Features and recent labor reforms in Germany and other European countries

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Share of Long Term Unemployment in Total Unemployment

Source: OECD Stat.
Share of Long Term Unemployment (> 12 months) in Total Unemployment

Source: OECD Stat.
Average duration of unemployment: USA vs. Europe

Average duration of unemployment in months

**USA**

- **2000**:
  - 15 to 24: 2.2
  - 25 to 54: 3.2
  - 55+: 4.4

- **2008**:
  - 15 to 24: 3.2
  - 25 to 54: 4.4
  - 55+: 5.1

- **2015**:
  - 15 to 24: 4.4
  - 25 to 54: 7.2
  - 55+: 9.6

**Europe**

- **2000**:
  - 15 to 24: 10.9
  - 25 to 54: 15.6
  - 55+: 17.2

- **2008**:
  - 15 to 24: 9.3
  - 25 to 54: 17.5
  - 55+: 19.8

- **2015**:
  - 15 to 24: 11.2
  - 25 to 54: 19.7
  - 55+: 26.0

Source: OECD Stat.
Average duration of unemployment: OECD countries

→ Average duration of unemployment in months

Source: OECD Stat.
LTU structures

- LTU in Europe mostly affects low skilled (but some increase in high skilled LTU), the young and third-country migrants.
- STU has turned into LTU in many European countries, while inactivity has not increased much – but a notable decline of the activity rate in the US.
- Return from LTU to work is problematic, at least in the EU, and in particular for older LTU and for those with low skills – LTU do not benefit as much from economic recovery if not supported by suitable policy measures.
The structure of LTU, 20-64, in the EU-28

Source: ESDE 2015 (Chapter 2.1., chart 12).
Structural aspects of LTU

- Interaction of business cycle, technological change and labor market institutions
  - Long-term consequences of a recession -> from STU to LTU with limited chances of return to work
  - Skill structure of the LTU labor force vs. firms' current and future skill demands -> tendency of declining job availability or job quality for LTU
  - Benefit systems, active labor market policies and activation (+ benefit systems outside unemployment insurance/assistance also play a role)
  - Role of minimum wages / wage compression / hiring subsidies / in-work benefits …
Annual employment changes in Europe, 2011-14

Source: Eurofound 2015, as cited in ESDE 2015 (Chapter 3.1., chart 2).
Generosity of unemployment benefit system

- Depending on the design, unemployment benefits can raise a risk of low incentives to take up work and benefit dependence
  - Unemployment traps
  - Inactivity traps
  - Benefit dependence
- Generosity depends on the
  - Level of replacement rates of unemployment insurance + assistance
  - Access criteria, availability criteria and maximum duration
  - Options to access alternative (more generous) benefits such as disability, early retirement
- In Countries where benefit systems are non-existent or unattractive/inaccessible, the share of non-employed among working-age people without benefit receipt tends to be higher
Net replacement rates and unemployment traps

Source: EC taxes and benefits database
ALMP spending and transitions

Source: ESDE 2014, chart 19 and ESDE 2015, chart 30
Policy interventions and their objectives

- Focus here: Policies addressing LTU and other forms of long-term benefit receipt
- Targets: improving employability, societal participation and/or labor market integration? Priorities matter...
- What do we know about the effectiveness of targeted policies and the capacities needed to deliver them?
What works as ALMPs for the long-term unemployed?

- ALMP for LTU: evidence is not so much different from general ALMP evaluation findings

- Training measures
  - positive medium- and long-run results (Card et al. 2010)
  - Positive impacts:
    - on-the-job training (Card et al. 2010, Kuddo 2009).
    - smaller scale schemes, targeted on specific disadvantaged groups, and particular occupations and schemes rather than larger general schemes
    - leading to a formal vocational qualification
    - prepare for skills and competences demanded by (local) companies
An example: Fit4Job in Luxembourg

- Luxembourg: **Fit4Job**: unemployed including LTU
  - The scope is limited to strong economic sector where jobs are still available due to expansion (e.g. commerce) or growth (e.g. finance sector) and the measures only accommodate for a limited number of participants
  - provide the flexibility of re-skilling through tailormade training programmes adapted to sectoral skills demands on the one hand and evaluation of the jobseekers' competences on the other hand
  - **Training measures are more effective when they prepare for skills and competences which are demanded by (local) companies.**
  - Emerging and pivotal new sectors such as ICT are likely to have only a moderate impact on LTU in the long run while other sectors (logistics), when **fully developed, are more promising for the low-skilled.**
What works as ALMPs for the long-term unemployed?

- **Hiring incentives and wage subsidies**
  - Effective, costly, useful if targeted and not too big (Kluve 2006) otherwise risk of deadweight losses, substitution and displacement effects.
  - Success depends on the extent to which it is combined with other measures (targeting, follow-up) in order to minimise deadweight and substitution effects (Duell, Vogler-Ludwig 2011).
  - Example: large scale, long-term subsidized „Flexjobs“ with specific working conditions for long-term (partially) disabled people in Denmark (Datta Gupta, Larsen and Thomsen 2015, Datta Gupta and Larsen 2010): positive effect on employment probability for the target group (+33 pp), but problems in reaching the most disadvantaged and issues with cost effectiveness, deadweight losses - substitution and displacement effects.
  - Austria: in-work benefit scheme called ‘Kombilohn’ (combination wage); Lechner and Wetzel 2012: used as a stand-alone measure, this instrument was not sufficiently effective to integrate long-term unemployed.
What works as ALMPs for the long-term unemployed?

- Direct job creation - public jobs
  - generally less successful than other types of ALMP’s. Kluve and Schmidt (2002), Kluve (2010), Card et al. (2010), Duell (2012)
  - problematic lock-in effects and side-effects on other forms of employment, potentially costly, but they can stabilise and motivate disadvantaged groups.
  - Need to be well designed and should be combined with some training to show some effectiveness. Experiences with social enterprises have shown positive results for hard-to-place jobseekers (Duell 2012).
- Hungary: Pathways to Work programme, major public employment programme during 2009 and 2010
  - Köllő and Scharle (2011): although the programme reached its target group, it was unable to change their employment chances; unable to reduce long-term unemployment, but provide temporary relief to jobless households and may also help reduce social tensions at the local level (Köllő and Scharle 2012, Mýtna Kurekova et al. 2013); if used on a large scale not only ineffective but may even aggravate the problem (Harvan 2011).
The specific role of the PES

- Employment-oriented case management
- Quality depends on
  - A distinct personal counsellor or changing counsellor (evidence from Copenhagen, same counsellor for one LTU best practice)
  - Caseload of the counsellor
  - Frequency of meetings
  - Individuality of support – viable individual action plans
  - Monitoring and/or counseling
  - Integrated approaches and institutional cooperation are important for people who face multiple employment barriers
  - Sustainability of jobs vs. early exit from benefits

- Profiling using statistical methods as a first step, then case management using counsellor‘s skills and experiences to facilitate individualised support
PES – Caseload issues

• Caseload (clients per year) (Manoudi et al. 2014)
  ▪ Highest caseload in Slowakia (928) and the lowest in Germany (135)
    ▪ Belgium-Le Forem and Sweden (170-180)
    ▪ Finland, Italy, Poland, Estonia (210-250)
    ▪ Czech Republic, France, Lithuania, Malta (350-390)
    ▪ Belgium-Actiris, Greece, Croatia, Ireland, Portugal (exceeding 500 clients)
  ▪ In some countries counsellors in charge of less employable groups have a smaller caseload than ‘generalist’ counsellors
    ▪ France (1:70), Germany (1:75), Estonia (100 to 150), Finland (114), Malta (214), Poland, Croatia (planned)

• Lower caseload -> more intensive (and better) counselling -> better job placement
The role of meetings with case workers (Rosholm, IZA WOL contribution, 2014)

- From traditional activation towards a case worker approach
  - Counselling and monitoring by regular meetings with case workers, with variation regarding frequency, content and character, using the specific competences of the case workers
  - Priorities at the interview(s) can vary, be adjusted: job search assistance, reality check, moral support, selection of suitable ALMP, agreement on action plan, monitoring etc.
  - **Cost-effective** and **flexible** instrument that can improve and intensify job search activities of the *(employable)* unemployed --- but it cannot stand alone for the most disadvantaged
  - Many studies show positive effects on transition to work after, but even before the interview, hence simultaneous reduction in unemployment and in the costs of ALMPs
  - See, in particular, the experiments with different sequences of interviews in Denmark: QBW1 and QBW2 (Graversen and Ours (2008), Rosholm (2008))
- A note of caution: increasing the frequency of meetings does not necessarily help the least employable workers (can increase transition rate into disability benefits) if not complemented by other supportive measures
Institutional solutions – the Hartz example in Germany

- Until the mid-2000s Germany, a country of high unemployment and medium labour force participation
- In the aftermath of the Hartz reforms (2002-05) the picture has changed, despite Great Recession in 2008-09 the picture
- In contrast to other European countries, Germany was able to weather the recession with neither an increase in unemployment nor a decline in the number of jobs
  - Instead a record level of employment --- and an increase in share of non-standard and low-pay employment with a steady decline in inactivity, but still, standard employment (permanent full-time work) the most prominent type of contract in Germany
  - Decline of unemployment, also of long-term unemployment, but hard-to-place are increasingly in the focus of policy makers
Institutional solutions – the Hartz reforms in Germany

- Besides reforms liberalizing non-standard contracts, one of the core elements of the Hartz reforms was the establishment of more systematic and stringent activation policies in Germany.

- Aiming at activating both the short- and long term unemployed by reforming the public employment service and institutional support schemes (active and passive labor market policies) - lowering unemployment by shortening individual unemployment spells and limiting inflow into unemployment.
Institutional solutions – the Hartz reforms in Germany

- Major elements:
  1. General means-tested benefit for the long-term unemployed, lower in comparison to older system of unemployment assistance; no major change in unemployment insurance benefit generosity for the short-term unemployed
  2. But: stricter availability criteria and monitoring of job search for all unemployed, including early intervention
  3. Stronger emphasis on quick job placement and integration-oriented active labor market schemes – less long-term training and public job creation
  4. One-stop shop agencies and consistent performance monitoring; operational integration of municipal and federal agencies dealing with long-term unemployed --- difficult issue in German federalism
Recent adjustment of institutional set-up

- Rising awareness of limits of „work first“ activation when it comes to integrate the hardest-to-place --- more individualized support needed --- even in very favourable labor market conditions, the long-term unemployed face massive difficulties
- Hence, recent changes try to emphasize more supportive services, individualized approach with tailored support schemes, less schematic/bureaucratic delivery – and more local autonomy
- Some experimentation with public sector jobs, but limited, targeted
The „Berliner Job Offensive“ in Germany

- Generally positive experiences with intensified counselling, e.g. under the „Initiative 50+“ for older long-term unemployed people in Germany – improved transition at least to part-time work
- „Berliner Job Offensive“ with 600 additional job counsellors in Berlin‘s Jobcenters to facilitate more individualised and intensified support: individual employment probability could be increased by 10 percentage points, combined with a more stable employment experience, termination of benefit receipt and lower reliance on ALMP programmes; positive effects both on unemployed closer and more distant to the labour market --- establishment of a direct, lasting and trustful relationship between PES and clients is seen as crucial
What works and how? (1)

- **Access to benefits could create work disincentives** (in particular for low-skilled long-term unemployed) ...

- **... but it also implies the** possibility to activate and support, providing income support while mitigating work disincentives –

- **Appropriate activation intensity** should be maintained over a longer period for both short-term and long-term unemployed, if needed, and adapted to individual difficulties (a question of resources)

- Regular **meetings/interviews** and individual action plans, establishing an individualised integration pathway ...

- **... using suitable, targeted supportive measures** – but given the evidence there is no prior preference for a certain type of ALMP programme – targeting and tailoring is important, also efforts to stabilise employment, in particular via training component
What works and how? (2)

- LTU means that at least people are within a potentially activating benefit system (depending on delivery of activation and ALMPs) – hence, high LTU figures are not necessarily worse than hidden un-/non-employment elsewhere.

- Attention needs to be paid to benefit systems other than unemployment (e.g. disability, sickness).

- **Sustainability of employment** is important, in particular for LTU re-entering the world of work - quality of jobs and skills/employability in a situation of changing skill needs.

- **An accessible labour market helps** – regulatory issues such as EPL, minimum wages…

- Assessing the performance of countries need to take into account the broader institutional arrangement of benefits, ALMPs, labour market regulation etc. … as well as labour demand issues / changing skill needs --- effectiveness of ALMP is not undermined in a recession.
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