

**Policy Department  
Economic and Scientific Policy**

**ACTIVE LABOUR MARKET POLICIES –  
DELIVERING LISBON**

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### Abbreviations:

ALMP	Active Labour Market Policy
OMC	Open Method of Coordination
PES	Public Employment Service

## Executive Summary

The starting point for the analysis has been that countries in Europe are experiencing shorter spells of unemployment, with vacancies being filled more rapidly, and even bottlenecks developing in some countries in particular segments of the labour market. The aim of the study has been to increase our knowledge of what works and what does not work with regard to active labour market policy (ALMP). This involves especially a focus on sustainability, cost-effectiveness and how to cover start-up costs.

Knowledge on ALMP is also important due to the fact that, in many EU countries, an active labour market policy has been introduced in order to reduce unemployment, increase employment, help individuals back into the labour market or prevent them from becoming unemployed in the first place. The aim of ALMP has also been to match supply and demand, thus reducing the long-term pressure on public finances. An active labour market policy can be regarded as an investment in the future. Given the scarcity of resources, it is vital to ensure use of the most effective initiatives. Learning from best practice is therefore an important aspect of the policy process in all EU countries. Increased and more targeted expenditure on labour market policy, especially training, combined with a smoother and more responsive wage system, has improved the functioning of labour markets, though there are still many unemployed across Europe.

The request was thus to analyse and describe the following three core aspects:

- 1) The sustainability of active labour market policy
- 2) The cost-effectiveness of active labour market policy
- 3) Ways of covering the start-up costs of active labour market policy

Sustainability will be understood in terms of the ability of individuals who have participated in an ALMP program to become economically independent of the social security system for at least six months. Sustainability is thus about ensuring that activities have a longer-term impact for both the individual and society.

Effectiveness is defined as having changed the individual's ability to be more permanently employed in the labour market. Effectiveness will also be connected to the cost of the activities.

Finally, the report analyses how start-up costs can be covered. This due to the fact that in several countries, overall budget constraints have stood in the way of increasing investments in a long-term labour market strategy, or at least have made the switch between passive and active policies more difficult.

This report deals with these issues by using and combining existing international literature and analysis in the area in a new and coherent way. The information used consists of data from the EU and the OECD, published evaluations and national reports, especially National Action Plans and National Reform Programme reports. This study is therefore a meta-study that combines existing evidence and analyses in a new context. In so doing, new understanding is acquired of the core issues in relation to active labour market policies, which can be used in the member states.

The analysis makes it obvious that the diversity of national labour markets and differences in institutional and historical traditions within them have an impact on what works, even though there are common elements to be learned from.

Active labour market policy must therefore be developed within a national understanding of the composition of the labour force and demand for labour, but also keeping in mind lessons from how other countries are pursuing ALMP. Examples are thus given and ideas presented that can be transferred to other countries within the EU (see especially Chapter 5).

**Sustainability** is analysed in Chapter 2. Key findings are that both short- and long-term perspectives are important, but also that project design and implementation have an impact. Evidence in relation to sustainability shows variation in the sustainability of projects among different EU countries. This emphasises that learning best practice by member states should be increased. One conclusion is that in the short term employment incentives in the private sector are best. In the longer term, however, training and education have the highest degree of sustainability. The report thus lends support to the view that life-long learning is very important for the future of the labour markets in Europe. Continuously training and upgrading are further very central (see Chapter 2).

The analysis also reveals that short-term sustainability, up to six months after activation, cannot stand alone, as variations among the unemployed with regard to qualifications, age, region and duration of unemployment will have an impact on the results. In addition, the impact of many training programmes can only be observed with a lengthy time horizon, though training seems to be very important.

**Cost-effectiveness** also differs among countries and programmes and over time (cf. Chapter 3). The key findings are that employment subsidies for on-the-job training in the private sector are the most effective. A well-functioning public employment service is an important and relatively cheap ALMP measure that can both work as a gatekeeper and improve matching in the labour market, including meeting employers' demands for a qualified labour force. Early and targeted intervention also seems important. An increased emphasis on predicting which branches and areas will be in decline and which will increase in importance, with an increase in training in these growing areas, is an important aspect of a cost-effective labour market policy. Finally, the report shows that active labour market policies are especially efficient for young people, and especially with small and innovative projects.

Measuring the cost-effectiveness of various programmes must include several elements in order to be able to compare one project with others. Among other things, this should include the cost per participant when taking into consideration possible deadweight and displacement effects. Furthermore, one should be aware of the distance travelled towards the labour market, changes in labour supply and the impact on the public finances (reduced expenditure, increased tax revenues).

The analyses make it clear that the age and qualification structure of the labour force has an impact on the workings of various programmes. Older workers and unskilled workers encounter problems in re-entering the labour market once they have been unemployed. Labour market policies capable of reducing the risk of redundancy by continuously increasing human capital might therefore be more effective.

**Start-up costs** can be covered in various ways as analysed in Chapter 4. In order to decide how to cover start-up costs, it is important to know what works and what does not (see Chapters 2, 3). Key findings are that transforming unemployment benefit into a subsidy to private companies could be important in the short run. Profiling and targeting initiatives are also extremely important as ways of reducing cost and thus increasing ways of financing activities. A stick-and-carrot policy directed towards companies with regard to investment in training and further education is important.

Only paying a modest amount per participant to those responsible for projects and then paying a bonus later when sustainability is achieved could be one way to ensure time consistency between the cost of projects and raising money to finance them. Small loans for start-up programmes could also be linked to spending from the European Social Fund.

Considering the issues of sustainability, cost-efficiency and ways to cover start-up costs, it emerges that, in making decisions regarding ALMP, several trade-offs exist for policy-makers, including the short- and long-term impacts and the balance between the efficiency and costs of various programmes. The evaluation thus shows that although some measures are cheaper than others are, at the same time they may not have the same long-term impact or the same impact for all unemployed groups.

Better and clearer evaluation policies for all projects should be developed also, as this will help the individual country to choose the best pathways, as well as allow comparison between countries.

The overall conclusion of the study is that ALMP can have positive impact on the level of unemployment and on the functioning of the labour market. However, project design and implementation have a high impact on the results. A clear distinction between short-term and long-term impacts is important. In addition, by presenting many concrete examples (see especially Chapter 5); the report shows that policy and program learning among EU countries should be possible. In this way, interaction helps in ensuring sustainability and cost-effectiveness and finding good ways to cover start-up costs in the future.

Therefore, 15 **policy recommendations** based on existing knowledge and best practice are offered, with further arguments for each policy recommendation being presented in the body of the report (Chapters 2 to 4; concrete examples in Chapter 5):

- 1) Use employment subsidies in the private sector for a limited time
- 2) Increase spending on life-long learning
- 3) Training and education are extremely important and should be expanded
- 4) Mentors for the young to help bridging the gap between the educational system and the labour market
- 5) ALMP programmes should be on a small scale and continue to be changed and developed
- 6) Target and monitor ALMP programmes tight
- 7) Public employment services is very important and should be combined with profiling of unemployed and other ALMP
- 8) Learning and inspiration from best practices should be increased throughout Europe
- 9) Evaluations of effectiveness should be expanded and good implementation ensured.
- 10) Use a stick and carrot approach to increase training in the labour market.
- 11) Use incentives for those activating the unemployed
- 12) Make a coherent structure for ALMP
- 13) Flex-jobs should be used for persons otherwise not able to be at the labour market
- 14) Benefits should be activated directly.
- 15) Establish an observatory to predict future changes in the labour market

# Chapter 1. Active Labour Market Policy Why?

## 1.1. Introduction and background to the study

The starting point for the analysis is that countries in Europe are experiencing shorter spells of unemployment, with vacancies being filled more rapidly, and even bottlenecks developing in some countries in particular segments of the labour market. The aim of the study is to increase our understanding of what works and what does not work with regard to active labour market policy (ALMP). This involves especially a focus on sustainability, cost-effectiveness and how to cover start-up costs.

Modern welfare states pose new risks and challenges for the individual, especially for those lacking the necessary qualifications – whether young or elderly – and their wish to have a job and access to the labour market. Against this background, it has been argued that this is an age that offers the “policymakers the opportunity to transform vice into virtue by replacing costly passive benefits with policies which mobilize the workforce” (Taylor-Gooby, 2004). The shift from a passive to an active labour market policy has also been a cornerstone of the EU’s Employment Strategy, at least since the Luxembourg Guidelines, and activation of the unemployed has been central at least since Lisbon. This forms part of the background for this analysis, as measures implemented must simultaneously be effective and sustainable.

Another part of the background is that the effectiveness and sustainability of labour market policies “is impeded by piecemeal actions, targeting a limited number of specific groups” (European Commission, 2006), as well as the lack of a life-cycle approach, gender mainstreaming and help in making career transitions.

Despite many years of spending, although with variation between countries (cf. Table 1) and in debates on active labour market policy, detailed knowledge about the impact has been lacking. In 2002 the technical analysis of the development of national policies in relation to the Luxembourg Guidelines and the Lisbon Process, the EU Commission stated that, “Beyond the impact on beneficiaries, limited evidence is given on the *cost effectiveness* of these measures, and even less on their macroeconomic effects” (EU Commission, 2002).

This lack of coherent evidence is largely a consequence of the many interacting forces at work in the economy, which implies a great risk of that the specific factors that have an impact cannot be separated from other factors. Still, in general, certain active labour market measures are sustainable and have a positive effect on the number of persons employed and unemployed (cf. Chapters 2 and 3). At the same time, as part of the Lisbon strategy, there has been an increased focus on active labour market policy. This makes it even more important that the lessons learned are the most effective lessons.

Before embarking upon the analysis in Chapters 2 to 4, the following sections of this chapter will briefly describe developments in European labour markets followed by a section on spending on ALMP labour market policy. Then I present a short introduction to what active labour market policy is and why it exists, followed by a short section on the learning process and finally an overview of the contents of the report.

## **1.2. Snapshot of the European labour market, including spending on ALMP**

European labour markets have recently witnessed a slight decline in the level of unemployment between 1998 and 2004, from 9.5 to 9.0 percent of the labour force. However, there is dramatic variation in the levels of unemployment in the various member states, from approximately eighteen percent in Poland and Slovakia to around four or five percent in countries such as Luxembourg, Cyprus, Austria and Ireland. Women continue to endure higher levels of unemployment than men in most EU member states (around two percentage points), but there are actually a few countries where the opposite is the case (Greece, Ireland, Sweden and the UK).

Youth unemployment is also diverse among EU countries, as is the participation rate in the labour market for persons over age fifty. Despite efforts, long-term unemployment levels remain high in many countries. High unemployment levels are found in, e.g., Spain, Poland and Slovakia, whereas they are low in countries such as Denmark, the Netherlands and Ireland.

Activity rates have increased in recent years, which was also one of the Lisbon goals. It is now on average close to seventy percent throughout the EU, although there is still a high degree of variation among member states.

It is against this diverse background and the development of labour markets in the EU that this study proceeds. Active labour market policy is examined as a central element in ways of coping with the high unemployment levels in many countries. Transferring money from passive to active labour market policy has been a wish in most countries.

As shown in Table 1, spending on active labour market policy varies considerably among the EU countries for which data is available. The picture is relatively clear: Belgium, Denmark, the Netherlands, France, Ireland and Sweden spend more than one percent of GDP – and most countries between 0.5 and 0.9 percent, with the exception of Greece and the east European countries (Poland, the Czech Republic and Hungary). The spending in the Baltic States is also low: between 0.1 and 0.2 percent of GDP in the period 1996-2001 (OECD, 2003). Slovenia is one of the east European countries with the greatest spending (Cazes, 2002). The high diversity in spending is partly rooted in historical traditions, and partly in contrasting priorities between the countries.

Several factors may influence levels of spending. One is the development of overall unemployment levels in the different countries. In general active labour market policy spending will be influenced at least by overall public-sector spending, changes in unemployment levels and GDP.

Another indicator may be spending on active measures as a percentage of total spending. In Table 2, this is shown for the average of the countries listed in Table 1 in 1999 and 2003 (cf. also further data in Annex 3). The data in Annex 3 (from 2003) covers those countries for which data is available. This annex also includes data for spending on passive measures.

**Table 1. Spending on active labour market policy in percentages of GDP in 1999 and 2003 in different EU member states**

	1999	2003
EU15	0.73	0.66 (2002)
Austria	0.52	0.63
Belgium	1.32	0.9
Czech Republic	0.18	0.17
Denmark	1.81	1.66
Finland	1.23	0.91
France	1.38	1.09
Germany	1.33	1.14
Greece	0.46 (1998)	0.11
Hungary	0.4	0.51 (2002)
Ireland	0.88	1.17
Italy	0.58	0.64
Netherlands	1.72	1.83
Poland	0.6	0.19
Portugal	0.81	0.67
Slovak Republic	0.21	0.29
Spain	0.82	0.72
Sweden	1.77	1.29
United Kingdom	0.36	0.53
Average	0.92	0.85
Coefficient of variation	0.79	0.8

Source: Indicators for monitoring the employment guidelines, 2004-2005 compendium. EU Commission, 2005, for EU15, OECD Employment Outlook various years. All other data and calculations are based on these sources.

The table informs us that spending on active labour market policy appears to have stabilised at around forty percent of total spending, although with divergent trends in the EU.

The data sets from 1999 and 2003 are not directly comparable, due to the fact that data are not available for all of the countries. Nevertheless, this reveals the difficulty in finding a clear and common trend in spending on ALMP policy at present.

**Table 2. Spending, standard deviation and coefficient of variation with regard to active labour market policy as a percentage of total spending on labour market policy in EU countries in 1999 and 2003.**

	1999	2003
Average	0.39	0.38
Coefficient of variation	0.22	0.32
Standard deviation	0.08	0.12

Source: OECD, Employment Outlook and own calculations

Public spending on the different ALMP elements varies between countries. Some countries have a greater emphasis on training, others on placements, and yet others relatively more on direct job-creation and start-up incentives. Training is the area in which countries on average spend most. Distinguishing between areas, the following picture emerges for 2004 for the EU15 member states (as percentages of GDP) (Eurostat, 2006):

Training	0.261
Job-rotation and job-sharing	0.002
Employment incentives	0.118
Integration of the disabled	0.116
Direct job creation	0.104
Start-up incentives	0.042
Total	0.643

When evaluating ALMP, one must allow for the impact of and variation between several contextual issues, e.g. institutions, history and economic climate, although a recent article claims that, “rather than contextual factors such as labor market institutions or the business cycle, it is almost exclusively the program type that matters for program effectiveness” (Kluve, 2006).

The input of money is therefore obviously not the only factor affecting the effectiveness of ALMP. The organisation, structure and implementation of the various ALMP activities also have an impact. This will also be analysed later in this report.

### **1.3. What is active labour market policy?**

Historically many explanations have been put forward for increasing and developing active labour market policy. It is important to include these explanations in the analysis, since they can be used in explaining the optimal means of increasing activities in order to attain the Lisbon goals. One reason for expanding ALMP relates to market failure.

The main reasons for market failure that make ALMP necessary can be summarised as follows. There is a lack of transparency in the various labour markets (local, regional, transnational), as well as insufficient investment in training due to uncertain returns, (the workers might leave the company).

In certain sectors, there is a rigid wage structure and possibly discrimination against certain groups, e.g. ethnic minorities. Finally, there is a self-sustaining risk of unemployment (if one is already unemployed, then it becomes more difficult to find new employment).

Active labour market policy is therefore a response to existing market failures, i.e. the fact that the labour markets do not clear and ensure full employment, and there is therefore a mismatch between supply and demand, whether regionally, nationally or locally. Active labour market policy is also a response to help develop a more cohesive society by enabling all who can do so to participate actively in the labour market.

What are the different aspects and activities in detail that can be labelled active labour market policy? They consist of a very broad range of activities. The OECD (OECD, Employment Outlook) distinguishes between the following elements:

Public Employment Services (especially placement and related services)

Training:

- a) Institutional training
- b) Workplace training
- c) Integrated training
- d) Special support for apprenticeships

Employment incentives

- a) Recruitment incentives
- b) Employment maintenance incentives

Integration of the disabled

- a) Regular employment
- b) Sheltered employment
- c) Other rehabilitation and training

Direct job-creation

Start-up incentives

As can be seen from the above list, a very diverse picture begins to emerge, including a broad variety of measures that reflects the diverse nature and situation of the labour market and the unemployed. Labour market training may be related to vocational training but also targeted towards specific segments of the labour market. Employment incentives can relate to both the public and private sectors.

As will be discussed in Chapter 3, the impact in relation to obtaining permanent employment largely depends on whether the job being supported is in the public or private sector. A comparison of projects must therefore be specific in relation to the aims and objectives of the various programmes.

Programmes can further be split into mainstream and specialist ALMP (European Commission, 2004), the specialist ALMP including intensive counselling and job-search assistance, vocational rehabilitation, subsidised employment, supported employment, sheltered employment, incentives for disabled people to start enterprises and combined measures.

A specific problem in relation to ALMP for the disabled is that there may be a low take-up rate, combined with the fact that what might have an impact in other ALMP programmes (such as the motivation effect) might not function for this group of unemployed.

The aim of ALMP is to improve the matching of supply and demand in the labour market. This can be done in various ways, and in very different types of labour market. In this way, the aim is to help both employers and employees: employers by providing a highly qualified labour force, whereby labour market bottlenecks are avoided; and employees by enabling them either to remain within the labour market or to enter it.

ALMP can theoretically work through a number of channels. It can help increase search intensity by the unemployed, upgrade the skills of participants and adjust their qualifications to labour market demand. In these ways, ALMP can also help increase total employment and reduce unfilled demand through better matching. The increase in employment and decrease in unemployment can also be achieved through the creation of subsidised jobs. Substituting for regular work experiences can reduce employers' uncertainty about the employability of the job applicant, thus increasing effective labour supply by rendering unemployed persons employable.

These elements of ALMP will be referred to throughout the report. The different aspects of the various activities are demonstrated in a number of different analyses (cf. Chapters 2, 3).

Evaluating the sustainability and effectiveness of ALMP is also important. One central question in relation to evaluation refers to the *ceteris paribus* assumption. What would have happened to the unemployed without the implemented policy? Will the long-term impact be high, or is the impact related to the present economic situation? Some early estimates and assessments took a rather positive view, but others were mixed, depending on the instrument used and difficulties in generalising the results about how active labour market policies work (Calmfors, 1994; Fay, 1996; Jackman et al., 1990; Layard et al., 1991). Studies and overviews such as Scarpetta, 1996; Nickell, 1997; Martin, 2000; Kluve and Schmidt, 2002; and OECD, 2006 are more inconclusive concerning the effects, but positive as regards the ability to reduce the level of unemployment (cf. also Chapter 3). Recently Kluve (2006) has suggested, "Training programmes should be continued, and private sector incentives schemes should be fostered".

In respect of using wage subsidies especially, a core problem becomes whether some jobs would have been created anyhow, i.e. deadweight losses. The OECD (OECD, 1998) already pointed out that very general job-creation using subsidies might not be useful, whereas it might work for specific groups of workers. This is also in accord with the theoretical principle that targeting should take place, i.e. that the receivers of the subsidies ought to be those who are more marginalised and with weaker prospects of re-entering the labour market without public intervention. Conversely, general support for those with good prospects for re-entering the labour market without public support will be less effective.

The combination of rights and duties in relation to activation motivates the unemployed to search more actively for jobs immediately before activation becomes an obligation. This implies that the "fear" (motivation/"stick" effect) of activation programmes might have a greater impact than the "carrot" effect of improving qualifications and thus enabling one to improve one's prospects in the labour market.

The effects of this can be discussed and depend on the specific unemployed person and the general prospects for finding a job in the various segments of the labour market.

ALMP seems to have a positive impact on the functioning of the overall economy by increasing the competition and pressure on those already within the labour market by increasing the labour supply.

This also implies that even a small effect by reducing the risk of bottlenecks and a decrease in wage pressure might be important from a societal point of view as part of a long-term stable economic policy.

Increased productivity is another possible result of ALMP programmes. This may be attributed to the fact that participation serves as a substitute for work experience. Upgrading people with lower skills tends to have a greater impact on overall productivity levels (Hujer, Reinhard et al. 2004).

Taken together, these considerations could constitute an argument in favour of macro-econometric analysis, as ALMP has an impact not only on individual participants, but also on non-participants through substitution and displacement effects (Puhani, 2003). However, in looking at the overall effect, a risk of interference from many other factors in the development might blur the results, thus possibly helping to explain why studies on the effectiveness of active labour market policy have produced mixed results. Still, most “studies that have estimated the impact of ALMP spending on aggregate unemployment have found that there is a significant favourable effect” (OECD, 2006).

#### **1.4. Learning and transforming knowledge**

The ability to deliver Lisbon appears to be dependent on ALMP, including active learning processes taking place. The institutional, economical and historical diversity of different EU countries represents a difficulty in transforming knowledge in this area. While convergence can be witnessed in some areas (Greve, 2004, Heichel, 2005), it is also clear that, although “there is evidence at EU level of policy convergence through the adoption of certain labour market targets, there is little evidence either of systematic learning or of significant efforts at emulation” (Casey and Gold, 2005).

One possible explanation for this is that peer reviews in the OMC only involve a limited number of people. Another reason for not transferring knowledge concerning active labour market programmes may be fears in another country that the programme is inappropriate for their own labour markets. A logical example of this may be the differences in turnover in the labour market. At least in theory, labour markets characterised by higher rates of turnover have a continual supply of vacancies, meaning that those in activation will, all other things being equal, have a greater chance of entering the labour market. Furthermore, knowledge and evaluations of effectiveness are not always available or have even been developed. Reports from some countries indicate that many initiatives are being taken, but the impact and analysis of the effectiveness of the active labour market policy is less clear, although it appears that evaluation is under way (Portugal, 2005; Cyprus, 2005).

## **1.5. Structure of the report**

After this introductory chapter outlining the situation and principles of ALMP and spending in the area, sustainability is dealt with and analysed in Chapter 2. The focus is on the ability of the individual to take care of her- or himself after participating in an active labour market policy programme. Sustainability will be understood in the following as an individual who, having participated in a program has been able afterwards to be economically independent of the social security system for at least six months.

In Chapter 3, the main and most central chapter, the cost effectiveness of ALMP in different countries and regions within the EU, measured in various ways, is analysed. Chapter 3 uses the structure of spending and definitions of various types of intervention used by the OECD and Eurostat as a structuring device. This provides the reader with the option of choosing a specific area for examining specific active policies where it is possible to find reference to the literature and evaluations within the area.

Each section begins with a description of how the policy instrument is expected to work and how the impact might trickle down the system through various channels. This is then followed by a presentation and overview of the many existing evaluations from many countries within the EU. Presenting the material in this manner is also helpful in addressing and explaining how various types of intervention, activities and projects have either a positive or negative impact. Effectiveness will be understood as having changed an individual's ability to be more permanently active in the labour market.

In Chapter 4, the focus shifts to an important aspect of how to cover the costs of ALMP. As few relevant discussions and analyses exist, the chapter is therefore of a more exploratory nature. By using knowledge of labour market policy and public finances in connection with incentives, an attempt is made to suggest different pathways that might be used in order to change labour market policy from being passive to active or to increase active labour market policy in order to deliver Lisbon.

In Chapter 5, which is based on the analysis in Chapters 2 to 4, a structure of the phases of unemployment spells in which various ALMP's are effective and how they are effective is presented together with some good examples. Examples are chosen in order to give an impression of good ALMP projects with various types of activities and from various countries in the EU, because it is expected that they can be used in other countries. Finally, the main conclusions of the study for future active labour market policy are presented in Chapter 6, policy recommendations in Chapter 7. In Annex 2 some methodological issues related to evaluation of ALMP are presented, which are therefore not included in the presentation in the chapters.

## **Chapter 2. The sustainability of active labour market policy**

### **2.1. Introduction**

In this chapter, the sustainability of active labour market policy will be discussed and data related to this topic presented. The sustainability of active labour market policy is defined as the ability of an individual to support him- or herself after the period of activation, i.e. to become independent of the welfare state for at least six months.

As far as the data allow, the focus of this analysis is therefore on employment after six months, but also eighteen months after participation in ALMP. Naturally, whatever period one chooses has its own problems. Focusing immediately on the period after activation might merely indicate that the individual has been employed for a brief period in an extension of the project, as might be the case especially for on-the-job training in private or public companies.

Assessment six months after activation appears to be a reasonably good indicator. An assessment at eighteen months might be distorted by shifts in the economic cycle, sickness, retirement or just slowdowns in a specific job area, such as the development of jobs in a certain part of the economy has not been as great as expected. Still, eighteen months can be treated as an indicator of the long-term impact.

Further, as some ALMP measures have a direct impact that can be measured (i.e. job search assistance), whereas other measures, such as training and education, might first be working in a longer time perspective, it is good to have various time-spell when analysing sustainability. One important aspect ensuring the long-term sustainability term of active labour market policy is the increase in the individual's sense of self-confidence.

Sustainability could be considered to have been achieved if the individuals who have been in activation start on a pathway that can lead to integration in the labour market in the longer term, e.g. by pursuing education.

### **2.2. Distance from the labour market and other issues related to sustainability analysis**

One aspect of examining sustainability is that shown in Figure 1 below, which presents a simple illustration of the distance from the labour market for various groups or individuals. Distance from the labour market will have a huge impact on both the expected outcome and the sustainability of the measures in relation to the labour market.

Figure 1 presents an indicative theoretical example of how distance from the labour market may have an impact on one's ability to find a job. In the figure, the horizontal line shows the theoretical threshold with regard to levels of qualification needed (formal or on the job) in order to enter the labour market. A person at point one has a greater distance from the labour market as compared to a person from point three. In this way, achieving a positive outcome of ALMP in relation to finding a permanent place in the labour market ought to be easier, in principle, if the person is already close to the labour market.

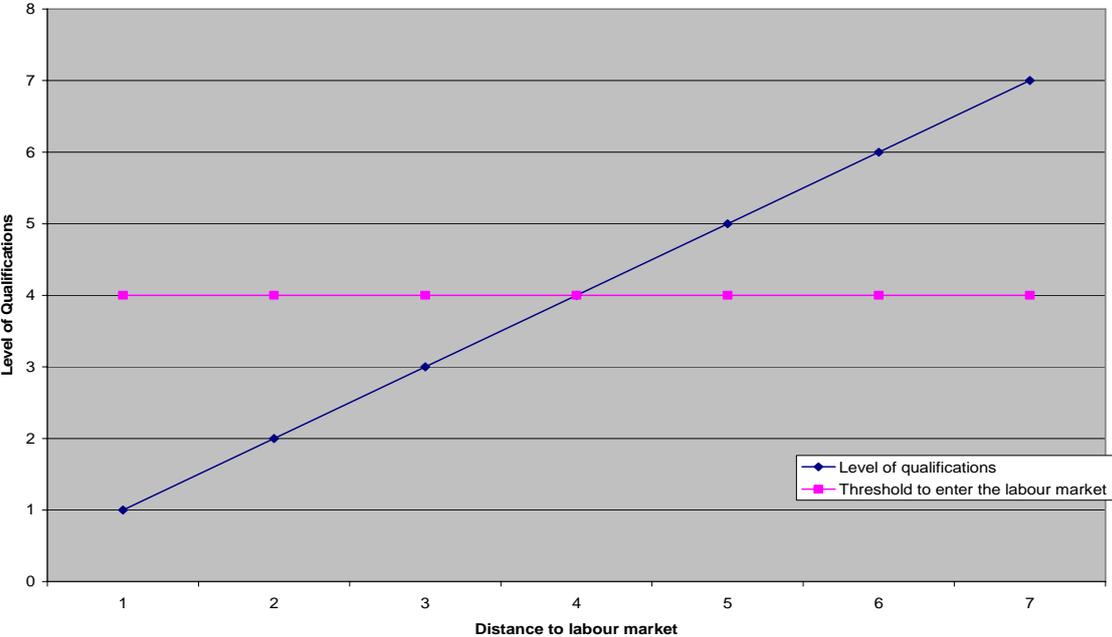
An active labour market policy will help ensure that those at risk of becoming unemployed, which in Figure 1 is shown as those at point number four, ought to be given remedies to avoid becoming unemployed.

Sustainability in these cases, if targeted sufficiently, should also make this possible, perhaps even with a success rate of a hundred percent if all those at risk are prevented from becoming unemployed.

Finally, in principle, a programme that moves a person from point one into the labour market will thus, all things being equal, be more costly and difficult than moving a person from point number three. Nevertheless, being able to move a person from point one to point two or into education might improve the person’s prospects in the labour market in the longer run. Entering the labour market can be understood as first putting one-step on the ladder, then another one, in order to reach a sufficiently high level in order to enter the labour market.

To illustrate this further, the Ministry of Finance (2005) in Finland has calculated that those who are difficult to employ represent approximately 45 percent of the total numbers of those out of work and in active measures. This is a concrete example of this distance. Those who are most difficult to employ are located at point one in Figure 1.

**Figure 1. Distance to the labour market: a simple illustration**



The level of qualifications has an impact on the distance. An indicator of distance from the labour market is the length of the period of unemployment. In Sweden in the period between August 2000 and October 2002, those registered with the public employment services have had the following characteristics (Forslund et al., 2004):

Unemployed less than a year	61%
1-2 years	14%
2-3 years	7%
3-4 years	4%
> Four years	14%

All experience indicates that those who have been **registered for less than one year will be easier to place in the labour market.**

The rate of sustainability will therefore be higher for programmes targeting this group than for those who have been outside the labour market for more than four years.

In EU25, more than 90 million aged 15-64 were inactive in relation to the labour market in 2004. They will clearly have been unemployed for various periods of time and for various reasons. In Table 3, the main reasons given for inactivity within the EU in the labour force survey are shown.

**Table 3. Reasons for inactivity for the working age population aged 15-64 in 2004, as a percentage of all those inactive in EU25**

Discouraged	4.5
Illness/disability	13.2
Family responsibility	16.1
Retirement	20.5
Education or training	32.5
Other	13.2

Source: Employment in Europe, 2005, EU Commission.

The table points out that it ought to be possible to increase the labour supply via active labour market policy. The data further suggest, as the high level of unemployment for older workers also implies, that making the transition from unemployment to employment will be difficult for older workers.

The numbers in training in 2004 were high, but the labour force being defined as lying between the ages of 15 and 64 can partly explain this. If young people between 15 and 24 were omitted, the figure would have been around five percent in most member states. **Still, training is an extremely important instrument** in labour market policy around Europe.

Furthermore, another possibly significant aspect might be information about the options for finding employment, as many unemployed people leave the labour market because they believe that no work is available (Employment in Europe, 2005). This explanation alone accounts for 3.9 million people, though with major differences between member states. Nonetheless, this may be an important element of a relatively cheap way of making active labour market policy effective by focusing on the available jobs and job openings. **When helping with job searches, public employment services could point to those areas in which jobs are available.**

Many of those who are inactive will presumably never be able to enter the labour market, as more than four out of ten have no work experience (again, this is an exaggeration of the problem, as the data also include young people). For nearly one out of four unemployed, it has been more than eight years since they have been involved in the labour market, and for one out of five, the figure is between two and eight years. Nevertheless, this leaves approximately fifteen percent, i.e. more than thirteen million persons who have had a job within the last two years, as a target group for ALMP in addition to the need to ensure there is a passage from education into the labour market for young people.

One problem with regard to comparing and evaluating different programmes relates to the fact that many governments in Europe frequently change the structure and content of such programmes.

Recently, therefore, many have adopted new or changed measures aimed at strengthening assistance to job seekers (European Employment Observatory Newsletter, Issue 26, August-September, 2005).

A further issue related to the analysis of the sustainability of ALMP has to do with the effects of the existence of the programme itself. In other words, the mere existence of activation might reduce the level of unemployment, as some leave the unemployment benefit system immediately prior to activation.

Another issue is that not only do programmes change over time; it can also be difficult to ensure that their implementation is as described and decided by the decision-makers. This shows why one must not only take into account the statistical analysis of a programme, but also its practical implementation in order to come up with a detailed and precise description of the outcomes of various programmes and why they are sustainable.

### **2.3. Empirical evidence of sustainability**

This section considers studies dealing with sustainability. It should be remembered that the impact of various projects could be highly dependent on their implementation by those involved in them. This implies, for example, that, even if **sustainability has been high for the first groups of people participating in an activation project, this is not necessarily the case for other groups** entering the same or same types of projects. Empirical evidence may be both quantitative and qualitative. The following are examples of existing analyses of the sustainability of ALMP in various countries and programmes. First, however, an overview of the sustainability of ALMP at the macro-level in several EU member states will be presented.

Table 4 shows that there is no clear pattern regarding sustainability between countries. Furthermore, knowledge concerning sustainability varies considerably in the different EU countries. Sweden is the only country with data available for both 2003 and 2004. For fifteen EU countries no data are available.

As regards the other countries, data is available for only one year, and often for only one of the indicators.

Secondly, the data inform us that success rates vary considerably, indicating that it **ought to be possible to learn from one another**, although we should be aware that a return to employment in 2003 might be due to intensive counselling and training in 2002, not activity in 2003. Nonetheless, the data offer a good starting point for debates and analysis in a cross-national perspective.

**Table 4. Rate of inflow into employment 2003-2004, three and six months after activation**

	2003		2004	
	3 months after participation	6 months after participation	3 months after participation	6 months after participation
Denmark	45	39		
Estonia		53.5		47.7
Latvia		37.8		
Lithuania			38.5	
Luxembourg	66.8			
Hungary		57		
Austria	43.7	42.8		
Finland	19.6		20	
Sweden	38.6	40.8	36.4	40
UK			45	

Note: Data for the UK at immediate destinations only

Source: Indicators for monitoring the Employment Guidelines, 2005 compendium

One Austrian analysis of sustainability initially showed good results in general, that is, 45 to 60 percent of unemployed being in work six months later (Federal Ministry of Economic Affairs and Labour 2005). Looking at different programmes, the lowest success rate (44.7) was for various types of support in relation to counselling, guidance and setting up businesses, whereas for measures in relation to employability (company subsidies, journey to work subsidies) and training measures (varying from on-the-job training to subsidies for apprenticeships), the success rate was nearly sixty percent (cf. also Chapter 5). **Job-rotation and job-sharing had the highest success-rate** of nearly 78%, although with a clear gender divide of 92% for men and 40% for women. At the overall level, no clear gender divide can be seen in the data. Most people participated in training measures (more than 200,000) and here for both men and women approximately half were in work six months later. Approximately one-third remained unemployed and one-sixth were in a so-called “out of labour-force position”, but presumably, on the way towards the labour market, i.e. they might have travelled part of the distance, as illustrated in Figure 1.

The Austrian data also include people employed with subsidies that were employed six months later. This would not normally be in line with the definition of sustainability, i.e. the ability to be independent of the public sector. This reduces the outcome by between 3.6 and 6.6 percent. Nevertheless, it indicates that getting **around half of those who have been activated back into the labour market** should be possible. Furthermore, training is very important.

Data on the macro level, like the Austrian data, argues for the sustainability of training. A link between the impact at the overall level and individual projects, i.e. whether they are above or below the average success rate, would be a useful tool for identifying specific useful projects.

Combining various types of intervention could also be important. For example, one could envisage combining vocational tailor-made training programmes for young people with counselling based on the specific needs of the individual.

The sustainability described above can be explained with reference to Figure 1. Approximately half of those with various measures moved above the line providing access to the labour market. The rest remain below; for one in six, it appears that they will never return to the labour market, though in the long run, active labour market policy might help some of them back, or at least improve their inclusion in society in a broader sense. This can also help explain why, even if they obtain a job through the activation, they might lose it shortly thereafter. This may be the case if they have just passed the line for entry into the labour market but, due to constant changes of qualifications demanded, shortly thereafter again fall below the expected threshold for entering or staying in the labour market. Travelling the distance sufficiently to be clearly above the threshold, as indicated in Figure 1, may thus be one element in ensuring the sustainability of active labour market policy. This further both confirms and explains the data in Table 3, which illustrates the reasons for the inactivity rate in the EU25.

One Danish analysis (Beskæftigelsesministeriet, 2005) shows that there are positive effects for people receiving unemployment benefits and social assistance when participating in various types of activation, but also that the effects vary between types of activation. Especially for those on social assistance, the effects of education and training are greater if measured after one year instead of six months after activation. This is an argument for the position that **sustainability is higher for training and education than for other types of activation**. As participation in training often takes time, the effects might be more lasting, as the individual will have a greater chance to remain in the labour market with the right qualifications. At the same time, several analyses point to the risk that people participating in activation reduce their search behaviour during training (the locking-in effect), but this might simultaneously be a further indication of why training has a longer time profile before its effects on the numbers of people working can be discerned. For the individual, as well as for society, it makes sense to finalize training to achieve the right qualifications before actively searching for a job again can be expected to increase the sustainability of the training.

Activation in Denmark has an impact on all age groups, but the most efficient impact is that registered for those below the age of forty. One possible explanation for this is that in Denmark the labour market is generally more open to young people than it is to their seniors. This implies that the situation in which the unemployed try to enter the labour market has an impact on the sustainability of the intervention.

A register analysis, based upon participants in activation in the second half of 2003 and the first half of 2004, analysed 58,000 people who had received unemployment benefits and 57,000 who had received social assistance (of which 13,000 were deemed only to have unemployment as a problem). They had all participated in an activation of at least six weeks duration.

The increase in self-sufficiency after six months was as follows, measured as a simple net-effect<sup>1</sup> (Beskæftigelsesministeriet, 2005):

Unemployment benefits	13 percentage points
Social assistance	10 percentage points

This again confirms that those at greater distance from the labour market appear to encounter greater difficulties in entering the labour market (as those on social assistance in Denmark, with the exception of the very young, often have other problems in addition to unemployment). The **most effective activation was employment with a subsidy in the private sector**, followed by subsidised employment in the public sector. Presumably, this has to do with the fact that an unemployed person, entering a company with a subsidy, becomes known to the company and, if a job opening occurs, then he or she will have an improved possibility of obtaining it. Furthermore, many private companies employing people with job subsidies might use this in an attempt to increase production.

Qualitative information can be found in reports of relevant success stories concerning projects supported by the European Social Fund. They are interesting for a number of reasons and contain stimulating stories of good projects around Europe (European Commission, 2005B). In Annex 1, an overview of various projects in relation to the labour market, types of projects, numbers of participants and estimates of integration in the labour market is given. The information identifies individual successful projects, making it possible for knowledge regarding success stories to be transformed. Unfortunately, the information from the various projects concerning sustainability is not very clear or precise, although the stories appear to confirm that it is especially **small and innovative projects that are the most successful** in getting the unemployed back into the labour market. One reason for this might be the entrepreneurial element that may form a part of new activities, often increasing the likelihood of success.

For many activities, training in particular, sustainability will thus depend not only on the specific project, but also on maintaining the achieved level of competence when people return to the labour market. This may also explain why, even though a project seems successful after a short while, that this is no guarantee for success in the long run due to shifts in the qualifications demanded of both human and social capital in labour markets.

Even if there is an overall discernible impact after either six or eighteen months, this is not tantamount to saying that, the impact is the same for all groups. An overview of existing results in relation to training appears to indicate that formal in-class training helps female re-entrants, but not males of prime age or older workers. Further, on-the-job training helps female re-entrants and single mothers, but presumably not prime-age males, as one review of several studies indicates (Martin and Grubb, 2001).

The authors also acknowledge that, even if their evaluation indicates for whom it works, the literature “does not provide satisfactory answers as to why they appear to work for some target groups (e.g. adult women) and not for others”.

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<sup>1</sup> This is defined as the degree of self-sufficiency two years prior to the end of activation and six months after it.

There are several possible explanations for this. First, formal in-class training may be more appealing to women than to men. Secondly, on-the-job training has often taken place within the public sector, which employs more women than men in these areas, e.g. the care sector. The **composition of the unemployed group and of the vacant jobs may therefore help explain the differences in sustainability**. Strong labour market relevance may therefore be an important aspect in achieving sustainability, and it might then be differences in the typical ages and genders of those who work in a specific sector that explains the outcome.

One Swedish analysis also reveals variation between activities. This report, from October 2005 (Regeringen, 2005), lists the number who found employment and how many returned to unemployment after a certain period of time (cf. Table 5).

**Table 5. Inflow to employment and return to unemployment three months after the activity (six months in brackets) for various ALMPs in Sweden.**

Activity	Inflow to employment	Returned to unemployment
Training	32.3 (37.1)	22.5 (18.9)
Employment incentives	41.0 (43.3)	27.6 (22.4)
Integration of the disabled	23.1 (24.4)	39.1 (33.0)
Start-up incentives	80.6 (80.0)	9.7 (9.0)
Total	36.4 (40.0)	24.9 (20.6)

Source: Regeringen, 2005

The table considers the direct impact for the individuals (i.e. displacement and deadweight loss is not taken into account), and the difference between three and six months after participation is very modest. In Sweden, **start-up incentives to become self-employed appear to be the most effective**, but this might be due to the very brief period of time covered by the analysis. Specific labour market education is also assessed positively, and the data again indicate that a longer time perspective increases the sustainability of the measure.

In Austria calculations carried out by the Federal Ministry of Economics and Labour (2005) indicate that for specific participants using PES in 2003, after six months the percentage of those in work was close to forty percent (38.5%). The data further show that there was no genuine difference whether measuring after three or six months. Finally, the data indicate that approximately twenty percent were neither employed nor unemployed, suggesting that they either had withdrawn from the labour market or were pursuing further training or education. **Advice through the PES was thus an important element in sustainability**, seemingly both in relation to job-search guidance, but also by matching employers and employees.

The New Deal in the UK for young people aged 18-24 who have been claiming unemployment benefits for more than six months showed good results (Lissenburgh, 2004).

After six months, the young must participate in one of four measures:

- 1) Subsidised employment
- 2) Full-time education and training
- 3) Work in the voluntary sector
- 4) Work with the environmental task force

The activity will then normally last six months. In addition, novel in this approach has been the policy of using the initial part of the period of unemployment (i.e. before six months) to help the participant choose their route towards the labour market. The activity also combined stick and carrot, the stick being that there can be no payment without choosing a measure, the carrot being a possible route back to the labour market. This is also interesting from an evaluative perspective, as it offers a variety of activities to a group of unemployed who share many of the same characteristics, though they differ in terms of distance from the labour market.

The evaluation revealed good results, especially for subsidised employment, implying that roughly three out of four people were no longer applying for job-seekers allowances 24-30 months after the period of activation (Lissenburgh, 2004; cf. also Chapter 5).

The effects of a targeted and better-monitored Swedish Active Guarantee (cf. also Chapter 5) within the public employment system found that the likelihood of having a job after twelve months was 35 percent higher for those in this system than for other unemployed people. The main reason was the higher use of an employment subsidy (Forsslund et al. 2004). If participants in the public employment services gain access to other measures, then it is possible that the impact of the PES is due to activities other than the PES itself. Still, this simply indicates that a combination of a range of measures with counselling may be important.

As further pointed out, one specific problem in relation to the effectiveness of employment subsidies is that a “substantial fraction of the PES participants was known to the employer” (Forsslund et al., 2004A). This has both positive and negative consequences. The positive aspect is the increased opportunity to find work for the participant. The negative aspect is the increased risk of displacement. Nonetheless, for those participating in these programmes in Sweden, it would appear that a better position is obtained exactly after six months, mainly by paving the way for new job openings, as people tend to remain where they were given the subsidy.

Looking at direct job-creation data from Austria (Federal Ministry of Economics and Labour, 2005) a very diverse picture is received for these types of measures. For direct job-creation, four out of ten people are employed after six months, a figure that drops to nine out of ten for start-up incentives. With direct job-creation, the unemployed outnumber the employed after six months. One problem with measuring start-up incentives after only six months is that the long-term financial health of the new business will still be unclear at that time. Earlier Danish experiences indicate that some of those who start up businesses later go bankrupt. For the individual, this might also be highly risky unless there is a clear business strategy.

## 2.4. Conclusions

In the short run, **sustainability is maximised by using employment incentives in private companies**, as most of the unemployed who participate in such activities return to the labour market and stay there.

In the **longer run, training and education have high levels of sustainability**. This is especially the case when the training is targeted towards meeting the actual needs of the labour market.

The **PES is important as a gatekeeper**. Good advice and counselling have high degrees of sustainability for individuals.

The analysis demonstrated that measures to improve sustainability must be developed so that they not only promote an ability to be independent of the social security system, but also ensure that the individual can remain in the labour market in the longer term. A **life-long perspective thus appears to be important**. Continuous training and upgrading skills will thus have a bearing on the sustainability of any active labour market policy. Furthermore, the implication of this from a policy perspective is that, despite the importance of providing training that is directly applicable to the labour market, this might not be sufficient in the longer term if an individual's social capital is insufficient. An individual's "basic" knowledge is also important in order to be able to "change direction" when required by the labour market.

It is also necessary to combine benchmarking of projects in the same area and, in relation to projects, to increase awareness of why an activity has a better or worse outcome than other types of measure. Project design and implementation are important. This implies taking a more macro-oriented approach to the evaluation of activities, combined with more qualitative data and in-depth analysis of projects, which appear to have been a success in obtaining full knowledge of why it has worked.

## Chapter 3: Cost-effectiveness of active labour market policy

### 3.1. Introduction

There is no general data available regarding cost-effectiveness (Employment and European Social Fund 2002). This is still the case. Also in 2002, after the first five years of the European Employment Strategy, it was acknowledged in the national evaluations in most countries that the assessment of effectiveness was very difficult due to a lack of data, a limited number of studies and the failure to use control groups. This was reported to be the case in Belgium, Denmark, Greece, Spain, Finland, France, Luxembourg, Netherlands, Portugal and Sweden (European Commission, 2002A).

Furthermore, defining exactly what should be integrated in analysis of cost-effectiveness of active labour market policy can be difficult. A means of understanding it is to examine the cost of the activities in relation to the number of jobs created and the reduction in the number of unemployed persons at either the macro- or micro-level. This could be measured as the average cost per person after successfully completing an activity by finding employment. However, this method ignores several possible pitfalls in analysing active labour market policy, e.g. possible deadweight losses, substitution and displacement effects.

The criterion for effectiveness recommended by the European Commission is that beneficiaries are in a non-subsidised job upon the completion of the activity (European Commission, 2002), which therefore also are a central part of this report. This does although not include the more “soft” aspect of ALMP, e.g. that the participating individuals have gained confidence and thus possibly initiated a process that can later aid their return to the labour market. Still, effectiveness will be defined as having changed the individual’s ability to be more permanently employed at the labour market.

Analyses are often based on whether the individual continues to receive unemployment benefits or not. Register data is therefore often used. Analyses based on register data can be very precise in relation to whether or not persons are unemployed and receiving unemployment benefits or social assistance. However, a problem with register analysis is the exclusion in the data of persons who are entirely outside of the labour market, i.e. not even any longer part of the unemployment system. No longer, being in the unemployment system does not necessarily mean one has found a job; it can also be the result of the individual leaving the labour market permanently, subsequently being supported by family or working in the hidden economy. A high percentage of persons leaving the register can therefore not be the exclusive indicator for the effectiveness of the activation. Often register based analysis use as indicator the likelihood to be at the labour market, and they will therefore be deemed effective in the case this is higher than before ALMP.

Analysis of the cost-effectiveness of active labour market policy is therefore not very often at hand, and one need therefore to focus on the effectiveness of having a job compared to a control group not participated in measure and their chance of being on the labour market.

It has recently been discussed whether it is the activation itself or the *threat* of activation that works, i.e. the individual having to participate in an activation project, which either reduces reservations regarding wages or increases the willingness to broaden one’s search in the labour market. A Danish analysis argues that ALMP is positive when including the threat effect, but not without it (Rosholm and Svarer, 2004).

Whether this is the case for all groups of unemployed persons is not shown. This argument also points out a weakness in much of the data-analysis: the failure to establish a clear theoretical link between the activity and the outcome for those participating in the programmes at the labour market, i.e. why intervention has an effect.

Two types of analysis are particularly widespread in the literature. One focuses on outcomes, which is mainly useful when analysing training and job searching. The other considers the net effect, which includes deadweight, substitution and displacement effects, and is therefore useful for analysing job creation in the public and private sectors.

A further distinction between macro- and micro-evaluations is useful.

The macro-evaluation examines the effects at the societal level, including both the positive and negative impact of activation on the overall level of employment and, if possible, changes in the qualifications for the participants.

The micro-level analysis is focussing on the impact on the individual, primarily after a certain time in and after activation. These impacts can be employment, self-employment, having moved closer to the labour market, or increases in earnings. Finally, one could also consider the change in the individual's qualifications, increased sense of self-confidence and social capital, but this lies outside the scope of this analysis.

The recent development of active labour market policy in many countries is one reason why finding data and good information about why and to what degree this has had an impact can be difficult (OECD, 2005c). Active labour market policy is further relatively new in many Eastern European countries, as full employment was guaranteed before the 1990s. Naturally, this also implies that it has taken time to gain experience regarding ALMP, as well as establishing the necessary data allowing for detailed analysis of ALMP effectiveness.

An exception from this is a study from 1999, which evaluates a number of programmes in Poland, the Czech Republic and Hungary. This report indicates that the effects appear largely to resemble those observed in Western Europe, with the exception of the PES (Fretweell et al., 1999). Combined with the fact that ALMP has existed for many years in the Scandinavian countries (Calmfors et al., 2002), this is one reason why much of the data and analysis presented stems from these countries. The Nordic countries have further considerable experience and tradition for spending more on active labour market policy than other countries. This will thus also provide more information than otherwise would be available.

For most countries, it is so that despite ALMP has been used for many years the data collection and evaluation culture has not yet developed sufficiently. In Ireland, for example, despite the rapid economic development and decreasing levels of unemployment during 2004 in FAS, 35,136 attended interviews, of which 20,199 left the live register, with 9,718 placed in jobs, programmes, training and education. Nonetheless, it is argued that an evaluation of the effectiveness will be carried out (Irish Government, 2005).

Spain is another example. At least until 2000, ALMP has had a marginal role in Spain. The macro-analysis carried out by Davia et al. (2001) is thus also claimed by the authors to be the first macro-evaluation of ALMP in Spain based upon data from 1987-1995.

The development of activation and ALMP has remained in its infancy in many countries, which naturally also implies that data and evaluation remain scarce.

In a country such as Estonia, the number of unemployed persons involved in active labour market measures has been relatively modest in comparison with the total number of unemployed, as less than 10 percent of all unemployed persons have participated in active measures. The main instruments have been training and vocational counselling (Republic of Estonia, 2005).

When calculating cost-effectiveness, it is important to include the two most significant benefits for the individual: employment and earnings in the post-programme period. The duration of the activation effect can be questioned due to the probability of shifts in the overall economy, changes in the local labour market and the development of new production methods. Nevertheless, ALMP does not necessarily only have an impact for one year; it can have an impact for many years ahead. This is obvious the case for training.

Calculating the programme costs should include at least the following:

- the direct implementation and operating costs
- foregone earnings for the participants
- costs arising from displacement effects and deadweight losses

A final issue concerning how to evaluate effectiveness is that any change in relative earnings should also be included. This will be included here, though only to a limited degree, as the focus and available evaluation data here is on actually having a job or not. Nevertheless, if the wages are higher than prior to ALMP, then the net income of the public sector after activation will be higher.

On that background, **ALMP activities that help increase earnings most for the individual – also in the long-term – will be the most cost-efficient especially if the direct cost of the activities also has been limited.**

Displacement effects are also important in relation to measuring the effectiveness and sustainability of the programmes. Based upon several Swedish studies, Calmfors et al. (2002), as an indicative example of the size, have calculated the average displacement effect for different types of ALMP. This is shown in Table 6.

The table shows that **programmes closer to real jobs have a higher direct measurable displacement effect.** Simultaneously, the studies also reveal that these programmes have the highest efficiency as regards returning people to the labour market. A trade-off between integration and efficiency might therefore be in place.

Furthermore, **ALMP clearly appears to increase and show a positive effect on labour force participation.**

**Table 6. Average direct displacement effects in Sweden.**

<b>Programme</b>	<b>Average displacement effect %</b>
Temporary public jobs	1.0
Municipal youth programmes	9.0
Resource jobs	14.3
Work placement schemes	15.0
Work experience schemes	15.6
Relief work	21.7
Recruitment subsidies	38.5
Trainee replacement schemes	41.7
General employment subsidy	69.0
Targeted employment subsidy	84.0

Source: Calmfors et al., 2002

### **3.2. Knowledge from evaluation of active labour market policies**

Certain types of activities have in most analysis a greater impact than others. For example, placement in private companies seems to be an activity with a positive outcome, but good counselling and advice are also very important elements in any active labour market policy.

There is no evidence indicating that explicitly measurable objectives and targets must exist in order to ensure good intervention. One of the central reasons why this is the case might be that projects – especially for the more vulnerable – depend more on the persons involved as project managers and the staff employed in the projects than on the specific project itself. This also has to do with the circumstance that for persons who are at the very margin or far from the labour market increase in self-confidence and social capital is the most important aspect of the activity.

Obviously, not all types of activities is effective, cf. for example De Koning (2001), OECD (2006) and Kluge (2006) for an overview of numerous empirical analyses, mainly at the macro-level. However, several analyses do make it clear that **ALMP makes a difference in relation to the level of unemployment**. Performance varies among countries, but also regionally and between different areas in most countries. Geographical variations in the production structure and demand for labour with varying qualifications will also have an impact. The implementation of training programmes meeting the requirements of the labour market more precisely will therefore also have a greater success rate.

The effectiveness in both the short and long-term perspectives is often open for discussion due to the many variables included in the analysis. For example, when programmes are started, enthusiasm might prevail and make it a very good and effective programme, despite the lack of a fully optimised organisation. There might be a sense of team spirit that later fades and subsequently renders the activity less effective. This is an argument for that **frequent changes and enactment of new programmes are important**.

A general problem of active labour market policy is the assumption that the impact of a programme is the same for all participants and groups, i.e. the common effect. This need not to be the case, however, and predicting the differences is difficult from the outset (Smith, 2000). Consequently, the programmes working for one specific group in the labour market do not necessarily work for others, or might be less effective.

Another issue, which is difficult to take into consideration in the analysis, is that the timing of the labour market policy and the targeting is very important for the effectiveness of the policy (Filges, 2005). If the timing of the activity or intervention due to e.g. erroneous interpretation of the labour market development – either nationally or locally – is sub-optimal, then the outcome will be less favourable than otherwise.

The existing analysis of effectiveness is primarily considering the output, less the input, and the knowledge concerning full cost-effectiveness is therefore lacking. In the following examples from various countries of effectiveness are presented.

Deadweight might vary between different programmes and change over time. Finland is an example. In Table 7, the deadweight loss for two types of programmes and two different years is shown.

**Table 7. Deadweight loss for labour market training and subsidised employment in Finland in 1993 and 1998**

Year	Labour market training	Subsidised employment
1993	16	12
1998	26	29

Source: OECD, 2001A

The table shows two elements: one that differences exist between the various programmes, but also importantly, that the size is changing over time reflecting the labour market context (e.g. level of unemployment, growth in jobs etc.) the program is developed in. Detailed knowledge regarding the composition of participants, and not only the length of unemployment prior to participating in activation, is thus very important in order to gain detailed knowledge about what works and what does not.

The problem with data assessing efficiency is also shown in the Czech Republic’s National Action Plan for 2004, as a system and methodology for the regular assessment of the efficiency and effectiveness of active labour market policy programmes in the Czech Republic will first become available towards the end of 2005 (Czech Republic, 2004). An increase in long-term unemployment has taken place in the Czech Republic until 2002, which has weakened the unemployment-elasticity of wages, this being an indicator that active labour market policy – in addition to returning people to the labour market – also contributes to the overall macro-economic balance (Flek and Vecernik, 2005). The data issue is also prevalent in the Spanish case, as, “ALMPs covering the unemployed are not evaluated on a regular basis” (OECD, 2005c).

The Greek case suggests that there is potential for Greece to improve the efficiency of active labour market policies, as active labour market policies have recently been developed significantly in Greece – especially by providing job-search assistance, training programmes and direct employment subsidies (OECD, 2005b). However, the background for the efficiency gains is not entirely clear, as the information on the why, there has been effects of existing ALMP is not clear.

Recent developments in active labour market policy in many countries thus provide grounds for why finding data and good information about effectiveness is not easy. Even in countries with years of experience with active labour market policy, e.g. Sweden, where active labour market policy dates back to at least the 1950s, knowledge about what works and what does not is not always build on clear-cut information. Some of the main conclusions of empirical studies regarding the effects of ALMP in Sweden are although (Calmfors et al., 2002):

- a) hardly any evidence about the positive effects on matching efficiency
- b) some indication of positive effects on labour force participation
- c) subsidised employment causes displacement, but training does not
- d) unclear effects on wage pressure in the economy

Overall, it is argued that ALMPs of “the scale used in Sweden in the 1990s are not an efficient means of employment policy” (Calmfors et al. 2002). However, this might reflect that the context in the early 1990s where Sweden was undergoing a dramatic increase in the level of unemployment.

Some comparative analyses of ALMP exist. One is primarily based upon macro-data for 15 industrial countries (Estevão, 2004) showing an increase in employment in the business sector mainly through a reduction of the real wage due to the increase in labour supply by the ALMP. Another compares France and Sweden, concluding that there is no clear difference in the efficiency between the French and Swedish programmes. Active labour market policy is generally found to have a positive impact in both countries (Anxo et al., 2002).

Another comparative study reveals some scepticism regarding the effectiveness of activation policies when referring to a narrow measure of labour market integration. In the Netherlands, there are doubts concerning the net impact of activation, especially for those who are the “hardest to place”. “However, activation policies seem more easily justified when unemployment is already declining and when policies are put in a broader context” (Clasen and Oorschot, 2002).

An example from the transition economies can also be presented, where “most of the reviewed transition countries have adopted a package of active labour market policies similar to those in OECD countries” (Cazes, 2002). This includes all of the measures from job mediation and counselling to training etc., although it is also possible to find considerable variation in relation to the number of participants and spending levels in the transition economies. The analysis concludes that “the active labour market policy variable is statistically significant (at 10 percent level), which suggests that expansion of active labour market programmes may contribute to decrease the level of overall unemployment (with a coefficient of -0,02)” (Cazes, 2002).

Another example from transition economies demonstrated a connection between those able to find work and those entering ALMP programmes in the Slovak Republic (Ours, 2000). This is an indication of the cream-skimming effect, but could also be interpreted as further indication of that those with the shortest distance to the labour market are also the most eager to enter ALMP programmes. A signalling effect is in place in this case, as by entering activities such as publicly useful jobs, they demonstrate a willingness to enter the labour market, which also makes the unemployed person more attractive for prospective employers.

In a study of the aggregate impact in France, Germany, the Netherlands, Spain and Sweden based upon regional data, Koning and Mosley (2001) showed that “there is some empirical support for the claim that ALMP helps to reduce total unemployment and long-term unemployment.”

The data and method for the calculations are different; however, most of the data is from the early to mid-1990s.

The comparative analysis indicates that ALMP on macro-level has an impact and helps in reducing the overall level of unemployment, and, further that learning from programmes in other countries can be useful and possible due to the similarities in impact.

The following analysis will be structured and focus on the various types of active labour market policy, as described in the first chapter, as this renders it possible to distinguish between different types of policies and emphasise different target groups. As this structure follows the groupings of expenditure in EU and OECD no specific subsections is, for example, devoted to women or older workers. Within the specific subsections below reference to gender and age can although be found.

In the following, knowledge regarding the expected manner in which various interventions operate and the effectiveness of various types of ALMP based upon numerous studies from around Europe will be presented. Each section starts with an explanation of how an intervention in general is expected and known to work and this will therefore not be repeated when mentioning national evaluation of a programme of this type.

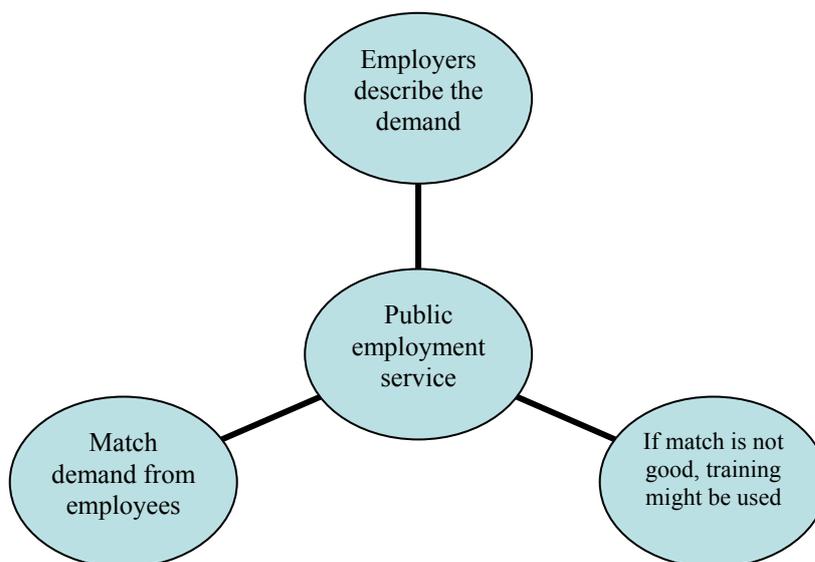
### **3.2.1. Public Employment Services**

Recent years have witnessed changes in public employment services (PES) in many EU countries; cf. the National Reform Programmes from the member states, aiming at improving the match between the demand from the employers and the supply of labour consisting of the employees. Another goal for PES has been to increase the early identification of job-seekers' opportunities in the labour market and to help those who are furthest away from the labour market to get closer to – or actually into – the labour market. In 2004, PES expenditures in the EU15 accounted for 0.22 percent of GDP – or approximately 1/3 of the total spending on ALMP. PES is often combined with other active measures, e.g. training and placement.

In most welfare states, public employment services are an important institutional element for bridging the gap between those without jobs and those searching for workers. PES can help screen the unemployed, enabling them to enter or re-enter the labour market more easily. At the same time, they can function like the exchange trying to help match demand and supply. Simultaneously, public employment service is often an important element in testing whether individuals are actively searching for a job while unemployed as well as an early measure for unemployed to get help to return to the labour market.

Improving the quality and efficiency of the unemployed individual's efforts to seek employment is often a central activity; occasionally also to help bridge the gap between the educational system and the labour market. This is described in figure 2.

**Figure 2. Public Employment Service as helping in the matching process**



**Public employment services will therefore typically have a massive impact for a relatively modest amount of money** and often be assessed positively (OECD, 2001). It is an instrument where experiments with the use of more private providers have been undertaken in an attempt at improving efficiency (Struyven and Steurs, 2003). This was based upon a process and debate about efficiency that already started in the 1990s (Fay, 1997). Intensive employment services and training might first have an impact after two years especially due to the way training works (OECD, 2005). Job-search assistance has in many countries a significant impact.

This is confirmed by several studies demonstrating the **positive effect of job search activities** (Martin, 2000) and in very diverse types of welfare states such as the UK (Dolton and O’Neill, 2002), Australia (Cowling and Mitchell, 2002) and Ireland (Corcoran, 2002). Kauppi (2004) points out that employment services can act as preventive measures and that modern technology has increased the use of them as self-service units.

From the UK is an example, albeit based on interviews conducted in 1989 (Dolton and O’Neill, 2002), that individual interviews of around 20 minutes per unemployed conducted after six months of unemployment reduced the level of unemployment five years later. The situation, compared to a control group where the interview first took place after one year, was around 15-20 percent better.

This example can be used as an argument for ensuring that the interviews with all unemployed persons are undertaken no later than six months into the period of unemployment – and presumably earlier – but not in the first months after becoming unemployed, as for many this is a transition between one job and another.

The data for the French Personalised Action Plan appeared in contrast to have had a modest impact (OECD, 2005). One reason why this is the case might be that the interviews for the adults were first taken after 12 months, thereby confirming that early intervention is important.

A reason for differences in impact can be that public employment services are dealing with different types of unemployed persons and therefore have to establish different types of job searches, i.e. job-clubs, individual counselling etc. in the various segments of the labour market. This implies that the effects might depend on the ability to combine the search activities with other types of enforcement, e.g. work testing in relation to the unemployment benefits system.

**Combining PES with other types of ALMP activities can have a positive impact.**

A specific example is the high emphasis on employment services and help in integrating unemployed persons into the labour market in the UK entry to employment program. An evaluation of the UK system based upon respondents' answers in a participant study found that participants:

- “received more support for their learning than previously
- were offered more choice and freedom than expected
- found staff more personal than in school or college
- were treated more like adults
- found the learning styles more accessible than at school or college
- appreciated the friendly learning environment
- had achieved much more than they had expected to” (GHK, 2004)

At the same time, no hard evidence concerning the impact was presented. Impact is perceived as the opinions of providers as to whether the provision has been more flexible and that the better tailoring of provisions has increased the value of the service. Overall, the evaluation pointed to the following elements as helping to ensure a higher and better quality of the strategy: greater choice, tailored provisions, enhanced learner support, flexibility and greater co-operation.

Another UK evaluation of PES (Department of Work and Pensions, 2003) argued that although statistical analysis has taken place, it represented a “complex piece of statistical modelling and there was limited time series data,” and therefore no clear picture could be found.

Nevertheless, the overall effects of the MES (Modernising Public Employment Services) in the UK are estimated to be an additional 11,000 job entries from 1999 to March 2002. 11,000 job entries are the equivalent of around 0.3 percent of all of the job entries in this period. This is referred to as a “marginal increase that is best interpreted as no negative effect on job entries from the implementation of MES.” (Department of Work and Pensions, 2003). Furthermore, the regional diversities imply that the impact has been better in some areas than in others.

Different impacts on different groups have also been observed, the best effect here being found for disabled people.

A new measure that has been proposed within the public employment service in Finland is a specific instrument to establish 40 labour force service centres for the “hard-to-employ” (Ministry of Finance, 2005). The idea has been to make more targeted initiatives towards this specific group and, to develop competences at the staff to help especially this group. This indicates an acceptance that public employment centres have different tasks depending on the unemployed person's distance from the labour market and also a need for specialised people working in the area.

In Greece, reforming and upgrading the public employment agencies has, via a focus on personalised intervention, resulted in a reduction in the registered number of unemployed persons since January 2004 with around 1/7 as well as increasing the number of beneficiaries of active measures (Ministry of Economy and Finance, 2005). However, there is a lack of clarity regarding the relationship between spending, the number of participants and after which period of unemployment the results are achieved and when they are measured; nevertheless, this stresses the importance of the public employment system.

**Job-search assistance, job clubs and individual counselling appears to help the most unemployed** persons, particularly women and single parents, and good results can be found in Sweden and the UK (Martin and Grubb, 2001). An explanation of why this is the case for the various groups is not clear.

When analysing the effectiveness of PES, the results do not only depend on the situation in the labour market or the effectiveness of the employment officers, but also on how many cases the PES must deal with. There will be a trade-off between contacts and intensity. A comparative study between the UK, the Netherlands, Australia and New Zealand revealed very significant variation between the countries, with an average of 138 cases. Some social workers dealt with up to 13 cases per day (Considine, 2001).

Knowledge regarding the counselling work in the employment offices is therefore also important, especially when wanting to combine effectiveness in placing the individual in the labour market and simultaneously reducing the overall level of spending. In Slovenia, it is thus argued, that part of the development of ALMP is to “improve the ratio between unemployed persons and a single counsellor (the optimum ratio is 150 unemployed persons per counsellor)” (Slovenia, Republic of 2005). This has also been the focus in an analysis in the Baltic countries, where “it is advisable to implement active programmes on a scale that does not exceed the capacity of local PES offices to assess particular cases and circumstances” (OECD, 2003). **A caseload of 100 benefit recipients is regarded as a good level.** Lithuania has a good record, with around 50 per staff member, implying that they managed to place approximately 8 percent of the labour force in jobs in 2001. Again, this indicates that effectiveness is a **trade-off between costs and effectiveness.** Furthermore, given the data from the various countries above, it is an important element one must be aware of when comparing the results between different countries.

Obviously, those who have been registered a short time spell with the PES will be easier to place in the labour market. The rate of effectiveness will therefore be higher for activities targeting these persons. This also indirectly suggests that if labour market placement is the only effect measured – the only goal – then cream-skimming can occur, i.e. activation will begin with those who are easiest to place.

Public employment services represent an important aspect in all countries in ALMP. By providing unemployed persons with advice, aiding their searching, often acting as gatekeeper for other activities, and combined with good forecasting this is an extremely important instrument in ALMP.

The vast majority of analyses and **evaluations of PES reveal positive effects.** However, the size hereof depends on the specific groups using the system and the business cycle and on the actual structure of the PES and national variations, including how PES is combined with other ALMP programmes.

### 3.2.2. Training

Training is an important element in ALMP in most EU countries. It accounted for 25 billion EURO in 2004 in the EU15 countries out of a total spending of 63.6 billion, i.e. nearly 41 percent of total expenditures. The training activities primarily target the unemployed, with 85 percent of the activities, but more than 25 percent of the employed are also a target group<sup>2</sup>. As the examples comes from many different countries in annex 3 an overview of cost of training in the EU-member states and stock of participants for the year 2004 is presented, together with an estimate of the average cost in 1000 EURO pr. participant. This is although only an indication of the average cost in each country, but can act as starting point for benchmarking the cost of training, and, thereby also the cost-effectiveness. As the data is for the year 2004, they are not directly comparable with the evaluations that have taken place.

Training is in principle for all unemployed without looking into age or existing qualifications. Many of the evaluations do not inform more specifically, on whether there has been a more specific target group. This despite that training is expected to be targeted towards the individuals need and the needs at the labour market. Still, training has also a more general aim of increasing of general knowledge so this might be a reason why.

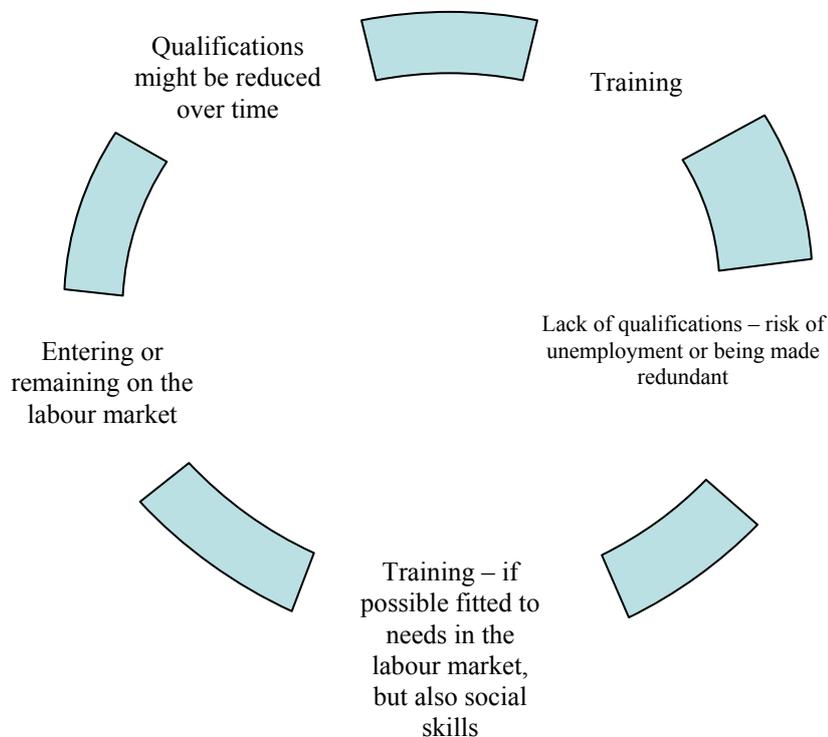
More than 40 percent of all training measures in the EU receive co-funding from the ESF. This implies that the **EU has an option to influence training efficiency**. The EU also has an option to demand evaluations, which can be used to make comparisons between countries and projects.

The logic behind training measures is the following chain of arguments cf. Figure 3. Low level of qualification implies a risk of unemployment. By training, the individual will continue to possess or acquire the competences necessary to gain employment. Training can also help overcome low qualification levels and mismatches in the labour market. In some cases, a brief training course (driver's licence, IT-competences) can grant access to jobs in the labour market; in other instances, longer and more elaborated education providing the individual with formal qualifications, e.g. vocational education and training, is necessary in order to be able to find work. Training has therefore often been connected with guidance and advice regarding which type of training to embark upon, and cf. Chapter 4, on attempts to depict and forecast where job openings will emerge. Stated alternatively, it is **important to train and educate in areas where employers require more labour now, and are expected to do in the future**.

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<sup>2</sup> As a measure can target more than one group, the total can be more than 100.

**Figure 3 The life-long training circle**



Life-long learning is further an important aspect of this type of ALMP, as the demand for qualifications are constantly shifting, for which reason training is also a preventive measure ensuring that persons can remain in the labour market. This is further a reason for that part of the training already are targeting employed persons. Training measures can thus represent an element ensuring the adaptability and employability of the workforce.

The impending demographic transition with an increasing number of senior citizens also poses a challenge as regards the labour market. The training of those already employed can be an important aspect in achieving the Lisbon goal of a higher participation rate for those over 50 years of age.

The evaluation of training programmes in the US often finds limited impact (OECD, 2005). Part of the explanation might be the heterogeneity of the individual participants. The length of time required by training programmes might also lead to lock-in problems, i.e. persons in training programmes seek work less actively than would otherwise be the case until the course of education or training has been completed. This is a logical position for the individual, as more training and education will improve their chances in the labour market, not only in the short-term, but also in the longer run if the training ultimately provides improved formal qualifications.

Training vouchers can be a means of delivering active labour market policy that simultaneously increases users' involvement through empowerment. This has been used in various ways as a means of rendering, for example, the public employment services more efficient (cf. Fay, 1997). The principle and idea being that the user can choose between different providers, and, thereby the options should be more in line with the individuals need, and, at the same time, competition on the provider side should make delivery more efficient.

Vouchers might be an option in relation to training under the condition that numerous providers exist and that choice therefore can be an option for the individual.

The organisation of the training and the implementation has a possible impact. The implementation of training through a voucher system, i.e. the individual being given a voucher from which the individual can then “buy” training from one of several providers, has not proven to be efficient in Germany (Bruttel, 2005). The main reason for the lack of success has been the lack of providers; information asymmetries have also played a role. Nevertheless, the possibility of putting the user (here, the unemployed) in a stronger position can, under the right conditions, represent a step forward (Greve, 2002, Greve, 2003A).

The experience is a clear indication that countries should also **learn from what is not working in other countries**; instead of only learning from good experiences in ones own country, also learning from what is not working will offer a useful tool in the development of a strong and effective European Labour Market policy.

The vouchers was used and dealt with in Germany, for example, so that part of the payment (1000 EURO) to the provider was first paid when the jobseeker has held the job for at least six weeks. The final payment (also 1000 EURO) was made six months after the individual has being in the job. The activities was done through new personal services agencies and in May 2004 838 PSA with 35000 places was established (Bruttel, 2005).

The German voucher training programmes have aimed for at least 70 percent of the participants not to be registered as unemployed six months after the completion of the activities. One problem with this is that they might not be in work, but simply be outside of the register due to illness, retirement or incapacity (Bruttel, 2005). A risk for providers with these types of incentives is that the ability to find a job in most European countries varies geographically, meaning that a flat rate payment as in the German system for the entire country will not reflect the difficulties in placing persons in the labour market in the different areas. In Germany the success rate varied thus for example between 75 % in one Bavarian district to 36 in the North East Germany.

Training can have a very diverse impact depending on the group receiving the training; however, it is **important that it is focussed on the needs of the labour market** and that it is kept relatively small (Martin, 2000). In the following results from evaluation of training programmes in various EU-countries is presented, and, if no further details is described this reflect that they have the overall principal aim as described at the beginning of the section.

Evaluations that have been carried out in Spain indicate an increase in the long-term employability of the unemployed who have followed training programmes. Furthermore, it appears as though targeted training courses could be effective. At the same time, however, the spending per unemployed person in Spain is low and the number of participants indicates that training is provided in small quantities to many unemployed workers (OECD, 2005c). Duration of the training can have an impact. Similarly, the closer the training is able to relate to the needs in the labour market, the more and greater the impact it will have.

In Estonia, the effects for those participating in training have been good, as 42.4 percent of the persons have gained employment (Estonia, 2005). It is not clear for how long or whether specific areas have been chosen. Nevertheless, there is a relatively high success rate, indicating a highly efficient training, and the effects are even expected to increase to 65 percent in 2008 (Estonia, 2005).

A Polish analysis is less favourable for the impact of training, also over the long run, arguing that it has no “long-run influence on the outflows from unemployment into employment” (Puhani, 2003). The data indicates that the differences in labour market position after participating in training is only limited.

Positive effects of training are found in Denmark. The targeted improvement of the qualifications of unemployed persons in relation to areas with a lack of labour has a high impact. The effect of training is especially great when targeted towards geographical areas or specific production sectors lacking workers. In Denmark, for example, prognoses indicate a lack of social care workers in the field of social and health care policy in the future (Velfærdskommission, 2005), and training persons to work in these areas should therefore be having a positive outcome.

A positive effect of training is also found in Slovakia where it was connected with the guarantee of a job upon the completion of the training. However, the analysis has not included displacement and deadweight loss, and the data is from the period 1993-1998 (Ours, 2000).

In Greece from 2000-2006, estimation has been made that 130,000 unemployed and 95,000 employed individuals have been or will be trained – although no estimate of the effectiveness in relation to labour market participation is available (Ministry of Economy and Finance, 2005).

Data from the eastern part of Germany revealed some positive earning effect for on-the-job training (OJT) and a number of positive employment effects for those programmes (Eichler and Lechner, 2000). At the same time, questions are raised as to whether public training programmes are efficient. In the early 1990s in East Germany, roughly one-quarter of all employed persons participated in some kind of on-the-job training in the course of each year. Here, the decreasing total demand for labour apparently also had an impact on the effectiveness of programmes.

The data does not reveal any significant impact of on-the-job training, not even when considering the longer duration of time up to 30 months. The curve shown within this period of time indicates that 19 months after training, the effect is negative, but then turns positive again (Eichler and Lechner, 2000). The same is the case for continuous training and retraining.

Another evaluation has focussed on vocational training based on regional data from 175 German labour offices from 1999-2001. This is an interesting study, as it points out the geographical dimension. The report indicates the positive impact of vocational training in West Germany, whereas the results in East Germany are less favourable. Comparison with a job creation scheme shows that training is the most effective (Hujer, R. et al., 2004).

Table 8 presents an overview of several evaluations of ALMP programmes in Germany, mainly training, and many within the territory of former East Germany. The table shows that the results are very mixed; what works in one region does not necessarily work in another region. Moreover, what works for men does not necessarily work for women, although as in other studies, the cause-and-effect relationships are not always clear. **Continuous vocational training generally seems to have a positive impact on the level of unemployment.**

The effect of training in Sweden is shown to have had positive effects in the 1980s, whereas the effects were either insignificant or significantly negative in the 1990s (Calmfors et al., 2002). This is a clear indication that the economic situation has an impact, but also that the impact of the so-called locking-in effect may vary over time. Furthermore, the volume of the respective programmes in Sweden in the early 1990s was very large, whereas other analyses point out that small-scale programmes tend to be more effective.

Finally, the analysis showed that in the 1980s, training works in the longer run and the evaluation of the outcome after a few years makes the evaluation more positive.

In Slovenia, the effects of training appear to be positive. While based upon data for education and training programmes in 1996, the analysis further showed that most of those who actually found employment succeeded in the first three to six months after the completion of the training programme.

The success rate, defined as the percentage of people who gained at least six months of work experience, was highest for on-the-job training (88%) and lowest for training for lower vocational qualifications (42%) (Ignjatović, M., Kopač, A., Svetlik, I. and Trbanc, M., 2002).

**Table 8. Overview of evaluation of labour market programmes in Germany - mainly training.**

Büttner and Prey (1998)	Training and job creation in former West Germany	Training programmes no effect, job creation positive on matching efficiency
Prey (1999)	Job creation and vocational training	Negative for female training, Positive for male job creation
Pannenberg and Schwarze (1998)	Training in former East Germany	Negative effects on regional wages
Steiner et al. (1998)	Training in former East Germany	Short-run small positive, long run no impact
Schmid et al. 2000	Job creation and training	Job creation reduces short long-term unemployment (6-24 months), vocational training reduced when > 24 months
Hagen and Steiner (2000)	Vocational training, job creation, structural adjustment schemes	Net-effects increase unemployment in West and only the structural adjustment schemes reduce in East
Blien et al. (2003)	ALMP	Positive in East Germany

Results from Denmark from 1995-2000 confirm the long-term positive perspective, as well as showing that private training has positive effects for employment and earnings, whereas public job training and classroom training only end up with positive effects when a sufficiently long time horizon is allowed for (Jespersen and Munch, 2004).

At the same time, the unemployed persons followed from 1998-2000 have less positive experience than those from 1995-1998. One of the sources of explanation for this is that those who were unemployed in 1998 had failed to gain employment in the prosperous period 1995-1998, giving reason to believe that they might have characteristics rendering them less employable.

The analysis is undertaken using register-based data. On the job training was expected by giving the individual direct job-competences to have a higher impact. The Danish data further showed that private job training becomes 10 percent more positive after one year and three months than for those who did not participate in private job-training. As regards public job training, on the other hand, a positive impact can first be observed after five years.

The net surplus of using private job training was around €37,000 for the 1995-2000 period – especially due to higher earnings for the involved, whereas the surplus for public job training is €500 and classroom training €3000. Some difference between the various aspects was at place. The private on the job training lasted between 22 and 39 weeks, whereas on the average the public on the job training took longer time. Classroom training typically lasted 28 weeks. Classroom training was the activity most participated in. For the individual participant training on the job was implying a wage income whereas in the classroom it was on unemployment benefits. The net values for participants are shown in Table 9.

**Table 9. Net economic value of training in Denmark, 2002 prices, 1000 DKK**

Year	Private on the Job training	Public on the Job Training	Classroom-training
1995-sample 1995-2000	277.5	70.5	21.4
1995-sample 1995-1997	144.2	35.1	-51.0
1998-sample 1998-2000	93.5	-75.4	-144.4

Source: Jespersen and Munch, 2004

Note: It is the sum of the annual values for the respective years using a discount factor at 6 percent, a deadweight loss of taxation equal to 20 percent of the public expenditures, and deduction of the direct costs of the programmes.

The table confirms that **private job training is the most effective**. At the same time, however, it indicates that the time for participating in the activities can have a huge impact on the evaluation, thus also helping to explain the conflicting ALMP evaluation results.

**Training measures generally appear to be effective, especially when targeting the training towards specific groups and specific expanding areas.** Effects further appear to be different across geographical areas and to depend on the business cycle and the overall level of unemployment. At the same time, **training can be understood as an investment in the future, as increased training levels and life-long learning are highly important** and training often first have an overall positive outcome after some time.

### 3.2.3. Employment incentives

Employment incentives consist of economic support to the employers, typically through wage-subsidies or exemptions from paying employees' social security contributions. The aim of this type of ALMP is to bridge the gap from unemployment to employment, i.e. enabling those outside of the labour market to move into the labour market. The basic assumption is that, for various reasons, those who are unemployed are less effective than those in the labour market. An economic incentive reducing costs for a short period should therefore make it attractive for the employers to employ the person and help to increase the individual's qualifications. This is a means of getting the individual closer to the labour market, as indicated in Figure 1 in Chapter 2.

For the EU15 member states, this measure accounted for 0.12 % of GDP, and thereby app. 18 percent of the total costs, though with variations between the member states: from just over 50 percent in Italy to less than 2 percent in the UK.

Employment incentives, especially when in relation to jobs in the private sector, are generally evaluated positively, as several of the participants seem to continue, i.e. they get a job if there are job-openings available in the company. One reason for this is that employers are then familiar with the individual, which can reduce search costs in the event of any subsequent need for a new employee. This type of ALMP is one of those types of programmes often having both deadweight and substitution effects (Martin, 2000). This also means that these types of economic incentives cannot be used from the very first days of unemployment, but only after a certain period of time, typically six months, as they otherwise open up for misuse and unfair competition.

Activation in jobs in private companies was the most effective instrument for uninsured unemployed persons in Denmark in the 1990s. In this instance, the activation consisted of economic support to the companies, and the unemployed persons were, on average, in job training in the private companies for around 4-5 months at a time. The variation in the length of time is because those participating in such activation must withdraw from the activation arrangement if the public employment service can provide them with an ordinary job without public economic support. The economic support was around 1/3 of the labour costs for the average production worker. Nevertheless, the data, although based upon participation in the years 1995 and 1998, indicates that a high success rate in relation to being able to gain employment can be achieved by having a period of time of around four to five months working in a subsidised position in a private company (Christensen, 2002).

This example can be transferred to other European countries, showing that **establishing job training in the private sector for 3-6 months for those who have been unemployed for more than six months can be an investment that pays back positively.**

The working family tax credit in the UK works via individual economic incentives. There is limited evidence that those who ought to gain from it were better able to gain employment than they would have otherwise been due to the economic recovery (Wright et al., 2004).

A combination of advice from PES with subsidised employment can presumably be transferred to many countries in Europe, meaning that this will help many unemployed persons to find work.

In France, over 60 percent of all young people who have completed a "contrat de qualification" were employed two years later. Those subsidised contracts, which were closest to the ordinary types of job, had the highest success rate based upon an evaluation using quasi-experiments (European Commission, 2002).

The impact of employment subsidies does not necessarily mean the same in all countries. Empirical evidence for Greece, for example, appears to show that employment subsidy programmes are better fitted to larger companies – no clear indication is given why, but this signals a clear need when planning the different programmes to ensure reaching the right target group (OECD, 2005c).

In Austria (Federal Ministry of Economics and Labour, 2005), job rotation and job sharing have demonstrated very high effectiveness, with nearly eight out of ten participants in work after six months (77.7%), whereas employment incentives have generally had a positive impact, with nearly two out of three gaining employment (63.9%). In both cases, around one out of ten were either withdrawn or pursuing further training/education.

Data from the Slovak Republic (1993-1998) shows that short-term subsidised jobs appear to be the most efficient, as they have a higher job-finding rate than other unemployed workers do. Furthermore, once they have first found a job, the degree of job-separation is low as compared to other unemployed persons. On the other hand, long-term subsidised jobs had a negative effect on the job-finding rate (Ours, 2000).

The use of employment subsidies has also shown positive effects in Denmark. Employment subsidies in both the private and public sectors are demonstrating positive employment effects, particularly in the private sector. The overall best result is achieved in relation to the 30-39 age group for those receiving unemployment benefits, whereas for those on social assistance, it is those below the age of 30 having the best result – indicating that this is a group with relatively many resources and therefore easier to get into the labour market (Beskæftigelsesministeriet, 2005).

There is a risk with employment subsidies that those already known to the employer are the ones to use it, but there is also the risk that those eligible for such intervention will not make use of it. Even if it is difficult to measure take-up rates, it is striking that some of the limited data available indicates that in relation to activation, there is also a risk that some of those eligible for a benefit do not receive it. In the UK, the job-seeker allowance is in principle an attempt to encourage the pathway back to the labour market, but in 2000-2001, however, it was estimated that the take-up rate was between 67 and 78 (Hernanz et al., 2004).

Subsidised employment appears also to have an effect on the long-term unemployed and women re-entrants. When specifically examining assistance to start new enterprises, this has an impact on men below the age of 40, whereas some assessments indicate that direct job creation does not provide any long-term benefits and is actually even a disadvantage for most adult and young unemployed persons (Martin and Grubb, 2001). The reason for the good effects for the long-term unemployed can be that they particularly gain from being in direct contact with the labour market; they gain work experience and increased self-confidence, which is important for employers. Conversely, the negative effect of job creation might relate to the fact that some of the jobs (especially in the public sector) are outside of the ordinary labour market.

At the same time, evaluations in Austria, Belgium, Ireland and the Netherlands have indicated that, in combination, deadweight and substitution effects amount to 90 percent, indicating that only a net-effect of 10 percent can be achieved by subsidised employment (Martin and Grubb, 2001) thereby reducing the cost-effectiveness. Displacement represents an important element related to the effectiveness of the use of subsidised employment.

A report published in late 2005 by the Danish Arbejdsmarkedsstyrelsen (Arbejdsmarkedsstyrelsen, 2005) indicated the level of displacement by subsidised employment in both the public and private sectors in Denmark, thereby casting light on the level of displacement of an important part of the active Danish labour market policy. The analysis further showed that the best possibility for finding a job via subsidised employment is in the private sector, which is even the case for older workers between 50-54 years of age, where 54 percent were in work at the time of the analysis. In total, the displacement was 7 percent points, which are equal to 2500 out of the 36,000 jobs with subsidised employment in 2004. In the private sector, the displacement rate was 14 percent, indicating a trade-off between efficiency in relation to the ability to find jobs that are more permanent and the displacement effect. The effectiveness was generally so that around half still have a job four to eight months subsequent to the period of activation. Interestingly, approximately 1/3 of these persons are employed in the company they have worked in during the activation, but a full 20 percent have found employment in another company.

Even for those who do not have a job, the analysis (Arbejdsmarkedsstyrelsen, 2005) showed that three out of four were able to improve their qualifications through working in a subsidised job.

Vouchers can be used as a wage subsidy, i.e. not only for training purposes, as described earlier, but this has been deemed ineffective (Fay, 1997). The system works so that the individual eligible for a voucher hands it over to the employer who then can demand money. In fact, it can even be a disadvantage for the unemployed person being the one coming with a voucher, as this possibly signals fewer or inferior qualifications than other job applicants (Greve, 2002).

The various employment subsidy programmes produce mixed results concerning cost-effectiveness; in several cases, a very high level of displacement appears present. These types of programmes carry with them a greater risk of a substitution between supply and demand of regular jobs and a stigmatising effect. There is although a potential positive impact, especially for those receiving **a subsidised job in the private sector, where the long-term employment impact is also relatively high.**

#### **3.2.4. Integration of the disabled**

The rationale behind these types of instruments is that in at least some cases, disabled persons will not be able to find work easily under normal conditions. Various types of intervention will thus be a means of ensuring that the disabled, also in this manner, can be integrated in the labour market and society in general. In the EU15, 0.12 % of GDP or approximate 16 percent of ALMP are spent on these measures, though with great variation from around half of the expenditures in the Netherlands and 43 percent in Sweden to 6 percent in Ireland and 1 percent in Italy. This massive variation can indicate differences in policy approach, but can also be due to accounting conventions, as some measures overlap between the various groups.

This type of measure focuses directly on a group of persons often at great distances from the core of the labour market. For some persons, the problem relates to the need for physical remedies capable of reducing the barriers, e.g. to enter a building, whereas for others the ability necessary to work is not sufficient to participate in the ordinary labour market. This is confirmed in Sweden, where, as part of the Lisbon Strategy, the government argued in a plan from October 2005 that access to communication and buildings for men and women with physical disabilities is an important element of participation in society and working life (Regeringen, 2005). This shows that for some, even if the willingness is present, other aspects might be a hindrance for entering the workforce.

An EU report (European Commission, 2004) based on national respondents has dealt with active measures for the disabled. The report should therefore clearly have been able to find, if available, the necessary statistics and analysis of the effects of active labour market policy for the disabled. To the contrary, it is underlined “that it is often difficult to obtain adequate statistical information on implemented ALMPs.” (European Commission, 2004). Moreover, the different approaches render comparison almost impossible, as they vary in the way stock and flow data are used.

Evidence-based conclusions regarding employment effects for the disabled are therefore mostly lacking due to poor programme-participation statistics, a lack of monitoring and follow-up studies. This can further be due to the fact that for at least some of the disabled, the road back to the labour market will be even more difficult than for others.

The spending on various programmes might naturally indicate local preferences and ideas. For example, the greatest percentage of GDP spent on sheltered employment can be found in France, followed by the Netherlands, Belgium, Denmark and Sweden. Data concerning the costs per activity are also very diverse, ranging greatly between the different projects in the respective countries. In relation to vocational rehabilitation for the disabled, for example, the data indicates (European Commission, 2004) great differences: from €15,400 in Denmark, €7000 in Italy to 2700 € in Finland and €1000 in UK.

It is difficult to shed light on the overall impact of ALMP for people with disabilities, and few countries actually have such data. If data does exist, it predominantly consists of the number of participants and expenditures, but to a lesser degree of the needs of the clients and the underlying factors related to the activities. An example from Austria indicates this problem: people participating in training are not included in the unemployment figures, which possibly leads to double-counting. Insight regarding employment effects is often missing. Moreover, even when e.g. information about long-term unemployed persons is available, they might not draw distinctions and provide specific information for the disabled.

Evidence from Belgium, the Netherlands and Spain indicate that sheltered workshops show very small effects understood in terms of a transformation to the open labour market. The start up programmes in Greece also had modest effects. Furthermore, it is shown that the overall effectiveness of vocational training programmes in the EU member states (EU15) for persons with disabilities is limited (EU Commission, 2004).

Danish analyses indicate that, at the overall level, it is a difficult “task to answer whether the Danish Active Labour market policy towards more work for disabled facilitates their integration into the labour market” (Høgelund and Pedersen, 2002). Measurement that can be used here is e.g. vocational rehabilitation, but it should also consider other factors.

At the same time impact from measures not referred to as ALMP can be found. In Denmark, there has been an increase in **flex-jobs, which has been deemed as having a positive impact on reintegration into the labour market**. Flex-jobs aim at making jobs for those who have a permanent lack in the working-ability. All other types of activation should have been tried before the local municipality can offer a flex-job. A private employer will be reimbursed between ½ and 2/3 of the wage costs. Flex-jobs are although also deemed stigmatising, as they are “situated in-between the ordinary labour market and the social system” (Høgelund and Pedersen, 2002). The effects of flex-jobs can be both quantitative and qualitative. 41 percent perform tasks that would not otherwise have been carried out, whereas 48 percent report that employees in wage-subsidised jobs do things which at least to a certain extent might have been done anyhow, indicating that “wage-subsidised jobs replace ordinary jobs to some extent” (Høgelund and Pedersen).

It is cost-effective in the sense that those persons having a flex-job would presumably otherwise have to rely fully upon social benefit, or pension, and instead are contributing to the production.

A further element in relation to disabled persons is the existence of quota-obligations in some countries (Germany and Slovenia), which is another route to integrating disabled persons in the labour market where the cost cannot be registered directly, as costs are borne by the companies because of legal obligations. Quota-obligations aim is that companies by legal obligation should employ a certain number of persons with certain characteristics, which would otherwise not be employed at the labour market. This is an example of a programme type that will be accounted for as an act of regulation of companies instead of a being public sector expenditure. In this sense, it is a cheap programme that is not difficult to finance; nevertheless, it incurs costs for the employers, making the calculation of the pros and cons more difficult.<sup>5</sup>

The conclusion is that **firm evidence and clear information about the impact of programmes for disabled persons are unavailable**. At the same time, the various available information and reports indicate that even if no clear information regarding the labour market impact exist many positive side effects for the individuals participating can be witnessed. Flex-jobs are having a positive impact.

### **3.2.5. Direct job creation and start-up incentives**

Direct job-creation and start-up incentives are aimed at creating new jobs or to encourage individuals to become self-employed. This is often done by creating community and similar non-market jobs. Start-up incentives are economic support for the individual to become an entrepreneur. The general idea with this type of intervention being that an individual can become entrepreneurial more easily, i.e. receive economic support or advice in relation to starting up a private company. Direct job creation and start-up incentives are expected to work through an increase in the demand for labour, which will subsequently reduce the level of unemployment. Whether this creates jobs in already-existing workplaces or opens for new companies is less important in relation to ALMP.

In the EU15 costs 0.1 % of GDP a little less than 1/6 of all ALMP. Direct job-creation is important in Belgium and France, whereas it counts for less than 5 percent of costs in Italy, UK and Denmark, and is not used at all in Greece.

Direct job creation and start-up incentives are elements that more directly pay for the establishment of jobs or new self-employed activities.

Direct job creation in the public sector does not generally appear to have any significant long-term effects, which to a great degree is coupled with the fact that in many countries, the public sector economy is very tight. Those placed in these types of jobs will therefore only be offered continuation in the event that a vacant position becomes available.

In this manner, evaluation can be very difficult. On the one hand, some will get a job, which might be the path to a permanent position in the labour market; however, at the same time this will reduce others possibilities for using job-openings in the labour market. The displacement effects of these types of activities might therefore be quite considerable.

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<sup>5</sup> It is outside the scope of this report to discuss pro et con quota-obligation as an instrument in labour market policy.

A summary of the existing Swedish data indicates that those **job creation programmes resembling a regular job produce the best outcome**.

To conclude therefore this type of activities generally receive less positive evaluations than other types of ALMP.

### **3.2.6. Special programmes for the young**

As indicated by the title, these types of programmes target young persons based upon the notion that for the young, finding their first job might be difficult due to their lack of work experience and the idea that if young persons are unemployed, it might have long-term consequences for their inclusion in the labour market. The high level of youth unemployment in the late 1970s and early 1980s made it very difficult, also later, for these young persons in becoming part of the core of the labour market. This indicates that **getting young persons into the labour market can be a valuable long-term investment in social cohesion** and an expanded workforce and labour market participation. Focus on unemployment among young people is therefore important.

Youth unemployment has been high in many EU countries and thus been an area of both great interest in attempts to get young people back into the labour market or to bridge the gap between the educational system and entrance into the labour market. Moreover, there has been a clear aim to prevent further incidences of unemployment.

Special youth measures target the young, mainly those below the age of 25, but this does not necessarily mean disadvantaged youth (Martin and Grubb, 2001).

Data from Sweden shows that there were positive effects in the 1980s, especially in the long run, whereas a study from the 1990s found a negative impact on employment (Calmfors et al., 2002)

Bridging the gap between the educational system and the labour market is clearly an important aspect in order to ensure that young persons enter the labour market after having completed their education. This is a type of activity on the borderline between the educational and labour market systems, but it can offer an important remedy in reducing unemployment in the future.

Mentor programmes and follow-up activities when young people leave the educational system can be an important aspect in ensuring integration in the labour market and early warning in case a youth encounters difficulties entering the labour market.

The focus on youth unemployment can also be seen in the European Employment Strategy, where young persons below the age of 25 should be activated before having been unemployed for six months. This focus is relevant, and while short-term data is unconvincing regarding the effects of specific interventions, it remains an important investment in the long-term perspective in order to avoid longer periods of time outside of the labour market.

Based upon evaluations of measures for disadvantaged youth, the following elements ought to be taken into account in order to achieve an effective intervention: Ensure links to the local labour market and reach an appropriate mix of skills. Furthermore, pathways to pursue further education are important, and, finally tailored and supporting services.

### 3.3. Anticipating the needs of the labour market

Matching unemployed persons with the jobs available or ensuring that he/she has the proper qualifications to take up vacancies and avoid bottlenecks in the various segments of the labour market are important elements in ALMP.

**Active labour market policy, which is focussed in such a manner that it meets the demands in the various parts of the labour market, will both have the optimal impact and be most efficient.** However, it is difficult to forecast the needs of the labour market – or, to be more precise, the various *parts* of the labour market.

It can be recommended to analyse structural changes and tendencies at different local labour market. Using company panels and the labour market partners could be important.

An approach in the forecasting of needs combining quantitative data with a more qualitative approach can therefore be important if projects and new initiatives are to be able to cope with groups at risk of becoming unemployed in the future and to find the right type of activation for those who have already become unemployed.

The knowledge that forecasting is important has been used in Finland, as one example, to demand that the public labour exchange, besides trying to continue to have a market share of 63 percent, also as part of their work should make better use of forecasts on the need for labour and education (Ministry of Finance, 2005).

Upon having forecasted the needs of the labour market, another **important element is to profile the unemployed person**, as this will help produce the best match, thereby also enabling the depiction of what kind of education is needed.

Here it is important to be aware that a high caseload might imply a risk that the individual profiling necessary to find the best match and path into the labour market are changed to a standard classification of the unemployed (Considine, 2001). A standard classification can be a first step, but an individual-targeted approach is necessary.

Use of this type of activities as part of ALMP will be further discussed in Chapter 4, as this also can and should be related to financing the costs of running ALMP and starting up new initiatives.

### 3.4. Conclusions

The overall conclusion appears to be that **training targeted towards specific segments is effective**. **Employment subsidies** in the **private sector** have also **great effectiveness**, although they are not necessarily very cost-effective. **PES is an important and relatively cheap element in ALMP**, which can work as both a gatekeeper and an actor matching the various needs of the labour market. **Early intervention** for the newly unemployed, though not in the first one to two months, **is very important**. These conclusions are also in line with other analysis indicating that support to job search, which can be done at low cost, do well. Direct public job creation in the public sector is less effective (Kluve, 2006)

It is also clear that effectiveness varies from programme to programme, country to country and sector to sector. This also implies that “the details of the programme design are the key” (OECD, 2006) to ensure effectiveness.

Analysis of the existing evaluation of the impact of ALMP clearly shows a **need for control** of the **timing of the programme**, its **implementation** and the macroeconomic environment in which it is to be conducted.

While evaluation of the effectiveness of programmes is generally positive, several studies of specific programmes are inconclusive and some even negative. For example, this is shown in an overview of the evaluation of ALMP programmes, where it is stated that, “In the data set, 28 of the 53 evaluations report a positive treatment effect” (Kluve and Schmidt, 2002). Most of the programmes that were analysed were training programmes. This is a clear indication of the diverse effects and impacts of different types of intervention. Nevertheless, data in general indicate that training measures and job-search assistance are more likely than subsidy-type schemes to have a positive impact on programme participants.

Overall, the following conclusions and recommendations are applicable here:

- A) use in-depth counselling, job-finding incentives and job-search assistance
- B) keep public training programmes well targeted
- C) early intervention is important
- D) employment subsidies have the greatest impact in the private sector

Although several of the analyses do not demonstrate particularly great positive net effects, one argument for activation is that, even if only small effects are measured over the medium term, it is plausible to suggest that aggregate employment does adjust to changes in effective labour supply, thereby making them more effective in the long run. Activation might also be a positive element for the individual, who might not otherwise be able to have access to a job or training.

## Chapter 4. Covering the start up costs of active labour market policy.

### 4.1. Introduction

In several countries, the development of ALMP first took place during the 1990s and in the beginning of this century, implying a greater need to find ways of re-balancing the spending between passive and active measures. One of the reasons for analysing ways to finance the start of activation is that active labour market policy remains in the very early stages in many countries.

This chapter therefore delves into how to finance ALMP when starting up or expanding initiatives with regard to active labour market policy. It will further draw on the effectiveness and sustainability arguments as a core reason for financing activities, although for some measures it might first help in the long-run to reduce the number of persons dependent upon the welfare state.

The connection between public and private spending in the area of labour market policy is important, as, for example, the costs of life-long learning do not necessarily have to be borne by the public sector alone. Private investment in education in the EU today amounts to 0.6 percent, as compared to 2.2 percent in the US (European Commission, 2005A). The link between public and private spending and ALMP is also a question of the costs for the employers, as stated in the following quote: “The need for more funding for active employment policy programmes cannot be resolved by another rise in the payment obligations of employers, which would impair their competitiveness” (Czech Republic, 2004). This is an indication of the problem of acquiring sufficient funding in relation to the development and increase in active labour market policy. At the same time, several EU member states are gradually increasing their spending on active labour market policy, indicating that a gradual increase might be a way forward.

The distinction between public sector spending and public sector investment is debatable, i.e. when can it be documented that the intervention can be characterised as an investment that will yield a return in the future, and when is it primarily a direct expenditure? Viewpoints on welfare spending as an investment or expenditure represent a classical discussion concerning the welfare state’s development and the role of the welfare state, also in relation to labour market policy.

In many ways, this further resembles the debate over when preventive measures can be understood and regarded as part of a long-term strategy. This is due to the fact, that the costs of the preventive measures are incurred in advance of the savings resulting from the expenditure. Reduction in public sector spending can take time for those who are farthest away from the labour market. Cost-benefit analysis might offer a useful tool in this type of analysis. At the same time, however, this kind of analysis is very difficult on the grounds that the data pertaining to outcomes is not always precise or very specific, cf. Chapter 3, combined with that estimating the individual’s benefits are difficult. Among other things, it is very difficult to answer the question: *What would have happened without the intervention?* As the analysis of the effectiveness of ALMP has also shown, the data is not necessarily particularly precise concerning the contents, costs and effects of a specific ALMP and the precise reason why it works.

As stated in the evaluation of the first five years of the European Employment Strategy, it is a problem that while we have certain information regarding the impact on beneficiaries, “limited evidence is given on the cost-effectiveness of these measures, and even less on their macro economic costs” (Employment and European Social Fund, 2002).

Still, sustainability of the activities, cf. Chapter 2, and the changes for the individual involved will have an impact on the overall level of unemployment. Information about cost-effectiveness, cf. Chapter 3, is important also in order to define and determine the costs of starting up ALMP. The chapter is structured so that first a discussion of what is and should be included when calculating the effects in order to set the scene in Section 4.3. for presenting elements, which can cover start-up cost. In Section 4.4. conclusions are presented.

#### **4.2. What is included when calculating the effects?**

The typical measurement of active labour market policy, which has also been central in this report, is the outcome in relation to remaining in the labour market and thus being able to manage without requiring public sector support. This can be measured after certain specific times, e.g. six months and 1½ years.

This manner of performing the calculations does not include possible positive cycles created for the individual person or the impact in a local neighbourhood when making activation. A brief period of time in the labour market might thus have a more positive impact on the local areas in terms of creating good cycles, e.g. by establishing role models that can subsequently assist others to find work and the like. If this is the case, then even relatively expensive activities – when also measuring indirect effects – might become worthwhile.

There will be a need for evaluating activities in a manner that makes clear attempt to integrate the direct and indirect effects of activation. This again emphasises the need to supplement quantitative analysis with qualitative case-studies, as the latter might be able to cast light on the important secondary effects of active labour market policy and why it has worked in the individual case.

Furthermore, as described in Chapter 2, the issue cf. Figure 1 on the distance from the labour market ought to be borne in mind. Thus, even programmes with a slight degree of effectiveness, measured in terms of the number without public support, might be very important in the long-run, as they make it possible for the individual to move upwards on the educational or occupational ladder and eventually make a more permanent entrance to the labour market. Only considering programmes with a very high success rate in the short run of placing persons in jobs might therefore be misleading in the long-term perspective. If used as the criteria for success, this also implies a risk of cream-skimming in organisations or projects dealing with unemployed persons. If placement at the labour market is the only success criterion, project responsible will presumably – perhaps even unconsciously – search for and attempt to attract those with the greatest prospects for entering the labour market.

ALMP, which ensures a high level of integration in the labour market, will presumably also improve and increase the likelihood at the macro-economic level that the pressure for early retirement from the labour market is reduced. This will therefore also reduce the pressure on public sector expenditures on early retirement, and disability benefits might be reduced together with other social costs of unemployment.

These macro-elements are rarely included in the measurement of ALMP, but should be part of the long-term impact on these types of policies. ALMP can also help in addressing another type of problem in the European labour market: the need and aspiration to ensure a higher participation rate amongst the older members of the workforce in the future.

Another element at the macro-level is the impact on the overall level of employment (and not unemployment for the individual participating in the activities).

By using panel data for ALMP in 15 industrial countries, this is shown to have increased employment rates in the business sector in the 1990s. Part of the reason being that ALMP through the higher employment rate have reduced the rate of real wages below the level they would otherwise have been at (Estevão, 2004).

ALMP can have an effect on the overall employment level through the following channels:

- 1) **Efficient matching** – cf. Chapter 3 on PES
- 2) **Increased labour force productivity** cf. Chapter 3 on training
- 3) Keep unemployed labour attached to the labour market, cf. Chapter 3 on employment subsidies

Nevertheless, the employment effect must be analysed given the total costs of each different type of activity.

The focus of the analysis of ALMP has often only been on the impact on unemployment; however, the impact on the total employment level is logically also very important.

### **4.3. Elements in covering start-up costs**

A **core element in covering start-up costs is actually the prevention of unemployment**, as this reduces the pressure on public sector spending. Furthermore, low levels of unemployment also reduce the pressure and need for ALMP on the condition that companies also participate in the continuous upgrading of skills to ensure the employability of those already in the labour market.

The selection of participants for ALMP activities can be an important element in preventing unemployment and making the transition from unemployment to employment cheaper and easier in the event that unemployment occurs. An instrument for how to select the individual who requires training or other active measures could be examining the developments in earnings, as earnings prior to programme participation are declining (Smith, 2000). Those with a decline in earning, also before being unemployed, have a need for re-training.

An example of profiling, cf. more details in Chapter 5, can be found in Estonia, where as part of the monitoring and evaluation of the system, they will make a: “Mapping of the risk groups in order to specify their needs concerning provision of labour market service”(Estonia, 2005).

In Denmark the Danish employment agencies have access to what is labelled an “event history”, which is then used to appraise the risk that a given person runs of becoming long-term unemployed (Rosholm and Svarer, 2004). The event history shows the unemployment spells and activation measure already used and is therefore especially part of the Public Employment Service instrument to target the initiatives towards the individual.

This should then enhance the likelihood of ascertaining the right measure at the right time for the individual unemployed person, as knowledge of past experience in the labour market provides information concerning qualifications, length of employment. The ability to **target an intervention** ought therefore to be increased.

**Mapping and clarifying the risk groups can be regarded as a means of ensuring a cheap start-up**, as this can help in both reducing costs and improving efficiency by determining the right measure at the right time and targeting the activities.

Analyses reveal that past work experience is one of the best indicators for an individual’s future

career and can thus be part of how to make the intervention, i.e. the argument that when an individual has first been unemployed, there is a greater risk of recurring unemployment. “Losses can be cut down and cost-efficiency increased, if the services are targeted according to each client’s situation and needs” (Kauppi, 2004). This has been the case in Finland since 1998. However, the results achieved from the utilisation of statistical methods in profiling, cf. also Chapter 5, and targeting remain “somewhat contradictory” (Kauppi, 2004). The use of performance evaluation concentrating on processes, their quality, economy and productivity can although clearly be helpful.

Another element in covering start-up costs has to do with precise and specific knowledge regarding the programme costs and effectiveness as regards getting an extra person into the labour market as well as early intervention.

Therefore, the knowledge of the cost for placing one more person in employment can be useful. An analysis showed that “If positive effects of ALMPs are found the estimated costs to generate one outflow from unemployment into employment vary between €1250 and €3430 for the Czech Republic” (Puhani, 2003) (though the data is from the beginning of the 1990s). The cost was in the Slovak Republic €1052 and Poland €446, or between €2 and €500, cf. also Table 10.

The data, although somewhat old, indicates the huge variation in the costs and thereby presumably both the cost-effectiveness of various types of intervention and the cost of starting up. The respective activities of intervention are not the same, and one should therefore be cautious when drawing comparisons, also given the context was a period characterised by rapid economic transition in these countries. Still, **benchmarking cost of one additional outflow from various projects** in a country can be a good starting point for knowing what is working in the specific national context of the labour market.

**Table 10. Overview of the cost of getting one extra person into employment in three countries in the early 1990’s**

Country	Data for year	Cost of one additional outflow
Czech Republic	1992-1994	€ 3428
Slovak Republic	1992-1993	€1052
Czech Republic	1992-1993	€1808
Poland	1992,1995	€200-500
Poland	1992-1996	€ 446

Source: Puhani, 2003

Therefore, the knowledge regarding the cost of getting one extra person into employment could be a steppingstone for covering part of the start-up costs when making the shift from passive to active labour market policy. In the future, **each country should thus ensure knowledge regarding the cost of getting an extra person into employment with the various available instruments**. This would further enhance the option for comparing and making benchmarks.

The cost of providing employment to one extra person depends on the length of the activation period.

A Swedish activity guarantee, cf. also Chapter 5, has thus focussed on those at risk of becoming long-term unemployed and attempting to provide assistance at the right time with counselling and

increased monitoring of the unemployed and their activities (Forslund et al., 2004). The guarantee has been implemented through the PES. Two-thirds in the programme was activated full-time. The programme was implemented at the local level and one idea being that “the participants should, . . . , be subdivided into groups of 10-15 persons” (Forslund et. Al, 2004). They should all have a supervisor and have developed an individual action plan. Three main features at place at the programme were “increased job-search assistance (counselling), increased monitoring and an indefinite duration” (Forslund et. Al, 2004). No information on the cost of programmes are available, and it was also too early to make an evaluation of the programme according to Forslund, who although raise some critical remarks especially with regard to increase search among the long term unemployed and the amount of time spent with supervisors. An analysis from 2002, referred to in Forslund et. Al., showed that “the probability of being employed twelve months after the programme start was 35 % higher for the participants”.

In principle, when aware of the cost of new start-up initiatives, it ought to be possible to finance these costs in the insurance or capital market in case of full information. This is due to the fact that the increase in income resulting from the support should then enable paying back the insurance premium or interest-rate on the loan, but as full knowledge is not possible, this provides an example of market-failure, where public intervention is important. Without public intervention, there is a high risk that the activity will not take place.

One of the ways that public sector intervention can be financed is by that individuals who have been participating in the activities will have a higher income level after activation (leading to increased taxes and duties). Lower spending on unemployment benefits and social assistance should also result.

Naturally, the net cost of when activation takes place is the direct cost of the activities, but will also depend on the existing level of unemployment benefits, the tax-level and structure and who will pay the wage during the period of activation.

This can be shown in the following stylised manner when considering a person employed in the private sector:

- increased wages in activation project
- increased direct income tax
- increased indirect taxes
- saved unemployment benefits

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#### Net public saving

In theory, the net public saving can be used to cover the start-up costs for activation in the private sector, which is used as example due to the fact that the evaluations appear to indicate the greatest effectiveness with this type of activation. In principle, one should also include the displacement effects resulting from these activities in the calculations, which reduces the net public saving. Finally, in the long-term, one should also include the increased income and reductions in public sector spending on other social expenditures and expenditures to ALMP in the future.

In Table 11, the monthly labour cost in 2004 (or 2003) is shown for the EU member states. The table indicates that in most countries, the **start-up cost of employment incentives in private companies will be rather limited**, especially as the unemployed have some working resources

(otherwise they should, in principle, not be in the unemployment insurance system); therefore, the companies do not need to be fully compensated.

As already discussed in Chapter 3, the risk, when using employment subsidies, is the creation of carousel effects for those on the fringe of the labour market. High displacement effect must be monitored by demand to the companies. Further a good match between the unemployed and the company ought to be ensured by the public employment system, e.g. profiling will also help here.

In Belgium, as another example, the activation of benefits is made by using unemployment or social security benefits as employment subsidies, aimed at simultaneously reducing labour costs and increasing the economic incentives for the unemployed to take up work. By the end of the 1990's 90000 unemployed has participated in the schemes (Verbist et al., 2004), cf. more details in Chapter 5. One criticism of these kinds of job creation has been that they create a dual labour market economy between those with access to this kind of financially supported employment, and those who do not, as well as creating dead-end jobs. However, as a start **transforming benefits to employment subsidies will help in making the labour market policy more active.**

Another way of coping with start-up costs is to link various programmes, e.g. the training of the already employed, with the job practices of the unemployed. In 2006 and 2007, a new measure in Sweden will be used in order to ensure a replacement for a person under education in the public sector. This is expected to provide work experience to 10,000 men and women (Regeringen, 2005).

A specific means of activate benefits can be transforming them into support for starting up one's own self-employed business. In Germany, incentives are used to bridge the gap when moving from unemployment to self-employment by receiving a subsidy at a decreasing scale when starting up a new company (Mayerhofer, 2005). No clear evaluation of this is available, but it offers a means of coping with the start-up costs in the sense that this directly transforms the individual's position from passive to active. However, as many new small companies later go broke, this increases the individual's risk of incurring considerable debt.

Ensuring opportunity for the individual to return to the unemployment benefits system, in the event that his/her company must close down, would represent a means of increasing entrepreneurship and an attempt at trying new pathways.

Training and ongoing training appear to be one of the most effective instruments, at least in the long-run. Furthermore, the need for life-long learning is widely acknowledged. A **combination of the proverbial stick and carrot for companies (>50 employees) could be a way of ensuring a consistent and high level of training**, thereby also ensuring high employability. The carrot could be a right to higher depreciation of the costs related to upgrading and improving the skills of the already-employed – thereby reducing employers' risks, that upgrading is merely a cost that other employers subsequently benefit from.

The stick could be that those companies investing less than the average spent in a production area must pay extra social security contributions. The carrot will increase the willingness to invest, as the risk of losing money has then been reduced; and can even be increased when employees continue to work in the company. The stick will make it expensive not to participate in the financing of training.

**Table 11. Monthly labour costs in Euro in the EU in 2004 (or latest year) and maximum unemployment benefits as percentage of the average production worker's income.**

EU 25	2957 (2003)	Maximum unemployment benefit 2002
Belgium	4125.8	39
Czech Republic	790.2	60
Denmark	4061.1(2003)	52
Germany	4006	103
Estonia	601.9	
Greece	2063.2(2003)	29
Spain	2387.1	64
France	3285.0	57-75 (initial pay)
Italy	2827(2002)	52
Cyprus	1823.3 (2003)	
Latvia	353.4 (2003)	
Lithuania	486.5	
Hungary	835.5	40
Malta	1328.6(2003)	
Netherlands	3882(2003)	70 (initial pay)
Austria	3828 (2003)	56
Poland	681.1	26
Portugal	1211.2	65 (initial pay)
Slovenia	1387.9 (2003)	
Slovakia	634.4	52
Finland	3584	66 (initial pay)
Sweden	4230.7 (2002)	76
United Kingdom	3897.9	14

Source: Eurostat-online and OECD, 2004: Benefits and Wages: OECD Indicators

Access to training and ongoing training could also be a right for the individual after having worked a certain amount of time in a company. In this manner, training could be regarded as a part of the total reward package, the employers and employees thereby sharing the financing burden.

One means of ensuring a high degree of at least immediate effectiveness and covering start-up costs is to use incentives for those activating the unemployed. One incentive could be that they **receive a basic amount to cover part of the cost, but then receive a bonus if, after e.g. three months of activation, the unemployed are still in work**. This reduces the pressure on the public sector spending and simultaneously provides a direct target for the organisation working with the unemployed. A possible negative drawback with this type of incentives is that it increases the interest for organisations mainly to take on those with the best prospects for gaining employment.

#### 4.4 Conclusions

An important aspect of active labour market policy is to find smooth ways of covering its initial costs, because differences in the effectiveness of various measures are very high, as analysed in Chapter 3. If the activity is effective with very fast re-entry into the labour market with a sustainable job, part of the cost will be borne immediately by a reduction in the total spending on passive measures and increased public-sector revenue. For other activities, the pay-back time might be longer.

**Transforming unemployment benefit into a direct employment subsidy to private companies** hiring unemployed could also be an effective instrument, at least in the short term.

Problems with financing may be one reason for the reluctance to use learning effects. A Greek review of a German programme for young people, for example, revealed that, despite having a positive attitude towards the German system, the Greeks were afraid that such a measure would represent an excessive burden “upon employment offices”, and they were also concerned “about the costs of providing such intensive services” (Casey and Gold, 2005). Programme costs may therefore constitute a hindrance to starting or experimenting with new approaches.

**Profiling and targeting are important elements in ensuring that the start-up costs can be financed**, especially if they are combined with subsidies to companies in the private sector. This could also be linked to a **stick and carrot policy with regard to investment in training and further education** as a long-term way of ensuring employability.

A need for various types of **small loans for start-up programmes** may be another important aspect of future ALMP. This could be linked with the activities of the European Social Fund and limited to areas where general knowledge concerning ALMP effectiveness is already very high. Finally, of course, it must also be borne in mind that the effectiveness of early measures depends on developments in labour demand. In a booming labour market, ALMP will presumably be more effective than in a more sluggish labour market. ALMP will therefore also be more cost-efficient when demand for labour is growing. At the same time, however, this increases the need to anticipate the needs of the labour market and to refocus training as part of the policy.

## Chapter 5. A new structure for ALMP and some good examples

### 5.1. Introduction

This chapter will present a number of good examples and a new structure for how to conduct ALMP. This structure is based upon the evaluations of existing ALMP; references will therefore not be made to specific evaluations as discussed in Chapter 2 to 4. Using the structure will further improve sustainability and cost-effectiveness of ALMP.

Examples have been chosen with the main aim to illustrate success stories in different parts of the ALMP system, but also from different countries to indicate that effective activities can be discovered in all different types of welfare states. Data on cost of national programmes are often not available when evaluation is carried out over time, therefore also some minor projects where this information is available has been included, but as far as possible cost-data are included, cf. also specifically in annex 3 data on cost on training and the number of participants.

Brief consideration of whether the examples can be transformed and used in other countries is also included after each case.

### 5.2. A structure for ALMP

Based upon the many evaluations of ALMP already conducted in various countries the following shows how to combine different ways of dealing with ALMP merged into a structure which can be used to plan the activities. Across countries and with respect for national diversity, this structure can be applied in order to obtain a positive and effective outcome in relation to increased labour force participation and lower levels of unemployment, given that the demand for labour is present.

The suggestion is structured in five steps, which also relate to both preventive and integrative measures and to the duration of the period of unemployment, i.e. it starts with preventive measures and concludes with suggestions for those who have been unemployed for an extended period. In short, the five steps include:

- 1 Training and further training
- 2 Interviews, search assistance and individual action plan
- 3 In depth counselling
- 4 On-the-job training – analysis of long-term prospects
- 5 Comprehensive measure - also social skills to be improved

#### First step

**Training – and further training** – is important for those already in the labour market in order to prevent becoming unemployed. Should they nevertheless become unemployed training can improve their employability, rendering re-entry into the labour market less difficult.

The financing of the training of those already in employment can be shouldered by the labour market partners through collective agreements, the employees, the state or some combination of the above.

The important issue is striking a balance between the individual employee's need for education,

the employer's need for a constantly updated labour force and the total costs for the employers and the state.

From a societal point of view, **education and training can be regarded as an investment** that will imply that employability is higher in the future, and that part of ALMP will thus be more effective, as those who become unemployed will be having the right updated qualifications and thereby be closer to the labour market.

### **Second step**

Shortly after a person becomes unemployed (1-3 months), the first interview and individual action plan ought to be established. This should also include various types of job-search assistance from the public employment services.

**These personal plans and job-search assistance have several purposes.** This is first and foremost in order to ensure that the individual gets a clear sense of the options, and their qualifications in relation to the employment opportunities available in the labour market. Another purpose is that the individual learns how to search for a job, which is especially important for those who have been in the labour market for many years as well as new entrants to the labour market.

Finally, the purpose is to ensure that the individual is actually actively searching for a job and thereby eligible for unemployment benefits.

### **Third step**

In this phase, when the **person has been unemployed 3-6 months, in-depth counselling from the public employment services or other actors in the field ought to take place.** This should also include plans to begin training or pursue further education in line with the individual action plan established during the second step.

More intensive counselling ought to help ensure that the unemployed person now searches for work even more actively while simultaneously focusing on how to ensure that the necessary qualifications to get a job are in place.

Frequent contact with the unemployed person and possibly forming groups of unemployed persons who can help each other and learn from one another's experiences are important elements.

### **Fourth step**

This is when unemployment has lasted six months or more. Here it is important with **specific on-the-job training activities in order to maintain the unemployed individual's qualifications,** but also to avoid further negative consequences of unemployment, as long-term unemployment can lead to the establishment of problems other than unemployment, which will make the way back to the labour market even longer.

In this phase, it should also be analysed whether the unemployed person in reality has the chance to re-enter the labour market or other parts of the social security system can come into play. This is important for some people, as e.g. occupational injuries might make it impossible to enter the labour market under normal conditions.

In such instances, other types of measures ought to be taken including looking at jobs in other segments at the labour market.

## **Fifth step**

This step is for the very long-term unemployed – typically those unemployed for more than one year. For this group, it will also be more difficult to return to the labour market, cf. Figure 1. **Comprehensive measures** should therefore be taken which can include a broad set of measures, for example, a combination of various training measures ensuring a heightened sense of self-confidence. More intensive counselling is important in this regard. In addition, continuous help in search and individual plans for how to re-enter the labour market is important.

## **5.3. Illustrative examples**

### **Example 1: Swedish Active Guarantee**

The Swedish Active Guarantee targeting long-term unemployed individuals combines **job-search assistance with increased monitoring** and, in principle, an indefinite duration guarantee, as indicated by the name. The idea was to guarantee an income and activation to the individual. The system as planned was that the unemployed should be divided into smaller groups, e.g. 12-15 persons. Later the Swedish Labour Market board recommended 25-30 persons in each group. The activities of the group should be led by a case-worker from the PES. A participant can only leave the programme upon obtaining a regular job, starting regular education or permanently leaving the labour force (Forsslund et. Al, 2004). In 2004 the Swedish Activity Guarantee within the Public Employment system had a cost of 28.4 million EURO (Eurostat, 2006), which do not inform on the number of participants specific in the activity guarantee. The total cost of the individual guidance service in Sweden in 2004 was 140.1 million EURO with a number of participants at 482605.

An analysis of the effects of a targeted and better-monitored Swedish Active guarantee within the public employment system found that after 12 months, the likelihood of having found a job was 35 percent higher for those in this system than for other unemployed persons (Hägglund, 2002 in Forsslund et. Al., 2004). The main reason the good results were the higher use of an employment subsidy (Forsslund et al., 2004). If participants in the public employment services obtain access to other measures, then it might not be the impact of the PES, but rather other activities.

Still, the combination of an income guarantee and that participants are first left out of sight after having entered the labour market or being firmly placed on a clear path to the labour market can be used as a guiding principle; also for other countries in Europe.

This is also an example of an initiative that combines “sticks and carrots” by forcing the individual to be more actively searching, but at the same keep the individual in the system until a change has taken place.

### **Example 2: New start for young people in the UK**

The New Deal for young people between 18-24 years in the UK was part of the British government welfare-to-work strategy. This was enacted for the young from 1998, and should especially be seen in the context of a high level of youth unemployment. The content of the activity implies that those who have been claiming unemployment benefits for more than six months must hereafter participate in one of four measures:

- Subsidised employment

- Full-time education and training
- Work in the voluntary sector
- Work with the environmental task force

The activity will then normally last six months. The novelty in the approach was to use the first period of unemployment to **help the participant choose his/her route (gateway) into the labour market** in which “intensive advice, help and counselling about job search, job opportunities”(Lissenburgh, 2004) was central. The intensive counselling consisted of two-weekly meetings. In 2004 the stock of participants<sup>3</sup> in the Gateway was 52240 and the total costs was 138.2 million EURO (Eurostat, 2006).

The evaluation of the programme based upon survey showed good results, especially for subsidised employment, implying that around three out of four were no longer applying for the job-seeker’s allowances 24-30 months after the activation (Lissenburgh, 2004), which although do not give any information on the cost of the program. Furthermore, the “employment option was the most effective of the new deal option”. A reason for this can be that wage subsidy “reduces the cost to the employer of taking on an unemployed person (by about 40-50 %)” (Reenen, 2003)

Another evaluation showed that “young men are now about 20 % more likely to get jobs as a result of the policy” (Reenen, 2003), who also have conducted an analysis of cost and benefits and reached the result that “the actual social cost per additional employee is under £4000 and, more importantly, that social benefits exceed social costs”. The reason the analysis was focussing on men was that  $\frac{3}{4}$  of those participating was men.

This combination of advice with subsidised employment can presumably be transferred to many countries in Europe, meaning that this can get many young unemployed persons into work. Other age groups could presumably also benefit from this type of intervention combining counselling and advice with different routes into the labour market.

### **Example 3: Personalised approach to redundancies in France**

In 2005 a personalised redeployment agreement (De reclassement personnalisé (CRP)) was enacted given the individual becoming unemployed access to a variety of measures. In principle the target group has been all persons becoming unemployed. The **aim of the scheme has also been to make the companies better to anticipate change**. Those individuals who accept a CRP will terminate their existent employment contract and become a vocational trainee with a payment of at least 80 % of previous gross income for the first three months. It includes for the individual also personalised monitoring and support by a caseworker. Furthermore, it is possible for the individual continuously to receive training etc. (EU-commission, 2005d).

The measure build upon an earlier measure in France (retraining agreement), which although was abolished in 2000. An evaluation of that measure recorded a return to employment of 55 % after 12 months of unemployment (EU-commission, 2005 D). Funding is a combination of employers and the state.

It is an example of the important aspect in trying to anticipate unemployment and then make a connection between this and training and ensuring a return path to the labour market.

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<sup>3</sup> This is defined as “the number of participants in a measure at a given moment” (Eurostat, 2006). This should ensure that the number do not depend on the length of the activation as persons with, for example, twice in 3 months training and one with 6 months both counts for a half.

#### **Example 4: Mapping the risk groups in Estonia**

Part of the monitoring and evaluation of ALMP in Estonia is that they have planned from 2005 to include **mapping the risk groups in such a manner that the chosen ALMP programme for the individual can be targeted better**, and importantly earlier and thereby at the best preventive. Mapping of competences and work-record should help the PES to be better able to place and help unemployed back to the labour market and be prepared to know where unemployment might arise.

A reason for this new approach is that “unemployment in Estonia is predominantly structural” (Estonia, 2005). This is in line with the notion in labour market policy that a good way of finding a match is to make a better connection between demand and supply, though simultaneously mapping the risk can help prevent unemployment.

Combining this with the development of an ex-post evaluation and customer satisfaction can be important aspects of reducing the ALMP costs and ensuring that start-up costs are not excessive. Good mapping will also increase the efficiency of the intervention.

Mapping qualifications can also be used in other countries and increase the targeting of activities.

As the suggestion is from the Action Plan for Growth and Jobs 2005-2007 in Estonia no evaluation is carried out. Still, given the information on how to match the needs at the labour markets, this seems to be a constructive way ahead.

#### **Example 5: Training in Austria**

Training measures in Austria, which varied from **on-the-job training to subsidies to apprenticeships**, has demonstrated very good success rates, as nearly 60 percent were employed six months after having participated in the measures (Federal Ministry of Economic Affairs and Labour, 2004). In 2004 245.278 participated in skills training measures at a cost of 413.2 million EURO, and was thus the largest activation programme in Austria, including and targeting all unemployed. The most important part of the training was promoting education and training (141496), subsistence allowance during training (159.954) and allowances to cover ancillary course costs (139.002). (Federal Ministry of Economic and Labour, 2006).

The public employment service (AMS) is responsible for training. The success-rate might be connected to the fact that the education allowances (Bildungsfreibetrag) were increased from 9 percent to 20 percent in 2002. This together with creating new apprenticeships, including economic support to trainers, has had a positive impact. In Vienna, the co-financing of the vocational training for employees in 40 Vienna-based SMEs has also helped.

On-the-job training appears to be a very good measure for the unemployed individual, as this provides them with contact with prospective employers and thus increased prospects for entering the labour market. This should therefore also be a possible option for many European countries.

### Example 6: Flex-jobs in Denmark

The Flex-job system in Denmark makes it possible to **work fewer hours and for the employers to receive an employment subsidy from the state**. The target group for this ALMP has been those at risk of leaving the labour market completely, and, thereby been a vulnerable group at the border of the labour market. A core requirement to be fulfilled before being eligible for a flex-job is that all possibilities for vocational rehabilitation, work testing and transfer to other types of work in unsubsidised employment have been exhausted. All other types of activation should have been tried before the local municipality can offer a flex-job. A private employer will be reimbursed between ½ and 2/3 of the wage costs. In 2004 the programme had a cost of 427.6 million EURO and with a stock of 29960 persons (Eurostat, 2006).

Flex-jobs are thus positions under specific condition made to persons who have a considerable and permanent reduction in their capacity to work under ordinary conditions in the labour market.

The flex-job system has created a more capacious labour market. This is indicated in the data presented below showing the numbers being in a flex job has increased, and, this both in the private and public sector.

Number of participants in flex-jobs in the public and private sector in Denmark

	2000	2001	2002	2003	2004	2005
Total	10648	16350	23374	29051	36148	43032
Public	5709	8757	12195	14580	17662	20495
Private	4921	7580	11167	14385	18626	22806

Source: Statistikbanken ([www.statistikbanken.dk](http://www.statistikbanken.dk))

Persons granted the right to a flex-job are therefore in an actual job; this therefore presents an option for persons who would otherwise have a weaker or no attachment to the labour market. 57 % of those working in flex-jobs are women. The typical characteristics of people in flex-jobs is further a lower than average educational attainment level and more frequent than otherwise at the Danish labour market they are between 45 and 66 years of age. A reason for this seems to be that those working in a flex-job can be people who are worn out or having had a work-accident (Jørgensen et. Al., 2006).

Flex job appears to be a system that can be transferred to other parts of Europe, as it is a combined way of keeping persons in jobs with assurances that all other options for being in the labour market at ordinary conditions have been exhausted. This should therefore also help persons who would otherwise be forced to leave the labour market.

### Example 7: Activating the benefits and use of tax-credits in Belgium

In Belgium activation of benefits has been made by directly **using social security benefits as employment subsidies with the aim of reducing labour costs and provide financial incentives for the unemployed to take up work**. This means that an employer can employ a person on benefits with an economic subsidy equal to the benefit.

This will reduce the labour costs (thereby making it more attractive for the employer to employ

such a person, as the cost is reduced), as well as increasing the economic incentives for unemployed persons to take up work, as they will then receive a full wage in the labour market. By the end of the 1990s more than 90000 persons has been employed in these schemes (Verbist et al., 2004).

Administration was taken care of by local employment agencies.

One criticism of these kinds of job creation has been that they create a dual labour market economy between those with access to this kind of employment economic support and those without it, as well as creating dead-end jobs. One should therefore presumably only use them for a brief period of time in order to reduce the carousel effect, but it would appear possible in most European countries to help pave the way back to the labour market in this manner and also be a way of covering the start-up cost as payment of benefits is already taken place.

In Belgium this intervention has also been supplemented by tax-credit and reduction on employees' social contributions on low wages. This has been done since 2000 with a level of 95€ in 2003, which is decreasing when wages are increasing. The maximum gross limit for wages has been increased to 1539 € “According to estimates about 630,000 workers are benefiting from this measure. The budgetary cost is substantial: increased from an estimated 96 million Euro in 2001 (before the extension) to 165 million in 2003 (after the extension) (Verbist et. Al, 2004)”. Furthermore, tax-credits for low-income (between 3850 to 16680 EURO in 2004) individuals as a universal measure has been introduced also with the aim of increasing the incentives to take-up a job.

### **Example 8: Profiling in Finland**

Profiling unemployed persons has been practiced in Finland since 1998. This is done by using **statistical information about the unemployed in order to be able to target the intervention**, thereby increasing the effectiveness of the intervention, both in relation to programme costs and in relation to the number of unemployed persons re-entering the labour market. The aim has been in principle to profile all unemployed and the aim been able to make the intervention more efficient. The profiling is done by looking at risk factors weakening a good work career, such as “health, inadequate education and prolonged unemployment” (Kauppi, 2004). It is further argued, “losses can be cut down and cost-efficiency increased, if the services are targeted according to each client's situation and needs” (Kauppi, 2004). Regarding the effectiveness of profiling knowledge remains contradictory.

Data for 2004 showed that 223244 persons had an interview and individual action plan, and, the cost spend on this was 24.7 million EURO (Eurostat, 2006)<sup>4</sup>. Still, it appears to be an obvious option and idea to follow, also due to the increased used of IT in the public employment services throughout Europe. IT can help in profiling and thereby the knowledge on when profiling combined with different types of ALMP works best, and can, when done by IT, also be used across Europe.

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<sup>4</sup> There might be some problems with regard to accounting, so this should only be seen as indicative.

### **Example 9: Training for those furthest away from the labour market in Netherlands**

An activity in the Netherlands with many long-term unemployed persons with multiple problems (e.g. language problems, health problems, lack of education and emotional or psychological disorders) ensured that the participants' first activity was to map his/her particular problems or needs. **Together with the training, an individual programme was thereafter established.** This programme should grant consideration to the individual problem while at the same time be clear about support, activities to participate in and the rules to be followed. This activity helped develop social skills, and given the groups composition surprisingly only one in five left without fulfilling the activity, and 40 percent of those who completed the programme went on to find a job or pursued further training, whereas another approximately 40 percent continued in the programme (European Commission, 2005). In this manner, the programme acted as the first step on the ladder towards the labour market.

It was a small programme (around 200 participants) with a total budget of a little more than 2 million EURO organised in a specific town (Den Helder) in the Netherlands. Therefore, it is also an indication of that those small innovative projects close to those who are in need of support can be very successful.

This programme can also be transferred to other countries, especially also as the emphasis on mapping the individual's needs and then tailoring a programme built on a combination of training and other activities can be highlighted.

### **Example 10: Targeted and personalised programme in Spain.**

A European social Fund project in Spain has also experimented with **combined training and counselling services for many of the most marginalised** in a given area (Lugo). The local community organised the programme with the aim of integrating those most marginalised by focussing on their employment skills. Nearly 90 percent of the first group (210) have completed the programme and more than 40 percent found work. The total costs of the programme has been 1.2 million EURO (European Commission, 2005).

The programme also included an option for start-up advice to become self-employed, including access to specific types of micro-credits. The training course focussed especially on delivery of social services, which is a sector with many job-opportunities in the area. This highlights the argument put forward earlier that especially training in an area where one either lack or can expect to lack labour will be having the best success-rate.

As this programme has also been transferred from one Spanish region to eight other regions in the country, it seems very likely that it can also be transferred to other countries in Europe.

### **Example 11: National traineeships in Ireland**

As part of an ESF project in the year 2000, Ireland has established national traineeships for new and emerging occupations. From 2000 to June 2003, 4300 unemployed people completed a traineeship. Across all areas of training more than 50 % of the participants have been women (European Commission, 2005).

The projects focussed on the unemployed and early school dropouts, therefore combining a mix of on- and off-the-job training, but especially for young persons.

As part of the programme, the employees were offered training, mentoring and coaching. The companies participating were required to find a mentor for each trainee. There was also focus on new areas where no formal training programmes existed.

The project has been organised by FAS, which is the Irish national training and employment organisation. The trainee-ships in the project were all leading to recognised qualifications and, by this also easier access to the labour market was achieved.

In total available for the project has been 143.6 million EURO, and, it is therefore a large scale project.

Developed on the scale of the EU, mentor systems also designed to help the unemployed during the training period could offer a relevant and easily transferable element of ALMP in other countries. The emphasis on formal already accepted qualifications is also an important aspect as this in most labour markets should made the movement into the labour market easier.

## **Chapter 6. Conclusions**

### **6.1. Introduction**

The aim of this study has been to examine sustainability, cost-effectiveness and ways to cover the start-ups cost of an active labour market policy. This chapter presents the key findings and conclusions. Chapter 7 offers policy recommendations. The present chapter is divided into the following sections. First, three sections presenting the key findings of the analysis with regard to sustainability, cost-effectiveness and ways to cover start-up costs. This is followed by general comments on measurement and evaluation, including the need for benchmarking. Finally, a few thought on learning across Europe will be presented.

### **6.2. Sustainability of ALMP**

Sustainability varies across activities and projects and over time. It is therefore important to examine the implementation of projects and ensure that staff can organise and develop them.

One should not narrowly examine short-term sustainability after six months because variation among the unemployed in terms of qualifications, age, region and duration of unemployment will have an impact on the results. Furthermore, the impact of many training programmes can only be observed using a very long time horizon. Nevertheless, it is important to have a general benchmark when evaluating ALMP. The situation after six months is a good time limit to use.

There will be a need to strike a balance between different aspects when choosing from among various types of ALMP. Sustainability and equity, for example, might make some projects more sustainable for those closest to the labour market, but equality of opportunity may also mean that those at the longest distance from the labour market should have a chance to move closer to the labour market. Sustainability and the cost of activities need to be taken into account, together with both short and long-term impacts.

The central conclusion is that a high degree of sustainability can be achieved by using training and better targeted activation. Training may also be part of life-long learning. Job-rotation and job-sharing also show good results. Positive results can also be found for employment with a subsidy in the private sector. In some countries start-up incentives for becoming self-employed shows positive sustainability. Good advice through the PES can also be important. In general, small and innovative projects tend to be the most successful.

Sustainability of ALMP can thus be achieved under the right conditions and choice of instruments. This is one important aspect of the impact of ALMP. Cost-effectiveness is another important aspect.

### **6.3. Cost-effectiveness of ALMP**

Overall, this analysis of evaluation of the effectiveness of the various measures reveals that the best results are achieved by economic incentives in the private sector. This due to the learning effect when one is in a job resembling a regular job at the labour market. Furthermore due to that if a job opening materialises, then employing someone an employer already knows is cheaper for the employer.

In most cases and countries, training also has good effects, particularly in the longer term. The impact is even better if it is connected with or related to expected changes in the labour market. The combination of an efficient public employment service with a targeting of measures such as training is therefore another important lesson to be learned from the study.

ALMP effectiveness is also clearly connected with the overall capacity of the labour market and the general economic policy and situation. ALMP is thus most effective in a growing economy.

In summarising the learning effects of the analysis regarding when ALMP is effective, the following picture emerges. Providing job training and placement in private companies are effective, as are continuous training, although generally it will take time before the effects come through. Targeting programmes towards specific groups, e.g. young people, will also enhance effectiveness. Subsidised jobs in the private sector can be used, and those resembling regular jobs produce the best outcome.

If programmes can be framed to be consistent with the existing and expected future demands of the labour market, this will also improve efficiency. Further, it is important with early intervention and prevention. In many areas, an effective PES system is very important. PES can also play a role in helping with job searches, and this relatively cheaply. Profiling the unemployed can be an important measure.

Finally, it is also important to be aware of calculations of cost-effectiveness. It is not only the direct impact on employment, which should be measured, but also the implicit gains achieved by the different measures. This does not appear to be case very often, as analysis often focuses mainly on the directly measurable effects.

Below is a list of elements that ought to be included in the analysis of cost-effectiveness as far as data-availability permits (less data are for the time being available in relation to some of them, e.g. items 2, 3, 5, 7, 8 and 10):

- 1) cost per participant
- 2) distance travelled to the labour market
- 3) the long-term sustainability of the activity
- 4) deadweight and displacement effects
- 5) attempts to avoid locking-in effects, especially in the case of training
- 6) the implicit cost-reduction in welfare spending for those finding employment
- 7) the higher levels of productivity of those entering the labour market after training
- 8) include higher ex-post tax revenues, as earnings often increase
- 9) the impact of the general economic business cycle
- 10) the reduction in wage pressure within the economy produced by the greater supply of labour

#### **6.4. Ways of covering start-up costs**

Ways of covering ALMP start-up costs involve having clear knowledge of what works and what does not. This also relates to the ability to ascertain whether spending should be regarded as an investment or a cost. Clear knowledge regarding the effectiveness and impact of various programmes can thus provide an opportunity to improve the ability to finance ALMP. The following conclusions are thus based upon this knowledge and examples from around Europe.

Transforming unemployment benefits into support for the establishment of independent businesses can be done. This must be linked to the right to return to the unemployment benefit system, as starting one's own business would otherwise be regarded as representing an excessive risk.

Another way of covering start up-costs could be to link payment for activation with the results of activation. This would ensure that the public sector reduces the cost to social security before paying a high cost for activation. However, there is a risk of increased cream-skimming by the actors, e.g. only activating those with the highest success probability.

The stick-and-carrot approach in relation to training measures to help continuously to upgrade the skills of those already employed might shorten the path back to employment. Increases in depreciation prior to paying taxes for investment in training may offer an incentive to increase training levels and reduce the employer's risk of bearing the training costs, while a new employer can take advantage of the improved qualifications of the prospective employee. Companies with more than fifty employees could be forced to pay an extra contribution if they cannot show that they have spent the average on training for the employed. This could work as a preventive measure, as well as a measure to cope with structural change in society.

Better knowledge regarding likely needs in the labour market is another important aspect of the ALMP. This as it can help ascertain the optimal training and ensure the best match in the labour market, thus reducing both the risk of bottlenecks in areas of growth and the number of unemployed. Linking the ESF with the financing of new initiatives in the ALMP is also important. This could be combined with a clearer and more precise description of what should be measured and how the activities should be evaluated in a more consistent manner than at present. A clearer evaluation strategy would be important in increasing the learning effects, both within and across countries, of both the short- and long-term effects of programme activities in the various countries.

#### **6.5. General conclusions on measurement and impact**

There are considerable differences in the effects of various types of ALMP. These can vary, depending on whether the focus of the analysis is different programmes, countries, regions or years. Results also vary when the macro- and micro-effects are measured. Short- and long-term effects are also different. Effects are influenced by the overall economic situation, as well as demographic and structural changes.

Measuring the impact of ALMP exclusively in terms of the number of people in employment after the elapse of a certain period would neglect the personal gains enjoyed by individuals. Furthermore, activities might bring unemployed closer to the labour market, but perhaps not the whole way into it.

Impact analyses of employment levels per se may also neglect the productivity gains that arise from having an overall better and more qualified labour force, as well as the reduced pressure on wages due to the increase in the labour supply.

There are many possible explanations for the effectiveness of ALMP. ALMP impacts can be before, during and after activation. The impact of ALMP prior to activation relates to the so-called “threat” effect, whereby some of the unemployed find employment before being compelled to participate in “activations”, which for some might seem somewhat unattractive as a way of improving their labour market situation. It is thus not the activity itself that has an impact, but the mere existence of the obligation to participate. Earlier activation could thus be argued to be more effective. The counterargument being that it would also increase costs, as more people would then participate, some of whom would find employment regardless.

The effects of ALMP can be both negative and positive. A chief negative factor is the locking-in effect, which is clearly visible in relation to training. The search activity is reduced for many of those who participate in training. This is often for obvious personal reasons in order to finalise the education. The positive aspects relate to improved qualifications, better search activities and newfound personal confidence.

Subsequent to activation, one positive effect is that qualifications match demand better because training has taken place. Training thus has positive impact on sustainability in many ways.

Many countries continue to spend very limited amounts on ALMP. Evaluation of ALMP activities is further still very rare, thus limiting our knowledge of what works and what does not. One conclusion is thus that more evaluation is needed in the member states, at best based upon the same approach to evaluation.

## **6.6. Learning effects**

Learning from best practice is important. Examples from throughout Europe are presented, indicating that the transfer of ideas ought to be possible. Learning from others experiences opens up a positive option for EU member states.

A five-step ALMP structure, showing which types to use and when to use, is also presented. This structure shows how the need for intervention, and therefore the variety of instruments required, changes with the length of the period of unemployment.

The opening up of labour markets and increased flexibility, both internally in the individual member states and externally across borders, may be a means of improving the efficiency of the active labour market policy. This process can increase job openings and labour turnover. Support for job creation in border regions could be used more actively, as good examples and knowledge of the cross-border labour market are important for labour market integration in Europe. A turnover of labour is also beneficial for the unemployed, as this increases the opportunity to place them in jobs. More open and more flexible labour markets are among the elements that usually improve the efficiency of ALMP.

Active labour market policy has an important role in the future of Europe. A well-structured and targeted active labour market policy can be a cornerstone of reaching the goals set out at Lisbon.

## Chapter 7. Policy Recommendations

This chapter presents the main policy recommendations for ALMP in the future. These recommendations are based upon the analysis and conclusions presented in Chapters 2 to 6. No detailed arguments are thus included in this chapter. The presentation below does not indicate any ranking of the recommendations. For some countries, some of the policy recommendations will not be new. This due to that they, besides knowledge from the evaluation of ALMP, also are inspired by best practice around in Europe. There should although for all countries be some inspiration.

The recommendations aim at improving ALMP. Furthermore, the recommendations can help in ensuring a flexible labour market for both employers and employees. For employers by focussing on that the labour force constantly have the right qualifications. For employees the aim is to increase employability and thereby also job-security.

The suggestions focus on targeting and dynamic changes in programmes. Incentives can be used as a way of financing the start-up cost of ALMP, and specific types of activities help some of those having fewer resources to have at least some position at the labour market.

In total 15 policy recommendations are described below.

**Use employment subsidies for a limited time to increase job-creation** in the private sector. This is a very effective way of getting the unemployed back to the labour market. This has been clear for years, but the recommendation here is only for a very limited time. Further, that it is best to do it in selected areas with expected growth in the number of jobs. The implication will be to connect the employment subsidy to analysis of the demand for labour. This moves job-creation from a general measure to a more targeted measure.

**Increase spending on life-long learning.** Preventative initiatives through life-long learning are important. This can in the future reduce pressure on overall spending levels. Analysis should be aimed at determining what areas will experience increasing employment. This is important in order to coordinate training and increase successful placement in the labour market. Further higher flexibility at the labour market will be reached.

**Training and education are still important** and should be expanded. Nevertheless, this should be based on knowledge of which sectors in the society are growing and which are declining. This again emphasise a move away from a more general approach to a more targeted approach. A high basic level is although important.

**Mentors could be one way of helping in bridging the gap for the young** between the educational system and the labour market. This will ensure that the young enter the labour market without delay. A long-term reduction in spending on ALMP will follow. Finally, it is a relatively cheap element, making it easier to finance the start-up costs.

ALMP programmes should be on a **small scale and continuously changed** and developed, especially in accordance with the needs of local labour markets. Countries should thus not just make big projects and big programmes, as the risk for failure is high. Furthermore, they should opt for constant change in order to ensure dynamic projects. Small loans for start-up programmes could be linked to spending from the European Social Fund.

ALMP programmes should be **actively targeted and monitored**, and clear success-criteria established already at the start of the programmes. The targeting should help in ensuring that it is the right measure to the individual unemployed. One size fits all is not relevant in active labour market policy.

**Public employment service should** provide early identification of needs and profiles of the unemployed. Thereby they can help to improve the match between demand and supply, and early assistance in returning to the labour market. It can be suggested to combine PES counselling with other ALMP measures and especially a combination of profiling of the unemployed and early intervention can be recommended. Good organised PES is a cheap and effective measure, which can help in ensuring a flexible labour force.

**Learning and inspiration should be increased throughout Europe.** National reports on success stories should be developed as a part of the administration of ALMP in all countries. This due to that good examples can be found in most countries. A constant eye to what works in other countries can help in improving ALMP, especially when transferred taken national circumstances into considerations.

Clear targets should be set for projects. En **evaluation of the effectiveness of ALMP** in relation to both individuals and society should be included in all projects. This should be done together with benchmarking of the individual projects with others of the same type. A greater focus on how projects are implemented with regard to the aims and goals is also required. This is important in order to ensure that the goals and aims of programmes are achieved. A specific task force to ensure and help with this will be important.

Use a **stick-and-carrot approach** to increase training in the labour market. The stick could be that those companies, investing less than the average spent in a production area, must pay extra social security contributions. The carrot could be increase in depreciation of cost to training, for example, 125 % of the cost instead of just the cost. The carrot will further be that by investing in training, the risk of having to pay money has then been reduced. The stick will thus make it expensive not to participate in the financing of training.

**Use incentives for those activating the unemployed.** One incentive could be that they receive a basic amount to cover part of the cost. Then they can receive a bonus if, after e.g. three months of activation, the unemployed are still in work. The basic amount could cover, for example, 50 % of the cost and the bonus another 50 %. The size could vary for different unemployed groups depending on the distance to the labour market.

A **coherent structure for ALMP** should be drawn up. The structure shall take into consideration the length of unemployment for the individual. The coherent structure would improve effectiveness and sustainability by the ability to be more precise about what to do for different groups of unemployed.

**Flex-jobs should be used** for those who have fewer resources, and thus not being able to get a job under normal conditions in the labour market. Flex-jobs can make it possible for persons who otherwise would be fully outside the labour market to work as much as they can.

**Benefits should be activated directly** in the form of a subsidy to companies in the private sector. The idea being that the unemployment benefit can be transformed to a wage subsidy for a limited time to a company, when employing an unemployed person. This should increase the incentive for companies to employ unemployed without extra cost for the public sector.

Finally, it can be suggested to establish an observatory to predict future changes in the labour market. This should increase knowledge on growing and declining labour market in individual countries and at the European level. This type of knowledge can then be used to improve labour market conditions in individual member states and in Europe.

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## Annex 1 Examples of Active Labour Market Policies supported by the ESF and their impact

Name of Project	Type	No. of Participants	Estimates of integration labour market
Repairing furniture ex-prisoner (Austria)	Training course	11	41 %
National trainee-ships for new and emerging occupations (Ireland)	Training	4300	none - but 50 % of participant has been women - recognised qualifications
Employability for all: training for young job seekers (Luxembourg)	Training	74	60 %. After 12 months 50 % working and 40 % permanent employment contracts
Stepping stone to professional and social integration (Netherlands)	Training unemployed with multiple problems	214	40 % (job or further education) another 37 % continued in programmes
Local traditions - rural economy (Portugal)	Training	12	2 in jobs - others encouraged start up own new business
Opening Pathways (Spain)	Training	210	44 %
Encouraging the long-term unemployed back to work (Sweden)	Individual action plan and counselling	151	50 %, 19 % into full-time education
Re-training long-term jobseekers (UK)	Employment and training	580	75 % including training or education

Source: European Commission, 2005 C

## Annex 2 Difficulties in evaluation

This appendix presents more theoretical aspects with regard to evaluation in order to be more direct and with fewer caveats to be included in Chapter 2 to 5. Overview of difficulties and problems in relation to evaluation can be found in most publicized results (Kluve and Schmidt, 2002, Kluve, 2006, OECD, 2006).

Various approaches to evaluation exist. The fixed effect method is best when attempting to establish the effectiveness of activities, as this makes the best attempt at allowing for all other things being equal. Duration model analyses, which analyse the length of the period of time in terms of a series of exit propensities, would be important, but data to this are seldom available. Quantitative analysis must thus be supplemented with qualitative analysis, especially in order to learn more about individual cases and stories, thereby becoming able to establish a clearer picture as to why ALMP and individual programmes is working.

Despite many evaluations having taken place, it is necessary still to point to some of the many difficulties involved in making good assessments, and to be sure that they can be interpreted and used in the correct manner.

One reason for the difficulties in assessing the impact of active labour market policy relate to the simple fact that the unemployed are a very diverse group – ranging from persons who are making the transition from one job to another to persons at a great distance from the core of the labour market. These differences are related to the known differences in the unemployment levels among which the following groups have comparatively high unemployment levels in most EU countries: seniors, women, migrant workers, unskilled, certain geographical areas, declining industrial sectors, socially vulnerable groups and youth.

This often also has an impact on the length of unemployment. Longer periods of time outside of the labour market makes it more difficult to re-enter, and active labour market policy focussing on the long-term unemployed will therefore also presumably be more costly if they are to have the same effect as other types of activities. Some programmes might therefore appear to be more effective for young persons, but not for seniors. In theory, this might not be due to the programmes, but rather due to the characteristics of the unemployed, the economic context and the dynamics of the labour market.

The impact of active labour market policy therefore also occasionally indicates that it helps some individual to start training, further education or on-the-job training, whereas for others, the expected goal ought to be a more permanent ability to remain in the labour market without public subsidies.

Furthermore, a difficult element in the analysis relates to the differences over the course of the economic cycle, which, *ceteris paribus*, implies that active labour market policy is both more effective and cheaper in a booming economy, as the employers are also more willing to employ the less effective segment of the labour force when the labour supply is limited. Thus, ALMP does not merely function as a simple element increasing the adaptability of the labour force; the effects also depend on the demand for labour. Furthermore, it can be difficult to find a control group to help ensure that it is the outcome of the activity, which has the impact, and, not something completely different.

The amount of training offered by the employers to those already employed might also have an impact on both the needs for public sector intervention, but also the effectiveness of the active labour market policy. Variations in the costs borne by employers might thus blur the differences in the outcome of intervention.

Another issue that often arises in both theoretical and empirical analyses of active labour market policy is the question of how to avoid and reduce the possible deadweight losses of active labour market policy and avoiding the displacement effect (OECD, 2005). Consequently, active labour market policy should not begin too early, as those who are unemployed for a short period will often be able to find a job for themselves relatively easily, whereas the ability to find work and be reintegrated in the labour market will fade over time. This might be one reason why job-search assistance might be effective, which is often also used for those who have been unemployed for only a brief period (Cowling and Mitchell, 2002).

One of the consequences of the possible displacement effect of active labour market policy might be that in some circumstances, active labour market policy mainly works as a “carousel ride”. This can especially be the case if the focus of the active labour market policy is on income support measures, as they reduce the cost of those presently outside the labour market. Economic support to employers therefore runs the risk of being highly ineffective.

The displacement effect is one of the distortions related to ALMP. Another relates to the issue of what would have happened without the active policies, i.e. the question of deadweight losses. This is methodologically very difficult to disentangle from the other issues related to ALMP, as it raises the question about all other things being equal. A central issue arising from this is when to start the activation, as data appears to indicate that many persons will gain employment even without any public sector support, especially in the first two to three months after becoming unemployed, thus indicating that public initiatives in this period will not be as efficient as later on. On the other hand, longer periods of unemployment increase the risk of becoming long-term unemployed and thus increasing the difficulty of re-entering the labour market. A balance must be found.

In addition to the direct impact on the unemployed person, in principle, any labour market intervention can therefore have at least the following three effects:

Deadweight - would have got a job anyhow

Substitution - supported person takes job from non supported person (displacement)

Locking-in - search activity of participants is reduced.

A particular problem for the comparative analysis of the activities is that only few countries within the EU actually undertake the systematic and independent evaluation and monitoring of progress and effectiveness; and further, that reliable empirical evidence considering both direct and indirect consequences is difficult to generate (Kluge and Schmidt, 2002).

Finally, the evaluations do not always make it clear why a specific programme is working – only, though this is useful, that it works for a specific group. This is important on the grounds that if several studies points in the same direction, there is clear indication that it has an effect, as well as indication that it can be used in other countries and other settings.

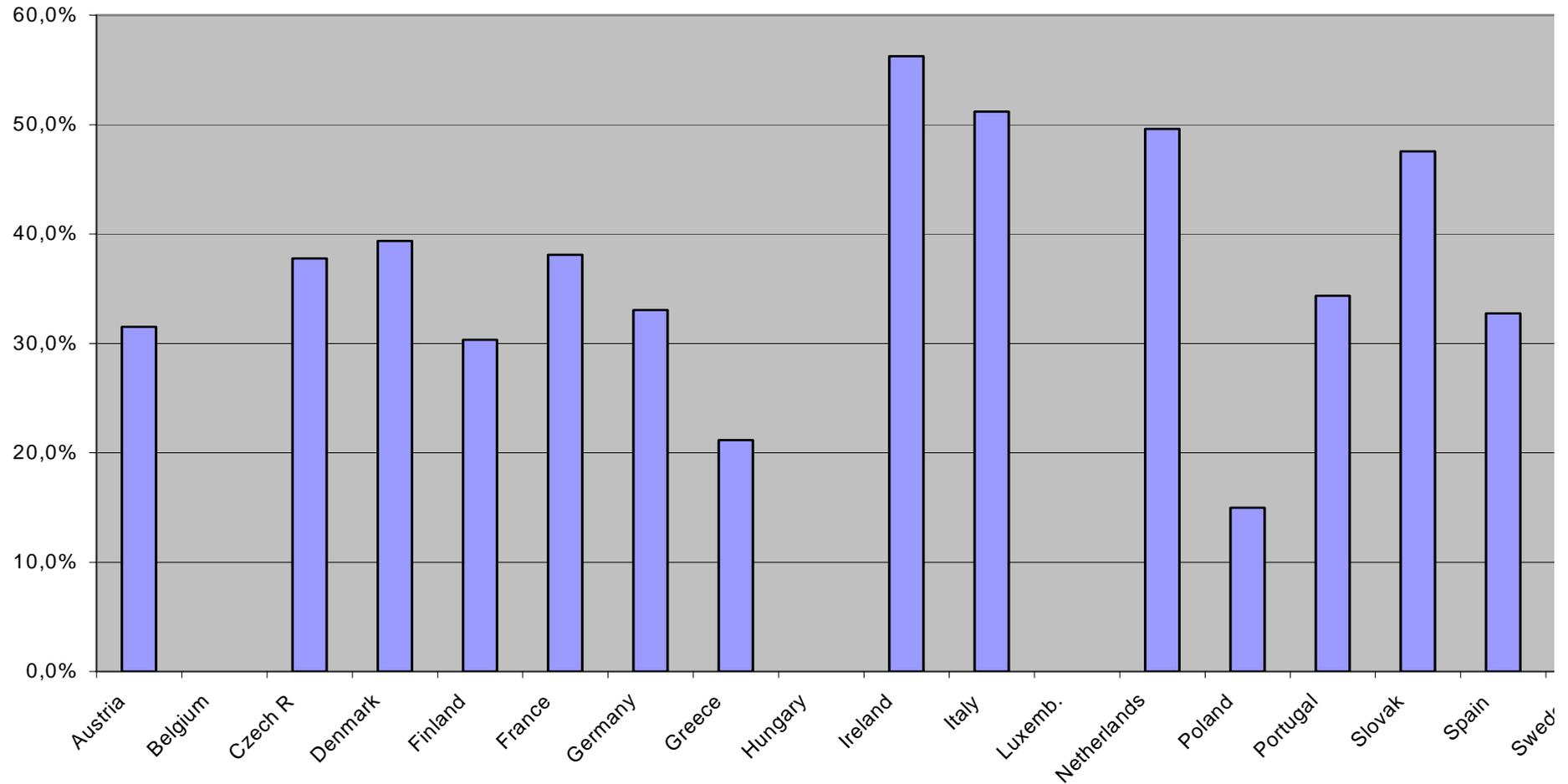
**Annex 3. Data on active and passive labour market policy expenditure in EU-countries, 2003**

	Expenditure on Training million EURO 2004	Stock of participants training, 2004	Cost pr. stock in 1000
Belgium	564,3	121385	4,6
Czech Republic	14,7	7510	2,0
Denmark	1061,2	51369	20,7
Germany	8033,4	1074924	7,5
Estonia	3,0	690	4,3
Greece	51,3	4000	12,8
Spain	1025,5	116579	8,8
France	5082,4	534494	9,5
Ireland	269,0	26124	10,3
Italy	3058,8	643013	4,8
Latvia	2,8	1402	2,0
Lithuania	11,1	5618	2,0
Luxembourg	27,6	1819	15,2
Hungary	37,4	20344	1,8
Netherlands	1744,3	734153	2,4
Austria	662,5	65618	10,1
Portugal	414,8	37980	10,9
Slovenia	3,4	4690	0,7
Finland	607,0	49763	12,2
Sweden	978,9	56451	17,3
UK	2272,5	354467	6,4
Total	25925,9	3912393	6,6

Note: Stock is defined as "the number of participants in measure at a given moment" (Eurostat, 2006). For some countries Eurostat has not added the information, especially when lacking all information. In the table is information available for the initiatives added.

Source: Eurostat, 2006

### Active as percentage of total spending on labour market policy, 2003



### Spending on passive labour market policy in percentages of GDP, 2003

