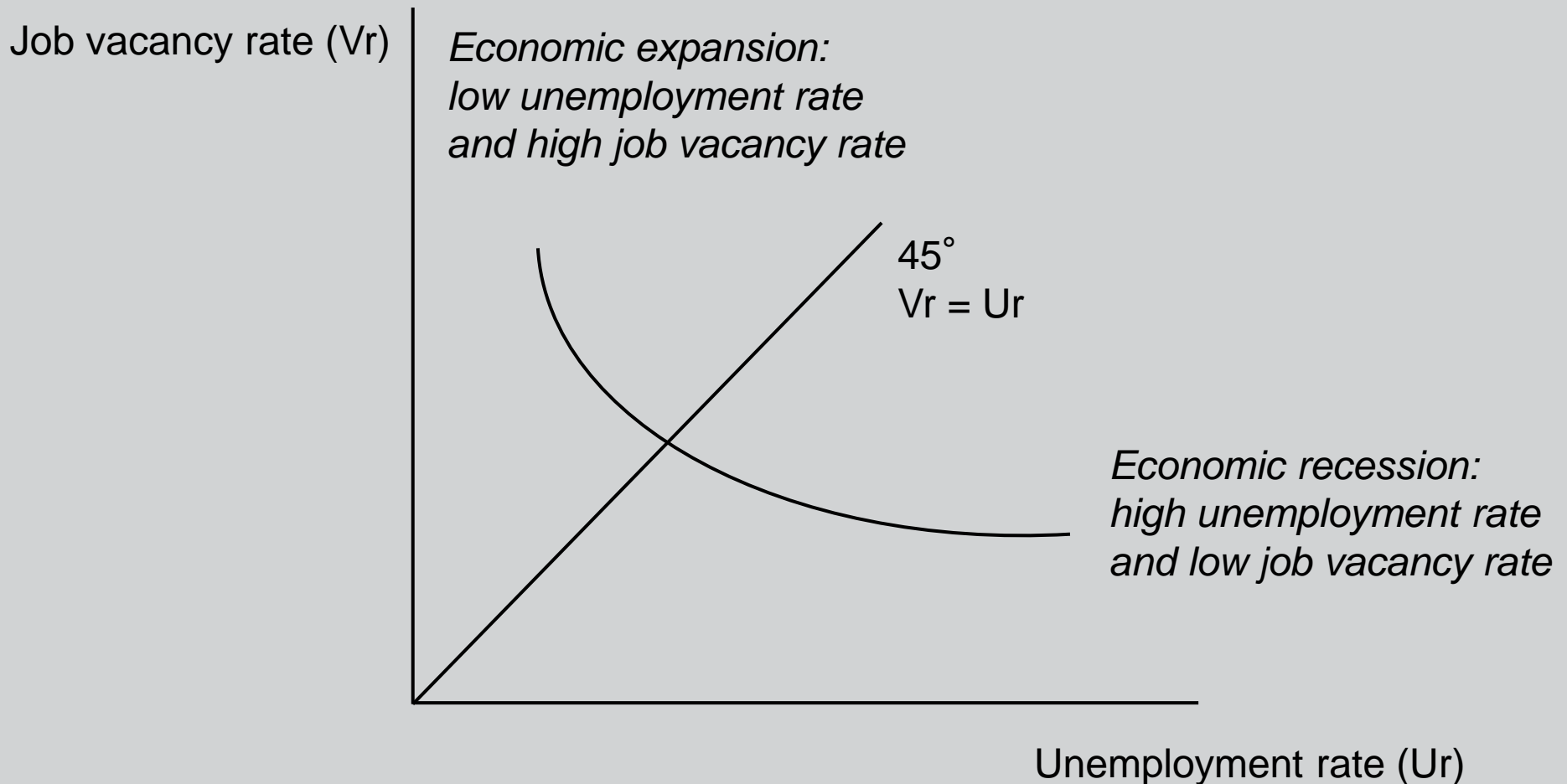
Why do we need ALMPs?

- for reducing unemployment in short and long term
- for employer-employee matching (on fit and on search time)
- for (re)-training to improve skill-formation and skills-mismatch
- for labour market and societal inclusion
- for reaching full employment without exacerbating inflation (?)
- ...

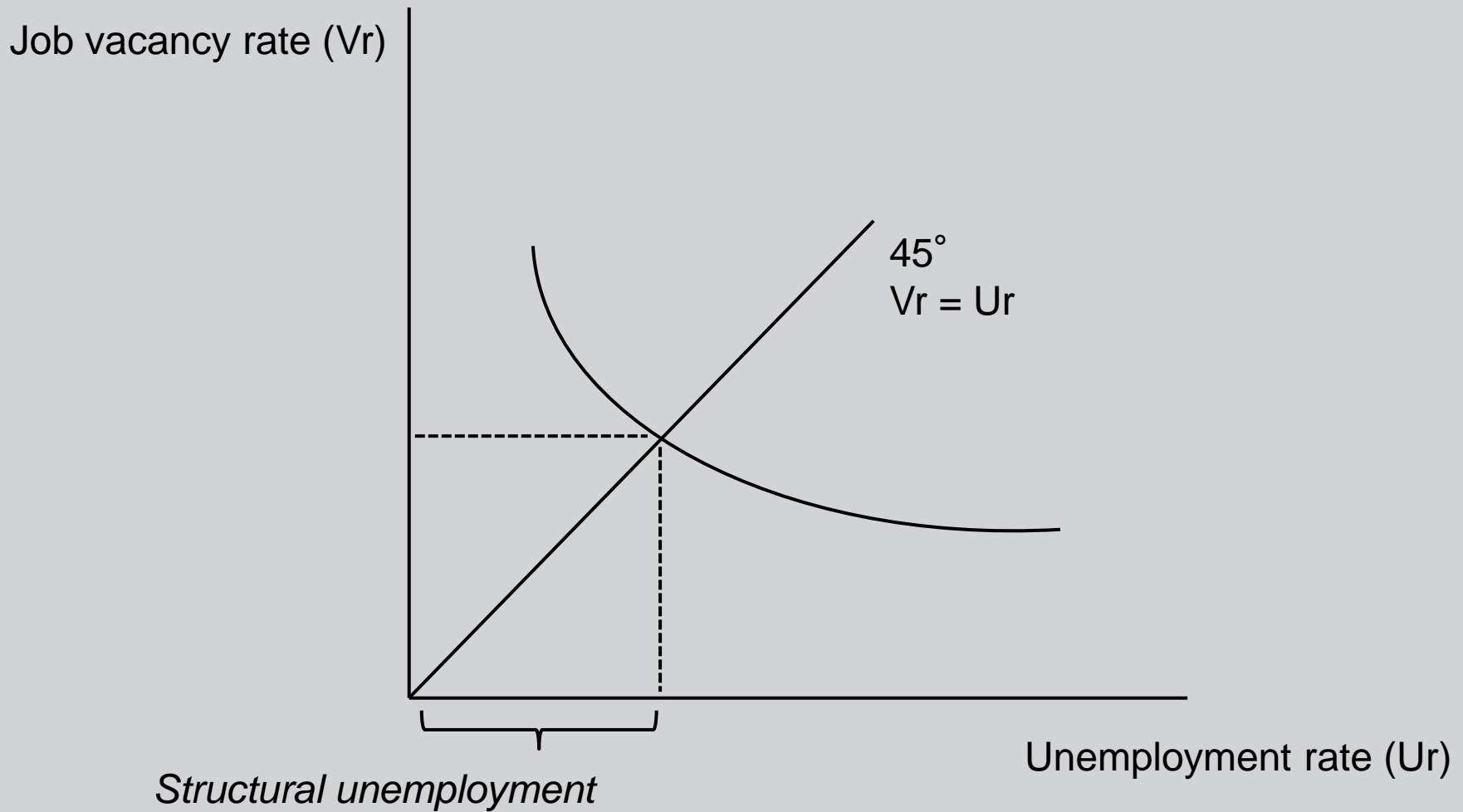
Beveridge Curve – Theory (1/6)



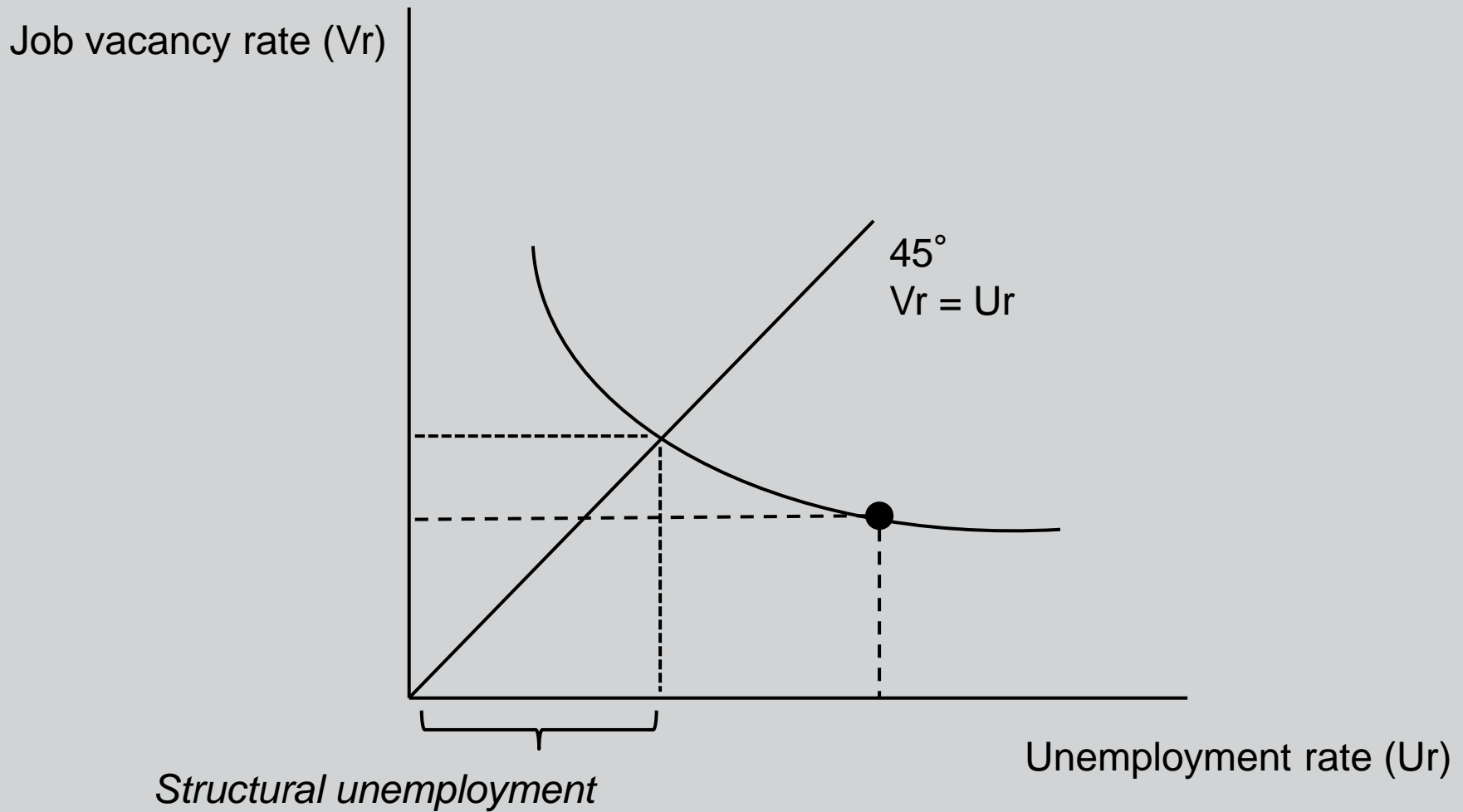
Beveridge Curve – Theory (2/6)



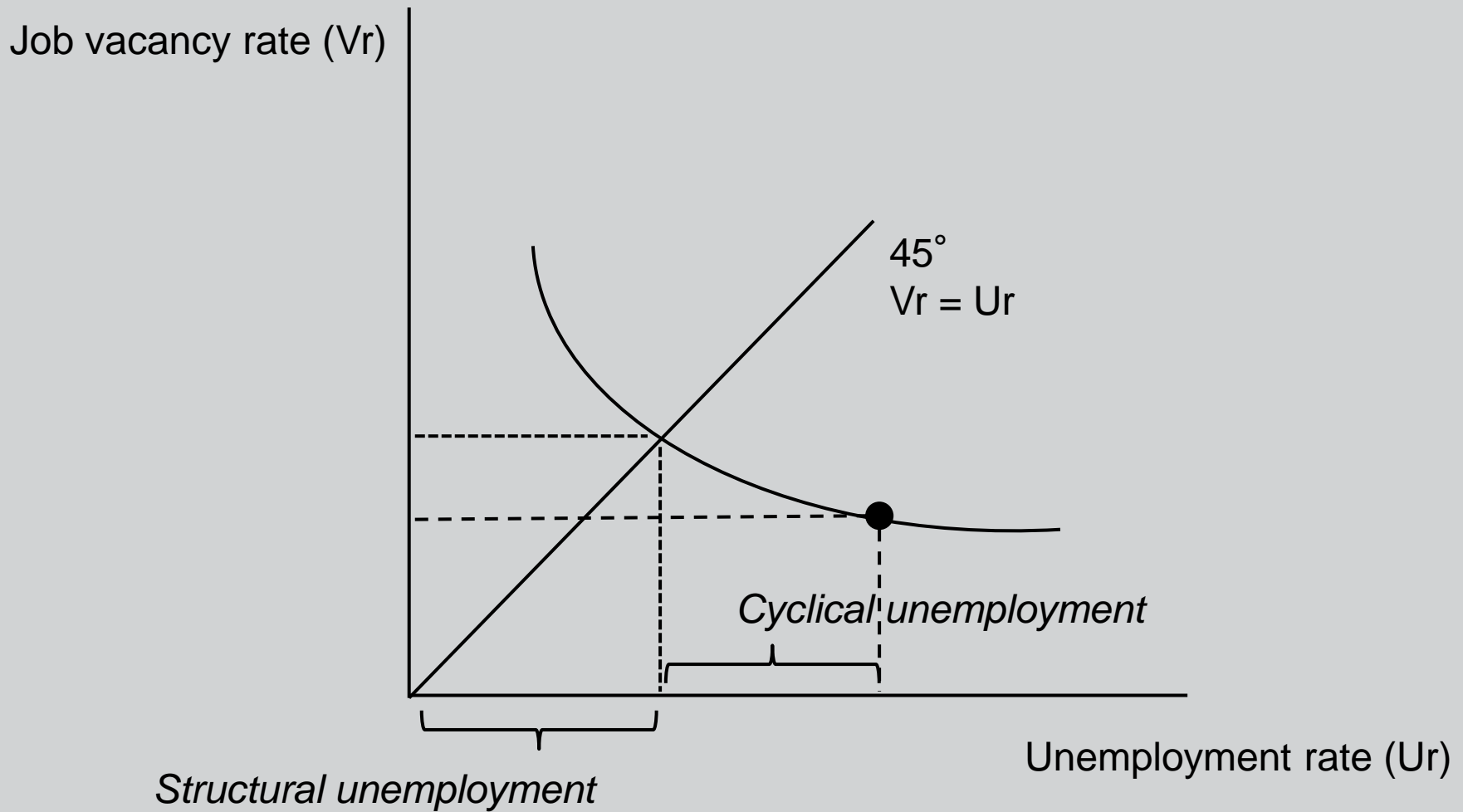
Beveridge Curve – Theory (3/6)



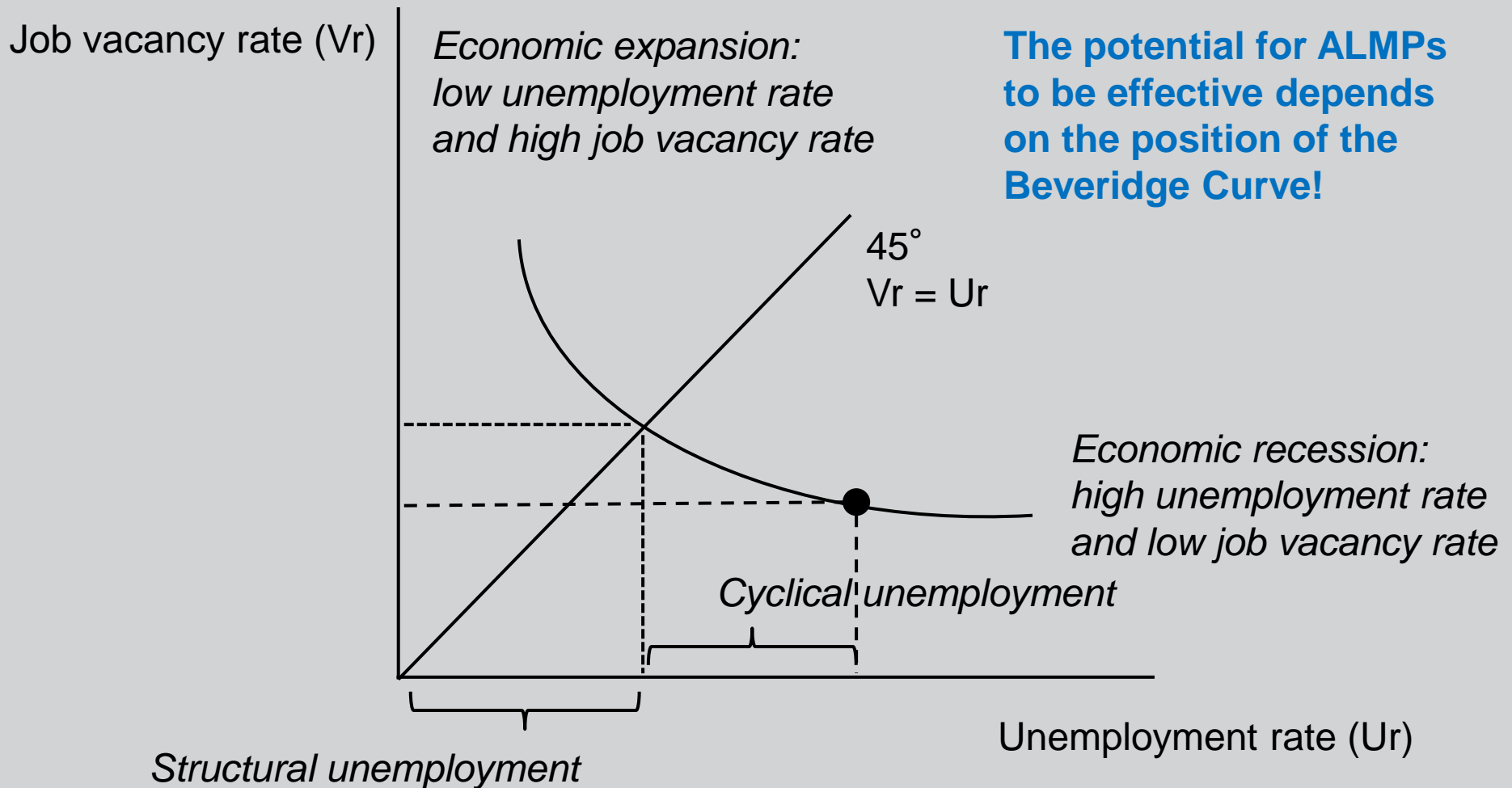
Beveridge Curve – Theory (4/6)



Beveridge Curve – Theory (5/6)



Beveridge Curve – Theory (6/6)

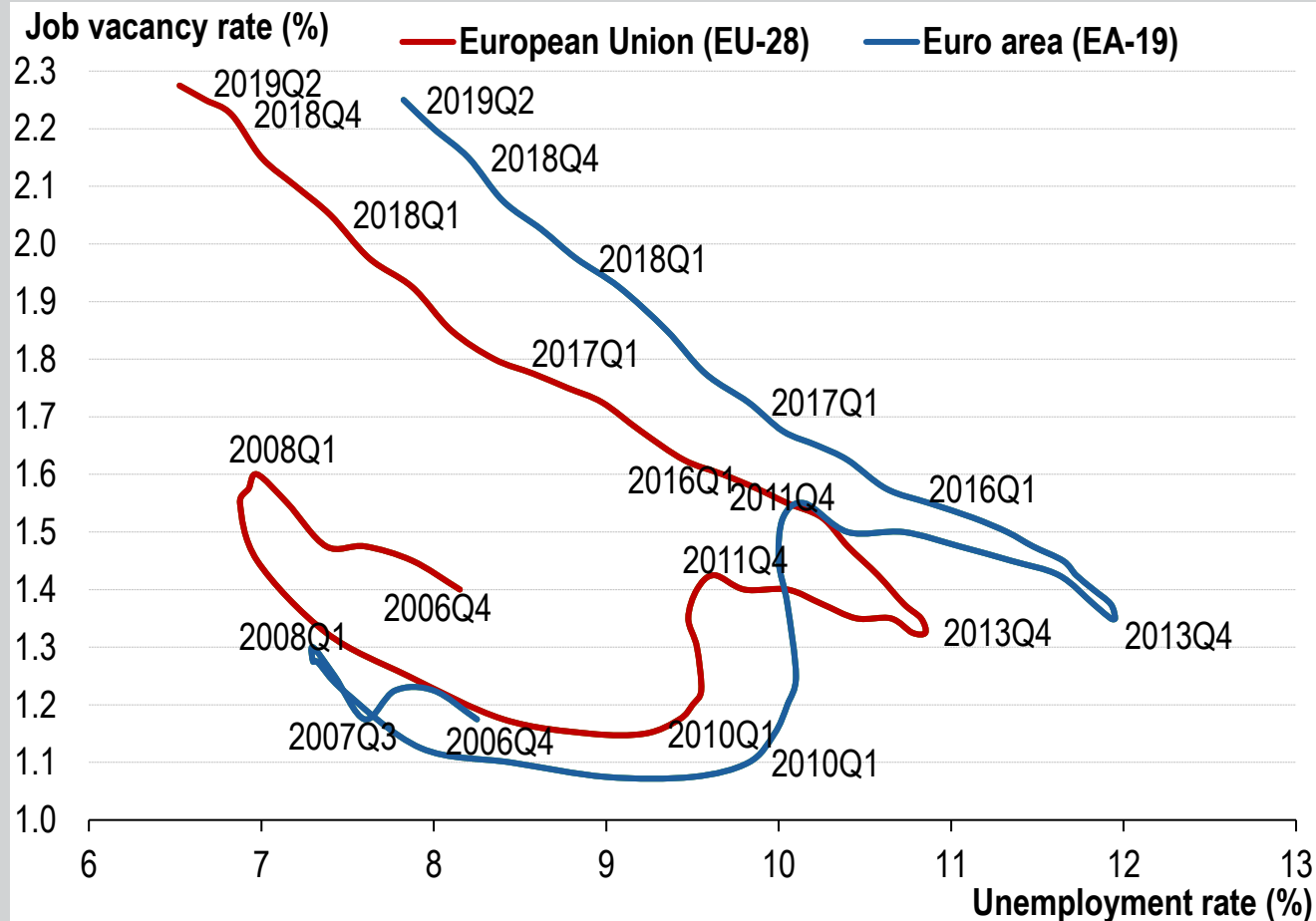


Beveridge Curve – Empirics

four-quarter moving average

What do we learn?

1. There are not enough jobs.
2. Cyclical unemployment has morphed into structural unemployed following the crisis.



Source: Eurostat.

Beveridge Curve – Empirics

Conclusions

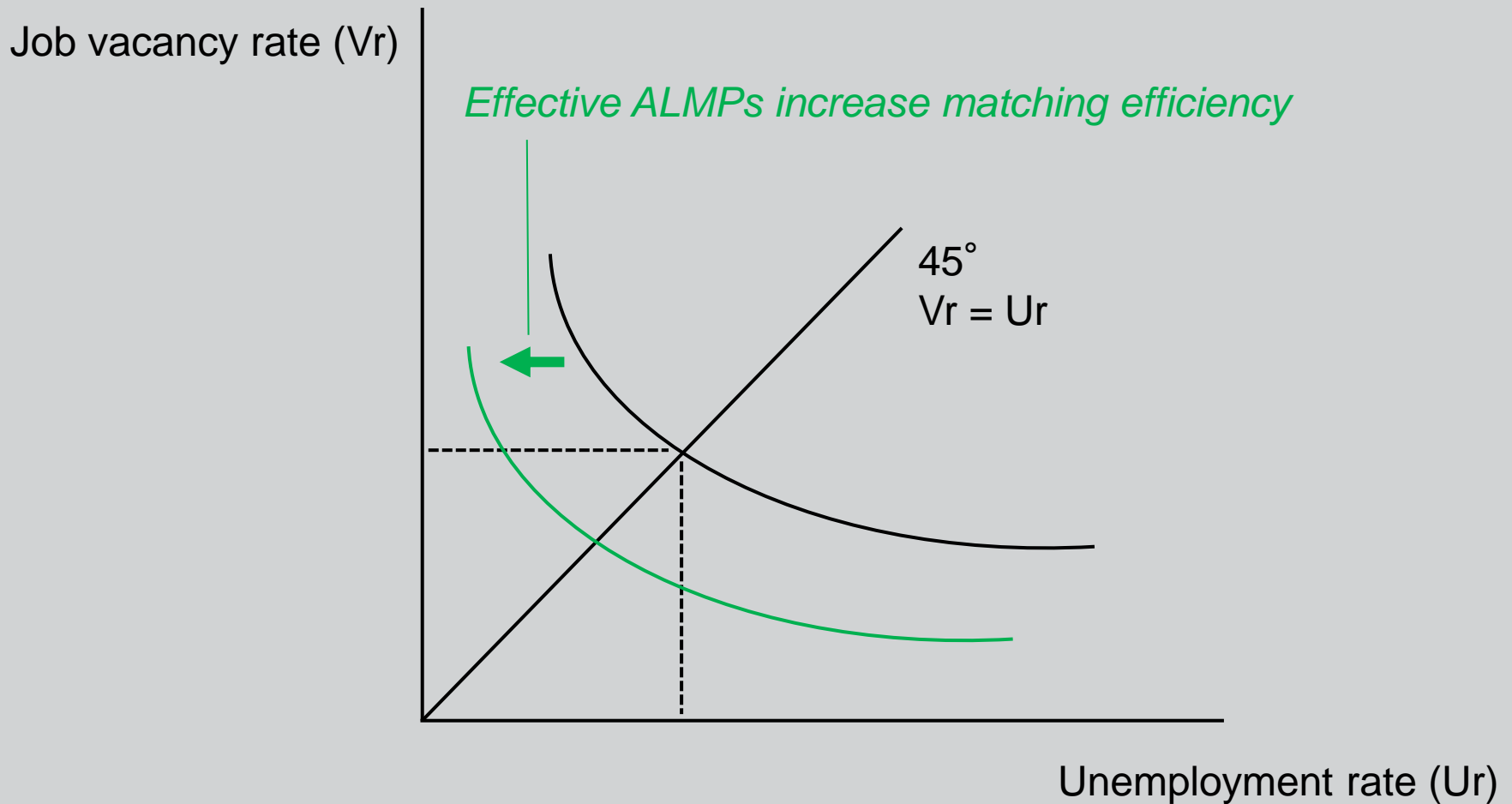
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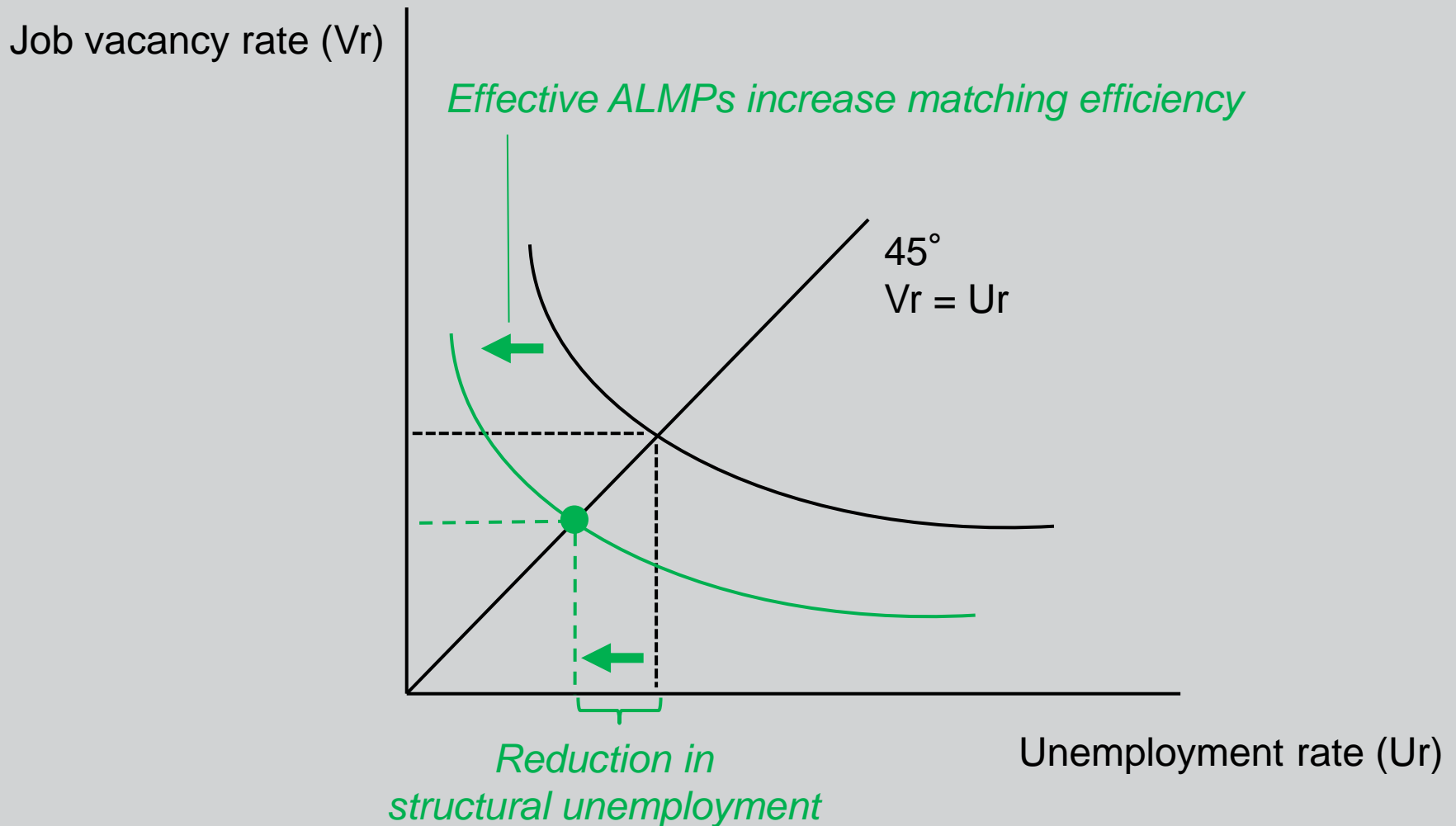
How can we react?

1. Macroeconomic policy needs to create more jobs (e.g. through fiscal stimulus to raise aggregate demand)
2. ALMPs can help to reverse this trend and reduce unemployment (=shifting the Beveridge curve inwards)

Effect of ALMPs - Beveridge Curve (1/4)

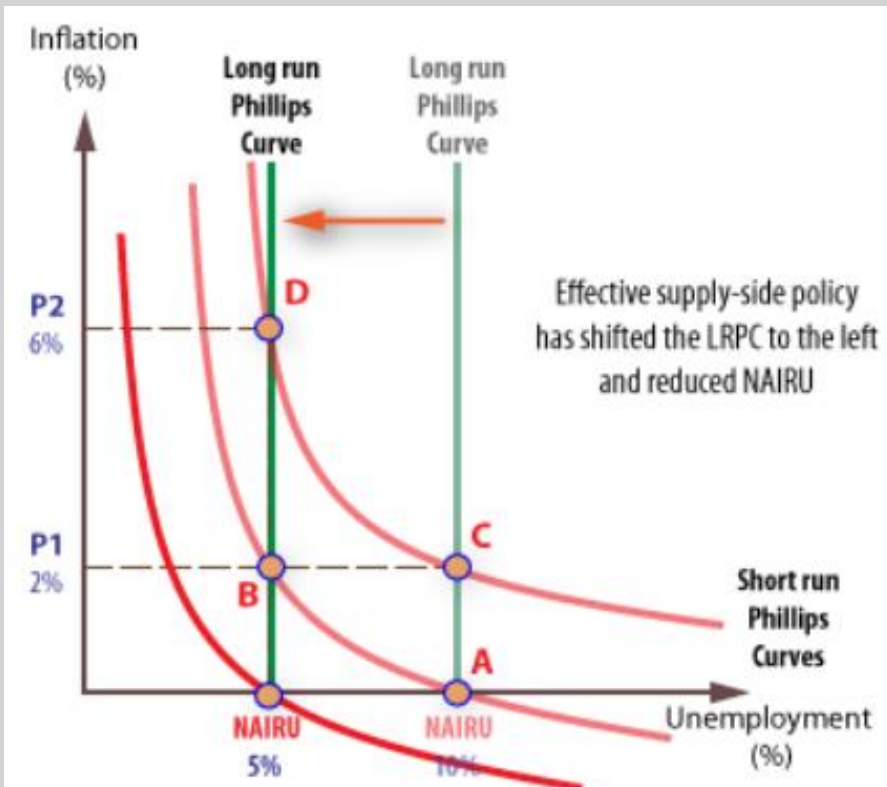


Effect of ALMPs - Beveridge Curve (2/4)



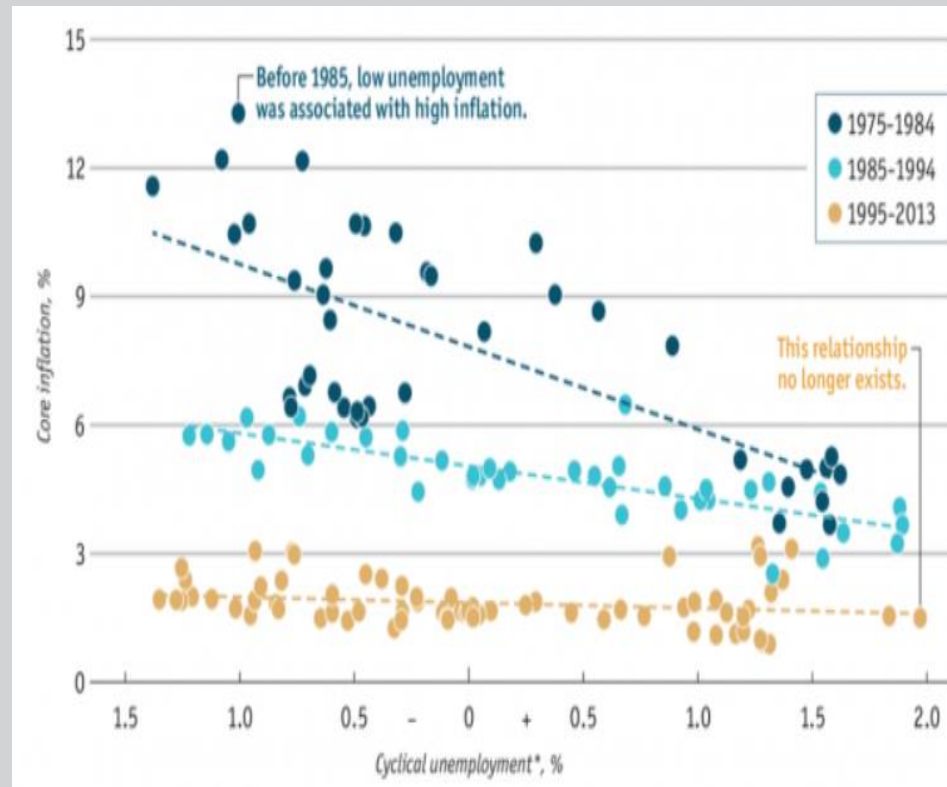
Conventionally, it is argued that ALMPs can reduce the NAIRU

Non-Accelerating Inflation Rate of Unemployment (NAIRU)



Source: The Economist, IMF, OECD.

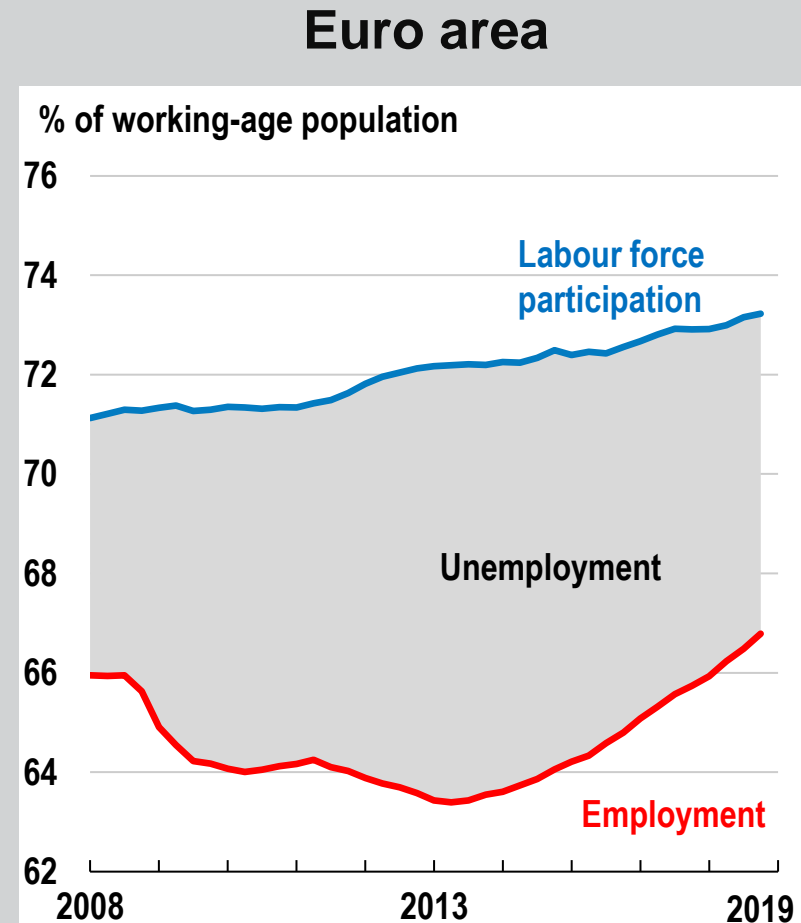
The Phillips curve has flattened out *advanced economies*



2. ALMPS IN REALITY

Context: after a prolonged crisis, job creation has gained traction, but unemployment remains elevated

- Unemployment remains very high in some countries
- Hidden unemployment has increased due workers having left the labour force
- Rising female employment and ageing boost the labour force
- Tailored programmes are needed to target discouraged workers out of the labour force too

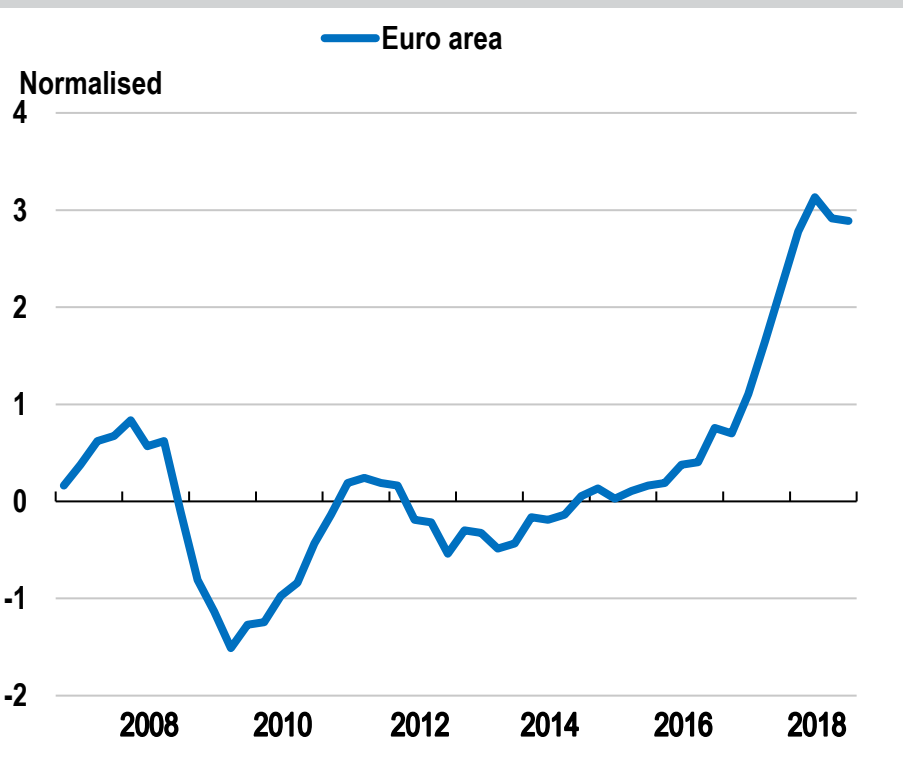


Source: OECD Employment database. Own calculation.

There is ample scope for ALMPs to help unemployed and discouraged workers back into employment

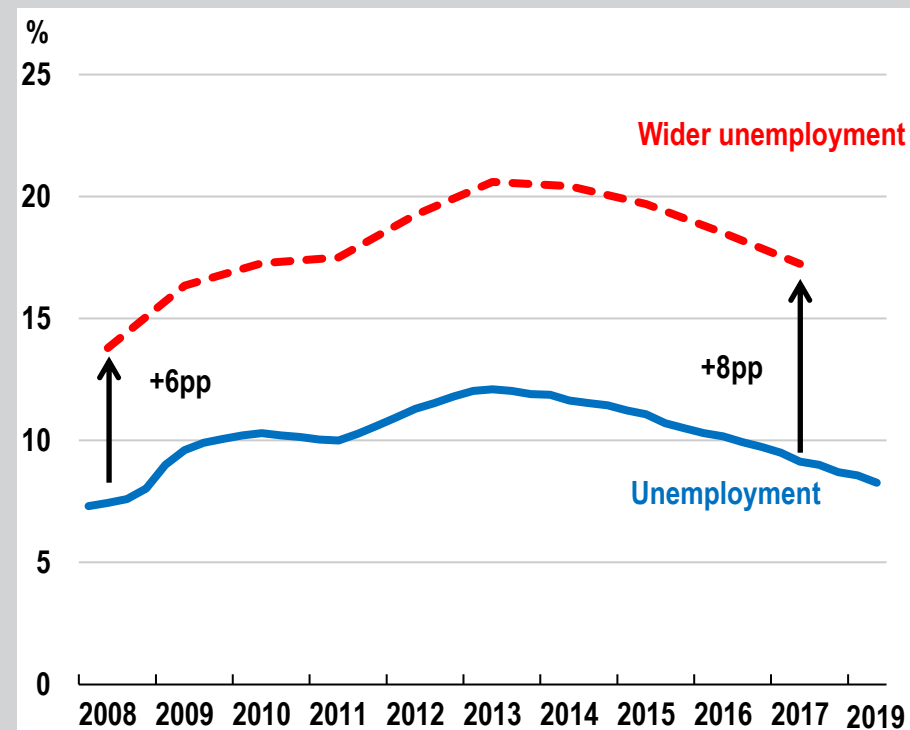
Labour shortages

Based on business surveys



Euro area

Unemployment, involuntary part-time work and marginally attached workers



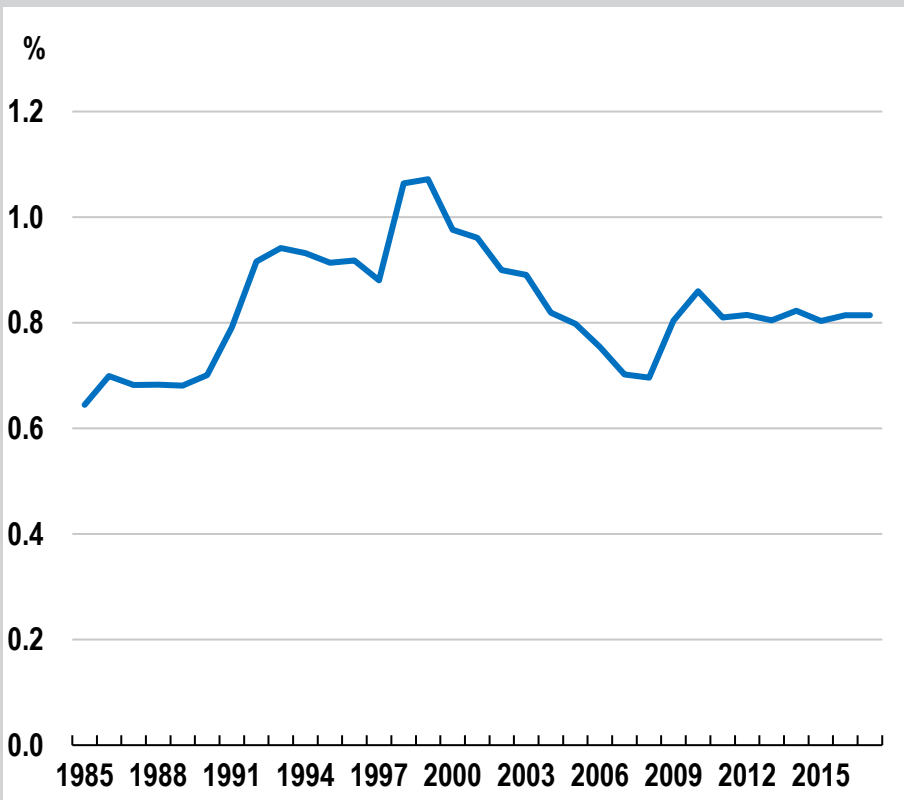
Note: Left panel: Data normalised over the 2002-2018 period.

Right panel: Unemployment and wider unemployment rates among active labour force aged 15-64 years. Labour force participation rate among population aged 15-64 years. Wider unemployment rate refers to U6 unemployment and includes unemployed, involuntary part-time workers and marginally attached workers.

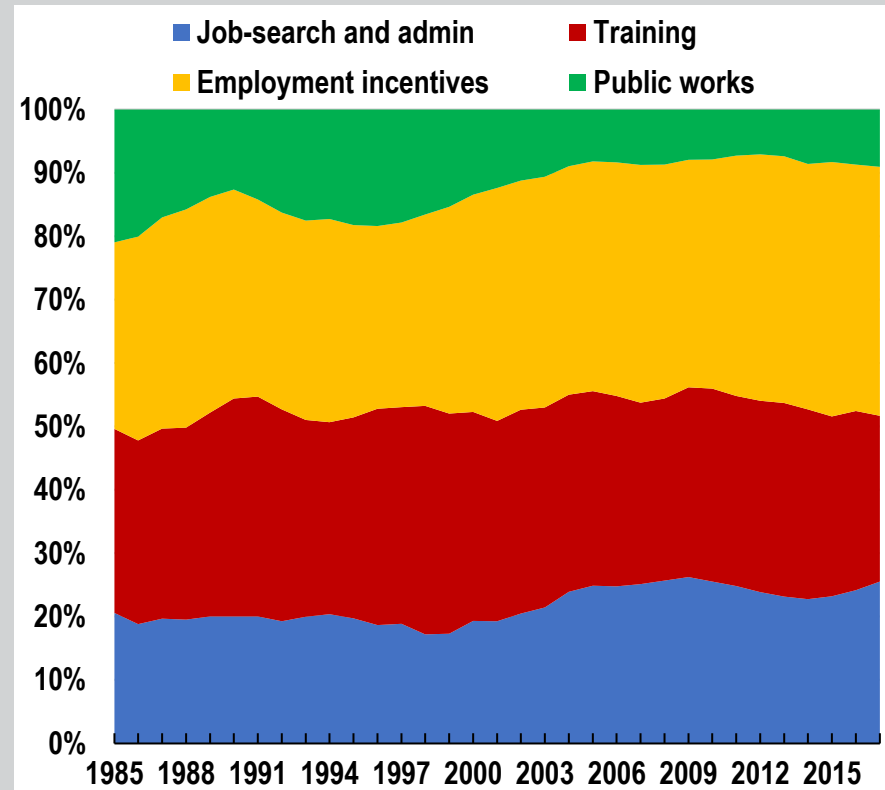
Source: European Commission; OECD; National Labour Force Surveys; and own calculations.

Policy reaction to the crisis was modest prioritising emp incentives and job search

ALMP spending in the EU
as a share of GDP, unweighted average

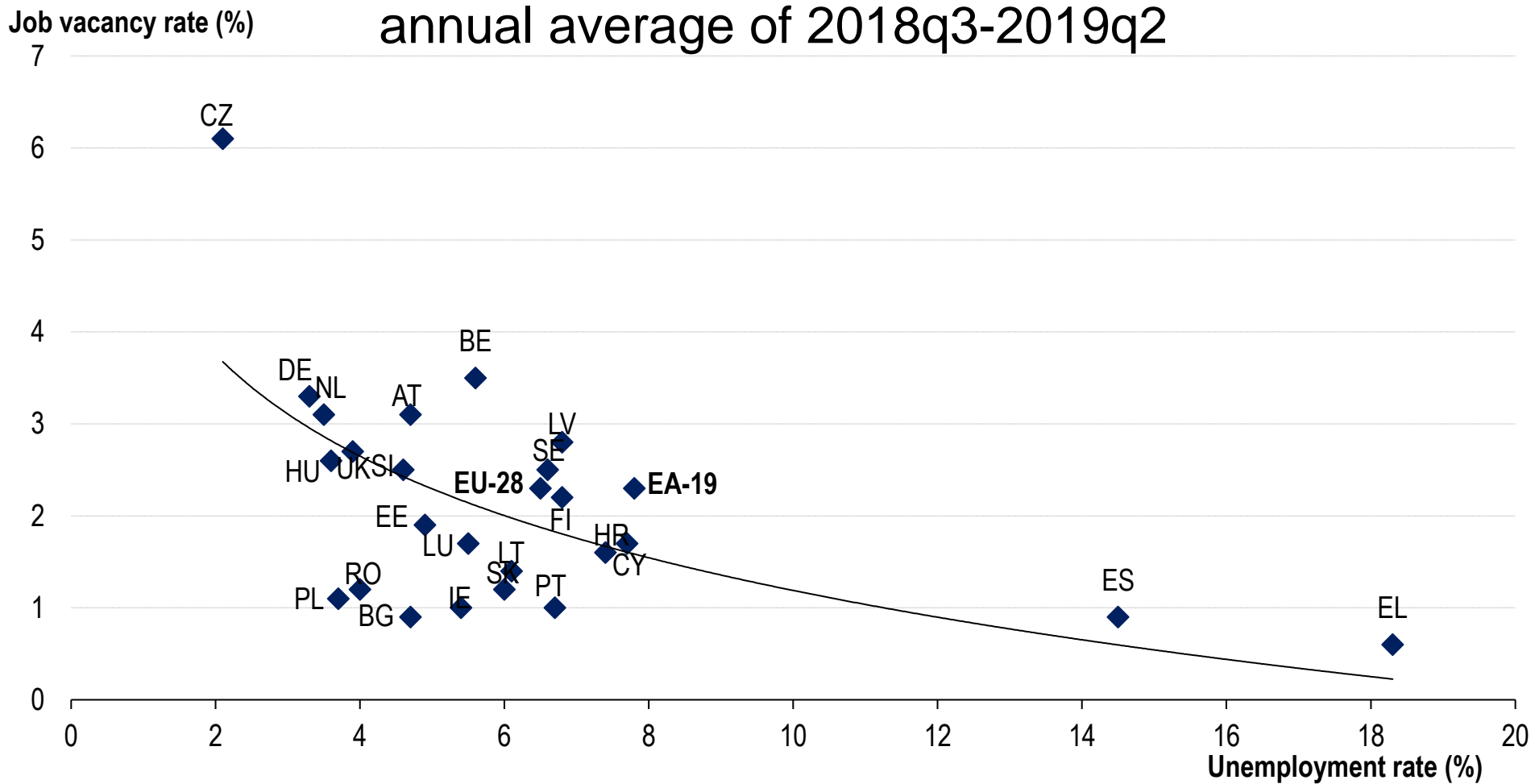


Composition of ALMP spending in the EU
as a share of GDP, unweighted average



Source: OECD Employment database; and own calculations.

Returning to the Beveridge Curve: matching efficiency across countries

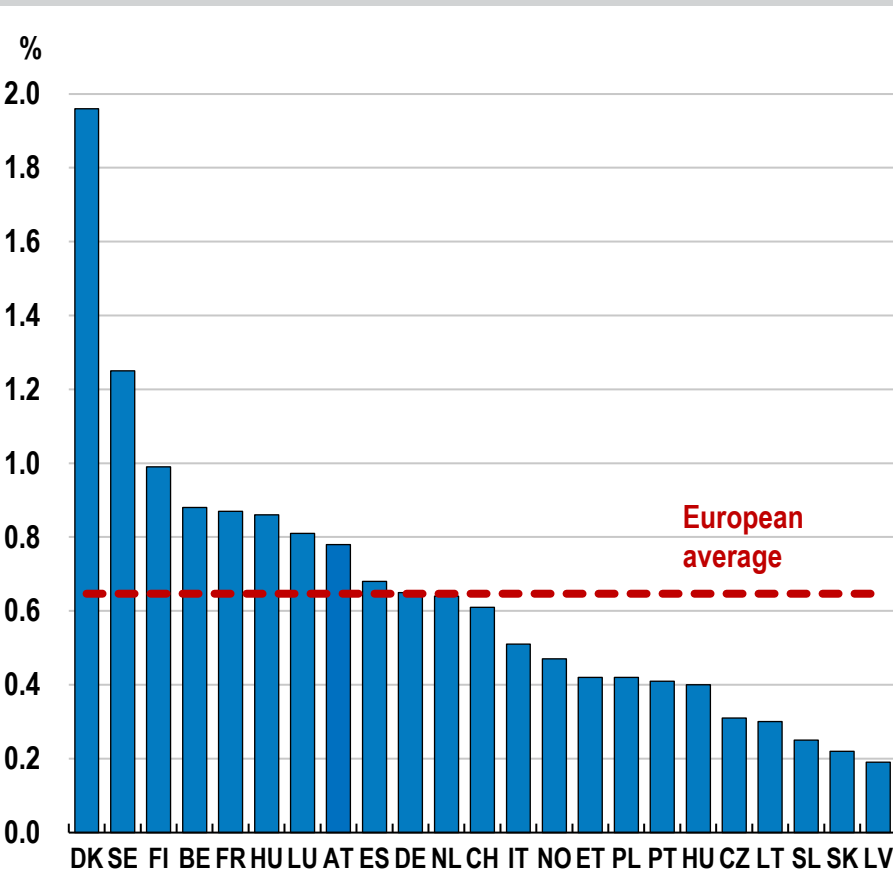


Source: Eurostat.

Governments' efforts vary greatly

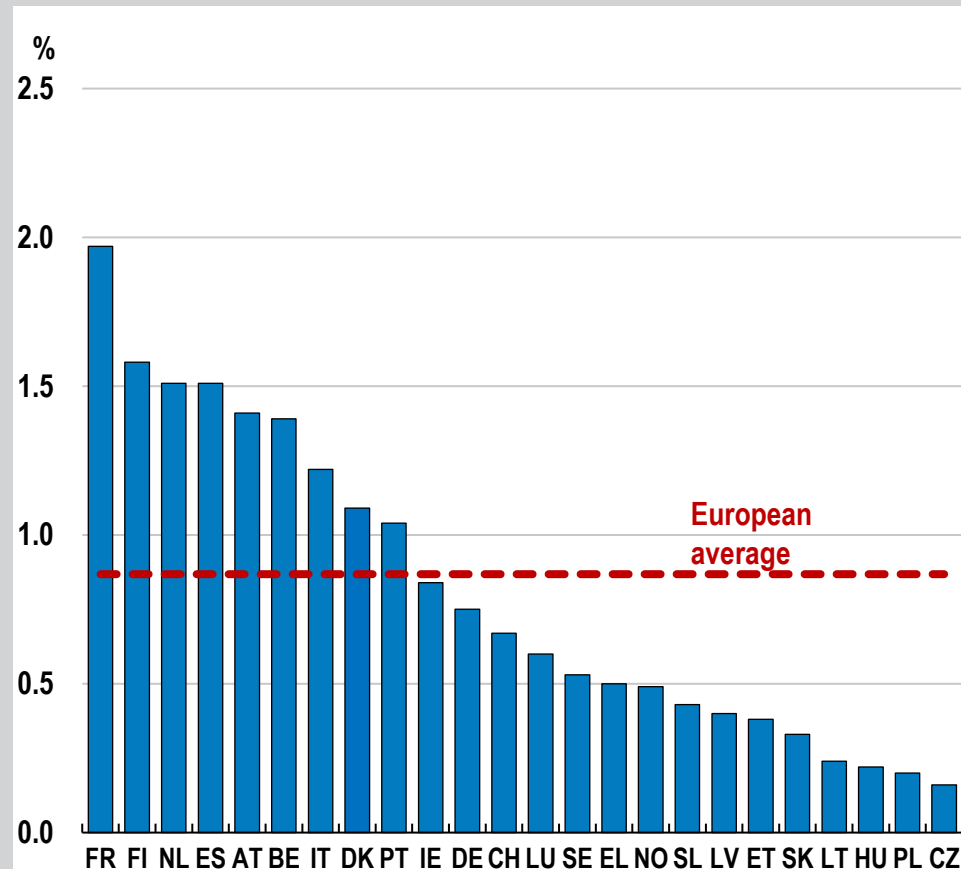
ALMP spending

as a share of GDP in 2017



Passive LMP spending

as a share of GDP in 2017



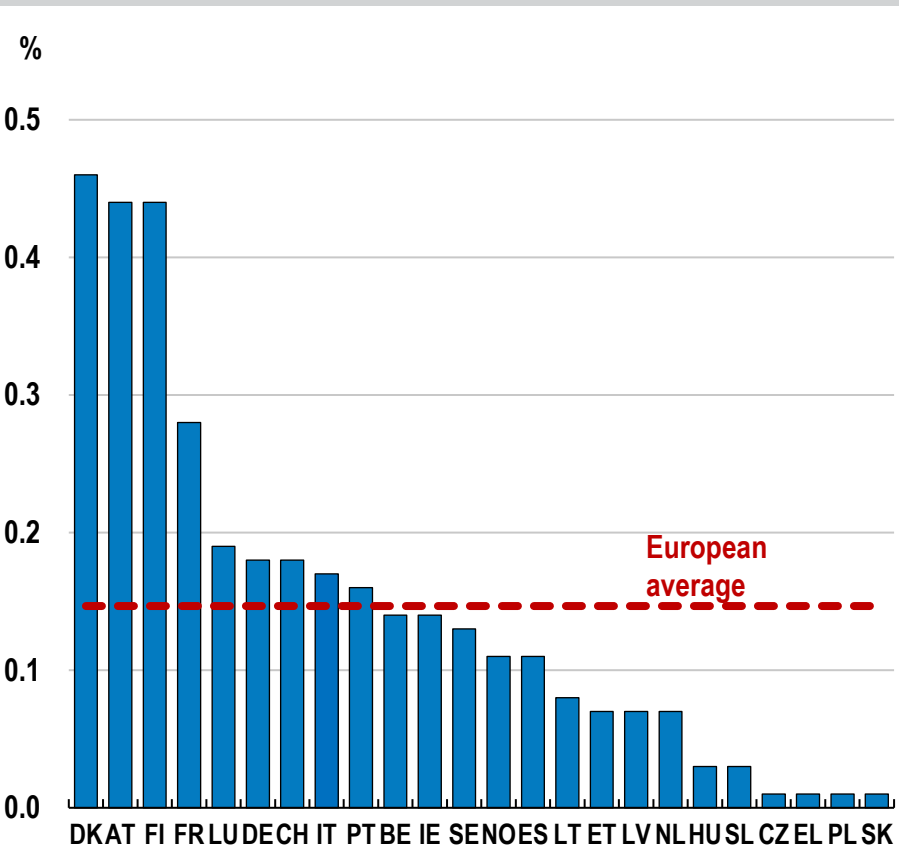
Note: LHS: Data for Italy refers to 2014.

Source: OECD Employment database; and own calculations.

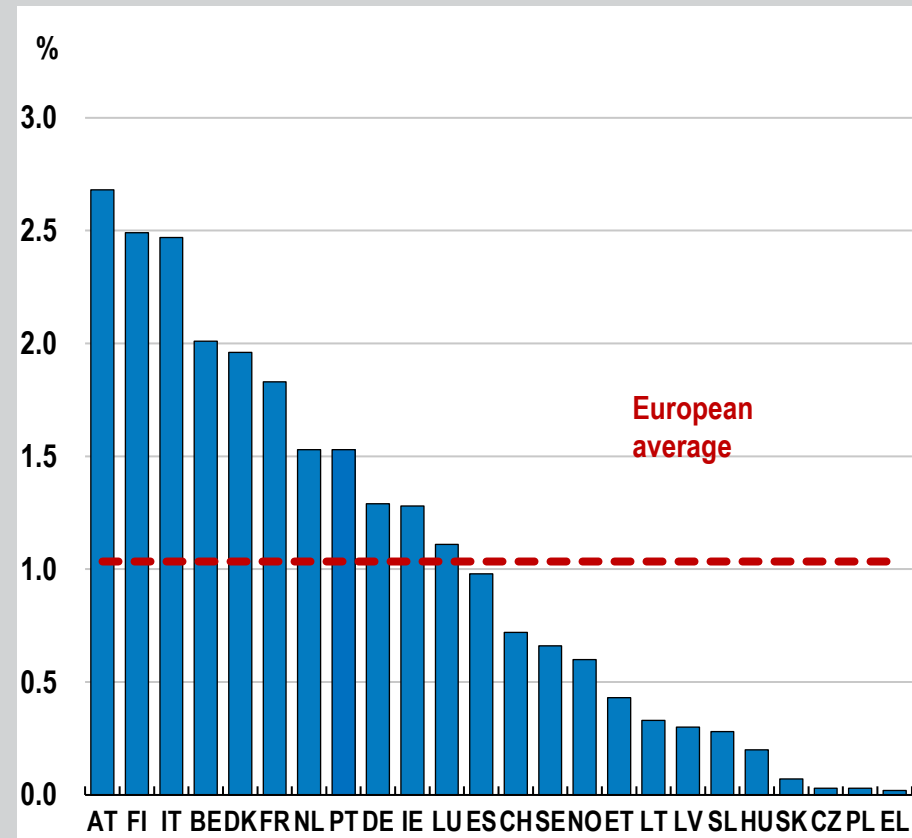


Training programmes are found to be most effective in the long term.

Spending on training
as a share of GDP in 2017



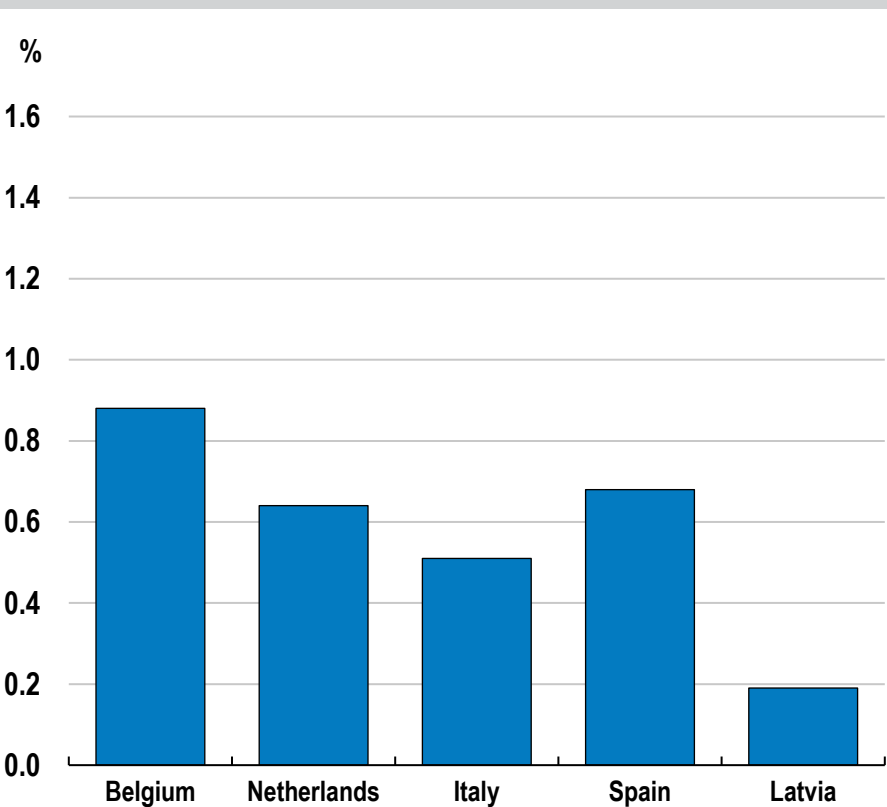
Participants in training
as a share of labour force in 2017



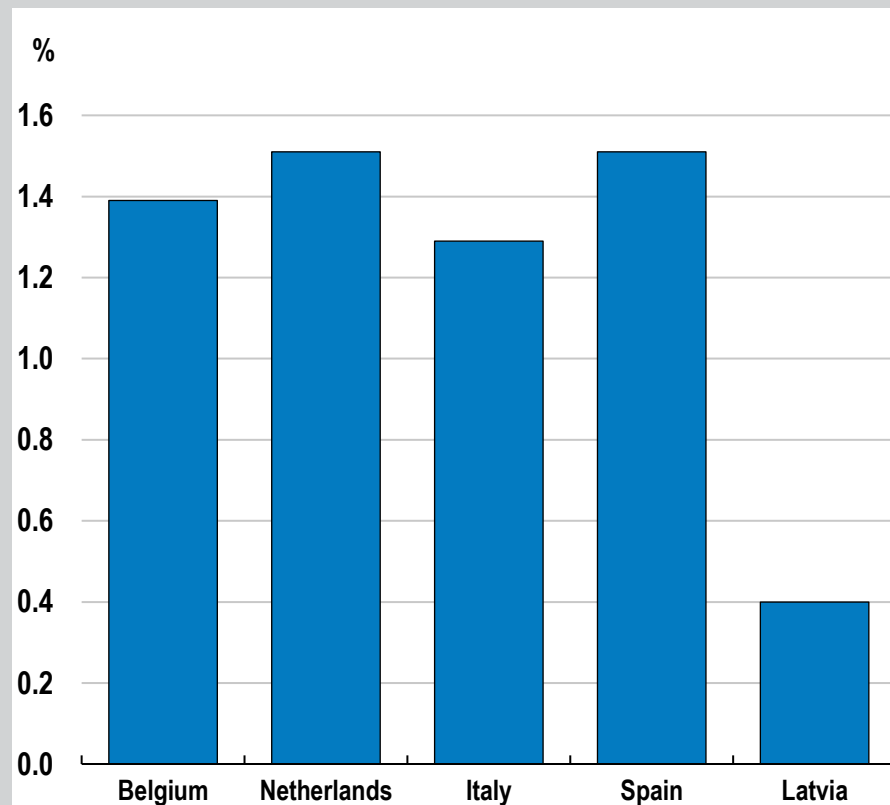
Note: Data for Italy refer to 2015 for spending and to 2014 for participants.
Source: OECD Employment database; and own calculations.

Zooming in: Spending priorities differ between countries

ALMP spending
as a share of GDP in 2017



Passive LMP spending
as a share of GDP in 2017

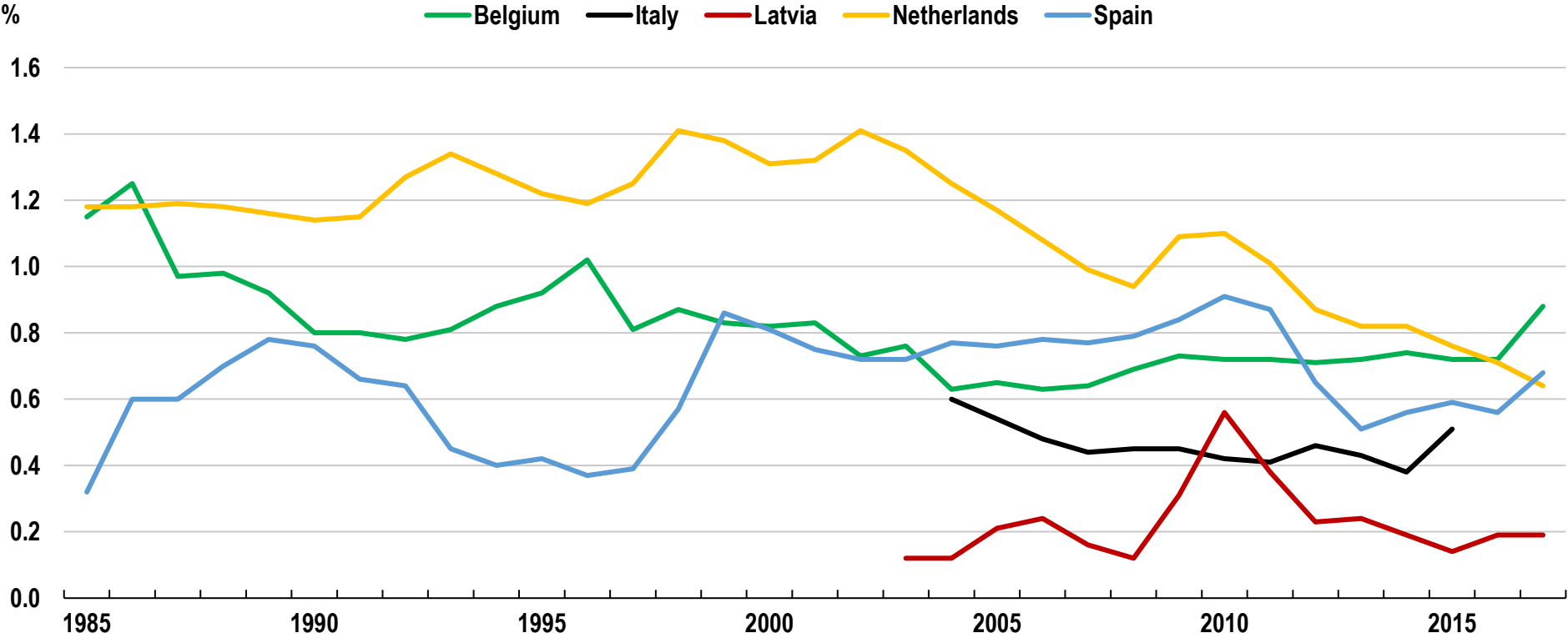


Note: Data for Italy refers to 2015.

Source: OECD Employment database; and own calculations.

Zooming in: Spending priorities differ between countries

ALMP spending *as a share of GDP*

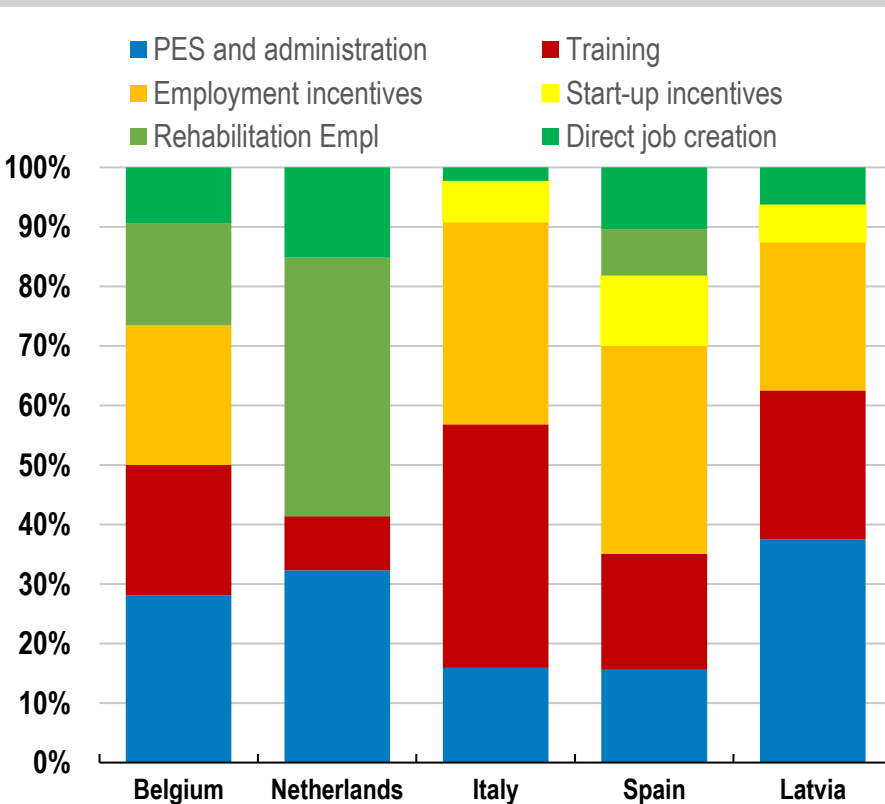


Source: OECD Employment database; and own calculations.

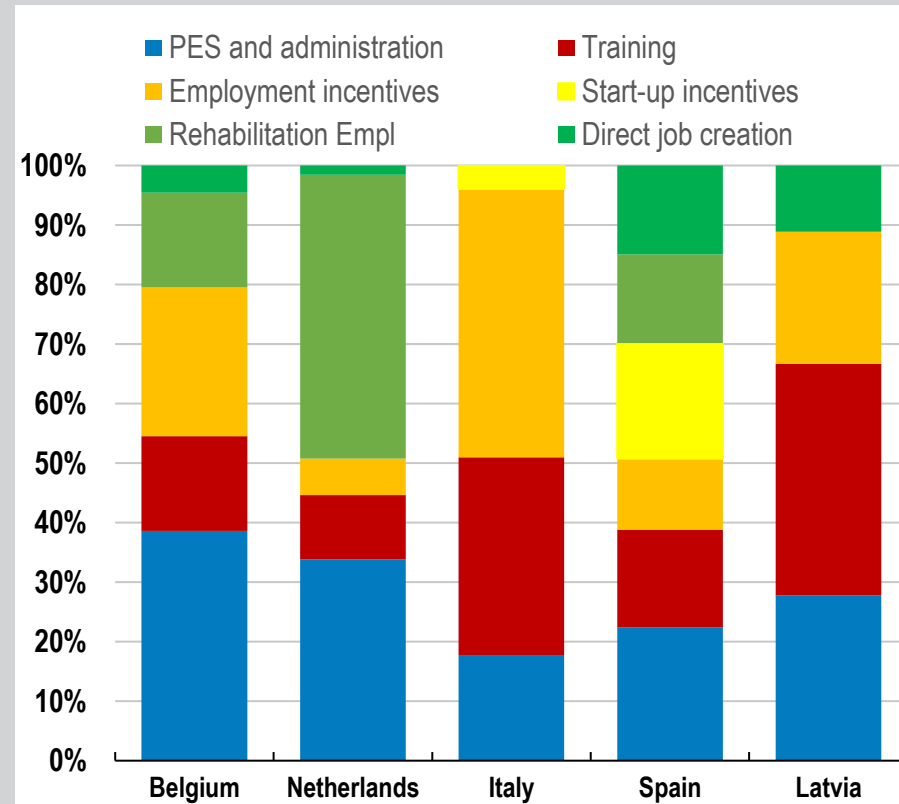


Zooming in: Spending priorities differ between countries

Composition of ALMP spending
as a share of GDP in 2007



Composition of ALMP spending
as a share of GDP in 2017



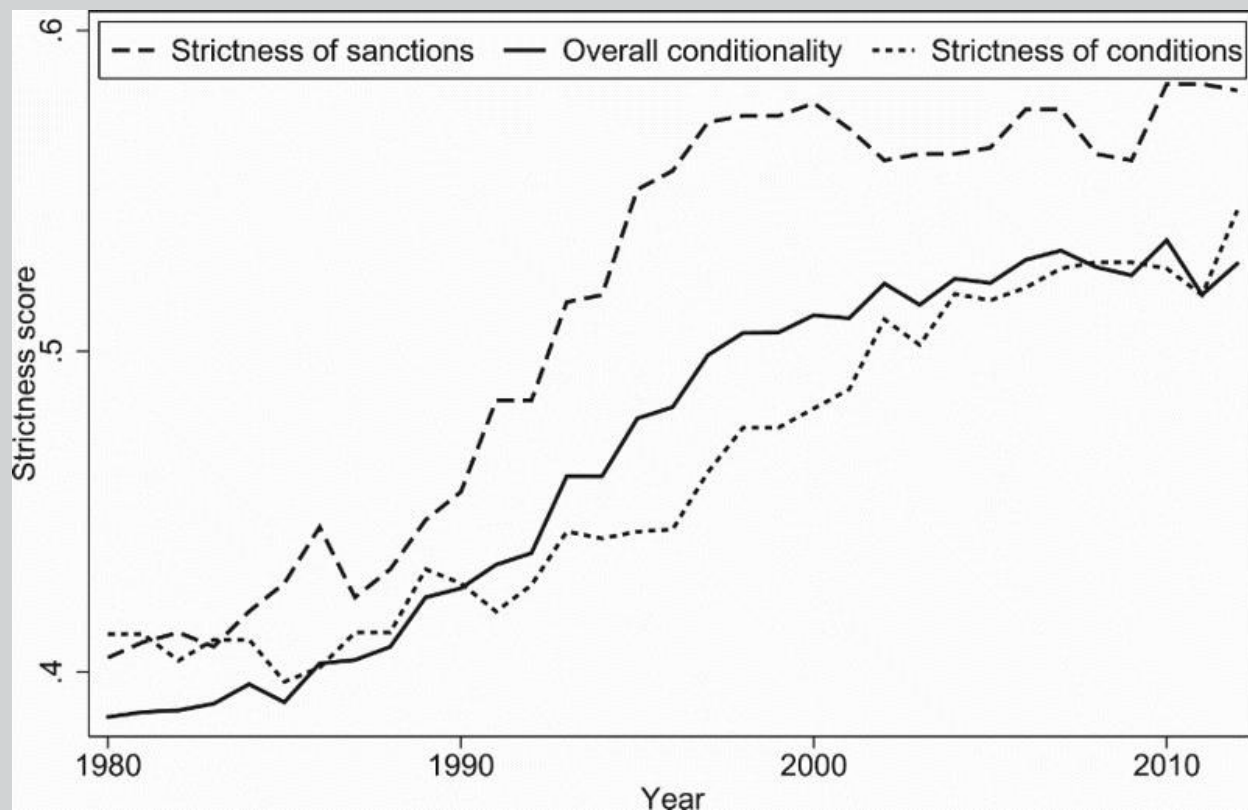
Note: RHS: Data for Italy refers to 2015.

Source: OECD Employment database; and own calculations.

Design matters: Conditionality and workfare

Increasing conditionality of unemployment benefits *21 advanced economies*

- Design matters:
ALMP \neq ALMP
- Linkages
between
participation in
ALMP
programmes and
income support
have been
reinforced

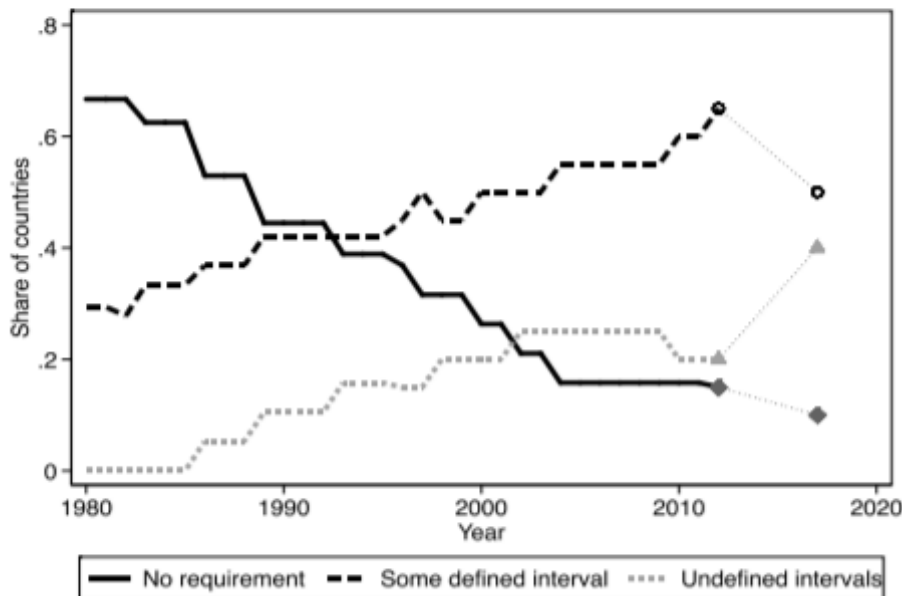


Source: Knotz (2018).

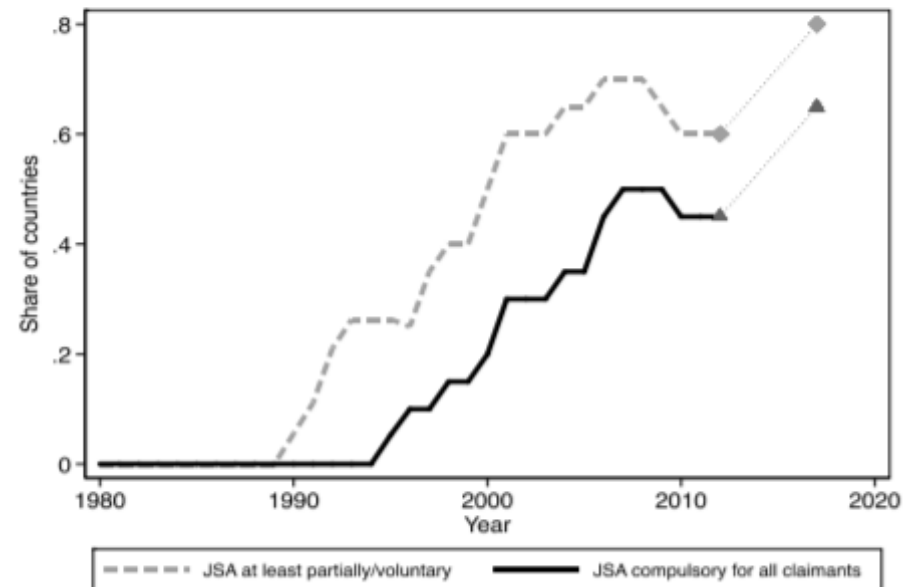
An increasing number condition benefit eligibility on activating elements

Share of advanced economies with activating elements built into benefit eligibility conditions

Panel A. Reporting requirements.



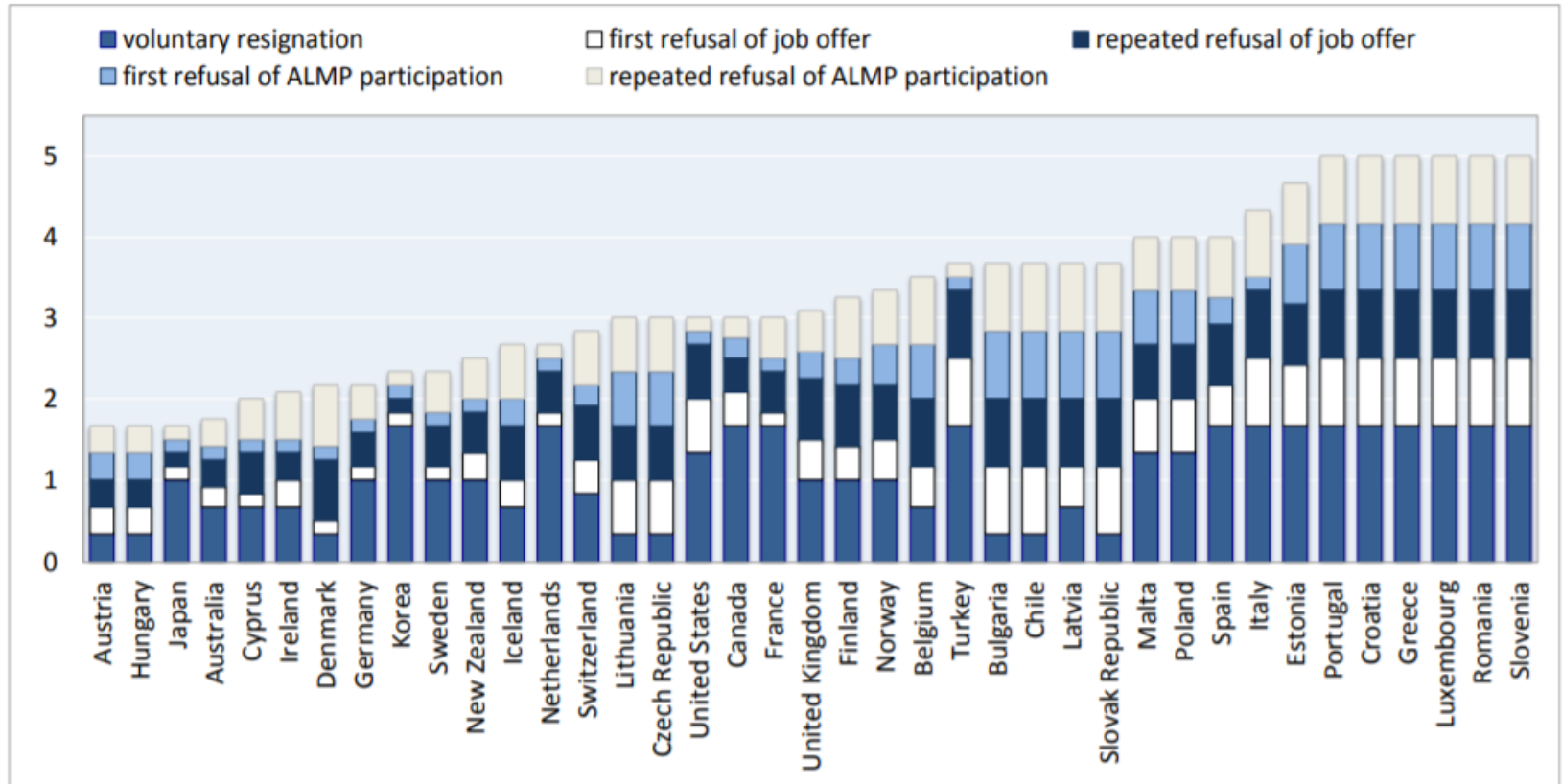
Panel B. Jobseeker Agreements (JSA)



Source: Immervoll and Knotz (2018). Knotz and Nelson (2015).

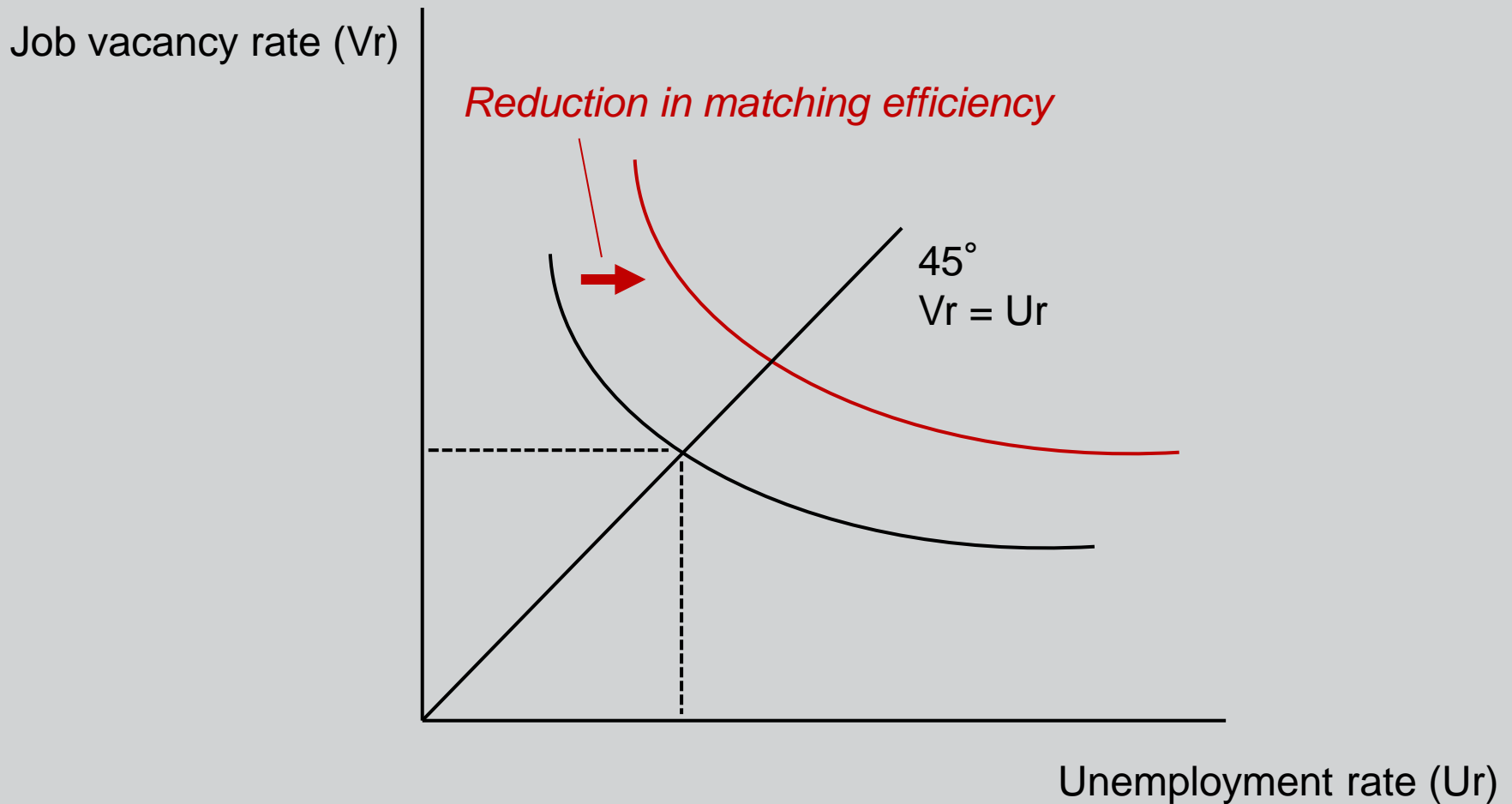
Strictness of benefit sanctions varies across countries

Scored from 1 (most lenient) to 5 (most strict)

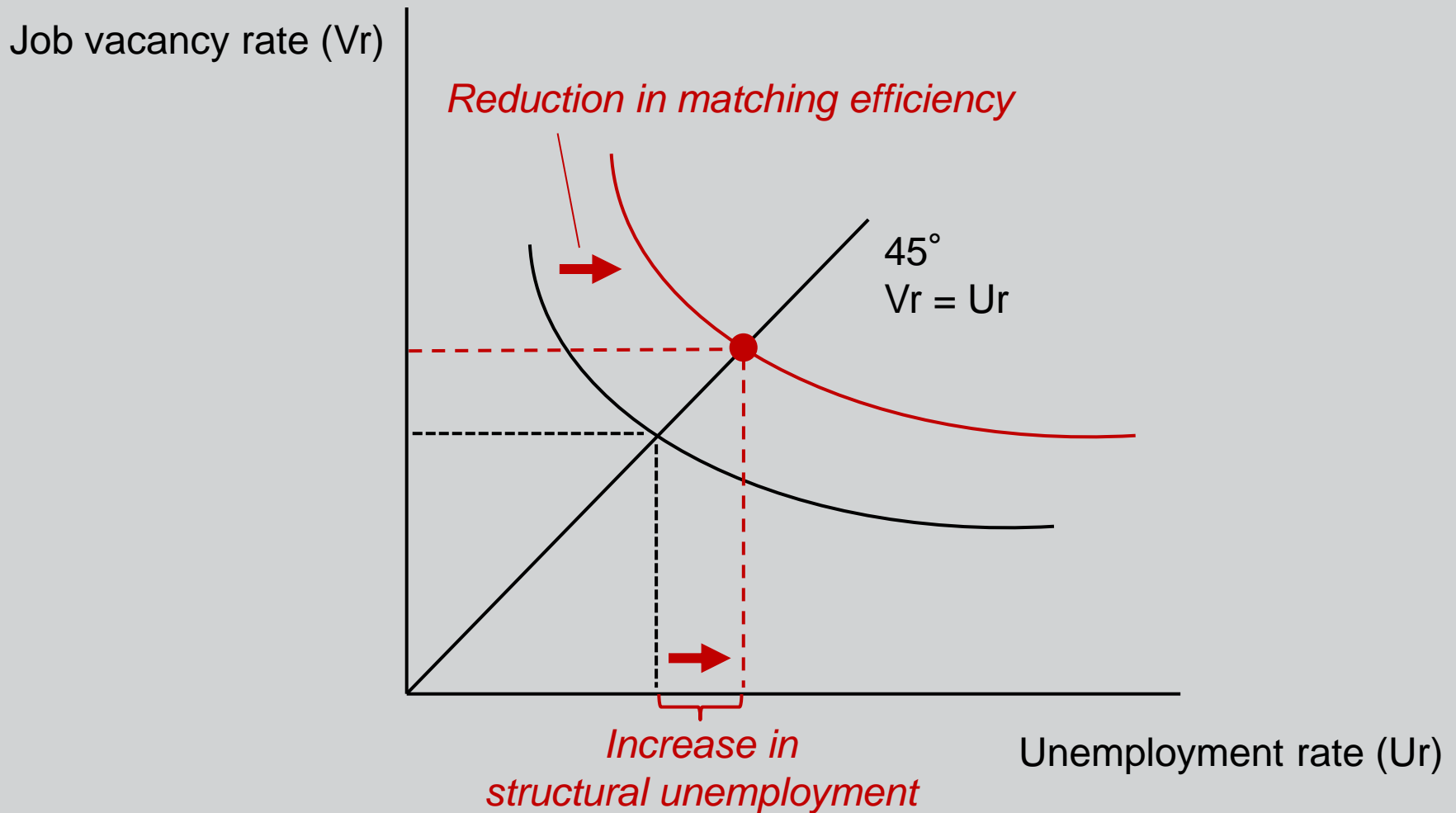


Source: Immervoll and Knotz (2018) OECD.

Effect of ALMPs - Beveridge Curve (3/4)



Effect of ALMPs - Beveridge Curve (4/4)



New hope for ALMP improvements under the European Pillar of Social Rights?

“Everyone has the right to timely and tailor-made assistance to improve employment or self-employment prospects. This includes the right to receive support for job search, training and qualification.”

“People unemployed have the right to personalised, continuous and consistent support.”

“The long-term unemployed have the right to an in-depth individual assessment at the latest after 18 months of unemployment.”

Conclusion

- The potential for ALMPs to be effective depends on the position of the Beveridge Curve
 - In the state of the current economy, ALMPs alone are not sufficient but can help
- The kind of ALMP measure makes a difference
- The design of the ALMP measure matters (e.g. are social partners involved?)
- Conditionality matters (avoid workfare regimes)

Discussion: What are our goals and how can we meet them?

Rights of the unemployed

- Right to income (=replacement)
- Right to work (=participatoin)

→ Both rights can exist separately from each other (≠ conditionality)

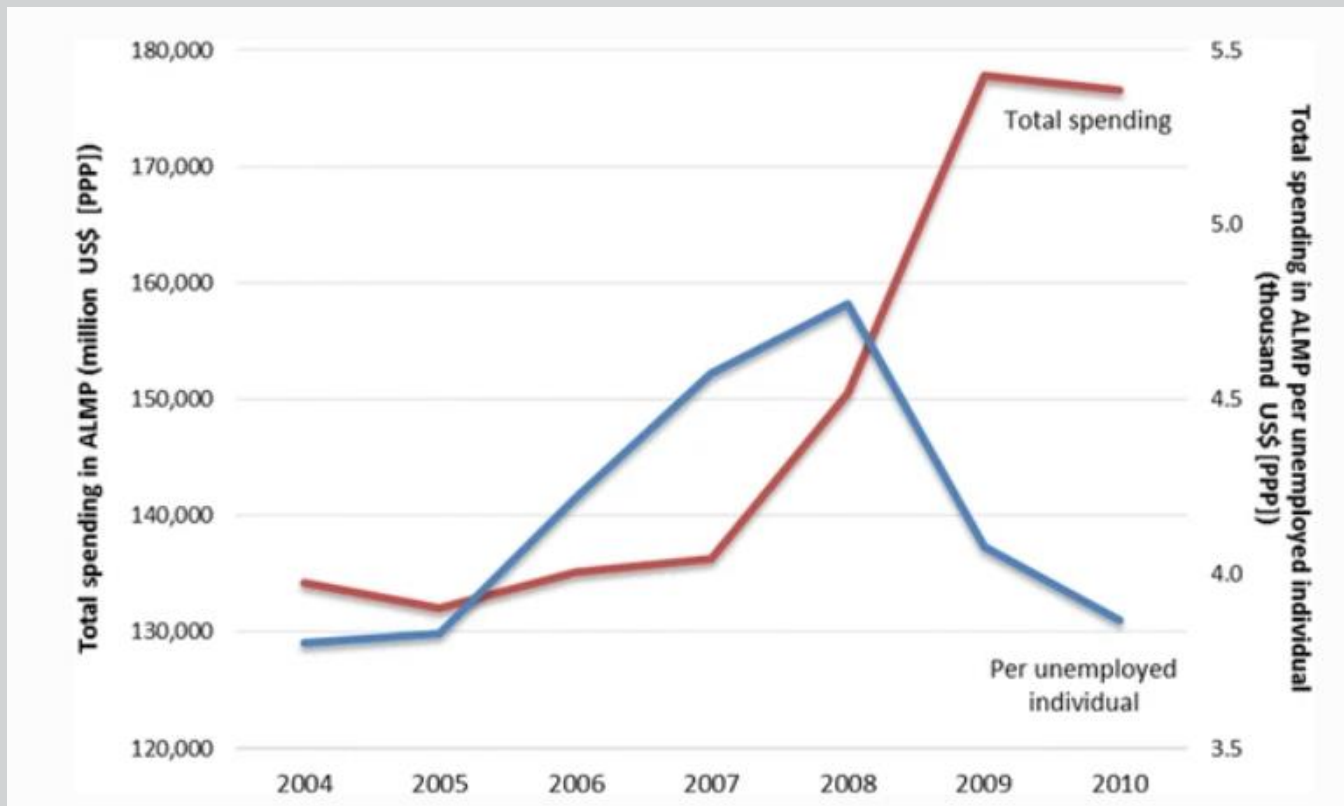
Innovative ideas

- Aggregate demand
- Universal basic services
- (Conditional?) basic income
- Job guarantee
- Right to re-training
- ...

APPENDIX

ALMP spending has increased in total but declined per unemployed following the crisis

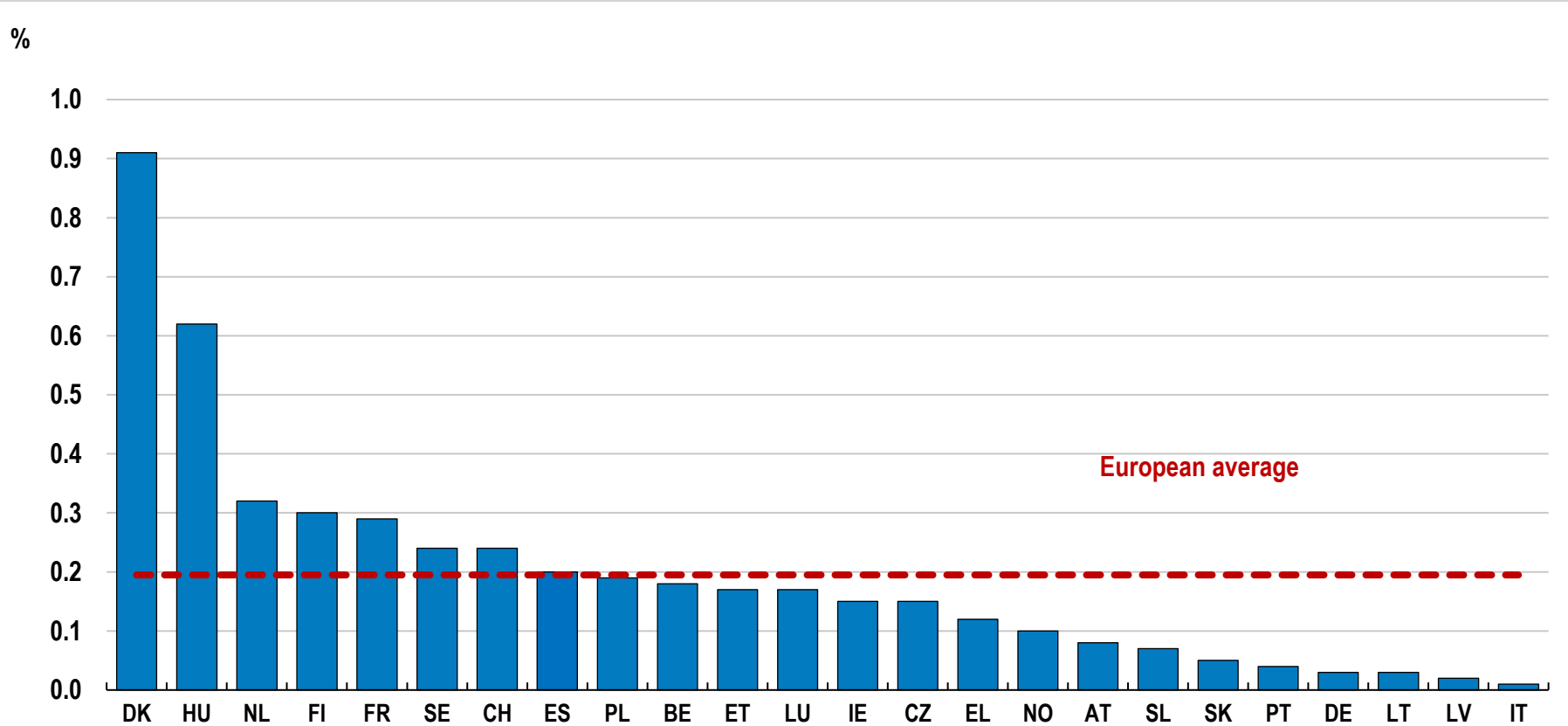
ALMP spending 31 advanced countries



Source: Escudero (2018) and OECD Employment database; and own calculations.

Spending for training and public works is lagging behind unevenly across countries

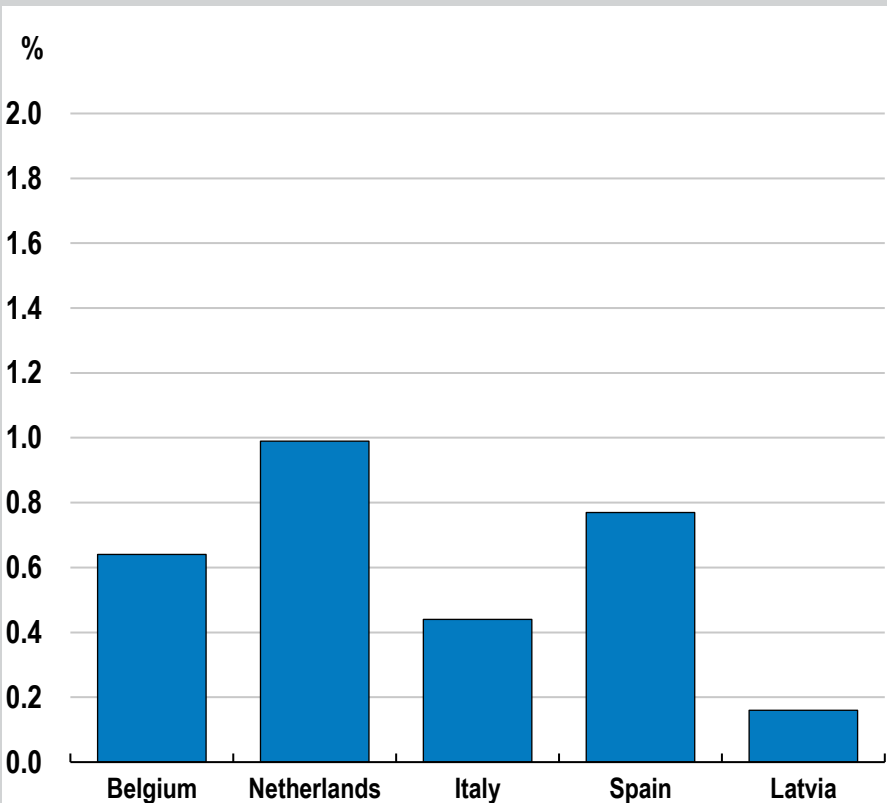
Public works spending as a share of GDP in 2017



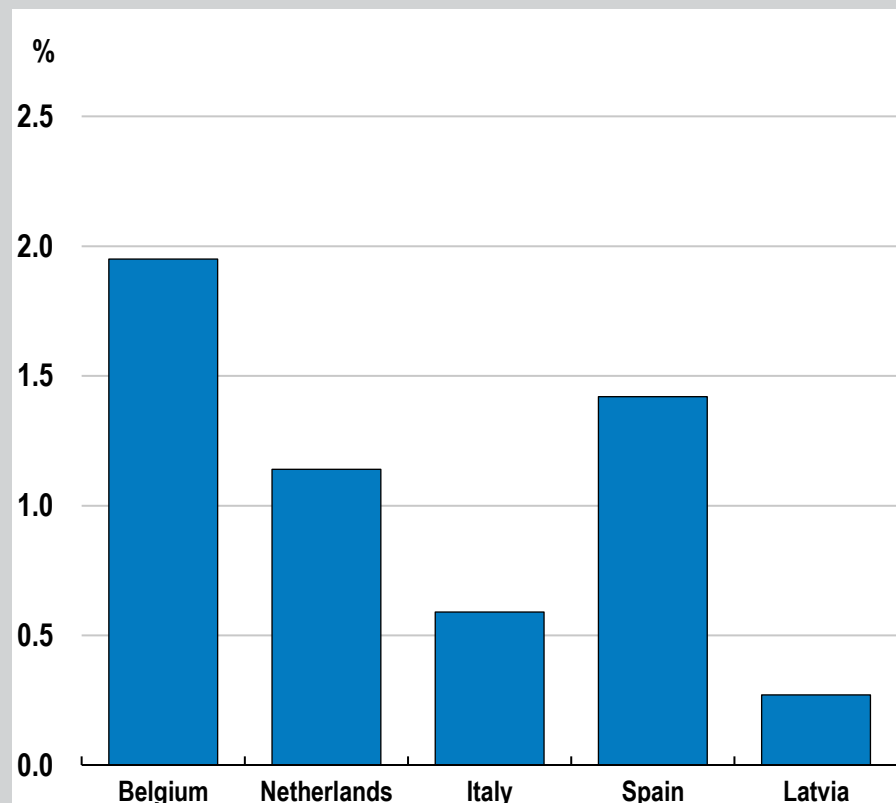
Source: OECD Employment database; and own calculations.

Zooming in: Spending priorities differ between countries

ALMP spending
as a share of GDP in 2007



Passive LMP spending
as a share of GDP in 2007



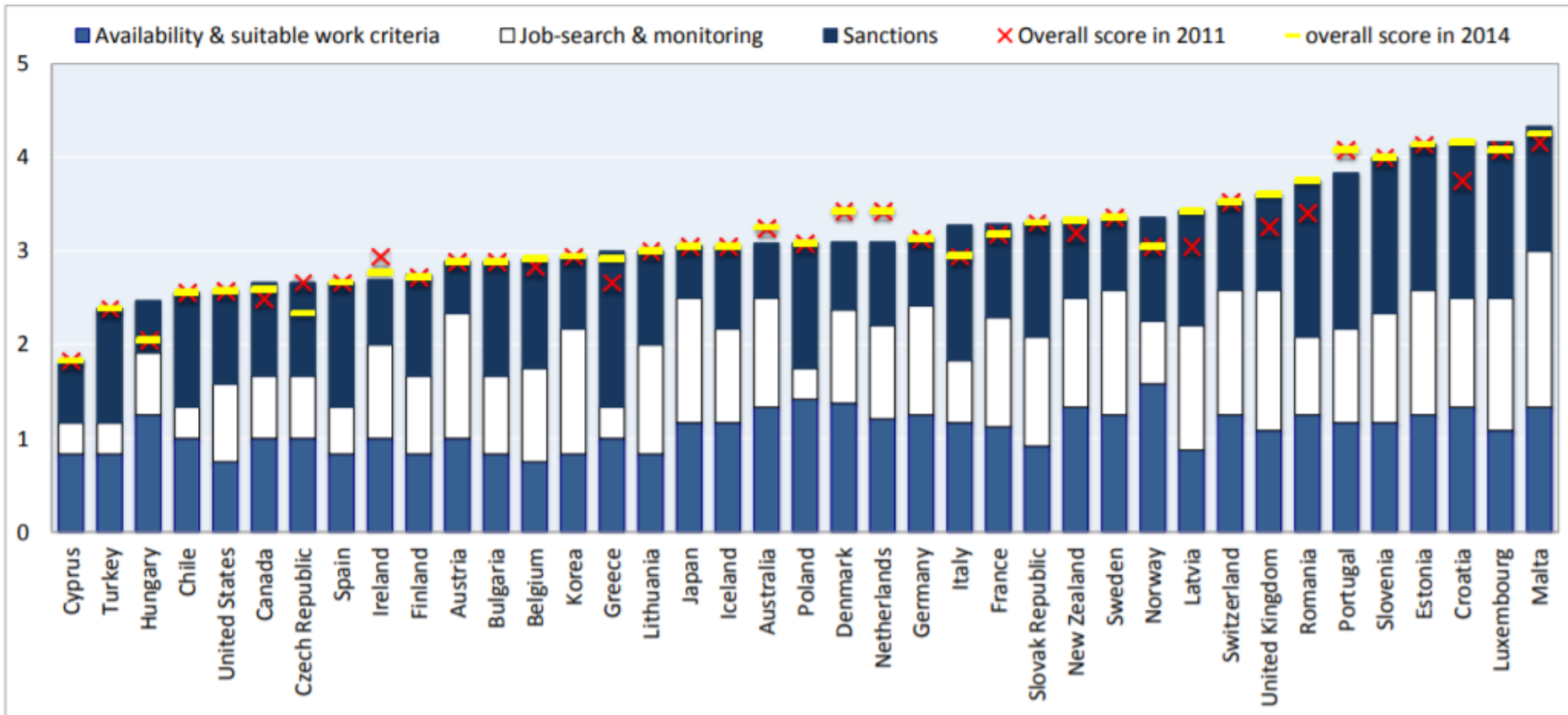
Note: Data for Italy refers to 2015.

Source: OECD Employment database; and own calculations.

Benefits eligibility criteria vary

overall strictness indicator for 1st tier benefits

Scored from 1 (most lenient) to 5 (most strict), 2017 and changes since 2011



Source: Immervoll and Knotz (2018) OECD.