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Chapter 4

Benefits and Employment, Friend or Foe? Interactions Between Passive and Active Social Programmes

In many countries, the share of the working-age population receiving income-replacement benefits continued to increase in the 1990s, particularly as regards old-age, disability, lone-parent and social assistance benefits. In some countries, most of the people who are neither employed nor studying receive an income-replacement benefit. To what extent can "activation" strategies help reduce benefit dependency? How can key elements of these strategies, such as intensive job counselling and benefit sanctions for refusal of a suitable job, be applied to groups traditionally on the margins of the labour market? And when reliance on one benefit is reduced, do people transfer to other types of benefits or do they really find jobs?

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Introduction

While Chapter 3 focuses mainly on financial incentives to find work or stay in employment, this chapter examines a complementary approach involving job-search requirements and other “activation” policies. Many countries expect the short-term unemployed to re-enter work mainly through self-directed job search, but other activation strategies are particularly important for the disadvantaged job-seekers identified in Chapter 1.

The focus of activation strategies has traditionally been on unemployment beneficiaries. However, in view of the trend rise in the number of recipients of other social security benefits, many countries have tried to extend activation strategies to population groups which traditionally had not been considered unemployed. Activation measures increasingly require lone-parent and social assistance beneficiaries to be available for work.¹ Countries with large numbers of disability beneficiaries have tried using active labour market policies to get some of them into work as well.

This chapter focuses particular attention on the concept of benefit dependency rates, i.e. the proportion of people receiving an income-replacement benefit,² and measures that attempt to get benefit recipients into work. The main questions examined are:

- How have patterns of benefit dependency varied across countries and over time? (Section 1).
- What are “activation” strategies? (Section 2).
- To what extent do activation strategies move people out of benefit dependency into market work? Are reduced numbers in the target group (mainly unemployment, lone parent and social assistance beneficiaries) offset by increases in the numbers on other benefits (e.g. early retirement or disability benefits)? How do these strategies influence future employment and earnings? (Section 3).

Main findings

- *In some countries, most non-employed people of working age receive an income-replacement benefit.* Some countries have now reached a position where most of the working-age population that is neither employed nor participating in education has an income-replacement benefit. In this situation, it will be difficult to increase employment greatly without also reducing benefit dependency.
- *An upward trend in benefit dependency has been recorded in most countries.* On average, among the OECD countries for which data are available, the proportion of people of working age receiving a social protection benefit rose quite sharply in the 1980s, and more slowly in the 1990s. Experiences remain varied, with little sign of convergence in benefit dependency rates within Europe or across OECD countries.
- *Activation policies can move people out of benefit dependency.* Activation strategies that require beneficiaries to make intensive efforts to prepare and search for work can forestall and reverse growth in benefit dependency rates. In the 1990s, several countries experienced

declines in the number of recipients of benefits targeted by activation policies. These declines seem to be mainly structural, rather than limited to the period of cyclical upswing.

- *Benefit eligibility criteria are important for activation.* Early retirement benefits, and often disability benefits and sometimes lone-parent benefits, do not require beneficiaries to be available for work as a condition for benefit receipt. In this case it is still possible to provide a range of employment services, and require participation in some work-related activities such as interviews where job opportunities are discussed and employment services offered. However, extensive requirements to participate in work-related activities, without requirements to take up work when it is available, would be incoherent. As a rule, claimants who are thought to be able to work should be subject to a clear availability-for-work requirement.
- *Workfare and “training-fare” matter.* Compulsory participation in employment and training programmes is often an important feature in activation strategies, especially in countries where benefit replacement rates are high. It can limit the maximum duration of “passive” benefit receipt, while maintaining the income of individuals and families that comply with the conditions.
- *There is a risk of substitution between benefits.* Declines in the number of recipients of benefits targeted by an activation strategy may be offset by increases in the number of recipients of other benefits. While many examples of such substitution exist, there are also mechanisms that work in the other direction. For example, success in reducing unemployment makes it easier to tighten entry criteria for early-retirement and disability benefits. Although declines in the number of recipients of benefits targeted by activation strategies have been offset by higher recipiency of other, inactive, benefits in specific cases, there is no clear evidence that this occurs systematically.
- *Activation policies may have an impact on employment.* Policies which tighten benefit eligibility while also applying activation principles may help to reduce beneficiary numbers and raise employment. However, some people who move off benefits do not enter work. This highlights the importance of the focus on employment and raising worker productivity, and keeping benefits generous enough to discourage labour market withdrawal as a response to activation measures. The Nordic countries, with a strong emphasis on active policy, have relatively high employment rates as well as generous benefits.
- *Activation strategies can reduce poverty rates.* In some cases, policies which accelerate exit from unemployment also result in lower average earnings on entry to employment. However, even weak earnings and career prospects may remain preferable to the erosion of work skills that arises from prolonged non-employment, and high employment rates reduce poverty. Moreover, evaluations also suggest that intensive employment counselling can increase earnings. Experience in some European countries suggests that activation strategies are consistent with low poverty rates, and in the United States, poverty indicators and other indicators of well-being for lone parents and their children have tended to improve during the process of welfare reform.
- *Benefit entitlements have a long-lasting impact, and activation strategies need to recognise this.* According to historical examples, growth in the number of beneficiaries, following the creation of new or significantly more generous benefits, is a relatively long-lasting process. The full impact of activation strategies in reversing beneficiary growth probably develops on a similar long time-scale.

- *Activation policies cannot solve all labour market problems.* The impact of activation strategies is greatest where labour markets function well. Without some favourable background conditions that help in obtaining a significant impact, activation strategies may lose political support.

1. Trends in benefit dependency

Not all people who receive social protection benefits can or should work. Benefit recipients are a very heterogeneous group. Some of them may want to work, or can be “activated”, and others are likely to stay out of the labour market. In order to gauge the potential labour supply which might be mobilised through benefit entitlement and activation policies, this section examines patterns in the dependency rate, *i.e.* the proportion of people of working-age who receive a public income-replacement benefit. Eight main categories of social protection benefits are distinguished, namely old-age, survivors (widows and orphans), sickness, disability, maternity and home parenting, care (a benefit paid to people who care for another invalid person) and labour market leave (sabbatical leave from work for a limited time but without other conditions), unemployment, and lone-parent and non-categorical social assistance. The data on benefit dependency presented here are further described in Annex 1.

The primary objective of these benefits is to safeguard the welfare of people who are temporarily or permanently unable to work. However, objectives often go beyond the provision of a minimum income. They include the provision of benefits related to former earnings; compensation for employer liability, in the case of industrial injury benefits; allowing people to withdraw from the labour market in order to care for children or other dependants, in the case of parental benefits; and facilitating better job matches and macroeconomic stabilisation in the case of short-term unemployment insurance (UI) benefits. Promotion of part-time, temporary or seasonal work on a salaried basis rather than an informal basis may be an additional objective.

A. Analysis of benefit recipiency rates

Benefit dependency varies significantly across countries

As shown in Table 4.1, there is considerable cross-country variation in benefit dependency rates among the working-age population (defined as the population aged from 15 to 64) across the 16 countries for which estimates have been made. In 1999, this benefit dependency rate ranged from 11% in Japan and Spain to 23% or 24% in Belgium and France, and 38% in Slovak Republic. Table 4.A1.1 shows the breakdown of these figures by benefit category. The largest categories in 1999 were disability (4.6% of the population of working age), unemployment (4.1%), and old age (3.6%, referring to benefits paid to people aged under 65). Lone-parent and non-categorical social assistance (2.4%), sickness (2.0%), and survivors (1.3%) each had half or a third as many beneficiaries as the first three large categories. The population shares relying on maternity and parental benefits (0.8%), and care and labour market leave benefits (0.2%) were much smaller. Although the proportions receiving unemployment and disability benefits vary considerably, all countries have significant numbers in these categories, confirming that these are two core types of benefit. The distribution of the remaining benefit dependency across benefit categories varies greatly from one country to another. In recent years, old-age benefits have been the most variable category, with recipiency rates below 1% in three countries and above 7% in

Table 4.1 Employment rates and benefit dependency rates in the working-age population,^a 1980 to 1999

Percentages

	Employment rates (full-time equivalent) ^b			Benefit dependency rates ^c			No benefit, no work		
	1980	1990	1999	1980	1990	1999	1980	1990	1999
Australia	57.5	57.9	56.4	13.0	13.7	17.5	29.5	28.4	26.1
Austria	60.2	61.8	64.0	15.5	18.0	21.5	24.3	20.2	14.5
Belgium	53.8	50.7	52.9	17.4	24.4	23.6	28.8	24.9	23.5
Canada	60.2	63.2	62.6	13.4	19.9	18.0	26.4	16.9	19.3
Denmark	65.7	67.3	69.7	20.1	23.2	23.1	14.1	9.5	7.2
France	60.8	56.3	55.5	13.9	20.2	24.2	25.3	23.5	20.4
Germany	59.7	59.5	58.9	15.2	18.1	22.4	25.0	22.4	18.8
Ireland	52.4	49.3	56.3	12.4	18.9	19.3	35.2	31.8	24.4
Japan	61.6	62.0	60.6	8.8	10.0	11.4	29.6	28.0	28.0
Netherlands	48.5	51.1	58.2	15.9	19.9	17.8	35.6	29.0	24.0
New Zealand	57.9	58.9	59.9	6.6	15.6	16.8	35.5	25.4	23.2
Slovak Republic	57.7	19.6	24.8	38.2	4.2
Spain	49.4	48.5	51.7	8.3	12.3	11.2	42.3	39.2	37.1
Sweden	68.7	72.0	66.2	16.1	17.0	20.0	15.2	11.0	13.8
United Kingdom	62.2	62.4	60.7	15.2	18.5	18.9	22.7	19.1	20.4
United States	60.0	65.2	67.0	16.8	15.6	13.7	23.2	19.2	19.3
Averages for:									
EU countries above	58.1	57.9	59.4	15.0	19.1	20.2	26.9	23.1	20.4
All countries above^d	58.6	59.1	60.0	13.9	17.7	18.6	27.5	23.2	21.3

a) Population aged 15 to 64. Includes estimates for age 15 in countries where the labour force survey relates to ages 16 to 64.

b) Employment is measured in full-time equivalents. The distribution of hours worked for all employed persons is used to estimate the ratio of the average weekly hours of part-time workers, defined as those working less than 30 usual hours per week, and full-time workers. This ratio is applied to convert part-time employment to a full-time equivalent basis. In Austria and Sweden, the part-time employment share based on the national definition is used for 1980 and 1990. In Belgium, Denmark, France, Germany, Netherlands, Spain and the United Kingdom, the part-time employment share in 1980 is assumed to be the same as in 1983. For Austria, Belgium, Denmark and the United Kingdom, employment among persons of working age in 1980 (and also 1990 for Austria) was estimated by splicing with data for employment of all ages.

c) See text and Annex 1 for definitions.

d) Except Slovak Republic.

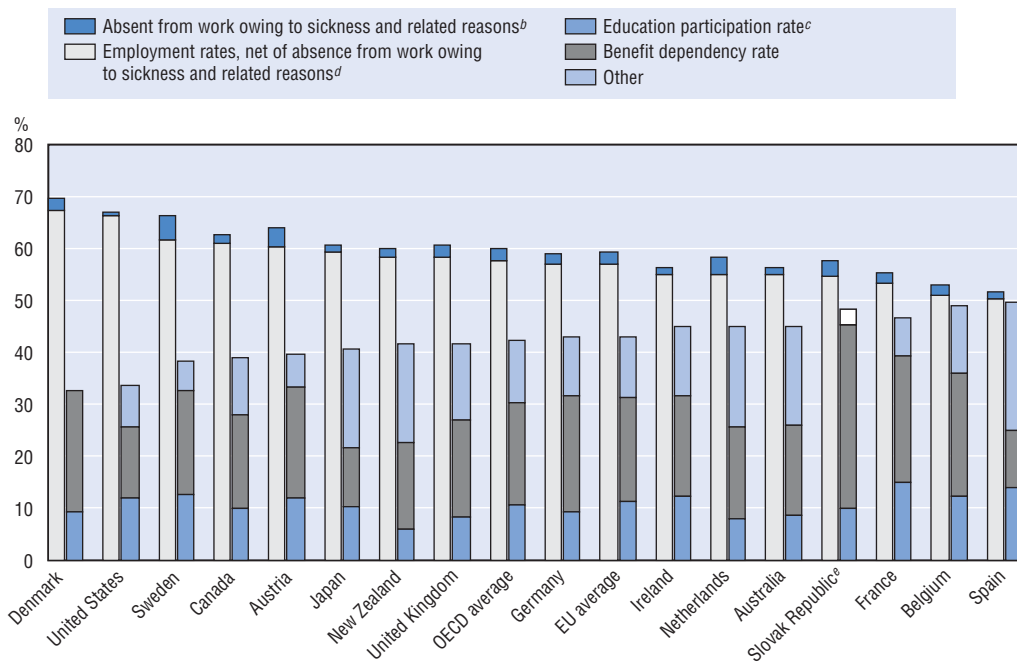
Source: For benefit dependency rates, NEI-SZW database (see Annex 1 for details), partially revised and augmented by OECD; for employment, OECD database on Labour Force Statistics. .

four others, reflecting large variations in the provision of early retirement benefits as well as a standard retirement age below 65 in some countries.

These aggregate benefit dependency rates may be compared with rates of employment and participation in education, also measured on a full-time equivalent basis (Chart 4.1) (see Box 4.1 for a discussion of technical issues involved in this comparison). In the EU countries for which data are available, except the Netherlands and Spain, the majority of people of working age who are not employed (net of sickness and related absence from work), and are not participating in education, are receiving a benefit. Benefit dependency among people of working age is about one-third of employment (net of sickness and related absence) in six EU countries, but higher in Belgium, France, Germany and Slovak Republic. This ratio is about one-fifth in Spain, Japan and the United States, and is at intermediate levels in Australia, Canada and New Zealand.

Chart 4.2 shows, on the one hand, full-time equivalent rates of participation in either employment or education, and, on the other hand, rates of benefit dependency. There is

Chart 4.1. In some countries, most non-employed adults receive a benefit

Percentages of working-age population,^a 1999

Note: Countries are ordered by decreasing employment rate net of absence from work owing to sickness and related reasons. All variables are measured in full-time equivalents. Full-time employed students are counted as employed, not students.

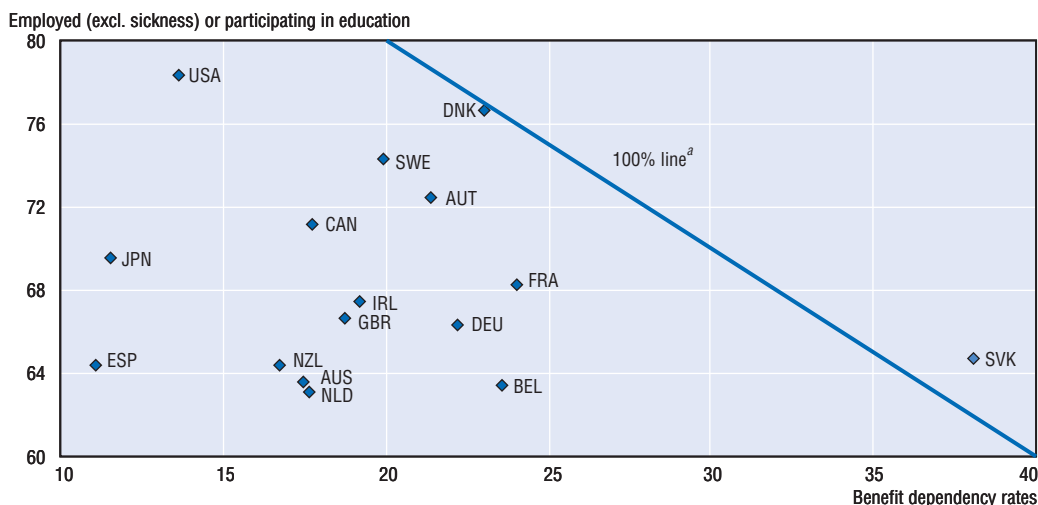
- Population aged 15 to 64. Includes estimates for age 15 in countries where the labour force survey relates to ages 16 to 64. Armed forces and the institutional population are excluded from both employment and population in certain countries.
- For EU countries, share of the working-age population that is employed, but absent from work because of sickness/disability, maternity, short-time working (slack work) and bad weather reasons during the survey reference week, with part-week absences are converted to full-time equivalents using a weight of 0.5. For Australia, data based on average daily absence from work on sick leave in September 1999 (ABS data cited at www.injury.net.com.au/resource/Article_Absence.pdf). For Canada, data based on total workdays lost in 2000 (Labour Force Survey data cited at www.hrmguide.net/canada/general.absences_2001.htm). For Japan, Secretariat estimate based on comparative reciprocity of public sickness benefits. For the United States, data based on absence from work because of illness/injury/medical problems, maternity/paternity leave or bad weather reasons (Secretariat estimates based on CPS data).
- The incidence of student status within the working-age population is calculated on a full-time equivalent basis, using a weight of one for students who are inactive in the labour market, 0.5 for those who are unemployed or working part-time, and zero for those who are working full-time. 15-year-olds are assumed to be students where relevant (see note a).
- The distribution of hours worked for all employed persons is used to estimate the ratio of the average weekly hours of part-time workers, defined as those working less than 30 usual hours per week, to those of full-time workers. This ratio is applied to convert part-time employment to a full-time equivalent basis.
- For Slovak Republic, "other" is negative (shown in white) and this part of the bar represents benefit dependency double-counted with one of the other variables.

Source: For benefit dependency rates, NEI-SZW database, partially revised and augmented by OECD (see text for details); for employment and population, OECD database on Labour Force Statistics; for data on absence from sickness and other reasons, European Community Labour Force Survey data and sources as cited in note b); for education participation rates, Secretariat database on labour market status by educational participation (*Employment Outlook 2002*, Chapter 1, provides some further tabulations from this database).

not a simple correlation between employment and student participation rates and benefit dependency rates, but rather two relationships. The sum of employment, student participation and benefit dependency rates as measured here lies below 100%, except in the Slovak Republic.³ Unless income-replacement benefits are often paid to those who are

Chart 4.2. **Employment and benefit dependency: a complex link**

Percentages of working-age population, 1999



a) The 100% line shows points where employment (excluding absences due to sickness, maternity and slack work), student participation, and benefit dependency on a full-time equivalent basis sum to 100% of the working-age population.

Source: See Chart 4.1.

studying or in employment, the countries where the total is close to 100% – such as Austria, Denmark, France, Sweden and the United States – will tend to face a negative trade-off between employment rates and levels of benefit dependency. On the other hand, if we look at countries with varying levels of the “residual” category not in employment, education or benefit receipt – comparing Spain or the Netherlands with France or Sweden, for example – there is no negative relationship between employment and benefit dependency.

Though data are not available, it is likely that patterns in the other Nordic countries (Finland and Norway) are similar to those in Denmark and Sweden. Likewise, patterns in Greece and Italy are likely to be similar to those in Spain (this is less true for Portugal which has a relatively high employment rate). Turkey, Korea and Mexico no doubt have low benefit dependency rates, which are combined with low employment rates in Turkey and intermediate rates in Korea and Mexico.

The residual category mainly represents people who depend on the income of a spouse or other family members, i.e. housewives and young adults. In Japan, the Netherlands and the United Kingdom, female part-time employment is particularly common, and insofar as this is rarely combined with any benefit, this contributes to a relatively high level of the residual. In Spain and probably some other Southern European countries, the residual is particularly large. This may partly reflect underreporting of employment.⁴ However, the most important factor is probably a pattern of high and prolonged dependency on the incomes of other family or household members.⁵

This cross-country comparison suggests that policies to increase employment rates can consist of attempts at both i) bringing those adults who can work, but do not receive benefits, into salaried employment – implying a move towards the top right in Chart 4.2 – and ii) shifting benefit dependants into employment – implying a move towards the top left. The mix between these two policy thrusts needs to vary between countries depending on the starting position.

Box 4.1. **Aggregate benefit dependency rates compared with employment and education participation**

Charts 4.1 and 4.2 compare 1999 rates of employment and education participation with rates of benefit dependency. Several definitional features in these charts merit attention:

First, the employment rates relate to ages 15 to 64 and do not include 7.5% of total employment in Japan and 3% in the United States, which are accounted for by people aged 65 and over.

Second, the data are on a full-time equivalent basis. Average hours usually worked by part-time workers are relatively low (0.40 to 0.42 of full-time hours) in Denmark, the Netherlands and the United Kingdom and relatively high (0.50) in Austria and France.

Third, an attempt has been made to avoid double-counting of employees who are temporarily absent from work. To ensure that these employees are not counted in both the employment total as well as the beneficiary total, employment is calculated net of people who were absent from work owing to sickness, maternity and slack work (those absent for other reasons, *e.g.* holiday, are still included). This deduction ranges from 1% of employment in the United States up to nearly 6% in Sweden, reflecting the high sickness rates in the latter country.

Fourth, labour force surveys provide information on student status, but do not directly record whether individuals are studying full-time or part-time (*e.g.* apprentices). To reduce double-counting, students who are also unemployed or part-time employed are given a weight of 0.5, and students who are working full-time are given a weight of zero.

Fifth, the definition of benefit dependency excludes people with student grants, participants in full-time active labour market (training and employment) programmes, and benefits designed to supplement income from full-time work.

Together, these measurement principles should help prevent individuals being counted more than once among the three main categories, *i.e.* employment, education and benefit dependency. However, some exceptions are possible. In particular, individuals with benefit only count for less than one full-time equivalent in the total for benefit dependency if their benefit is paid at less than the normal rate. Certain benefits – widows' pensions, workers' injury pensions (which are often paid for partial disability), and even ordinary retirement pensions (which are included in this database when paid to people aged under 65) – may not be reduced when the beneficiary works. Most other benefits, such as ordinary disability and unemployment benefits, are not affected by part-time work when earnings and hours remain below some threshold. Therefore, people who are counted as a full-time beneficiary may also be working part-time, and in some cases even full-time. This type of double counting may explain the low level of the residual shown in Charts 4.1 and 4.2 for Denmark (0.3%).

More generally, the measurement instruments used for Charts 4.1 and 4.2 are subject to error. For example in labour force surveys, people with income-replacement benefits may describe themselves as students, and in the administrative data for benefit dependency some benefits may be accidentally omitted, or people receiving two benefits may be counted twice because there are no data to indicate that such double-counting is present. Little evidence about the size of these potential errors is available.

Benefit dependency has followed an upward trend

Chart 4.3 shows a near-universal rise in the aggregate benefit dependency rate among the population of working age between 1980 and 1990, with Japan and the United States being the only exceptions.⁶ In the 1990s, growth in average benefit dependency rates nearly ceased. However, the standard deviation of benefit dependency rates across countries increased slightly, as dependency rates in Slovak Republic increased while those in Spain and the United States, two of the countries with lowest rates in 1990, decreased. Thus, there is little evidence of international convergence in patterns either across the OECD as a whole or within Europe.

Some countries show little cyclical movement in aggregate benefit dependency rates while in others cyclical movements are more pronounced – although more in the 1990s than in the 1980s. Most of the cyclical movement is accounted for by unemployment benefits. Cyclical movements in reciprocity of lone-parent and non-categorical social assistance benefits are large in only a few countries. Average disability benefit reciprocity rose relatively rapidly from 1990 to 1994 and then stabilised, suggesting a degree of cyclicity in these benefits, although this is not very prominent in Chart 4.3. Despite some cyclical movements in some of the components, the variation in aggregate reciprocity rates which can be seen when comparing two “peak” years (e.g. 1990 with 1980, or 1999 with 1990) seems to be relatively long-term in nature. Recent trends do not suggest any particular tendency for countries that experienced reductions in benefit reciprocity in the 1990s to experience greater increases in the current slowdown.

Chart 4.3. **Trends in benefit reciprocity**
Percentage of the working-age population, 1980-1999

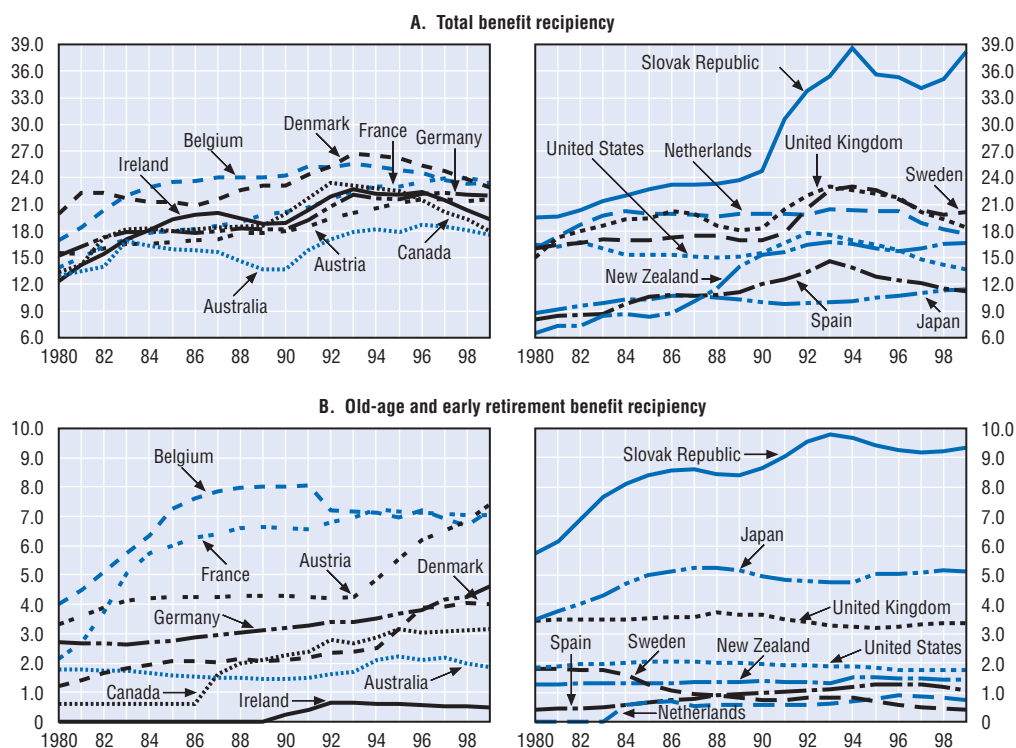
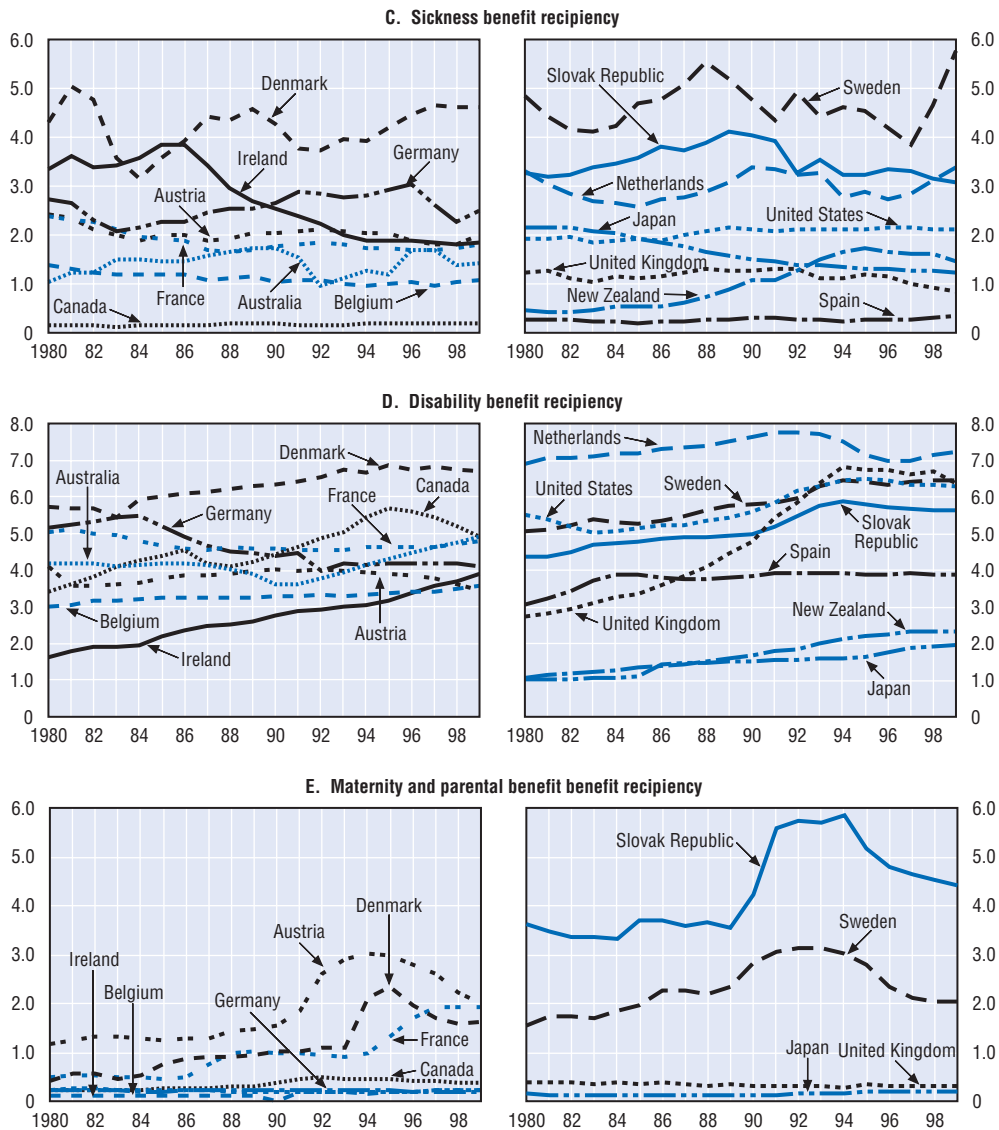


Chart 4.3. Trends in benefit recipiency (cont.)

Percentage of the working-age population, 1980-1999

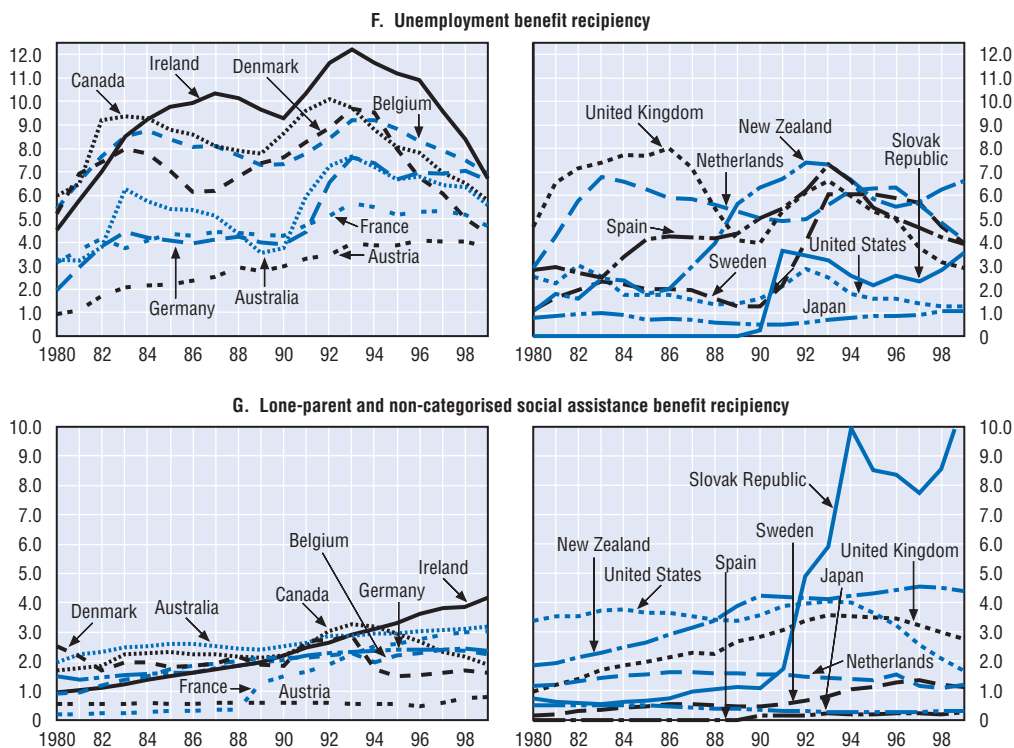


Average recipiency of most types of benefit included in this database increased between 1980 and 1999 – the exceptions are survivors' benefits (for widows and orphans) where recipiency declined quite significantly and sickness benefits where there was no average change. It also seems that in the 1990s, the trend rise for unemployment benefits may have been stopped or reversed:

- Recipiency of *old-age* benefits in the working-age population has increased since 1980 in many countries. In the deep recession of the early 1980s a number of countries greatly expanded formal early retirement arrangements. In the 1990s, despite another recession, the use of formal early retirement benefits declined in some countries.⁷

Chart 4.3. Trends in benefit reciprocity (cont.)

Percentage of the working-age population, 1980-1999



Source: NEI-SZW database, partially revised and augmented by OECD. See text for details.

- Reciprocity of *survivors'* benefits declined in most countries. Probable reasons are: a) trends to later marriage and increased life expectancy, which reduce the incidence of widowhood among the population of working age; b) increasing employment rates among widows which reduced the demand for assistance-type widows' benefits; c) in some OECD countries where female employment is considered the norm, entitlements to a pension on grounds of widowhood have almost been eliminated; and d) with growing benefit dependency rates, the proportion of widow pensioners that are also receiving a disability or old-age pension has increased in some countries, and these pensioners have been allocated to the latter category of benefit (see Annex 1).
- Reciprocity of sickness benefits was on average unchanged over the period. A number of countries sharply increased incentives for employers to monitor sickness absence, by obliging employers to pay benefits for the first three weeks to six months of a spell.⁸
- There was often some upwards trend in *disability* benefit reciprocity, with relatively large rises in Canada, Ireland, Sweden and the United Kingdom.⁹ Numbers with war disability pensions and pensions from workers' injury insurance often declined, so the aggregates shown here partly mask the extent of the rise in reciprocity of the main contributory and non-contributory disability benefits.
- Average reciprocity rates for *maternity and parental* benefits increased greatly, although from a low base except in the case of Slovak Republic. This increase mainly

reflects entitlements to relatively long-term parental benefits in Austria, Denmark, France and Sweden. In the three countries with *care* benefits, reciprocity has risen sharply, recently reaching 1% of the working-age population in the United Kingdom. *Labour market leave* benefits have existed only in Belgium, where they have declined in recent years, and Denmark where they were nearly eliminated by 1999.¹⁰

- Reciprocity rates for *unemployment* benefits, in this sample of countries, increased sharply in the 1980s. Recessionary rises in unemployment benefit reciprocity in the early 1990s were as sharp as in the early 1980s, but falls during latter 1990s were often far stronger. Over the last cycle from 1990 to 1999, national experiences were very variable. Declines in some countries (Canada, Denmark, Ireland, Netherlands, Spain, and the United Kingdom) were at least as large as rises in others (Australia, Austria, France, Germany, Japan, Slovak Republic and Sweden), so that by 2000 and 2001 average reciprocity in this category was probably at its lowest level since 1982.
- Reciprocity rates for *lone-parent and non-categorical social assistance* benefits on average have more than doubled since 1980, but in 1999 they remained lower than rates for disability and unemployment benefits. Growth in lone-parent populations has been a major cause of the increase. The highest rates arise where lone-parent reciprocity is high (e.g. in Ireland and New Zealand) and/or where disabled and unemployed assistance beneficiaries were not statistically identified and reallocated to those social risk categories (e.g. France and Slovak Republic).

Over the longer run, benefit dependency has been shaped by changes in benefit entitlements on the one hand, and the adoption of activation strategies on the other.¹¹ Although stabilisation or retrenchment in benefit systems became a common objective as from the 1980s, direct cuts in replacement rates and benefit duration have been few and limited (see Box 4.2).¹² In relation to disability benefits, many countries made administration stricter and this has been accompanied by a fall in inflows to disability benefit schemes since 1990 in the majority of countries for which data are available (OECD, 2003), although reciprocity rates themselves have not so often fallen.¹³ Activation strategies, which in relation to unemployment and social assistance benefits were widely adopted at least in mild forms in the 1990s, are discussed further in Section 2 below.

B. Long adjustment lags to policy changes

Major changes in beneficiary numbers involve long-term and interlinked changes in the expectations and behaviour of recipients, benefit administrations and in some cases, employers. An examination of adjustment processes for beneficiary numbers (Boxes 4.3 to 4.5) shows long lags which suggests that much of the growth in beneficiary numbers has been due to induced growth in the eligible population rather than growth in the “take-up” of the benefit among people already qualified for it – insofar as such a distinction can be made – or external macroeconomic factors. This has important implications for analysis and policy:

- Methods commonly used for estimating the impact of policies, based mainly upon short-run changes observed in microeconomic data or the outcome of an experiment that affects only a small “treatment” group of workers, do not tell the full story. Such microeconomic estimates of policy impact provide some insights, but they cannot reliably capture the mechanisms of learning,¹⁴ investments in different lifestyles, and

Box 4.2. Trends in entitlements for unemployment and disability benefits

The OECD's summary measure of unemployment benefit entitlements (Chart 4.4) suggests that most OECD countries increased unemployment benefit entitlements between 1961 and 1981. After this, through to 1991, there was a tendency towards stabilisation of entitlements. Chart 4.4 shows some further rises in entitlements since 1991 in a few countries. Some factors involved were:

First, in three cases (Greece, Italy and Portugal), unemployment benefits were relatively little developed until the late 1980s (early 1980s, in the case of Portugal), and the increases in entitlements can be interpreted in terms of convergence towards the norms for other EU countries.^a

Second, in Denmark, maximum UI duration increased from 2.5 years to seven years starting in 1994: it was then reduced in stages to reach four years in 2000. However, in 1994 the possibility of renewing benefit entitlement through six months' participation in a labour market programme was abolished and benefit in the last three years of the entitlement period (as from 2000, this starts at the end of the first year of benefit) was made conditional on continuous participation in work and/or training programmes. If only the "passive" period of unemployment benefit receipt were taken into account, Denmark's benefit system, where the maximum duration of passive benefits is one year would appear less generous than Sweden's (see Box 4.7 for recent developments in Sweden), in contrast with the outcome shown in Chart 4.4.

Third, in Switzerland, legislation after 1991 to increase the maximum UI duration was a response to a very sharp rise in the actual duration of unemployment. Towards the end of the decade, unemployment fell back sharply and in 2001 (not shown in the chart) maximum UI duration for most workers was cut from 24 to 18 months.

Although high unemployment rates in the 1980s and early 1990s sometimes encouraged increases in entitlements to unemployment and early retirement benefits, it seems unlikely that rising reciprocity rates have motivated increases in disability benefit replacement rates (benefit durations in this case have always been indefinite). Relatively little summary evidence is available on this point. Blondal and Pearson (1995) estimated that between 1974 and 1993 the simple EC average of replacement rates in disability benefit programmes increased slightly, from the mid-40s to the upper 40s in percentage terms, but also estimated that the 1981 rate for the Scandinavian countries, Austria and Switzerland was 66% and by 1993 this had fallen to 61%.^b OECD (2003) notes that few countries have changed the disability benefit entitlement formula since about 1990. Therefore, it seems that increases in replacement rates for disability benefits had mainly stopped as early as 1980, but relatively few large decreases have been implemented subsequently.

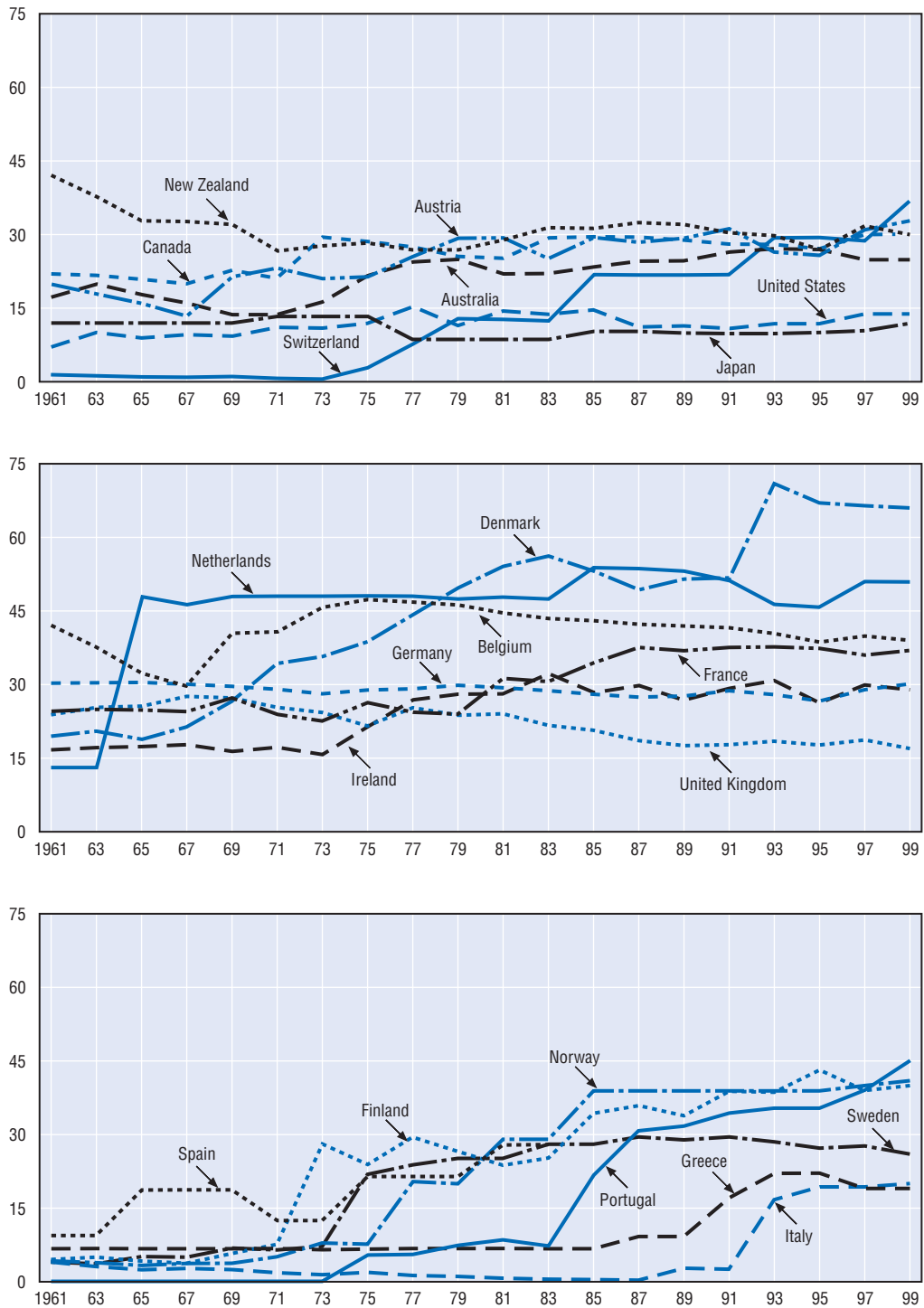
a) In Portugal, due to increases in UI entitlements and the recent introduction of a minimum income scheme, the index shown in Chart 4.4 has risen above the OECD average level.

b) Also, in the Netherlands, one of the first OECD countries to experience substantial growth in disability benefit reciprocity rates, net replacement rates were reduced on two occasions (see note 24 below). Many countries did take restrictive measures in relation to disability benefits in terms of the type of work which the person can do, medical assessment procedures, and making benefit entitlement in principle temporary (OECD, 2003, p. 72).

feedbacks between different actors (see Annex 2) that seem to be important in determining long-run outcomes.

- Initial rises in the number of recipients of a new benefit reflect its effectiveness in covering the population that was originally targeted by the benefit. However, as rises continue, they

Chart 4.4. **Index of unemployment benefit entitlements^a**



a) This OECD summary measure is defined as the average of the gross unemployment benefit replacement rates for a worker with a full record of employment at two earnings levels (APW and two-thirds of APW), three family situations (single, married with dependent spouse, married with spouse in work) and three unemployment spell durations (first year; second and third year; fourth and fifth year).

Source: See OECD (2002), *Benefits and Wages*, Figure 3.4.

increasingly reflect growth, induced by the existence of the benefit itself, in the size of population that meets the eligibility conditions. This further growth is usually unintended and often is undesirable. Induced growth in the population that is eligible for assistance benefits is particularly problematic because it involves higher poverty rates.¹⁵

- Active policies, which ensure that employment is taken up whenever possible, can plausibly reverse much of the historical growth in benefit reciprocity.¹⁶ But the impact of active policies is likely to involve similarly long-term mechanisms.

Three special unemployment benefits: adjustment lags of seven to ten years

Available examples suggest that increased benefit entitlements or relaxed eligibility conditions can exert upwards pressure on the number of beneficiaries over a long period. The minimum period in the examples cited here is about seven years, in the case of special types of UI benefit (Box 4.3). The levelling off of growth in these cases was attributable to restrictive changes to entitlement criteria (and, in some cases, benefit rates), relative to the

Box 4.3. Adjustment lags for three European unemployment benefit schemes

It is difficult to distinguish the impact of changed benefit entitlements from that of macroeconomic labour market conditions in the case of a country's main UI or unemployment assistance benefits. It is easier to disentangle these factors in the case of specialised benefits.

Chart 4.5 shows trends in beneficiary numbers for three special unemployment benefit schemes with unusually generous entitlement conditions.^a These are Belgium's part-time unemployment benefit, Spain's benefit scheme for casual agricultural workers in Andalusia and Extremadura, and Italy's ordinary unemployment benefit with reduced requirements. The scheme in Belgium and Spain have accounted for a significant proportion of the unemployment beneficiary total, and the reduced-requirements scheme in Italy accounts for about half of spending on ordinary unemployment benefits (MLPS, 2000).

In Belgium, an important change took place in 1983 when it became possible for unemployed people to receive benefit in respect of days worked part-time (previously, benefit could be received only in respect of entire days not worked).^b After the 1983 change, the number of persons receiving a part-time unemployment benefit in Belgium rose rapidly to reach a peak around 1990, i.e. six or seven years after the relaxation of conditions. By that time, about half of all part-time workers in the economy were receiving a benefit for involuntary part-time work. In 1992, some restrictions were introduced (OECD, 1994b): unemployment benefits for involuntary part-time work were refused for three months to an employee taking up work with the same employer who had previously laid him or her off from a full-time job, an employer tax on the employment of part-time workers receiving unemployment benefits was introduced, part-time benefits were limited to the equivalent of 13 days per month, and – to limit the form of fraud in which workers are in fact working full-time but are declared to be working part-time – a *carte de contrôle* was introduced on which the part-time worker must mark in advance the hours he or she will work (making it possible for anomalies to be detected through surprise inspections at the workplace). This policy change was followed by a fall of about 60% in the number of part-time beneficiaries, taking place over a period of five years (see ONEM, 1999 for a comprehensive study of the beneficiary numbers and changing benefit entitlements).^c

In Andalusia and Extremadura, two high-unemployment regions of Spain, a new kind of benefit was created for casual agricultural workers in 1984. This benefit, despite its limited

Box 4.3. Adjustment lags for three European unemployment benefit schemes (cont.)

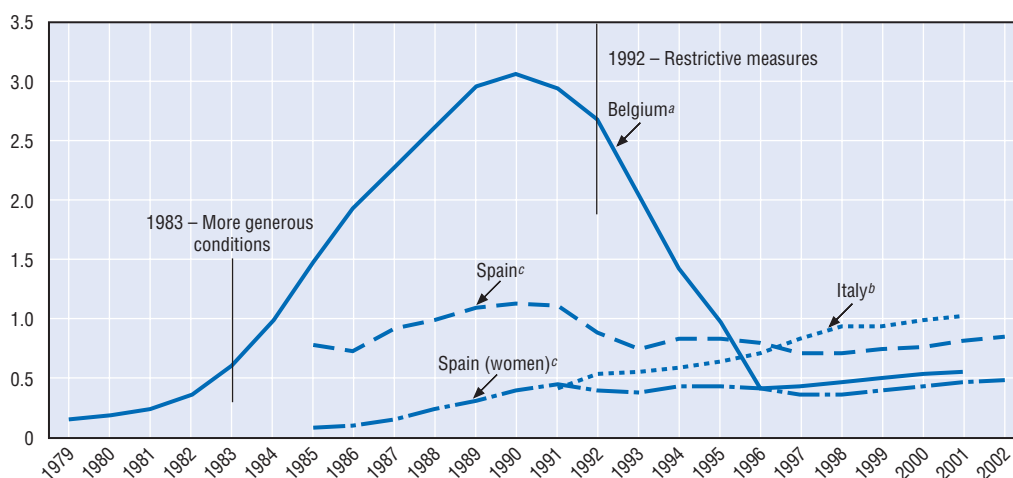
regional and occupational scope, has in many years accounted for around 20% of all unemployment beneficiaries in Spain. It required the payment of a minimum 60 days of contributions within a 180-day period in order to qualify for a benefit at 75% of the minimum wage for 100 to 180 days (maximum in any 12-month period). In 1986, the minimum conditions were relaxed by allowing limited benefits following 20 days of contributions, and allowing a certain number of days worked in a public works scheme (*Plan de Empleo Rural*) to qualify as contributions. Currently, 35 days are required to qualify for a benefit duration of 120 to 180 days. The number of male recipients of this special scheme has approximately followed the decline in agricultural employment.^d However, the number of female beneficiaries grew fivefold between 1984 and 1992 (although the female share in agricultural employment in Spain has changed little) and has stabilised since then. Therefore, this benefit apparently had a large incentive effect in terms of bringing women into the temporary agricultural labour force (possibly in the sense that the work of female family members is now declared rather than being done on an informal basis) for just long enough each year to qualify.

In Italy's system of ordinary unemployment benefits with reduced requirements, a minimum of 78 days of work in a year entitles a person to the same number of days of benefit in the following year. Following legislation in 1988 and a reform that increased the benefit level in 1990, claims grew from about 150 000 in 1991 to over 350 000 in 1998, even though aggregate unemployment in Italy was almost unchanged. Growing recourse to temporary labour, creating a continuous flow of persons who have acquired the right to benefits, probably contributed to this development (MLPS, 2000). In the 1990s, over 50% of individuals who claimed this benefit in one year claimed it the next year, suggesting that learning following a first claim could be an important factor in growth. Here, the growth in beneficiary numbers continued for at least ten years after the benefit's introduction.

- a) These three country cases are prominent examples of specialised unemployment benefits (distinct from the main unemployment benefit) that eventually reached high levels of reciprocity.
- b) In most countries, when a wholly unemployed person with an unemployment insurance benefit starts a part-time job, earnings from it beyond a certain "disregard" level are deducted one-for-one from benefits. However, some countries reduce benefits not in line with earnings but in proportion to weekly hours worked, i.e. benefit is halved when the unemployed person finds work in a job with half normal weekly working hours. This increases the incentive to work part-time, as compared to working not at all or full-time.
- c) In Belgium the number of part-time unemployment beneficiaries had already fallen slightly by the time the policy changes occurred in 1992. This pattern seems to be fairly common, perhaps because the broad lines of policy changes are debated and partly known by labour market actors well before the date of any formal legislation or decree and its application. Similarly, Carling et al. (1999) estimate that a 5 percentage point cut in the UI replacement rate in Sweden taking effect on 1 January 1996 increased the transition rate out of unemployment by about 10%, and they note "evidence of anticipatory behavior among the unemployed; the effects of the reform seem to operate several months before its actual implementation in January 1996". Annex 2 explains in general terms why the impact of reforms often appears to be immediate.
- d) In 1990, the benefit scheme for casual agricultural workers was restricted by making entitlements conditional on the claimant's age and his/her family size and income (www.inem.es/legis/deseempleo/rd5_97.htm). This reform no doubt accounts for the stabilisation of the beneficiary rate as from 1990. In 2002, a one-day national general strike, the first since 1994, was held in protest at a package of labour reforms, with proposed further reforms to this special agricultural scheme being one of main issues. For a description of developments up to early 2003, see <http://217.141.24.196/2003/02/InBrief/ES0302201N.html>.

Chart 4.5. **Long adjustment lags for special unemployment benefit schemes in Belgium, Italy and Spain, 1979-2002**

Percentages of population aged 15-64



a) Beneficiaries of part-time unemployment benefits.

b) Beneficiaries of ordinary unemployment benefit with reduced requirements.

c) Beneficiaries of special benefit for casual agricultural workers in Andalusia and Extremadura.

Source: NEI-SZW database and for Belgium, *Chômage en Belgique – Werkloosheid in België*, monthly averages and ONEM, *Rapport Annuel 2001* (www.onem.be – publications); for Spain, www.mtas.es/estadisticas/BEL/PRD/Index.html with breakdown by sex 1984-1987 from MTSS (1989), *Mercado de trabajo en España durante 1987* (1988 to 1991 estimated by interpolation); for Italy, *Synthesis of the Monitoring Report on the Employment and Labor Policies No. 2/2000*, *Rapporto di monitoraggio 2/2001* and *Monitoraggio delle politiche occupazionale e del lavoro 2003* (www.minilavoro.it). For population, United Nations (2001), *World Population Prospects 1950-2050 (The 2000 Revision)*, mid-year estimates and medium variant population projections.

initial pattern. Without these, the growth in beneficiary numbers might well have continued to some extent.

Longer adjustment lags for lone-parent and social assistance programmes

In the case of lone-parent and unemployment assistance programmes, the period of growth in beneficiary numbers has usually been 15 years or longer (Boxes 4.4 and 4.5). External macroeconomic conditions were clearly driving factors in some large short-term movements, but there are also reasons for thinking that longer-term benefit dynamics largely determined long-run outcomes:

- Growth rates of beneficiary numbers averaged close to 10% per year or more, over a decade or more (i.e. beneficiary numbers grew by a factor of at least 2.5 over a full cycle).^{17, 18}
- In some cases, the number of recipients of social assistance benefits and long-term UI benefits (in the countries which have these, such as Denmark) has evolved in ways that have had only a tenuous relationship to general macroeconomic conditions. In the United Kingdom, starting from a low base in 1949, social assistance beneficiaries as a proportion of the working-age population grew rapidly during years of prosperity and full employment, as well as years of worldwide slow growth and rising unemployment. In France, between 1993 and 2000 the number of beneficiaries of RMI (social assistance system introduced in 1989) grew by 45% – even though this was a period of cyclical upswing.¹⁹ More generally, although recessions greatly influence reciprocity of UI and

Box 4.4. **Adjustment lags for the main unemployment assistance and social assistance schemes in four countries**

The *OECD Jobs Study* (1994b) documented the long-term growth in beneficiary numbers for indefinite-duration unemployment assistance or social assistance benefits following their date of introduction in four European countries (United Kingdom in 1948, Netherlands in 1963, Finland in 1971 and France in 1988). Chart 4.6.A shows these data updated to a recent year. For the United Kingdom, Netherlands and France, series are shown both for the assistance benefit relating specifically to unemployment and for the total of this with broader social assistance (in the United Kingdom, lone-parent) benefits (but not including disability or other benefits). Growth in beneficiary numbers, abstracting from slight cyclical downturns, continued for about 45 years in the case of the United Kingdom,^a 15 years in the Netherlands, 25 years in Finland, and ten years in France (if years are counted from the introduction of the general social assistance benefit RMI in 1989, which rapidly came to outweigh quantitatively the unemployment assistance benefit). In two of these cases, the Netherlands and the United Kingdom, the falls in beneficiary totals following the introduction of activation policies have been fairly large (see Section 3.A below for further discussion).

a) However, the 45 years of growth in the United Kingdom reflect changes in administration as well as the 1948 legislation. The Ministry of Labour lost policy responsibility for unemployment benefit in 1945 and this change “had over the succeeding 20 years gradually eliminated interest in benefit control among senior officers in the ministry, even if the controls continued to apply at local office level” (Price, 2000, p. 129). A strategy document in 1968 omitted benefit control from the list of objectives (*ibid*, p. 138), and the beneficiary growth after this continued for about 20 years, more in line with experience elsewhere.

some assistance benefits, widely varying changes in recipiency rates remain after a recession has passed.²⁰

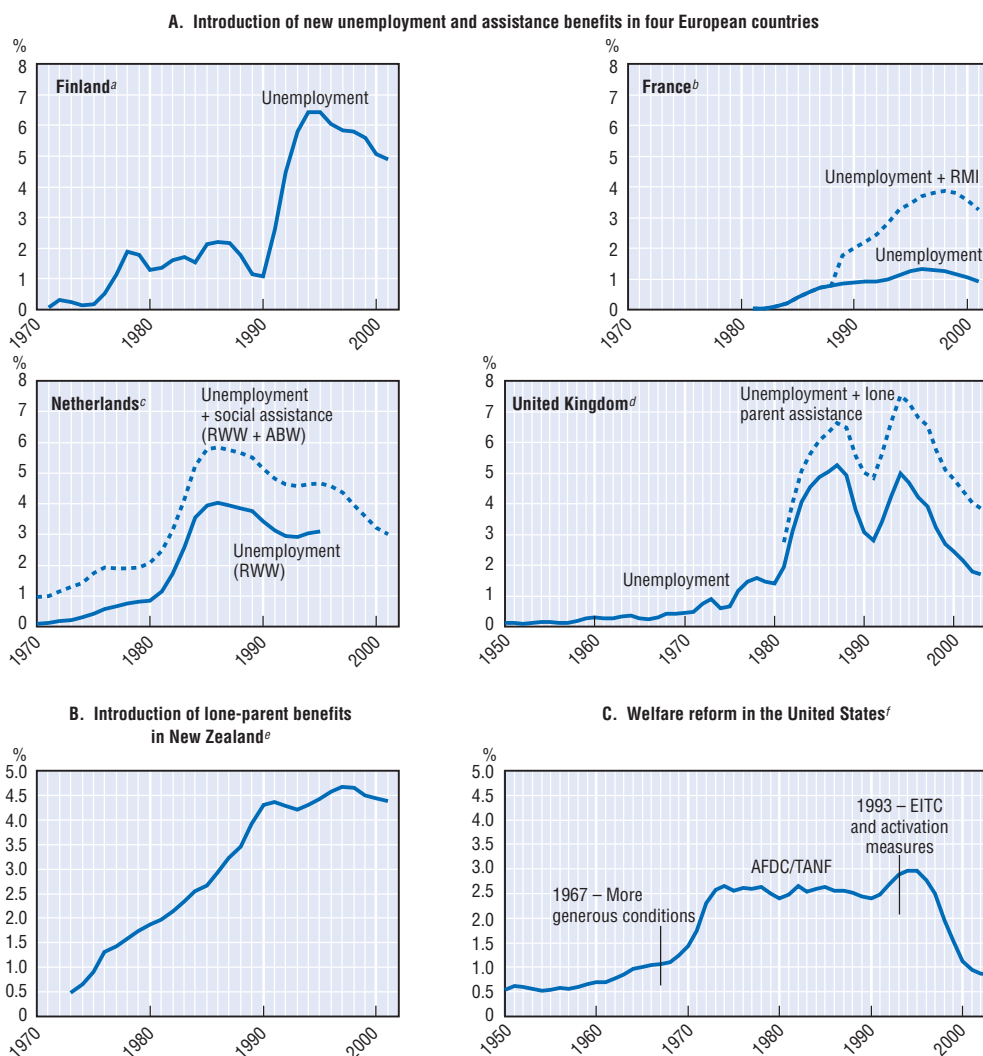
In sum, when a new benefit has been created and a large increase in the eligible population has resulted, this always occurs over a fairly long period. Commonly, the numbers have stopped rising at a time when entitlements were restricted or activation measures were introduced.²¹

Adjustment lags for disability benefits

The Netherlands experienced rapid growth in disability benefit recipiency earlier than most other countries did, and this led to intensive study of the links between recipiency and new entitlements to disability benefit and their subsequent reform. The disability insurance law (WAO) of 1967 stipulated that adjudicators, in their assessment of the degree of disability, should take account of the difficulties partially disabled persons might experience in finding commensurate employment, but “an explicit application of this provision turned out to be impossible (...). As from 1973, this administrative problem was solved by coarsely assuming that poor employment opportunities result from discriminatory behaviour, unless the contrary can be proven. (...) Partially disabled applicants were treated as if they were fully disabled” (Aarts and de Jong, 1990). Thus, the relaxation of eligibility criteria for entry to disability benefits occurred mainly in 1967 and 1973.²² Chart 4.7 shows the timing of the increase in the numbers receiving disability benefits (both insurance and assistance-based).²³ The main period of growth occurred from about 1971 (when the recipiency rate was 3.3%) to 1981 (when it reached 7.7%), i.e. over a period of 10 years. Starting in 1981, successive restrictive measures were

Chart 4.6. Long adjustment lags for assistance benefits

Percentages of population aged 15-64



- a) State unemployment assistance, created in 1971, and labour market support.
- b) Allocation de Solidarité Spécifique, created in 1984, and RMI created in 1988. For RMI, beneficiaries in Métropole (excluding DOM) on 31st December.
- c) RWW was created in 1963 and abolished in 1996, with transfer of beneficiaries to the general social assistance benefit.
- d) Unemployment assistance benefit named National Assistance (from 1949), Supplementary Benefit (from 1966), Income Support (from 1988) and Jobseekers Allowance (income-based) from 1996. Lone-parent data refer to data published under the heading "One-parent families not included in other groups" or "Lone parent premium: not in other groups" for years up to 1990, and to "Statistical group: lone parents" in recent years. Data relate to a specific week of the year (a week in May as from 1987). Data do not include people also receiving a UI benefit.
- e) Refers to Domestic Purposes Benefit, introduced in 1973, June figures from 1990 onwards. A relatively small number of beneficiaries of Widows' Benefit who are lone parents are not included. Unemployment assistance (not shown) also grew sharply over these years.
- f) AFTC / TANF rates for adult beneficiaries only (not including caretaker recipients)

Source: NEI-SZW database; OECD (1994); for Finland, Finnish Labour Review 3/2002, Table 23; for France, www.unedic.fr/unistatis/index.php – données détaillées and "Légère hausse des bénéficiaires du RMI au 03 juin 2002" (www.caf.fr/CoupDOeil.htm – publications); for the Netherlands, www.cpb.nl/eng/data/mev2003/a10.xls; for United Kingdom, Work and Pensions Statistics (www.dwp.gov.uk/asd/wandp.html); for New Zealand, "Historical Summary – Number of People Receiving Income Services, 1940-2000", in Social Services Sector Statistical report for the year ending 2000 (www.msp.govt.nz/publications/statistics.html); Quarterly Client Profile (www.workandincome.govt.nz – statistics). Data for 1973-74 and 1976-79 are estimates (growth is described at www.radstats.org.uk/no069/article5.htm); for the United States, 1965-2000: Indicators of Welfare Dependence: Annual Report to the Congress 2002 (aspe.hhs.gov/hsp/indicators02/appa-tanf.htm); 1950, 1955, 1955, 1960-1964: Social Security Statistics Annual Statistical Supplement (www.ssa.gov/statistics/Supplement). Data refer to total recipients less child recipients. Other years estimated by interpolation/extrapolation based on Schafer and Clemens (2002) and www.ncsl.org/statefed/welfare/welfare.htm. For population, as for Chart 4.5.

Box 4.5. Lone-parent benefits in two countries

“Welfare” in the United States

Adult reciprocity rates for the US “welfare” benefit for lone parents, AFDC/TANF, rose only slightly from 1950 to 1960, then rose rapidly to reach a peak first in 1973 (equalled in 1981) and then in 1993 at nearly 3% of the working-age population (Chart 4.6.C). Growth in reciprocity was driven largely by growth in the number of lone-parent families. The particularly sharp rise from 1967 to 1971 was related to changes in benefit rates and eligibility rules.^a The lack of any strong upwards trend after this through to 1990, despite a continuing increase in the number of lone-parent families, could be related to declines in the real value of AFDC benefits.^b From the point of view of timing, the most interesting period is the fall in reciprocity after 1993. This probably reflects successive increases from 1987 onwards in the return to working for lone parents^c and activation measures introduced in the 1990s (see Section 3.A below for further discussion).

Lone-parent benefit in New Zealand

The most important benefit to be introduced in New Zealand over the last 50 years has been the Domestic Purposes Benefit (DPB). For some years prior to its introduction, there existed an emergency benefit for sole parents, but it was temporary in nature with a low benefit level (Liebschutz, 1999). The DPB was established in 1973 to allow sole parents to provide full-time care for children with adequate income support (Goodger and Larose, 1998). The ratio of benefit to the average weekly wage for females was cut from 59% to 50% in 1991, but Bradshaw *et al.* (2000) regard this as remaining (comparatively) high. Following introduction of the DPB, growth in the number of beneficiaries was very rapid through to 1976 and then continued at an average of about 9% per year through to 1991 (Chart 4.6.B), *i.e.* 18 years after the introduction of the benefit. The first slight reduction in beneficiary numbers was related to a sharp cut in benefit rates in 1991 (MacKay, 1998), but growth in reciprocity resumed three years later. In 1997, a requirement on the lone parent to be available for part-time work when the youngest child was aged 14 or more was introduced and this limit was reduced to aged 6 or more as from 1999 (see Ministry of Social Development, 2001, for further details). This is likely to be a factor in the renewed downward trend since 1997. Requirements have now been relaxed again, but this occurred too recently to have any impact on the data shown here.

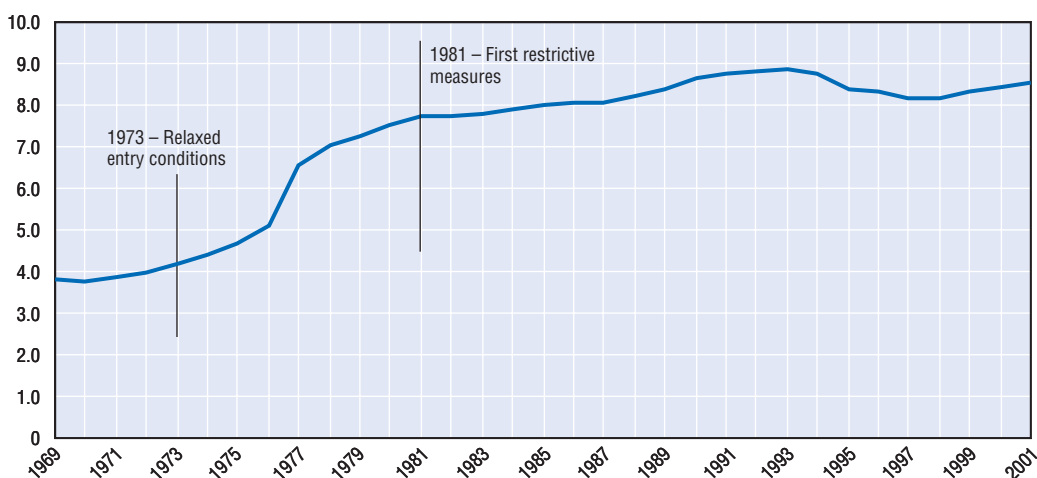
- a) Stephens (2002), citing Fraker and Moffitt (1988) and Garfinkel and McLanahan (1986), explains that “When the increased real effective benefit level [due to the introduction of Medicaid and expansion of Food Stamps] combined with a legal ruling that AFDC was available to cohabiting single mothers provided that the father was not the biological parent, caseload numbers increased from 67% of eligible families in 1967 to nearly 90% in 1971.”
- b) See <http://aspe.hhs.gov/hsp/indicators01/apa-TANF.htm> for data showing the decline in the real value of AFDC/TANF benefits from 1978 to 1998.
- c) According to calculations by Elwood (1999), the earnings of a single parent who moved from AFDC to a minimum wage job were subject to an effective tax rate (including child-care costs) of about 80% in 1986 and 30% in 1997. More than half of the 50 percentage point fall in the effective tax rate between these years was due to the increased rate of the Earned Income Tax Credit (EITC). The lower real level of TANF benefits out of work and the increased availability of child-care subsidies in work each contributed about 10 points. The maximum annual level of the federal EITC for a family with one child increased from about USD 500 to USD 900 in 1987, USD 1 200 in 1991 and USD 2 000 in 1994.

introduced, but reciprocity rates nevertheless drifted up by another percentage point through to 1991.²⁴

Data on the distribution of invalidity benefit stocks and inflows by five types of medical condition (mental, muscular-skeletal, cardiovascular, injuries, other diseases) for

Chart 4.7. **Reciprocity rate for disability insurance and assistance benefits^a in the Netherlands, 1969-2001**

Percentages of population aged 15-64



a) Beneficiaries of the Invaliditeitswet, part of the Invalidity and Age Act 1919 (whose numbers had declined to a low level by 1981 and to zero by 1991), invalidity insurance (WAO) introduced in 1967 and invalidity assistance (AAW) introduced in 1976.

Source: CPB (2002), *Macroeconomic Outlook 2003* (www.cpb.nl/eng/data/), Appendix 7. For population, as for Chart 4.5.

a number of countries give an insight into one way that benefit reciprocity has increased. The shares of the first two categories (mental and muscular-skeletal conditions) have generally increased between 1980 and 1999. While the trends are often slow, they have a cumulative impact: inflows or stocks in a recent year were on average 20% to 25% higher than they would have been, if the first two medical conditions had grown only in line with the other categories. Applications for benefits on such grounds, and the success rate of these applications, may have grown as precedents accumulate.

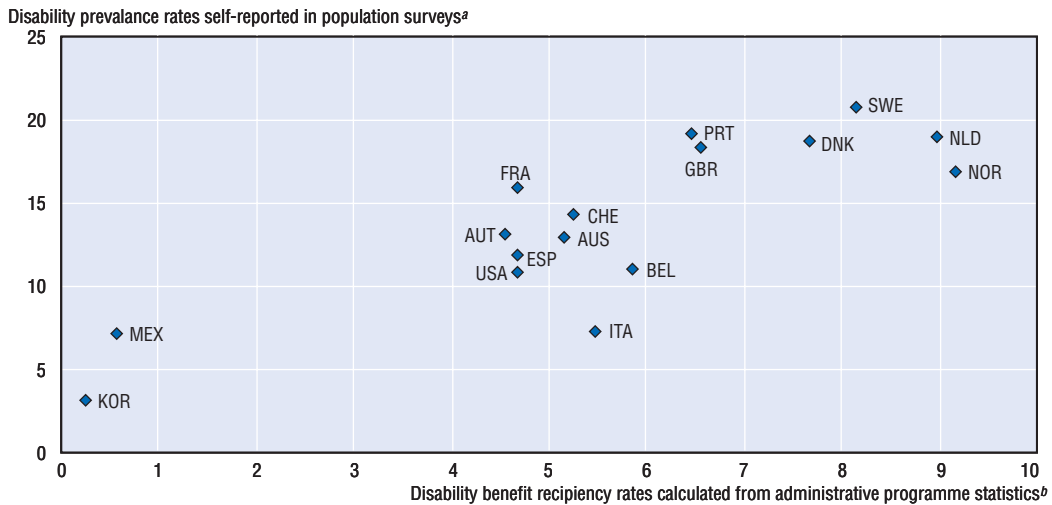
Cross-country data provide another insight into how disability benefits may encourage growth in the population that is eligible for them. Chart 4.8 compares measures of *disability prevalence*, based upon perceptions of disability as self-reported in population surveys with *disability benefit reciprocity rates*, as recorded in administrative statistics. The two rates are correlated, not only for the full data set but also among the 11 EU countries where (subject to issues of translation) the same questions (from the European Community Household Panel, ECHP) are used in determining disability prevalence, and income levels and health outcomes are relatively uniform.²⁵ Although correlation does not prove causation, a common interpretation is that disability benefit systems differ across countries and they influence reciprocity outcomes more than differences in true health status do.²⁶ Chart 4.8 thus illustrates how the availability or attractiveness of a benefit might tend to increase the population eligible for that benefit. This type of feedback can generate long lags in the impact of benefit system parameters on reciprocity (Annex 2).

Some large falls in reciprocity occur

The examples given in Boxes 4.3 to 4.5 include four cases where beneficiary numbers have fallen sharply: the special benefit for involuntary part-time unemployment in

Chart 4.8. **Disability prevalence and disability benefit reciprocity rates in the late 1990s**

Percentage of population aged 20-64



Note: Disability prevalence rates are always higher than reciprocity rates, the scales for each axis are therefore different.

a) In the analysis of population survey data, people in EU countries are classified as disabled if i) to the question “Do you have any chronic physical or mental health problem, illness or disability” they responded “yes” and ii) to the question “Are you hampered in your daily activities by this chronic physical or mental health problem, illness or disability” they responded “moderately” or “severely”. For non-EU countries, surveys using questions that resemble these as closely as possible were used. See OECD (2003), Annex 1, for details.

b) Contributory and non-contributory benefits only, not including war disability pensions or work injury benefits.

Source: OECD (2003), Tables 3.1 and 3.7.

Belgium, unemployment assistance benefits in the Netherlands²⁷ and the United Kingdom, and lone-parent benefits in the United States. These outcomes suggest that it is quite possible for beneficiary numbers to fall to a half or a third of their previous level following changes in passive and/or active policies. In the case of Belgium’s part-time unemployment benefit, beneficiary numbers fell primarily in response to passive policies (reducing the compensation rate, and restricting access). An active policy approach – i.e. assisting and monitoring the search for full-time work by part-time unemployed people – would have placed unrealistic demands on the capacities of the Belgian PES, and would probably not have worked. Similarly in the case of the special unemployment benefits in Italy and Spain, the short-term nature of the benefits would make it difficult for the PES to do much through active policies. In the case of unemployment assistance and lone-parent benefits, the potential for activation strategies to succeed seems greater, as will be discussed further below.

2. The meaning and measurement of the “active” content of policy

Activation strategies in relation to unemployment and social assistance benefits have had a large impact in reducing benefit reciprocity in some countries and plausibly, a more modest impact in most other countries. Activation policies can be understood in the narrow sense of compulsory training or employment measures for the unemployed (Andersen *et al.*, 2002). However, active labour market policies include a much wider range of approaches. The purpose of this section is to review the different approaches that

national authorities can consider in order to increase the active content of their policies with the aim of reducing benefit dependency. It draws upon experience with reviews of the Public Employment Service (PES) and labour market policies and findings from microeconomic evaluation studies (see for example OECD, 2001a; 2001b; Martin and Grubb, 2001). Activation policies typically apply to unemployment and (if different) employable social assistance beneficiaries, but similar principles are increasingly being applied to lone-parent and disability beneficiaries (see Subsection F below).

A. Spending on “active” vs. “passive” labour market programmes

Total spending on active labour market programmes can be expressed in different ways, for example: a) as a percentage of GDP; b) as active spending per person unemployed relative to GDP per person employed; or c) as active spending as a percentage of active and passive spending on labour market programmes combined. Table 4.2 shows these measures for 25 OECD countries. *A priori* b) is a good measure: an “active” policy is one

Table 4.2 Indicators for spending on active labour market programmes

		Spending on active labour market programmes ^a		
		As a percentage of GDP	Ratio of spending as a percentage of GDP to the unemployment rate ^b	As a percentage of total spending (active and passive) on labour market programmes ^c
Australia	2000-01	0.46	0.07	32.0
Austria	2001	0.53	0.15	33.1
Belgium	2000	1.32	0.19	37.6
Canada	2000-01	0.41	0.06	36.4
Czech Republic	2001	0.21	0.03	46.6
Denmark	2000	1.58	0.36	34.3
Finland	2001	0.94	0.10	32.0
France	2000	1.32	0.14	44.4
Germany	2001	1.21	0.16	38.6
Greece	1998	0.46	0.04	49.8
Hungary	2001	0.47	0.08	55.4
Ireland	2001	1.14	0.29	61.9
Japan	2000-01	0.28	0.06	34.2
Korea	2001	0.31	0.08	66.9
Luxembourg	1997	0.24	0.09	28.3
Mexico ^b	2001	0.06	0.02	100.0
Netherlands	2001	1.74	0.67	48.0
New Zealand	2000-01	0.57	0.10	28.9
Norway	2001	0.79	0.22	63.9
Portugal	2000	0.61	0.15	40.5
Spain	2001	0.84	0.08	38.9
Sweden	2001	1.39	0.29	59.2
Switzerland	2001	0.45	0.18	48.0
United Kingdom	2000-01	0.37	0.07	40.0
United States	2000-01	0.15	0.03	32.9
Averages for:				
EU countries above		0.98	0.20	41.9
All countries above		0.71	0.15	45.3

a) Active measures are public employment services and administration, labour market training, youth measures, subsidised employment and measures for the disabled.

b) OECD standardised unemployment rate, except for Mexico (national definition).

c) Passive measures are unemployment compensation and early retirement for labour market reasons.

Source: OECD database on Labour Market Programmes; OECD database on Main Economic Indicators.

where a relatively large amount is spent per unemployed person. However, countries that score high on this measure often also have high levels of passive spending (on unemployment benefits). Arguably an “active” orientation arises only when indicator c) is high as well. Among the countries where indicators a) and b) are above average, only in three (Ireland, Norway and Sweden) is indicator c) also much above average. In two more countries (France and the Netherlands), indicators a), b) and c) are all near or above average level. One more country (Switzerland) has a high level of spending according to indicators b) and c) while indicator a) remains relatively low, thanks to a low unemployment rate.

A fundamental question for these statistics is what spending should be counted as “active”. OECD analyses suggest that the PES is the key actor in activation strategies for the unemployed.²⁸ Spending on the PES may represent a relatively small proportion of total spending, but a large proportion of the spending on other programmes is delivered through the PES. Spending on these other programmes consists to a considerable extent of income support payments to programme participants, and transfers to employers in the form of hiring subsidies. As a result, the “active” nature of this spending is not assured: it depends on how referrals and programme content are managed. Within the area of PES functions, the distinction between job-search assistance and benefit administration is not always clear: some of the main activities such as interviewing job-seekers and maintaining the PES register contribute to both. These factors mean that labour market spending data provide at best highly approximate measures for the “active” content of policy. The remaining sections look at further key factors that shape the “active” character of policies.

B. PES interventions in the unemployment spell

The concept of “interventions in the unemployment spell” refers to arrangements where the unemployed person has compulsory contacts with PES, or other obligations to engage in job-search activities. While applications for job vacancies registered by the PES are mainly voluntary (i.e. the unemployed person selects the vacancy from a notice board or electronic database), various other types of contact with the PES (signing-on, interviews with PES officers, setting up an individual action plan) occur mainly on a compulsory basis, and participation in longer-term programmes may be mainly voluntary or compulsory. In some countries, after initial contacts which establish the person’s rights to benefit and provide basic information about PES services, during the next few months of an unemployment spell the unemployed person is expected to search independently for work and the PES intervenes very little.

Scheduled interventions in the unemployment spell can be of four different types, in terms of the time within the unemployment spell at which they apply:

- First month of the spell: often a lengthy initial registration interview is conducted and some countries also require participation in collective information sessions.
- Ongoing contacts: regular contacts for job-search reporting; direct referrals to a vacant job (requirement to attend a job interview); occasional intensive interviews with PES staff; and less intensive but more frequent signing-on procedures.
- Individual action plans: these usually involve an additional intensive interview at a defined month of the unemployment spell (although in some countries, at initial registration) and follow-up interviews. In some cases, a high proportion of participants in an action plan are referred to a labour market programme.

- “Active period of benefits”: at some duration of unemployment, continued payment of unemployment benefit becomes conditional on ongoing participation in an active labour market programme, while other interventions (interviews and job-search monitoring) continue according to a modified schedule. (This type of intervention can be an enhanced type of individual action plan.)

Results from a questionnaire addressed to OECD countries in 1999, concerning arrangements for interventions in the unemployment spell, were reported in OECD (2001a, pp. 41-48). Initial registration procedures that establish jobseeker details appear to demand a significant proportion of PES resources. This is because many unemployment spells are short, and terminate before much further intervention has occurred. Patterns of intervention vary widely: for example, in some countries direct referrals to vacant jobs are an important type of intervention, while in others they are not often made, and job-search reporting requirements are more important.

C. Benefit eligibility criteria and benefit sanctions

Strict eligibility criteria for the receipt of unemployment benefit, which have to be met on pain of benefit sanctions, provide another tool for “activation” – so as to reduce the risk of benefit traps, where beneficiaries have little incentive to look for a job. Activation policies in such countries as Denmark, the Netherlands and the United Kingdom have involved increased attention to questions of benefit eligibility:

- *Legislation*: in Denmark, legislation introduced the “active period of benefits” in 1994, with further revisions in 1999; in the Netherlands, new guidelines concerning “suitable work” were issued several times (1992, 1994 and 1996) and a new law on sanctions (*Wet Boeten en Maatregelen*) was adopted in 1996 (see Engelfriet, n.d.); and in the United Kingdom entirely new benefit legislation (Jobseekers’ Allowance) was developed and effective as from 1996. These changes arguably involved some increase in strictness, but this is not always clear (*e.g.* Denmark still has mild sanctions for a first refusal of suitable work, and the UK definition of suitable work is not particularly strict). The main thrust was towards clarification – often including a more rather than a less detailed specification of eligibility criteria.
- *Administration*: in Denmark, there was a major administrative drive in 1994 and 1995 (new computer systems and creation of an “availability inspection unit”) to permit effective supervision of, and communication with, the benefit funds, which are run by unions. In the Netherlands, the institutions managing benefits were completely reformed in the 1990s, and were given funds allowing them to purchase employment services from the PES and, increasingly, through competitive tendering.
- *Sanctions*: in the Netherlands and the United Kingdom, a sharp increase in the incidence of benefit sanctions occurred at some early stages of the activation strategy.²⁹ However, it is not clear that the enforcement of eligibility criteria needs to involve particularly high sanction rates on a long-term basis.³⁰

Sanctions are needed as a last-resort measure to enforce requirements. In theory, social welfare is maximised by a policy where sanctions are very harsh but – because compliance is complete – they never need to be applied. In practice, the severity of sanctions is limited (the maximum sanction is exclusion from unemployment benefit, except in cases of fraud), compliance is not complete, and some sanctions are necessary to enforce requirements. If the outcome that most jobseekers comply with requirements is

achieved, the detailed method of enforcement is not so important: the most important issue is the nature of the requirements (*e.g.* reporting of job search, attendance at fortnightly interviews, participation in training) and the effectiveness of the services that are delivered within this framework.

D. Compulsory vs. voluntary participation in labour market programmes

One important feature of “activation” policies for unemployment and social assistance benefits has been to make participation in labour market programmes compulsory (as a condition for receipt of benefits) rather than voluntary.

In a number of countries, actual rates of participation in obligatory labour market programmes are low. For the Netherlands, Van Oorschot (2002) remarks that the participation rate in full-time programmes relative to the total target group of activation policies has been very small (*e.g.* “In 1988 (...) about 7 000 young unemployed participated in the TW-GWJ [youth guarantee], while nationally about 45 000 met the criteria”). Similarly, in the United States, in 1999 about 3.3% of TANF families were participating in work experience programmes (Strawn *et al.*, 2001).³¹ In the United Kingdom, obligatory participation in longer-term employment and training programmes hardly existed before the short-lived 1997 Project Work scheme, and remains low. In Canada’s “Ontario Works” programme (described by Morel, 2002, as “hard-core” workfare, although this may be exaggerated), only 2 to 5% of social assistance recipients have been on workfare assignments (Mulvale, 2002). However, these low percentages remain consistent with the idea that an obligation applying under specific conditions (*e.g.* when the spell of benefit reciprocity has been uninterrupted for over a year) can have a large impact in motivating people to avoid the obligation.

In some other countries, rates of compulsory participation in labour market programmes have become rather high. This outcome may arise where replacement rates or compensation for participants come close to market wages.³² In recent years, Denmark and Sweden have had high participation rates, with a significant percentage of the labour force in labour market programmes. These countries try to make good use of the time participants spend in programmes by strengthening training and education content. Nevertheless, the programmes are expensive and participants’ time is often not so productively used as it would be in unsubsidised work.

The effectiveness of compulsory participation strategies is likely to depend strongly on how effectively people are helped in searching for market work alternatives. Individual action plans, PES assistance in between assignments to programmes, and counselling during the lengthy “gateway” period of the UK New Deal should promote this objective. The “active” nature of actual participation in programmes, when this occurs, is not clear. During participation, “lock-in” effects arise (*i.e.* during participation in a programme, job-search intensity and rates of entry to unsubsidised work tend to be lower than they are in open unemployment). After participation, according to evaluation findings, prospects for unsubsidised employment are not necessarily improved, especially in the case of public sector job creation schemes.

The OECD’s reviews of social assistance (OECD, 1998a; 1998b; 1999) identify several other considerations that have encouraged the adoption of this type of welfare-to-work

strategy: a) fraud control; b) a perception that long-term benefit recipients do not realise that participation in programmes is in their own best interest; c) political considerations, in particular public willingness to finance programmes, may be greater when assistance is within a mutual obligations framework; and d) these strategies often force government bureaucracies to pay attention to disadvantaged groups.³³

E. Institutional arrangements

The *OECD Jobs Study* (OECD, 1994a) recommended that the three PES functions of placement and counselling, the payment of unemployment benefits and the management of labour market programmes, should be integrated. The degree of *functional integration* is an important dimension of the “active” orientation of policy. Functional integration can be partly a matter of institutional arrangements, but it also involves what Clasen and van Oorschot (2002) describe as “blurring of the traditional division between the policy areas of social protection and labour market policy”.

In Ireland, until 1996 there was no obligation on unemployment beneficiaries to register with the placement service (implying that the placement service did not monitor or enforce availability for work, job-search or acceptance of suitable work) and the introduction of an obligation to register for placement clearly increased the level of functional integration. In the Netherlands, government funding of benefit institutions to allow them to purchase placement services for their clients began in 1996, and this might also be regarded as a measure of integration between the benefit and placement functions. In the UK reforms of the late 1980s, integration was pursued by merging the previously-separate local offices that handled benefit processing and placement, but with the benefit and placement staff remaining employees of different ministries. In some other countries (*e.g.* Greece and Spain), the benefit administration and placement functions are both responsibilities of a quasi-independent Public Employment Service body (OAED, INEM), but staff working on these functions are to varying extents separated at local office level. In Germany’s PES (the BA) these functions have been reunited since 2000, with most client needs being handled by staff teams in a single local office.

One factor that is liable to influence the degree of effective integration is whether the same bodies finance unemployment benefits and active labour market programmes. Many European countries and Canada have a nationally-financed UI system alongside a municipally-financed (provincial, in the case of Canada) system of social assistance, and municipal social services which also do some placement work. Under this arrangement, municipalities are often willing to create jobs for the long-term unemployed on a large scale: in many countries this attracts central government subsidies for job-creation programmes targeted on UI recipients, and reduces the number of UI exhaustees transferring to social assistance. Often, although the national PES in principle services the whole population, municipalities find that “their” clients do not get sufficient attention from it and their social services develop a placement function. A further complication is that in at least four OECD countries (Belgium, Canada, Spain and Switzerland), the network of local placement offices is managed by regional governments, creating a risk that links with the federal UI system will be lost. Among these countries, Switzerland has set up a federal system evaluating the performance of individual placement offices (OECD, 2001a), and Canada has set up a system of federal-provincial agreements and performance evaluation (Box 4.6).

Box 4.6. **National versus regional financing and management of insurance and assistance benefits in Canada**

During the 1980s, the Canadian federal government made massive fiscal transfers between provinces in terms of UI benefits (a federal responsibility), regional development programmes, and fiscal equalization payments, which under the Canada Assistance Plan (CAP) financed 50% of the provinces' social assistance costs. By the early 1990s, the federal government was seeking to reduce its direct expenditure on UI benefits and its social assistance expenditures under the CAP. The near-doubling of social assistance caseloads between 1982 and 1992 had also become a factor contributing to provincial budgetary difficulties.

In the mid-1990s, payments under the CAP were replaced by block grants under the Canadian Health and Social Transfer (CHST). Soon afterwards, the federal government also entered into a series of Labour Market Development Agreements (LMDAs) that transferred funding and management responsibility for employment service staff and active labour market measures (called Employment Benefit and Support Measures, EBSMs) to the provinces of Quebec, Alberta, Manitoba, Saskatchewan, and New Brunswick.^a Quebec joined with a number of other provinces in claiming that this would bring about greater accountability, reduce conflicting interventions and duplication between services for UI and social assistance clients, and improve the matching of labour supply and demand at local level.

Following the 1994 and 1996 changes to UI programme parameters, the proportion of unemployed entitled to benefits (now renamed as Employment Insurance, EI) declined substantially. Fortin and Cremieux (1998) estimate that the EI changes increased social assistance caseloads by 10% to 25%, depending on the province. However, research also attributed a large part of the decline in EI coverage to a change in composition of the unemployed population, with relatively fewer workers having a high degree of labour force attachment and awaiting recall, and relatively more workers having precarious employment histories with little recent work experience. Consistent with this development, there was a large increase in the share of social assistance beneficiaries that were considered to be employable (estimated to have risen from 38% to 64% over 1980-92 in British Columbia).

Since provinces only bear the costs of the social assistance programmes, they have an incentive to shift workers at the margins of the labour force between programmes to minimise programme outlays. There are some well-known cases of job-creation schemes for social assistance clients implemented by local governments that were designed mostly to entitle the participants for EI benefits. However, these are mostly dated: blatant cost-shifting of this kind would be embarrassing for both levels of government, which want the “flexible federalism” principle of LMDAs to succeed.

In managing the EI system, the “results-based accountability” criteria^b used to evaluate performance under the LMDAs create incentives to recruit claimants with high EI entitlements into the EBSMs, since placements in this case result in greater savings to the EI account. However, EBSM participation is sometimes followed by relatively precarious employment and a return to EI: preliminary evidence suggests that this has happened to perhaps 25% of participants. The legislation that created the LMDAs calls for sophisticated summative evaluations of the longer-term impacts of the EBSMs on outcomes such as EI receipt, earnings, and unemployment spells. This work in progress should provide further insights into patterns of savings to the social assistance and EI accounts.

Box 4.6. National versus regional financing and management of insurance and assistance benefits in Canada (cont.)

Provinces, now responsible for the full cost of social assistance benefit payments, have adopted a variety of welfare-to-work strategies, which Morel (2002) has described as “soft-core” workfare in Quebec and “hard-core” workfare in Ontario. Despite the EI cutbacks, social assistance reciprocity rates fell by a third between 1994 and 2000.^c

- a) Other provinces entered into a different form of LMDA whose scope was not “full devolution”, but rather limited to a “co-management” arrangement. See OECD (2001a) for a more detailed description.
- b) The three criteria are: savings to the EI account stemming from the placement of a current EI claimant, the number of EI clients served, and the number of clients returned to work. At the current stage, there are no medium-term, not to mention long-term, accountability indicators.
- c) Earlier cyclical movements in social assistance caseloads in Canada were small: the reciprocity rate fell by less than 10% in the late 1980s upswing, and hardly at all in the late 1970s upswing.

Source: As cited, and Gray (forthcoming).

F. Activating “inactive” benefits and gatekeeping in inactive programmes

“Activation” measures are mainly targeted on recipients of unemployment benefits and, in certain cases, recipients of social assistance benefits. In the latter case, the application of an activation strategy to some extent converts the social assistance benefit into an unemployment benefit under another name. However, to the extent that social assistance clients need social worker assistance with problems such as housing, debt, and drugs, there may be a case for keeping benefit and administrative arrangements for these clients separate from those for the short-term unemployed. Other possible target groups for activation measures are recipients of earmarked lone-parent benefits, where these exist, and disability benefits.

In many countries, lone parents on assistance benefits must, if there are no other impediments, be available for work in order to qualify for assistance. In the mid-1990s, this applied when the youngest child reached six months to 12 years (depending on province) in Canada, three years in Austria, Finland, France and Sweden, five years in the Czech Republic and the Netherlands, six years in Luxembourg and (for part-time work) in New Zealand, and eight years in Norway (Eardley *et al.*, 1996; OECD, 1998a; Goodger and Larose, 1998; www.childpolicyintl.org/childdsupport.html; Millar and Rowlingson, 2001).³⁴ In Norway, since 1998 assistance without an availability requirement is usually limited to three years. In Germany, social workers try to ensure that lone parents have priority access to institutional child care, and availability for work is expected insofar as child care is available. Ireland and the United Kingdom still pay lone-parent benefits without an availability-for-work requirement while the youngest child is under 16, and attempts at reforming similar arrangements in Australia and New Zealand have encountered strong political opposition. In most countries with tight age limits (France is an exception), lone parents with children above these age limits receive social assistance benefits that are financed and managed at local (in Canada, provincial) level. Thus, it may be quite difficult to implement availability-for-work requirements on lone parents within a framework of entitlements to a nationally-managed benefit. Nevertheless, international experience suggests that it can be reasonable to require availability for work and apply activation policies as a general rule where the youngest child is in school, and at a lower age when child-care provision is adequate.

Strategies for the activation of the disabled face a number of difficulties: the heterogeneity of the disabled population; the complexity of assessing work capacity and its evolution through time; and the long-term nature of the assistance needed to get some people into work and maintain them in work. However, disability benefits are in some cases subject to work-related requirements (see also the discussion in Chapter 3, Section 2.B). OECD (2003) scores countries for various indicators of the “integration” dimension of disability policy, in particular the obligation to participate in a rehabilitation programme, the timing of the obligation (with a high score if it applies early, *e.g.* while still at work), and the duration of the possible benefit suspension. Scores above 1 on the first indicator mean that rehabilitation is not entirely voluntary, and scores above 1 on the third indicator indicate that benefit suspension of some kind is possible (for disability beneficiaries). Belgium, Denmark, Germany, Netherlands, Norway and Sweden (among 21 OECD countries) score above 1 on both indicators around 2000 (only in the Netherlands does this represent a change of policy, as compared to 1985), and thus might be said to have some practice of obliging people who have already been granted a disability benefit to be available for work, at least in the sense of participating in rehabilitation activities that are supposed to help prepare them for work. Belgium, Denmark, Norway and Sweden are also scored as having strong programmes of subsidised employment for the disabled. Together these conditions create a possibility for public authorities to place a person who is already on a disability benefit, or who will otherwise qualify for a disability benefit, into a market job albeit a subsidised one. However with the possible exceptions of Belgium and Germany, these countries have above-average disability benefit recipiency rates. Plausibly, countries where disability benefits are in principle granted only in cases of permanent and near-complete loss of work capacity do less to promote employment after benefits have been granted.

There are some examples of “activation” methods being applied to people for whom benefit entitlement is not conditional on availability for work. For example, Australia has a specialised employment service (Jobs, Education and Training) for lone-parent beneficiaries who are not required to be available for work, as well as a service (Return to Work) for mothers who need to transfer from parental to unemployment benefits, but lack recent labour market experience (OECD, 2001b). Non-compulsory employment services are generally considered useful and successful for those who use them, but their aggregate impact is limited by low take-up rates. One recent development in Australia, New Zealand and the United Kingdom has been to require people on lone-parent benefits to attend interviews, where the possibilities of entering work are discussed but without an obligation to take up job offers.³⁵ However, there is a risk that broad-brush attempts at applying “activation” strategies to “inactive” benefits will divert the energies and resources of the PES – which are limited, both in terms of staff and in terms of job vacancies – away from openly unemployed clients. This may account for disappointing results from pilot studies of the UK’s “One” approach, which extends the principle of integration of unemployment benefit administration with employment service offices at local level to other types of benefits.³⁶

If beneficiaries of disability or lone-parent benefits are considered able to work, an alternative to applying activation strategies directly to their beneficiaries is to restrict access to these benefits, so that a larger proportion of potential claimants must instead claim general unemployment or social assistance benefits where the availability-for-work requirement applies. Thus, the *Allocation de Parent Isolé* in France and the

Transitional Allowance in Norway do not require availability for work, but the low age and duration limits on these benefits mean that lone parents who are not in work must transfer to general social assistance benefits while their children are still quite young. Benefit eligibility criteria for unemployment benefits can make explicit allowance for child-care responsibilities or partial disability by providing for advance notification of referrals to a job interview, or specifying that only part-time jobs are regarded as suitable work.

In cases where a person with a work handicap cannot continue in the current job, or his/her productivity has fallen well below wage costs, it may be possible to prevent entry to passive disability benefits by offering rehabilitation and subsidised employment instead. Denmark's "Flexible Working Arrangements" (see Chapter 3, Table 3.10) is a recent development in this field. OECD (2003) describes a reform strategy in Luxembourg with similar features. When recognition of a work handicap is followed by placement into more suitable employment with a subsidy paid to the employer, the risk that the person can transfer to benefit on a passive basis in the following years is reduced. Generalisation of such arrangements might effectively dissuade employee misuse of disability as a route for early exit from the labour market, although it might also give employers incentives to encourage applications for the subsidy. Currently, in cases where the employee and employer agree that the person can no longer do their job (*e.g.* owing to a stress-related mental condition or back pain), often the only options open to the authorities are to reject this assessment, or to accept a permanent transition to a passive disability beneficiary status.

In the 1980s, many countries provided early retirement benefits for older workers who were laid off, removed job-search requirements for older unemployed people, and excluded older unemployed from employment measures. Already by the early 1990s, some countries had begun to reverse this tendency. In France, 700 000 people were on early retirement pensions paid through the UI system by 1983, but little new inflow was allowed in the 1990s. In Finland, the lower age limit for "Unemployment Pension" was increased from 55 to 60 years between 1986 and 1990. Belgium and the Netherlands recently started phasing out exemption from job-search requirements (formerly applying from age 50 and 57.5, respectively) for older workers, and Australia is closing its Mature Age Allowance to new entrants from 2003.³⁷ Spain recently created an "Active Insertion Income" benefit for unemployed workers aged over 45 which requires beneficiaries to have an individual action plan, and Denmark in 1999 increased the lower age limit for relaxation of availability rules from 50 to 55.

Measures that restrict access to early retirement or disability benefits will often increase inflows to unemployment benefit. When the PES and other labour market policies are functioning well – placing unemployed people in jobs quickly and implementing benefit eligibility conditions effectively – even the more disadvantaged unemployed are often placed in jobs within a year or two. In this way, success in reducing unemployment can in the longer term contribute to reducing dependency on other "inactive" benefits.

3. Outcomes from "active" policies

This section considers the impact of "active" policies on beneficiary numbers,³⁸ employment and earnings. This approach is appropriate for most OECD countries, where

the majority of participants in active labour market programmes are drawn from the stock of people on unemployment, social assistance or disability benefits. Possible substitution between different social protection benefits is also examined.

A. The role of activation strategies in reducing benefit dependency

Employment rates and active policies in cross-country comparison

Activation policies can help reconcile a relatively generous level of benefits with high employment rates, as in Sweden.³⁹ The Swedish system includes effective availability-for-work requirements. Sweden had the second highest score (after Luxembourg) in the Danish Ministry of Finance's index of the strictness of availability criteria for receipt of unemployment benefits (MoF, 1998). Here, the "duty to work" has always been a core element in social and labour market policy (Andersen, 2002) and the principle of a jobseeker obligation to participate in labour market programmes has not been questioned, although choice is possible in respect of the timing and type of programme, which are to a considerable extent also determined by the unemployed person's caseworker.⁴⁰ As regards unemployment,⁴¹ the main weakness in the range of active measures was the so-called "carousel" effect which allowed unemployed people to cycle repeatedly between unemployment benefit receipt and programme participation without entering unsubsidised work. Sweden has recently moved to curb the "carousel" effect by introducing an "activity guarantee" (see Box 4.7). Norway has also managed to keep its employment rate high. Here, unemployment benefit eligibility criteria are strict, benefit sanction rates are high, and according to Halvorsen (2002), social assistance is stigmatising and there is no sign of a "culture of dependency" among long-term unemployed or recipients of social assistance. Lower replacement rates as compared to Sweden may reduce incentives for unemployed people to cycle between employment and benefit receipt, or between benefit receipt and programme participation. One problem, however, is the relatively high number of recipients of disability benefits.

Activation strategies have helped reduce benefit recipiency in some countries

A move towards more "active" employment policy has occurred in most OECD countries. Major policy changes can be dated from 1994 (but arguably a little earlier) in Denmark, from 1996 in Ireland, from the early 1990s in the Netherlands and from 1986 in the United Kingdom, where the process was however relatively drawn-out (Table 4.3). Studies in these countries have reported microeconomic evidence of impact from certain types of activation measures, or certain stages in the activation process, that points to these measures as a likely reason for reductions in aggregate unemployment beneficiary numbers. Box 4.8 discusses this for Ireland.

In the United States, alongside a large increase in the financial return from working (see Chapter 3), the more "active" employment strategy for lone parents involved active measures such as the integration of placement and benefit administration, individual action plans, frequent meetings with clients, job-search requirements, etc. Restrictions on entitlement to benefit (in terms of time limits and general administrative discretion over granting benefit), and restrictions on practical access to benefit (in terms of "diversion" strategies) have also been important (see Box 4.9).⁴² Differences between US welfare reform

Box 4.7. Sweden's Activity Guarantee and the "carousel" effect

Concern has often been expressed about the risk of "carousel" effects, which arise when a period of open unemployment is broken by a spell of programme participation, but this leads into another period of open unemployment with continued benefit receipt. In Sweden, the introduction of the "Activity Guarantee" has limited this risk. The maximum duration of UI has been doubled (from 60 weeks to 120 weeks).^a The possibility of renewing benefit entitlement through programme participation has been eliminated, and the possibility of participating in the "Activity Guarantee" indefinitely, until the person leaves unemployment, has been created. The activity guarantee is a framework within which all regular labour market measures can be used. The participant is supposed to be engaged in job search, a labour market programme or in studies. The activities are supposed to be full-time.^b

Local employment offices retain considerable flexibility over the implementation of the activity guarantee. It is typically offered near the time of termination of the benefit period. Towards the end of the first 60-week period of UI, caseworkers assess which job-seekers are likely to find a job on their own and can be granted a second 60-week period of UI benefits. Referrals to the activity guarantee frequently occur either then or towards the end of the second period.

The content of the activities is developed by local PES offices in cooperation, so far as possible, with local government and other local labour market actors: 68% of local PES offices have signed an agreement with a municipality. Mainly in metropolitan areas, some PES offices have agreements with private firms. Information from central authorities stressed the importance of *full-time* and *organised* job-search and other activities. The government bill anticipated activities in groups of 10-15 persons, while the Labour Market Board subsequently recommended 25-30 persons. In addition to group activities, participants in the activity guarantee can take part in all other Swedish active labour market programmes. However, in survey responses, 58% of programme supervisors considered that information about the activity guarantee was insufficient. Almost a quarter of the PES offices reported that participants were not offered a full-time activity, owing to lack of staff.

Participant survey responses indicate that a common way of working has been to initially offer job-seeking activities in groups and later to offer a slot on a labour market programme. Two-thirds of participants surveyed said that they had been "activated" full-time during their time in the programme. However, almost half met their supervisor less than once a month. Participants on average had applied for two jobs during the four-week period preceding the telephone interview, but 60% of them had not applied for any job. Three out of four were very or fairly content with the programme, but almost half were critical due to a lack of individual adjustment and meaningfulness, and the majority did not think that participating had had any effect on their chances of getting a job.

a) The maximum is not an entitlement, but the UI fund may decide on one extension of the 300-day benefit period, making a total 600 days (SO, 2002).

b) According to desired labour supply. This means that, for example, an individual whose desired labour supply is stated to be 100 %, but who is on part-time sick leave, is supposed to participate full time minus the percentage of time on sick leave.

Source: Forslund et al. (forthcoming).

and European activation strategies should not be exaggerated. For example, until recently, relatively few US clients had lost a full benefit owing to the operation of time limits.⁴³

In Denmark, Ireland, the Netherlands, the United Kingdom and the United States, sharp declines in beneficiary totals followed the introduction of activation policies. In Denmark and

Table 4.3 Elements in the activation strategies of Denmark, Ireland, the Netherlands and the United Kingdom

Denmark	
1989	First in a series of tighter definitions of the obligation to accept "suitable work".
1992	Job offers, previously made after 2 ½ years of unemployment, are brought forward for young people.
1994	"Active period of benefits" which starts after four years of unemployment. Individual action plans introduced. New government information systems to track communications between the PES and benefit institutions.
1995	Creation of a central government "availability inspection unit" to supervise the implementation of benefit eligibility criteria.
1996	"Active period of benefits" applies after two years of unemployment.
1999	The unemployed must be registered with the PES from the first day of unemployment. The relaxation of availability rules for 50-59-year-olds is limited to 55-59-year-olds.
2000	"Active period of benefits" applies after one year of unemployment.
Ireland	
1996	Labour force survey finds that 25% of a sample of individuals on the Live Register (unemployment benefit register) are not reported to be a usual resident at the address given: only 25% are confirmed to be ILO unemployed. A questionnaire is mailed to all beneficiaries and an anti-fraud drive initiated. Beneficiaries aged 18 and 19 and unemployed for more than six months are required to register with the placement service FÁS.
1998	Beneficiaries aged under 25 and crossing the six-month threshold of benefit receipt enter processes under Ireland's Employment Action Plan (EAP – part of the European Employment Strategy). These processes require attendance at an interview.
1999	25-34-year-olds crossing a 12-month threshold enter EAP processes.
2000	20-54-year-olds crossing a 9-month threshold enter EAP processes.
Netherlands	
Late 1980s	A "change in focus" which results in sanctions for UI benefits increasing from 27 000 in 1987 to 140 000 in 1994.
1991	Introduction of the Youth Work Guarantee.
1992	Guidelines as regards "suitable work" are defined. Sanction frequency for assistance beneficiaries increases sharply.
1995	Radical reforms to the institutional structure of benefit administration. "Melkert" jobs are introduced (the stocks of participants in job creation schemes rose from about 20 000 in 1994 to 80 000 by 1999).
1996	New legislation concerning benefit sanctions. Sharply increased attention is given to the long-term unemployed: part of the direct grant to the PES is earmarked for the reintegration programmes for disadvantaged jobseekers, and another part is diverted to the benefit institutions for them to purchase such programmes.
United Kingdom	
1986	Programme of Restart interviews introduced. In later years many different types and schedules of interviews are tested and successful models are applied nationwide.
1989	"Actively seeking work" becomes a condition for benefit eligibility. Benefit administration and placement offices are united at local level (over several years).
1991	Participation in a one-week job-search course is made obligatory for those who have been unemployed for over two years.
Early 1990s	"Stricter benefit regime" leads to a doubling of benefit sanctions.
1996	Benefit legislation overhauled with the introduction of the Jobseekers Allowance.
1998	New Deal for Young People makes participation in a 6-month labour market programme obligatory for all youth remaining unemployed after six months plus an additional four-month "Gateway" period of intensive counselling.
2000	New Deal for Adults applies after 18 months unemployed.

Source: OECD (1993, 1998, 2000, 2001); AM (2000); Corcoran (2002); OECD database on Labour Market Programmes.

the United Kingdom, the unemployment beneficiary total by 2001 was one and a half to two times lower than the trough levels of the late 1980s (two to three times lower than in the mid-1990s).⁴⁴ In the United States, the number of adults on welfare by 2001 was two and a half times lower than the trough of the late 1980s (three times lower than in 1993).⁴⁵ Large falls that are seen when comparing two peak years in the economic cycle, and which contrast with the absence of such falls in other OECD countries, are not easily explained by cyclical factors. Although other factors were involved in individual cases, activation

Box 4.8. The impact of activation measures in Ireland

Ireland was the country with the highest ratio of beneficiary to labour force survey unemployment by 1995 (Belgium held this position in 1991: see OECD, 1994b; 1997). This is partly because the beneficiary concept used, the “Live Register”, is unusually comprehensive (it includes claims awaiting decision, persons paid for only part of the week, and “credits only” cases – people for whom only social insurance contributions are paid but cash benefit is not payable under means-testing rules), and only about three-quarters of cases are in receipt of a full payment. From 1975 to 1985 beneficiary and labour force survey measures of unemployment tracked each other very closely (Chart 4.9). After this, a gap emerged and steadily widened as labour force survey (LFS) unemployment fell sharply, yet beneficiary unemployment did not.

This could be related to the fact that there was very little activation in Ireland before 1996: there was no requirement on benefit claimants to register with the employment service for placement and the benefit administration did little to enforce job-search criteria, although it carried out anti-fraud activity to detect claims by people in work. After 1996, the beneficiary total fell sharply – in line with the timing of the activation measures listed in Table 4.3 – and microeconomic evidence suggests that the activation measures had a large impact on beneficiary unemployment.

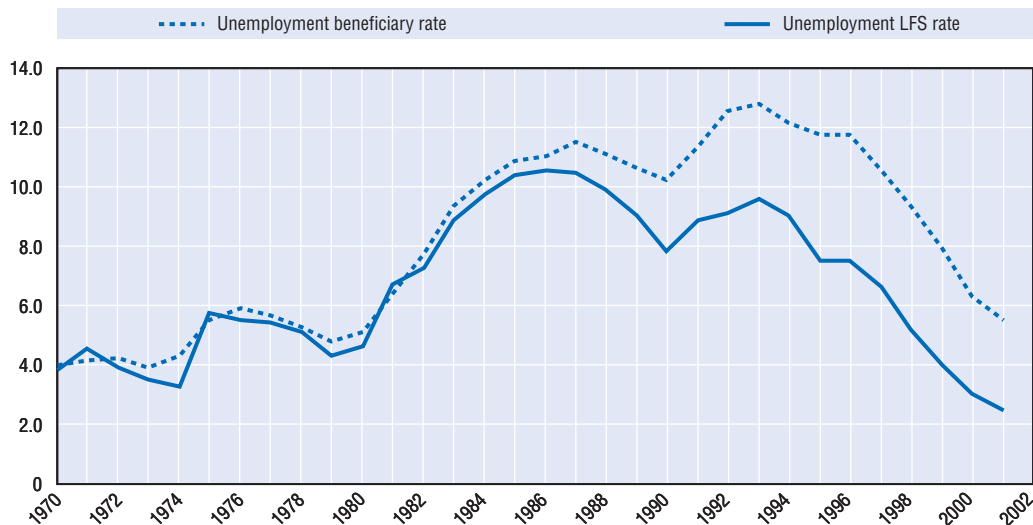
However, LFS unemployment fell after 1996 even more rapidly (see Walsh, 2003, for an analysis of these trends by age and sex). One possible explanation is that the activation measures were targeted on those more likely to find work – who tend to be recorded as unemployed in the LFS – and relatively inactive older workers, very long-term unemployed or “credits only” cases were not so often targeted. Overall, in Ireland it seems that beneficiary and labour force survey measures did move together for many years, but after they diverged, the relationship between the two became quite complex.

Corcoran (2002) presents data for outflows from the Live Register (unemployment benefit register) among people referred to Ireland’s Employment Action Plan (EAP) between June 1999 and September 2000. These were persons aged under 25 who crossed the threshold of six months unemployment and persons aged 25 to 54 who crossed the threshold of nine months unemployment. On average, nearly 35% of those referred did not actually attend an interview within three months, but those who did attend an interview had on average five contacts with their case officer in the period after referral. Overall, 64% of those referred left the register within three months and 93% left within 12 months: these proportions vary little by age or gender: the proportions leaving were slightly higher among those who did not attend the interview. Of those who left the register, 85% were still off the register at the end of the 12 months. Although this study did not have a control group, the rates of leaving cited appear to be much higher than usual in Ireland. The distribution of the Live Register by unemployment duration suggests that the usual rate of exit from unemployment is about 30% per quarter.*

In two areas, Kilkenny and Ballyfermot, under a pilot programme all persons who had been unemployed for more than six months (rather than only those who cross the threshold of six months unemployment if aged under 25 and 9 months if aged 25 to 54) were referred to EAP. Corcoran (2002) presents graphs to show that the fall in the total Live Register (from October 1999 to June 2001) in each of these areas was about 20 percentage points greater than for the surrounding region as a whole.

* The number of persons on the Live Register with an unemployment duration of 9-12 months is about half the number with an unemployment duration of 3-6 months, implying a “survival” rate of about 70% per quarter. The study cited also provides information about rates of entry to employment among those referred to EAP, but it is not clear what these imply in terms of impact.

Chart 4.9. **Unemployment beneficiaries and LFS unemployment^a have tended to diverge in Ireland since 1986**
Percentages of population aged 15-64



a) Live Register, annual average: estimates based on December data for 1970 to 1979; labour force statistics, April. Source: CSO, *Statistical Abstract*, various years; www.irg.gov.ie/daff/publicat/1996comp/etable17.xls; eirestat.cso.ie/LRAMvarlist.html. For unemployment, OECD Labour Force Statistics database (Quarterly Labour Force Statistics for 2002). For population, as for Chart 4.5.

strategies seem to be the main common policy development across these five countries, so there is a case that their influence has been particularly important.

This does not necessarily mean that such policies will always be effective. Two reasons for caution can be advanced:

- The above-mentioned activation strategies started from a position where the administration had few compulsory contacts with beneficiaries to promote work.⁴⁶ This made it easy for the first activation measures to have an impact. Outcomes from further intensification of activation measures may face declining returns.
- The number of available jobs and, in general, labour demand matters. The five countries each had some feature that could facilitate a reasonable flow of job vacancies arising in the labour market. In Ireland and the Netherlands, restrictive national wage agreements had improved competitiveness and economic growth prior to the introduction of “activation” strategies. The other three countries have high rates of job turnover. Regardless of any direct impact of turnover on aggregate employment, a higher flow of job openings makes it easier to assess jobseeker availability for unsubsidised work through tracking the outcome of job interviews, reasons for job loss, etc., and thus enforce this criterion. Where there are very few job openings, it may be difficult to get a large employment impact from activation strategies. Activation strategies have substantial costs, and may not be politically sustainable if their impact is limited.

Box 4.9. The content of welfare reform in the United States

The US assistance benefit “Aid to Families with Dependent Children” (AFDC) was introduced in 1937. The system has generally been restricted to lone-parent families. For a long time, efforts to reduce welfare use and promote self-sufficiency met with little success. In 1996, as part of a major reform effort, AFDC was replaced by Temporary Assistance for Needy Families (TANF), with encouraging results.

Prior to welfare reform, states administered AFDC and established maximum benefit levels. However, federal funds paid half the cost of the benefit payments and federal legislation determined how benefits should change when the individual had earnings, and required states to aid all families eligible under their rules. Beneficiaries were required to be available for work in principle, but this was not always enforced. TANF combined federal funding for AFDC benefits and administration and two related programs – Emergency Assistance to Needy Families (EA) and the Job Opportunities and Basic Skills Training Program (JOBS) – into fixed block grants, while also imposing a Maintenance of Effort rule that requires states not to reduce their own spending by more than 20 to 25% below its pre-TANF level. TANF also: a) allows states to decide whether to disregard some earnings as a work incentive, and, if so, how much b) expressly denies entitlement to individuals; c) sets a five-year limit on federally-funded aid for a given claimant, with some exemptions; and d) requires claimants to work (as defined by the State) after a maximum of two years of benefits, and requires states to engage a rising percentage of their total caseload in work activities (Committee on Ways and Means, 2000).

Some of the provisions of the 1996 law are complicated.* Despite this complexity, some reports have given a fairly clear picture of its implementation (Gallagher *et al.*, 1998; GAO, 1998). Nathan and Gais (1999), in research based on 19 state reports, emphasise that changes in state administrative practices were rapid and profound, and had quite broad support. Employment, labour, or workforce development agencies became closely involved, although some states had been developing links between welfare and employment programs for some time. Large urban offices tend to rely on specialists – sometimes working as teams – while offices with smaller caseloads consolidate eligibility and employment functions in one position. About half the sites require new applicants to conduct some sort of initial and often independent search for work. Two-thirds review families for “diversion” assistance. This can be a lump-sum cash payment or loan in exchange for waiving eligibility for cash benefits for some time, such as six months. The term “diversion” can also refer to activities such as eligibility screening, when carried out in ways that discourage pursuit of the claim. Other important developments include the use of “personal responsibility agreements”, which vary greatly but may be specific and individualised, and may involve frequent meetings with clients to track compliance. States are likely to impose “graduated, calibrated, or even ‘vanishing’ sanctions” (sanctions that are notified but later withdrawn) to get parents to pay attention to programme requirements. “Case workers can act very selectively.”

States have also increased their support for work. Many states expanded eligibility higher up the income scale for a variety of benefits, including child-care assistance, state earned income tax credits, transportation services, health care, help in emergencies, and child support enforcement. In 1999 a federal regulation in 1999 exempted spending that helps employed families to keep their jobs and advance in the workforce from time limits (Gais and Nathan, 2001). To some extent, there has also been a shift away from a strictly “Work First” approach towards tackling barriers faced by the hard-to-employ (Holcomb and Martinson, 2002).

* Welfare reform legislation set strict federal requirements, but at the same time encouraged states to develop their own welfare reforms. It is difficult to provide a sense of how the policies are implemented: “for example, how the state’s work requirement works in practice, what happens when an applicant walks in the door, what services go to which families, who gets sanctioned and why. And in states that have devolved further to counties or localities, it is sometimes not even meaningful to talk of a state policy. (...) We can look at state data about caseload declines, but in the absence of common eligibility rules across states, one cannot readily tell to what extent a decline in a state reflects reduced need or contracted eligibility (Greenberg, 2001)”.

B. Substitution between benefits

It is sometimes claimed that tightening eligibility criteria for one benefit may lead some recipients to move onto other benefits. Such substitution effects would reduce the net impact of policy changes on total benefit recipiency. Where activation strategies are plausibly doing much to reduce dependency on the “active” benefits, success may seem to be undermined or threatened by increased dependency on early retirement, disability, lone-parent benefits (when these are inactive) or even (in the case of Sweden) sickness benefits. And if reductions in unemployment have been achieved only through transfers of beneficiaries from unemployment to early retirement and disability schemes, the improvement is illusory.

Existing evidence on substitution effects of this kind is mixed:

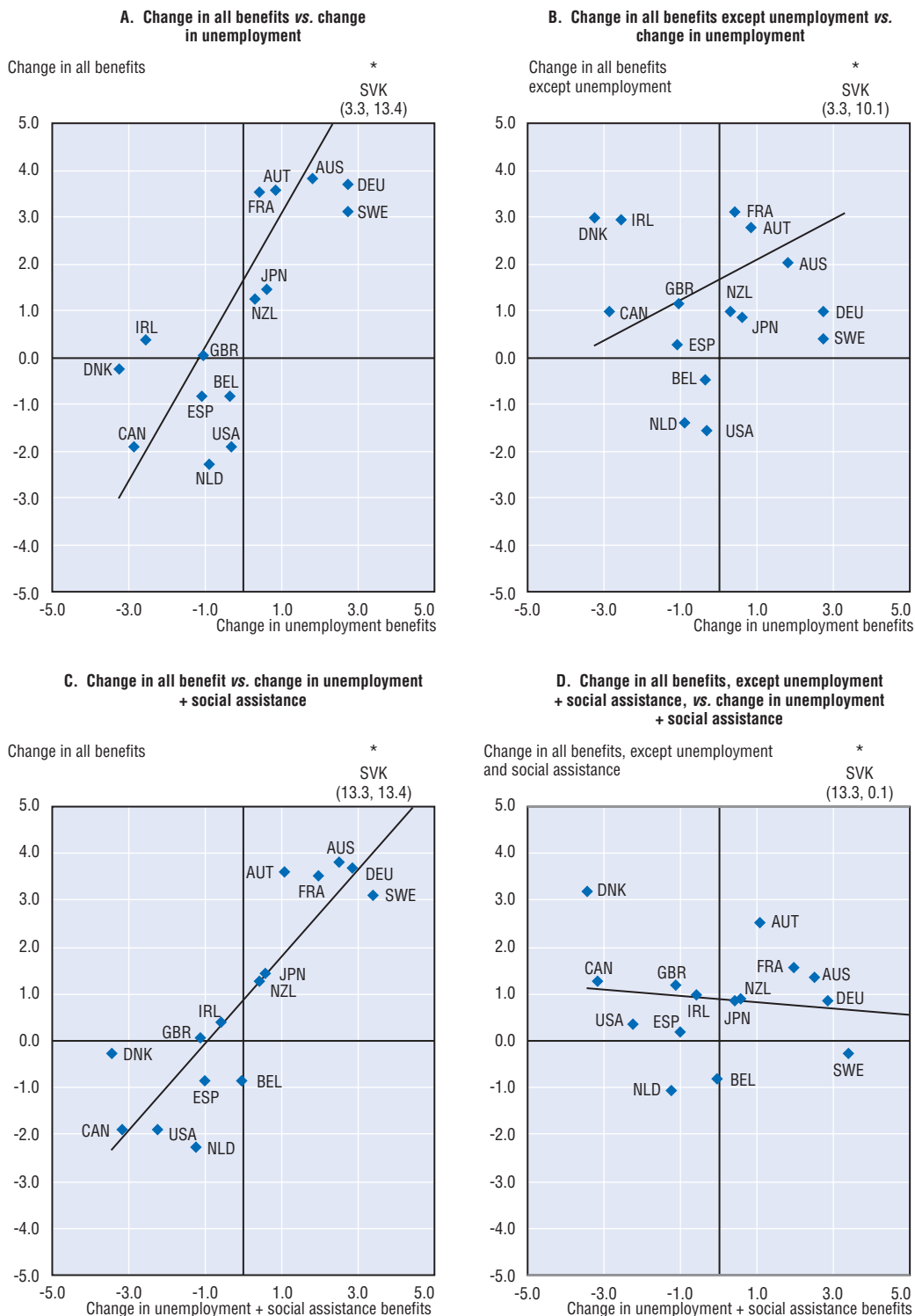
- In some cases, substitution effects dominate. Very large international differences in rates of inflow to disability benefits in the 60-64 age group reflect differences in the statutory age of regular retirement and the availability of early retirement programmes. In Australia, declining access to alternative payments such as Wife Pension and Widow Pension partly explains recent increases in disability benefit recipiency (OECD, 2003, pp. 81 and 99).
- However, in behavioural terms disability and early retirement schemes can also be complements, rather than substitutes.⁴⁷
- There also seems to be some evidence that tighter eligibility criteria for disability benefits result in somewhat higher unemployment levels. However, the opposite is not necessarily true: “there is little evidence that high or increasing unemployment leads to high or increasing levels of disability benefit recipiency” (OECD, 2003, p. 10).
- OECD (2002a, Chapter 4) identified Belgium, Ireland and Italy as the only EU countries where 2% or more of the working-age population were unemployed for nearly every month in a four-year observation window (1994-97). These countries had the highest rates of continuing unemployment among the long-term unemployed, but other countries had higher rates of transition from long-term unemployment into inactivity. This suggests substitution between very-long-term unemployment and some forms of inactivity.

To check the importance of these phenomena further, Chart 4.10 shows changes in recipiency of “active” and “inactive” benefits between 1990 and 1999. These years are chosen to minimise the impact of cyclical factors, since 1990 and 1999 were both peak years in most countries. Charts 4.10.A and 4.10.B treat unemployment as the only “active” benefit category and all other benefits as inactive. Charts 4.10.C and 4.10.D treat lone-parent and non-categorical social assistance benefits also as “active”. On the latter basis, a fall in the unemployment plus social assistance benefit total occurred in Denmark, Great Britain, the Netherlands and the United States – countries where, according to the analysis here, activation policies were probably an influence – as well as in Canada and Spain. In Denmark and Great Britain, declines in unemployment and social assistance recipiency from 1990 to 1999 were in fact mainly offset by increased recipiency of other benefits. The increases were mainly in old-age and general (not lone-parent) parental benefits in Denmark, and disability and care benefits in Great Britain.

Overall there is a weak (statistically insignificant) tendency in Charts 4.10.B and 4.10.D for a fall in recipiency of “active” benefits to be accompanied by an increase in recipiency of other “inactive” benefits. However, this tendency is too weak to make much difference to the final result: there is a strong positive correlation between changes in recipiency rates

Chart 4.10. Is there substitution between active and inactive benefits?

Percentage points change in reciprocity rates, 1990 to 1999



* Point outside the axes. This is included in the calculation of the regression lines.

Source: See Chart 4.3.

for the “active” benefits and changes in overall benefit dependency, i.e. relatively larger declines in the “active” benefits were not significantly offset by relatively larger increases in other benefits. Substitution across large benefit categories is unlikely to be complete – there are unemployed workers who cannot easily qualify for disability benefits, and disability beneficiaries who cannot qualify for early retirement benefits, etc. – and it may not require a specific policy response, beyond paying specific attention to the issues of administering each benefit correctly according to its own eligibility criteria.

C. The effect on employment, earnings and career prospects

Evaluations suggest that activation strategies, combined with tight eligibility criteria, can help raise employment prospects of benefit recipients. However, there is also a risk that some individuals end up neither with benefits nor in employment.

Benefits with tight eligibility criteria can enhance the incentive to look for a job...

On the basis of international comparisons, an important distinction can be made between older workers and younger workers. Among older workers, aggregate data, if available, would probably show a strong negative relationship between benefit dependency (summing across regular old-age pensions, early retirement pensions, and disability and unemployment benefits) and employment rates. Among younger workers, such a relationship probably does not exist. The countries of Southern Europe, except Portugal, have low rates of youth employment and at the same time low rates of youth benefit dependency owing to the absence of a general minimum income or social assistance benefit. Dependency on parental support rather than on a public benefit is common, and participation in initial education may also be relatively prolonged. In this case, the non-availability of benefits is not successful in promoting employment, and a combination of benefits with activation measures might be more successful.

... together with activation strategies, this may result in higher employment, but also sometimes more people with neither jobs nor benefits.

There is some evidence that when new income-replacement benefits are introduced without job requirements, some reduction in employment results. The lone-parent benefit of New Zealand (see Box 4.5 above) is a case in point. Goodger and Larose (1998) note that employment rates of divorced and separated women were substantially higher than those of married women in the 1971 Census, and there was little difference in the labour force participation rates of lone compared to partnered mothers in the 1976 Census. Then, through to 1981, the employment rates of lone parents declined. Bradshaw et al. (2000) report that the employment rate of lone mothers was 27% in 1991, increasing to 36% in 1996, but this was still the lowest rate among the six countries in this comparative study, and 29 percentage points lower than for married mothers. This gap in employment rates between lone mothers and married mothers thus developed in New Zealand after the introduction of the lone-parent benefit, whereas the employment rate gap is small in other countries where work requirements are present (e.g. the United States after welfare reform, or Denmark and Sweden). However, the total shortfall of lone-parent employment that might be attributed to the Domestic Purposes Benefit (DPB) seems to be less than half of the total number of DPB recipients.⁴⁸

Conversely, the total number of single mothers in the United States was about the same in 2001 as in 1993, at 8.9 million (Table 4.4).⁴⁹ Between these two dates, the number

Table 4.4 **Decline in welfare reciprocity and increase in employment for single mothers in the United States**

Source	Adult AFDC/TANF beneficiaries		Single mothers ^b			Percentages of single mothers aged 16-45, excluding disabled and students, ^c who had nonzero annual income from:				Total adults with income during the year from AFDC/TANF ^d
	Total	Of which: single mothers ^a	Total	Of which: employed	Employment rate	Work, not welfare	Work and welfare	Welfare, not work	Neither work nor welfare	
	Administrative data		Current Population Survey			Current Population Survey, March supplement				
	000s	000s	000s	000s	%	%	%	%	%	000s
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
1984	3 713	3 024	7 027	3 910	55.6	62.9	9.7	20.8	6.6	..
1985	3 648	3 019	7 161	4 059	56.7	61.9	11.5	20.1	6.6	..
1986	3 695	3 082	7 288	4 249	58.3	61.0	11.8	20.4	6.9	..
1987	3 684	3 113	7 604	4 432	58.3	61.6	12.2	18.9	7.3	3 611
1988	3 595	3 084	7 570	4 386	57.9	62.7	11.6	19.4	6.4	3 639
1989	3 565	3 094	7 769	4 549	58.6	65.3	10.5	17.7	6.4	3 518
1990	3 705	3 208	7 789	4 744	60.9	62.8	13.1	17.9	6.3	3 951
1991	4 079	3 431	8 221	4 818	58.6	61.4	12.6	19.4	6.6	4 327
1992	4 399	3 624	8 566	4 917	57.4	60.9	12.8	19.3	6.9	4 337
1993	4 583	3 721	8 905	5 169	58.0	61.2	14.2	18.0	6.6	4 649
1994	4 615	3 744	9 378	5 512	58.8	64.5	14.6	14.3	6.6	4 224
1995	4 379	3 574	9 375	5 773	61.6	67.2	13.3	12.4	7.1	3 806
1996	3 974	3 250	9 435	6 002	63.6	68.6	13.5	10.8	7.1	3 634
1997	3 154	2 496	9 598	6 349	66.1	71.7	12.5	8.3	7.5	2 914
1998	2 523	2 092	9 378	6 484	69.1	75.0	11.6	5.6	7.8	2 329
1999	1 869	1 587	9 433	6 741	71.5	79.9	9.6	3.8	6.7	1 924
2000	1 576	1 370	9 266	6 810	73.5	82.0	7.2	3.6	7.1	1 686
2001	1 478	1 284	8 899	6 515	73.2	81.9	5.9	3.2	8.9	1 600
Change from 1993 to 2001	-3 105	-2 437	-6	1 346	15.2	20.7	-8.3	-14.8	2.3	-3 049.0

AFDC: Aid to Families with Dependant Children.

TANF: Temporary Assistance for Needy Families.

a) Single mother recipients are estimated as total recipients, less child recipients, less the percentage of adult recipients who are married or widowed (estimated for years prior to 1998 using data for unemployed parent beneficiaries).

b) Excludes widowed mothers.

c) Includes widowed mothers. "Welfare" refers to income from AFDC/TANF.

d) Includes adult caretakers in child-only AFDC/TANF cases, who are not beneficiaries.

Source: Columns 1 and 2: US Department of Health and Human Services, Indicators of Welfare Dependence (aspe.hhs.gov/hsp/indicators02/appa-tanf.htm); Columns 3 and 4: unpublished tabulations by the Bureau of Labour Statistics, provided by Gary Burtless; Columns 6 to 9, calculations from Current Population Survey, March supplements, provided by Jeffrey Liebman; Column 10: CPS March supplements at www.census.gov/hhes/income/dinctabs.html and Richard Bavier.

of single mothers receiving AFDC/TANF on the basis of administrative statistics fell by about 2.4 million, and the number in employment rose by 1.35 million, only slightly more than half the fall in recipient numbers.⁵⁰ The number of single mothers reporting no income from either employment or welfare at any time during the year rose slightly, by about 0.2 million. Data for the number that are neither in employment nor receiving welfare in the average month are not available, but the change measured on this basis could have been somewhat greater. However the proportion of those without any work income who had some benefit income (i.e. column 8, as a proportion of the sum of columns 8 and 9), which was consistently about three-quarters up to 1993, fell to about one-quarter by 2001. This suggests that access to benefits has become much more difficult for those who are not in work at all. In the United States, as in New Zealand, interpretation is made more difficult by evidence that surveys are not identifying all the people who are receive benefits according to administrative data.⁵¹ Thus part of the fall in reciprocity that is seen in administrative data may relate to single mothers who are omitted from survey data, and under-sampling of particular categories (e.g. mothers with no income from either work or welfare) may have increased.

Random-assignment evaluations of labour market programmes at the 11 sites of the US National Evaluation of Welfare-to-Work Strategies (NEWWS) are among the most informative such evaluations ever conducted. In particular, they provide data on employment and earnings for five years after participation (or selection into the control group) in a programme. The programmes involved in the experiments can be roughly categorised into human capital development, i.e. mainly training, and labour force attachment, i.e. mainly job-search assistance (Grogger *et al.*, 2002). All programmes reduced benefit receipt. On average, among programme participants, benefit receipt declined by about five percentage points,⁵² the percentage employed grew by about 3.5 points and total annual earnings by about USD 350, which can be interpreted as 3% of year-round full-time earnings in a low-wage job. Putting these numbers together suggests that participation in a NEWWS programme had an impact on employment that was about 60% or 70% of the impact on welfare reciprocity. Overall, several types of evidence⁵³ point to the conclusion that the proportion of welfare leavers (or divertees) who are employed is about 60% and is similar to the proportion of all lone parents or indeed all mothers in general that work in the United States. Such results suggest that the beneficiary population, in the years of high reciprocity rates, did consist to a large extent of people who were employable and able to actually (perhaps with help from employment services) find work after a change in the passive and active policy environment.

Activation strategies which include job-search assistance and skill formation can also enhance job stability

US and UK evaluations of activation strategies have found some evidence that additional pressure on unemployed people to take up jobs results in them entering work at lower wages on average:

- In Maryland job-search experiments, reported by Benus *et al.* (1997), one of the experimental treatment groups was released from the usual requirement to report work search contacts each week (although these claimants were still informed that they must search for work). This treatment increased the average duration of UI payments, relative to the control group, by 0.4 weeks, but it also increased total annual earnings by USD 347, or 4.1%). Possible explanations are that jobseekers when freed

from job-search constraints waited longer for recall by the previous employer or for a better-paid job, or searched more efficiently, or had a stronger bargaining position with potential employers (OECD, 2000, p. 141).

- In the UK evaluation of the Jobseekers' Allowance, which was introduced in 1996, it emerges that after the change in benefit legislation, larger proportions of jobseekers re-entered work rapidly, but among them mean re-employment earnings (at constant prices) were lower by 21% for males and by 3% for females. This was due in particular to a large fall in the proportion of re-entrants who obtained jobs in the highest pay band. It seems that potentially high-paid workers are relatively well able to respond to pressure to re-enter work more quickly, but at the cost of accepting lower pay (Martin and Grubb, 2001).

However evaluations of two other UK measures – Restart interviews (introduced in 1986) and the New Deal for Young People (introduced in 1998) – have reported no evidence that higher rates of return to work are accompanied by lower job quality in terms of wages or job duration (van Reenen, 2003).

NEWWS findings suggest that impacts of US welfare-to-work programmes on earnings often stayed positive for five years when, in some cases, impacts on employment were fading. Programmes providing intensive job matching and skill development assistance gave relatively positive results. The large impact of one programme in Portland supports the idea that skilled and intensive case management, and selectivity in making referrals to training and employment programmes, can significantly improve long-term outcomes. This is further supported by findings from Canada's SSP Plus programme, where impact of financial incentives on employment and earnings faded away after the three years of in-work benefits had ended (see Box 3.1 in Chapter 3), but additional employment services had an impact that increased over time, becoming highest in these years (Michalopoulos et al., 2002, Table ES.7).

Grogger et al. (2002) examine the effects of in-work benefits, which are discussed in more detail in Chapter 3. Two of the three random-assignment studies examined show no effect on earnings, which the authors consider is consistent with the idea that the income effect which arises from the financial incentive dominates the substitution effect. Other programmes which combined mandatory work requirements with financial work incentives did generally increase both employment and earnings. Earlier research (Berlin, 2000) similarly concluded that for these programmes "(...) employment and earnings gains among long-term welfare recipients were among the largest found in any previously evaluated welfare-to-work programs, and the income gains and accompanying poverty reductions were unprecedented". Overall, the evidence seems consistent with the idea that imposing job-search requirements without at the same time offering job-search assistance can result in entry to lower-paid jobs, but job-search requirements with intensive employment counselling and additional assistance can improve employment stability and earnings.

The more expensive labour market strategies, with a strong emphasis on training to improve jobseeker productivity, may narrow the earnings distribution by gradually raising skill levels among the population of low-paid workers. Denmark and the Netherlands, among European countries that had significant success in cutting benefit recipiency in the 1990s, have a relatively equal distribution of earnings and low incidence of poverty (Andersen and Jensen, 2002). These observations suggest that the reduction of beneficiary

totals through activation policies can be compatible with good poverty outcomes, although the latter are influenced by a range of factors other than activation.

The impact of activation strategies on income distribution could be quite different from their impact on earnings distribution. Given that unemployment is a major factor in poverty and inequality and that employment pays more than benefits, higher employment rates reduce income inequality. At the same time, tight eligibility conditions and work requirements for benefits could reduce the benefit coverage of the population that is not in employment. However as long as the tightening of eligibility conditions has a substantial impact on employment, it seems plausible that the former effect could dominate. In the United States, despite evidence that job entry under welfare reform occurred at relatively low earnings and that benefit coverage of single mothers who are not in work has fallen sharply, poverty rates for children in female-headed families moved favourably through to 2000, even as compared to earlier periods of cyclical upswing in the economy (Brookings Institution, 2002).⁵⁴

Conclusions

There is scope for much further research into benefit reciprocity, and its determinants and consequences. It will be useful to improve the cross-country availability of well-documented data on benefit reciprocity, with parallel information about benefit entitlements and other measures that may influence reciprocity. This can help expand the range of national experiences in terms of the activation measures experimented in different countries, and provide evidence on which types of policies seem to have an impact and how key labour market outcomes such as unemployment, employment rates and poverty rates are affected by policies that are administratively targeted on beneficiaries.

Some other questions warrant answers:

- Are increased unemployment and social assistance benefit entitlements, when associated with effective activation measures, able to pull people into the labour force and retain them in employment?
- Decentralisation of employment programmes needs to be combined with strategies for sharing information (*e.g.* using common reporting standards and computing systems) and ensuring that objectives do not diverge excessively (*e.g.* whether through continuous discussion to ensure political consensus, or through performance measurement). Does the financing and political governance of unemployment benefits and active policy measures at different levels of government (*e.g.* national, regional and local) have any systematic impact?
- A more systematic analysis of the links between active programme participation, job stability and career advancement is needed. For example, would a combination of in-work benefits and occasional contacts with beneficiaries provide a route to greater job stability and higher earnings?
- The more general issue of how activation principles can be applied to benefits that traditionally have been regarded as non-employment benefits (*e.g.* lone-parent and disability benefits) deserves further scrutiny. For instance, how essential is it to have requirements of availability for work similar to those applying for unemployment benefits? What are the consequences of changing the administrative borderlines so that people are reallocated, at the margin, between benefits such as disability and

unemployment, or lone-parent and social assistance? Should activation measures for beneficiaries of non-employment benefits have their own administrative structure, or should the Public Employment Service always have the main responsibility?

- Finally, despite widespread agreement on the importance of programme evaluation, the situation leaves much to be desired in practice. To what extent do microeconomic impact studies capture long-run or aggregate impacts? What should be done to take system organisational issues and components of activation strategies other than formal labour market programmes into account?

Notes

1. In Ireland, the United Kingdom, Australia and New Zealand, social assistance benefits subject to an availability-for-work condition have traditionally been called “unemployment” benefits (although more recently renamed “jobseeker”, “newstart” or “community wage” allowances, in the last three countries). In other countries the last-resort form of assistance benefit has often been considered as something very different from unemployment insurance, but to the extent that availability for work is an eligibility condition, these too can be regarded as unemployment benefits.
2. “Income-replacement” benefits refer to benefits which compensate for the absence of another main source of income, usually earnings from work.
3. In the Slovak Republic, complete data on receipt of social assistance together with another benefit were not available, so some double counting arises within the benefit dependency estimates. Also, social assistance can be paid to students and old age pensioners can work while receiving pension for one year and often do so: these two factors can account for 2%, possibly more, of the working-age population being employed or studying while also being included in the benefit dependency estimates. Also, it may be noted that the share of non-observed activities in GDP is over 20% (much higher than in Belgium or Italy, which themselves are among the OECD countries with a relatively large shadow economy: see Blades and Roberts, 2002). In a survey conducted in 2000, 15% of respondents reported being engaged in the undeclared sector often or occasionally, working about four hours a day on average (Hanousek and Palda, 2002, Tables 2 and 5). Undeclared work by recipients of income-replacement benefits could cause rates of employment, education participation and benefit dependency as measured here to total more than 100%.
4. Underreporting of employment in the labour force survey might arise when earnings are not declared for tax and social security purposes: see for example www.eurofound.eu.int/emire/SPAIN/UNDECLAREDEMPLOYMENT-ES.html
5. One-person households are 15% to 24% of all households in Nordic countries, but only 4% to 8% of all households in the countries of Southern Europe. Divorce rates are well above average in the Nordic countries, except Denmark, and well below average in Greece, Italy, Spain and Portugal (OECD, 2001c). In the latter countries, youths tend to live longer with their parents: according to 1987 data cited by Fernandez Cordón (2001), about 75% of 20 to 24 year-olds in Portugal and over 80% in Italy and Spain were living with their parents: these countries also had the highest rates (out of eleven EU countries covered in the data set) for 25 to 29 years olds.
6. Although the data available in the format used here do not go back before 1980, it seems likely that these rates in Europe rose even more rapidly in the two decades preceding 1980, due to legislative activity to improve benefit levels and coverage and economic recession following the first oil shock. In Denmark, Finland, Norway and Sweden, social security expenditure as a percentage of GDP increased from an average 10% in 1962 to 16% in 1970 and 25% in 1980 (statistics from the 1980 and 1986 *Yearbook of Nordic Statistics*). Thus, growth in social spending in the 1980s was much slower than in either the 1970s or the 1960s. According to official statistics (see recent issues of *Statistisk Tjarsoversigt*) the number of full-year recipients of income-replacing benefits in Denmark doubled between 1970 and 1980.
7. Falls in older-worker participation rates, as recorded in labour force statistics, sometimes continued in the 1990s through entry to disability and unemployment benefits, with informal relaxation of access to disability benefits and job-search monitoring for older unemployed persons, and through private and government-sector employer-funded pension and early retirement benefits.

8. Employer-paid sickness benefits, when legally obligatory, are included in the data presented here (although often on an estimated basis, when official statistics are lacking).
9. All UK data for benefit recipiency presented here in fact relate to Great Britain, which has about 97.3% of the UK population.
10. Note that, in contrast to Danish terminology, only sabbatical leave is classified here as a form of labour market leave (parental leave is classed as a parental benefit, and educational leave is excluded).
11. Demographic factors are a further significant influence on benefit recipiency rates, which are cited here as a percentage of the working-age population. The share of 20 to 39 year olds in the working-age population, which influences lone-parent numbers, rose from 1970 to 1990 by about 20% (not 20 percentage points) in the United States and about 10% in other English-speaking OECD countries, and then fell. The actual population of lone parents has often grown more rapidly, but this is not necessarily exogenous with respect to benefit entitlements. Until 1995, population age structures did not drive up disability prevalence (OECD, 2003, Box 3.2) but by the year 2000 the share of 50 to 64 year olds in the working-age population, an influence on disability numbers, was increasing in many countries.
12. Two major cases of reductions in benefit entitlements were the erosion during the 1980s of replacement rates for unemployment benefits in the United Kingdom (shown in Chart 4.4) and replacement rates for AFDC/TANF in the United States (discussed further below).
13. A relaxation of the eligibility criteria for a benefit will lead to surge in inflows as those newly eligible get the benefit. Inflows subsequently slow even if there is no later tightening of eligibility criteria.
14. Lemieux and Macleod (2000) find that the 1971 change in UI parameters in Canada did not immediately lead individuals to use UI repeatedly. The typical pattern of repeat use started only after an individual experienced unemployment for the first time due to an “external” cause – natural turn-over or recession. In the authors’ view, this learning mechanism explains why the 1971 UI legislation can plausibly be seen as the main cause of the gap between Canadian and US unemployment rates which emerged in the 1980s and peaked in the mid-1990s (when the Canadian rate was about 4 points higher than the US rate).
15. Individuals and households usually qualify for assistance benefits only if their incomes are close to the poverty line. Long-term growth in the population that is eligible for insurance benefits is often undesirable because it involves growing distortion of behaviour (e.g. employment in spells just long enough to maximise UI benefit payouts relative to contributions) and transfers which are costly, but not well targeted on need.
16. Reversing of beneficiary growth through active policies – rather than cuts in benefit entitlements – helps to preserve positive consequences that can arise when benefits allow young people to reduce their reliance on the income of other family members. These may include greater geographical mobility, easier formation of new families and increased contact with placement, training and activation measures.
17. Beneficiary numbers grew, in the ten years prior to the global peak year, by a factor of 3.8 for Great Britain (peak in 1986), 7.9 in the Netherlands (peak also in 1986), 3.1 in Finland (peak in 1996), and 2.5 for New Zealand’s lone-parent benefit (peak in 1991), even though the start date of such calculations are eight years and more after the benefit was introduced. In these cases, although in some sense the beneficiary growth was caused, or partly caused, by recession, the growth cited does represent change between two dates at a comparable point in the economic cycle. 1977 in Great Britain and 1986 in Finland were local peak years in these beneficiary series, and in the other two countries growth was uninterrupted up to the global peak year.
18. The patterns of beneficiary growth shown above are partly influenced by factors such as changes in replacement rates or variations in the conditions for other benefits (e.g. UI and disability assistance), but these are relatively minor influences. In the United Kingdom, the duration of the UI benefit was increased from 30 weeks to 52 weeks in 1967, but the assistance beneficiary total reached new peaks after this: the duration was cut back again to 26 weeks in 1996, but the assistance beneficiary total nevertheless kept falling.
19. Some of the growth in RMI beneficiary numbers in the 1990s reflects specific factors, such as reforms to “*intéressement*” arrangements which from 1998 allowed full or partial benefit to be paid during the first 750 hours or first 12 months of work in a new job. Cornilleau et al. (2000) estimate the impact of several factors but they nevertheless attribute most of the growth to an underlying trend (+69 000 per year until 1994, +39 000 per year thereafter). The number of beneficiaries of the

unemployment assistance benefit (*Allocation de Solidarité Spécifique*, created in 1984) also grew over the period, so growth in RMI numbers cannot easily be explained by substitution between benefits.

20. For example, in Finland specific macroeconomic factors (a collapse of asset markets and of trade with the former Soviet Union) were the immediate cause of the huge rise in numbers on unemployment assistance in the early 1990s that is seen in Chart 4.6. By 2003 those specific factors were history, yet much of the rise in beneficiary numbers remained. The long-term rise would no doubt have been smaller if the pre-1971 system of social assistance at the discretion of municipal authorities had been retained.
21. As illustrated in Annex 2, a change in benefit entitlements can have an immediate impact on the trend in beneficiary numbers, even though the impact on the level of beneficiary numbers is subject to long lags. Lemieux and Macleod (2000) in their concluding remarks also suggest the response to subsequent reforms is rapid, in contrast to the long-lagged nature of responses to an initial large increase in benefit entitlements, but they propose a different explanation for this.
22. For uninsured persons in the Netherlands, the relaxation of disability benefit eligibility criteria occurred later, in 1976, when the disability assistance law (AAW) aligned the assessment criteria with those for insured persons. This concerns a relatively small proportion (about a quarter, at most times) of total beneficiaries.
23. The data series used here includes beneficiaries under the former *Invalideitswet* (part of the 1919 Invalidation and Age Act), which was replaced by WAO and AAW.
24. In 1981 the net replacement rate for the Dutch disability insurance benefit was reduced by making insurance contributions deductible from disability insurance benefits. In 1985 measures to tackle abuse were introduced, and in 1989 the gross replacement rate was reduced from 80% to 70% (Anderson, 2002). Further measures in the 1990s also helped reverse beneficiary growth slightly, but only temporarily. Growth in the 50 to 64 year old share in the population has become another factor putting upwards pressure on the beneficiary numbers.
25. The EU countries are also more comparable in terms of their demographic structures. The non-EU countries shown (Korea, Mexico and the United States) have younger populations. If Europe had unchanged age-specific disability prevalence rates but the population age structure of Mexico, the youngest country, its average prevalence rate would be 25% lower (OECD, 2003, Box 3.2).
26. National differences in the intensity of work might also generate the type of correlation shown in Chart 4.8, but there is no evidence for this. OECD (2003) observes that all countries with high disability benefit recipiency rates have high income-replacement levels (p. 65) and that rates of application for disability benefits are more similar across countries than effective benefit inflow rates because rejection rates vary considerably (pp. 87-88).
27. From 1995, unemployment assistance benefits in the Netherlands have not been distinguished from other social assistance benefits in official statistics. But it seems likely that social assistance for reasons of unemployment fell rapidly, because registered unemployment and unemployment as measured by the labour force survey both fell sharply within a few years (from above 6% of the labour force in 1995 to below 3%).
28. The key role played by the national placement service however is sometimes limited to the beneficiaries of nationally-financed benefits. Local social services may have similar or greater relevance for the beneficiaries of locally-financed benefits, where these exist.
29. Engelfriet (n.d.) claims that the benefit eligibility rules are now very strictly enforced in the Netherlands.
30. Denmark's activation measures have been backed up by tough sanction provisions of last resort, but actual rates of sanction are not very high in international terms (6th out of 14 countries in Grubb, 2001, Table 2) and do not seem to have in themselves to have become a topic of much political controversy.
31. Wiseman (2001) concludes: "The basic message is that, aside from Wisconsin, there is not much work in American workfare (...), the core of American workfare is the message that work, even at low wages, is better than welfare, and welfare without work will be a hassle. It's not the 'job you can't refuse'; it's the 'appointment you can't refuse'".
32. In most employment programmes, benefits or earnings per hour of work are close to the minimum wage: hours of work are, if necessary, adjusted to ensure this outcome. The OECD countries where the initial net replacement rates, at $\frac{2}{3}$ of an average production worker (APW) earnings level, exceed 80% for three or four family types are Belgium, Denmark, Luxembourg, the Netherlands, Portugal, Sweden and Switzerland (OECD, 2002b, Table 3.2). This correlates fairly well with the list

of countries that spent more than 1% of GDP on active labour market measures in 2000 and 2001 (Belgium, Denmark, France, the Netherlands and Sweden).

33. Activation strategies that force the administration to interact with difficult-to-place clients include Denmark's scheduling of programme participation after one year of unemployment; the Dutch earmarking of part of PES finance specifically for long-term unemployed; scheduling of regular intensive interviews in the United Kingdom; and changes in local-level administrative practice in the United States which made benefit administrators responsible for promoting work and other alternatives to benefit (see Box 4.9).
34. National reports in Millar and Rowlingson (2001) provide detailed descriptions of arrangements for lone parents in five countries. In the Netherlands, where the obligation to seek work when children are aged over five was introduced in 1996, in practice the municipalities exempt about half of the lone mothers concerned.
35. Participation in the UK's New Deal for Lone Parents is not compulsory, but attendance at a work-focused interview was made obligatory for all benefit claimants in the "ONE" pilots. These provide a single point of entry for unemployment and other benefits, bringing together the Employment Service, local authorities and Benefits Agency staff to offer advice in one place. Within the ONE programme, interviews are now scheduled to take place annually. In New Zealand, in 1999 lone parents with children under the age of 6 were expected to attend a compulsory interview once a year (see Ministry of Social Development, 2001, for a description and evaluation of these policies), although this obligation was later dropped. In Australia, an annual interview for lone parents with children below the age of 13, and an actual obligation to participate in some activity for six hours a week where children are aged over 13, will be introduced from September 2003. One argument for compulsory work-focused interviews in the case of lone-parent beneficiaries is that most of them do enter work, often before any requirement to do so, and information about employment and employment services is likely to help this process. This consideration is less relevant for disability beneficiaries, many of whom never restart work.
36. Although incapacity and lone-parent beneficiaries in the ONE pilot areas were more likely to have received advice and information about jobs and training in the early months of their claim than similar beneficiaries in control areas, they did not generally receive more services, and were not significantly more likely to leave benefit. Another econometric estimation method, focusing on the new claimants in the ONE areas, found a statistically insignificant increase in hazard rates off benefit among people claiming incapacity benefits, accompanied by a weakly significant fall in male hazard rates off unemployment benefit (DWP, 2003): this might reflect the diversion of employment service resources away from the latter group.
37. Although reforms are occurring, many early retirement provisions still remain in place: in France unemployment assistance beneficiaries can request exemption from job-search requirements from the age of 55, and the United Kingdom allows males aged 60-64 to claim Income Support without showing availability for work.
38. Activation strategies such as interventions in the unemployment spell or stricter benefit eligibility criteria apply to beneficiaries. The main exceptions are probably labour market training programmes in Mexico and the United States, and to a limited extent in other countries, where participants often get a training or subsistence allowance that is unrelated to any UI or other entitlement. Also, all countries provide labour market information services including job matching (less frequently extending to personalised services such as career counselling) which are open to all jobseekers. But in general activation strategies are not likely to have a direct effect on unemployed people who are not claiming benefit (such as student unemployed).
39. The Swedish social protection system is generous mainly in the sense that replacement rates for those on labour market measures, unemployment benefits or other benefits are relatively high, and these measures have high coverage. However, the duration of unemployment benefits is limited.
40. Sianesi (2001), describing the institutional background to programme participation by unemployed people in Sweden, explains that "(...) even when focusing on individuals having just entered unemployment, it can in general be claimed that they will join a programme at some future point in time, provided that they remain unemployed 'long enough'" and "when considering the decision to choose one specific programme among those available, Harkman (2000) has found the caseworker to be the relevant decision-maker".
41. Like other countries Sweden has increasingly experienced problems with the management of "non-employment" benefits: from 1997 the number of employed people absent from work on sickness benefit – which has tended to be higher in Sweden than any other country analysed here

- more than doubled (see www.rfv.se/english/stat/sick/sjukp.htm for recent statistics and www.euro.eurofound.ie/2003/01/InBrief/SE0301103N.html for some recent policy developments).
42. Moffitt (2002) notes that “More than thirty states have either diversion policies or have imposed work requirements that must be fulfilled prior to eligibility for benefits. (...) In some states, the decline in entry onto welfare has been more important quantitatively than the increase in exit rates in accounting for the caseload decline.” Grogger and Michapoulos (2003) and Grogger (forthcoming) cite differential responses to welfare reform by age of children as evidence of an anticipatory response to time limits (mothers with children aged over 13 would not be expected to change behaviour in response to the federal 5-year time limit).
 43. By end 2001 or early 2002, about 231 000 families (5% of the 1996 stock of AFDC/TANF families) had reached either the Federal time limit (5 years) or a shorter state time limit. However, owing to exemption and extension provisions, the number of “cases closed” was lower (around 2%). Most of this total was in five states and in several of these a large proportion of cases closed were already employed (that is, were mixing work and welfare) before they reached the state time limits. Also, many states allow families whose cases are closed to return to welfare under certain conditions (Bloom *et al.*, 2002). See also Wilkins (2002).
 44. Falls in the number of unemployment beneficiaries were also large in Ireland (see Box 4.8), and probably large in the Netherlands, although fully consistent statistics are not available (see note 27).
 45. US analysts have often referred to a halving of caseloads, but in terms of adult AFDC/TANF beneficiaries the fall was about two-thirds between 1993 and 2001. The AFDC/TANF caseload in terms of families fell less, by about 55%. Some recipient families (when the child is cared for by a relative) have no adult beneficiary.
 46. In Ireland and the United Kingdom, prior to the current activation strategies, there was no requirement on unemployed people to contact or use the employment service, so there was little possibility of enforcing work-related benefit eligibility criteria. The PES in Netherlands in the 1980s suffered from “file pollution”: when unemployed people found work, the PES was often unaware of this for months afterwards, and registered unemployment data came to be regarded as almost meaningless.
 47. “Somewhat unexpectedly, those countries in which (early) retirement seems to play a very important role for people with disabilities as an alternative route for labour force exit (...) are also countries in which disability benefit recipients are overwhelmingly aged 45 and over (...). There appears to be a correlation between generous early retirement and (de facto) age profiling in the disability benefit regulations (...). This creates an early exit culture, which increases the burden on both the retirement and the disability schemes (...). Norway is a particularly telling example in this context, because the introduction of an early retirement programme in 1989 and the gradual broadening of this programme ever since has led to a rapid increase in the influx into this programme in parallel to a rise in the influx into disability benefits” (OECD, 2003, p. 97).
 48. Around 1992, the shortfall in the employment rates of lone mothers possibly caused by DPB was 29 percentage points, but the DPB coverage of lone mothers was 84%: the first percentage is about a third of the second. Although 20% of lone parents are reported to be working full-time, Stephens (2002) also reports that the total of lone parents receiving benefits (DPB or other benefits) in administrative statistics is high relative to the census population count of lone parents. Probably some of those who have benefits reported in administrative statistics are not identified as lone parents in the survey statistics.
 49. Moffitt (2002) writes: “The overriding single piece of evidence showing that progress has been made on the agenda of helping mothers on welfare work is the dramatic increase in employment rates among single mothers in the last decade. Employment rates among single mothers, the group most affected by welfare reform, have been slowly increasing for over 15 years, but have jumped markedly since 1994 (...). Employment rates rose from 60% in 1994 to 72% in 1999, a very large increase by historical standards. Among single mothers who have never been married (the group with the lowest levels of education and some of the highest rates of welfare receipt) employment rates rose even more, from 47% to 65% over the same period... despite other factors [Earned Income Tax Credit and some others] there is no question that welfare reform has played a significant role (...).”
 50. One complication is that some single mothers who received AFDC/TANF before welfare reform may now be employed, but no longer be single mothers: as shown in Table 4.4, the longstanding trend rise in the number of single mothers has been reversed since 1997. Bitler *et al.* (2003) find that

welfare reform has led to an increase in the number of black inner-city children who live with neither parent, and a decline in the divorce rate among Hispanic women.

51. Table 4.4 shows that administrative data reported a monthly average of 4.6 million adult AFDC/TANF recipients in 1994, while survey data reported 4.2 million adults with any receipt of AFDC at any time during the year. However, it should be noted that the monthly average number of recipients is about 20% lower than the number of persons with any receipt during the year (this can be estimated from the distribution of spells by duration, as reported in aspe.hhs.gov/hsp/indicators02/ch2.htm). Also, within the survey data reported average months of receipt per year have varied from about 10 in 1993 to little over 9 in 2001). In addition, administrative data for “recipients” exclude the caretaker parents in cases where AFDC/TANF is paid only for the child (who might be described as recipients because they receive the money, but not beneficiaries), whereas survey data for “people 15 years old and over – number with income” include them. Calculations allowing for these factors suggest that underreporting in survey data was about 20% in the early 1990s, increasing to 40% by 2000 (unpublished estimates by Richard Bavier).
52. Programme impacts on welfare receipt tend to decline in later years, related to the fact that levels of welfare receipt decline for both the control and the treatment groups. Strawn *et al.* (2001) claim on the basis of NEWWS findings that impacts in job-search-focused programmes, but not training programmes, often fade entirely within five years. However, it is hard to see much systematic difference of this kind in the data presented by Grogger *et al.* (2002).
53. Moffitt (2002) cites a review of follow-up surveys which reports that the employment rate of women just after leaving welfare is about 60%. About 75% of them work at some point in the year after leaving, but “only a little over a third work four quarters in a row, signalling a potential problem with employment retention and stability (...). After a year or two off the rolls, earnings gains slightly exceed the losses in TANF benefits. When EITC income is added in, the gains are slightly higher. However, the major change in income after leaving welfare comes from increased income from other family members (...).” This suggests that welfare leavers who do not enter work often become dependent on other family members.
54. Declines in poverty among the children of single mothers reflect higher income from in-work benefits, as well as increased employment rates. It remains to be seen how robust the improvement has been during the current slowdown.

ANNEX 1

Definition and Measurement of Benefit Reciprocity Rates

Background

A definitional and conceptual framework for reporting and classifying social protection expenditure and receipts called ESSPROS was developed by Eurostat from 1971, with major revisions of the classification manuals in 1981 and 1996. Relatively complete data according to the ESSPROS system are available for many EU countries for years back to 1980 (although often with a statistical break in data series in 1990). The concept of “social protection expenditure” that is currently implemented includes not only public expenditure but also mandatory private expenditure and voluntary private expenditure (although not all countries supply data for the last two components) and, in principle, both cash expenditure (income transfers to beneficiaries) and in-kind benefits.¹ More recently, data going back to 1980 for 29 OECD countries has been assembled in OECD’s SOCX database (see www.oecd.org/social: this is based mainly on ESSPROS data as regards EU countries).

There are no equally comprehensive data sets relating to the number of beneficiaries of social protection spending. This has for many years been an important barrier to analytical understanding of the labour market implications of social protection benefits, and *vice versa*. Most labour market data refer to persons, so that the social protection data and labour market data available for cross-national analysis have used different units. Moreover, some information on the characteristics of beneficiaries is needed in order to achieve substantive comparability of the data on benefit spending. For example, in some countries 30% or more of disability beneficiaries are aged 65 and over while in other countries this percentage is close to zero because disability pensions are systematically replaced by old-age pensions at retirement age. Therefore, spending data are not comparable in the absence of additional data on the age distribution of disability benefit recipients.

In some countries, survey data on benefit reciprocity are available, and these typically provide more information about demographic characteristics of recipients than administrative data. However, there are several reasons for preferring administrative data sources when assessing overall levels and trends of benefit dependency:

- In many countries comprehensive information about benefit reciprocity is not available from surveys, especially on a comparable basis through time.
- Survey data, when available, are affected by underreporting and misclassification.²
- In countries with high levels of benefit reciprocity, many policy measures – including benefit eligibility criteria, benefit replacement rates, and most spending on active labour market programmes – are targeted on recipients of specific benefits identified through

administrative records, rather than broad demographic groups or categories such as lone parents, the disabled or the unemployed in general.

Relatively intractable problems arise in trying to define a fully satisfactory conceptual framework for measuring the number of beneficiaries of social protection schemes. In particular, the *gross reciprocity rate* for social protection benefits (i.e. the number of benefit recipients as a proportion of the population) is likely to be high in a country with a universal child benefit, and low in a country where there is no such benefit but children are taken into account in the personal income tax system. Gross reciprocity rates can be very different as between situations which in substantive terms are actually fairly similar.³

The Dutch Ministry of Social Affairs has recently published studies entitled *Benefit dependency ratios: an analysis of nine European countries, Japan and the US* (Arents *et al.*, 2000) and *Benefit dependency ratios by gender: an international comparison* (Moor *et al.*, 2002) which estimate *inter alia* the full-time equivalent number of working-age (15 to 64-year-old) recipients of earnings- and income-replacement benefits each year from 1980 to 1999.⁴ In this approach to measuring beneficiary numbers:

- The limitation of scope to income-replacement benefits rather than all benefits a) makes the data more potentially relevant for explaining labour market outcomes such as employment rates; and b) avoids problems that arise due to benefits that are delivered in some countries as cash benefits and in others through tax credits and tax schedules, because income-replacement benefits always have a cash-benefit component.
- The measurement of beneficiary numbers in full-time equivalent terms reduces the weight on individuals whose benefit-dependency status is not clear-cut (e.g. who are both employed part-time and receiving a part-time unemployment benefit). It also facilitates links between beneficiary and spending data.⁵

This chapter therefore adopts the main lines of the NEI-SZW⁶ definitions and presents a revised version of the NEI-SZW estimates. The revision is based on an examination of the detailed spreadsheet files supplied by the Dutch authorities to identify the most significant areas where approximate estimation methods were used, and cross-checks against national statistical publications, other Secretariat databases and general knowledge of national social protection systems in order to identify possible discrepancies, omissions and misclassifications. It should be kept in mind that the estimates remain approximate, because it is likely that some significant issues of data quality have not yet been identified, and because in some areas the use of approximate estimation methods remains unavoidable (because appropriate data have never been published, or never collected).⁷

Definitions

Definitions are important when interpreting these data or using them for analytical purposes. To the extent that different statistical definitions might reasonably have been used and would have generated different figures, the substantive comparability and accuracy of aggregate statistics is limited. In this sense, the definitional issues are a prime determinant of the degree of approximation and uncertainty in the data that are presented.

The main principles used here, in reporting the number of beneficiaries, have been carried over from those used for the NEI/SZW estimates (Arents *et al.*, 2000):

- “The number of persons dependent on some kind of social benefit was expressed in full-time equivalents, referred to as benefit-years.” This applies, for example, to benefits for partial unemployment or compensation for partial disability due to work injuries.⁸

- “When the number of beneficiaries is aggregated over several categories (like unemployment benefit and disability pension) some persons will be counted twice as dependent persons (...). Information on the number of persons receiving two or more benefits at the same time (...) was used to reduce double-counting.” This means that in principle one person counts for no more than one full-time equivalent benefit dependent even if they receive two benefits at the full normal rate.⁹ The elimination of double counts is sometimes achieved by allocating people 100% to their “main” benefit category, resulting in an understatement of benefit reciprocity in the secondary benefit category.¹⁰
- “(...) in some countries, the old age pension and social assistance are expected to replace family income instead of individual income (...). For reasons of comparability, it is necessary to ‘individualise’ the figures on the number of pensions paid.” This means that when an old-age pension or social assistance is paid to a couple, both partners are counted as beneficiaries. However, the OECD revision presented here tends to minimise the scope and impact of the application of this principle.¹¹

As regards the types of benefit covered:

- “Only periodic benefits that are paid in the event of a loss of earnings are included, which are referred to as earnings or income replacing benefits. This means that lump sum cash benefits that are paid for the purchase of specific goods or services, like funeral grants to widows, are not included.”
- “Only social security benefits that are regulated by law are included, regardless of the way in which they are administered and financed.”¹²

Benefits are classified first into seven categories based on the individual’s “social risk” category, according to administrative records (which may differ from his or her status as reported in household surveys):

- *Old age*. This includes early retirement benefits, i.e. benefits that are restricted to persons above a certain age, and are not conditional on any of the other social risks listed below. Benefits which are conditional on having been disabled or unemployed in the past are included, if current age is a condition for eligibility but current disability or unemployment status is not.
- *Survivors (widows and orphans)*. This includes payments from old-age and disability insurance schemes when they are not conditional on the survivor himself/herself being old aged or disabled. In order to minimise double-counting with students, where data allowed only orphans in the age range 20 to 64 were included.
- *Sickness*. Beneficiaries include persons receiving sick pay from employers, when employers are legally required to make these payments.
- *Disability*. This includes contributory and non-contributory disability benefits, periodic cash payments of industrial injury benefits (but not lump-sum or in-kind benefits) and war disability pensions.
- *Maternity and parental*. Parental benefits are those which can replace the earnings of one of two parents: by contrast, means-tested lone-parent benefits are included with non-categorical social assistance (see below).¹³ General child benefits which only compensate the direct costs of children, and child-care benefits which finance the purchase of child care, are not included.
- *Care and labour market leave*. Care benefits replace the earnings of a person who works full time caring (on an otherwise unpaid basis) for a disabled relative.¹⁴ Labour market leave

Table 4.A1.1. **Reciprocity rates by type of benefit in the population of working age: average, trends and standard deviation, 1980 to 1999^a**

Percentages

		Australia	Austria	Belgium	Canada	Denmark	France	Germany	Ireland	Japan	Netherlands	New Zealand	Slovak Republic	Spain	Sweden	United Kingdom	United States	Mean	Standard deviation
Old age	1980	1.79	3.34	4.00	0.62	1.21	2.15	2.72	0.00	3.47	0.00	1.25	5.73	0.41	1.81	3.45	1.84	2.03	1.67
	1990	1.45	4.27	8.02	2.25	2.09	6.59	3.20	0.25	4.95	0.59	1.38	8.63	0.99	0.75	3.64	1.98	3.10	2.73
	1999	1.87	7.41	7.21	3.14	4.00	7.03	4.63	0.49	5.14	0.76	1.44	9.35	1.07	0.42	3.38	1.76	3.60	2.94
	Average	1.75	4.74	6.85	1.92	2.45	6.05	3.28	0.26	4.78	0.54	1.37	8.50	0.89	1.01	3.45	1.92	3.03	2.53
	Trend (percentage points per year)	0.02	0.16	0.11	0.17	0.14	0.21	0.09	0.04	0.06	0.04	0.01	0.16	0.05	-0.08	-0.01	-0.01	0.07	0.08
	Standard deviation (percentage points)	0.25	1.13	1.17	1.08	0.87	1.49	0.58	0.28	0.51	0.30	0.08	1.13	0.30	0.48	0.15	0.10	0.61	0.46
Survivors	1980	0.80	3.01	1.57	1.27	0.49	0.46	1.57	1.54	0.78	1.78	0.81	1.84	1.55	1.53	1.62	1.28	1.66	1.60
	1990	0.57	2.56	1.52	1.87	0.00	0.39	1.73	1.60	1.10	1.80	0.57	1.54	1.76	1.12	1.15	0.71	1.53	1.54
	1999	0.29	2.14	1.14	1.73	0.00	0.35	1.67	1.43	1.57	1.02	0.37	1.08	1.80	0.34	0.86	0.58	1.32	1.50
	Average	0.56	2.56	1.48	1.72	0.09	0.39	1.69	1.58	1.11	1.67	0.54	1.47	1.74	1.10	1.21	0.80	1.52	1.54
	Trend (percentage points per year)	-0.03	-0.05	-0.03	0.02	-0.02	-0.01	0.00	-0.01	0.04	-0.02	-0.02	-0.04	0.01	-0.06	-0.04	-0.03	-0.02	0.03
	Standard deviation (percentage points)	0.19	0.27	0.18	0.21	0.19	0.03	0.07	0.09	0.24	0.22	0.15	0.24	0.06	0.36	0.23	0.19	0.18	0.10
Sickness	1980	1.03	2.42	1.38	0.15	4.32	2.39	2.72	3.35	2.17	3.29	0.46	3.28	0.26	4.84	1.24	1.93	2.17	1.45
	1990	1.71	2.05	1.03	0.17	4.27	1.77	2.66	2.55	1.50	3.37	1.08	4.05	0.31	4.76	1.26	2.11	2.10	1.45
	1999	1.44	1.99	1.06	0.20	4.61	1.82	2.51	1.86	1.24	3.39	1.46	3.07	0.36	5.76	0.84	2.13	2.02	1.58
	Average	1.42	2.03	1.11	0.17	4.20	1.88	2.56	2.72	1.64	2.98	1.02	3.49	0.27	4.65	1.16	2.03	2.02	1.37
	Trend (percentage points per year)	0.01	-0.01	-0.02	0.00	0.01	-0.03	0.02	-0.12	-0.06	0.01	0.08	-0.01	0.00	0.01	-0.01	0.02	-0.01	0.03
	Standard deviation (percentage points)	0.23	0.15	0.12	0.02	0.48	0.22	0.27	0.77	0.35	0.27	0.50	0.32	0.04	0.49	0.13	0.11	0.25	0.20
Disability	1980	4.18	4.11	3.00	3.42	5.74	5.04	5.15	1.61	1.01	6.90	1.06	4.35	3.04	5.07	2.72	5.50	3.80	1.85
	1990	3.62	4.00	3.27	4.42	6.35	4.60	4.38	2.77	1.52	7.64	1.69	4.99	3.85	5.79	4.78	5.58	4.22	1.83
	1999	4.90	3.46	3.58	4.91	6.70	4.79	4.08	3.88	1.94	7.21	2.31	5.63	3.86	6.46	6.38	6.30	4.63	1.90
	Average	4.16	3.82	3.28	4.59	6.29	4.71	4.61	2.68	1.45	7.29	1.70	5.14	3.76	5.80	4.82	5.73	4.26	1.81
	Trend (percentage points per year)	0.02	0.00	0.02	0.10	0.07	-0.02	-0.08	0.11	0.05	0.01	0.08	0.08	0.03	0.08	0.26	0.08	0.05	0.07
	Standard deviation (percentage points)	0.34	0.18	0.14	0.66	0.44	0.18	0.51	0.67	0.31	0.27	0.45	0.51	0.25	0.51	1.57	0.55	0.44	0.36

Table 4.A1.1. **Reciprocity rates by type of benefit in the population of working age: average, trends and standard deviation, 1980 to 1999^a (cont.)**

Percentages

	Australia	Austria	Belgium	Canada	Denmark	France	Germany	Ireland	Japan	Netherlands	New Zealand	Slovak Republic	Spain	Sweden	United Kingdom	United States	Mean	Standard deviation	
Maternity and parental leave	1980	0.00	1.16	0.11	0.21	0.43	0.23	0.24	0.10	0.00	0.00	3.62	0.00	1.55	0.34	0.00	0.53	0.93	
	1990	0.00	1.54	0.00	0.36	1.00	0.99	0.22	0.19	0.08	0.00	4.22	0.00	2.82	0.27	0.00	0.73	1.21	
	1999	0.00	1.99	0.23	0.39	1.61	1.93	0.18	0.24	0.16	0.00	0.00	4.41	0.00	2.03	0.27	0.00	0.84	1.24
	Average	0.00	1.88	0.14	0.34	1.12	0.99	0.22	0.21	0.11	0.00	0.00	4.30	0.00	2.31	0.29	0.00	0.74	1.18
	Trend (percentage points per year)	0.00	0.09	0.01	0.01	0.08	0.08	0.00	0.00	0.00	0.00	0.00	0.11	0.00	0.05	0.00	0.00	0.03	0.04
	Standard deviation (percentage points)	0.00	0.69	0.06	0.10	0.57	0.52	0.02	0.03	0.03	0.00	0.00	0.90	0.00	0.51	0.04	0.00	0.22	0.31
Care and labour market leave	1980	0.00	0.00	0.00	0.00	0.00	0.00	0.14	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.03	
	1990	0.08	0.00	1.07	0.00	0.00	0.00	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.37	0.00	0.10	0.28	
	1999	0.31	0.00	0.92	0.00	0.00	0.00	0.52	0.00	0.00	0.00	0.00	0.00	0.00	0.98	0.00	0.17	0.34	
	Average	0.10	0.00	0.54	0.00	0.02	0.00	0.00	0.19	0.00	0.00	0.00	0.00	0.00	0.43	0.00	0.08	0.17	
	Trend (percentage points per year)	0.02	0.00	0.06	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.00	0.01	0.02
	Standard deviation (percentage points)	0.09	0.00	0.45	0.00	0.05	0.00	0.00	0.13	0.00	0.00	0.00	0.00	0.00	0.38	0.00	0.07	0.14	
Unemployment	1980	3.25	0.94	5.43	6.00	5.22	3.13	1.95	4.52	0.77	2.92	1.05	2.80	1.12	4.67	2.52	2.83	1.94	
	1990	3.75	2.96	7.31	8.64	7.60	4.29	3.92	9.29	0.49	5.01	6.32	5.02	1.25	3.96	1.59	4.08	2.97	
	1999	5.56	3.79	6.94	5.76	4.35	4.70	6.64	6.72	1.07	4.10	6.61	3.55	3.91	3.96	2.88	1.25	4.07	2.05
	Average	5.48	2.91	7.90	8.17	7.15	4.57	5.10	9.34	0.77	5.45	4.50	1.33	4.46	3.19	5.70	1.89	4.59	2.76
	Trend (percentage points per year)	0.15	0.16	0.05	-0.03	-0.01	0.10	0.25	0.16	0.00	0.01	0.33	0.21	0.14	0.25	-0.17	-0.05	0.08	0.12
	Standard deviation (percentage points)	1.41	1.00	0.91	1.28	1.41	0.67	1.68	2.03	0.18	0.95	2.24	1.52	1.30	1.87	1.59	0.54	1.15	0.58
Assistance	1980	1.98	0.57	1.48	1.71	2.50	0.19	0.90	0.96	0.50	1.16	1.87	0.75	0.17	0.99	3.42	1.08	0.95	
	1990	2.50	0.58	2.05	2.20	1.83	1.48	2.12	2.21	0.34	1.55	4.29	1.09	0.16	0.48	2.88	3.61	1.57	1.05
	1999	3.17	0.80	2.37	1.88	1.62	3.04	2.24	4.17	0.32	1.22	4.42	11.07	0.26	1.14	2.80	1.68	2.36	2.59
	Average	2.67	0.58	1.97	2.36	1.99	1.39	1.89	2.32	0.39	1.43	3.52	3.81	0.10	0.69	2.57	3.45	1.72	1.15
	Trend (percentage points per year)	0.05	0.00	0.06	0.04	-0.02	0.18	0.07	0.17	-0.01	-0.01	0.16	0.58	0.02	0.06	0.12	-0.05	0.08	0.15
	Standard deviation (percentage points)	0.33	0.07	0.39	0.45	0.41	1.13	0.47	1.04	0.09	0.18	0.97	3.88	0.11	0.38	0.83	0.62	0.65	0.92

Table 4.A1.1. **Reciprocity rates by type of benefit in the population of working age: average, trends and standard deviation, 1980 to 1999^a (cont.)**

Percentages

		Australia	Austria	Belgium	Canada	Denmark	France	Germany	Ireland	Japan	Netherlands	New Zealand	Slovak Republic	Spain	Sweden	United Kingdom	United States	Mean	Standard deviation
Total	1980	13.02	15.54	16.97	13.38	19.90	13.85	15.24	12.36	8.79	16.05	6.50	19.57	8.07	16.09	15.04	16.49	14.12	5.29
	1990	13.69	17.96	24.27	19.91	23.15	20.11	18.23	18.91	9.99	19.95	15.33	24.75	12.08	16.97	18.32	15.58	17.44	6.63
	1999	17.54	21.57	23.45	18.02	22.91	23.65	21.96	19.31	11.44	17.69	16.61	38.16	11.26	20.11	18.39	13.70	19.02	8.26
	Average	16.15	18.51	23.27	19.27	23.30	19.98	19.35	19.31	10.25	19.37	12.65	28.03	11.22	18.74	19.63	15.82	17.96	6.79
	Trend (percentage points per year)	0.24	0.36	0.26	0.32	0.25	0.52	0.36	0.38	0.08	0.05	0.62	1.10	0.25	0.31	0.20	-0.04	0.29	0.26
	Standard deviation (percentage points)	1.86	2.20	2.26	2.70	2.00	3.12	2.25	2.79	0.66	1.19	3.96	6.93	1.85	2.33	2.00	1.07	2.19	1.50

a) Average, trend and standard deviation are calculated from data for the 20 years. Trend refers to the coefficient in a regression.

Source: NEI-SZW database, partially revised and augmented by OECD. See text for details.

benefits allow persons to take sabbatical leave from the labour market for a limited time but without restrictions on the beneficiary's condition or behaviour during the period of benefit receipt.

- *Unemployment*. This refers to benefits – except for those which are primarily disability or lone-parent benefits – that are paid conditional upon the person being available for work.

The eighth category is:

- *Lone-parent and non-categorical social assistance*. This includes beneficiaries of means-tested benefits, including lone-parent benefits,¹⁵ who cannot be allocated to any of the risk categories above.¹⁶ It excludes individuals in study or full-time employment.¹⁷

Two other types of “beneficiary” who have a kind of income-replacement benefit, but are not included, are full-time participants in education (who may receive scholarship incomes or student grants), and full-time participants in active labour market programmes.¹⁸ The main social risk categories that appear in standard classifications of social protection spending (ESSPROS and SOCX), but are not included, are certain family benefits (notably child allowances), housing benefits, payments that reimburse health care costs, and in-kind services (e.g. health services, family services, services for the disabled and employment services).

Notes

1. Although the ESSPROS data include in-kind benefits, only the data for cash benefits are relatively complete. Countries report data by “scheme” and this concept in many countries is used to refer to institutions, or budget lines. In general, schemes which provide significant amounts of cash benefits are included in ESSPROS (usually together with the in-kind spending under these schemes) but schemes which provide only in-kind benefits – such as the PES in countries where this organisation does not manage unemployment benefits – are often omitted. As a result, only the cash benefit data are really comparable.
2. Comparisons between benefit payouts and income surveys suggest that unemployment and disability/invalidity benefit incomes are 30% underreported in the Australian Income Survey; UI benefits are underreported by 25% in Canada's SCF, unemployment benefit income is overreported by 15% but Disability Benefit income is underreported by 28% in Ireland's main survey; and UI and AFDC income are both underreported by about 25% in the US CPS (Atkinson *et al.*, 1995, Tables A6.3, A6.5, A6.10, A.6.13). Income Distribution Survey data for Australia from 1982 to 1996, as compared to administrative data, understate reciprocity rates for lone-parent, disability and unemployment benefits although they overstate reciprocity for partners, carers and parental benefits (Landt and Pech, 2000). In the mid-1990s, according to the European Community Labour Force Survey (ECLFS) only 6% of unemployed people in Greece and 25% in Portugal had benefits, whereas administrative data suggested that proportions were 30% in Greece and 50% in Portugal (OECD, 1998b, Table 4.3).
3. Eurostat (ESSPROS) and OECD (SOCX) data for spending on social protection are on a pre-tax basis. Adema (2001) provides estimates for social protection spending in 18 countries net of tax and social security contributions, adding in the value of tax breaks granted for social purposes.
4. The Dutch administration has been motivated to research benefit dependency abroad by the Dutch Act on Linkage with Conditional Suspension (WKA) which specified that the minimum wage should be updated in line with a composite index of contractual wage increases in the market and government sector unless the ratio between the number of people claiming social benefits and the number of people working (called the I/A-ratio: inactive/active ratio) exceeds 82.6% (in which case the government may decide not to link).
5. When the number of beneficiaries is estimated by dividing total spending by the rate of the benefit at a full or normal rate, the result is an estimate of the full-time equivalent number of beneficiaries.
6. The research was carried out by consultants (NEI Labour and Social Policy, Rotterdam) on behalf of the Dutch Ministry of Social Affairs and Employment (SZW).
7. Data from household income surveys (or labour force surveys) might be used to estimate the age distribution of beneficiaries, when no administrative data on this point are available. However,

household income surveys often do not identify the exact official name of benefits received, and underreporting of benefit receipt is also a problem.

8. Food Stamps in the United States, in cases where they are paid to people with no other income, were treated as a partially replacing income by reference to payment rates for other assistance (SSI) benefit.
9. The fact that double-counting within the total of benefit dependency is eliminated, in principle, will not always prevent double-counting between benefit dependency and employment. Some benefits, *e.g.* industrial injury and war disability pensions, widows' contributory pensions and certain old-age pensions, may not be reduced at all when the beneficiary has earnings from full-time work. Other benefits, *e.g.* unemployment and ordinary disability benefits, are usually paid at a full rate when the beneficiary works in a job with earnings and hours below certain thresholds. In these situations, some overlap between full-time equivalent measures of benefit dependency and employment will arise.
10. For example in Austria, the level of widows' benefit is relatively low and beneficiaries receiving this and another benefit have been allocated to the category of the other benefit. As a rule, double benefit recipients are allocated to the old age category with priority over disability which in turn has priority over survivors pension status. Also, individuals who receive a social assistance top-up to their insurance benefit are allocated to their insurance benefit status. Individuals were not split across categories (*e.g.* part-disabled, part-social assistance), unless the original data give this result (*e.g.* if the administrative data for unemployment and disability benefits are in full-time equivalent terms, an individual who has a part-rate unemployment and part-rate disability payment is split pro rata between these categories).
11. In the OECD revision the impact of "individualisation" is minimised by *a)* counting only the beneficiary whose social risk (*e.g.* unemployment or disability) generates the entitlement to benefit, even if the person has a dependent spouse; *b)* reallocating social assistance beneficiaries from the category "social assistance" to their category of social risk (*e.g.* unemployment or disability) whenever possible; and *c)* focusing attention on the working-age population. This means that "individualisation" affects the working-age beneficiary total only for social assistance beneficiaries who could not be allocated to a social risk category, and for persons aged under 65 who are in receipt of an ordinary retirement pension.
12. The meaning of "regulated by law" can be unclear, *e.g.* in cases of *a)* collective agreements which are negotiated by industry-level representatives but are legal enforced on all employers and/or employees in the industry; *b)* public sector and nationalised industry bodies that are authorised to operate their own old-age, disability, maternity or other benefits; *c)* benefit spending by UI funds in Denmark or Sweden that are legally autonomous, but whose spending is financed primarily by government subsidies that themselves are regulated by law; and *d)* sickness absence, when employment protection legislation constrains the employer's ability to dismiss sick workers.
13. Parenting Payment (Partnered) and some related benefits (which were introduced in 1995) have been excluded from the count of benefit dependency in Australia. This improves time-series comparability of the data. This benefit is usually payable only when the person's spouse qualifies for a different benefit, and is usually not payable when he/she has full-time work. In other countries, the partner who is unemployed or disabled is counted while the parent who looks after children is not.
14. The Australian and UK care benefits seem likely to result in the carer being recorded as inactive in labour force statistics. Other countries pay benefits to disabled people to cover the cost of personal care when this is needed.
15. Lone-parent assistance benefits provide income for the whole family the same way as a social assistance benefit does for a two-parent family. The allocation of the means-tested benefits for lone parents to the "social assistance" category is common practice in the sense that *a)* "welfare" in the United States refers mainly to lone-parent benefits and *b)* in many other countries, lone parents receive non-categorical social assistance benefits (rather than a lone-parent benefit with a distinct name, administrative structure or statistical existence).
16. In principle, social assistance beneficiaries who are disabled or are lone parents should be classified to these categories, and others who are required to be available for work or to seek work (*e.g.* register for employment) should be classified as unemployed (see the definition of unemployment). In practice, suitable data are often not available. In Canada, a fixed proportion of social assistance beneficiaries was allocated to the categories unemployment and disability. The proportion of provincial social assistance beneficiaries that is considered employable has sharply increased with welfare reform (see OECD, 1999, Table 3.11). However, McIntosh and Boychuk (2000)

argue that this is because several provincial social assistance regimes now define a greater proportion of their beneficiary population (e.g. lone parents) as employable, and the nature of the caseload has not changed dramatically. The Netherlands had a distinct administrative category (RWW benefit) for beneficiaries receiving social assistance for reasons for unemployment until 1995: the statistics shown here extrapolate this distinction to 1999 assuming that the unemployed share in the social assistance total remained at its 1995 level. In the United Kingdom, official statistics allocate most social assistance beneficiaries to a particular social risk category, but information about numbers receiving benefit for reasons of sickness was incomplete, so these beneficiaries were left in “non-categorical social assistance”.

17. Not counting social assistance payments to people in study or full-time employment as income-replacement benefits helps to minimise double-counting (i.e. it ensures that a given individual is not counted for more than one person in full-time-equivalent terms when summing data for benefit dependency and employment). But it also improves substantive data comparability since reductions in tax and employee social security contributions for low-paid workers and subsidies to employers for hiring low-paid workers have comparable economic effects, and are not covered. A consistent framework, accounting for tax progressivity and other transfers, would need to be developed to compare levels of “in-work” benefits across countries or through time.
18. There is a case for regarding full-time participants in active labour market programmes as benefit dependants when they receive unemployment benefits. However, participants may also receive training grants outside the contributory or non-contributory social security systems. Also, their training may be regarded a social investment similar to general education, and participants on employment programmes may be counted as employed in labour force statistics. Therefore, counting programme participants as benefit dependants would quite often lead to double-counting with employment and student participation statuses. Sweden regularly distinguishes between “open” unemployment and “total” unemployment which includes participants in labour market programmes: the difference between the two rose to about 4% of the labour force in the early 1990s.

ANNEX 2

How Long Adjustment Lags Arise from Interaction and Feedback

When different actors or different factors in the economy interact, economic aggregates change on a much longer time-scale than individual behaviour does. Suppose that disability prevalence (the percentage of the population that consider themselves to suffer from a disability) is related to benefit reciprocity (the percentage receiving a benefit) as shown in Chart 4.8 but with a one-year lag:

$$P = 4 + 1.6 B(-1)$$

Suppose also that half of all persons who consider that they suffer from a disability apply for benefit, and start receiving benefit a year later:

$$B = c.P(-1)$$

where c , the rate of coverage, is a policy parameter for the strictness of benefit administration. Different values of the parameter c result in different equilibrium values of B and P , consistent with the first equation. The growth of benefit prevalence and reciprocity when a benefit is created with $c = 0.5$ (equivalently, when c is raised from 0 to 0.5) in year zero is shown below:

Year	0	1	2	3	4	6	8	10	15	20	Long run equilibrium
B	0.00	2.00	2.00	3.60	3.60	4.88	5.90	6.72	8.32	8.93	10
P	4.00	4.00	7.20	7.20	9.76	11.81	13.45	14.76	16.64	18.28	20

In this example, even though adjustment of disability prevalence to reciprocity or *vice versa* takes just one year, the levels of benefit reciprocity and prevalence both more than double between years 3 and 10, and then rise further by between a quarter and a third through to the 20th year after creation of the benefit. Interaction and feedback between two variables generates long lags in adjustment, similar to those which are observed empirically for several important types of benefit. The long-run solution value of this equation system is sensitive to small changes in the policy parameter c . Thus, in the example above, although c is set to give a benefit coverage rate B that is only 0.5 of P in the long run, after a few years B overtakes the value of P that prevailed prior to introduction of the benefit. Another point worth noting is that year-on-year changes in benefit reciprocity are greatest in the years immediately after a policy reform. This distinction can explain why, in the examples shown in Charts 4.5 to 4.7, reforms to the parameters of an existing benefit have influenced trends in beneficiary totals immediately.

This model is just one example of an interaction and feedback mechanism. Any mechanism whereby individual benefit reciprocity is influenced, with a slight lag, by population-average levels of benefit reciprocity will give similar results. Such an influence could involve the behaviour of employers (*e.g.* if employers' offer of seasonal work in one year is influenced by the supply of seasonal workers the previous year), or the behaviour of the benefit administration (*e.g.* if actual job-search intensity is influenced by both financial incentives and the job-search intensity that the benefit administration expects, and the latter is influenced by actual job-search intensity).

In some cases, following the introduction of a new benefit, the initial phase of growth in beneficiary numbers has been exponential from a low base, so that growth in terms of absolute numbers at first accelerates. This pattern can persist as long as learning from peers is the main factor involved (*e.g.* each person who has successfully applied for benefit helps two more eligible people to apply for it, some time later).

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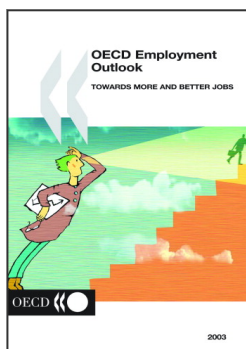
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