



# **The Strength of the Link between Income Support and Activation**

Evidence Review

May 2016

Abigail McKnight and Arnaud Vaganay



**EUROPEAN COMMISSION**

Directorate-General for Employment, Social Affairs and Inclusion  
Directorate Social Affairs  
Unit C1 - Social investment Strategy

*European Commission  
B-1049 Brussels*

# **The Strength of the Link between Income Support and Activation**

***Europe Direct is a service to help you find answers  
to your questions about the European Union.***

**Freephone number (\*):**

**00 800 6 7 8 9 10 11**

(\*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

## **LEGAL NOTICE**

This document has been prepared for the European Commission however it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

More information on the European Union is available on the Internet (<http://www.europa.eu>).

Luxembourg: Publications Office of the European Union, 2016

ISBN: 978-92-79-58431-2

doi: 10.2767/629621

© European Union, 2016

Reproduction is authorised provided the source is acknowledged.

For any use of photo which are not under the European Union copyright, permission must be sought directly from the copyright holder(s) indicated.

## Table of contents

Acknowledgements

Background

Glossary

EXECUTIVE SUMMARY.....	5
1. INTRODUCTION.....	9
2. A BRIEF HISTORY OF THE POLICY BACKGROUND .....	13
3. MACRO-LEVEL EVIDENCE.....	24
4. MICRO-LEVEL EVIDENCE .....	45
5. CONCLUDING REMARKS .....	74
BIBLIOGRAPHY .....	78
ANNEX A .....	83
ANNEX B.....	85

## **Acknowledgements**

This evidence review was funded by the European Commission's DG Employment, Social Affairs and Inclusion (DG-EMPL). It has benefit from feedback from DG-EMP staff received on an earlier version and during stimulating discussion of the topic and the review, as well as comments made by participants at the European Commission's European Social Policy Network (ESPN) meeting on 29<sup>th</sup> September 2015 and members attending the EU's Social Protection Committee meeting in Brussels on 8<sup>th</sup> October 2015. The authors would like to thank Cheryl Connor, Su Sureka and Liz Vossen for research and project assistance. Bregtje Kamphuis, LSE Enterprise, provided expert project management between the London School of Economics and DG EMPL.

*The content of this review does not reflect the official opinion of the European Commission. Responsibility for the information and views expressed in the review lies entirely with the authors.*

*Reproduction is authorised provided the source is acknowledged.*

© European Union, 2016

## **Background**

The London School of Economics and Political Science (LSE) was contracted to conduct three evidence reviews on behalf of the DG for Employment, Social Affairs and Inclusion of the European Commission (EC). The aim of these reviews is to provide the EC with high-quality evidence on the effectiveness of interventions in three policy areas – 1) The Link between Income Support and Activation, 2) Preventative Measures and Preventative Approaches to Low Pay and In-Work Poverty, and 3) Economic Inequality. These reviews are intended to help promote the development of comprehensive policy strategies, are designed to help inform the EC's future impact assessments and hopefully inspire future reforms across the EU.

The scope of the reviews is defined by:

- Identifying evidence that closely matches the European Commission's interest (in terms of intervention, target group and outcome);
- The type of evidence: net impact studies are not always available and therefore the review will consider a broad range of evaluation evidence;
- The geographical area: maximising the evidence available from within the European Union, conditional on language constraints.

Here we report the findings from the first evidence review: *The Strength of the Link between Income Support and Activation*.

## Glossary

ALMP	Active Labour Market Programmes
EITC	Earned Income Tax Credit
GDP	Gross Domestic Product
IS	Income Support
JSA	Job Seeker's Allowance
LABREF	Labour Market Reforms Database
LTU	Long Term Unemployed
MISSOC	The EU's Mutual Information System on Social Protection
OECD	Organisation for Economic Co-operation and Development
PES	Public Employment Service
RSA	Revenu de Solidarité Active
SSP	Self-Sufficiency Project
ST	Short Term
STU	Short Term Unemployed
UA	Unemployment Assistance
UB	Unemployment Benefit
UI	Unemployment Insurance
WTC	Working Tax Credit

## Executive Summary

The OECD and the European Union have been advising governments to reform income support systems to facilitate greater activation of out-of-work claimants alongside enabling job-seekers to find work through activation programmes. Income support provided to unemployed people can be linked with activation at an administrative level through greater integration and co-ordination between social security benefit systems and public employment services. For unemployed people, the link can be strengthened through better coverage of income support and greater access to activation services, which may or may not be conditional on receipt of income support.

A recent review of approaches to activation and employment support policies highlighted that while the impact of individual activation programmes can be fairly modest at an aggregate level, the effect of individual policies is strengthened if they are part of a coherent activation strategy in which income support is combined with effective re-employment services tailored to meet the needs of different beneficiaries (Immervoll and Scarpetta, 2012). Martin (2015) also highlights that the mix of policies determines whether an activation strategy is effective or not. The interactions between the generosity of income support, the scale and suitability of active labour market programmes, the degree to which entitlement to income support is conditional on job-seekers' activity and participation in activation programmes, are clearly important elements in understanding the effectiveness of different approaches.

Martin (2015) notes that some countries (such as Australia and the US) have adopted a lean welfare model with low levels of income support available for only a short duration and very limited expenditure on activation. Macro level labour market performance measures appear to suggest that this model can produce comparable outcomes to those obtained in countries that have adopted more generous income support payments coupled with a greater amount of activation. Most European countries have a stronger social model of welfare protection and under Europe 2020 (the European Union's ten-year jobs and growth strategy) are seeking to improve employment rates (75% of the 20-64 year-olds to be employed) alongside protecting households from poverty and social exclusion (at least 20 million fewer people in or at risk of poverty and social exclusion). Current evidence suggests that in order to do this they will need to ensure that those who are out of work have sufficient income but are incentivized and enabled to find work where this is possible.

This is an evolving policy area with an evidence base that is growing but not always in agreement on the best policies and strategy to adopt. We review this evidence to assess what clear lessons have been learnt.

To examine the role of the link between income support and activation we examine macro and micro level evidence. Analysis at the macro level is hampered by the absence of indicators capturing the strength of the link between income



support and activation. The closest proxies we have found are problematic both in terms of *construct validity* (i.e. the extent to which they *really* measure the quantity of interest) and in terms *measurement validity* (i.e. the extent to which the numbers are correctly reported). Thus, it is important to read these *outcome indicators* with caution and to complement them with *output indicators*. We use data on policy changes to look at what changes European countries have made since 2006 that should lead to a strengthening of the link between income support and activation by examining changes made to unemployment benefit, other social assistance and active labour market programmes. We consider the strength of the link between income support and activation in terms of both *stocks* and *flows*. Our analysis shows that a great variety of situations among Member States, including: (1) countries with a strong and increasing link between income support and activation, like Germany; (2) countries with a moderate and stable link between income support and activation, like France and the UK; (3) countries with a moderate and weakening link between income support and activation, like Sweden; (4) countries with a weak and slightly increasing link between income support and activation, like Italy; and (5) countries with a weak and slightly decreasing link between income support and activation (Czech Republic). Regardless of the strength of this link and the direction of recent reforms, we found no conclusive evidence of an association between our proxy measures of the strength of this link and the level of unemployment at a macro level. This said, there is a limit to what we can learn from this evidence as a whole range of factors has an impact on aggregate levels of employment and unemployment and to a certain degree activation effort is endogenous. We also have some concerns about the validity of our proxy measures. This leads us to examine the micro-level evidence.

There is a vast literature covering micro level evaluations of individual activation interventions. Largely these cover ‘classical’ active labour market policies (job search assistance, training, private sector wage subsidies, subsidised public sector employment) and a range of policies which attempt to increase activation through monitoring claimants’ efforts and through the conditionality terms of their entitlement to claim income support. In addition to the programme impact evaluations there are a number of high class reviews of the literature and meta-analysis studies. We have attempted to use this evidence to understand why a range of outcomes (positive and significant, insignificant, negative and significant impacts on unemployment/employment) are found within activation types. We pay special attention to evidence that could help inform on the role of the strength of the link between activation and income support.

### **Why do evaluations produce such a variety of activation impact estimates?**

The review highlights the importance of methodological factors that can give rise to divergent findings. In particular for interventions that require participants to engage in a programme, there can be ‘lock-in’ effects which mean that participants are less likely to find work during programme participation than other claimants (non-participants). If this is not taken into account then it can appear that the programme is less effective in the short-run even where longer term outcomes are favourable. On the other hand, some activation programmes, such as wage

subsidies in the private sector, involve an employment contract that doesn't necessarily end when the subsidy ends. If outcomes are measured immediately after an intervention ends, then it can appear that these programmes perform particularly well when compared to interventions that require participants to search for work when a programme ends. The timing of outcome assessment is critically important for understanding how different types of activation programmes affect outcomes. A further challenge is that participants and non-participants are rarely random samples and controlling for differences is critical for reliable estimation of programme effects. For longer run estimates of impacts it is unlikely that the 'non-participant sample' (i.e. the counterfactual in impact assessments) does not benefit from some activation programme and this means that long-run effects are likely to underestimate true values.

Comparison of different activation types is hampered by the fact that there is considerable variation in the design, implementation and evaluation of programmes both across countries and within countries over time.

### **What is the importance of the link between activation and income support?**

There have been moves in many countries to integrate the administration of income support claims with public employment services. There are a number of advantages with doing this. Firstly, there can be cost savings with fewer local offices, for example. Secondly, co-location of benefit offices and employment services can help instill in the minds of claimants the expectation of a return (or entry) to work. Finally, interviews to verify that claimants are meeting their eligibility conditions can be tied in with job search assistance and other activation.

Many recent individual level policy developments are associated with a strengthening of the link between activation and income support, either in terms of the expectation and requirement for claimants to actively search for work or the availability of a greater variety of labour market services to enable them to find work. There has also been an introduction of greater activation of out-of-work income support claimants on what were previously regarded as 'inactive' benefits (disability related benefits; benefits for single parents). There has tended to be a reduction in the period that receipt of unemployment insurance is unconditional on active work search (where this system operates). There has been an increase in claimant conditionality, mandatory participation in activation programmes and greater use of sanctions for those who fail to fulfill entitlement conditions or participate fully in activation programmes. However, activation is also sometimes made available without any link to income support. The three main 'classical' active labour market programmes (job search assistance; training; wage/employment subsidies) are available to varying degrees to those who are not claiming income support (some with government funding).

For all activation programme types there are examples of those which successfully improve outcomes for participants. As most of these activations involve a link and in some cases a very strong link with income support this provides evidence that a link between the two can have positive benefits. Where the link is very strong, such as on compulsory activation programmes, high degrees of monitoring and

conditionality coupled with the use of benefit sanctions for digression, the evidence is not clear cut. “Services and Sanctions” can be successful at increasing exits from unemployment (shortening the duration of income support claims) but in the longer term training programmes and some wage subsidy programmes appear to lead to better outcomes. This suggests that individuals ‘pushed’ into work have a higher likelihood of churning between unemployment and precarious forms of employment. There is some evidence that general training programmes designed to tackle low skills in the population tend to be associated with quite high deadweight losses providing an argument in favour of targeting these programmes on the most disadvantaged.

### **The role of enabling support beyond ‘classical’ activation programmes**

It was hard to find good evaluation evidence on the net impact of broader enabling support on employment outcomes. This is because they have not generally been made available in a consistent way to income support claimants, nor have they been evaluated in this context. Evaluations tend to take broader enabling support as part of the background or country context rather than explicitly estimating their impact on outcomes.

Access to broader forms of enabling support is less likely to be linked directly to income support receipt than ‘classical’ activation programmes. This makes it more challenging to find estimates of counterfactual outcomes. They are more likely to be made available to disabled people, lone parents, plus some smaller groups such as those suffering from mental health problems, prison leavers and those suffering from substance addiction.

Enabling support *could* help to improve outcomes among the long term unemployed, particularly disadvantaged groups and those with complex needs. The net impact of activation programmes is small, particularly for the most disadvantaged groups and those facing the greatest barriers to employment. More work needs to be done to establish whether broader enabling support packages alongside activation programmes and income support could improve outcomes further.

For income support claimants, increasing the link with activation and the availability of a broader set of activation programmes can improve outcomes. However, one size does not fit all. Low cost early interventions such as job search assistance coupled with programmes that offer higher cost interventions for the long term unemployed, or for those identified as most at risk of becoming long term unemployed with an income support package that protects individuals from poverty without creating high work disincentive effects seems to be the most promising approach. Lack of adequate social assistance through income support, even where activation programme are available, creates social problems - such as poverty, homelessness and social exclusion - and can move this group further from being able to secure good employment outcomes.

Enabling support could help to improve net impacts of ‘classical’ activation programmes – we currently lack the evidence to reach a conclusion on this point.

## 1. Introduction

The objective of this evidence review is to assess whether or not the strength of the link between income support and activation is an important factor affecting the effectiveness of labour market policy. The link between activation and income support for the working age population varies across EU countries and within countries overtime.

In this review we use the term income support to refer to cash transfers paid to unemployed people as a form of income replacement. This covers unemployment insurance payments and social assistance (means-tested) payments. We adopt the broader definition of activation beyond 'classical' active labour market programmes and consider the link between cash transfer systems (including conditionality), active labour market policies and broader forms of enabling support services.

The link between income support and activation can be non-existent. For example, where income support for unemployed workers, paid either in the form of unemployment benefit/insurance or social assistance, is paid independent of any requirement for the claimant to search for work. Equally, there may not be any explicit entitlement for the job-seeker to benefit from a range of enabling support in the form of re-employment services (job search assistance, work preparation, welfare support services, advice, access and funding for training/re-training, wage subsidies, supported employment placements, etc). Likewise, activation programmes, and more broadly enabling support, can be made available without any link to income support receipt. For example, subsidised adult training programmes designed to tackle low skills can be made available to individuals who are in-work as well as those without work. At the other end of the spectrum, the link between income support and activation can be very strong. Job-seekers may only be entitled to receive income support if they can demonstrate that they are actively engaged in work search activities, which may include compulsory participation in active labour market programmes with differing degrees of length and intensity. Failure to comply with explicit conditions related to entitlement can lead to benefit sanctions. Between these two ends of the spectrum exists a mix of activation and enabling support available to income support claimants.

Activation policies and forms of enabling support are designed to reduce unemployment by reducing the length of time individuals are out of work through two main methods: (1) Activation can put pressure on job-seekers to find work making unemployment a much less attractive option; (2) Enabling support can provide valuable assistance to job-seekers by, for example, helping them to overcome employment hurdles, addressing skill deficiencies, improving motivation, providing guidance and support, through access to wage subsidies and supported employment.

The link between income support, activation and enabling support arose from concerns about unemployment/poverty traps associated with the payment of

welfare benefits, and a rise in long term unemployment in some countries during the 1970s and 1980s. Evidence emerged showing that the long term unemployed were so distant from the labour market that they were no longer part of effective labour supply (Layard, Nickell and Jackman, 1991). The development of activation and enabling support was mainly motivated by a desire to reduce structural unemployment, although active labour market programmes have also been adapted to address cyclical unemployment. Martin (2015) traces the rise of activation in OECD countries from the Swedish model of labour market services. He notes that the rise in active labour market policies, in line with early recommendations made by the OECD (OECD Jobs Study 1994) and the European Commission (European Employment Guidelines), occurred alongside (recommended) reform of income support systems with little recognition of the symbiotic relationship between the two until the late 1990s.

Across the EU and more widely across OECD countries there has been a general move to strengthening the link between activation and entitlement to income support but this move has not been uniform across countries or even for different population groups within countries (see, for example, Martin, 2015). The type of activation and the degree of intensity generally vary across different types of income support claimants. The type of income support individuals can claim is generally determined by: social insurance contribution records, an assessment of income need (means-testing), lone parent status and disability status. There are also differences across countries between how adult dependents are treated within social security systems.

The link has been strengthened through more labour market measures being made available to job seekers claiming income support, greater compulsion for job-seekers to engage in these programmes and actively search for work, as well as extending activation programmes to wider groups of income support claimants such as lone parents and disabled people.

In the design of income support there has long been a concern about the potential disincentives created through out-of-work income replacement in the form of benefit traps and poverty traps. Individuals for whom potential earnings from employment is very close to income support levels can be deterred from finding work if they will be no better-off, or only marginally better-off, in work. For these individuals the net benefits of working are marginal and work can appear unattractive.

Martin (2015) notes that some countries (eg Australia and the US) have adopted a lean welfare model with low levels of income support available for only a short duration and very limited expenditure on activation. Measures of the macro evidence on unemployment rates appear to suggest that this model can produce comparable outcomes to those obtained in countries that have adopted more generous income support payments coupled with a greater amount of activation. Most European countries have a stronger social model of welfare protection and under Europe 2020 (the European Union's ten-year jobs and growth strategy) are seeking to improve employment rates (75% of the 20-64 year-olds to be

employed) alongside protecting households from poverty and social exclusion (at least 20 million fewer people in or at risk of poverty and social exclusion). Current evidence suggests that in order to do this they will need to ensure that those who are out of work have sufficient income but are incentivized and enabled to find work where this is possible.

The authors of a recent review of approaches to activation and employment support policies highlighted that while the impact of individual activation programmes can be fairly modest at an aggregate level, the effect of individual policies is strengthened if they are part of a coherent activation strategy in which income support is combined with effective re-employment services tailored to meet the needs of different beneficiaries (Immervoll and Scarpetta, 2012). Martin (2015) also highlights that the mix of policies determines whether an activation strategy is effective or not. The interactions between the generosity of income support, the scale and suitability of active labour market programmes, the degree to which entitlement to income support is conditional on job-seekers' activity and participation in activation programmes, are clearly important elements in understanding the effectiveness of different approaches.

The 2007/08 financial crisis led to large increases in unemployment across much of Europe and put considerable strain on public finances, including pressure on income support budgets at a time that was also marked by an increase in need. The increase in unemployment also put pressure on active labour market programmes both in terms of the sheer number of people in need and the suitability of programmes on offer which in many countries had been developed during a period of relatively low unemployment and buoyant growth. Some countries saw this as an opportunity to reform income support systems and active labour market programmes while others have simply retrenched; cutting income support levels and reducing expenditure on active labour market programmes and enabling support for job-seekers.

This review examines the evidence on the effectiveness of linking activation to receipt of income support and the importance of the strength of the link. The review considers evidence published in academic journals, monographs, reports and publications from international organisations, such as the OECD, reports published by governments and third sector organisations. More details on how the evidence was collated can be found in Annex A.

The review starts by providing a brief history of the policy background. This is followed by a more detailed look at policy reforms over the last decade within EU member states and the degree to which these reforms have strengthened the link between income support and activation. Macro level statistics on employment are used to assess if there is any correlation between policy and employment outcomes.

The review then turns to the micro level evidence examining individual programme evaluations, meta-level analyses and literature reviews, to assess the role of the link between activation and income support in contributing to the

success of activation policies. It also seeks to look more broadly at the role of enabling support, beyond classical active labour market programmes, where such evidence is available.

The review provides an overall assessment of the evidence and seeks to link the micro-evaluation evidence on specific programme interventions, with macro-level evidence on how effective different approaches and 'policy mixes' appear to be.

## 2. A brief history of the policy background

*This section provides a brief description of the evolving links between income support, activation and enabling support. It provides a description of the types of activation and support typically made available within countries and how they have changed over time. However, it is not intended to be a detailed documentation of the development of a complex array of income support systems, activation and enabling support that have evolved within EU countries. A number of country case studies describe how policy has evolved over recent decades highlighting developments that have affected the link between activation, enabling support and income support.*

Across Europe various systems of financial support for unemployed people developed over the 20<sup>th</sup> Century. Some offered unemployment insurance systems with members paying contributions to the scheme while in work and receiving pay-outs when they became unemployed, conditional on their contribution record. In some countries these were run or administered by trade unions or labour federations (the so-called Ghent system) while in other countries the State (at a regional or national level) ran the scheme. Some schemes paid a flat rate while others paid a share of previous earnings. There was generally a time limit over which payments were made.

When these payments were exhausted social assistance was increasingly made available to workless families. Social assistance tends to be means-tested, taking into account other sources of income and families' needs (number of dependent adults and children). The system can be administered by national or local government. Social assistance tends not to be time limited.

Social assistance could also be made available to families where unemployment insurance payments were not sufficient to meet families' needs or for those who have not built up entitlement to unemployment insurance. In some countries different types of financial support developed for people with disabilities and limiting longstanding illnesses as well as for single parents.

A range of other forms of financial assistance are also available in some countries. These include assistance with housing costs and childcare and can be made available to unemployed people, their families and for working families (where at least one adult member is in work) on a low income.

In the latter half of the 20<sup>th</sup> Century, governments started to take a more active role in helping unemployed people back into work. At the most basic level this involved displaying job vacancies on a board in local offices. From these early beginnings, extensive labour market activation programmes have developed across much of Europe (and elsewhere). As noted by Martin (2015), the roots of this expansion can be traced back to the 'Swedish Model' (or 'Swedish View' of ALMP) and the influential role of its architects (Gosta Rehn and Rodolf Meidner). The OECD and the European Union have played an important role in highlighting



the positive role that activation can play when coupled with a coherent welfare support system.

These days most middle and high income countries run activation programmes which contain a variety of activation measures. The most common are job search assistance, training courses, subsidised employment opportunities. Within these different types, there is wide variation on what assistance is available, who it is made available to, whether participation is voluntary or mandatory. The key objective for these activation programmes is to reduce the time individuals spend unemployed with some having a short term goal (getting the unemployed back to work as quickly as possible) while others are more focused on longer term goals (increasing long term employability). Programmes seek to avoid people becoming long term unemployed as well as to reduce long-term unemployment rates.

This growth in activation was not purely motivated by altruism on the part of governments. They grew out of a concern that income support led to disincentives for unemployed people to find work, particularly those who were low skilled and for whom the difference between out-of-work and in-work income was small. In addition, it was recognised that people who became unemployed, particularly during economic recessions struggled to return to work as growth returned, either due to redundant skill-sets or because long term unemployment had left them disengaged from the labour market.

In many countries the youth labour market declined fairly dramatically from the 1980s onwards. Some of the activation programmes developed specifically focused on helping young people. Two other groups that have increased over time are people with work-limiting disabilities and single parents. The size of these groups and the benefit support systems vary between countries.

As outlined in the introduction, receipt of income support has been increasingly linked with activation in many countries, with income support recipients increasingly expected to participate in active labour market programmes. However, participation in some activation programmes is independent of income support receipt and some forms of activation are made available regardless of income support entitlement or receipt. The extent to which participation is voluntary or mandatory also varies across countries and within countries by different claimant groups (defined by age, family circumstances, disability status, contribution record, duration of unemployment, etc.). This gives rise to considerable variation in the strength of the link between activation and income support. The aim of this review is to examine if the strength of this link is linked to policy effectiveness.

As outlined in the introduction, governments have been encouraged and advised by the OECD and the European Union to increase public resources going into a range of active labour market policies (ALMPs) as opposed to spending public resources on so-called “passive labour market policies”, namely unemployment insurance (UI) and related welfare benefits, with the objective of reducing structural unemployment and benefit dependency. Not only have governments

been encouraged to shift spending from out-of-work benefit payments to active labour market programmes, but they have also been encouraged to strengthen the link between the two either in the form of greater conditionality or ensuring that unemployed job-seekers have access to a range of services designed to increase their chances of securing work.

In the remainder of this section we provide a small number of country case studies to illustrate the often complex nature of activation and income support systems that have evolved within countries.

## Case Study 1 – The United Kingdom

In the UK major industrial restructuring of the economy in conjunction with a deep recession during the 1970s and early 1980s led to an increase in unemployment, particularly long-term unemployment. This triggered reforms to the benefit system and activation policies, starting a process that continues to evolve. From 1986, instead of simply 'signing-on' once a fortnight, job-seekers were required to attend 'restart interviews'. At these interviews, initially every six months, an assessment of their job search activities was made by an employment counsellor and they were offered help and support including a job-matching service. From 1996, unemployment benefit (based on national insurance contribution record) and income support (means-tested) were replaced by the Jobseeker's Allowance (JSA). Along with shortening entitlement to the contribution-based element (non-means tested) benefit from 12 months to 6 months, JSA claimants were required to sign a Jobseeker's Agreement setting out agreed steps that they will take to find and secure work. Since the introduction of JSA, claimants have been required to attend frequent interviews with personal employment advisers. If job-seekers fail to fulfil their jobseeker's agreement then they jeopardise their entitlement to JSA and can face a benefit sanction. The UK is currently undergoing further reforms to welfare support through the staggered introduction of Universal Credit. Universal Credit will replace six existing benefits (Jobseeker's Allowance, Income Support, Working Tax Credit, Child Tax Credit, Employment and Support Allowance, Housing Benefit) with a single monthly payment. Claimants will need to sign a Claimant Commitment and those capable of work will be required to take steps to find work and to improve earnings. This is the first example of activation being linked to in-work income support but at this stage it is still not clear what support working Universal Credit claimants will receive.

Despite this clear strengthening of the link between income support and activation for unemployed workers over the 1980s, some claimants actually experienced a weakening of the link. An increase in the incidence of work-limiting illnesses and disabilities among the working age population saw a big increase in the share of people claiming disability related out of work benefits. The exact cause behind this rise is disputed but there is no doubt that politicians were keen to keep people off the unemployment claimant count register, which during the 1970s and 1980s was the official measure of UK unemployment. Individuals claiming disability-related benefits were not counted as unemployed. These benefits were typically more generous and conditionality was weaker such that claimants underwent an initial fairly light-touch assessment at the start of their claim and were never reassessed. This meant that they were also deprived of the benefits that ALMPs can provide and undoubtedly this impacted on their chances of moving back into work. A second group that increased over this period was lone parents, who like the disabled claimed a 'passive benefit' and were generally excluded from the benefits of ALMPs. Over the last two decades greater conditionality has been introduced for both groups of claimants.

The introduction of the New Deal programmes by the Labour Government from 1997 onwards again represented a further strengthening in the link between activation and income support. Structured programmes for different groups of claimants offered a variety of voluntary and compulsory support. Individuals claiming 'passive benefits' such as lone parents on income support and disabled people claiming incapacity benefit were, on a voluntary basis initially, increasingly required to engage in employment programmes and search for work.

### Case Study 1 – The United Kingdom (continued)

The Coalition Government (2010-2015) made further reforms to ALMPs (introducing the Work Programme in 2011) with greater conditions placed on long-term unemployed people and those most at risk of becoming long term unemployed, and a continuation and widening of work-capability assessments for individuals claiming benefits on the basis of work limiting illness or disability, moving those assessed to be capable of work in a limited capacity onto 'active benefits'. Lone parents were increasingly moved off unconditional income support onto unemployment benefits, determined on the basis of the age of their youngest dependent child. The use of private providers, paid on the basis of results achieved, was motivated by a belief that cost would be reduced, outcomes would be improved, a wider range of innovative services would be available to job-seekers (and the size of the public sector would be reduced). The now fairly widespread use of benefit sanctions has also further strengthened the link between activation and income support in the UK. The Conservative Government (2015- ) has made clear its intentions to reduce the value of out of work benefits in real terms through reductions in rates and through a benefit cap. In addition, a regime of vigorous application of punitive sanctions to those who don't comply with conditionality will continue.

## Case Study 2 – Sweden

Sweden runs one of the world's most generous welfare policies targeted at the unemployed<sup>(1)</sup>. Those living or working in Sweden are covered by Swedish social insurance. Unemployment benefit recipients receive a mix of active labour market policies and income support benefits. Unemployment insurance is for everyone who works or has worked in Sweden with a sufficient contribution record.

The Arbetsförmedlingen, Sweden's Public Employment Service, operates within a national framework, which emphasises mobility between regions to reduce overall skills shortages. It has a coordinating responsibility for labour market integration for certain newly arriving immigrants. The Arbetsförmedlingen's tasks also includes vocational rehabilitation. This aims to help individuals with limited work capacity due to disability or illness to be able to start to work again.

Sweden has a long history of active labour market policies. These include labour-market training programs (including Swedish language training for immigrants, IT programs and computer activity centers), subsidized employment, job creation activities, work-practice programs (including youth schemes), job subsidies, trainee replacement schemes, vocational labour market training, relief work, self-employment grants, and work practice schemes. As a condition of unemployment benefit receipt, claimants are expected to accept regular job offers or placement offers in ALMPs from the public employment offices<sup>(2)</sup>.

Studies show that since the 1990s spending on ALMPs have decreased while conditions on income support receipt have tightened. These changes have affected more future-oriented investments in Swedish labour market policy. More costly measures have increasingly been replaced by less expensive measures, which are more focused on enhancing employee motivation than employees' qualifications<sup>(3)</sup>.

In the second half of the 1980s, it became possible for unemployed individuals to requalify for unemployment compensation through participation in training programs; however, in 2000, this possibility was abolished<sup>(4)</sup>. That year an activity guarantee was introduced which is targeted at persons who are or are at risk of becoming long-term unemployed. Participants are given some full-time activity (e.g., job search) until they find a job or enroll in regular education. This reform was made in connection with the abolition of the earlier possibility to renew benefit eligibility by participating in ALMPs.

In the 1990s, Relief works (which consisted of temporary jobs of around six months) were largely replaced by work-experience schemes.

The Swedish welfare system is extensive but complex, with benefits usually based upon employment and migration status. Benefits include comprehensive healthcare and dental care. Universal parental and child allowances are paid with extra supplements for large or low-income families (with potential for housing allowance). Additional benefits are available for parents of children with disabilities or illnesses, both temporary and long-term illnesses. The state also provides sick leave benefit, pensions, and provisions for elderly care.

(1)<http://www.ucl.ac.uk/~uctpjea/SwedenACMS.pdf>

(2)[https://mitpress.mit.edu/sites/default/files/titles/content/9780262012133\\_sch\\_0001.pdf](https://mitpress.mit.edu/sites/default/files/titles/content/9780262012133_sch_0001.pdf)

(3)<http://socav.gu.se/english/research/research-projects/activation-strategies-in-swedish-welfare-policy-1990-2015>

(4) [https://mitpress.mit.edu/sites/default/files/titles/content/9780262012133\\_sch\\_0001.pdf](https://mitpress.mit.edu/sites/default/files/titles/content/9780262012133_sch_0001.pdf)

### Case Study 3 – Germany

Germany underwent a rigorous period of structural labour market reform in the early 2000s. In 2002, the Hartz Committee (officially, the Committee for Modern Services in the Labour Market) proposed a series of reforms against a backdrop of high and rising unemployment (close to 10%) starting from the 1970s, aggravated by the German reunification in the 1990s. These reforms drew from the standard toolbox of activating labour market policies and were aimed at strengthening job-search activities, providing incentives for the unemployed to accept a job, and encouraging labour force participation, notably for women and older persons.

Starting from a strongly centralised budgeting system for public employment agencies (Umbau der Bundesagentur für Arbeit) in Germany, the Hartz reforms initiated a more decentralised management-by-objectives system, where the Federal Employment Agency specifies goals and respective budgets, and local agencies have more autonomy in deciding how to spend their funds. The reforms also led to the introduction of personal service agencies (Personal Service Agenturen, or PSAs), i.e., temporary agencies set up to place unemployed into regular employment.

Notable features of the German welfare state however remained largely unchanged – relatively high levels of spending and payroll tax financing with most benefits dependent on previous contributions and socio-professional status.

The final part of the Hartz reforms – Hartz IV implemented in 2005 aimed at improving reintegration of the unemployed into the labour market, mostly by decreasing their reservation wages via lower benefits. Enacted by the Social Democrat–Green Party coalition government, the reform merged the systems of unemployment assistance and social assistance (*Zusammenführung Arbeitslosenilfe und Sozialhilfe*) and introduced a two-stage welfare system, consisting of i) unemployment insurance (*Arbeitslosengeld I – ALG I*) which is paid during the first 6 to 12 months of unemployment and depends on previous contributions, and ii) basic support for job seekers (*Grundsicherung für Arbeitssuchende* or *Arbeitslosengeld II – ALG II*) which is means-tested and tax-financed.

Under ALG II, all persons capable of work and eligible for benefits can receive unemployment benefit II from the age of 15 years until the legally stipulated age limit between 65 and 67 years. Persons not capable of work can receive social benefit. Before the reform, an unemployed person without children, after unemployment insurance benefits had expired, received an allowance equal to 53% of the reference salary (reduced by 3% each year). Since 1 January 2015, this is equivalent to the sum of EUR 399.

Under Hartz-IV eligibility criteria were also tightened including a new definition of employment that a recipient of unemployment benefit II must be prepared to accept. Every kind of work is now considered acceptable, barring legal violations. Those who reject acceptable work (but also training, community service or placement services) once or repeatedly receive a benefit sanction.

In February 2006, the period in which unemployment benefits could be received was shortened for the unemployed up to 55 years of age to 12 months and for those over 55 to at most 18 months.

### Case Study 3 – Germany (continued)

Further features:

- Vocational Training: Further vocational training measures (Förderung der beruflichen Weiterbildung) are designed to improve and/or adjust the qualifications of the unemployed to better-fit labour demand. The measures differ considerably and can be broadly characterised as those lasting less than six months and long-term vocational training lasting up to three years. The Hartz reforms led to the introduction of training vouchers and the providers of training measures were certified. Closely related to short-term vocational training are training measures (Trainingsmaßnahmen). These can last up to eight weeks but are often much shorter. Here, individuals are coached how to write job applications or receive short language or computer courses. Training can be further divided into classroom and vocational training.
- Activation measures focused on the elderly: Salary protections for older employees (Entgeltsicherung für Ältere) provide incentives to accept job offers. Unemployed people of 50 or older who start a new job are compensated for 50 per cent of the difference in payment to their previous job within the first year and 30 per cent within the second year. This also includes part compensation for their payments into the public retirement fund. Making the issuing of temporary contracts (Erleichterte Befristung für Ältere) for older workers less restrictive is another policy aimed at the elderly decreasing the age limit from 58 to 52. Another policy is the introduction of contribution bonuses (Beitragsbonus), which exempted firms from paying unemployment insurance contributions if hiring an unemployed person of 55 or older.
- Wage subsidies (Eingliederungszuschüsse) are temporarily given to employers who employ hard-to-place employees. The maximum time for receiving these benefits was reduced from 24 to 12 months (up to eight years e.g. for highly disabled elderly people), and the percentage of the subsidy was reduced from 70 per cent to 50 per cent of total wages. An employer must continue to hire the former participant for the same number of months that the subsidy was granted (except for the elderly).
- Self-employment: Unemployed people who started their own business became eligible for a start-up subsidy, so-called Me Inc. transfers and bridging allowances (Existenzgründungszuschuss and Überbrückungsgeld). The first programme supported the recipients for a maximum of three years as long as the expected yearly income did not exceed €25,000. Monthly payments were €600 during the first year, €360 during the second year and €240 during the third year. The second programme granted transfers amounting to the equivalent of the sum of unemployment benefits and social security contributions for half a year. From August 2006 onwards, the two schemes transitioned into a modified start-up grant (Gründungszuschüsse). Recipients could ask for unemployment benefits and a top-up of €300 for the first nine months of the start-up phase, and, conditional on being successful, €300 for an additional six months.

### Case Study 3 – Germany (continued)

- Mini jobs and Midi jobs: These refer to low-wage employment contracts for a small number of hours worked. A main characteristic of these jobs is that the burden of contributions to the social security system is significantly reduced. Mini-jobs existed before the Hartz laws; Hartz II raised the monthly salary cap from €325 to €400, and created a higher level, called midi- jobs, which were capped at €800. Employer contributions for jobs earning less than €400 a month are higher than for a "normal" job, coming to approximately 28% instead of the roughly 20% standard rate for employers. In order to avoid jumps in tax and social security contributions at the threshold of €400 for employees, subsidisation of these jobs in terms of forgiving social security contributions was implemented on a diminishing scale. Hartz IV also created a new programme for insertion in the non-private sector, known as one-euro-jobs, which pay at least one euro an hour for work in the public interest, while the recipient continues to receive Arbeitslosengeld II benefit. Since 2004, there has been considerable growth in mini- and midi-jobs, and in one-euro-jobs.

- Disability

Vocational rehabilitation, as an instrument of the German social welfare state designed to support societal participation, aims at (re-)gaining employment for people with disabilities. The SDPA also sets legislation for the protection of disabled employees making dismissal of such workers difficult. Besides legal protection, disabled people are also offered financial incentives to encourage them into paid working activities. These include financial support for vocational rehabilitation measures, reimbursement of costs resulting from job search activities, financial assistance for start-ups, working aid reimbursements, subsidising public and private transport, and subsidising expenses associated with promoting mobility.

- Childcare:

Introduced on 1 August 2013, childcare reform in Germany promotes a rights-based approach. Every child between the age of 1 and 3 has the legal right to early childhood support in a day care centre or day nursery. In 2006, introduction of a new parental leave allowance (Elterngeld) was a radical departure for Germany; the gender neutral scheme allows parents to claim 67% of their previous average net income in the 12 months preceding the birth of the child. The Elterngeld is granted for a minimum of one year and is non-taxable. When the Elterngeld is shared between partners they can extend the period for which it is received from 12 to 14 months.

The German law that allows parents to take up to three years of parental leave (Elternzeit) remains unaffected by the new legislation and employers are legally obliged to keep the parent's job open for the duration of this period. With permission from the employer, one year of the leave can be deferred to be used when the child is between the ages of three and eight. One of the primary goals of these measures is to eliminate the financial challenges many women must face when choosing between their career and motherhood.



### Case Study 3 – Germany (continued)

- Healthcare

The German SHI system is based on the assumption that a large majority of the population has access to health care via employment. Non-working spouses and children are covered free of charge. Contributions for retirees are shared equally between the retirees and pension funds; contributions for the unemployed are covered entirely by unemployment insurance.

As of 2009 it is compulsory for all German citizens and long-term residents to have health insurance. For those earning less than €49,500, insurance is provided by the public statutory health insurance scheme (SHI), known in Germany as Gesetzliche Krankenversicherung (GKV). SHI is operated by approximately 150 competing sickness funds (SFs) and citizens are insured on a per family basis, meaning that the dependents of the insured are also covered. Anyone earning more than €49,500 per annum has the option of purchasing a private health insurance plan, although upwards of 85 per cent opt to remain with SHI.

Statutory sickness funds are financed predominantly through payroll taxes which have been legally fixed at 15.5 per cent of gross wages (an increase from 14.9 per cent in 2010). The insured are expected to pay 8.2 per cent of their income, whilst the remaining 7.3 per cent is paid by employers. The unemployed may also access sickness funds and they contribute in proportion to their unemployment entitlements or, if they have never worked, through a social fund (Sozialamt).

## Case Study 4 – France

### **1. Out of work benefits**

In 2012, France spent 32.8% of GDP on social expenditures, the highest level among OECD countries (OECD 2014a). Out-of-work benefits include both Unemployment Insurance (UI) and Unemployment Assistance (UA).

*Unemployment Insurance (UI)* is a compulsory social insurance scheme financed by contributions for employees with earnings-related benefits. The replacement rate depends on contributions but generally varies between 40% and 57% of the reference daily wage. A minimum is set at €29/day. The duration of coverage also depends on contributions but will not exceed 2 years or 3 years if the beneficiary is aged 50 and over.

*Unemployment Assistance (UA)* includes a series of tax-financed, means-tested schemes aimed at those who have exhausted their entitlement to UI and, or, are on a low income. The main UA scheme is the Revenu de Solidarité Active (RSA). Other benefits are available for older job seekers and disabled adults on a low income. Receipt of the RSA is conditional on the applicant's search for a job.

### **2. Activation strategies**

In 2012, France spent 0.9% of GDP on all active labour market programmes (including Public Employment Services), which is higher than the OECD average (0.6%). In addition, France spent 0.6% of GDP on active labour measures (excluding PES), also higher than the OECD average (0.4%). The same year, 5.1% of the French labour force participated in active labour market measures, which is above the OECD average (3.6%).

UI claimants must prove that they are actively seeking work under the individual job-seeking plan (PPAE), from the point of registration. Under the PPAE jobseekers go through four phases: 1) IT-based profiling during the first visit, 2) goal definition during the first interview or, in the French context, definition of an 'employment trajectory' according to the jobseeker's profile, 3) selection by the case manager of appropriate measures to be taken and services to be offered, and finally 4) contractualisation in a mutually agreed personalised action plan.

### **3. Provision of enabling services (Childcare, health care, rehabilitation services)**

#### **3.1. Childcare**

In 2011, France spent 1.2% of GDP on childcare and early education services, the fourth highest among OECD countries. Public expenditures are evenly allocated between childcare and pre-primary school (OECD 2014b).

Childcare services welcome infants from two months (or at the end of maternity leave). They are managed by local authorities, businesses or parent associations. In 2011, 44% of children under three years went to childcare, exceeding the Barcelona target (EPIC).

From two years of age, children can start pre-primary school. Pre-primary school is free and benefits 95% of children aged between three and six years.

## Case Study 4 – France (continued)

### **3.2. Health care**

The French health care system is universal largely financed by government national health insurance. In 2012, France spent 11.6% of GDP on health care, the second highest among EU Member States and third among OECD countries. The same year, spending per person was €3,220, the seventh highest in the EU (OECD 2014c).

Despite good aggregate performance of the French health care system, some data point to unequal access to care. 1 in 10 low-income earners say they did not receive a required medical examination, while only 1 in 30 high-income individuals report such problems (OECD 2014c).

### **3.3. Rehabilitation services**

The provision of rehabilitation services to offenders is not well documented. In 2005 (last figure available), the French Ministry of Justice reported a budget of €176 million for the rehabilitation of ex-offenders. However, this figure does not account for the (important) role played by the public employment service, local authorities and non-profit organisations (Decisier 2006).

### 3. Macro-level evidence

*This section reviews the macro-level evidence in relation to five questions:*

- *How can we estimate the employment effect of a stronger link between income support and activation at a macro-level (section 3.1)?*
- *What do we know about the prevalence of policies expected to strengthen the link between income support and activation in Europe (section 3.2)?*
- *Which Member States have introduced policies that would be expected to strengthen the link between income support and activation (section 3.3)?*
- *In which Member States has the link between income support and activation effectively become stronger (section 3.4)?*
- *What has been the employment effect of a stronger link between income support and activation (section 3.5)?*

#### **3.1 Estimating the employment effect of a stronger link between income support and activation at macro-level: some methodological challenges**

This section starts with the following preliminary questions: How would a stronger link between income support and activation manifest itself at a macro-level (3.1.1)? What data best captures behaviours (3.1.2)? What data best describes policy interventions (3.1.3)? What is the best available proxy for a ‘stronger link’ between IS and activation (3.1.4)?

##### **3.1.1 How would a stronger link between income support and activation manifest itself at a macro-level?**

This question concerns the definition of what constitutes a ‘stronger link’. This concept suggests a focus on *behaviours*: (i) a greater proportion of IS claimants participate in ALMPs; (ii) a greater proportion of ALMP participants claim IS; (iii) these two outcomes occur simultaneously, as the result of a coherent policy. This is a restrictive definition, given the time lag and that often exists between the implementation of a reform and its first effects and given the multiplicity of factors influencing behaviours (e.g. other, possibly conflicting, policies).

In addition to recording behaviours, it is interesting to consider the *policy interventions* that would be expected to result in the above-mentioned behaviours. Those are of two types. First, policies encouraging/requiring IS claimants to participate in ALMPs include positive incentives ranging from outreach campaigns to ‘training bonuses’ and other financial incentives as well as negative incentives such as benefit sanctions. Second, policies encouraging/requiring ALMP participants to claim IS include policies restricting access to ALMPs to IS claimants

or broadening access to IS among ALMP participants. Here again, the definition suggests that policies in the first and second category be *concurrent*.

### 3.1.2 What data best describes behaviours?

This question concerns the data sources and variables that best capture these outcomes and policy interventions. A review of the most widely used datasets including the European Commission/Eurostat, OECD and Social Policy Indicators (SPIN) shed light on the limited relevance/reliability of existing indicators measuring behaviours.

The share of IS claimants participating in ALMPs is not a readily available indicator so we use the share of jobseekers participating in ALMPs as a proxy, using the EC's Labour Market Policy database (Eurostat *lmp\_ind\_actsup*<sup>1</sup>). This indicator records the number of individuals participating in labour market policy *measures* (LMP categories 2-7) per 100 persons wanting to work (all age groups). The number of those wanting to work is obtained by summing the 'unemployed' plus the 'labour reserve'. The 'unemployed' according to the ILO definition are persons without work, currently available for work and actively seeking work. The 'labour reserve' denotes inactive persons wanting to work, i.e. it is a subset of all inactive persons (persons neither employed nor unemployed) who would like to work<sup>2</sup>. The construct validity of this proxy rests on the assumption that 'wanting to work' and 'claiming income support' are two closely related behaviours. This is, admittedly, a demanding assumption considering that some inactive people 'wanting to work' may not be eligible to claim income support because of restrictive criteria. Thus, this indicator probably underestimates the share of income support claimants participating in ALMPs, especially in countries where the income support coverage rate is low (Italy, Malta, Poland, Romania and Slovakia). In addition, the low reliability of these data (acknowledged by Eurostat) as well as the significant number of missing values means that readers should interpret results with great caution.

The share of ALMP participants claiming income support is not a readily available indicator so we have used the share of unemployed people receiving unemployment benefit or income support as a proxy, using European Commission data (ESDE 2014). The assumption here mirrors the previous one: it is credible to the extent that unemployment and participation to ALMPs are strongly associated. This is difficult to assess, given the low reliability and the high number of missing values already mentioned. Across the EU-28, only a third of those 'wanting to work' do participate in ALMPs. The highest proportions for the year 2013 can be found in Luxembourg (55%), Denmark (46%), Belgium (44%) and Sweden (39%). In general, this proportion is significantly lower in Central and East European countries.

---

<sup>1</sup> [ec.europa.eu/eurostat/product?code=lmp\\_ind\\_actsup](http://ec.europa.eu/eurostat/product?code=lmp_ind_actsup)

<sup>2</sup> European Commission, A descriptive analysis of the EU Labour Market Policy (LMP) Statistics. Analytical Web Note 1/2015. Available at: [ec.europa.eu/social/BlobServlet?docId=14069&langId=en](http://ec.europa.eu/social/BlobServlet?docId=14069&langId=en)

### 3.1.3 What data best describes policy interventions?

Measuring the implementation of policies expected to result in a ‘stronger link’ as defined above proved equally challenging. A first problem is the very limited number of datasets systematically recording policy changes across countries. This reflects the difficulty of defining a ‘policy change’ – a challenge that has tested social scientists for decades. Three datasets were considered.

The Labour Market Reforms Database (LABREF)<sup>3</sup> is a joint project managed by the European Commission and the Economic Policy Committee (EPC). The 3,546 measures reported in LABREF (as of September 2015) refer to enacted legislation, as well as other public acts of general scope, including measures entailing changes in the implementation framework of a previously adopted measure. In addition, they also encompass relevant collective agreements and tripartite agreements. LABREF covers the 28 EU Member States and the years 2000-2013. The database allows for cross-country analysis on the pace and type of measures enacted in a particular year, as well as for tracking measures over time, thus providing a consistent and policy-relevant picture of different reform strategies being pursued by Member States and of the existing interactions between various labour market institutions.

The MISSOC Comparative Tables Database<sup>4</sup> contains detailed information on social protection in 32 countries, structured into 12 main tables: financing, healthcare, sickness, maternity/paternity, invalidity, old age, survivors, accidents at work and occupational diseases, family, unemployment, guaranteed minimum resources and long-term care. Each table is divided into numerous topics (categories) dealing with aspects such as legal basis, personal scope, eligibility conditions, amount of benefits etc. The information is updated on a biannual basis with validated information for the situation on 1 January and 1 July of each year.

The fRDB-IZA Social Reforms Database<sup>5</sup> provides information about social reforms in the EU15 countries (except Luxembourg) over the period 1980-2007. This dataset is an example of ‘top-down’ exercise, whereby a core group of researchers at IZA and fRDB assembled information and data, while individual experts on specific topics cross-checked national information for some of the countries included in the dataset. This suggests a fairly comprehensive and systematic approach.

Given the limited geographical and historical scope of the fRDB-IZA Social Reforms Database, this chapter focuses on data and information provided by LABREF and MISSOC. Although these datasets provide the information that we need to analyse the strength of the link between IS and activation, it should be noted that their

---

<sup>3</sup> <https://webgate.ec.europa.eu/labref/public/>

<sup>4</sup> <http://www.missoc.org/MISSOC/INFORMATIONBASE/informationBase.jsp>

<sup>5</sup> [http://www.frdb.org/language/eng/topic/data-sources/dataset/international-data/doc\\_pk/9027](http://www.frdb.org/language/eng/topic/data-sources/dataset/international-data/doc_pk/9027)

'qualitative' content can make the retrieval and analysis of information somewhat difficult. For example, LABREF and MISSOC are based on equivocal definitions of what constitutes a 'policy change'. When such a definition is left to the surveyed, as with the Commission's LABREF dataset, there can be important differences in the 'granularity' of different policy changes, as reported by different respondents. Some would report changes to entitlements, duties, sanctions, etc. as part of the same policy change, others would report it as a series of different changes. Therefore, these policy changes are not strictly comparable. When the same definition is determined by the surveyor, as with the MISSOC Tables, it is up to the reader to assess whether a different wording between two survey rounds really signals a policy change, as opposed to a different respondent/presentation. Furthermore, the lack of clear signal of a policy change implies that all tables must be thoroughly reviewed (twice a year for all countries). A third obstacle is that the information contained in the MISSOC Tables is overwhelmingly qualitative (and sometimes presented in great details).

### **3.1.4 What is the best available proxy for a 'stronger link' between IS and activation?**

Neither LABREF nor MISSOC indicates whether a given policy change contributes to 'strengthening the link' between IS and activation, as defined above. This requires the creation of a new variable.

On this basis we have created a variable<sup>6</sup> which classifies policy changes in terms of whether they:

1. Create a strong link between income support and activation
2. Result in a moderate link between income support and activation
3. Result in a weak link between income support and activation
4. Do not link income support with activation

We have classified all reported policy reforms for active labour market programmes, unemployment benefits and other benefits.

## **3.2 Policies expected to strengthen the link between income support and activation: the LABREF database**

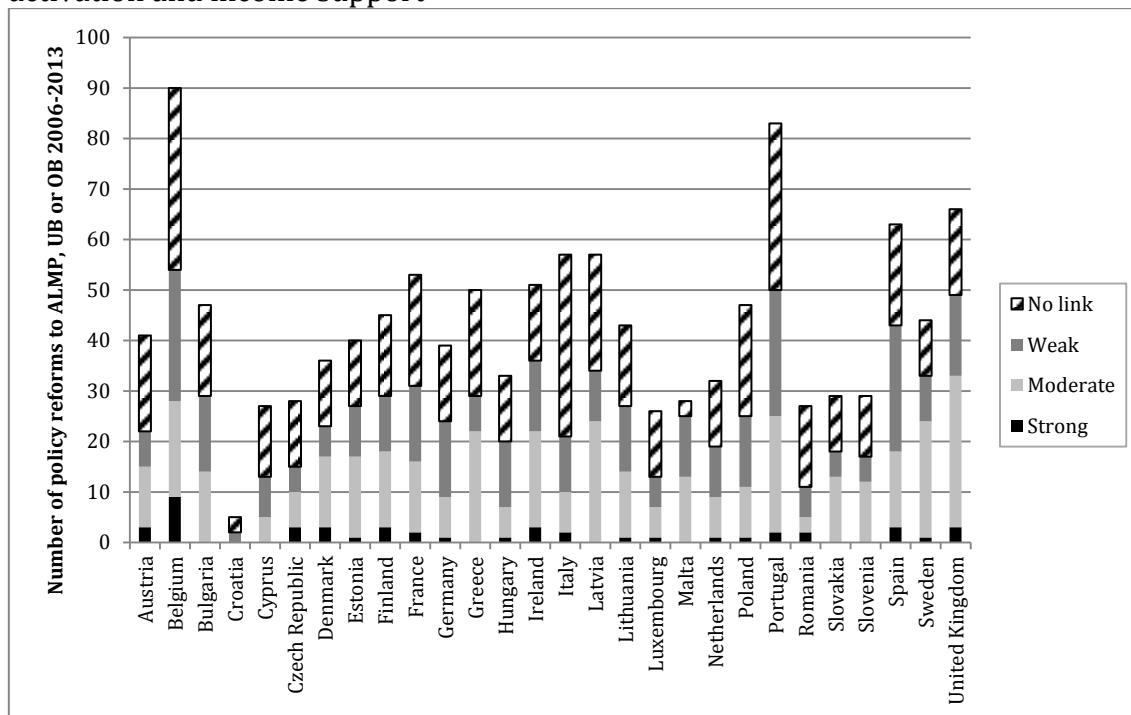
Figure 3.1 shows that there is considerable variation across European countries in both the number of relevant policy reforms that are reported in the LABREF database and the extent to which they are likely to strengthen the link between income support and activation. Belgium records the greatest number of reforms (90 during this period), followed by Portugal (82), the UK (67) and Spain (62) while Croatia only reports 5 relevant policy reforms. Very few reforms are classified as having a strong link or creating a strong link between activation and income support but many policy reforms are associated with a moderate link between the two. On average around one-third of the reforms recorded are likely

---

<sup>6</sup> Further details on this classification scheme are provided in Annex B.

to create a strong or moderately strong link between income support and activation. Sweden, the UK, Malta and Denmark had the highest shares of policy reforms that are likely to create or strengthen a strong or moderately strong link between activation and income support.

Figure 3.1: Policy reforms by country according to the strength of the link between activation and income support

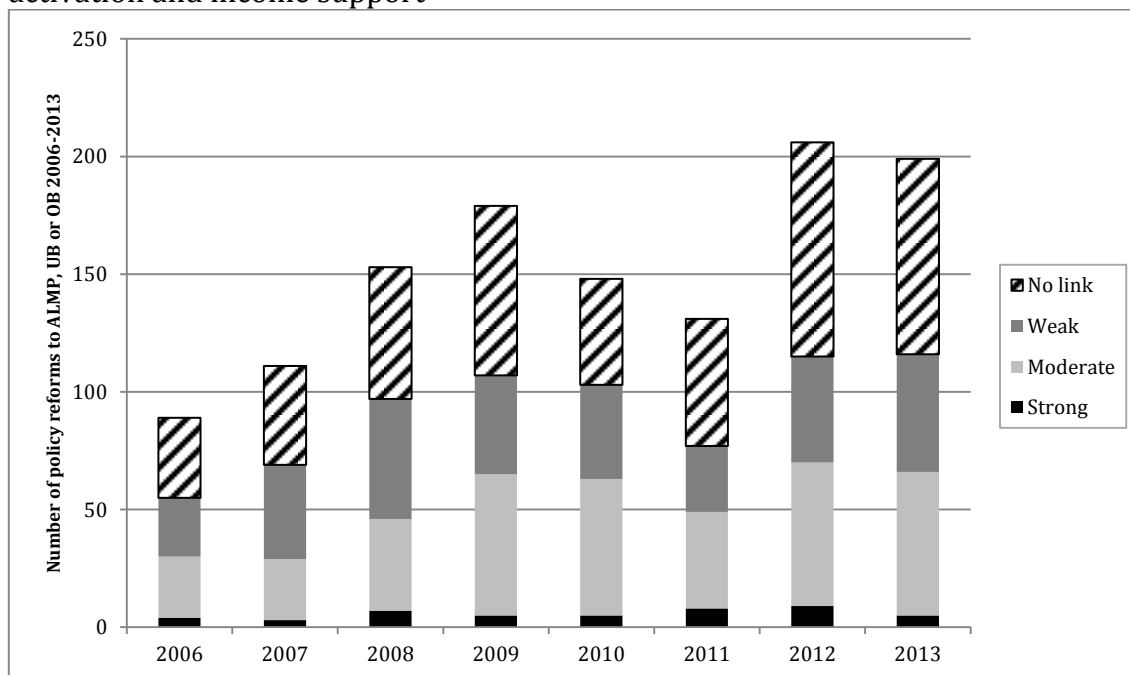


Source: CASE/LSE classification of LABREF policy reforms

Figure 3.2 aggregates all of the relevant reforms recorded in the LABREF database across countries and maps aggregate changes over time. The chart shows that as the economic crisis took hold there was an increase in the number of relevant benefit reforms (2008 and 2009) but in 2010 and 2011 there was a fall in the total number of relevant policy reforms before increasing dramatically in 2012 and 2013 as austerity took hold across Europe. The chart also shows that there has been an increase over time in the number of policy reforms that are likely to create or strengthen a strong or moderately strong link between activation and income support. However, as a share of all recorded relevant policy reforms this has remained fairly stable at around one-third.



Figure 3.2: Policy reforms by year according to the strength of the link between activation and income support



Source: CASE/LSE classification of LABREF policy reforms

While this analysis of policy reforms provides a new perspective, a weakness with simply counting reforms is that there is no indication of the importance of a policy reform in terms of the number of people affected. Count data gives equal weight to, for example, providing subsidies for an addition 1,000 training places and a reform tightening job-search conditionality for *all* income support claimants.

### 3.3 Strength of the link between income support and activation: a stock approach

Before we address the question of whether the link between IS and activation has effectively become stronger in Europe ('flow' approach), it is useful to describe how strong this link was at any given time during the period of interest ('stock' approach). The following section first analyses the degree of integration of employment and benefit provisions in six countries (3.3.1). It then assesses the strength of the link from an IS claimant's perspective (3.3.2) and from an ALMP participant's perspective (3.3.3).

#### 3.3.1 Integration of employment and benefit provisions

We first briefly consider the governance structure of employment services and benefit administrations. It has been argued that when employment services have significant control over the three main functions of the PES (job brokerage, provision of income support and activation), they are in a better position to

implement the kind of strategies which are associated with better employment outcomes (OECD 2005).

The integration of PES and social security agencies is not universal, and hence the payment of unemployment benefits is not administered by the PES in 12 of the 28 Member States, including Italy and Sweden (see Table 3.1). In these countries, PES have a specialised profile and exclusively deal with active labour market policies. Thus, all other things equal, we would expect the link between income support and activation to be:

- Stronger in Czech Republic (after 2008), France (after 2008), Germany (after 2003) and the UK (after 2002); and
- Weaker in Italy and Sweden.

Table 3.1 – Integration of employment and benefit provision in selected countries

Country	Integration	Year*	Name of the integrated agency
Czech Republic	Yes	2012	Urad prace České republiky
France	Yes	2008	Pôle emploi
Germany	Yes	~2003	Bundesagentur für Arbeit
Italy	No	--	--
Sweden	No	--	--
UK	Yes	2002	Jobcentre Plus

(\*) Year in which the integration of employment and benefit provision was enacted

### 3.3.2 Strength of the link from an IS claimant's perspective

Figure 3.3 presents the share of jobseekers participating in Labour Market Policy (LMP) measures across EU Member States in 2009, 2011 and 2013. Countries are ranked from the highest share (left) to the lowest share (right) for the year 2009. LMP measures included in this classification are: training; employment incentives; supported employment and rehabilitation; direct job creation; and, start-up incentives. These measures refer to labour market interventions where the main activity of participants is other than job-search related and where participation usually results in a change in labour market status<sup>7</sup>. An activity that does not result in a change of labour market status may still be considered as a measure if the intervention fulfils the following criteria:

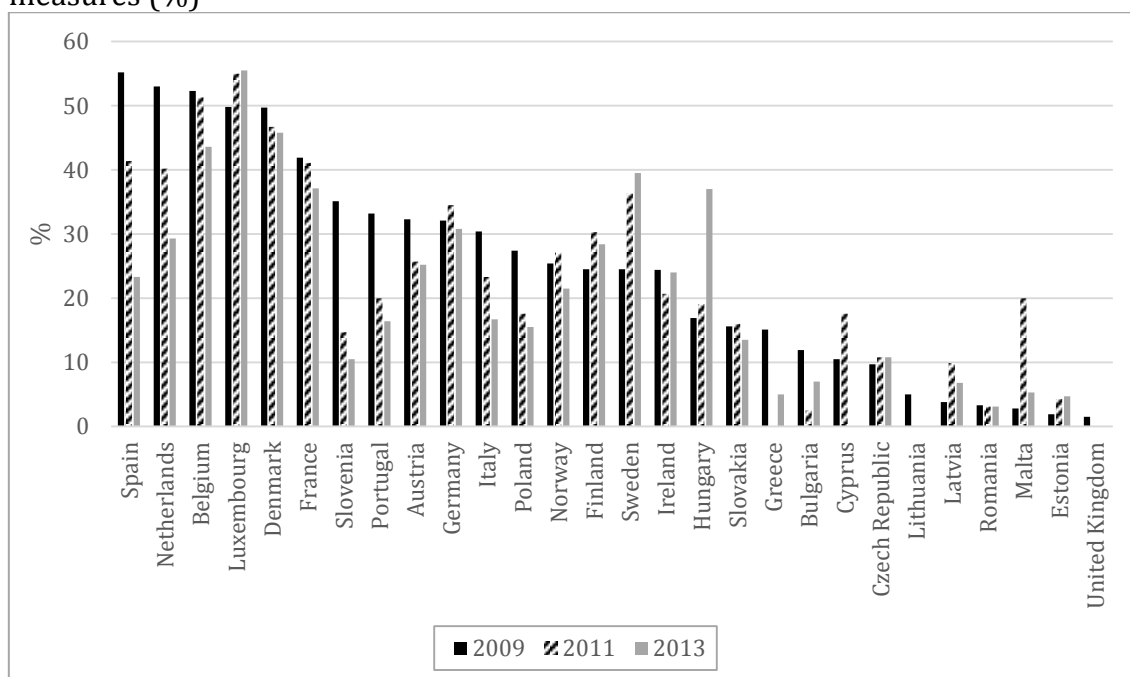
- the activities undertaken are not job-search related, are supervised and constitute a full-time or significant part-time activity of participants during a significant period of time, and
- the aim is to improve the vocational qualifications of participants, or
- the intervention provides incentives to take-up or to provide employment (including self-employment).

It is important to be clear here that forms of activation which Eurostat classify as LMP 'services' in this series are not included in this category although many

<sup>7</sup> [http://ec.europa.eu/eurostat/cache/metadata/en/lmp\\_esms.htm#unit\\_measure1418758868185](http://ec.europa.eu/eurostat/cache/metadata/en/lmp_esms.htm#unit_measure1418758868185)

authors have used this classification scheme to analyse cross-country differences in ALMPs. LMP services include all services and activities of the Public Employment Services (PES) together with any other publicly funded services for jobseekers. These refer to labour market interventions where the main activity of participants is job-search related and where participation usually does not result in a change of labour market status. This can explain why some countries which tend to focus on LMP services, such as the UK, appear to have a very low share of jobseekers participating in activation programmes.

Figure 3.3 – Share of jobseekers regularly participating in Labour Market Policy measures (%)



Source: Eurostat/DG EMPL [series - lmp\_ind\_actsup]

Notes: (1) Jobseekers = number of persons wanting to work (ILO unemployed plus labour reserve). The labour reserve denotes inactive persons wanting to work. (2) Labour Market Policy measures (LMPs) include: training; employment incentives; supported employment and rehabilitation; direct job creation; and, Start-up incentives. (3) The do not include Labour Market Policy services - all services and activities of the Public Employment Services (PES) together with any other publicly funded services for jobseekers. (4) A number of the observations have been classified as “low reliability” or are estimates - refer to source notes.

The graph shows two main groups of countries:

- In Spain, the Netherlands, Belgium, Luxembourg, Denmark, France, Germany and Sweden, the share of jobseekers regularly participating in LMP measures reached 30% or more for at least two of the three years shown.
- In Estonia, Romania, Lithuania, Latvia, Czech Republic, Bulgaria and the UK, this share was around 10% or less.

There are also large changes in the share of jobseekers regularly participating in LMP measures between the observations. Large falls are observed for Spain, the Netherlands, Slovenia and Portugal and large increases are observed for Hungary

and, less so, Sweden. Some of this can be explained by data quality issues (eg for Spain the 2013 estimate is classified as “low reliability” and the observations for the Netherlands are classified as “estimates”) but it does highlight the danger of assessing the coverage of activation programmes within a country and assessing their effectiveness at a macro-level.

### 3.3.3 Strength of the link from an ALMP participant’s perspective

Figure 3.4 shows the share of unemployed people receiving IS at three different points in time: 2007, 2010 and 2013. Countries are ranked from the highest coverage in 2007 (left) to the lowest coverage (right).

The graph indicates that, between 2007 and 2013:

- Germany provided jobseekers (be they short-term or long-term unemployed) with the broadest IS coverage; over three quarters receiving IS.
- Conversely, it is in Italy that this coverage was the narrowest, especially for the long-term unemployed (for whom IS was largely unavailable).
- In France, Sweden and the UK, IS coverage was at an intermediate level and was fairly similar for short-term and long-term unemployed.
- Czech Republic only provided IS to the short-term unemployed.

Figure 3.4 – Share of unemployed people receiving UB or UA (%)



Source: European Commission, ESDE 2014.

Note: Share of unemployed people receiving UB or UA for UK is missing for 2010.

## 3.4 In which Member States has the link between income support and activation become stronger?

As previously mentioned, any strengthening of the link between IS and participation in ALMPs would be expected to lead to an increase in both the share of IS claimants participating in ALMPs and the share of ALMP participants claiming IS. However, these indicators are not readily available. Therefore, this section

considers two proxies: the evolution of the share of unemployed people claiming IS (see 3.3.1) and the evolution of the share of jobseekers participating in ALMPs (see 3.3.2).

### **3.4.1 Evolution of the share of unemployed people claiming IS**

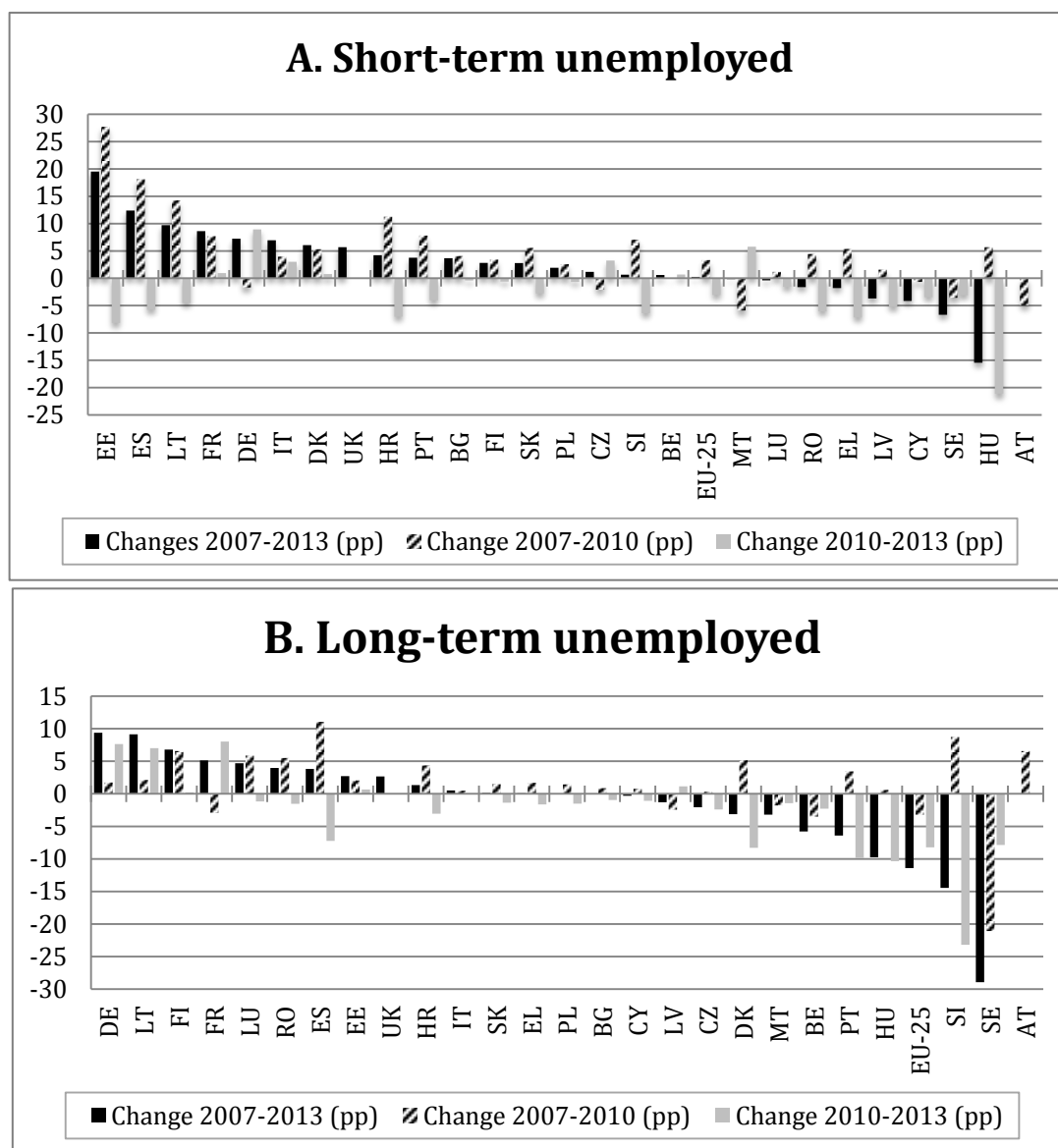
Figure 3.5 presents the evolution in the share of unemployed people claiming IS across EU Member States in each category of unemployment duration (STU and LTU). Countries are ranked from the greatest positive variation (left) to the greatest negative variation (right) between 2013 and 2007.

Figure 3.5A (upper panel) shows that, across the EU-25, the share of unemployed people claiming IS between 2007 and 2013 remained stable (+0.2 percentage points). However, a cross-country analysis reveals a wide range of trends. The largest positive variation was recorded in Estonia (+20pp), whereas the largest negative variation was recorded in Hungary (-15pp). Among our case study countries, four countries saw the share of STUs claiming IS significantly increase: France (+9pp), Germany (+7pp), Italy (+7pp) and the UK (+6pp). One country saw a relatively large decrease: Sweden (-7pp, second largest decrease after Hungary). One country was close to the EU-25 average: the Czech Republic (+1pp).

Figure 3.5B (lower panel) shows that, across the EU-25, the share of LTUs claiming IS between 2007 and 2013 decreased significantly (-11pp). However, this result is largely influenced by two countries: Sweden (-29pp) and Slovenia (-14pp). In contrast, gains were more modest. Germany is, with Lithuania, the country where the increase was highest (+9pp), followed by countries like France (+5pp). In many countries, the evolution was very small or close to 0. These countries include: the UK (+3pp), Italy (+1pp) and the Czech Republic (-2pp).

The approach taken by most Member States in the midst of the financial crisis can be seen here again. In the 'fiscal stimulus' phase (2007-2010), the share of STU and LTU claiming IS increased in 18 countries out of 27 (67%). Conversely, in the 'fiscal consolidation' phase (2010-2013), the share of unemployed people claiming IS mainly decreased (in 16 countries for STUs and 17 countries for LTUs).

Figure 3.5 – Evolution of the share of unemployed people claiming IS (in % points)



Source: European Commission, ESDE 2014.

Note: countries are ranked in ascending order by percentage point change in unemployment 2007-2013.

### **3.5 Is there an ‘employment effect’ associated with a stronger link between income support and activation?**

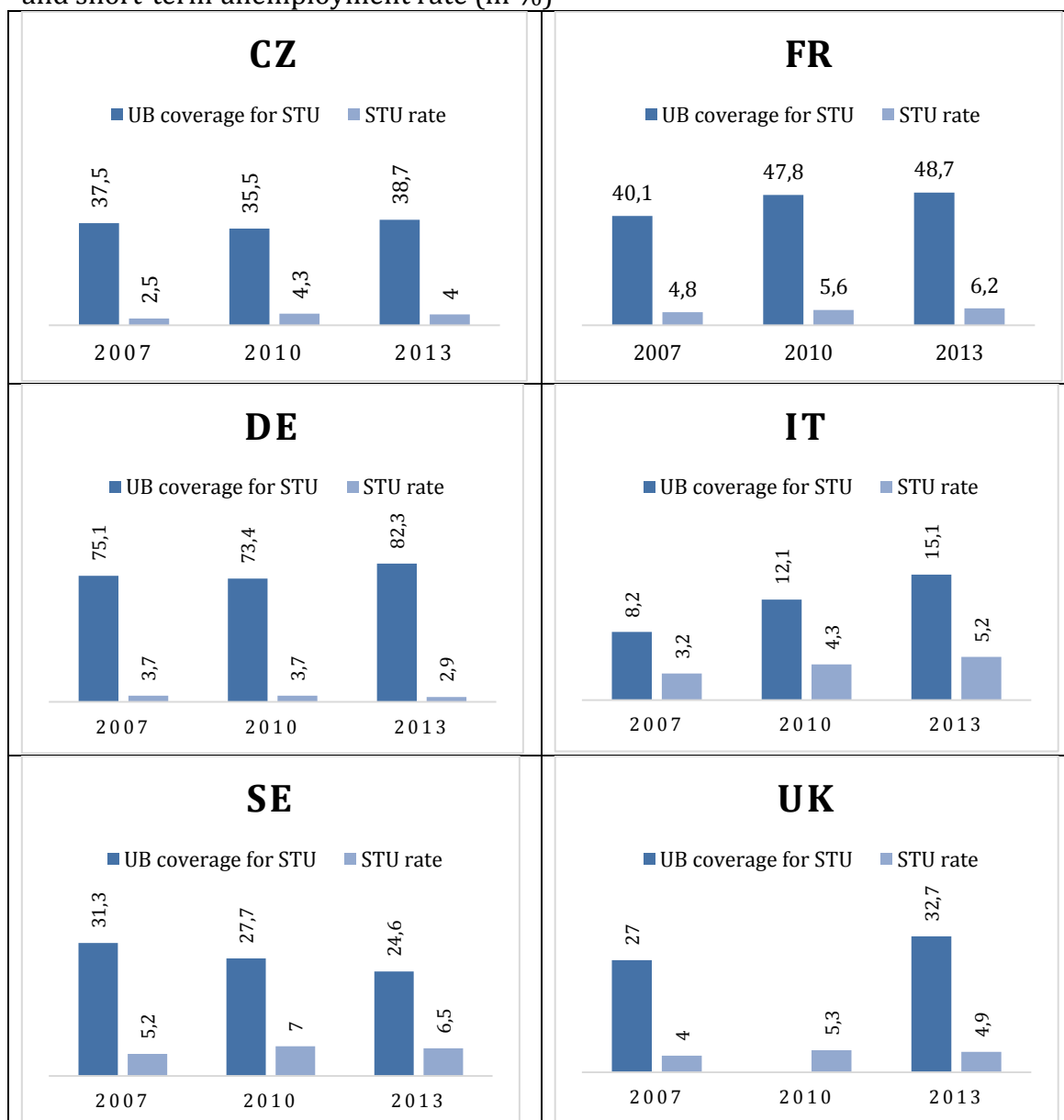
This section considers whether there is a correlation between the strengthening of the link between IS and ALMP and labour market participation at a national level. We first consider the covariation between benefit coverage and employment level separately for the short-term unemployed (3.4.1) and the long-term unemployed (3.4.2). We then look at the correlation between the share of jobseekers in ALMPs and unemployment (3.4.3).

#### **3.5.1 Is there a correlation between benefit coverage among the short-term unemployed and short-term unemployment?**

Figure 3.7 presents the UB coverage rate for the short-term unemployed (less than 12 months) together with the short-term unemployment rate in the six countries of interest. The chosen years are those for which we have UB coverage data, namely 2007, 2010 and 2013.

This graph can be read in two different ways. Across time, it shows no clear pattern of association between UB coverage and unemployment rate. Three countries show a positive covariation between coverage and unemployment (FR, IT, UK (however, some information is missing for the UK)), one country shows a negative covariation (CZ) and two countries show no covariation (DE, SE).

Figure 3.7 – Covariation of benefit coverage among the short-term unemployed and short-term unemployment rate (in %)



Sources: (1) Short-term unemployment rate (unemployed for less than 12 months): Eurostat *tsiem110* and *tsisc070*. (2) Unemployment Benefit coverage for the short-term unemployed: European Commission, *ESDE 2014*.

Note: UB coverage for STU for UK is missing for 2010.

A cross-country comparison does not provide any more evidence of a correlation between UB coverage and STU rate. Three situations can be identified:

- High level of UB coverage and low STU rate (DE);
- Low level of UB coverage and medium STU rate (IT);
- Among the four countries with a medium level of UB coverage, two have a relatively high STU rate (FR, SE), one has a low unemployment rate (CZ) and one has a medium unemployment rate (UK).



### 3.5.2 Is there a correlation between benefit coverage among the long-term unemployed and long-term unemployment?

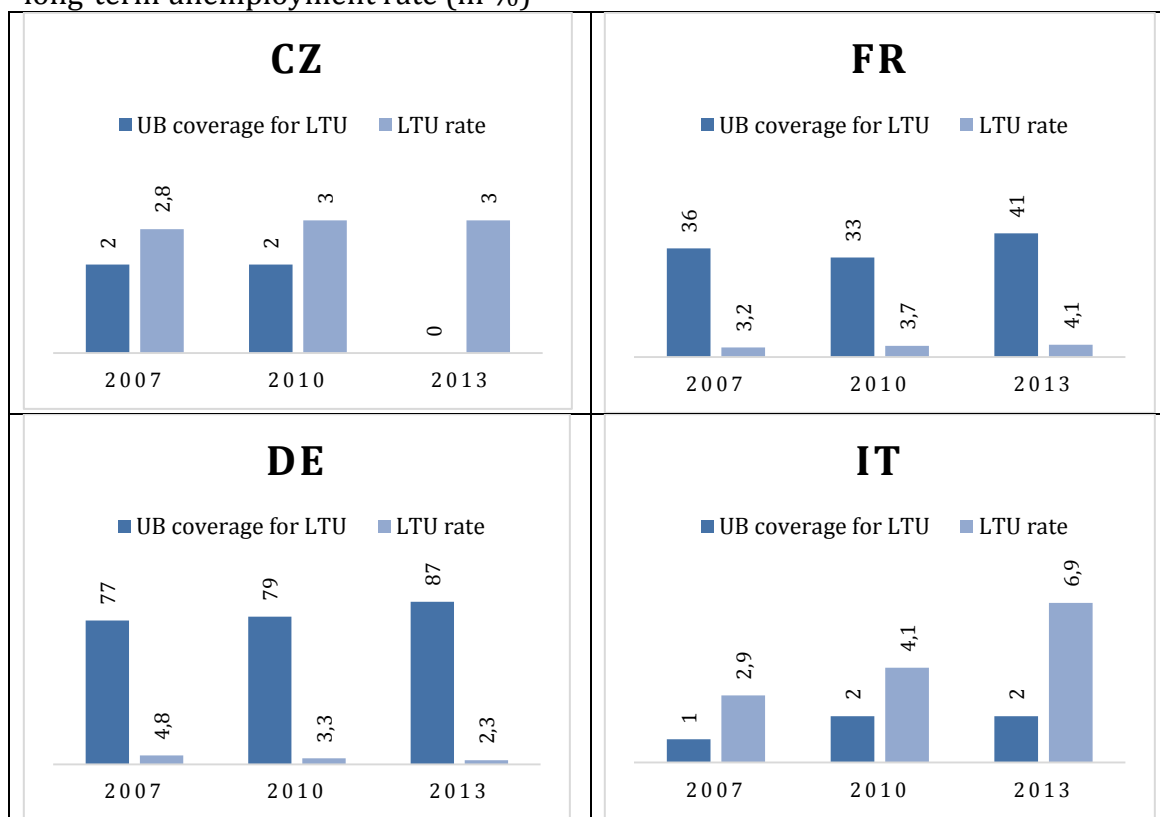
Figure 3.8 presents the UB coverage rate for the long-term unemployed (more than 12 months) together with the unemployment rate for the long-term unemployed in the six countries of interest. Here again, we only have data for 2007, 2010 and 2013.

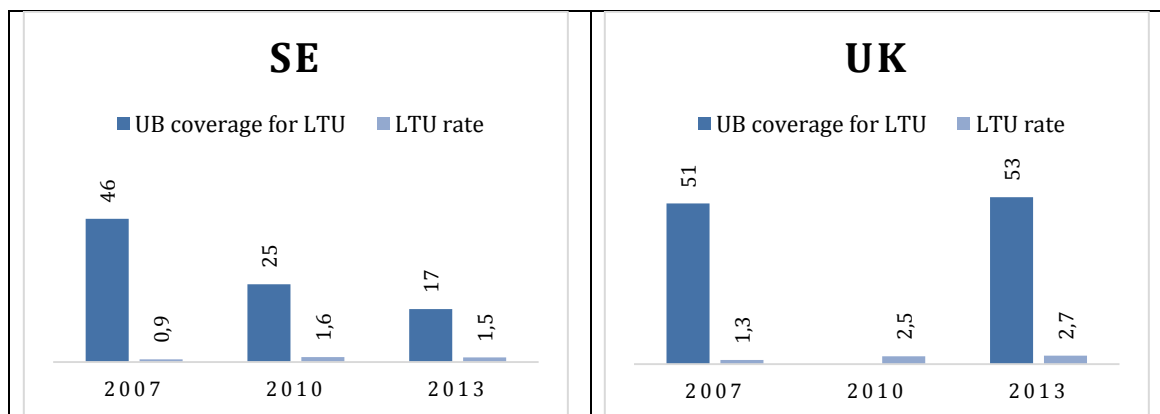
The evidence suggests that there is no covariation over time between UB coverage for the long-term unemployed and long-term unemployment. Four countries show no apparent covariation (CZ, FR, IT, SE), one country shows a negative covariation (DE) and one country shows a positive covariation (UK, the evidence is tenuous, due to missing data).

The cross-country comparison does not indicate any clear pattern of association. We found the following five categories of Member States:

- High level of UB coverage and medium level of unemployment (DE);
- Medium level of UB coverage and medium level of unemployment (FR)
- Medium level of UB coverage and low level of unemployment (SE, UK).
- Low level of UB coverage and medium level of unemployment (CZ);
- Low level of UB coverage and high level of unemployment (IT);

Figure 3.8 – Covariation of benefit coverage among the long-term unemployed and long-term unemployment rate (in %)





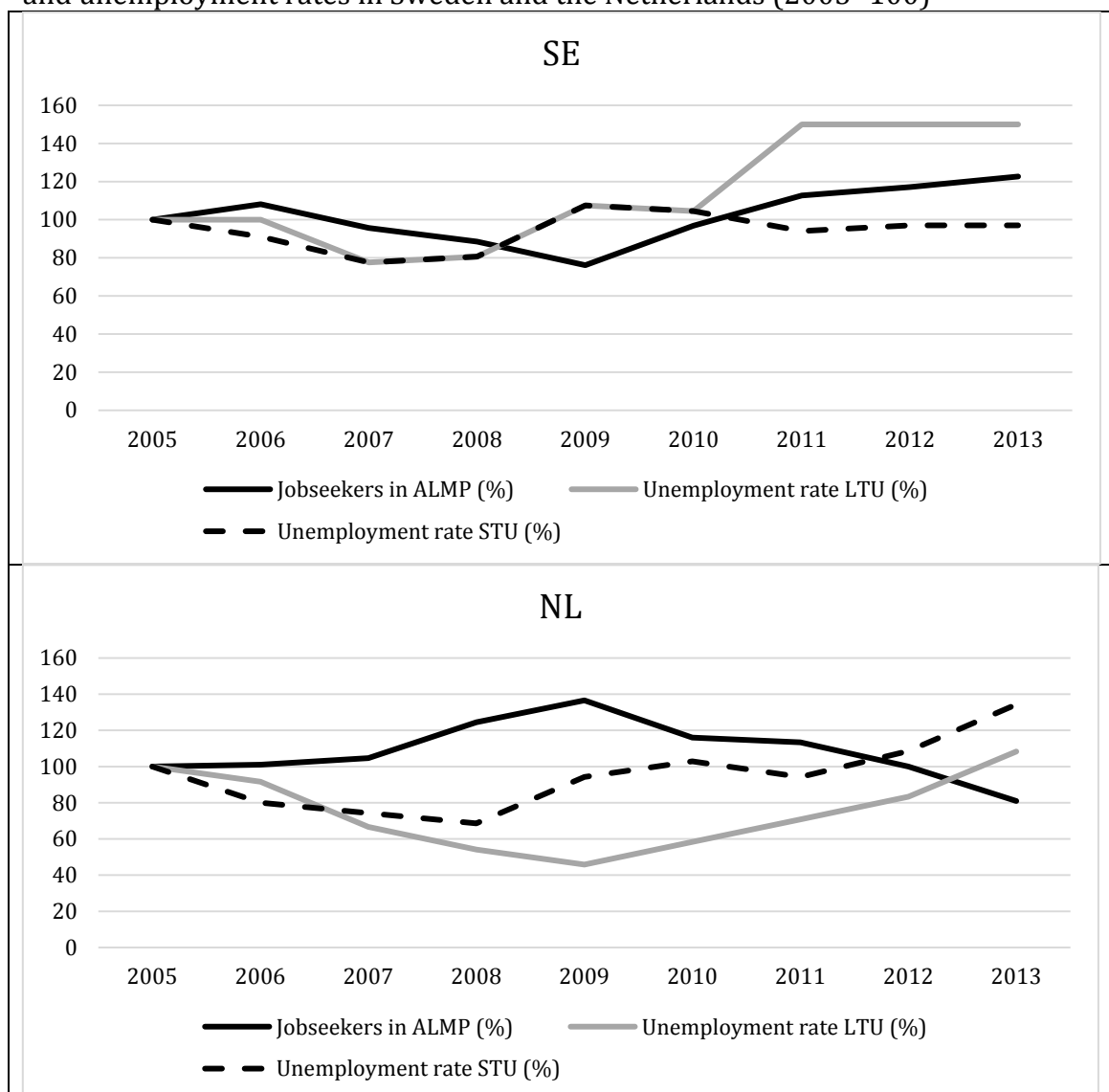
Source: (1) Long-term unemployment rate (unemployed for more than 12 months): Eurostat tsisc070. (2) Unemployment Benefit coverage for the short-term unemployed: European Commission, ESDE 2014.

Note: UB coverage for LTU for UK is missing for 2010.

### 3.5.3 Is there a correlation between participation in ALMP and unemployment rate?

Figure 3.9 shows how unemployment rate (for both short-term and long-term unemployed) and participation in ALMPs co-varied between 2005 and 2013. Given the afore-mentioned problems of reliability, the graph covers Sweden (largest positive change between 2009 and 2013) and the Netherlands (second largest negative change between 2009 and 2013).

Figure 3.9 – Share of jobseekers participating regularly in LMP measures (ALMP) and unemployment rates in Sweden and the Netherlands (2005=100)



Source: (1) Jobseekers participating in LMP measures: Eurostat *Imp\_ind\_actsup*. (2) Short-term unemployment rate (unemployed for less than 12 months): Eurostat *tsdec450* and *tsisc070*. (3) Long-term unemployment rate (unemployed for more than 12 months): Eurostat *tsdsc330*.

We can see a negative relationship between the trends in the share of jobseekers regularly participating in LMP measures and the unemployment rates in the Netherlands. In other words, an increase in one variable is associated with a decrease in the other variable. This suggests that in the Netherlands the number of places on LMP measures didn't keep up with the increase in unemployment.

Interestingly, the trend is opposite in Sweden, where we can see a positive association, between participation in LMP measures and long-term unemployment rate. The relationship between participation in LMP measures and the STU rate is less clear. This is consistent with greater targeting of LMP measures on the LTU.

## **3.6 Summary of key points and discussion**

### **3.6.1 Measuring the link between IS and activation using macro-level data**

The question of what constitutes a ‘stronger link’ between IS and activation suggests a focus on behaviours. Under this hypothesis, not just one but two groups are expected to change their behaviour. On the one hand, we would expect to see a larger proportion of IS claimants participating in ALMPs. On the other hand, we would expect to see a larger share of ALMP participants claiming IS. This section highlighted three key challenges in measuring the strength of the link with macro-level, ‘behavioural’ data. The first challenge is the lack of relevant indicators. The two proxies identified in this chapter rest on assumptions that are both fairly demanding and difficult to assess. The second challenge is the low reliability of some of the data. The third challenge is the analytical weakness of correlational studies. A covariation of two variables is a necessary but insufficient condition to establish a causal link.

In addition to outcome data, this chapter also collected and analysed output data, mainly based on the LABREF database. Clearly, the information provided by LABREF is insufficient to assess the strength of the link between IS and activation. However, it proved useful in reconstructing the ‘theory of change’ underpinning this study, i.e. in identifying the type of policy reforms that would be expected to result in a strong/weaker link. Furthermore, it allowed us to analyse the prevalence of policies expected to ‘strengthen the link’ over the past decade in Europe.

### **3.6.2 What do we know about the prevalence of policies expected to strengthen the link between income support and activation in Europe?**

The number and share of relevant policy reforms recorded in the LABREF database that are likely to create or strengthen a strong link between activation and income support varies across countries. Belgium records the greatest number of reforms (90 during this period), followed by Portugal (82), the UK (67) and Spain (62) while Croatia only reports 5 relevant policy reforms. Very few reforms are classified as having a very strong link or creating a strong link between activation and income support but many policy reforms are associated with a moderately strong link between the two. On average around one-third of the reforms recorded are likely to create a strong or moderately strong link between income support and activation. Sweden, the UK, Malta and Denmark had the highest shares of policy reforms that are likely to create or strengthen a strong or moderately strong link between activation and income support.

Policy reform increased after the economic crisis in 2008 and 2009 and again in 2012 and 2013 but the share of all relevant policy reforms recorded that is likely to create a strong or moderately strong link between income support and activation remained fairly stable at around one-third of all reported reforms.

### **3.6.3 In which Member States was the link between IS and activation relatively stronger?**

An alternative approach is to examine the empirical relationship between unemployment rates, coverage of IS among the unemployed and the share of jobseekers regularly participating in LMP measures. The data analysed in this section shows that between 2007 and 2013, the link was (i) strong in Germany; (ii) moderate in France, Sweden and the UK; and (iii) weak in Italy. In Czech Republic, we found that the link was moderate for the short-term unemployed and weak for the long-term unemployed.

A strong IS coverage among LMP measures participants can be explained in at least two ways. First, it could be that the provision of LMP measures be restricted to benefit claimants (i.e. low-skilled workers and non-claiming jobseekers are excluded). Second, it could be that eligibility criteria to IS be relatively lax. The second hypothesis seems to be the most credible. Indeed, the extent of the IS coverage among LMP measures participants seems to be negatively correlated with the strictness of IS eligibility rules as defined by Venn (2012). According to Venn, eligibility criteria were less demanding in Sweden and Germany and more demanding in Italy and Czech Republic.

We found inconclusive evidence that the strength of the link was not related to the degree of integration between benefit provision and employment service provision. In other words, countries where the two functions are separated (e.g. Sweden) can provide a stronger link between IS and activation than countries where these functions are operated by the same organisation (e.g. Czech Republic).

### **3.6.4 In which Member States has the link between income support and activation become stronger?**

Across the EU-25, the share of unemployed people claiming IS between 2007 and 2013 remained stable. Among our case study countries, four countries saw the share of STU people claiming IS significantly increase: France, Germany, Italy and the UK. One country saw a relatively large decrease: Sweden. One country was close to the EU-25 average: the Czech Republic.

The picture is quite different for the long-term unemployed. The increase was highest in Germany (+9pp), followed by countries like France (+5pp). In many countries, the evolution was very small or close to 0. These countries include: the UK (+3pp), Italy (+1pp) and the Czech Republic (-2pp). Again, Sweden experienced a sharp decline.

### **3.6.5 Is there an 'employment effect' of a stronger link between income support and activation?**

There is no evidence of a correlation between the share of unemployed people receiving UB and the unemployment rate.

There is some evidence of an association between the share of jobseekers regularly participating in LMP measures and the unemployment rate. However, the direction of this association is not uniform. It appears to be positive in Sweden and negative in the Netherlands.

### **3.6.6 Conclusion from analysis of statistical series**

These six case studies shed light on the following situations:

- Strong and increasing link between IS and activation (Germany).
- Moderate and stable link between IS and activation (France, UK).
- Moderate and weakening link between IS and activation (Sweden).
- Weak and slightly increasing link between IS and activation (Italy).
- Weak and slightly decreasing link between IS and activation (Czech Republic).

Regardless of the strength of the link and the direction of recent reforms, there is no evidence of a relationship between the strength of the link, measured by our proxy variables, and the level of unemployment on a macro level.

This statistical analysis is limited by the fact that we have to use proxy variables as the measures required for a more accurate assessment are simply not available.

### **3.6.7 Income support generosity and employment outcomes**

The proxy indicators used fail to account for the ‘quality’ of the link between IS and activation, as well as for possible interactions (favourable or otherwise) among policy instruments. Yet, the literature shows that there are many factors that can mediate the employment effect of a stronger link between IS and activation.

One of them is the relative generosity of IS. In his paper, Martin (2015) warns that benefit generosity and employment levels can influence each other. For example, during the Celtic Tiger period, Ireland increased the generosity of its IS very significantly. Indeed, the increase in net benefit replacement rates over the period from the end of the 1990s to 2007 was one of the largest in the OECD countries, moving Ireland from about average in terms of benefit generosity to one of the top countries. However, driven by both the imperative need for fiscal consolidation to rein in the large public sector deficit and the desire to boost work incentives for the unemployed, benefit generosity has been cut back in recent years.

Immervoll and Scarpetta (2012) considered the issue from the viewpoint of ‘making work pay’ policies. In their view, there exists a relatively broad consensus among labour economists on the responsiveness of people’s employment decisions to financial work incentives, such as the net income gain of working one hour more or of working at all. Among the main findings are the following:

- Financial incentives affect overall labour supply mainly through their influence on labour force participation (i.e., the decision on whether or not to work), while changes in the number of hours worked are quantitatively less important;

- Low-income groups and lone parents react more strongly to financial incentives; and
- Labour supply is more responsive for women than for men.

But while some general patterns emerge from the international evidence, it is notable that there are widespread differences across countries.

### **3.6.8 Interaction between IS coverage, IS generosity and ALMPs**

The literature highlights important interactions between IS coverage, IS generosity and ALMP spending on the level of unemployment. Those cannot be observed with bivariate macro-level analyses. Case studies are often more appropriate. In his review of activation policies across OECD countries, Martin (2015) analyses three countries with low levels of unemployment, generous unemployment benefits, strict conditions and relatively high expenditure on ALMPs.

The review finds that Finland has managed to offset the adverse work incentive effects of a relatively generous benefit system by imposing strict benefit conditionality and making use of referrals to a relatively effective set of ALMPs.

The Swiss approach to activation seeks to offset the impact of relatively generous UI benefits on work incentives by strict enforcement, of job-search requirements, relatively high spending on ALMPs (in 2011, Switzerland spent 0.6% of GDP on ALMPs) and generous in-work benefits to encourage the unemployed to accept low-wage jobs. OECD (2013) notes that in 2008 Switzerland spent 2.6% of GDP on sickness and disability benefits, five times what it spent on UI and related welfare benefits.

Duell et al. (2009) argue that Norway's activation system has been one factor behind the relatively low unemployment rate. While Norway's UI system is relatively generous in terms of both duration of benefits and net replacement rates, the work disincentive effects have been offset by strict eligibility criteria and relatively strict job-search requirements. Norway also spends quite a lot (in relative terms) on ALMPs: in 2010-2011, it spent around 0.5% of GDP on ALMPs. In this sense, there is some similarity between the Swiss and Norwegian approaches to activation of UI benefit recipients. The problem is that the activation approach appears to work for UI benefit recipients but not for working-age individuals with health-related issues even when they have some work capacity or could be assisted to work part-time.

## 4. Micro-level evidence

*This section reviews the micro-level evidence on the link between income support and activation. The review covers policy and academic literature: from individual programme evaluations to meta-level analyses and literature reviews. A wide variety of evaluation techniques have been used in the literature and the review takes a broad approach rather than narrowly reporting on findings from net impact studies. The effectiveness of activation and enabling support programmes can vary over the economic cycle and the review attempts to highlight where differences are found.*

There now exists a considerable body of literature from detailed individual programme evaluations, to literature reviews and meta-analysis. The search undertaken for this evidence review identified over 400 pieces of literature. From reviewing this literature, it is very apparent that within different types of activation there exists evaluation evidence of positive significant, insignificant and negative significant effects on employment outcomes. Meta-level analyses have drawn up tables summarizing evaluation evidence according to these three possible outcome effects, differentiated sometimes by sub-population groups (gender, age, claimant groups, employment status) and whether outcomes are measured in the short, medium or long term (see for example, Card et al., 2010; Bratu et al., 2014).

Those responsible for designing activation policy, wanting to use the existing evidence base as a guide to ‘what works’ must be left wondering how to interpret this confusing array of findings. Does an activation type with a greater number (share) of studies which find significant positive effects necessarily mean that it is more likely to reduce unemployment than an alternative form of activation with a smaller number (share) of significant positive effects in the evaluation literature?

Even a fairly cursory review of the literature alerts the reader to the high degree of heterogeneity that exists between programme interventions that are typically grouped within an activation types (job search assistance, private sector employment support, public sector employment services, training, etc). While it makes some sense to summarise the evaluation evidence by grouping interventions into different types, it is worth questioning whether these broad intervention types are so heterogeneous that summarizing the evidence across evaluations does little to help a policy maker decide on which activation measure is most likely to work.

The approach we have adopted here is to work back from the summary tables produced by meta-level analyses to see if it is possible to identify if there are common characteristics across interventions for which positive significant effects have been found, in contrast to interventions when either insignificant or negative effects are found. In doing this we also consider evidence on the strength of the link with income support and access to enabling services. Effectively we are looking deeper into the question of ‘what works’ to try to understand ‘why’ some activation programmes are effective while others are not.



It is not just heterogeneity within activation types that gives rise to a range of impact estimates but also the context in which an activation programme is situated needs to be considered when interpreting evaluation evidence. The extent to which an intervention is delivered within a broader set of activation interventions and the extent to which they collectively form a coherent complementary package is likely to be important. Macro-economic conditions and local labour market conditions are also likely to be important factors that influence the success or otherwise of activation programmes. The relationship between public employment services, particularly local offices, and employers could also be an important element. How activation is designed to form a coherent and consistent 'package', working together to improve outcomes is likely to be an important determinant (Martin, 2015). Whether the programme being evaluated is new, offering something different to job-seekers or a long established programme for which those cycling through unemployment spells have experienced previously, with the risk that programme fatigue has a negative influence.

The delivery of an activation policy in practice is rarely considered. A lot of evaluation evidence assumes that individuals referred to or registered on an activation programme receive the "treatment" as it is set out in the policy 'rule book', yet in practice this may not be so. The actual frequency in the number of interviews with employment advisers, the length of these appointments, the quality and relevance of information provided to the unemployed job seeker are all likely to be highly variable in practice and can vary in a systematic way, such as a reduction in the intensity and quality of an intervention when unemployment is high at a national or local level. The quality of job brokers and employment advisers is rarely considered in the evaluation evidence but could provide some of the explanation behind diverse outcomes across otherwise similar interventions.

From a statistical perspective the extent to which a reliable counterfactual can or has been estimated to provide a 'true' net impact estimate is critical. For example, employers or public employment service advisers may select individuals who are most likely to find employment even in the absence of the intervention, resulting in biased estimates without adequate corrections. The ability of statistical techniques to control for selection bias in non-experimental data will affect the reliability of impact estimates.

Other important considerations relate to the cost effectiveness of programmes, much less frequently considered in the evaluation literature, and the net impact of an intervention on overall levels of employment and unemployment. For example, where reducing overall unemployment rates is the policy maker's key goal it may be optimal to choose an intervention with a smaller net impact affecting a larger group of people over an activation intervention with a larger net impact estimate but only affecting a small group of people. It may be more cost effective to introduce an activation with a lower net impact which is cheaper than an activation with a higher net impact which is more expensive. Much of the evaluation evidence does not provide this type of detailed information.

The macro evaluation evidence on overall spending, policy mix and macroeconomic indicators of employment/unemployment runs in parallel to the micro level evaluation literature and there exists a huge gulf separating the two. A very limited number of large scale evaluations have sought to estimate the impact of the programme on participants, macro-level effects (general equilibrium effects) as well as cost-benefit estimation. The evaluation of the UK New Deal for Lone Parents is one of these exceptions (Evans et al., 2003).

Finally, the 'fit' between the unemployed person and the activation may be an important element. It might not be right to evaluate whether or not training offered to every person unemployed for six months or longer improves employment outcomes. It may be that training reduces long run unemployment among a select group of unemployed people. This means that we should be looking at targeting activation interventions to those most likely to benefit from them. In fact many countries make available activation programmes containing a wide range of interventions, with employment advisors (PES and private contractors) providing personalised assistance and individual action plans which can evolve over an unemployment spell.

This, therefore, means that it doesn't always make sense to evaluate whether or not a particular intervention will reduce unemployment but rather how to help employment advisers match unemployed job seekers with the activation programme that will most benefit them.

## 4.1 Key concepts and approach

The available evidence on the link between income support and activation is vast. The reviewers were asked to consider the importance of enabling services, more broadly, not simply active labour market programmes, and this further widened the scope of the review. Before turning to the micro-level evidence we define the key concepts and provide more detail on the approach adopted in the review of the micro-evidence.

### ***Enabling support services***

The Commission's interest in enabling support services more broadly than simply in terms of what is offered as part of 'classical' active labour market programmes is an important departure from the narrow focus of much of the evaluation literature, but it does pose a challenge in terms of making an assessment of 'What Works'. This evidence review approaches the issue of evaluating the role and importance of enabling services in three ways. *Firstly*, it pays attention to the country context in terms of what enabling services are available more generally when assessing the evaluation evidence for active labour market programmes. *Secondly*, it examines the evaluation evidence where enabling services have been looked at specifically. *Thirdly*, it focuses on a specific claimant group for whom enabling services are likely to play a key role (disabled people) on the basis that if enabling services are important then their effectiveness will be observed for this group.

Arguably, access to enabling services is not primarily to do with activation, as these services are generally considered to be part of an encompassing programme of support. For example, early years childcare provision could be put in place to boost pre-school education and child development; health services are in place to maximise the health of the nation not simply to enable particular job seekers to become active in the labour market. The link between these enabling services and income support might be less important than the very fact of provision/availability/access to these services and the evaluation evidence may simply not be available as it is difficult to see how impact could be measured or even identified separate from other influences.

### ***The strength of the link between activation and income support***

At one end of the spectrum there can be a very **strong link** between activation and income support, either in terms of access to enabling services and labour market programmes where income support claimant status acts as a type of passport to these services or through compulsory activation as a condition for income support entitlement.

For most groups of income support claimants, the link between claims for income support and activation has been strengthened in most countries over the past 25 years. This has occurred through greater compulsion to participate in active labour market programmes, with greater conditionality associated with entitlement to income support and benefit sanctions increasingly being used when these conditions are not met by the job-seeker. Secondly, the development, availability and access to a wider range of back-to-work services delivered through the public employment service, private contractors or the voluntary sector. Broader enabling services have been made available through government departments, government agencies, private providers or the voluntary sector.

**Weaker links** are found where activation programmes are available but participation is voluntary. This can be the case for some disabled people, lone parents, for some unemployed at different points of an income support claim, for claimants' partners (where a joint claim for income support leaves the partner – typically the woman in a couple - free from any activation obligations) and for some nearing retirement age. Activation has generally been extended to this much wider group of income support recipients than was previously the case and participation is increasingly on a compulsory basis.

Some groups of income support claimants are not required to actively search for work as a condition of income support receipt and activation programmes are not made available to them. This is described in the literature as passive employment policy or passive benefit receipt. There is very little specific evaluation of how effective this approach is either for specific groups or more broadly, but much of the evaluation literature tries to estimate outcomes for the case of 'no activation' to provide a counterfactual or benchmark against which the impact of interventions are evaluated. Claimants may have access to enabling services where these are

available but they are not given specific advice or support in terms of accessing them as part of the administration of their income support claim.

At the other end of the 'income support-activation nexus' some activation programmes are made available in the **absence of any link** to income support or in some cases any entitlement or receipt of income support. In fact some groups such as school leavers may be excluded from claiming income support but a wide range of youth targeted activation policies can be available. Similarly the voluntary sector can offer a range of activation services and opportunities where there are no conditions attached except in some cases unemployment status. Many social innovation projects reach out to help assist and activate members of disadvantaged groups irrespective of income support receipt status. This lack of a formal link is likely to be more common for enabling services which are typically made available without any requirement that recipients need to be income support claimants.

Much of the literature in this area has focused on estimating whether increasing activation or introducing different types of activation increases exit rates from unemployment (finding a job earlier than would occur in the absence of the intervention). Much of the focus has been on push factors – supply side policies – but other types of activation seek to enable job-seekers to find work by reducing barriers to employment – availability of good quality affordable childcare, condition management, support services and rehabilitation programmes, for example. There is also a literature which examines the effectiveness of 'pull' factors such as policies designed to help 'make work pay' – wage subsidies, in-work benefits (tax credits etc), anti-discrimination legislation, requirements for employers to make necessary adaptations to workplaces and jobs.

Eichhorst and Konle-Seidl (2008) outline a typology of activation measures differentiating between 'demanding' and 'enabling' interventions (Table 4.1). We make reference to these two sides of activation as we review the evidence.

*Table 4.1 Two sides of activation*

Demanding	Enabling
1. Duration and level of benefits <ul style="list-style-type: none"> <li>• Lowering insurance or assistance benefits</li> <li>• Reduction of maximum benefit duration</li> </ul>	1. “Classical” active labour market policies <ul style="list-style-type: none"> <li>• Job search assistance and counselling</li> <li>• Job-related training schemes</li> <li>• Start-up grants</li> <li>• Subsidised employment</li> <li>• Mobility grants</li> </ul>
2. Stricter availability criteria and sanctioning clauses <ul style="list-style-type: none"> <li>• More restrictive definition of suitable job offers</li> <li>• Punitive sanctions for non-compliance</li> </ul>	2. Fiscal incentives/make work pay <ul style="list-style-type: none"> <li>• Earnings disregard clauses</li> <li>• Wage supplements granted in case of taking up low-paid jobs (“in-work benefits”)</li> </ul>
3. Individual activity requirements <ul style="list-style-type: none"> <li>• Integration contracts</li> <li>• Monitoring of individual job search effort</li> <li>• Mandatory participation in active labour market policy schemes</li> </ul>	3. Social services <ul style="list-style-type: none"> <li>• Case management, personalised support</li> <li>• Psychological and social assistance</li> <li>• Childcare support etc.</li> </ul>

Source: derived from Eichhorst and Konle-Seidl (2008)

Much of the programme evaluation literature which provides micro-level evidence focuses specifically on evaluating a single intervention but arguably the balance between demanding and enabling activation measures may be important for determining long term outcomes. It is certainly possible, and intuitive to think, that demanding activation measures could shorten the length of time it takes for job seekers to return to work while enabling measures could increase the quality of the employment outcome in the long term.

In exceptional cases, some programmes attempt to find the optimal balance of strategies to address multiple disadvantage, seeking to provide an holistic approach to tackling multi-dimensional disadvantage. The Troubled Families programme in the UK is an example of a multi-agency approach designed to address a broad range of issues for a relatively small number of families identified as suffering from severe multiple deprivation (DCLG, 2014).

## 4.2 Evidence from activation programme evaluations

The literature on activation programme evaluations is extensive. Searches of academic literature and ‘grey literature’ databases conducted for this Review have identified over 400 items. In addition to evaluations that have focused on estimating the impact of a single intervention, there are also a number of extensive

high quality meta-analysis reviews (For example: Card et al., 2010; Kluve, 2010; Bratu et al., 2014). These have tended to summarise the range of impact estimates across different activation programmes types (training, public sector employment, private sector employment incentives and labour market services). For each activation programme type there exists a range of impact estimates. Simply focusing on the sign and significance of impact estimates for employment outcomes, positive significant, insignificant and negative significant effects are found. For the policy maker wanting to have clear guidance on 'what works', even at this very basic level the international literature does not provide clear guidance. It is not clear if an activation type that has more positive and significant impact estimates in the literature than a second type is more likely to be effective. The sign and significance of estimated impact assessments, even if there was a consensus, do not provide enough information for a policy maker to decide which activation programme to introduce. A recent review analyzing the costs and benefits of active compared to passive measures concludes that there is not one particular policy measure that can serve as a universal tool for improving the labour market prospects of participants (van der Ende et al., 2012). The study concludes that all measures demonstrate specific merits and shortcomings with the exception of early retirement schemes which were found to be costly and failed to improve employment prospects for younger workers.

There are a number of reasons why a range of impact estimates for an activation type are found in the evaluation literature. These are likely to include: (1) A high degree of heterogeneity within activation types; (2) The relationship between activation and income support entitlement varies across countries and population groups; (3) The country context can be very important – labour market flexibility, employment protection, wage-setting, social norms, economic climate, etc.; (4) The policy mix of activation interventions varies over time within and between countries; (5) The role and significance of a broader set of enabling services.

Even for counterfactual impact evaluations there are technical reasons why different econometric techniques, data quality and availability, the point at which the outcome is measured can give rise to a range of impact estimates.

Another meta-analysis of the evaluation literature would simply produce further series of tables summarising impact assessments, and at the end we would be in no better position to assess 'what works'. The approach we take is to assess whether it is possible to establish why some activation programmes are successful in meeting their objective while others are not. We focus on evaluations that can provide evidence on the importance of the link between activation and income support in terms of better employment outcomes, and identify literature that provides evidence on the role enabling services play in increasing the employment prospects of unemployed job-seekers.

In this section evidence is drawn from programme evaluations organised according to key types of intervention.

### 4.2.2 Job search assistance

Job search assistance within activation programmes can be delivered by public employment services or under contract via private and voluntary sector organisations. It generally involves counselling, job search training and in some cases job-brokering. Employment advisers can help job-seekers re-engage with the job market, guide them in how to make best use of existing skills (enhancing transferability), inform them of alternative and new lines of work which could be suitable, help in the preparation of CVs, completing application forms and preparing for an interview. It is one of the most widely used activation measures (OECD, 2007).

As job search assistance is a relatively low cost intervention it is widely used and introduced early in a claim for income support, often as part of an introduction to what is expected of income support claimants. The majority of people experience very short spells of unemployment and find work without the need for this assistance so there are undoubtedly deadweight losses incurred.

Across most EU countries there has been an increase in both the requirement for income support claimants to search for work as a condition of benefit eligibility and the extent to which job search activity is monitored. This is an example of how activation interventions can combine “demanding” with “enabling” approaches. Job search assistance can be offered to claimants at the start of an income support claim, at a point in a claim when activation is required, periodically throughout the duration of an income support claim or as part of a package within an active labour market programme. Some evidence points to job search skills and knowledge of current employment opportunities decaying with the length of time individuals are unemployed justifying the need to boost these skills and provide extra assistance for longer term unemployed.

The requirement to search for work as a condition of income support receipt and the availability of job search assistance has been widened in many countries over recent years to encompass a larger set of income support claimants:

- (1) Disabled people;
- (2) Lone parents;
- (3) Partners of claimants who are also unemployed;
- (4) Through the shortening of unemployment insurance duration and moves onto active benefits;
- (5) Changes in the rules regarding unemployment insurance eligibility;
- (6) Changes in rules regarding eligibility for social assistance.

There are also plans in the UK to require individuals who are in employment but in receipt of in-work cash transfers to search for higher paid work and achieve self-sufficiency with the threat of sanctions for those who fail to achieve this – known as “in-work conditionality” (OECD, 2014d). It is not clear at this stage whether or not job search assistance will be made available to these individuals. The motivation behind this policy is the desire to reduce poverty-traps and benefit-dependency that could be created with the introduction of a new cash-transfer,

Universal Credit, which will replace virtually all means-tested in- and out-of-work transfers with a single monthly payment based on real-time entitlement checks.

Some public employment services effectively run employment agencies advertising jobs on behalf of employers. These vacancies are now generally available to access online and individuals do not need to be in receipt of income support to access them. In addition, public employment services do not have a monopoly on matching job-seekers to vacancies or in terms of listing job vacancies. Physical employment agencies for permanent as well as temporary positions have been in existence for many years. The internet has led to an expansion in 'help-wanted' listings, job matching and job brokering services.

Advisers in public employment services also use listings from other agencies and from a variety of sources to both assist job-matching and brokering but also to train job-seekers to develop job search skills. Public employment services can provide an additional service where they have established personal links with local employers willing to recruit unemployed people (with or without a subsidy). These employers can request some initial screening to take place by employment service advisers before referrals are made.

Job search assistance is not restricted to income support claimants with many private sector firms and internet-based businesses specialising in job-brokering functions and offering services to people making job-to-job moves, school leavers entering the labour market and new graduates seeking graduate jobs, as well as returners (eg mothers returning to the labour market after taking time out to care for young children), as temporary employment agencies or simply depositories for job-listings. Their objectives are qualitatively different from the brokering services offered by public employment services. They can act as a screening and matching service on behalf of employers, part of a careers services to assist education leavers or simply a job vacancy listing service with funding from various methods (advertising, sectors, recruiters, etc.). A recent review examines the range of job search methods used by job-seekers covering unemployment benefit claimants but more generally job-seekers in the UK. It also highlights the key role that employment service advisers play in terms of developing job-seekers' self-efficacy (Green et al., 2011).

### **Evaluation evidence**

The evaluation evidence examining the impact of job search assistance frequently looks at a combination of assistance with job search conditionality and monitoring for income support claimants, as they are typically introduced as a package. This makes it difficult to find estimates that are able to isolate the impact of this activation intervention. For example a randomized control trial in Australia among unemployed people who had been out of work for at least 5 years involved counselling, increased monitoring and benefit eligibility checks, and job search assistance. The evaluation shows that the intervention had a positive impact on training outcomes but no increase in employment around 18 months after the initial interview. The intervention was light touch with two meetings and a follow-



up interview among a group of particularly disadvantaged job-seekers (Breunig et al., 2002). The outcome no doubt highlights the fact that the counselling offered sought to increase participation more broadly than returning to work. Work focused interviews offered to job-seekers typically (for many these are compulsory) include an element of job search assistance but also look more broadly at what steps a job-seeker needs to take as part of their preparation for a return to work.

Reforms to active labour market programmes in France from 2001 included intensive counselling with job search assistance and job matching. An evaluation of this intervention found that it led to both a reduction in unemployment duration and a fall in unemployment recurrence (where the effect was estimated to be greater). This suggests that job search assistance improved the quality of job matches and highlights the need for evaluations to consider longer term outcomes and a broader set of outcomes than simply unemployment exits (Crépon et al., 2005).

The returns to this intervention may result from the extent to which it is “demanding” as well as “enabling”. This combination means that job-search assistance often acts to strengthen the link between activation and income support.

A number of previous evidence reviews have found that job search assistance combined with greater monitoring of job-seekers’ efforts increases exits from unemployment into employment (See for example, Bjorklund and Regner, 1996; Heckman et al., 1999; Meyer, 1995). Card et al. (2010) conducted a recent meta-analysis (199 programme estimates) which also identified job search assistance as one of the main interventions that had a positive impact on exiting unemployment. However, they group together evaluation evidence on job search assistance with threats and sanctions, as does Kluve (2010) who labels this type as “Services and Sanctions”.

Bratu et al. (2014) summarise recent findings (2006/07-2013) from counterfactual impact evaluations across academic sources and from evaluations of European Social Fund funded interventions reported in the European Social Fund Expert Evaluation Network database (ESF-EEN). Table 4.2 shows how these findings are distributed across positive significant (+ve), insignificant (0) and negative significant (-ve) effects. These authors distinguish between job search assistance, counselling and monitoring, and job placement and relocation assistance. In half of the evaluations of job search assistance, positive and significant effects were found but around one-fifth reported negative significant effects on employment outcomes (just three findings in Ireland, the Netherlands and Portugal). While the majority of job search assistance is provided during the process of claiming income support, additional courses where job-seekers can be required to attend job-search assistance courses, and consequently ‘lock-in’ effects can occur. Lock-in refers to the fact that during programme participation job search effort is generally reduced; participants are effectively ‘locked-in’ for the duration of the course programme. Where lock-in effects are known to occur,

careful consideration needs to be given to the selection of the point at which outcomes are assessed and for duration modelling at what point the start date should be defined – for example, the date of programme completion or the date on which the programme started. With job search assistance programmes, lock-in should be minimal as active job-search is usually conducted within the course.

Table 4.2 Findings on labour market services by direction and significance of effect

Type	Total	Effect		
		+ve	0	-ve
Total	22	10	9	3
	100%	45%	41%	14%
Job search assistance	14	7	4	3
	100%	50%	29%	21%
Counselling and monitoring	1	1	0	0
	100%	100%		
Job placement, relocation assistance	7	2	5	0
	100%	29%	71%	

Notes: +ve=significant positive; 0=insignificant; -ve=significant negative on 'employment outcomes'.

Source: Bratu et al., (2014) Table 20

Comparative reviews which have considered different time horizons for assessing outcomes, suggest that job search assistance can be effective at getting claimants into work fairly quickly and faster than many other forms of activation. However, in the longer term other forms of activation (such as training) are more likely to have a positive impact on employment. This suggests that the 'demanding' elements of job search assistance which are typically grouped under this activation type in reviews are effective at matching job seekers to job opportunities but the quality of the matches is inferior or that other activation interventions that increase human capital (raise productivity) lead to more sustainable employment outcomes.

### 4.2.3 Training

Structural unemployment is to a large part determined by a mismatch of skills supplied (by the unemployed) and skills demanded (by employers) either in terms of quantities or levels. Low skilled workers are at the greatest risk of unemployment and are much more likely to become trapped in a low-pay/no-pay cycle. Training programmes within active labour market programmes are designed to increase skills and productivity among unemployed job-seekers and are therefore aimed at not simply increasing the chance of a low skilled worker

finding work but improving their long term chances of remaining in work, increasing earnings and reducing future experience of unemployment. In some countries training forms the core of activation programmes (eg Sweden and Germany).

The costs of training can be borne by the government, employers or workers to varying degrees. Not all government subsidised training is part of active labour market programmes made available exclusively for unemployed job-seekers. There is a long history of government funding being made available for youth training programmes and apprenticeships, in particular. Various subsidies, tax breaks and vouchers are available for employers to help towards the costs of training low skilled workers or re-training workers as skill needs change.

The link between training and income support can be strengthened when training is made compulsory or where vouchers for the cost of training are made available to job-seekers claiming income support or simply where counselling covers skill deficiencies and job-seekers are asked to consider action plans which include addressing skill needs. For example, UK unemployment benefit claimants identified as having basic skills needs can be required to attend a short (5-12 weeks) mandatory training programme which can cover basic vocational skills (such as IT skills); basic skills, such as literacy, numeracy and employability training (McKnight, 2016).

Within ALMPs a wide variety of training programmes exist: some are classroom based courses addressing basic skill deficiencies (often literacy, numeracy or language skills), others are a mix of workplace employer provided training combined with some classroom based training and some are exclusively based in the workplace. Training courses vary in length and quality.

For some time there has existed a divide between advocates of a “work-first” approach and those who favor a “human-capital” approach to activation but during the 1990s evidence appeared to provide stronger support for the work-first approach. This can be traced to the evaluations of US welfare-to-work programmes – in particular, LA GAIN (Greater Avenues for Independence) and Riverside County programmes - where assessments comparing a human-capital based programme designed to address basic skill deficiencies through classroom education with a jobs-first programme, found that welfare recipients returned to work quicker in the work-first programme. For evaluations see Friedman et al., 2000 and Riccio et al., 1994.

Criticisms have been made of the weight given to short-term assessments and the type of training/education that was being offered. There was also concern about the generalisability of these findings given the type of training and differences in the characteristics of US welfare recipients (largely single mothers) when in many other countries active labour market programmes were targeted at unemployment benefit recipients, a majority of whom were male, and training courses offered were of a higher quality. However, these findings were very influential among policy makers in many countries and particularly in Anglo-Saxon countries.

Although most welfare to work programmes today are hybrids of the two approaches, the work-first approach still plays a dominant role in many countries.

Training can appear less attractive than other activation measures for a number of reasons:

- It is typically more expensive than many other interventions (eg job-search assistance).
- Programme “lock-in” reduces initial outflow rates from unemployment. This can be unattractive to politicians looking for “quick fixes”.
- It is not easy for policy makers to determine which types of training to fund.
- It has the potential to lead to unintended consequences/perverse incentives – creating incentives for people to become unemployed or remain unemployed to qualify for funded training places (course fees are usually covered and training allowances are often paid).
- Public funded training can have displacement, substitution and deadweight effects which are hard to measure.

Arguably a basic skill problem, and to a lesser extent a skill mismatch problem among the unemployed, is a signal of wider failings in skills and education policies. Activation policies can be expected to address these wider failures on what can be, in many countries, a small budget. It makes sense for labour market training programmes to be designed as part of a package of measures to tackle skill deficiencies among labour market entrants as well as within the adult working age population but this is rarely the case.

The range of training available is vast and this heterogeneity coupled with considerable variation in the needs of job-seekers is likely to be a contributory factor in explaining the considerable variation in the impact estimates for this form of activation.

### **Evaluation evidence**

There is an extensive literature covering evaluations of government subsidised or funded training for unemployed workers and low-skilled people. A range of different outcomes are explored in this literature (unemployment duration, unemployment recurrence, earnings and earnings growth) in the short-, medium- and longer-term. Some evaluations seek to identify displacement effects by estimating the impact of interventions on flows from employment to unemployment (Puhani, 2003 - for public training programmes and start-up loans in Poland) but these are quite rare. There are also a number of high quality reviews of this literature (such as, Heckman et al., 1999; OECD, 2005; Björklund and Regnér, 1996) and some meta-level studies that have evaluated training impact estimates either where training programmes have been analysed in isolation or more broadly where training is assessed alongside other elements of activation policies (Card et al., 2010; Kluve, 2010; Bratu et al., 2014).

There is considerable disagreement in the estimated impacts of training programmes in terms of the extent to which they reduce the experience of future

unemployment and increase earnings with extensive literature and evidence reviews failing to reach the same conclusions. Heckman et al., (1999) conclude that government provided training programmes of the type that were in place over the period covered by their review were often ineffective. Kluve (2010) concludes that wage subsidies for private sector employment and 'Services and Sanctions' have generally more favourable outcomes than training programmes. Card et al., (2010) find that while training programmes can be ineffective in the short-term, they are more likely to lead to positive outcomes in the medium and long run.

The heterogeneity in the type and quality of training programmes, the extent to which selection is adequately controlled for in econometric evaluations, differential rates of return across groups of participants and differences between short and longer run effects on unemployment/employment experience contribute to a discordant set of findings.

Table 4.3 shows a summary of the findings on public supported training programmes from Bratu et al.'s (2014) review of counterfactual impact evaluations drawn from the academic literature (published 2006-2013) and European Social Fund (ESF) funded interventions reported in the ESF-EEN database (2007-2013). The spread of significant positive, insignificant and significant negative effects is typical of the evidence reported elsewhere in the literature. Around one-half of all the training programmes they reviewed had a positive significant impact on 'employment outcomes' and one in five were found to have significant negative effects. On-the-job training was more likely to be found to have a positive and significant impact on subsequent employment outcomes relative to classroom/vocational training.

Table 4.3 Findings on training by direction and significance of effect

Training type	Total	Effect		
		+ve	0	-ve
Total	102	52	32	19
	100%	51%	31%	19%
Classroom/vocational <= 6 months	43	23	13	7
	100%	53%	30%	16%
Classroom/vocational 6 months – 1 year	14	4	8	2
	100%	29%	57%	14%
Classroom/vocational > 1 year	8	4	0	4
	100%	50%		50%
On the job training	14	10	3	1
	100%	71%	21%	7%
Other	23	10	7	6
	100%	43%	30%	26%

Notes: +ve=significant positive; 0=insignificant; -ve=significant negative on 'employment outcomes'.

Source: Bratu et al., (2014) Table 8

There would be no further value-added in replicating this type of assessment of the literature on training for this evidence review. Instead we look in a bit more detail at the evidence behind the range of effects found in the literature to try to understand why some training programmes result in significant positive net impacts, while others have insignificant or even significant negative employment effects. In particular we are looking for evidence on the role of enabling support services and the strength of the link to income support.

The literature evaluating the impact of publically funded training for unemployed job-seekers on employment outcomes shows a clear evolution as evaluation methodology improved over the last 20 years, along with a greater understanding of the need to factor in 'lock-in' effects and consider different time horizons. Access to high quality longitudinal data also made it possible to measure long term impacts of training programmes that have been in place for many years. As highlighted above, short term impact assessments often find insignificant or significant negative effects of training on unemployment exit rates with longer term assessments on future employment rates, time spent in employment and earnings growth are more likely to find positive and significant effects (Card et al., 2010). The choice of outcome measures (eg exit from unemployment in duration models), lack of appropriate consideration of negative lock-in effects and short-run assessments of impact, seem to be behind many of the negative and insignificant

effect findings. Other factors are the quality of training programmes, the match between the programmes and the job-seeker and inadequate controls for selection effects.

Fitzenberger et al. (2006) estimated the long-run employment effects of training programmes for the unemployed in West Germany. They examine three types of training programme – practice firm, provision of specific professional skills and techniques and retraining/qualification via the education system. Negative lock-in effects are identified in the short run but positive and significant effects on employment rates are found in the medium- and long-run. The difference in the length of lock-in periods related to the length of the three training programme types mainly drove differential effects. Lechner et al. (2011) also examine the long-run employment effects of these training programmes in West Germany over a period of eight years. Similarly they find the longer training programmes (retraining is an unusually long public sponsored training programme which can last for two years) had a larger impact on future employment rates.

Crepon et al. (2007) examine the impact of training programmes for the unemployed in France. They highlight the problems of estimating programme effects based on the duration of the current unemployment spell not just due to lock-in effects but also because training may increase the job-seeker's reservation wage and extend the time it takes for them to make a good job-match. They find that training had no significant impact on the duration of the current unemployment spell but it increased the duration of subsequent employment spells. Lock-in meant that longer training programmes (lasting for more than one year) were found to increase the duration of the current unemployment spell relative to shorter programmes. However, long training courses were found to have a stronger positive effect on the duration of subsequent employment spells. This suggests that while longer training programmes extend the time it takes for the unemployed to return to work, when they do they are more likely to result in a good job-match and more secure employment outcomes. In these training programmes in West Germany and France, participants were paid a training allowance equivalent to their unemployment benefit entitlement, with some variation depending on whether they qualified for unemployment insurance or social assistance. Unemployed job seekers could choose whether or not to take up training and had some choice of the training programme.

At times, in some countries, other associated costs apart from course fees are covered by the public employment service. In West Germany the costs of childcare, transport and accommodation associated with training programme participation may be covered (Lechner et al., 2011). Richardson and van den Berg (2002) look at a vocational employment training programme in Sweden where it was possible for participants to apply for help with costs of literature, technical equipment, travel/hotel accommodation associated with the training programme. Trainees also qualify for a training grant which is equivalent to unemployment insurance for those with entitlement and a lower value for those on social assistance. This Swedish employment training programme is targeted both at those who are currently unemployed as well as those at risk of becoming

unemployed (they must be registered at a job centre). The courses are variable in length, lasting on average around 6-7 months. They find large significant positive effects on the exit to work after completing the training but these effects diminish somewhat over time. They estimate that when time spent on the course is taken into account the net effect is close to zero. However, as other studies have highlighted, a focus on exits to work upon completion of a training programme misses the long run effect on employment which tends to be positive and significant.

The additional enabling services made available to participants in West Germany and Sweden (help with childcare, transport, accommodation) are no doubt an important element that allow participants to undertake long training courses which involve foregoing earnings in the short-term to enable more stable employment with higher earnings in the longer-term. There is no information provided that permits us to compute the impact of these enabling support services. The strong link with income support through the training allowance is another critical factor.

Although quality of training is rarely looked at in evaluation studies, as measures of quality are generally not available, it is not surprising to find that where training quality can be assessed, estimated returns to government-funded training programmes are higher for high-quality training (Peruvian programme targeted at disadvantaged young people) (Chong and Galdo, 2006) and these higher relative returns increase over time.

The UK has a significantly higher proportion of adults with low levels of educational qualifications relative to most OECD countries (HMT, 2005) and successive governments have taken steps to try and address this skill deficiency. For many years some government-subsidised training has been available for long-term unemployed people in addition to training programmes for young people. Government attempts to improve low skill levels and address the imbalance between funding made available for higher education versus vocational training, through lifetime accounts met with failure due to misuse. In April 2006 the UK government launched *Train to Gain* which offered free training in either a basic skill or education qualification to employees lacking basic literacy, numeracy or language skills, or basic school leaving qualifications. Small employers (with less than 50 employees) received wage compensation to allow employees time-off to attend courses, and trainees received free counselling to identify training/skill needs and suitable courses. Elements of the programme were piloted between 2002-06 prior to a national roll-out and these pilots were extensively evaluated.

This programme is highly relevant to this evidence review as it represents an unusual attempt to increase skills through subsidised training (enabling activation) for a group not claiming Income Support or restricted to young people, as it was available to all low-skilled employees and therefore the group most at risk of experiencing unemployment in the future. Other similar interventions include the use of training levies in France and Australia. The evaluation found that over the first 3 years of the pilot there was no statistically significant increase



in take-up of training in the pilot areas relative to control areas (Abramovsky et al., 2011). The evaluation concludes that the subsidy was ineffective in terms of increasing take-up of training due to deadweight losses; although the authors acknowledge that there were some differences between the pilot programmes and the national programme and that statistically significant increases in take-up may have been too small to detect within available data sources. Train to Gain was subsumed within a larger programme in 2008 before austerity led to substantial cuts in vocational and adult learning budgets in the UK.

An evaluation of labour market training programmes in Sweden during the 1980s and 1990s finds average positive effects but also heterogeneity in the income returns to training 1, 2 and 3 years after training completion between native and foreign-born participants. Differences were also found in selection into training between different cohorts possibly related to the business cycle (Andrén and Gustafsson, 2004). Heterogeneity in the returns to training was also found to be present over the economic cycle with older age groups and higher qualified individuals found to benefit most from training during periods of economic growth, while during economic recessions younger age groups and individuals with low level qualifications had greater returns to participation in the training programme (ibid).

If this finding holds for other countries then it does suggest that optimal activation strategies should be designed to reflect variation in returns over the economic cycle to optimize the benefits from these investments. It also raises questions about what activation strategies/interventions work best for different groups over the economic cycle or whether different types of training could be just as effective for these groups (ie the content of the training programmes could be tailored to different groups at different stages of the cycle). The authors points out that a limitation of the evaluation was that it treated all training programmes as if they were homogeneous, which is far from reality (Andrén and Gustafsson, 2004). What is unknown is whether or not training programmes included within this evaluation did indeed vary over the economic cycle contributing to the finding that group returns changed. While this evaluation does not look specifically at the strength of the link with income support, the final cohort completed training in 1991 when unemployment was already rising but just prior to the very large increase in 1993 that followed the early 1990s financial crisis in Sweden. This was a period that marked the start of an austerity programme and reform of activation policies including strengthening conditionality. This does suggest that differences in returns between groups and over-time were not due to changes in the strength of the link between activation and income support.

Differential rates of return to training (and other activation policies) are highlighted by Cavaco et al. (2005) who find positive employment effects of a retraining programme for displaced workers in France but show that those who could have benefited the most were not referred to the programme.

There is a growing literature examining optimal welfare to work programme designs with some useful assessments on the optimality of programme

components at different stages of the economic cycle and in terms of ordering and timing of interventions (see for example, Wunsch, 2013; Lechner and Wiehler, 2013).

#### **4.2.4 Subsidised employment in the private or public sector**

Subsidised employment is frequently used within activation programmes to provide work experience for the long term unemployed, young job seekers and those returning to the labour market. This can provide job seekers with valuable experience in the workplace, an opportunity to try a new type of work and to develop work skills. Subsidised employment can take the form of paying wage subsidies to employers or allowances to employees. Alternatively the subsidy can be through a reduction in payroll taxes or social insurance contributions. In Spain, wage subsidies are used to provide an incentive for employers to create permanent positions; Spain has the highest share of employees working on temporary contracts in the OECD (69.5% in 2014; OECD.stat). Over the recent economic crisis, employment subsidies have been used by a number of countries to help 'prop-up' firms struggling during the demand slump. This allows them to retain workers and to keep unemployment rates down. This is seen as a temporary measure.

Other forms of subsidised employment are more 'workfare' in nature where unemployed claimants are expected to work in employment programmes as a condition of benefit receipt (public works programmes, One-Euro-Jobs in Germany, for example) and are not generally based in private firms operating in the competitive economy.

Not all wage/employment subsidies are linked to Income Support. For example, the Working Tax Credit (WTC) in the UK, the Earned Income Tax Credit (EITC) in the US and Self-Sufficiency Project (SSP) in Canada are available to all low paid workers meeting eligibility conditions (such as living in a low income household). These wage subsidies work by increasing the financial incentive for individuals to take up low paid work. There are concerns that employers take advantage of wage top-ups to keep wages down and minimum wages are often used create a wage floor. A further concern is that these wage top-ups can create market distortions by increasing the incentive for employers to create low paying jobs which are effectively subsidised by tax-payers. The UK government is working to tackle this issue through raising the minimum wage with the introduction of the National Living Wage and through reforms which increase the pressure on recipients to progress to higher paying jobs.

Although subsidised temporary work in the private sector can be very different from that in the public sector, they are frequently considered together in the evaluation literature and therefore they are covered in one section here. The employment contract may be temporary (most commonly where a wage subsidy is paid to an employer) or permanent (tax credits and in-work benefits). Supported employment schemes for disabled people are also a form of subsidised

employment which can be in the private sector or in sheltered parts of the economy such as in the voluntary sector or other specialist non-profit operations.

Bratu et al., (2014) covered private and public sector employment incentives in their review and the sign and significance of the effects on unemployment are summarised in Table 4.4. This evidence is also consistent with other reviews which have found a mixture of positive significant, insignificant and negative significant findings but with a greater share of private sector employment incentives associated with positive and significant effects (Card et al., 2010). Kluge (2010) and Card et al. (2010) conclude that subsidised public sector employment is relatively ineffective.

Table 4.4 Findings on private or public sector employment incentives by direction and significance of effect

Type	Total	Effect		
		+ve	0	-ve
Total	49	27	13	9
	100%	55%	27%	18%
Public	22	6	8	8
	100%	27%	36%	36%
Private	25	19	5	1
	100%	76%	20%	4%
Public or Private	2	2	0	0
	100%	100%		

Notes: +ve=significant positive; 0=insignificant; -ve=significant negative on 'employment outcomes'.

Source: Bratu et al., (2014) Table 15

Gerfin et al. (2005) estimated the effect of subsidised temporary jobs in Switzerland where unemployment insurance is used to top-up the pay of jobs offering wage rates below unemployment benefit levels by an amount that means they 'pay' more than the benefit. Outcomes from these wage subsidies were contrasted with those from a parallel programme offering a fully subsidised 'job' in a non-profit organisation (normally lasting six months). Participation is compulsory for those referred by the labour office. The unemployed person is expected to continue to search for work and to accept any suitable job offer while on the programme. Additional funds are available to cover some of the costs of capital, overheads and education (these programmes include a training element) placements in non-profit employment programmes. They find larger effects on returns to work for subsidised temporary jobs than for job placements in the non-profit sector for the long term unemployed but find that both are ineffective when made available to the short term unemployed, as the majority of this group find work without need for such assistance.

However, subsidised temporary jobs in the private sector are associated with higher employment at the end of the intervention compared with other measures (such as education courses and off-the-job training). This is driven by the fact that the jobs frequently don't end when the subsidy ends. Neubaumer (2012) compares training programmes with wage subsidies in Germany and argues that it is necessary to condition on employment as shorter term outcomes will show better results for wage subsidy programmes as participants on other programmes are more likely to need to conduct job search after their programme (training, etc) has been completed. Jaenichen and Stephan (2011) also argue that evaluation methodology is important when making such a comparison as wage subsidies are often combined with job offers (even if the subsidy is only available for a limited period). Neubaumer (2012) finds that wage subsidies in Germany (where subsidies are paid to employers to compensate for special training requirements – around 30% of monthly wage) lead to employment outcomes which are comparable to vocational training programmes in the medium/long term (3.5 years). Without conditioning on initial employment, wage subsidies appear to perform better in the short and medium/long term.

Fredriksson and Johansson (2008) evaluate the effect of a subsidy targeted at the long term unemployed (unemployed for at least 12 months) covering 50% of the total wage costs and paid for a maximum of 6 months. They find negative lock-in effects during participation followed by a significant increase in exits to employment upon programme completion and long-run positive programme effects. There are a number of examples where wage subsidies are not effective such as the scheme in Belgium which gave welfare agencies a subsidy to employ income support recipients for a temporary period (Cockx and Ridder, 2001).

For Sweden, Sacklen (2002) estimates the impact of a scheme in operation during the 1990s which subsidized training costs for employed workers and covered the cost associated with employing a substitute (unemployed person) for the duration of the training – trainee replacement scheme. The evaluation finds positive re-employment effects for the unemployed person acting as a trainee replacement. No evaluation of the impact of the training for the employed workers is available but if they are positive this scheme demonstrates a novel approach which could be mutually beneficial for the unemployed person, the employee, the employer and ultimately tax payers.

Some employment subsidies have been targeted at particular groups facing high employment barriers. A Danish scheme targeted a wage subsidy programme on disabled people (introduced 1998). This is shown to have a strong positive and significant impact on employment rates. Subsidised jobs were made available to long-term inactive disabled people with a medical examination identifying the more able disabled population to benefit from the programme. It is a good example of how extending activation to groups of income support claimants not traditionally given access to activation programmes can have positive effects. However, activation needs to be appropriate and work capability needs to be assessed in a sensitive and supportive environment.

Subsidised employment is likely to have displacement and substitution effects particularly where the jobs are subsidised in the private sector or subsidies apply to regular public sector jobs, despite attempts made to try to limit the use of subsidies to job openings that would not exist without the subsidy. Dahlberg and Forslund (2005) estimate displacement effects from subsidised employment in Sweden (1987-1996) at around 65% (in contrast to no significant displacement effects from training). The subsidised employment in non-profit organisations (activities that were not meant to crowd out regular employment) and 'work practice' schemes particularly for youth (which again were not meant to displace regular workers). A recent assessments highlighted the need for programmes aimed at retaining employment through subsidies to only be used for short periods of time and during severe recessions due to their cost and limited effectiveness (Brown and Koettl, 2012).

Subsidised employment in public and private employment can be used to strengthen the link between income support and activation through offering subsidies to firms willing to take on long term unemployed, young people or for groups not traditionally part of mainstream activation programmes such as disabled people.

We have not, so far, covered in-work benefits or tax credits which are also a form of subsidised employment particularly if firms use these earning top-ups to keep wages low and wage growth down. The subsidies can also be part of a package of measures designed to give disabled people equal opportunity to work and these enabling support services (grants for work place adaptations, funds to cover extra costs including support workers, etc) are likely to play a key role for this group

### **4.3 The 'Threat effect', monitoring and sanctions**

Within activation programmes a particular set of interventions have been designed to explicitly strengthen the link between income support and activation. The use of monitoring and the enforcement of sanctions has increased in many countries over the past 20 years and in particular over the last 10 years, although the extent to which they are used varies between countries (Grubb, 1999).

Three ways in which activation of job seekers claiming income support has been increased are: (1) The *Threat Effect*. An increase in activity that can be linked to the 'threat' (notification) of the start of a compulsory activation programme. (2) *Monitoring*. Compulsory, periodic interviews with employment advisers during which job seekers have to demonstrate their availability to start work and the active steps they have taken to find work since the last interview. Job seekers may be required to undertake a fixed number of activities. This may be linked to a written agreement drawn up between the public employment service and the job seeker and the basis on which payment of income support is determined; (3) *Sanctions*. The right to impose sanctions through the partial or full non-payment of income support has been available to public employment services but until fairly recently they were rarely used. A number of countries are now using benefit sanctions on a fairly frequent basis to 'punish' behavior which is considered

inconsistent with active work search and employment availability. The most common reasons are failing to turn up for interviews with employment advisers, job interviews, attend or participate in activation programmes.

The threat of compulsory activation, or at least the realization that it is fast approaching, can galvanize job seekers to make more effort in their search for work. This can involve more intensive job search, applying for more jobs, being prepared to drop reservation wages (Van den Berg et al., 2009) or considering types of work previously ruled out. There is evidence that as the start of programme participation approaches, exit rates from unemployment increase (Geerdsen, 2006; Rosholm and Svarer, 2008; Dolton and O'Neill, 1996). The threat of programme participation rather than actual participation increases flows off unemployment.

Recent evidence for Denmark has shown a strong and significant threat effect as activation approaches, leading to a reduction in the duration of unemployment (Rosholm and Svarer, 2008). Search effort is found to increase along with the number of search methods used and this increases the chance of job seekers finding work (Amilon, 2010).

The threat of approaching monitoring of job search activity was found to increase exits to employment only for highly educated workers in Belgium (Cockx and Dejemeppe, 2007). This was due to a greater share of these workers accepting part-time low wage jobs (presumably also more precarious), suggesting that they lowered their reservation wages as remaining unemployed became less attractive. Presumably lower educated workers were unable to lower their reservation wages any further. In contrast Hägglund (2006) found that threat effects in Sweden only had an impact on exits from unemployment benefit for referrals to job-search assistance activities and not job search monitoring. The authors conclude that intensive group work was considered to be less attractive to the job seeker than individual monitoring interviews.

Greater monitoring of unemployment benefit claimants' availability for work and job search efforts has been applied across most EU countries. The Restart Programme introduced in the UK in 1989 combined greater monitoring with job search assistance and resulted in lower rates of unemployment among participants in the medium- to long-run for men (Dolton and O'Neill, 2002).

However, greater monitoring doesn't always appear to reduce unemployment duration. Micklewright and Nagy (2010) investigate whether random assignment to a programme of greater monitoring of unemployment insurance claimants in Hungary – more frequent visits to the employment office and questioning on search activity – reduces unemployment duration relative to a control group. They report relatively large effects for women aged 30 and over but no effects for young women or men.

A mandatory activation programme in Denmark involving an intensive two week job search course followed by frequent attendance at the employment service

office, where checks were made on strategies being followed and effort was monitored, was found to increase the job finding rate (Graversen and Van Ours, 2008). The authors ascribe this effect to the combination of the initial threat effect, intensive monitoring and counselling and a further threat effect of a training programme, rather than the job search course, for those who were not able to find work after a period of time.

Further evidence that increased monitoring combined with job search assistance increases exits from unemployment is provided by Graversen and Van Ours (2009) for Denmark. They find that job seekers who had to travel further to attend the mandatory activation programme found a job more quickly than those attending offices closer to their homes. The authors conclude from this that participation in the programme was least attractive for those who had to spend more of their time travelling and this created an additional incentive for them to find work.

Benefit sanctions, whereby benefit income is reduced for a fixed period of time, are typically imposed on claimants due to infringements of entitlement conditions. The size and duration of any sanction varies according to the nature of the infringement and the claimant's previous record. Sanctions can be imposed for a variety of reasons such as: at the start of a claim where the claimant left their job on a voluntary basis; failure to turn up for an appointment at the public employment service; insufficient work search activity, refusal to participate in an activation programme. Sanctions and the threat of sanctions are designed to illicit 'good behaviour' among claimants by punishing 'bad behaviour'.

There are a number of reasons why a sanction regime could increase exits from unemployment. Firstly, if claimants comply with the conditions – turning up for interviews, appropriate amount of job search effort, participation in activation programmes and activities – then the extent to which these are positively related to finding work will also mean that 'compliers' will increase their chance of finding a job. Secondly, a reduction in benefit income could lead claimants to lower reservation wages and this could reduce the length of time it takes for them to find work. In addition, as claimants who have received a sanction are subsequently monitored more closely this too can increase exits from unemployment.

A number of countries have increased their use of sanctions but use is not uniform across countries (Grubb, 1999) and often enforcement is not consistent within countries. In the Netherlands sanctions were rarely applied before the 1990s but by the mid-1990s around 5% of unemployed social assistance recipients received a sanction each year (Van den Berg et al., 2004). A large increase in the use of sanctions among unemployment insurance claimants has also occurred (Abbring et al., 2005). As claimants who receive sanctions have lower job exit rates than other claimants prior to the sanction it is necessary to control for the selection bias that this introduces in any statistical evaluation. When selection is controlled for, sanctions are found to have a positive impact on individual exit rates from unemployment both for those claiming social assistance (Van den Berg et al., 2004) and those in receipt of unemployment insurance (Abbring et al., 2005). However, neither of these studies measured long term outcomes.

Switzerland is another country where benefit sanctions are imposed on claimants who fail to comply with conditions of benefit entitlement. An evaluation of their impact on unemployment duration found that both warnings (that eligibility criteria were not being met and therefore the claimant risked being sanctioned) and enforcement of sanctions had a positive effect on unemployment exit rates (Lalive et al., 2005).

Unfortunately, only short term effects are available and so it remains unknown if the effect of sanctions is to reduce the current spell of unemployment but in the longer term have a negative or insignificant impact on employment outcomes. This can occur if the job-seeker has taken a precarious job or a job which is not a good match. Such an outcome would be consistent with findings from other 'demanding' activation interventions which tend to push claimants into to work.

## **4.4 The role of enabling services**

As noted earlier, this evidence review seeks to look beyond "classical" active labour market programme measures to understand the importance and impact of enabling services in terms of increasing participation. As outlined in the introduction, the review takes a number of different approaches to presenting the evidence on enabling services. In this section we focus on a group, people with disabilities, most likely to require and benefit from some forms of enabling services.

### **4.3.1 Assessing the impact of enabling services: disabled people in the UK**

Disabled people are more likely to be out of work than people without disabilities. Across EU countries there exists considerable degree of variation in the design of out-of-work benefits for this group of people. These differences cover eligibility criteria, the degree of means-testing, the multitude of different benefits for different aspects of conditions, frequency of reviews, access to active labour market programmes and whether these are tailored programmes or general programmes for unemployed people.

Over the past 30 years disability rates have increased in a number of EU countries but rates of claiming disability-related benefits have not risen uniformly. Two countries that have experienced large increases in the share of the working age population claiming disability related benefits are the UK and Denmark (the Netherlands also has a relatively high share of claimants among working age disabled people). We briefly consider here the role of enabling services for the activation of this group of claimants.

Until fairly recently people with a medically verified disability, meeting the eligibility criteria qualified for Incapacity Benefit in the UK (they could also qualify for a range of other disability related benefits but for simplicity here we focus on Incapacity Benefit). Incapacity Benefit was a 'passive' benefit and claimants were



not required to search for work or take active steps to find work. Their disability status was rarely, if ever, reassessed. Over the course of the Labour governments' terms in office, 1997-2010, a number of changes were made to activate this large and growing group of claimants. Measures included the introduction of Work Focused Interviews for some claimants, the introduction of a voluntary active labour market programme (the New Deal for Disabled People) from 2001 which was replaced by Pathways to Work for new claimants from 2005. Since 2008 new claimants of out of work benefit made on the basis of disability had to apply for Employment and Support Allowance (ESA). To qualify they had to undergo a Work Capability Assessment (administered under contract by a private sector firm) and depending on the outcome of the assessment individuals were assigned to a support group for people with a severe disability who had no prospect of working and a work-related activity group. In the 2015 Conservative government budget it was announced that from 2017 new claimants entitled to ESA and assigned to the work-related activity group would receive a lower rate of benefit equivalent to that paid to unemployed people (Jobseeker's Allowance).

In the UK the previous activation programme for disabled people, Pathways to Work, recognised the importance of forming partnerships with the National Health Service to assist disabled people with health related interventions to help with condition management. However outcomes from this welfare to work programme were poor and when the Coalition government came to power in 2010 they replaced all existing welfare to work programmes with the Work Programme for long term unemployed people and those in need of extra help (such as disabled people). The Work Programme is delivered by contracted private providers who are paid according to results (getting people into work and a limited number of sustainment payments for individuals who remain in work). The value of these payments is graduated reflecting an assessment of the degree to which groups of claimants are considered to be easier or harder to help. The payments to providers for disabled people are considerably higher than for unemployment benefit recipients and these participants only need to remain in work for 3 months to achieve a job outcome (other participants need to remain in work for 6 months). Providers have considerable freedom to put in place a package of interventions to help people back into work. The hope was that this freedom would lead to innovation including the ability to sub-contract additional bespoke services. However, the Work Programme has disappointed initial high expectations of the numbers of disabled people that it would help back into work (NAO, 2014) and the higher payments for disabled people do not appear to be enough to create a sufficient financial incentive for these providers to provide adequate assistance to this group. Evaluations have found evidence of "creaming" and "parking"; focusing resources on easier to help groups who are most likely to find work while doing little to assist the harder to help groups. One factor that appears to be largely missing from the providers' offers to disabled people is occupational health services and in particular condition management (Lindsay et al., 2015).

There are a number of benefits and services available for people with disabilities; to provide extra assistance, to help fund some adaptations to work places and specialist aids. However, employment rates remain relatively low and active

labour market programmes are struggling to achieve sustainable employment outcomes for this group. A richer activation approach with a stronger set of enabling support services could help to improve outcomes for this group.

## 4.5 Summary of micro-level evidence

Most spells of unemployment are short – for example, in the UK around 90% of Job Seeker’s Allowance (JSA) claimants leave unemployment within a year of starting a claim, with the majority leaving within the first three months (McKnight, 2015). This means that it is not optimal for governments to offer high cost activation policies to all entrants to unemployment. To avoid high deadweight costs most programmes offer lower cost activation interventions to new entrants and higher cost interventions to longer term unemployed, or those they identify as being at highest risk of becoming long term unemployed. This means that an evaluator needs to take care in comparing the effects of different interventions which can be offered to very different groups of claimants at different points in their income support claim. A small percentage point increase in exit rates for an intervention made available to a larger stock of claimants (say at the start of their claim) can be just as effective in terms of the number of job seekers helped back into work as a tailored intervention (possibly of higher cost) made available to a smaller stock of claimants (eg the long term unemployed) but which has a larger percentage point increase in exit rates. Ideally a comprehensive cost-benefit analysis would take these factors into account when comparing the effectiveness of one intervention against another.

As this area of research has matured, measurement techniques have advanced and high quality longitudinal data has become increasingly available, it has also become clear that it is important to make assessments in the medium- and long-term as well as the short-term. Some interventions can be more effective at increasing exits from unemployment in the short-term, but less effective in terms of reducing unemployment recurrence and increasing earnings growth.

The delivery of activation programmes by private providers either wholesale (such as in the Australian model) or in part for particular groups of claimants such as the long-term unemployed and those deemed to require extra assistance (such as the models adopted in the Netherlands and the UK), means that there is likely to be less evaluation evidence available. This is particularly the case where ‘black-box’ contracts allow contractors to design their own programmes as long as they meet minimum service requirements. ‘What Works’ becomes commercially sensitive information under these arrangements as contractors are paid according to the results they achieve and are keen to increase their market share and win future contracts. There must also be concern that private providers will focus on achieving shorter-term outcomes unless performance payments include rewards for longer-term outcomes.

Card et al.’s (2010), Kluve’s (2010) and Bartu et al.’s (2014) meta-analyses provide a useful reminder that a range of outcomes (from significantly positive through to significantly negative) are reported in the literature for all activation programme

types. This can be the result of differences in the design and delivery of an intervention, the intensity of its application, the characteristics of the participant group, the degree of compulsion, the opportunities in the labour market, the benefit system, the time scale over which outcomes are assessed and the combination of other interventions available.

The advances made in the statistical methods used to evaluate specific programmes have helped to provide more reliable estimates of programme impacts. However, individual programme evaluations have limited use as a guide to design optimal activation strategies and the selection of the best mix of interventions to complement income support packages. Very little cost-benefit analysis is available to guide optimal policy design and there is clearly a trade-off required between high-cost high-impact programmes made available to relatively few income support claimants and lower-cost lower-impact programmes made available to the majority of claimants. Macro-level analysis is required to provide estimates of the net employment impacts taking into account displacement and substitution effects. However, the ability to reliably identify the impact of activation strategies on macro-economic indicators is some way off.

In this review we have tried to evaluate the evidence pertaining to the strength of the link between activation and income support. One factor that affects the strength of this link is the coverage of income support among the unemployed and there exists considerable variation in the coverage of Unemployment Insurance and Social Assistance (collectively income support) among unemployed people across countries. For example, coverage in Greece is particularly low and has fallen over the recent crisis from 20% of registered unemployed to less than 16% (Dimoulas, 2014). Unemployed people in Greece survive through family assistance (the scope of which has fallen over the crisis) and supporting themselves through shadow economy activities assisted through high rates of homeownership, universal health and education and affordable public utilities (ibid).

The methods through which unemployed people are given access to ALMP are also not uniform across countries both in terms of differences across claimant groups (youth, disabled people, lone parents, older people) and the length for which they have been in receipt of income support. This also affects the strength of the link between activation and income support. In some countries unemployed people are not given equal access to ALMP. In Greece beneficiaries of ALMP has been biased away from the most vulnerable and disadvantaged to those with better connections (Dimoulas, 2014). Reforms introduced as a package of measures accompanying austerity include training vouchers for unemployed people with a broader take-up and less selectivity than the old system, along with fixed term placements (for around 6 months) in community and public services with a flat-rate 'employment' benefit (workfare).

The design of out of work benefits for people with work-limiting longstanding illnesses or disabilities, single parents with young dependent children, youth and those reaching retirement often did not provide a passport to activation measures or enabling services designed to help people get back into work. This is one area

that has seen considerable reform over recent years particularly in countries where, for example, disability benefit claiming rates are high. However, for disabled people, evidence on the success of activation policies is disappointing suggesting that changes to benefit entitlement, increases in support and assistance as well as changes to workplaces and anti-discrimination legislation have not been enough to have a significant effect on reducing high inactivity rates among members of this group, even those deemed to be capable of work in a limited capacity.

Without a wider view provided by the macro-level evidence it is not possible to assess whether or not the sum total of interventions lead to a reduction in unemployment and an increase in employment levels. It is possible to find positive programme effects at the micro-level with no effect at the macro level where there are strong displacement and substitution effects. But it is not always easy to identify the impact of activation strategies at the macro-level as a number of other factors play an important role in determining employment and unemployment levels and flows.

The complementarity between income support coverage/generosity and activation strategies has implications for the design of welfare programmes that are effective in terms of reaching a society's aspirations to adequately support living standards of unemployed workers while maintaining work incentives and high levels of participation. The evidence points to a trade-off which can be characterised by welfare-poor (low income support levels and minimal activation programmes) and welfare-rich (higher levels of income support and more extensive activation programmes) approaches. There are clearly distributional consequences and different productivity and growth scenarios which require closer assessment.

With a range of outcomes found for each activation type we decided to delve down to see if it is possible to identify the characteristics of those interventions with positive-significant impacts relative to insignificant and negative-significant. The results highlight the importance of examining longer-run outcomes as 'demanding activations' tend to increase the exits rates from unemployment but have poorer long term impacts. This suggests that they are successful at moving the unemployed back into work more quickly but the job-matches are weak and/or the jobs found are more precarious. This increases their likelihood of returning to unemployment in the longer term.

In contrast, enabling services appear to improve the job match but the effects can be negative either as a result of lock-in effects or the longer time spent looking for a more suitable job. Overall the evidence on the effectiveness of enabling support services was weak as evaluations have generally not sought to estimate net impacts of these activation types.

## 5. Concluding remarks

In this review we have sought to bring together the evidence on the strength of the link between income support and activation. We have outlined different policy approaches and illustrated these using country case studies. We have described the evolution of this critical area of social protection and labour market policy which brought together what had originally been treated as disparate policy areas. We have tried to look beyond 'classical' activation programmes to include evidence on wider enabling support services. We have examined the macro-level evidence and the micro-level evidence to make an assessment of the importance of the link, and the strength of that link with income support.

An analysis at the macro level is hampered by the absence of indicators capturing the strength of the link between income support and activation. The closest proxies we have found are problematic both in terms of *construct validity* (i.e. the extent to which they *really* measure the quantity of interest) and in terms of *measurement validity* (i.e. the extent to which the numbers are correctly reported). Thus, it is important to read these *outcome indicators* with caution and to complement them with *output indicators*. We use LABREF data to look at what policy changes European countries have made since 2006 that should lead to a strengthening of the link between income support and activation by examining changes made to unemployment benefit, other social assistance and active labour market programmes. We consider the strength of the link between IS and activation in terms of both *stocks* and *flows*. Our analysis shows that a great variety of situations among Member States, including: (1) countries with a strong and increasing link between IS and activation, like Germany; (2) countries with a moderate and stable link between IS and activation, like France and the UK; (3) countries with a moderate and weakening link between IS and activation, like Sweden; (4) countries with a weak and slightly increasing link between IS and activation, like Italy; and (5) countries with a weak and slightly decreasing link between IS and activation (Czech Republic). Regardless of the strength of this link and the direction of recent reforms, we found no evidence of an association between our proxy measures of the strength of the link and the level of unemployment at a macro level. There is a limit to what we can learn from this evidence as a whole range of factors other than activation has an impact on aggregate levels of employment and unemployment and to a certain degree activation effort is endogenous. This leads us to examine the micro-level evidence.

There is a vast literature covering the evaluations of individual activation interventions. Largely these cover 'classical' active labour market policies (job search assistance, training, private sector wage subsidies, subsidised public sector employment) and a range of policies which attempt to increase activation through monitoring claimants' efforts and through the conditionality terms of their entitlement to claim income support. In addition to the programme impact evaluations there are a number of high class reviews of the literature and meta-analysis studies. We have attempted to use this evidence to understand why a range of outcomes (positive and significant, insignificant, negative and significant impacts on unemployment/employment) are found within activation types. We

pay special attention to evidence that could help inform on the role of the strength of the link between activation and income support.

**Why do evaluations produce such a variety of activation impact estimates?**

The review highlights the importance of methodological factors that can give rise to divergent findings. In particular for interventions that require participants to engage in a programme, there can be ‘lock-in’ effects which mean that participants are less likely to find work during programme participation than other claimants. If this is not taken into account in the estimation of programme impact then it can appear that the programme is less effective in the short-run even where longer term outcomes are favourable. On the other hand, some activation programmes, such as wage subsidies in the private sector, involve an employment contract that doesn’t necessarily end when the subsidy ends. If outcomes are measured immediately after an intervention ends, then it can appear that these programmes perform particularly well when compared to interventions that require participants to search for work when a programme ends. The timing of the outcome assessment is critically important for understanding how different types of activation programmes affect outcomes. A further challenge is that participants and non-participants are rarely random samples and controlling for these differences is critical for reliable estimation of programme effects. For longer run estimates of impacts it is unlikely that the ‘non-participant sample’ (ie the counterfactual in impact assessments) does not benefit from some activation programme and this means that long-run effects are likely to underestimate true values.

Comparison of different activation types is hampered by the fact that there is considerable variation in the design, implementation and evaluation of programmes both across countries and within countries over time.

**What is the importance of the link between activation and income support?**

There have been moves in many countries to integrate the administration of income support claims with public employment services. There are a number of advantages with doing this. Firstly, there can be cost savings with fewer local offices, for example. Secondly, co-location of benefit offices and employment services can help instill in the minds of claimants the expectation of a return (or entry) to work. Finally, interviews to verify that claimants are meeting their eligibility conditions can be tied in with job search assistance and other activation.

Many individual level policy developments of recent times are associated with a strengthening of the link between activation and income support, either in terms of the expectation and requirement for claimants to actively search for work and the greater variety of labour market services available to enable them to find work. There has also been considerable change over the last few decades on greater activation of out-of-work income support claimants on what were previously regarded as ‘inactive’ benefits (disability related benefits and benefits for single parents). There has also tended to be a reduction in the period that receipt of unemployment insurance is unconditional on active work search (where this system operates). There has been an increase in claimant conditionality,

mandatory participation in activation programmes and greater use of sanctions for those who fail to fulfill entitlement conditions or participate fully in activation programmes.

The three main 'classical' active labour market programmes (job search assistance; training; wage subsidies) are available to varying degrees to those who are not claiming income support (some with government funding). From the existing body of evidence it is not possible to conclude whether or not a link or a stronger link with income support increases their effectiveness.

Income support claimants tend to be more disadvantaged than those not claiming income support (apart from in countries where coverage of social assistance is incomplete) and this can mean that their future employment rates would be projected to be lower even in the absence of participation in an activation programme. There is some evidence that general training programmes designed to tackle low skills in the population tend to be associated with quite high deadweight losses providing an argument in favour of targeting these programmes on the most disadvantaged.

For all activation programme types there are examples of those which successfully improve outcomes for participants. As most of these activations involve a link and in some cases a very strong link with income support this provides evidence that a link between the two can have positive benefits. Where the link is very strong, such as on compulsory activation programmes, high degrees of monitoring and conditionality coupled with the use of benefit sanctions for digression, the evidence is not clear cut. "Services and Sanctions" can be successful at increasing exits from unemployment (shortening the duration of income support claims) but in the longer term training programmes and some wage subsidy programmes appear to lead to better outcomes. This suggests that individuals 'pushed' into work have a higher likelihood of churning between unemployment and precarious forms of employment.

### **The role of enabling support beyond 'classical' activation programmes**

It was hard to find good evaluation evidence on the net impact of broader enabling support on employment outcomes. This is because they have not generally been made available in a consistent way to income support claimants. Evaluations tend to take broader enabling support as part of the background or country context rather than explicitly estimating their impact on outcomes.

Access to broader forms of enabling support is less likely to be linked directly to income support receipt than 'classical' activation programmes. This makes it more challenging to find estimates of counterfactual outcomes. They are more likely to be made available to disabled people, lone parents, plus some smaller groups such as those suffering from mental health problems, prison leavers, those suffering from substance addiction.

Enabling support *could* help to improve net impacts among the long term unemployed, particularly disadvantaged groups and those with complex needs.

The net impact of activation programmes is still small, particularly for the most disadvantaged groups and those facing the greatest barriers to employment. More work needs to be done to establish whether broader enabling support packages alongside activation programmes and income support could improve outcomes further.

For income support claimants, increasing the link with activation can improve outcomes. However, one size doesn't fit all. Low cost early interventions such as job search assistance coupled with programmes that offer higher cost interventions for the long term unemployed, or for those identified as most at risk of becoming long term unemployed, with an income support package that protects individuals from poverty without creating high work disincentive effects seems to be the most promising approach. Lack of adequate social assistance through income support, even where activation programme are available, creates social problems - such as poverty, homelessness and social exclusion - and can move this group further from being able to secure good employment outcomes.

Enabling support could help to improve net impacts of 'classical' activation programmes – we currently lack the evidence to reach a conclusion on this point.



## Bibliography

- Abbring, J.H., van den Berg, G.J., van Ours, J.C., 2005. 'The effect of unemployment insurance sanctions on the transition rate from unemployment to employment', *Economic Journal*, 115, 505, 602-630.
- Abramovsky, L., Battistin, E., Fitzsimons, E., Goodman, A., Simpson, H., 2011. 'Providing Employers with Incentives to Train Low-Skilled Workers: Evidence from the UK Employer Training Pilots', *Journal of Labor Economics*, 29, 153-193.
- Amilon, A., 2010. 'Active Labour Market Programmes, Job Search and Job Finding in Denmark', *LABOUR*, 24, 279-294. doi:10.1111/j.1467-9914.2010.00485.x.
- Andrén, T., Gustafsson, B., 2004. 'Income effects from labor market training programs in Sweden during the 1980s and 1990s', *International Journal of Manpower*, 25, 688-713. doi:10.1108/01437720410570027.
- Björklund, A., Regnér, H. 1996. 'Experimental evaluation of European labour market policy', in Schmid, G. et al. (eds): *International handbook of labour market policy and evaluation*, pp 89-114. Cheltenham: Edward Elgar.
- Bratu, C., Lombardi, S., Rodrigues, M., Santangelo, G. Shaleva, A., 2014. 'Knowledge gaps in evaluating labour market and social inclusion policies: use of counterfactual impact evaluation', JRC Science and Policy Report, DG JRC and DG EMPL  
<http://publications.jrc.ec.europa.eu/repository/bitstream/JRC93543/lbna27287enn.pdf>
- Breunig, R., Cobb-Clark, D.A., Dunlop, Y., Terrill, M., 2003. 'Assisting the Long-Term Unemployed: Results from a Randomised Trial', *The Economic Record*, 79, 84-102. doi:10.1111/1475-4932.00080.
- Brown, A. J. G., Koettl, J., 2012. 'Active Labor Market Programs: Employment Gain or Fiscal Drain?', IZA Discussion Paper No. 6880, <http://ftp.iza.org/dp6880.pdf>
- Calmfors, L., 1994. 'Active Labour Market Policy and Unemployment--A Framework for the Analysis of Crucial Design Features' *OECD Economic Studies*, 7-47. doi:http://www.ingentaconnect.com/content/oecd/02550822
- Card, D., Kluve, J., Weber, A., 2010. 'Active Labour Market Policy Evaluations: A Meta-Analysis\*'. *Economic Journal*, 120, F452-F477. doi:10.1111/j.1468-0297.2010.02387.x
- Cavaco, S., Fougere, D., Pouget, J., 2005. 'Estimating the Effect of a Retraining Program for Displaced Workers on Their Transition to Permanent Jobs' IZA Discussion Paper No. 1513.
- Chong, A.E., Galdo, J., 2006. 'Training Quality and Earnings: The Effects of Competition on the Provision of Public-Sponsored Training Programs', Inter-American Development Bank.
- Cockx, B., Dejemeppe, M., 2007. 'Is the Notification of Monitoring a Threat to the Unemployed? A Regression Discontinuity Approach.' IZA Discussion Paper No. 2854.
- Cockx, B., Ridder, G., 2001. 'Social Employment of Welfare Recipients in Belgium: An Evaluation', *Economic Journal*, 111, 322-352. doi:10.1111/1468-0297.00610.

- Crepon, B., Dejemeppe, M., Gurgand, M., 2005. 'Counseling the Unemployed: Does it Lower Unemployment Duration and Recurrence?' IZA Discussion Paper No. 1796.
- Crepon, B., Ferraci, M., Fougere, D., 2012. 'Training the Unemployed in France: How Does It Affect Unemployment Duration and Recurrence?' *Annals of Economics and Statistics*, 107/108, 175-199.
- Dahlberg, M., Forslund, A., 2005. 'Direct Displacement Effects of Labour Market Programmes', *Scandinavian Journal of Economics*, 107, 475-494. doi:10.1111/j.1467-9442.2005.00419.x.
- DCLG, 2014. 'Understanding Troubled Families', UK Government Department for Communities and Local Government, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/336430/Understanding\\_Troubled\\_Families\\_web\\_format.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/336430/Understanding_Troubled_Families_web_format.pdf)
- Dimoulas, C., 2014. 'Exploring the impact of employment policy measures in the context of crisis: The case of Greece', *International Social Security Review*, 67, 49-65. doi:10.1111/issr.12039.
- Dolton, P., O'Neill, D., 2002. 'The Long-Run Effects of Unemployment Monitoring and Work-Search Programs: Experimental Evidence from the United Kingdom', *Journal of Labor Economics*, 20, 381-403. doi:10.1086/338686
- Dolton, P., O'Neill, D., 1996 'Unemployment duration and the Restart effect: some experimental evidence', *Economic Journal*, 106, 387-400.
- Duel, N., Singh, S., Tergeist, P., 2009. 'Activation policies in Norway', OECD Social, Employment and Migration Working Papers, No. 78, OECD Publishing: Paris.
- DWP, 2011a. New Deal Plus for Lone Parents and In Work Credit: Final report (RR732) - Publications - GOV.UK [WWW Document]. URL <https://www.gov.uk/government/publications/new-deal-plus-for-lone-parents-and-in-work-credit-final-report-rr732> (accessed 4.14.15).
- DWP, 2011b. Evaluation of ESF priorities 1 and 4: extending employment opportunities to adults and young people - Publications - GOV.UK [WWW Document]. URL <https://www.gov.uk/government/publications/extending-employment-opportunities-to-adults-and-young-people-rr755> (accessed 4.14.15).
- Eichhorst, W., Konle-Seidl, R. 2008. 'Contingent Convergence: A Comparative Analysis of Activation Policies', IZA Discussion Paper No. 3905.
- European Commission ESDE, 2014. *Employment and Social Developments in Europe 2014*. Available at: <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7736>.
- Evans, M., Eyre, J., Millar, J., Sarre, S., 2003. New Deal for Lone Parents: second synthesis report of the national evaluation. Department for Work and Pensions, Sheffield.
- Fitzenberger, B., Osikominu, A., Voelter, R., 2006. 'Get Training or Wait? Long-Run Employment Effects of Training Programs for the Unemployed in West Germany' ZEW Discussion Paper No. 06-39.
- Fredriksson, P., Johansson, P., 2008. 'Dynamic Treatment Assignment', *Journal of Business and Economics Statistics*, 26 (4), 435-445.
- Freedman, S., Knab, J., Gennetian, L. A., Navarro, D. 2000. *The Los Angeles Jobs-First GAIN Evaluation: Final Report on a Work First Program in a Major Urban Center*. New York: Manpower Demonstration Research Corporation.

- Geerdsen, L. P., 2006. 'Is there a threat effect of labour market programmes? A study of ALMP in the Danish UI system', *Economic Journal*, 116, 513, 738-750.
- Gerfin, M., Lechner, M., Steiger, H., 2005. 'Does subsidised temporary employment get the unemployed back to work? An econometric analysis of two different schemes', *Labour Economics*. 12, 807–835. doi:10.1016/j.labeco.2004.04.002.
- Graversen, B. K., van Ours, J.C., 2009. 'How a Mandatory Activation Program Reduces Unemployment Durations: The Effects of Distance', IZA Discussion Paper No. 4079. doi:http://arno.uvt.nl/show.cgi?fid=94211.
- Graversen, B. K., van Ours, J.C., 2008. 'Activating unemployed workers works; experimental evidence from Denmark', *Economics Letters*, 100, 2, 308-310.
- Green, A.E., de Hoyos, M., Li, Y., Owen, D. 2011. Job search study: literature review and analysis of the Labour Force Survey, Department for Work and Pensions Research Report No. 726.
- Grubb, D., 1999. 'Making Work Pay: the role of eligibility criteria for unemployment benefits', mimeo OECD.
- Häggglund, P., 2006. 'Are There Pre-Programme Effects of Swedish Active Labour Market Policies? Evidence from Three Randomised Experiments', 2006:2. Working Paper, IFAU - Institute for Labour Market Policy Evaluation.
- Heckman, J.J., Lalonde, R.J., Smith, J.A., 1999. 'The Economics and Econometrics of Active Labor Market Programs', in: Ashenfelter, O., Card, D. (Eds.), *Handbook of Labor Economics. Volume 3A. Handbooks in Economics*, vol. 5., pp. 1865–2097.
- HMT, 2005. Budget 2005: Investing for our future: Fairness and opportunity for Britain's hard-working families, HM Treasury UK.
- Immervoll, H., Scarpetta, S., 2012. 'Activation and employment support policies in OECD countries. An overview of current approaches'. *IZA Journal of Labor Policy* 1, 9. doi:10.1186/2193-9004-1-9.
- Jaenichen, U., Stephan, G., 2011. 'The Effectiveness of Targeted Wage Subsidies for Hard-to-Place Workers', *Applied Economics*, 43, 1206-1225.
- Kluve, J., 2010. 'The Effectiveness of European Active Labor Market Programs', *Labour Economics*. 17, 904–918.
- Krogh Graversen, B., van Ours, J.C., 2007. 'How to Help Unemployed Find Jobs Quickly; Experimental Evidence from a Mandatory Activation Program', Tilburg University, Center for Economic Research, Discussion Paper 01/2006; doi:http://www.cepr.org/pubs/dps/DP6057.asp.
- Lalive, R., van Ours, J.C. Zweimuller, J., 2005. 'The Effect of Benefit Sanctions on the Duration of Unemployment', *Journal of the European Economic Association*, 3, 6, 1386-1417.
- Layard, P.R.G., Nickell, S.J., Jackman, R., 1991. *Unemployment: macroeconomic performance and the labour market*. Oxford University Press, Oxford [England]; New York.
- Lechner, M., Miquel, R., Wunsch, C., 2011. 'Long-Run Effects of Public Sector Sponsored Training in West Germany', *Journal of the European Economic Association*, 9, 742–784. doi:10.1111/j.1542-4774.2011.01029.x.
- Lechner, M., Wiehler, S., 2013. 'Does the Order and Timing of Active Labour Market Programmes Matter?' *Oxford Bulletin of Economics and Statistics*, 75, 180–212. doi:10.1111/%28ISSN%291468-0084/issues.
- Lindsay, C., Greve, B., Cabras, I., Ellison, N., Kellett, S., 2015. 'Assessing the Evidence Base on Health, Employability and the Labour Market - Lessons for Activation

- in the UK', *Social Policy and Administration*, 49, 143–160.  
doi:10.1111/spol.12116
- Martin, J.P., 2015. 'Activation and Active Labour Market Policies in OECD Countries: Stylized Facts and Evidence on their Effectiveness', *IZA Journal of Labor Policy*, 4:4. doi:10.1186/s40173-015-0032-y.
- McKnight, A., 2016. 'Employment Policy Since the Crisis', in Lupton, R., Burchardt, T., Hills, J., Stewart, K. and P. Vizard (eds.) *Social Policy in a Cold Climate: Policies and Their Consequences Since the Crisis*, Policy Press.
- McKnight, A., 2015. 'The Coalition's Record on Employment: Policy, Spending and Outcomes 2010-2015', *Social Policy in a Cold Climate Working Paper 15*, Centre for Analysis of Social Exclusion, London.
- Meyer, B. D., 1995. 'Lessons from the U.S. Unemployment Insurance Experiments', *Journal of Economic Literature*, 33, 1, 91-131.
- Micklewright, J., Nagy, G., 2010. 'The Effect of Monitoring Unemployment Insurance Recipients on Unemployment Duration: Evidence from a Field Experiment', *Labour Economics* 17 (1): 180–87. doi:10.1016/j.labeco.2009.10.003.
- NAO, 2014. *The Work Programme*. Report by the Comptroller and Auditor General. National Audit Office.
- Neubäumer, R., 2012. 'Bringing the unemployed back to work in Germany: Training programs or wage subsidies?', *International Journal of Manpower*, 33, 159–177. doi:10.1108/01437721211225417
- OECD, 2014a. *Society at a Glance 2014*. OECD Publishing: Paris.  
doi:10.1787/soc\_glance-2014-en.
- OECD, 2014b. *Education at a Glance 2014: OECD Indicators*, OECD Publishing: Paris.  
<http://dx.doi.org/10.1787/eag-2014-en>.
- OECD, 2014c. *Health at a Glance: Europe 2014*. OECD Publishing.  
[http://dx.doi.org/10.1787/health\\_glance\\_eur-2014-en](http://dx.doi.org/10.1787/health_glance_eur-2014-en)
- OECD, 2014d. *OECD Employment Outlook 2014*, Organisation for Economic Co-operation and Development. OECD Publishing: Paris
- OECD, 2013. *Mental health and work: Switzerland*, OECD Publishing: Paris.
- OECD, 2007. *OECD Employment Outlook 2007*, Organisation for Economic Co-operation and Development. OECD Publishing: Paris
- OECD, 2005. Labour market programmes and activation strategies: evaluating the impacts, in: *OECD Employment Outlook 2005*. Organisation for Economic Co-operation and Development. OECD Publishing: Paris.
- OECD Jobs Study. 1994. *OECD Jobs Study: Facts, Analysis, Strategies*, Organisation for Economic Co-operation and Development. OECD Publishing: Paris.  
<http://www.oecd.org/els/emp/1941679.pdf>.
- Puhani, P.A., 2003. 'Active labour market policy and employment flows Evidence from Polish regional data', *International Journal of Manpower*, 24, 897–915.
- Richardson, K., van den Berg, G., 2002. 'The effect of vocational employment training on the individual transition rate from unemployment to work', Working Paper Series 2002:8, IFAU - Institute for Evaluation of Labour Market and Education Policy.
- Riccio, J. A., Friedlander, D., Freedman S., 1994. *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program*. New York: Manpower Demonstration Research Corporation.

- Rosholm, M., Svarer, M., 2008. 'The Threat Effect of Active Labour Market Programmes', *Scandinavian Journal of Economics*, 110 (2): 385–401. doi:10.1111/j.1467-9442.2008.00544.x.
- Sacklén, H., 2002. 'An Evaluation of the Swedish Trainee Replacement Schemes', IFAU Working Paper No. 2002:7. Institute for Labour Market Policy Evaluation. <http://www.ifau.se/upload/pdf/se/2002/wp02-07.pdf>.
- van den Berg, G.J., Bergemann, A.H., Caliendo, M., 2009. 'The Effect of Active Labor Market Programs on Not-Yet Treated Unemployed Individuals', *Journal of the European Economic Association*, 7, 606–616. doi:10.1111/%28ISSN%291542-4774/issues.
- van den Berg, G.J., van der Klaauw, B., van Ours, J.C., 2004. 'Punitive sanctions and the transition rate from welfare to work', *Journal of Labor Economics*, 22, 1, 211–241.
- van der Ende, M.; Peters, M.; Biesma, A.; Dimitrova, D.; Schneider, H., 2012. 'Analysis of Costs and Benefits of Active Compared to Passive Measures', Joint report IZA/ECORYS for the DG Employment, Social Affairs and Equal Opportunities of the European Commission, Brussels.
- Venn, D., 2012. 'Eligibility Criteria for Unemployment Benefits: Quantitative Indicators for OECD and EU Countries', OECD Social, Employment and Migration Working Papers, No. 131, OECD Publishing. <http://dx.doi.org/10.1787/5k9h43kgkvr4-en>.
- Venn, D., 2011. 'Earnings Volatility and its Consequences for Households', OECD Social, Employment and Migration Working Papers, Organisation for Economic Co-operation and Development, Paris.
- Wunsch, C., 2013. 'Optimal Use of Labor Market Policies: The Role of Job Search Assistance', *Review of Economics and Statistics*, 95, 1030–1045. doi:10.1162/REST\_a\_00371.

## Annex A

### Data sources

Our macro-level evidence relied on data provided by:

Eurostat ([ec.europa.eu/eurostat](http://ec.europa.eu/eurostat));  
LABREF Labour Market Reforms Database  
(<https://webgate.ec.europa.eu/labref/public/>);  
OECD.Stats (<http://stats.oecd.org>); and  
OECD Data (<http://data.oecd.org>).

Our micro-level evidence relies primarily on evaluation evidence. Relevant studies were identified through electronic searches of bibliographic databases, government policy databanks, and other search engines. The search was conducted in Spring/Summer 2015. Bibliographical details and, where available, electronic documents were added to a Zotero database.

The following academic databases were searched:

Econlit  
European Sources Online (ESO)  
International Bibliography of the Social Sciences (IBSS)  
ISI Web of Science via the Web of Knowledge  
Science Direct  
Scopus

In addition, the websites for the following organisations were examined:

Campbell Collaboration (<http://www.campbellcollaboration.org>);  
CEPR, Centre for Economic Policy Research ([www.cepr.org](http://www.cepr.org));  
CESifo, the cooperation between CES (Center for Economic Studies) and IFO  
(Institute for Economic Research) ([www.cesifo-group.de](http://www.cesifo-group.de));  
CORDIS Results ([http://cordis.europa.eu/projects/home\\_en.html](http://cordis.europa.eu/projects/home_en.html));  
Gov.uk, the UK government's web portal ([www.gov.uk/government/publications](http://www.gov.uk/government/publications));  
IFAU, the Institute for Evaluation of Labour Market and Education Policy  
(<http://www.ifau.se/en/>);  
IZA, Institute of the Study of Labor ([www.iza.org](http://www.iza.org));  
J-PAL, the Abdul Latif Jameel Poverty Action Lab ([www.povertyactionlab.org](http://www.povertyactionlab.org)).  
LABORDOC, the library of the International Labour Organisation  
(<http://labordoc.ilo.org>);  
NBER, National Bureau of Economic Research ([www.nber.org](http://www.nber.org));  
OECD iLibrary (<http://www.oecd-ilibrary.org>);  
The Research Archive of the UK Department for Work and Pensions (unstable URL).

## Search terms

A selection of the main key words and phrases used:

Activation and active labour market programmes  
Activation and labour market reform  
Activation and unemployment insurance  
Activation effectiveness  
Activation only programmes  
Activation policies  
Activation strategies  
Active labour market programmes (ALMP)  
ALMP and the business cycle  
ALMP and welfare reform  
ALMP evaluations  
Conditionality  
Cross country variation in ALMP  
Cross country variation in conditionality  
Economics of ALMP  
Effectiveness of ALMP  
Evaluating activation  
Evaluating ALMP  
Evaluating greater conditionality  
Greater conditionality linked to ALMP  
Impact of ALMP  
Improving work incentives  
Income support and work incentives  
Links between income support and activation  
Links between income support and ALMP  
Links between unemployment insurance conditionality and activation  
Links between unemployment insurance conditionality and ALMP  
Making work pay policy initiatives  
Reducing unemployment  
Reforming ALMP in Europe  
Reforming labour market institutions and unemployment  
Sanctions  
Strengthening activation  
Strengthening conditionality  
What works: ALMP  
What works: conditionality  
Work incentives

## Annex B

### Classifying policy reforms in LABREF

We developed a 4-level classification system of policy changes relating to whether or not they represented a strengthening of the link between income support and activation.

#### 1 Strong link

#### 2. Moderate/Moderately Strong Link

#### 3. Weak link

#### 4. No link

#### 1 Strong link – strengthening of the link:

A strong link increases activation among income support claimants. An example of a policy change resulting in a strong strengthening of the link between activation and income support:

1	Belgium	2012	Unemployment benefits	Search and job availability requirements	Introducing a strengthened monitoring of the young unemployed benefiting from integration allowances, with a regular evaluation of their job search efforts. In case of a negative evaluation, the right to the integration allowance may be suspended.
---	---------	------	-----------------------	--	---

#### 2. Moderate/Moderately Strong Link:

Reforms to activation or income support which moderately strengthen the link (eg activation policies targeted at unemployed claiming benefits). These include cases where activation measures are introduced which are specifically targeted at unemployment benefit recipients but are not compulsory. For example:

2	Romania	2013	Active labour market policies	Employment subsidies	Employers who create new employment opportunities for registered unemployed individuals aged 45 years and over and for those who have 5 years till early or statutory retirement age receive monthly, for a period of 12 months, for each employee in these categories, an amount equal to the Reference Social Indicator (set at RON 500). Employers receiving the incentive have the obligation to maintain labour relations with the persons employed for at least 18 months.
---	---------	------	-------------------------------	----------------------	--

#### 3. Weak link

In these cases labour market measures are introduced but they are not specifically targeted at unemployed income support claimants. This may be an expansion of



training programmes for low skilled workers or employment subsidies for struggling businesses to allow them to hold onto workers. Alternatively changes in income support entitlement establish a weak link between income support and activation:

3	Malta	2007	Other welfare-related benefits	In-work benefits (employment conditional benefit or tax credit)	Persons over 45 years who establish themselves as self-employed and have been out of the labour market for at least 5 years will be refunded the first year national insurance contributions.
---	-------	------	--------------------------------	---	---

#### 4. No link

Example of a policy change that has no link between activation and income support:

4	Slovenia	2009	Active labour market policies	Special schemes for youth	Graduate students are given 6 months on-the-job training in their field of study. The students then have six months to graduate, after which they return to the same employer. The employer receives a grant of EUR 2,000 for six months to subsidise the wages of the graduate. Employers should cover the cost of a medical examination, the cost of a mentor up to EUR 100 per month, as well as provide a student allowance to cover costs of EUR 3 per hour spent training (up to 100 hours in total). Target was to support 600 graduates.
---	----------	------	-------------------------------	---------------------------	--



## HOW TO OBTAIN EU PUBLICATIONS

### Free publications:

- one copy:  
via EU Bookshop (<http://bookshop.europa.eu>);
- more than one copy or posters/maps:  
from the European Union's representations ([http://ec.europa.eu/represent\\_en.htm](http://ec.europa.eu/represent_en.htm));  
from the delegations in non-EU countries  
([http://eeas.europa.eu/delegations/index\\_en.htm](http://eeas.europa.eu/delegations/index_en.htm));  
by contacting the Europe Direct service ([http://europa.eu/eurodirect/index\\_en.htm](http://europa.eu/eurodirect/index_en.htm))  
or calling 00 800 6 7 8 9 10 11 (freephone number from anywhere in the EU) (\*).

(\*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

### Priced publications:

- via EU Bookshop (<http://bookshop.europa.eu>).

### Priced subscriptions:

- via one of the sales agents of the Publications Office of the European Union  
([http://publications.europa.eu/others/agents/index\\_en.htm](http://publications.europa.eu/others/agents/index_en.htm)).

