

Activation approaches in OECD countries

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*Design and Implementation of Activation Policies
October 11, Tulip House Hotel, Bratislava*

Outline of talk: Activating recipients of minimum-income transfers

1. How big is the challenge?

How many people are potentially minimum-income clients?

2. Employment barriers: All about incentives?

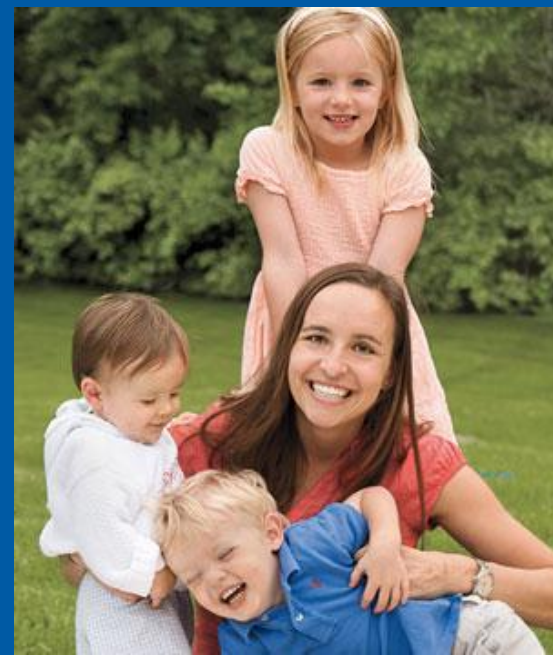
3. What are OECD countries doing?

How big is the group that potentially depends on minimum-income benefits?

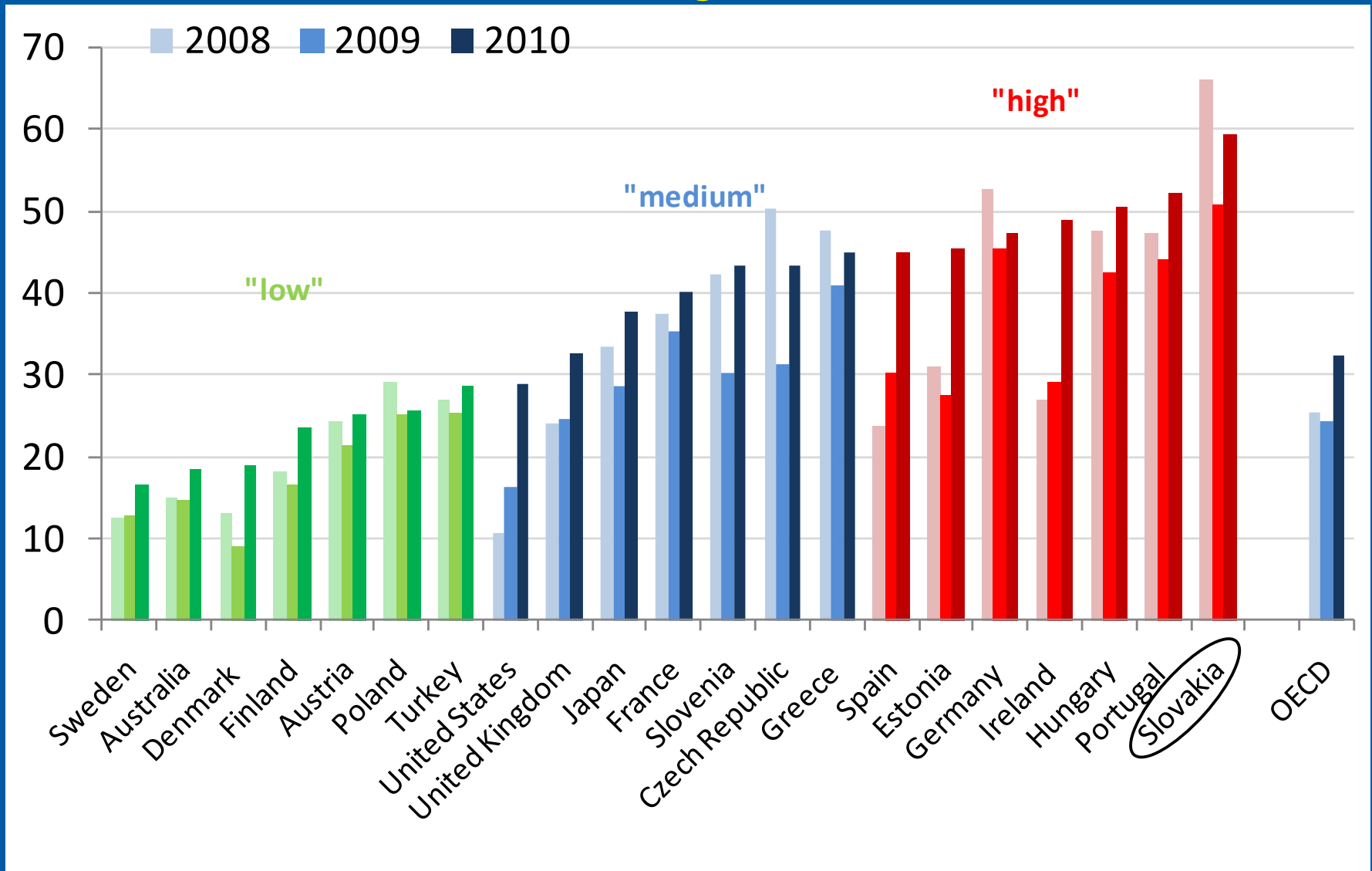
Important drivers:

- Long-term unemployment
- Labor-market inactivity
- Reach of “higher-tier” benefits
 - *unemployment*
 - *disability*
 - *early retirement*
 - *maternity leave*
- Income poverty

How does Slovakia compare with other countries?

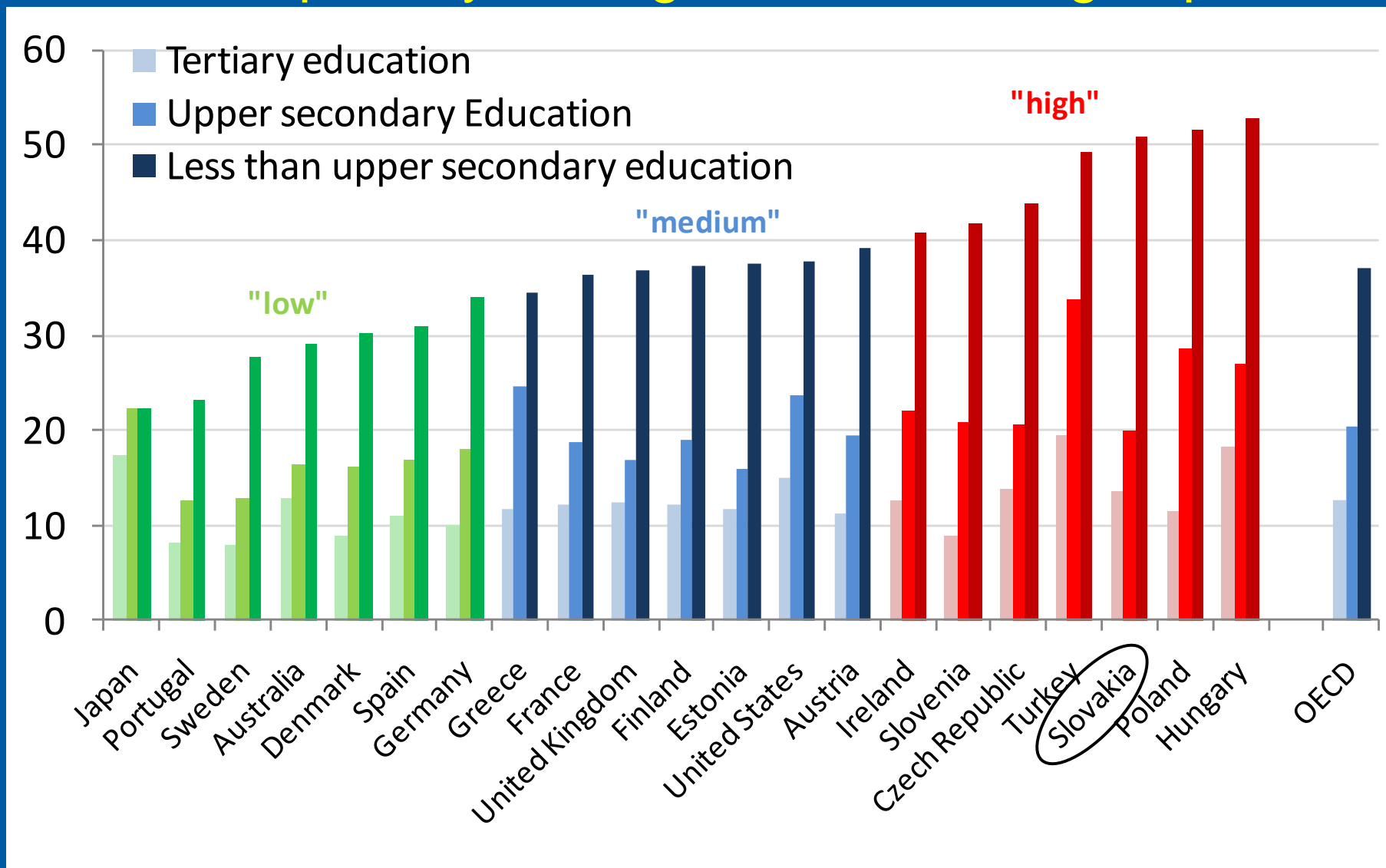


(i) Long-term unemployment is high... ... and on the rise again

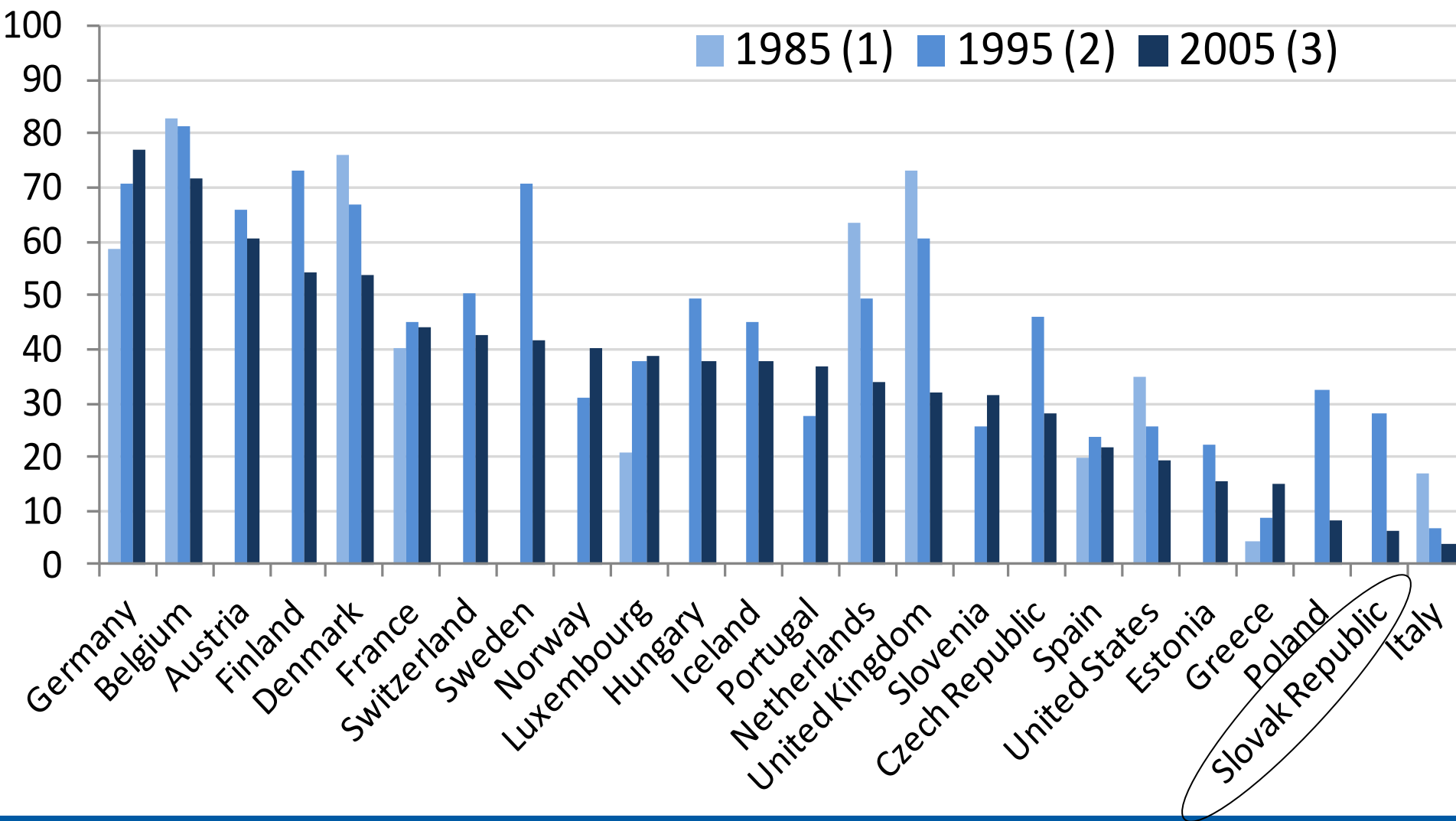


(ii) Inactivity rates are high...

... especially among low-education groups



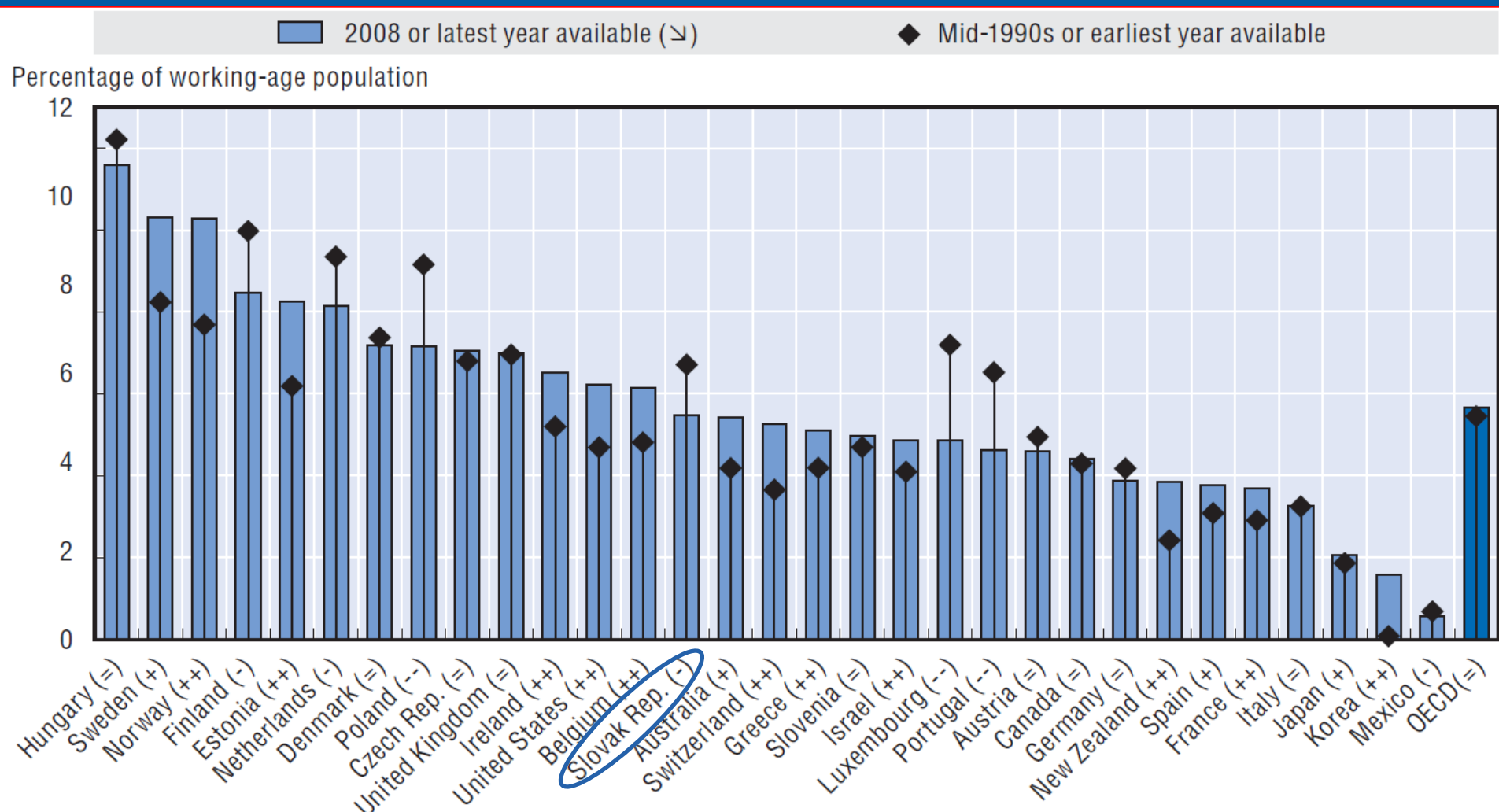
(iii) Very few unemployed receive unemployment benefits



% of ILO unemployed. Source: Immervoll and Richardson (2011).
 (1) PRT: 1986, ESP: 1987, USA: 1992. (2) HUN, CHE: 1996, CZE, EST, POL, SVK: 1998. (3) NLD: 1999, ESP.: 2004.

(iv) Making other benefits more strict can lead to higher demand for minimum-income support

e.g., Disability benefit recipients



A first diagnosis: SVK Minimum-income benefit plays (unusually) **central role** as an out-of-work benefit...

...because:

- High incidence of long-term job-seekers
- Large numbers of working-age people are inactive, especially low-educated
- Very strict unemployment insurance benefits
...hence, “material-need” benefit is de-facto unemployment benefit
- plus... “poor people are really poor”,
have little other income to rely on
 (“poverty gap” before transfers second-highest in OECD)

1. How big is the challenge?

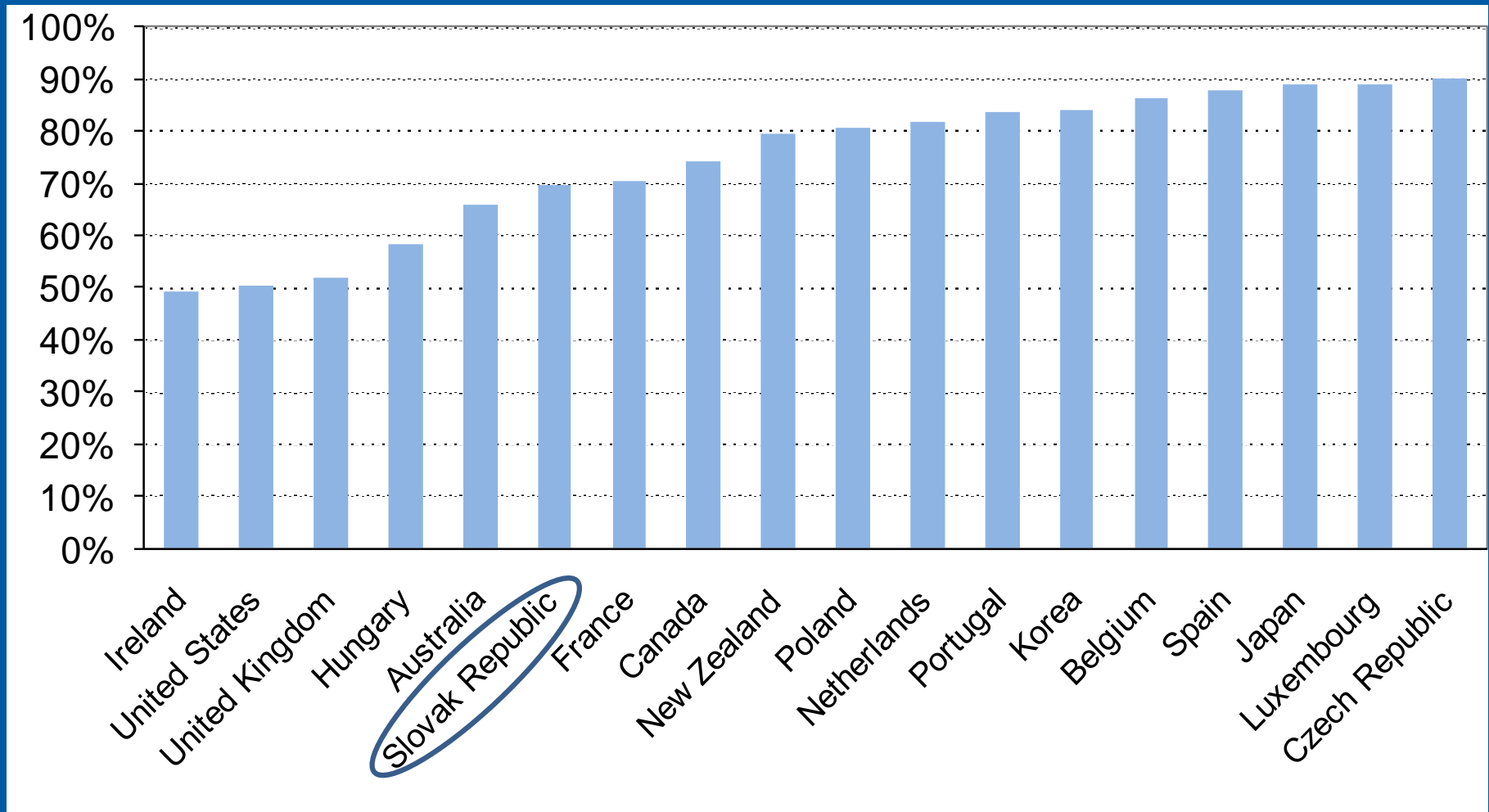
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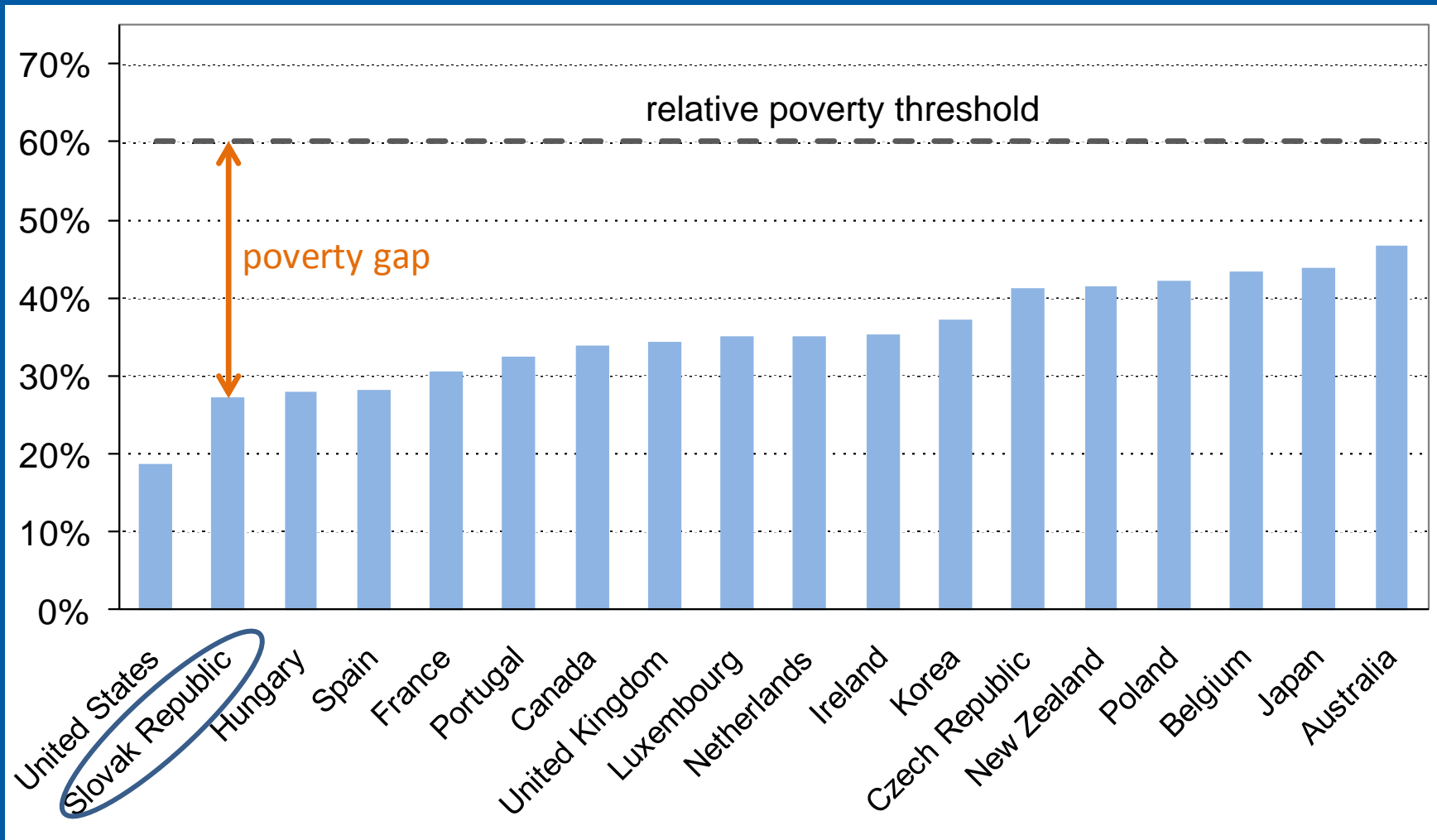
Work disincentives can be a concern...

Minimum Income benefit package, % of income in minimum-wage job
lone parent with two children, pre-crisis (mid-2000s)



... But poverty is a concern too ...

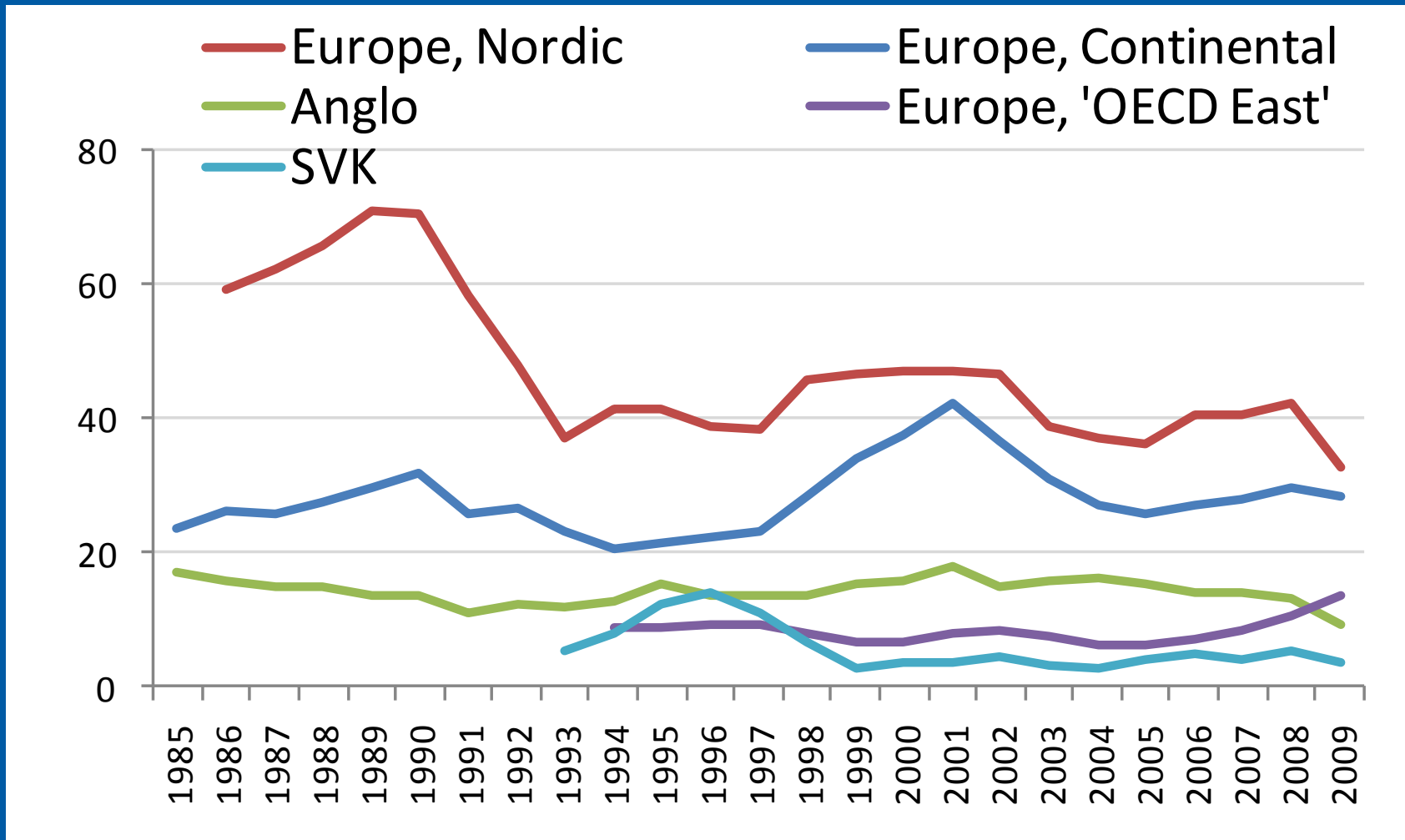
Minimum Income benefit package, % of median household income
lone parent with two children, pre-crisis (mid-2000s)



Source: OECD tax-benefit models

... and there are employment barriers other than disincentives

Spending on active labor-market policies per unemployed, in % of GDP/capita



Source: Own calculations based on OECD Labour-market Policy Database

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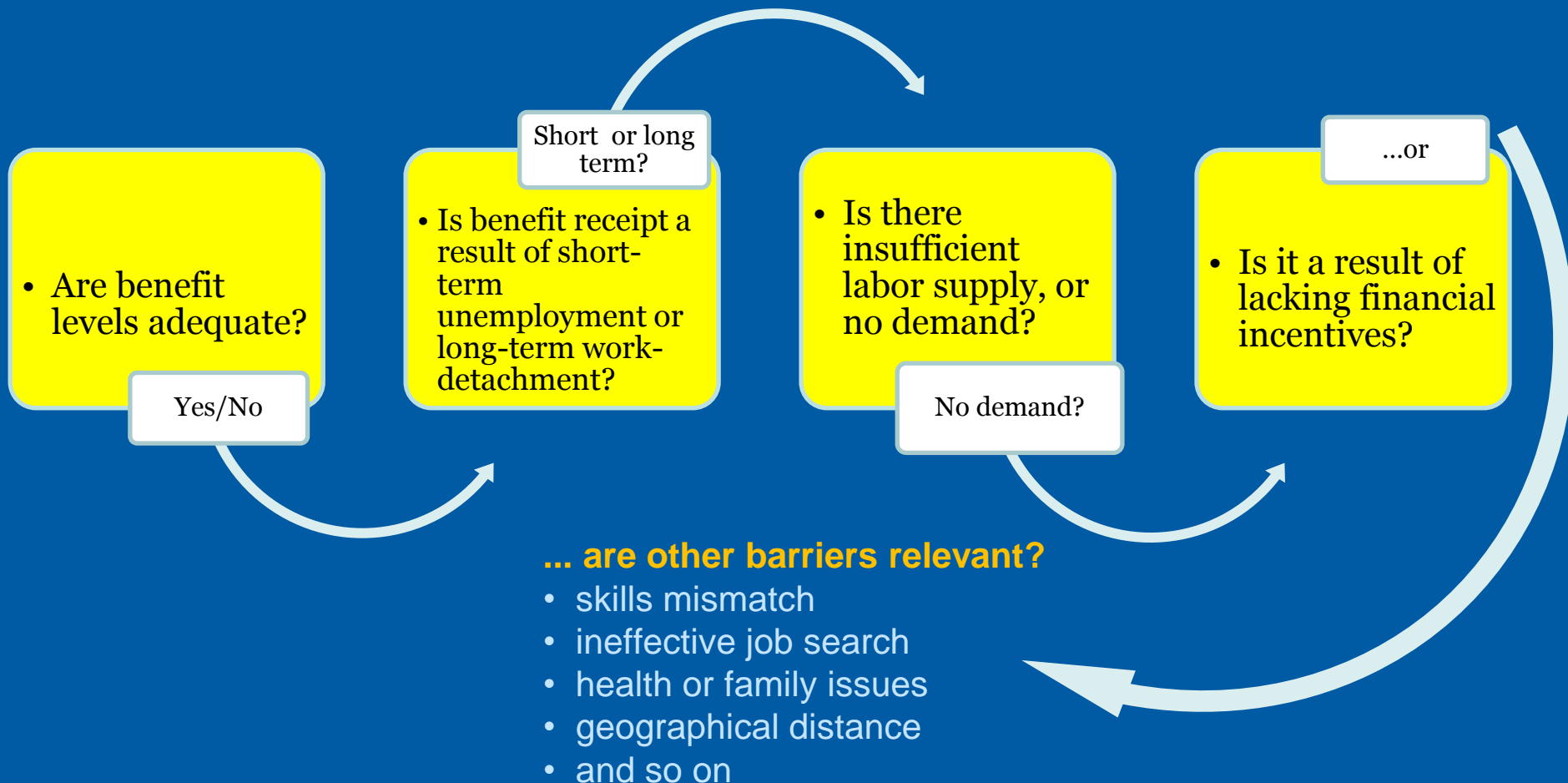
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2. Employment barriers: All about incentives?

3. What are OECD countries doing?

Experience suggests that coherent overall activation package needed

Questions / “profiling” of policy clients



What have countries done?

Key *ALMP* reforms since the mid-90s

Focus: raise *effectiveness* of active programs
(rather than overall *ALMP* spending)

- **Job-placement efforts**

- Profiling and/or individual action plans: AUS, CAN, DEU, NLD, NZL, NOR
- Customized assistance, intensified support for long term unemployed and vulnerable

- **Testing/monitoring work availability**

- Stricter job-search requirements *plus* more intense client contact
- Use of *ALMPs* as work availability tests: NZL, NOR, POL, SWE

- **Early intervention** to “activate” jobseekers

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Key *ALMP* reforms since the mid-90s

Focus: raise *effectiveness* of active programs
(rather than overall *ALMP* spending)

- **Compulsory activation:**
 - AUS, DNK, SWE, CHE
 - UK: “scheduled” compulsion
- **Administration of benefits/programs:**
 - Link *ALMPs* closely to work-availability requirements
 - Collaboration between agencies (or full integration)
- **Quasi-market for employment services**
 - AUS, NLD, UK: contracting out active labor-market programs and *placement*
 - AUS: encourage competition in market for placement services

Some *make-work-pay* policy initiatives

- **In-work benefits / tax-credit** (US EITC, UK WFTC, etc.)
 - Now exist in more than half of OECD countries
 - Rationale: improve work incentives while boosting incomes of low-paid workers
 - Some positive employment impact for targeted groups
 - But main attraction is redistributions *without damaging* employment
- **Tailored benefit means-tests** (disregards, flat benefit withdrawal rate, etc.)
 - Most OECD have one form or another
 - Often facilitate *marginal* employment → low-wage trap
 - Facilitating also *non-marginal* employment is very expensive
 - UK: in-work benefit → tailored means test (*Universal Credit*)
- **Targeted reductions in social security contributions** (BEL, FRA, DEU)
 - Can be similar to in-work benefits, but targeted at *individuals* rather than *families*
 - Can be designed to stimulate demand (reduce employer contributions)
 - Can be very expensive – but less so than across-the-board tax reductions
- All those measures can be **time-limited** (e.g., transitional “into-work benefit”)
 - Less costly but redistribute less

Summing up: A broad range of objectives...

... Activation is a **combination** of policy tools that **support and incentivize**

➤ *job search and job finding,*

➤ *productive participation in society, and*

➤ *becoming and remaining **self-sufficient** and less dependent on public support*

Summing up: A broad range of objectives...

... Activation is a **combination** of policy tools that **support and incentivize**

- **job search and job finding**,
e.g., support labor supply and labor demand
- **productive participation in society**, and
e.g., address/avoid low-wage or informality “traps”
- **becoming and remaining self-sufficient and less dependent on public support**
e.g., enable families to work their way out of poverty;
break “cycle” of poverty between generations

Thank you!