INTERNATIONAL CONFERENCE NEWS:

LABOR ACTIVATION IN A TIME OF HIGH UNEMPLOYMENT: LESSONS FROM ABROAD

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In the 1980s and early 1990s, many member countries of the Organisation for Economic Co-operation and Development (OECD) experienced extended periods of high and persistent unemployment, often coupled by low or declining rates of labor force participation and increasing numbers of recipients of government benefits (essentially unemployment, disability, and social assistance). In response, a number of countries over the past two decades have introduced policy reforms aimed at *activating* those recipients apparently able to work: requiring them to actively seek employment or engage in other specified work- or job training-related activities.

In the 1990s, the United States took the lead in activating those on social assistance (cash welfare) with its welfare-to-work programs. In recent years, other OECD countries made similar reforms to their social assistance programs, but they have also made more fundamental reforms to their unemployment and disability programs. To explore these developments, the University of Maryland Center for International Policy Exchanges (CIPE) and the OECD held an international conference in Paris, France in November 2011 on "Labour Activation in a Time of High Unemployment."

The conference consisted of five sessions: the political economy of labor activation reform; activation of unemployment insurance (UI) benefit recipients; outsourcing of labor activation services; activation of social assistance benefit recipients; and activation of disability benefit recipients. Each session included presentations of policy papers written by European researchers, further elaborations by European government officials, and discussion papers from prominent U.S. researchers that synthesized the policy lessons for the United States. In total, approximately 90 people attended from 19 countries: Australia, Austria, Belgium, the Czech Republic, France, Germany, Greece, Hungary, Italy, the Netherlands, Norway, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

All of the conference papers and presentations can be found at http://umdcipe.org/conferences/LaborActivationParis/conference_papers.html. This report summarizes some of the major points made in the presentations and follow-up discussions.

PROGRAMMATIC CHANGES

UI Programs

UI programs provide financial support to contributing workers who have lost their jobs. Especially in times of high unemployment, when general economic conditions make finding a job more difficult, they are a central component of the social safety net.

Journal of Policy Analysis and Management, Vol. 32, No. 2, 439–444 (2013)

Published by Wiley Periodicals, Inc. View this article online at wileyonlinelibrary.com/journal/pam
DOI:10.1002/pam.21679

Labor Force Attachment Efforts

In recent decades, unemployment durations of a year or more were far less common in the United States than in most other OECD countries. However, in the wake of the recent Great Recession, long-term unemployment has increased sharply: The share of the U.S. unemployed who are jobless for more than 26 weeks has more than doubled, from 18 percent in 2007 to 42 percent in June 2012. And the share jobless for 52 weeks or more rose from 10 percent in 2007 to 31.3 percent in 2011. The OECD average, on the other hand, only increased from 29 percent in 2007 to 33.6 percent in 2011.

- *Australia*. Between 1998 and 2009, Australia developed a system for identifying the needs of both the low income and the unemployed and for assigning them to the most appropriate activation services.
- *Denmark*. Between 1994 and 2010, Denmark reduced from seven years to two years the number of years that recipients could spend receiving UI. Depending on their age, UI recipients are now required to participate in an activation program within a defined time period after initial receipt of benefits. After two years, UI recipients are moved to social assistance and receive lower benefits.
- *Germany*. In the early to mid-2000s, the "Hartz reforms" (a series of reforms to Germany's UI and social assistance programs) formally linked Germany's UI and social assistance programs so that, after one year on UI, recipients are transferred to social assistance, and under both programs they face heightened activation requirements.
- *Japan*. In the early 2000s, Japan increased its lump-sum UI benefit payment to recipients who find work quickly, and created a similar lump-sum benefit program for temporary and part-time workers during the recent crisis.
- *The Netherlands*. In the early and mid-2000s, the Netherlands reduced the maximum number of months UI recipients can receive benefits and increased the number of months of work needed to be eligible to receive benefits.
- *United Kingdom*. Beginning in 1997, as a condition of receiving unemployment benefits, the United Kingdom added progressively stronger activation requirements (such as mandatory job search, work experience, and subsidized employment), and also added sanctions for nonparticipation.

Entrepreneurship

- To promote entrepreneurship among the low-income unemployed, some countries provide either additional funds to assist in the creation of new businesses or unemployment benefits in a lump sum to be used for that purpose.
- *France*. In 2009, France created a loan program that provides low interest rates and tax exemptions to recipients of UI or social assistance who start their own businesses.
- *Germany*. In 2002, Germany implemented a subsidy program of monthly payments in lieu of unemployment benefits to unemployed individuals who start their own businesses.
- *Spain*. In 2010, Spain relaxed prior rules concerning the payment of lump-sum UI benefits to encourage more recipients to take advantage of this option.

Disability Programs

In the early 2000s, OECD countries spent more than twice as much on disability-related programs (including disability insurance, sickness insurance, incapacity benefits, and any other program for the long-term sick or disabled) as on unemployment programs. At the same time that spending was rising, there was a growing recognition that the social environment (such as accommodation, rehabilitation, program incentives, market conditions, and discrimination) was at least as important as actual health-based impairment in determining the likelihood of employment. In response, over the last decade, a number of countries made disability policies more pro-work in order to reduce disability rolls and to increase the employment of working-age people with disabilities.

- *The Netherlands*. In the mid-2000s, the Netherlands instituted a series of reforms to base the amount of the benefit on the severity and the permanency of the disability.
- *Sweden*. Beginning in 2006, Sweden reformed both its "sickness benefits" and "sickness compensation" (Sweden's disability program) by limiting the definition of disability to include only individuals with a permanent disability and to attach work requirements and time limits to sickness benefits.
- *United Kingdom*. As part of broader reforms to unemployment, disability, and social assistance programs, in 2008, the United Kingdom replaced the disability assessment used since 1991 with a new assessment that reduces the number of exemptions from work and gauges the degree to which individuals' disabilities prevent work.

Social Assistance Programs

Although often overlooked because of the size and extent of their non-means-tested programs, most OECD countries also have means-tested, social assistance programs. Akin to the U.S. TANF program, these "minimum income programs" or "programs of last resort" provide cash and sometimes noncash benefits to individuals and families who are unable to support themselves and do not qualify for unemployment or disability benefits.

- *Denmark*. Between 1994 and 2006, Denmark imposed requirements for social assistance recipients to participate in activation activities and reduced benefit amounts for certain recipient populations after a specified period of time.
- *France*. In 2009, France replaced its prior social assistance scheme (a combination of a single parent allowance and "minimum insertion income") with one that requires recipients to search for work and provides increased benefits for those who find low-paid employment.
- *The Netherlands*. In 2004, the Netherlands reformed its social assistance program to one that requires recipients to participate in labor activation programs.

Changes in Administration

Program Consolidation

To increase program efficiency and also to maximize the impact of program rules, some countries have combined the operations and activation rules of their unemployment and social assistance or disability programs.

- *Australia*. In 1996, Australia consolidated the administration and provision of unemployment benefits, social assistance to lone mothers, disability payments, pensions, and other social benefits into one agency called Centrelink. Centrelink operates one-stop shops throughout the country, which determine eligibility for benefits and link recipients to activation programs.

- *France*. In 2009, France merged the different agencies for job placement and UI into a new agency that provided the same services to both social assistance and UI recipients.
- *Germany*. The Hartz reforms (above) merged social assistance for low-income individuals and unemployment benefits for the long-term unemployed into one program. (The reforms also included tax cuts, child care provision, and an increase in funding for temporary jobs.)
- *Norway*. In 2006, Norway consolidated its UI, social assistance, disability payments, and old-age pension programs into one agency.
- *United Kingdom*. As part of the 2010 package of reforms to its unemployment, disability, and social assistance programs, the United Kingdom created the "Universal Credit," an integrated working-age credit that, starting in 2013, will provide a basic allowance with additional elements for children, disability, housing, and caring to support people both in and out of work, replacing working tax credit, child tax credit, housing benefit, income support, income-based Jobseeker's Allowance, and income-related Employment and Support Allowance. The purpose was to create a single phase-out rate for benefits, reduce the high marginal tax rate for workers, and radically reduce the duplication and complexity of previously existing benefit programs.

Decentralization

To encourage local accountability and innovation, some countries have devolved to the regional or local level the operations of their unemployment, social assistance, or disability programs.

- *Germany*. Prior to the Hartz reforms, German municipalities were responsible for social assistance, housing, and heating benefits, and the national government was responsible for the unemployment and disability programs. After the passage of the Hartz reforms in the early to mid-2000s, municipalities retained responsibility for social assistance and were also given joint responsibility, with the Federal Employment Agency, for administering benefits and activation programs for the long-term unemployed through the merging of the two programs into Unemployment Benefits II (UB II). (This was declared unconstitutional by the German Constitutional Court.)
- *The Netherlands*. In 2004, the Netherlands devolved the provision of social assistance and active labor market policies to the municipalities. Funding to municipalities for social assistance is determined by a formula that estimates how many social assistance claimants the municipality should have by taking into account the past number of recipients and, in larger municipalities, other demographic and regional labor market factors. Municipalities are responsible for any spending in excess and get to keep any unspent funds.

Outsourced Activation Services

To increase programmatic flexibility by escaping the strictures of government agencies, some countries have outsourced (contracted out) various activation services.

- *Australia*. In 1998, Australia replaced a centralized government-run department that provided employment services to those receiving unemployment benefits (including low-income individuals, as Australia does not have a separate social assistance program), with a new system of contracted-out activation services for those receiving unemployment benefits to private vendors (for-profit and nonprofit).

- *Germany*. The Hartz reforms of early to mid-2000s shifted the provision of activation services for the unemployed and social assistance recipients from the public sector to private contractors and included a system of vouchers for services.
- *The Netherlands*. In 2004, as described above, the Netherlands devolved the responsibility of providing activation services for social assistance recipients to the municipalities. The national government maintained the responsibility of providing activation services to the unemployed and the disabled, but contracted out activation services to for-profit providers.
- *Spain*. In 2010, Spain authorized regional governments to contract with private vendors to provide labor activation services, the first time that such contracting has been allowed. As of January 2012, more than 140 firms had been authorized to bid as contractors, with the extent of participation varying by region.
- *United Kingdom*. In 2010, as part of the reforms to its unemployment, disability, and social assistance programs, the United Kingdom created a national bidding system for private vendors (nonprofit and for-profit) to provide activation services in 11 regions of the country. Forty contracts were awarded in April 2011.

Incentivized Systems of Financing and Reimbursement

To encourage employers to internalize the costs of unemployment and disability payments (and thus take actions to prevent both) and to encourage government agencies to target benefit payments to the truly needful (and thus reduce the number of recipients), some countries have deliberately embedded financial incentives in the way they tax employers to pay for benefits and in the way they reimburse local programs for benefits distributed.

- *Denmark*. As an incentive to provide activation services, since 2010, the national government reimburses municipalities for 50 percent of such services compared to only 30 percent for passive social assistance spending.
- *Finland*. To encourage employers to reduce the likelihood that their workers will become disabled and to provide continued employment for sick or disabled employees, in 2006, Finland mandated that large employers pay as much as 80 percent of the total disability bill through experience-rated insurance premiums.
- *The Netherlands*. Similar to Finland's approach to encourage employers to help prevent worker disability in 2004, the Netherlands made employers responsible for paying sickness payments for the entire time that workers are eligible to receive benefits (up to two years).

CONCLUSION

As with all policy changes, it is often difficult to disentangle the effect of the policy changes from other factors (including broader economic and social conditions) that may also be driving the rise and fall of program caseloads. Nevertheless, in some countries (such as Germany's UI program and the Netherlands's disability program), the immediate, sharp, and substantial declines in caseloads after the policy changes were passed suggests that the policy changes did have an effect. In other countries (such as Denmark's social assistance and unemployment program and the Netherlands's social assistance program), the declines occurred significantly after passage, possibly because of a difference between passage and effective dates or the time it took for the changes to be implemented. Moreover, although caseloads in all countries increased during the recession years of 2009 and 2010, they remained lower than in pre-reform periods, suggesting that the policy changes may have prevented a much greater increase.

Given the very different economic, social, and political traditions, it is unwise to think that the successful experiences of some European countries in promoting the activation of different categories of benefit recipients could be easily applied to the United States. Yet, the parallel experience of so many countries that face many of the same challenges as the United States points to general concepts and approaches that should be considered here. It is in that spirit that this report is offered.

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