



## SECOND ITEM ON THE AGENDA

### Active labour market policies

#### I. Introduction

1. In its March 2003 session, the Governing Body endorsed the Global Employment Agenda (GEA) as the employment arm of the decent work programme and requested the Office to select one item among the ten core elements of the GEA for detailed discussion. The item selected for the ESP session of the Governing Body meeting in November 2003 was core element 7 of the GEA<sup>1</sup> on active labour market policies (ALMPs). This paper is the Office's response to this request. ALMPs are an essential component in the fight against unemployment, underemployment, poverty and labour market exclusion in general and thus a main element of any strategy to combat these problems.
2. The objective of this paper is to stimulate discussion in the ESP Committee for possible areas of future work on ALMPs by the Office. Former drafts of the paper have been widely circulated and were thoroughly commented on by all constituents. These comments were incorporated as much as possible in this final version. While common understanding of the topic emerged, ALMPs are also a subject of controversy regarding their definition, their effectiveness and their future direction. The paper thus highlights some of the diverging views that might be subject to debate in the Committee.
3. The March 2003 paper of the Committee states four broad objectives for ALMPs: employment growth, security in change, equity and poverty reduction. These four objectives are similar to those formulated in earlier ILO statements on ALMPs, such as the November 1993 ESP paper<sup>2</sup> highlighting efficiency, equity, growth and social justice as the main goals for ALMPs. These papers clearly illustrate the position of the ILO that ALMPs should integrate both economic and social goals. This position is in accordance with the views of tripartite constituents and is also a concept underlying decent work.<sup>3</sup>

<sup>1</sup> GB.286/ESP/1.

<sup>2</sup> GB.258/ESP/2/5.

<sup>3</sup> There are various ILO standards that relate to and confirm the twin goals of ALMPs. Some examples are: the Employment Policy Convention, 1964 (No. 122); the Human Resources

4. When ALMPs respond to a defined need and are skilfully designed so as to not force a trade-off between social and economic goals, they fulfil the criteria for one of the other core elements of the GEA, namely “social protection as a productive factor”. In doing so, they legitimize social intervention on economic grounds. Indeed, LMPs, particularly active policies, can be viewed as the work-based elements of social protection.
5. In core element 7 of the March 2003 paper, collective bargaining was singled out as “a vital institution for fulfilling the objectives of labour market policies and labour market adjustment at the enterprise level and above”.<sup>4</sup> In particular, the flexibility of the instrument for adjusting the labour markets to change, and its role in wage policy was underlined. The importance of ALMPs for migration and the protection of migrant workers were also mentioned.
6. This paper starts with a definition of ALMPs and then examines the potential and actual extent of their contribution to the four objectives of employment growth, security in change, equity and poverty reduction. A short overview of spending and participation in ALMPs around the world will follow. The paper also considers LMP evaluation, some new trends in ALMPs, the importance of ALMPs for decent work and concludes with suggestions for further work by the Office on ALMPs.

## **II. Background, functions and definition of active labour market policies**

7. There is a shortage of decent jobs and ALMPs are a tool for confronting both the quantitative and qualitative dimensions of this challenge. Coping with unemployment and underemployment is the goal of ALMPs. Yet some new challenges face ALMPs, an important one of which is demographic. In most of Europe, as well as Japan and China, there is both an ageing and shrinking of the labour force while, in other parts of the world, there is the need to integrate increasing numbers of young people. Another challenge is the increase in flexible jobs and thus the greater variety of contractual forms on the labour market. Another ongoing challenge that is made more acute by the combined forces of economic liberalization and technological progress is the management of change, which requires policies both to maintain workers in productive workplaces and to reallocate them from unproductive to productive jobs.
8. Change is a permanent fact of economic development, thus policies that ensure that change does not result in increasing joblessness, poverty and economic decline, but instead in active development, should be made permanent. ALMPs (and labour market policies in general) should not only contain the adverse labour market effects of change but should also turn change into an opportunity for development. These policies are integrated with the other dimensions of the GEA, in particular those affecting the economic and labour market environment such as a pro-employment macroeconomic policy, trade and investment and technological change. These policies also closely relate to (and contain elements of) the other elements relevant for the labour market such as the promotion of decent work through entrepreneurship, skills and knowledge, as well as social protection.

Development Convention, 1975 (No. 142); the Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159); and the Older Workers Recommendation, 1980 (No. 162).

<sup>4</sup> GB.286/ESP/1, para. 34.

## **Towards a definition: Labour market policies, active labour market policies and employment policies**

9. LMPs mediate between supply (jobseekers) and demand (jobs offered) in the labour market and their intervention can take several forms. There are policies that contribute directly to matching workers to jobs and jobs to workers (public and private employment services, job search assistance, prospecting and registering vacancies, profiling, providing labour market information), or enhancing workers' skills and capacities (e.g. training and retraining), reducing labour supply (e.g. early retirement, supporting education), creating jobs (public works, enterprise creation and self-employment) or changing the structure of employment in favour of disadvantaged groups (e.g. employment subsidies for target groups).
10. There are also specific and important sub-functions of LMPs that have positive effects on social integration as well as on the economy. These include the provision of replacement income during sometimes lengthy matching periods,<sup>5</sup> which serves to alleviate poverty linked to joblessness, the maintenance and enhancement of employability, the construction and maintenance of infrastructure as well as the creation of new businesses. Passive and active labour market policies have acquired the status of budget items in state budgets and have in some countries reached considerable expenditure levels. They are a distinct part of the social protection system and cover the labour market risks to the same extent as the other elements of social protection cover other risks, such as ill health, invalidity and old age. However, in doing so they have also a distinct economic function.
11. We define LMPs and ALMPs as policies that provide income replacement and labour market integration measures to those looking for jobs, usually the unemployed, but also the underemployed and even the employed who are looking for better jobs. "Passive" policies are those that are concerned with providing replacement income during periods of joblessness or job search; active policies concern labour market integration. Indeed, active support for labour market integration is the main thrust of ALMPs. Broadly speaking then, passive policies correspond to social transfers that are not conditional upon joining a training or work programme, though they usually include job search provisions that are increasingly enforced and which correspond to an active element in passive policies. To the contrary, active policies are contingent upon participation in such programmes in order to enhance labour market (re)integration. Typical passive programmes are unemployment insurance and assistance and early retirement; typical active measures are labour market training, job creation in form of public and community work programmes, programmes to promote enterprise creation and hiring subsidies. Active policies are usually targeted at specific groups facing particular labour market integration difficulties: younger and older people, women and those particularly hard to place such as the disabled. In part, ALMPs are an answer to the criticism that pure income replacement policies might entail disincentives to work once unemployment is of longer duration.

## **The relationship between ALMPs, wage policy and collective bargaining**

12. As specified in the March 2003 GEA paper, and reiterated by the Worker members in first drafts of this paper, there is a strong connection between ALMPs, wage policy and collective bargaining and a broader definition of employment policies should include these

<sup>5</sup> The time between the start of unemployment and being hired on a job.

and other policy areas relevant for the quantity and the quality of employment.<sup>6</sup> For example, an important component of the design of passive and active LMPs is the level of income replacement compared with market wages. LMPs provide a wage floor and are thus closely linked to minimum wage regulations. There is some discussion about this wage floor being a disincentive to take up regular work (the unemployment trap) but research has found that the duration, rather than the level of replacement income, can act as a disincentive to take up work. When the alternative between receiving “passive” and active assistance exists, then it might be necessary to set compensation in active measures above those in passive measures as an incentive to join active schemes. So-called “activation policies” have dealt with the issue (see below). Thus, payment levels for programme participants hit at a core controversy in economic theory, namely, how the price of labour determines employment. Wage formation and wage policy is also at the core of industrial relations between the social partners and governments.

13. Seen in a broader context, wage policies and collective bargaining are relevant for ALMPs but not identical to ALMPs. In particular, the relationship between wages and employment is important and wages can be set through wage-setting institutions among which collective bargaining is important. Collective bargaining covers only a small and declining part of the United States economy but coverage is extensive in many European countries. There is presently a trend towards more company bargaining but bargaining on higher levels persists as well. Also the wage-employment relationship has triggered many controversies between the social partners and is an age-old debate between economists. This has to do in part with the microeconomic and the macroeconomic functions of wages: for individual employers, wages and wage increases as well as non-wage costs (payroll taxes) are all costs and are said to be inversely related to employment, especially in those sectors most exposed to price competition. For individual workers, wages are incomes which determine to a large extent the quality of work, as well as consumption and saving patterns. For the larger economy, wages drive consumption and thus are a determinant of economic growth and employment. Productivity must also be considered since it can be shown that high-wage countries usually have high productivity and favourable costs per unit produced which, despite the higher labour costs, do not hinder their export competitiveness.
14. Economists’ views on the relationship between wages and employment are controversial. A good illustration of this is the minimum wage. While it is hard to summarize the debate, it seems that, set at the right level in relation to the average wage, minimum wages are not detrimental to employment and have a positive impact on poverty. Nevertheless, there is some concern that employment of specific groups in the labour market and in specific low-wage segments of the economy could suffer if minimum wages are set at too high a level.<sup>7</sup>

<sup>6</sup> Some of these other policies include the provision of childcare that allows mothers to work, as well as quota systems for the employment of the handicapped, tax policies or expansionary budget policies. In the literature, these policies are usually defined as employment policies in contrast to active labour market policies. In a way all policies that have an impact on employment can be termed employment policies.

<sup>7</sup> Card and Krueger (1995) found an increase in employment in the fast food industry of New Jersey following an increase in the minimum wage. See D. Card and A.B. Krueger: *Myth and measurement: The new economics of the minimum wage*, Princeton, Princeton University Press. Saget (2001), analysing 30 developing countries, finds no significant impact of minimum wages on employment. See C. Saget: “Poverty reduction and decent work in developing countries: Do minimum wages help?”, in *International Labour Review*, Vol. 140, No. 3, pp. 237-269, Geneva, ILO. On the other hand, the OECD (1998) found that, while there was only a slight negative impact

15. The current policy debate on wages is not so much concerned by overall levels,<sup>8</sup> but by high non-wage labour costs that lead to a large wedge between gross and net wages in some countries. Thus, costs for employers are high, while take-home pay for workers – after considering all taxes levied on the payroll – are relatively low. This indeed is neither an incentive for workers to take up jobs, nor for employers to hire. However, as social protection is paid usually from taxes levied on wages, the income produced by payroll taxes for the financing of social protection (which includes active labour market policies) has to be considered as well. Solutions to these complex issues include a shifting of payroll taxes to less direct forms of taxation (i.e. a fiscalization of social contributions) so that more social protection is financed by the state budget. This in turn should contribute to employment creation.
16. Social dialogue is one of the possible instruments for regulating wage levels in a manner that accommodates these complex issues while promoting employment. The European Union promotes social dialogue for solving these problems and it has been shown that some European countries that have had employment success were using social dialogue and collective bargaining to tackle these interrelated problems. In some of these cases, the trade unions took on macroeconomic responsibilities in agreeing to moderate wage rounds – in exchange for tax cuts or enhanced labour market policy measures – that helped to turn around ailing economies and labour markets.
17. Another controversy concerns how employment regulation, as determined by collective bargaining and labour law, affects employment and the functioning of labour markets. The debates and policies surrounding employment protection regulation are prime examples. While the extremes of this debate go from strict regulation to full deregulation, in practical terms the debate is focused on the appropriate level and form of regulation, rather than about having none or all. There is also a debate on the cost of dismissal protection for employers and for employment.<sup>9</sup>
18. LMPs are often used to balance the amount of employment protection in a country. For example, some countries with strict employment protection legislation have witnessed an increase in LMPs accompanying enterprise restructuring. What is forbidden on one hand by dismissal protection is allowed on the other hand by labour market policies: thus the increase in early retirement schemes that allows the exit of older workers, making them the main target of job cuts, even though, because of long tenure, they are among the most protected in many countries. This form of social cushioning of mass redundancies, usually agreed to by the social partners, will become more difficult because of the long-term financial burden it poses on pension systems, thus stressing the need for a more active treatment of redundancies.
19. As a result, trade-offs between employment protection regulation and both passive and active labour market policies have increasingly become a bargaining item for the social partners. This also holds true for wage policy and LMPs: for example, in return for wage concessions made by unions in recent bargaining rounds in Denmark and Ireland, the

of minimum wages on employment overall in the nine member countries that were studied, the negative impact for teenagers was significant. See *OECD Employment Outlook 1998*, Paris.

<sup>8</sup> Wage alignment with low-wage competitors is generally excluded because of the large differentials in wages and prices between high-wage and low-wage economies.

<sup>9</sup> The OECD (1999) found that employment protection legislation does not significantly impact on unemployment levels, as some economists had predicted. However, some impact on the structure of unemployment was noticed, most notably the share of long-term unemployed tended to be higher in countries with strict employment dismissal regulation. See *OECD Employment Outlook 1999*, Paris.

protection of workers in case of redundancies was increased. The outcome of the debates and bargaining processes on labour law reforms and collective bargaining regulations are of utmost importance for employment and the labour market.

20. More specifically, the social partners are in many ways involved in the design and implementation of labour market policies. They often sit on the boards of labour exchanges or local employment and training boards, and sometimes run them entirely. There have been contrasting developments in this area: in some countries the role of the social partners has diminished after critical evaluation, while in other countries their role has increased.
21. Wage policy and labour market regulation are distinct but related policy areas in the larger field of active employment policies. As such, both are of great importance to the dialogue between the social partners in general and for collective bargaining in particular. The Office has been undertaking substantial work on these items throughout its various departments and units and it would be worthwhile to collect this information, and the resolutions produced on these subjects, in order to assess whether or not the ILO and its constituents have developed a consistent view on these issues.

### **III. Scope of ALMPs' contribution to the four objectives of employment creation, security in change, equity and poverty reduction**

22. The ESP March 2003 paper put employment creation, security in change, equity and poverty reduction at the core of the functions of ALMPs. ALMPs support employment creation in two ways: directly by employment-generating measures (e.g. public works and enterprise creation as well as hiring subsidies), and indirectly by improving employability through training and by ensuring efficient labour exchanges that provide better labour market information and enhanced job matching. There are also indirect positive macroeconomic effects through consumption smoothing during economic downturns as well as positive spillovers from infrastructure building by public works programmes. Collective bargaining as one wage-setting institution, can contribute to the implementation of the four items, as wage levels and wage distribution affect the quantity and quality of employment, equity and poverty alleviation. For example, former wage levels serve as a reference for income replacement paid following a lay-off, and will thus influence welfare during periods of transition.
23. With today's openness to trade and investment, continuous technological progress and privatization of state-owned enterprises, labour market change is inevitable. In many cases, these changes result not only in internal reallocation of labour but also lay-offs. As a consequence, governments and the social partners must find ways to cope with such changes. ALMPs are an important policy tool for addressing the adverse effects of structural change and insufficient labour demand, thereby creating **security in change**, although they are not a substitute for macroeconomic policies of economic growth and employment creation.<sup>10</sup> In the absence of a favourable macro environment for increased investment, growth and employment, ALMPs can only provide temporary support to those displaced by structural and business cycle change. Active policies must contribute to the

<sup>10</sup> Workers' security is also affected by economic growth. All other things being equal, enhanced growth and employment creation lead to an enhanced individual perception of security: security is highest in boom times and when LMPs and ALMPs exist. See P. Auer and S. Cazes (eds.) (2003): *Employment stability in an age of flexibility: Evidence from industrialized countries*, Geneva, ILO.

reallocation of workers made redundant, while offering them replacement incomes during transition. In such a way, ALMPs not only contribute to security in change but also to employment, productivity and economic growth, at least in the longer term. Several units of the Office have already conceptualized and advised constituents on such active ways of coping with redundancies (e.g. socially responsible restructuring, community-based restructuring, etc.).<sup>11</sup>

24. ALMPs also contribute to **equity**. One straightforward task is to ensure the participation of target groups in active programmes, which service disadvantaged persons. ALMPs should seek to promote the advancement of those individuals usually hired last, or not at all. This implies overcoming discrimination against older workers, youth, people with disabilities, migrants and members of ethnic groups. It also means reducing discrimination against women.<sup>12</sup>
25. ALMPs address the labour market insertion challenge facing youth. The Youth Employment Network (YEN), which is a joint initiative of the United Nations, the World Bank and the ILO, is an important policy tool in this context. Young people should not start their working life with a prolonged period of unemployment and should also have access to good quality jobs. They should be given training or work-based alternatives in the absence of regular jobs. Especially important is the need for a renewed and large-scale effort on vocational training, a widely neglected matter over the last couple of decades, particularly in Africa. Inserting youths into the labour market is essential for successful management of demographic change and accordingly also contributes to the goal of security in change. This goal is shared largely by the social partners as can be seen by the joint International Confederation of Free Trade Unions (ICFTU) and International Organisation of Employers (IOE) proposal for national action plans on youth employment. Even though some fear a trade-off between younger and older workers (an extra effort for the young will displace older workers or vice versa), data on the employment rates of older and younger cohorts in industrialized countries show that the countries with high employment rates for older workers usually also have high youth employment rates, thus pointing to a complementarity rather than a trade-off.
26. On a more general level, ALMPs can contribute to equity during waves of structural change and recessions by maintaining income at a level that does not result in large increases in wage dispersion. This applies also to passive policies such as unemployment benefits and has a bearing on poverty alleviation.
27. ALMPs contribute to **poverty alleviation** through measures that provide work, training and income. The idea that decent work is the best insurance against poverty<sup>13</sup> is also at the heart of ALMPs. In the absence of regular jobs, but also as a support to job creation, ALMPs can contribute to poverty alleviation. For example, income derived from active work or training programmes is important for otherwise unemployed individuals, not least

<sup>11</sup> See, for example, G.B. Hansen (2002): *A guide to worker displacement: Some tools for reducing the impact on workers, communities and enterprises*, Geneva, ILO, IFP/SKILLS; and P. Auer (2001): *Labour market policies for socially responsible workforce adjustment*, Geneva, ILO, Employment Paper 2001/14.

<sup>12</sup> For a recent account of discrimination at work, see ILC, 91st Session (2003), Report (IB): *Time for equality at work*, Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, Geneva, ILO.

<sup>13</sup> Report (IA) of the Director-General to the ILC, 91st Session (2003): *Working out of poverty*, Geneva, ILO.

because of the socially integrating effect of decent work. For the developed world and the transition countries, it can be demonstrated that such work – and training-related transfers are a better alternative, in terms of the opportunity costs of public spending, than unemployment benefits alone. For developing countries, the target group for ALMPs might not be the openly unemployed, but rather the working poor in the informal sector. This requires new insights into the labour market behaviour of the working poor and how ALMPs can contribute to formalize and increase the productivity and security of informal jobs.

28. There are thus, in principle, ample reasons for using ALMPs to attain the four goals of employment creation, security in change, equity and poverty reduction, and their use throughout the world attests to this fact. By acting on these four issues ALMPs contribute to the quality of work. However, the use of ALMPs has varied across countries. In the next section, information is provided on the differences in ALMP spending and participation around the world.

#### **IV. Differences in the utilization of ALMPs: Developed, developing and transition countries**

29. The policy framework for ALMPs has been developed mainly, but not exclusively, in industrialized countries, where most evaluation research has also been undertaken. There the countries most open to globalization seem also to be the ones having the densest network of labour market institutions to protect their workers against the adverse effects of globalization.<sup>14</sup> But, these programmes have since been locally adapted and applied to other parts of the world. For example, the so-called transition countries made extensive use of ALMPs during the transformation of their planned economies to market economies.<sup>15</sup> Developing countries are also increasingly implementing ALMPs to mitigate adverse labour market effects of economic crises, as the East Asian experience clearly illustrates, as well as to establish some security for workers affected by structural change.<sup>16</sup> Clearly, the situation in most developing countries differs enormously from that of OECD countries: in developing countries, solutions to the employment problem lies in sustained economic development, as outlined in the GEA. While it is difficult to give an exact picture of the diversity of programmes in the world, mainly due to lack of data for many developing countries, some comparative information on LMP expenditures, both active and passive, is provided.

30. In the **OECD countries**, and especially in the 15 European Union countries, ALMP has become a permanent feature of economic and social policy. Expenditures on LMPs fluctuate anti-cyclically, mostly due to increased spending on passive policies, in particular unemployment benefits during an economic downturn; spending on ALMPs is usually

<sup>14</sup> See J. Agell (1999): “On the benefits from rigid labour markets: Norms, market failures and social insurance”, in *The Economic Journal*, Vol. 109 (453), Oxford.

<sup>15</sup> For a comprehensive review of the experience of transition countries with ALMPs, see A. Nesporova (1999): *Employment and labour market policies in transition economies*, Geneva, ILO.

<sup>16</sup> For an excellent account of the East Asian experience with ALMPs, see Betcherman et al.: “Active labor market policies: Issues for East Asia” in *East Asian labor markets and the economic crisis: Impacts, responses and lessons* (2001), edited by G. Betcherman and R. Islam, ILO, Geneva, and the World Bank, Washington, DC.



more stable over the cycle. Thus, for example, at the beginning of the recovery in 1993 around 3.8 per cent of GDP in the EU was spent on LMPs, of which approximately one-third (1.2 per cent of GDP) was spent on ALMPs. In 1999, however, six years into the recovery, overall spending was down to 2.8 per cent of GDP, a reduction of one percentage point, while spending on ALMPs remained more or less stable. The resilience of ALMP spending in the EU is also due to the activation policy of the EU, favouring active over-passive spending, as stated in the European Employment Strategy of the European Commission. Recent OECD figures for 2001<sup>17</sup> show that this picture is still valid. In comparison to the EU countries, the data indicate relatively low public expenditure on ALMPs for the United States, Japan, Australia and New Zealand, illustrating the difference in LMPs between European and non-European members of the OECD.<sup>18</sup>

- 31.** The **transition countries** feature as low ALMP spenders compared to the EU countries: an unweighted average of nine transition countries<sup>19</sup> shows spending of 0.3 per cent of GDP on ALMPs in 1998,<sup>20</sup> hardly one-quarter of the EU average in the same year (1.1 per cent). In **Latin America**, on the other hand, the unweighted average of public expenditure (training and employment programmes only) on ALMPs in seven countries<sup>21</sup> amounted to 0.4 per cent of GDP in 1997,<sup>22</sup> somewhat above that of transition countries, although many of these programmes are targeted at youth training and apprenticeship, which in transition countries are considered part of the educational budget.
- 32.** Active measures have been enacted also in some **East Asian countries** after the Asian crisis, although public expenditure on ALMPs in these countries compares poorly with the EU average. The Republic of Korea, for instance, reports a level of spending on ALMPs that corresponds to 0.3 per cent of GDP in 2001.<sup>23</sup> In **Africa** active measures are a commonly used policy tool according to the evidence provided by recent ILO studies.<sup>24</sup>

<sup>17</sup> *OECD Employment Outlook 2002*, Statistical Annex, Paris, OECD.

<sup>18</sup> This does not mean, however, that labour market programmes in Europe are, as a rule, more advanced or successful than those in North America, Japan or Australia. Indeed, there are also well-developed programmes in countries of these regions. See, for example, OECD (2001): *Innovations in labour market policies: The Australian way*, Paris, OECD; or OECD (1999): *The Public Employment Service in the United States*, Paris, OECD.

<sup>19</sup> Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Poland, Russia Federation, Slovakia and Ukraine.

<sup>20</sup> This figure on transition countries is calculated from C. O'Leary, A. Nesporova and A. Samorodov (2001): *Manual on evaluation of labour market policies in transition economies*, Geneva, ILO, p. 43.

<sup>21</sup> Argentina, Brazil, Chile, Costa Rica, Jamaica, Mexico and Peru.

<sup>22</sup> This figure is calculated from G. Márquez (1999): *Unemployment insurance and emergency employment programs in Latin America and the Caribbean: An overview*, Inter-American Development Bank, Paper for the Conference on Social Protection and Poverty, pp. 8-11.

<sup>23</sup> *OECD 2002*, op. cit.

<sup>24</sup> See, for example, S. Devereux (2002): *From workfare to fair work: The contribution of public works and other labour-based infrastructure programmes to poverty alleviation*, Geneva, ILO Recovery and Reconstruction Department, Issues in Employment and Poverty Discussion Paper 5; or G. Kanyenze, G.C.Z. Mhone and T. Sparreboom (2001): *Strategies to combat youth unemployment and marginalization in Anglophone Africa*, ILO, Geneva, ILO Southern Africa Multidisciplinary Advisory Team (ILO/SAMAT), ILO/SAMAT Discussion Paper No. 14.

Some countries, such as Algeria and Tunisia, report expenditure on ALMPs above 1 per cent of GDP, although no data on the amount of overall regional spending exists.

33. ALMPs are thus used in all parts of the world, although their role is sometimes only marginal. However, while high spending indicates that governments allocate money for active policies, the question of what has been done with the money allocated is of more relevance. For example, large differences appear between countries when expenditure and participation rates<sup>25</sup> are compared jointly. For example, according to OECD data from 2001,<sup>26</sup> the Republic of Korea appears to do better than Denmark. With an ALMP spending of only 0.3 per cent of GDP, 13.1 per cent of the Republic of Korea's labour force participates in active measures, while Denmark allocates 1.6 per cent of its GDP to 21.1 per cent of its labour force. This could be interpreted as the Republic of Korea being able to serve more than 40 per cent of its labour force with a 1 per cent expenditure of GDP on ALMPs, while Denmark would need to spend three times as much to serve the same amount of its labour force.
34. However, such comparisons of raw input (spending) and raw output (participation) variables are futile in the absence of corrections, for example, for programme duration (some countries serve large numbers for a short time, while others serve smaller numbers over a longer term), programme participants (e.g. low skilled, high skilled) or programme quality (wage levels paid to participants, equipment, training locality, type of public works programme, etc.). The differences in the structure of ALMPs play a role here. It can be shown that in the developed world programmes have shifted from demand side measures such as community works to more supply oriented measures such as training: this has in part contributed to the fact that more people can be served by the same amount of expenditure.
35. It is also revealing to assess how much a country spends on ALMPs for 1 per cent of its unemployed, thus broadly controlling for the population eligible for labour market measures. Among the European countries, the Netherlands spends by far the most on its unemployed, while Denmark ranks second. Among the countries examined, the lowest public expenditure per unemployed pertains to transition countries, especially the Russian Federation, Estonia and Ukraine.
36. Generally, studies done in some countries show the positive impact of ALMPs in terms of reducing unemployment. In France, for example, it is estimated that community works have a high impact on unemployment and prevent new unemployment spells at a rate of 80 to 90 per cent on average for each subsidized public works job.<sup>27</sup> In Germany, ALMPs substantially contributed to the reduction of open unemployment, especially during reunification. Likewise, ALMPs lowered the unemployment rate in Chile in 2001 by about 1.5 percentage points. In addition, opportunity costs analysis has shown that ALMPs for the unemployed have a low net cost for public budgets due to their unemployment prevention effects.
37. However, such indicators do not tell us much about the outcomes for the participants of ALMPs. Were these participants later integrated into the labour market? Was their employment sustainable or decent? Are they likely to return to unemployment? Answering

<sup>25</sup> People participating in labour market programmes during a year as a percentage of the labour force.

<sup>26</sup> *OECD 2002*, op. cit.

<sup>27</sup> DARES (1996): *40 ans de politique de l'emploi*, La Documentation Française, Paris.

these questions requires undertaking sophisticated evaluation studies. Only then can the effects of programme participation on participants and the economy be truly assessed.

## V. Evaluation of ALMPs

38. LMP evaluation research has indeed shown that not all active measures are efficient in reaching their target groups; not all enhance the chances of participants to access jobs after participation; and not all are cost-effective means to reach their set goals. LMP evaluation has evolved from relatively simple to a very complex tool for policy-makers. The most advanced evaluation techniques operate with carefully selected control groups and aim at comparing the effectiveness of different programmes to reach a common target. To summarize a complex issue, evaluation research<sup>28</sup> shows that the effects of programmes on employment and wages are usually small and positive, but not in all cases. These results have to do with several perverse effects such as deadweight (the same result would have been reached in the absence of a particular programme), substitution (subsidized persons may displace unsubsidized persons), displacement (subsidized activities may displace other activities in the economy) and creaming (only the most employable among the unemployed are able to access jobs through policy intervention).
39. However, these studies usually measure only the economic effects of ALMPs, which clearly also have social goals. Even the measurement of the economic effects seems to be too narrow, as only the employment effect (has the person been integrated in the labour market) and the wage effect (have wages increased after participation) are typically measured. The net value of a programme cannot be assessed without taking into account also the positive multiplier effects of spending on programmes or its endogenous growth effects.
40. Yet the effects of ALMPs are not limited to those mentioned above, as there are also general arguments in favour of ALMPs, for example, with regard to decent work. Recent yet-unpublished ILO work<sup>29</sup> shows that expenditure on ALMPs correlates positively with the perception of employment security and with job quality, suggesting that those policies have a positive impact on decent work and on the readiness of workers to move to better jobs<sup>30</sup> by providing a safety net in case of job loss. Furthermore, positively perceived employment security also has beneficial effects on the macroeconomy via consumption behaviour.<sup>31</sup> Overall, a recent ILO study on transition economies found that ALMPs

<sup>28</sup> See, for example, Betcherman and Islam, op. cit., or Meager and C. Evans (1998): *The evaluation of active labour market measures for the long-term unemployed*, Employment and Training Papers No. 16, Geneva, ILO, pp. 29-57.

<sup>29</sup> P. Auer (2003): *Tenure, employment security and transitions on the labour market: The case for protected mobility*, presented at the Society for the Advancement of Social Economics (SASE) Meeting, 2003.

<sup>30</sup> In a recent ILO study [S. Cazes and A. Nesporova (forthcoming): *Labour markets in transition: Balancing flexibility and security in Central and Eastern Europe*, ILO, Geneva], it was shown that high perception of employment insecurity leads to resistance of workers to move and thus has negative impacts on the economy.

<sup>31</sup> For example, according to a 1998 study by S. Wolter ("The costs of job insecurity: Results from Switzerland", in *International Journal of Manpower*, Vol. 19(6), pp. 396-409), during the economic recession in the 1990s, increased job insecurity adversely affected consumer spending in Switzerland, aggravating the negative effects of the economic downturn via the multiplier. Based on

impact favourably on labour market participation, employment, unemployment, youth unemployment and long-term unemployment.<sup>32</sup>

41. Although evaluation research cannot yet account for all these different aspects of ALMPs, some lessons for improved policy design can still be drawn. In general, carefully targeted measures have better results than broad measures applying to everyone or larger groups. For the reintegration of people into the labour market, programmes that are closer to real life experience (real work situations) work better than programmes that are remote from market activities. Thus, even though most programmes are publicly financed and often also publicly administered, this is an important area of public/private interaction. This is particularly true for training but is also applicable to public works schemes, which have to avoid being pure “make work” schemes, and instead contribute to real value added. One way of doing so is to integrate public works programmes into labour-intensive investment strategies<sup>33</sup> and integrate training into public works schemes, as this increases the likelihood of securing employment after the termination of the temporary work programme.
42. Evaluation research has also looked at delivery and programme administration. A summary of results indicates that decentralization seems to yield better results for programme delivery. However, decentralized delivery systems require a monitoring system that compares the results of the decentralized units (e.g. public or private employment services or training centres) and yields information for programme delivery divergence, thereby enabling corrective action. Decentralization, in order to be effective, requires some centralized policy-setting and monitoring unit, which should also deal with redistribution of funds among regions according to needs. The evaluation literature finds that one-stop-shops, integrating all services provided to the jobseekers, are preferable to having dispersed agencies delivering such services.

## VI. Recent developments in ALMPs

43. A first and rather new development is **activation of labour market policies**. This describes the promotion of active over-passive policies as a means to both raise employment rates and diminish the burden on the social welfare system. Activation entails a new balance between the rights and duties of the unemployed, by introducing conditionalities. For example, in the European Union’s Employment Strategy, after a defined period (usually up to six months for youths and up to 12 months for adults) where the unemployed can receive benefits, the activation period (participation in intensive job search, training or temporary public work schemes) starts.
44. Activation is highly relevant for all countries of the world. The principle that financing activity is preferable to financing inactivity – at least in the longer term – is universal. Many developing countries have adopted ALMPs (e.g. public works schemes, training schemes, etc.) even before or without introducing unemployment compensation systems. While active and passive schemes are not mutually exclusive and in developed economies

scenario simulations, the author estimates that as a result of the consumption foregone due to diminished job security, GDP growth rates were half of what they would have been.

<sup>32</sup> S. Cazes and A. Nesporova (forthcoming), op. cit.

<sup>33</sup> See, for example, S. Devereux (2002), op. cit., or E. Lyby (2001): *From destruction to reconstruction: The Uganda experience (1981-97) using employment-intensive technology*, Geneva, ILO Recovery and Reconstruction Department.

their adoption has been rather sequential, developing countries, given their large informal labour force, often opted for active measures from the outset.

45. One element of activation is **in-work benefits** designed to set incentives by offering income supplements to people accepting employment in low-paid jobs. Activation has been an important element of the labour market recovery in some countries and is linked to the concept of **transitional labour markets**, which protect labour market mobility through, inter alia, passive and active LMPs. Such protected mobility – or flexicurity – enables a strategy for management of change that targets flows rather than stocks on the labour market. ALMPs are an important element of the institutions and policies allowing for protected mobility and thus can enhance the structural adjustment capacity of labour markets while offering security to workers.
46. Another recent and related development is **socially sensitive restructuring**. The policies used to accompany workers made redundant during restructuring are a very important element of economic transitions. Their objective is also to maintain workers in restructured workplaces, if this is a viable option, and as a result “**employment and competitiveness pacts**” are becoming more common in many countries. These pacts show again the interrelation between wage policy, collective bargaining and ALMPs. Employment and competitiveness pacts refer to collective bargaining agreements by employers and unions – usually at company level – that trade employment maintenance, and sometimes increases, against wage moderation or working time reductions. As a corollary, ALMPs provide for protection once the workers are made redundant. There is now an abundance of literature and manuals on the subject<sup>34</sup> and the dramatic consequences of downsizing for families and whole regions make the issue a priority for employment. All instruments of ALMPs can be used during downsizing to reallocate workers to other jobs and to contribute to the creation of such jobs, for example, through enterprise creation.
47. While the local level has always been important for adapting and implementing ALMPs, new developments point to an enhanced role at the local or territorial level. **Territorial employment pacts** (containing some of the elements of the employment and competitiveness pacts) bargained by social partners have increased in recent years. **Local development boards and community-based restructuring**, integrating ALMPs into local development strategies have also gained in importance and are an example of broad social partnerships between the traditional social partners (business and labour) and civil society at the local level.

## VII. Conclusions and recommendations

48. The trend towards increasing trade liberalization and consecutive restructuring seems unabated. This trend is enhanced by technological progress. These changes can – without policy intervention – lead to more insecurity in labour markets as well as to lower job quality and more exclusion, and thus constitute a threat to the promotion of decent work.
49. It seems that countries most open to the world economy that have not seen a dramatic rise in unemployment, low-quality jobs, inequality and poverty are those that have created the right policy environment for coping with both the economic and social dimension of

<sup>34</sup> See, for example, G.B. Hansen (2002), op. cit., or N. Rogovsky (2000): *Corporate community involvement programmes: Partnerships for jobs and development*, Geneva, ILO International Institute for Labour Studies.

globalization. Active labour market policies are at the core of such an institutional environment.

50. Countries need permanent labour market institutions for the management of change, adapted to their particular circumstances. This does not only mean managing redundancies, but also the need to support existing productive jobs, as witnessed by the increasing number of social pacts on employment. There is the need for well-designed institutions that fulfil the double objective of not impeding change but instead providing security in change. Thus, LMPs for the management of change that help not only the most vulnerable, but all those affected by change, could evolve into permanent instruments for **labour market intermediation** (between supply and demand) and labour market inclusion in the more open labour markets that accompany globalization.
51. Knowing how labour markets will develop and forecasting change in order to prepare policies accompanying change also requires effective **labour market information systems**. Good labour market information will in turn lead to more effective intermediation between supply and demand. Good intermediation needs the concerted effort of broader employment policies that comprise collective bargaining, wage policy and ALMPs. It needs also a good system for **follow-up**, in order to facilitate the monitoring, evaluation and eventual modification and readjustment of measures.
52. These institutions accompanying change also have a bearing on decent work. While it holds true that decent and productive work requires an employment relationship of some length,<sup>35</sup> decent jobs are also affected by change. The institutional embeddedness of decent work is therefore one of the conditions that make jobs not only decent at a particular time but also over time, even beyond a single employment contract.
53. Thus one of the recommendations that the ESP Committee might endorse is this principle: ALMPs do not represent a quick-fix solution to troubles in the economy, but instead a more sustained effort by the social partners and governments to achieve security in change and labour market inclusion. They are thus a main element for further knowledge, advocacy and technical cooperation work of the Office in the framework of the GEA and decent work. But beyond endorsing the principle of ALMPs, there is a need for a differentiated analysis of ALMP in different regions, including north-north, north-south and south-south comparative work, which will lead to different advocacy and technical cooperation work by the Office in this area.
54. All regions of the world are in fact affected by change. However, the dimension of the problems, and thus the necessary solutions, are sometimes radically different. For example, the mere quantitative gap between people looking for jobs and (formal) jobs offered is enormous in developing countries. The gap is large both in quantity and in quality. There the problem is **youth entry into the labour market** – both unskilled and skilled – while worker redundancy is another dimension. In the developed and transition countries, on the other hand, **ageing of the workforce** under the conditions of a cut in early retirement provisions will be an increasingly important issue. The declining share of younger workers in these countries might be partially compensated by enhanced flows of migration, and ALMPs could contribute to helping migrants to adjust to their workplaces.
55. For the developing countries the relationship between **ALMPs and the informal sector** requires special attention. ALMPs such as training could be used to enhance the productivity of informal workers, while public works, especially when they are integrated

<sup>35</sup> See P. Auer and S. Cazes (eds.) (2003), op. cit.

with training, can provide a first step towards formalization and labour market insertion of informal workers or the unemployed. All measures for enhancing productivity and contributing to the formalization in the small business sector, for example through giving access to microcredits, should be taken in this regard.

- 56.** The **diversity of problems and issues calls for a diversity of solutions**: the school-to-work transition of young people needs other solutions than the labour market reintegration of older job losers. Likewise, the jobless single mother needs a different income and work combination than an unemployed youth without children. The informal worker might only need an in-work benefit to obtain a decent income, while the drought-stricken subsistence farmer might need to participate in a well-organized public works irrigation project that (re)creates the conditions for sustainable self-employed farming. Some only need access to microcredits to set up their own activity, whereas others need some basic training. The efficiency of the combination of measures (e.g. public works and training as a bridge to self-employment) and their interrelatedness with other policy fields such as macroeconomic policy should be researched.
- 57.** More fundamental problems are linked to the absence of funding and weak organizational and administrative capacities that can often turn impressive work-based programmes into mere income-replacement schemes, even in situations where work (but not employment) abounds. Scarcity of funding is a big bottleneck, especially in developing countries, but financial problems in the field of ALMP are common also in the developed countries. There is a need to prospect this important field of financing ALMP under tight budget constraints. In addition to promoting cost-efficient programmes, new ways of funding could be envisaged. One way is **to encourage donors to embrace the goals of active labour market policies and align their funds for this purpose, for example, through Poverty Reduction Strategy Papers**. Middle-income countries could consider a levy for creating a more permanent labour market policy framework that allows for flexibility and security, which would ultimately serve all parties involved.
- 58.** Differences in policy instruments stem partly from differences in the organization of the delivery institutions. While many countries – mostly in the developed world – have set up such institutions, such as employment services, unemployment insurance systems, labour market information systems and ALMPs, and are currently reforming them to accommodate activation and effective intermediation, developing countries are trying to set them up or to enhance them. They should consequently be informed about the reforms. For example, while evidence points to the **advantages of decentralization**, there is also a need for **active coordination and policy integration**. And, in order to run activation programmes (transfer payments given on the conditions of participation in work or training programmes) efficiently, there is a rationale for integrated benefit payments and placement activities.
- 59.** All this is indeed an important area for active social partner involvement with an aim to render the labour market more efficient. ALMPs are one of the rare, more direct, levers that governments and social partners have to intervene in the labour markets. And while the role of active labour market policies in alleviating the immense employment problems in the world should not be underestimated, they have to be coordinated with the broader employment policies. While these broader policies concern fiscal and monetary policies, as well as investment and trade policies, they include wage policy, labour market regulation and collective bargaining. An enlarged bargaining agenda of the social partners calls for bargaining not only on wages and employment but also on various trade-offs, such as for example between employment protection and social protection.
- 60.** The above issues constitute a formidable research, advocacy and technical cooperation field that could be pursued by the Office in the area of core element 7 of the GEA, in

cooperation with other ILO technical departments that the ESP Committee might encourage. Attention should be given to the fact that parts of core element 5 (promoting decent employment through entrepreneurship) and core element 6 (employability by improving knowledge and skills) can also be classified as active labour market policies. These core elements have been singled out as crucial components of the GEA and are thus not considered here, but will be discussed by the ESP Committee in further sessions. Medium-term work on ALMPs could therefore consist of:

- producing an overview of concrete examples of ALMPs around the world;
- researching the role of social dialogue and collective bargaining in the design and implementation of ALMPs;
- deepening the debate on and proposing new ways for financing ALMPs; in particular when these institutions should be made more permanent than stop and go under tight budgetary constraints;
- determining the links between ALMP and macroeconomic policy and other elements of the GEA;
- showing the interaction (trade-offs and complementarities) of labour market regulation and ALMPs and how this can achieve a balance between flexibility and security;
- researching the possibilities of ALMPs in helping to formalize the informal sector and rendering it more productive;
- proposing concrete ALMPs for different target groups in order to make labour markets more inclusive, especially youth and older workers, and for achieving a gender balance; and for the particularly hard to place such as disabled people;
- proposing efficient ways of delivering ALMPs, which take into account local delivery mechanisms, and showing how ALMPs can be best adapted to local needs.

Geneva, 26 September 2003.