International Labour Organization

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INVENTORY OF LABOUR MARKET POLICY MEASURES IN THE EU 2008–13

The crisis and beyond

International
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Inventory of labour market policy measures in the EU 2008–13: The crisis and beyond

Synthesis Report

INTERNATIONAL LABOUR OFFICE

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Introduction

The aim of this report is to analyse the manner in which European Union (EU) Member States addressed the labour market issues that arose in the aftermath of the 2007–08 financial crisis.

As the first negative effects of the financial crisis were affecting the economies and labour markets of EU countries and their trading partners, governments took action in order to face the turmoil in their labour markets and mitigate its devastating economic and social consequences.

But what happened next? Did countries maintain their efforts to implement the changes that the crisis highlighted as necessary, or were these efforts reduced as the crisis wore off? Did the crisis accelerate structural reforms or did it, on the contrary, delay needed changes? What types of measures were more widely used during this period? Have Member States followed similar paths since 2007 as far as their labour market policies are concerned, or are there significant discrepancies between them? These are some of the questions that this report addresses, along with others that arise as the issues are analysed further.

To address these and other questions, this report utilizes a diverse range of tools. An inventory of labour market policy measures implemented in EU Member States between 2008 and 2013 was compiled using information available at the Eurofound Industrial Relations Observatory (EIRO) online database.[1] This inventory includes a total of 524 policy measures, classified across several dimensions, including budget impact, type of programme, main beneficiary and implementation date, and it is available online.[2]

In addition, national level monographs covering labour market policy measures during the period 2008–13 were prepared for 11 Member States,[3] the main findings of which are used in this report to illustrate trends at the EU level. The monographs are also available online on the same platform.

This report also makes extensive use of other data sources whenever justified by the analysis undertaken, namely the Eurostat and LABREF databases, the ILO Social Security Database and the OECD Employment and Labour Market Statistics database, among others. The data retrieved from these sources were of particular use when trying to analyse the relationship between policy-making and labour market outcomes.

This report finds there was a strong reaction from policy-makers in the aftermath of the financial crisis. The number of policy measures increased exponentially in the period 2009–10, particularly in Member States where the negative effects of the crisis were felt most severely, such as Greece, Portugal and Spain. The majority of these policy measures focused on labour market regulation, wage-related policies and active labour market policy.

1. http://www.eurofound.europa.eu/observatories/eurwork/articles
2. http://www.ilo.org/inventory-European-Union-2008–13
3. France, Germany, Greece, Ireland, Italy, Latvia, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

However, in spite of the considerable effort made by Member States to tackle the negative effects of the financial crisis, some types of intervention were found not to have had the expected impact on outcomes during the period; namely, active labour market policy measures and dismissal-related policy measures. The impact analyses presented in this report show that these two types of intervention did not increase exit rates from unemployment during the period.

This lack of significant impact does not seem to be related in any way to the prevalence of "firm friendly" policy measures. Indeed, the inventory shows that across the EU there was a balance between (i) policy measures that mainly benefited workers and (ii) interventions that aimed to help employers withstand the reduced levels of demand recorded in the aftermath of the crisis. Nonetheless, different patterns of intervention were observed, with the majority of changes in some areas reducing the protection given to workers. With respect to minimum wages, non-standard forms of employment and unemployment benefits, a great percentage of changes tended to be protective of workers' rights, while measures covering worker dismissals regulations, collective bargaining and the public sector mostly benefitted employers (or the government).

Overall, the report finds that policy-makers reacted strongly to the financial crisis when it comes to the labour market. Their responses were balanced between (i) helping workers sustain or find a job and (ii) ensuring that firms were able to withstand a sharp decline in demand without going out of business. In some cases, however, the specifics of the crisis and budget constraints prevented Member States from investing to the extent needed to help labour markets recover from the greatest economic depression in the history of the EU. This is underlined by the fact that high levels of unemployment are still being recorded in many Member States in 2015.

Given the heterogeneity of the policy measures across the inventory, this report describes and analyses in detail the most popular areas of intervention in separate chapters. This allows the analysis of each area to be adapted to its specifics, whether in terms of the nature of its policy measures, data availability or other issues. The structure of the report is as follows: Chapter Two focuses on labour market regulation policy measures and their effects; Chapter Three considers active labour market policies; Chapter Four deals with policies related to unemployment benefits and their implications; Chapter Five looks at wages during the crisis, with a particular emphasis on minimum-wage policy and collective bargaining and their impacts; and Chapter Six examines policy measures targeting the public sector.

1 Inventory overview

The ILO Inventory of Labour Market Policy Measures contains a total of 524 policy measures decided upon by the first 27 Member States of the European Union (EU)[4] between 2008 and 2013. This equates to an average of 19 policy measures per country and an average of 87 interventions per year. Over the period, Greece decided upon the largest number of measures (41) and Cyprus the fewest (six). The inventory classifies each policy measure across several dimensions, from its area of intervention to its target group or its impact on public expenditure.

The goal of this report is to combine the information gathered in the inventory with other sources of data to improve our understanding of how policy interventions interacted with labour market outcomes in the wake of the financial crisis. Not only does this approach shed light on the policy profile across the EU from different perspectives, but it also allows for a multidimensional analysis, enabling deeper insights into the specificities of some particular types of measure.

The remainder of this chapter analyses the policy profile across the whole inventory along its most important dimensions (evolution over time, cross-country distribution, main areas of intervention, etc.), while subsequent chapters each focus on a particular topic.

Figure 1.1 shows the yearly distribution of the total number of policy measures over the period considered (2008–13), together with the average unemployment rate in the EU-27 for the same period.[5] The policy date is defined as the year in which the policy was implemented.[6]

Policy-makers reacted quickly to the sharp rise in unemployment that followed the financial crisis. However, even though unemployment rates continued to increase after 2009, the number of policy measures implemented quickly decreased, with the number of measures implemented in 2012 being less than half of what they were at the peak year of 2009. The reasons for this will be discussed in this report. It is possible that (i) Member States felt that all necessary changes had been made, (ii) the stabilization of the economy (at alarmingly high unemployment levels) misled governments into lowering their guard on the labour market policy front, or (iii) financial and political constraints put a halt to reforms.

To further illustrate this point, figure 1.2[7] plots the year in which each country implemented the highest number of labour market policy measures against the number of measures for that year.

Most countries had already recorded their highest number of new policy measures by the end of 2010, with only four countries peaking afterwards: Czech Republic, Germany (which introduced most changes late in 2013), Malta and Slovakia. At the same time, a closer look at the unemployment figures during this period shows that only four countries registered their highest unemployment rates before 2010.

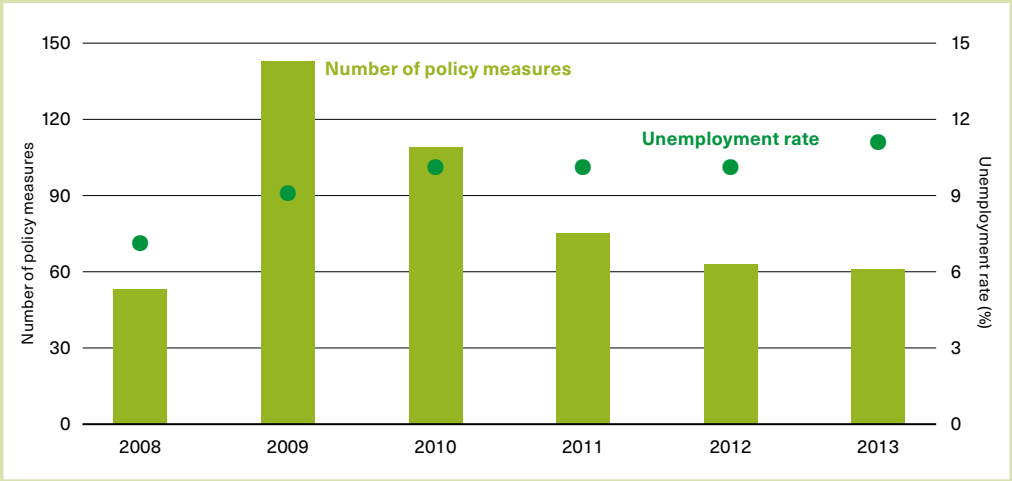
4. Information on policy changes in Croatia during the period is presented in Appendix E.

5. Note that the sum of policy measures in figure 1.1 does not equal 524, as some policy measures decided upon during the period 2008–13 were to be implemented in 2014 or later.

6. In cases where information was not available on the implementation date of a policy, the date of decision (voting in parliament, approval of the law, government decree, etc.) was used.

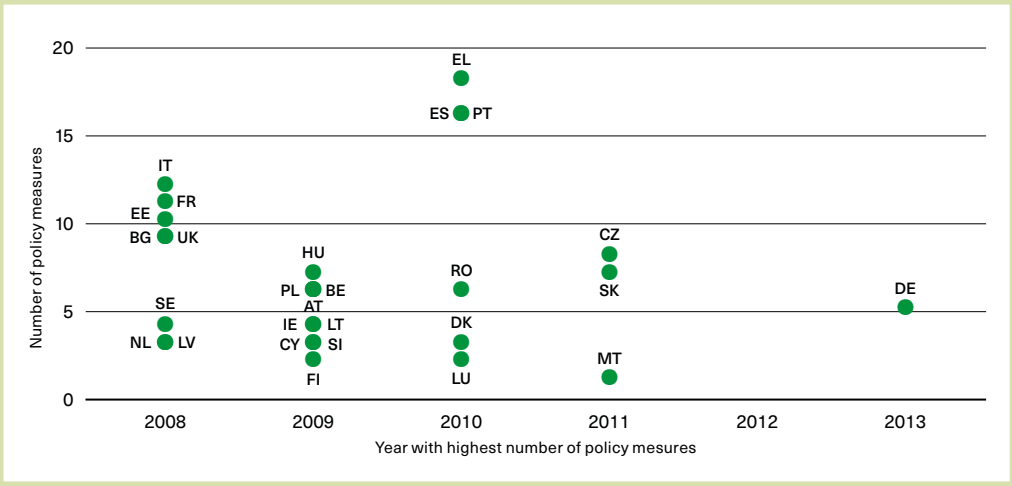
7. Please see Appendix F for a list of country acronyms used.

FIGURE 1.1 Total policy measures and unemployment rate (EU-27)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat [une_rt_a].

FIGURE 1.2 Peak year of policy measure implementation by Member State*



* Please see Appendix F for a list of country acronyms used.

Source: ILO Inventory Labour Market Policy Measures.

In order to understand the extent to which the number of policy measures implemented differs between countries, figure 1.3 shows the number of policy measures per country, together with each country's average unemployment rate during the period.[8]

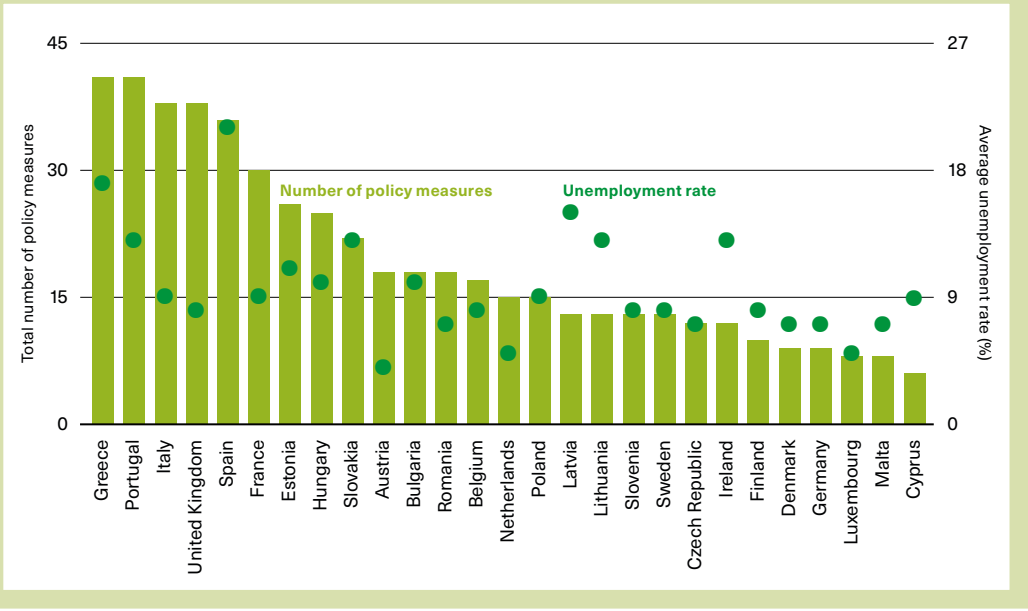
Some of the countries that suffered most during the crisis were among those that implemented the highest number of policy measures during the period considered (e.g. Greece, Italy, Portugal and Spain). Conversely, the United Kingdom is the most prominent example of a country that, despite being more resilient in withstanding the crisis than other European economies, still implemented a large number of measures.

At the other end of the spectrum are those countries that were more conservative in their efforts at reform: Denmark, Finland, Germany, Luxembourg and Malta. These countries have generally been less affected by the crisis when compared with most countries at the other end of the distribution.[9]

8. Throughout the remainder of the report, Member States will be excluded from the cross-country figures only when there is no data available for them on that particular topic/period.

9. Contrasting with the country with less policy measures, Cyprus, which was less resilient to the effects of the financial crisis.

FIGURE 1.3 Policy measures and unemployment rate by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat [une_rt_a].

Overall, Member States made a considerable effort to reform their labour markets after the crisis. This highlights the fact that the crisis exposed serious structural problems in the economies of many Member States, which most likely exacerbated the negative impact of the financial crisis on these countries' labour markets.

In the inventory, each policy measure is classified according to its "main area". The main area concept was developed to allow the inventory to be broken down into four groups of policy intervention, with groups being heterogeneous enough to justify being considered separately at several points in the analysis. It forms the backbone of this report, creating a structure that is coherent with the inventory's vision and results.

The first main area includes all those policy measures that are considered **active labour market policies** (ALMPs).[10] This is a well-known research topic, and covers training programmes, employment incentives, job search assistance, etc.

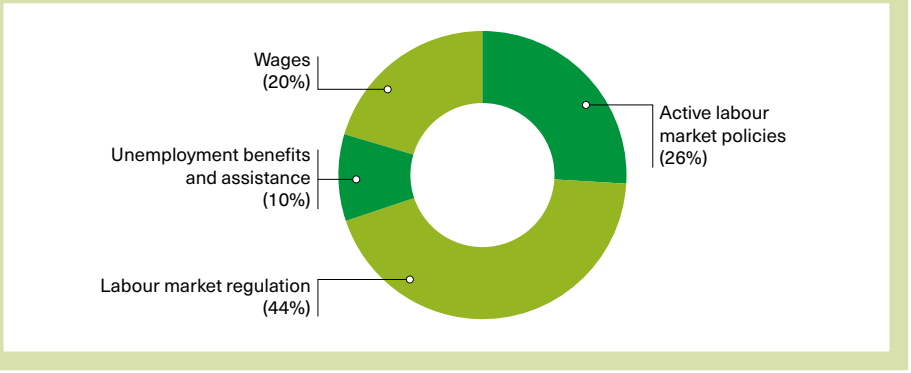
Labour market regulation (LMR) policy measures, the second main area, are mostly implemented through legal changes that must often be decided through a parliamentary process. These policies are often seen as having a long-lasting effect on the labour market. Moreover, they often have little or no impact on public expenditure. Examples of this type of measure are changes to dismissal rules, changes to the maximum duration of temporary contracts and measures against discrimination at work.

The third main area of analysis involves measures that change the unemployment insurance or assistance systems in Member States, together with interventions that target social protection where it relates in some degree to the labour market. This main area in the inventory is termed **unemployment benefits and assistance** (UBA).

Wages are the focus of the final main area. Measures in this area include changes to public sector wages, interventions targeting the minimum-wage system, wage indexation mechanisms and policy measures that influence the setting of collective bargaining in a country.

10. For examples of policies on this and in other main areas, as well as examples concerning other policy dimensions, please consult the inventory user guide presented in Appendix A.

FIGURE 1.4 Breakdown of total policy measures by main area of analysis (2008–13)



Source: ILO Inventory of Labour Market Policy Measures.

TABLE 1.1 Active Member States, by main area (2008–13)

Main area	Countries
Labour market regulation	27
Active labour market policies	25
Wages	24
Unemployment benefits and assistance	20

Source: ILO Inventory of Labour Market Policy Measures.

Figure 1.4 shows the distribution of the 524 policy measures in the inventory over these four main areas of intervention.

Changes in LMR represented 44 per cent of policy measures, while a quarter of the overall measures were classified as ALMPs and one-fifth were related to wages. Only 10 per cent of the measures concerned UBA, despite the large increase in the unemployment figures in almost every Member State. To some extent, this is explained by structural reforms to unemployment benefits systems initiated before the crisis, as described in the individual country monographs. Although it is not indicated in figure 1.4, it should be noted that this distribution is common to most Member States.

To show that the results are not being biased by a small number of Member States having implemented a substantial number of policy measures in a particular area, table 1.1 shows the number of Member States that have implemented at least one measure in each of these four policy domains.

The order of popularity of measures does not change with this alternative measurement, reinforcing the conclusions from figure 1.4. Moreover, it should be noted that most Member States were active in several, if not all, main areas of intervention. This demonstrates the attention given by policy-makers to policy-making issues across the labour market.

In the inventory, each policy measure is assigned to one of the 20 categories listed in table 1.2. As well as listing the number of measures per category, table 1.2 shows the number of countries active in each of the categories. The last column indicates the main area to which each category of policy measure belongs (except for the public sector).

The LMR categories with the most measures were non-standard employment (53), working time and work organization (45) and dismissals (31).

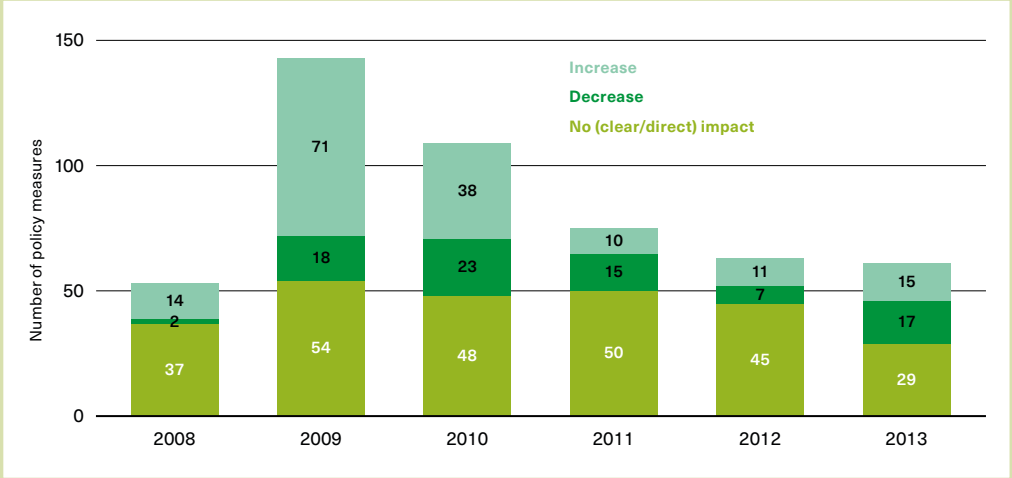
With the exception of Finland and Malta, most countries introduced some form of ALMP during the period 2008–13. The two most popular ALMP categories were training (55) and employment incentives (48). In the other main areas there was a relatively even distribution of policy measures across the different categories.

TABLE 1.2 Breakdown of policy measures by category (2008–13)

Category	Number of policy measures	Number of active Member States	% of total policy measures	Main area
Non-standard employment	53	22	10	LMR
Working time and work organization	45	20	9	LMR
Dismissals	31	15	6	LMR
Work–family balance	22	15	4	LMR
Working conditions	21	13	4	LMR
Antidiscrimination	19	12	4	LMR
Health and safety	10	10	2	LMR
Retirement	9	8	2	LMR
Migration measures	9	6	2	LMR
Early retirement	6	4	1	LMR
Training	55	18	10	ALMP
Employment incentives	48	19	9	ALMP
Public employment services	15	9	3	ALMP
Direct job creation	12	8	2	ALMP
Unemployment insurance benefits	31	13	6	UBA
General social assistance	20	13	4	UBA
Collective bargaining	29	14	5	Wages
Minimum wage	26	13	5	Wages
Wage indexation	2	2	0	Wages
Public sector	61	21	12	–

Source: ILO Inventory of Labour Market Policy Measures.

FIGURE 1.5 Breakdown of total policy measures according to their impact on public expenditure (2008–13)



Source: ILO Inventory of Labour Market Policy Measures.

Another important dimension according to which each policy measure is classified in the inventory is its impact on public expenditure/revenue. The inventory has adopted a simplified approach to the analysis of this dimension. For each policy measure, the following question is posed: Does this measure lead in a direct and clear way to an increase or decrease in public expenditure?[11] Figure 1.5 presents a breakdown of policy measures according to their impact on government spending.

11. Examples of measures clearly increasing expenditure include new employment incentive programmes and increases in unemployment benefits. Public wage cuts are an example of a measure clearly decreasing expenditure. Neutral measures include changes to the legal framework of dismissal procedures and changes to the minimum wage.

Box 1. Labour market measures as part of bailout programmes

The 2008 financial and economic crisis affected budget deficits and public and private debt in some EU Member States to the extent that they needed to be rescued by sovereign bailout programmes. Within the eurozone, there were five countries that received bailouts: Greece (May 2010), Ireland (December 2010 to December 2013), Portugal (May 2011 to June 2014), Spain (July 2012 to January 2014) and Cyprus (June 2013). With the exception of that for Spain (which benefited from eurozone support solely), these programmes were designed jointly by the European Central Bank, the European Commission and the International Monetary Fund (IMF) (collectively known as "the Troika") together with the Member State to be bailed out. Outside the eurozone, Hungary (November 2008 to October 2009), Latvia (December 2008 to December 2011) and Romania (May 2009) were rescued by programmes financed by the EU's Balance of Payments programme, the IMF and bilateral loans (e.g., in the case of Latvia, from Estonia, Czech Republic, Poland and Sweden), with extra possible assistance from the World Bank and regional banks.

In Troika-supported countries, access to financial assistance was conditional on "specific cuts in real social spending in fundamental areas, such as pensions, basic services, health care and, in some cases, pharmaceutical products for the basic protection of the most vulnerable, as well as in environmental protection, rather than recommendations allowing national governments more flexibility to decide where savings could be made" (European Parliament, 2014). In Spain, several conditions were attached to the aid programme, such as an increase in the retirement age, measures to increase the flexibility of the labour market and the laying off of thousands of rescued bank employees (and a ceiling on the salaries of the executives working for those banks). For other countries, conditions included curbing public spending in Hungary, improving competitiveness in Romania and reforms to the public sector and reduction of deficits in Latvia. In addition, although wages are not within the competence of the EU, the economic adjustment programmes have had an impact on minimum wages in Ireland and Greece, as well as on public sector wages in nearly all countries.

These programmes were conceived to be of limited duration, and indeed some measures – such as the decrease in the minimum wage in Ireland – were later reversed. Nonetheless, many measures led to a long-term structural change in the labour market; for example, the removal of the automatic renewal of bargaining agreements in Greece and the subsequent fall in the number of collective agreements. Some measures were challenged through unfavourable rulings by constitutional courts; for example, in relation to public sector reform in Portugal in 2013, and in relation to a decrease in current and future pensions in Latvia in 2009. In December 2014, the Spanish Constitutional Court maintained the right of automatic renewal of collective agreements which had previously been removed by the 2012 labour market reform.

The figure reveals that the diminishing trend in policy measure implementation after 2009 (as identified in figure 1.1) was mainly due to a reduction in the number of policy measures requiring higher levels of public expenditure. This indicates that the slower pace of policy intervention in the labour market after 2009–10 was possibly due not to any recovery in labour markets, but instead to budget constraints. This is worrying as it may have hampered the ability of governments to counteract the sluggish behaviour of labour markets during the years following the crisis.

The objective of this report is to identify and analyse a wide range of labour market policy measures. These can assume very distinct forms, ranging from budgetary measures to changes to the regulatory frameworks of labour markets. In some instances it is possible to calculate the number of direct beneficiaries of these measures (e.g. number of workers benefiting from an increase in the minimum wage or number of dismissed workers receiving severance pay). Throughout the report, policy measures are usually considered in terms of their impact on the labour market.

There are advantages and limitations to the simple counting of policy measures. The approach taken in this report allows for the identification of trends and priorities across a very wide range of labour market policy measures taken in EU Member States over the period 2008–13. It is based on three steps. In the first step, policy measures recorded in the Eurofound Industrial Relations Observatory (EIRO) online database – the data source for the ILO Inventory – were selected at the discretion of national consultants according to what they deemed to be the most important developments in industrial relations and working conditions at a given time. If implemented properly, this initial filter ensures that the selection of measures identifies the general orientation of policy priorities across countries and time.

In order to introduce an additional level of weighting to the analysis, a second step focused on budget costs and direct beneficiaries of measures whenever these are translatable into measurable, available variables. Alternative weighting measures were also given careful consideration; however, these would have involved either restricting the sample of measures to a smaller number – and hence losing the global picture, which is one of the main goals of the project – or comparing measures that are completely different in nature, which would be both complicated and hard to justify. In the end, it was decided that the alternative weighting measures considered would to some extent jeopardize the ability of the inventory to encompass as many dimensions of European labour markets as possible in a methodologically sound manner, and they were therefore not followed up.

In a third step, the monographs for 11 Member States were used both to further illustrate policy tendencies in greater detail and to ensure the completeness of the inventory and the report.

2 Labour market regulation

The labour market regulation (LMR) area covers all policy measures that modify terms and conditions of employment and contractual arrangements.[12] Because of the many facets of such a complex relationship, there is a wide variety of interventions that policy-makers can use and many ways in which they can be employed. Examples include Belgium's agreement between the government and social partners in April 2009 to increase the opportunities for firms to reduce working time in order to prevent layoffs, and the Czech Republic's amendments to its Labour Code that came into effect in January 2012.

For a better understanding of the different kinds of policy interventions covered in this chapter, table 2.1 presents a breakdown of LMR measures by category, including the number of policy measures in each category, their relative share in the total measures in the inventory and the number of Member States active in that area.

The LMR categories with the most policy measures in the inventory were non-standard employment, working time and work organization, and dismissals, together accounting for almost a quarter of the policy measures in the whole inventory.

TABLE 2.1 Breakdown of labour market regulation (LMR) policy measures by category (2008–13)

	Number of policy measures	Share of policy measures (%)	Countries
Non-standard employment	53	22	22
Working time and work organization[1]	40	17	20
Dismissals	31	13	15
Work–family balance	22	9	15
Working conditions[2]	21	9	13
Antidiscrimination	19	8	12
Public sector	16	7	10
Health and safety	10	4	10
Migration policy	9	4	6
Retirement	9	4	8
Early Retirement	6	3	4

[1] Given their nature, a share of working time and work organization policy measures are classified as "Wage" measures, and are hence included in Chapter Five.
[2] In many other analyses, "working conditions" relates mostly to wages or working time. In the inventory, these are addressed in separate categories and areas; hence, working conditions policy measures in the inventory's scope pertain mostly to workplace rules, labour legislation setting and other interventions aimed at changing conditions in the workplace.

Source: ILO Inventory of Labour Market Policy Measures.

12. Wages – possibly the most important element defining employment conditions – are analysed separately in Chapter five.

In the non-standard employment category, the majority of the measures (70 per cent) identified in the inventory were aimed at protecting workers against abuses in more flexible types of work (multiple renewals of fixed-term contracts, dependent self-employed, etc.) or at regulating temporary work agencies following the European Commission (EC) directive on temporary agency work (2008/104/EC).[13] The remaining measures in this category were implemented in an attempt to make labour contracts more flexible or to promote and/or regulate self-employment.

Policy measures included in the working time and work organization category included interventions in areas such as regulating the usage of overtime work, short-time work or job sharing, and other similar topics.

The main goal of most of the policy interventions[14] in the dismissals category was in some degree to facilitate the dismissal of workers, while public sector policy measures included in this area mainly concerned either changes to the career progression of public servants or the dismissal of public sector workers.

The policy interventions in the remaining categories, such as work–family balance, working conditions or health and safety were aimed mostly at improving workers' rights and conditions at the workplace (e.g. stricter safety requirements or longer parental leave). Migration measures and retirement measures pertain to changes to LMR for migrant and retiring workers, such as changes to the conditions of employment for migrant workers or changes in retirement ages.

To help demonstrate how the attention given by policy-makers to such topics over the period under consideration evolved, figure 2.1 shows the number of LMR measures per year. The trend in the timing of LMR interventions shows a very similar pattern to that for the overall inventory (as presented in the previous chapter; see figure 1.1), with the same strong increase in the number of policies between 2008 and 2009/10 and a subsequent fall back towards 2008 levels.

Another important aspect of these interventions is their main beneficiaries. Were these policy measures implemented primarily to improve workers' conditions in the labour market, or were they intended to benefit employers?[15] Alternatively, were they implemented to effect budget cuts deemed necessary by the government?

As shown in figure 2.2, half of the LMR measures identified in the inventory mainly benefited workers, either by improving their working conditions or by easing the work–family balance. Around 30 per cent of LMR measures were mainly intended to benefit employers. These worked mainly through changes to dismissal procedures or changes to rules governing working time. The goal of such policy measures was to allow firms to adjust their labour demand more quickly along the business cycle. Overall, there was a strong balance between measures aimed at benefiting mainly workers and those that mainly benefited employers.

Even though LMR interventions during this period were focused to a large extent on workers, it is important to understand whether this pattern was a recurrent feature of the policy agenda or whether it was driven by the negative impact of the financial crisis on most European labour markets. As the ILO inventory does not cover the period before 2008, the EC's LABREF database was used to compare the pre- and post-crisis periods in this particular field of intervention. As the definitions differ slightly between the ILO inventory and the LABREF database, figure 2.3 presents the direction of policies[16] in the LABREF database in the following policy domains combined: immigration/mobility, job protection (employment protection legislation) and working time. According to LABREF terminology, an increase benefits workers, while a decrease benefits employers.

After the crisis started there was a significant change of policy direction across the EU in favour of employers. Nonetheless, a significant proportion of policy measures was still aimed at improving

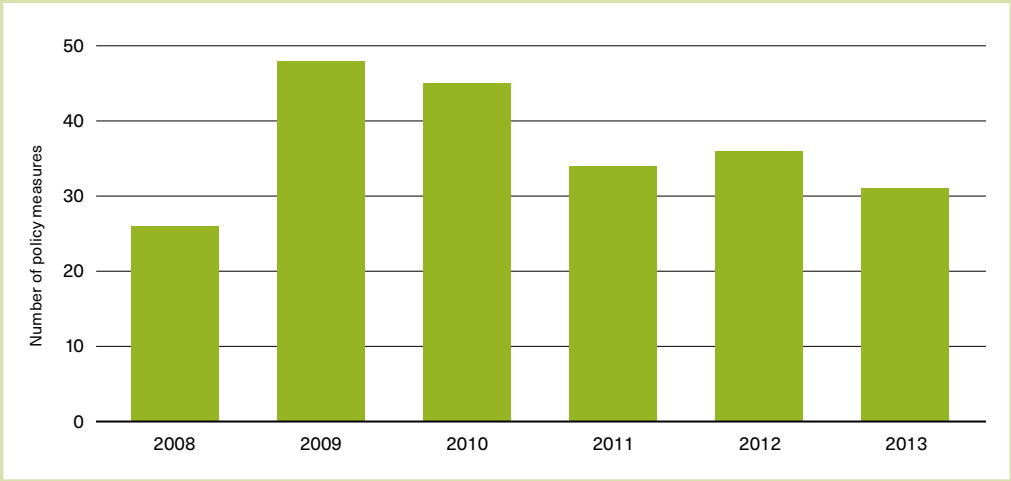
13. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32008L0104&from=EN

14. That refers to both individual and collective dismissals.

15. The concept of identifying workers as the "main beneficiaries" does not necessarily mean that the same policy does not benefit the employer at the same time, and vice versa.

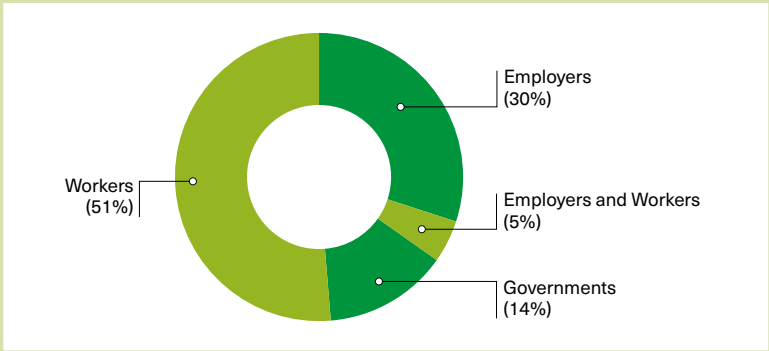
16. A more detailed description of the LABREF database and concepts can be found at http://ec.europa.eu/social/main.jsp?catId=1143&intPageId=3193&langId=en

FIGURE 2.1 Labour Market Regulation (LMR) policy measures (2008–13)



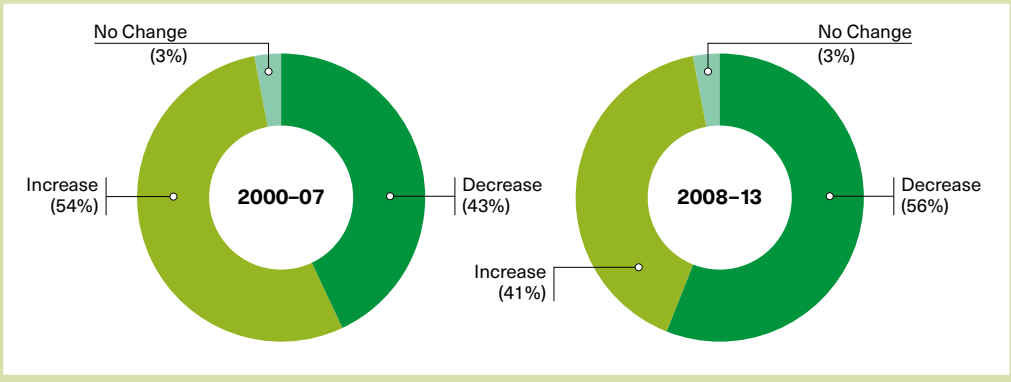
Source: ILO Inventory of Labour Market Policy Measures.

FIGURE 2.2 Breakdown of LMR policy measures by main beneficiary (2008–13)



Source: ILO Inventory of Labour Market Policy Measures.

FIGURE 2.3 Breakdown of LMR policy measures by direction (2000–13)



"Increase" indicates measures that improve workers' conditions; "decrease" represents measures that decrease workers' rights to some extent.
Source: LABREF database.

the position of workers in the labour market, even when governments were trying to facilitate job creation by making labour markets more flexible (for instance, by facilitating dismissal procedures for firms). Even though there are some differences between the LABREF database and the ILO Inventory of Labour Market Policy Measures, both databases present a certain degree of balance between measures targeting workers and interventions to increase the rights of workers.

Given the heterogeneity that exists among these different types of policies, the following two sections look deeper into two of the most popular categories in this area: section 2.1 focuses on policy measures targeting non-standard forms of employment, and section 2.2 focuses on policy measures dealing with dismissal procedures and costs. Section 2.3 then analyses the main trends in the remaining categories of LMR and section 2.4 concludes.[17]

2.1 Non-standard employment

The non-standard employment category includes policy measures that target specific types of contract, ranging from self-employed or part-time workers to domestic workers, fixed-term employed (including agency workers) and others. Recent ILO research has shown that "in advanced economies, the standard employment model is less and less dominant" (ILO, 2015a). This shift towards a labour market where non-standard contracts are more and more prevalent is highlighted by the significant attention policy-makers have paid to such contracts in their policy agendas, with non-standard employment being the target of roughly 10 per cent of the overall policy measures identified in the ILO inventory.[18] The question of whether this policy focus is aimed at promoting these types of contract or is a reaction to their growth in recent years is tackled in section 2.1.4.

To gain a deeper understanding of this trend's characteristics, drivers and impacts, this report narrows its focus to three specific non-standard types of employment:[19] part-time employment, self-employment and fixed-term employment.[20]

Figure 2.4 presents the share of employment in the EU-27 in each of these three types of contracts over the decade 2004–13. While the share of fixed-term and self-employed workers in the labour market was relatively stable over the decade, there was a clear increase in the number of part-time jobs as a share of total employment.

It is important that the impacts of variations (or lack thereof) in the share of non-standard types of employment are understood. However, the evidence in this respect is mixed, and varies greatly across countries. A meta-analysis undertaken for the Meeting of Experts on Non-Standard Forms of Employment (ILO, 2015b) shows that for some countries (Denmark, Italy and the Netherlands), holding a temporary job significantly increases the probability of moving into permanent employment. In other countries, workers in temporary employment tend to remain in this type of contract or alternate between periods of unemployment and periods of temporary work (e.g. temporary agency workers in Germany and Sweden). The meta-analysis also shows that with some exceptions (e.g. temporary agency workers in Portugal), workers in non-standard forms of employment earn less than workers in regular employment, while social security coverage might be lower (e.g. project- or task-based workers in Italy) and access to training tends to be more restricted (e.g. Spain).

To understand the differences across Member States in terms of policy action in this field, figure 2.5 breaks down the 53 policy measures related to non-standard employment by Member State.

Countries that implemented a significant number of measures are among those with the highest share of non-standard contracts. The Netherlands, characterized by a large number of part-time contracts, and Spain, known for its high number of temporary workers, are prominent examples. The exception is Poland, which has taken no measure in this area despite non-standard employment being widespread.

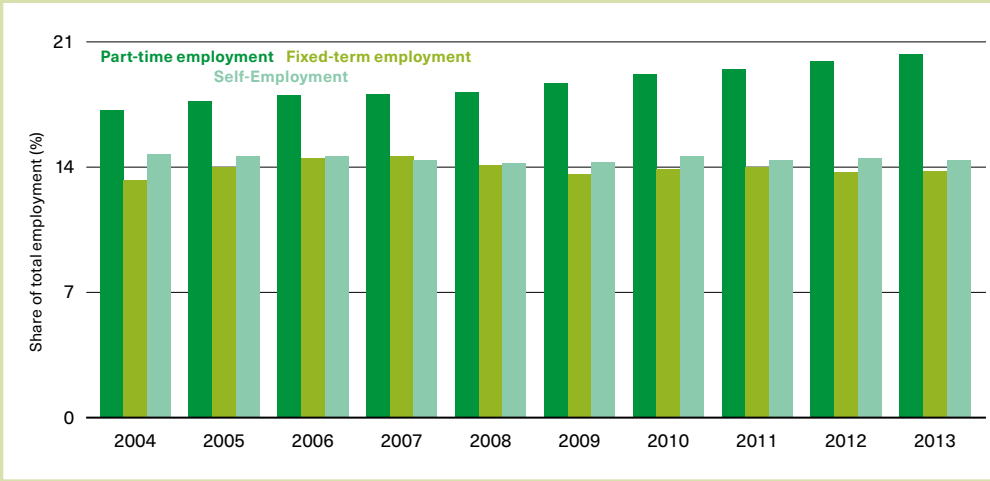
17. Wages – possibly the most important element of conditions of employment – are treated separately in Chapter 5.

18. In the LABREF database, for the period 2008–13, non-standard contract policy measures accounted for 7 per cent of total interventions. (Policy fields included: definition of valid reasons for fixed-term contracts; maximum duration of fixed-term contracts; maximum number of renewals of fixed-term contracts; part-time work; temporary agency work; and temporary contracts – other.)

19. This choice was made based on two main factors: the high share of workers in these types of employment arrangements across the EU, and the availability of Eurostat data on the number of workers with these types of contracts.

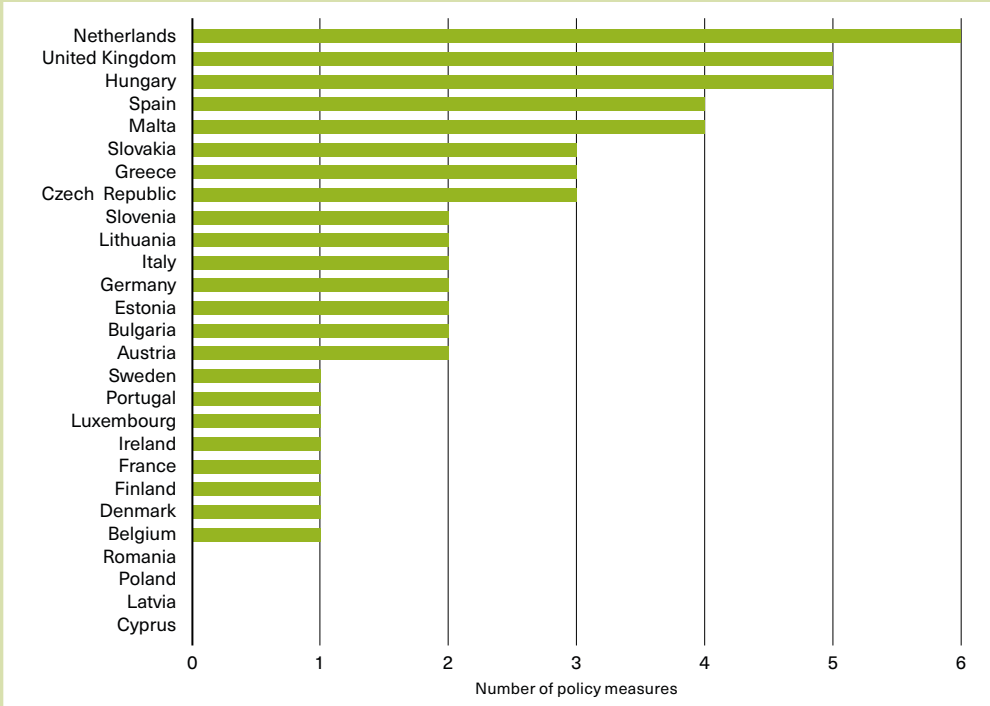
20. Includes temporary agency work.

FIGURE 2.4 Non-standard forms of employment as share of total employment (EU-27) (2004–13)



Source: Eurostat [lfsa_epgaed, lfsa_etgaed, lfsa_esgan]

FIGURE 2.5 Policy measures targeting non-standard employment, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures.

Looking at the content of these policy measures, a large proportion were aimed at protecting workers against abuse in labour contract flexibility (i.e. multiple renewals of fixed-term contracts or dependent self-employment) or at regulating temporary work agencies following the EC directive on temporary agency work (2008/104/EC). Most of the remaining policies in this category made labour contracts more flexible or promoted or regulated self-employment.[21]

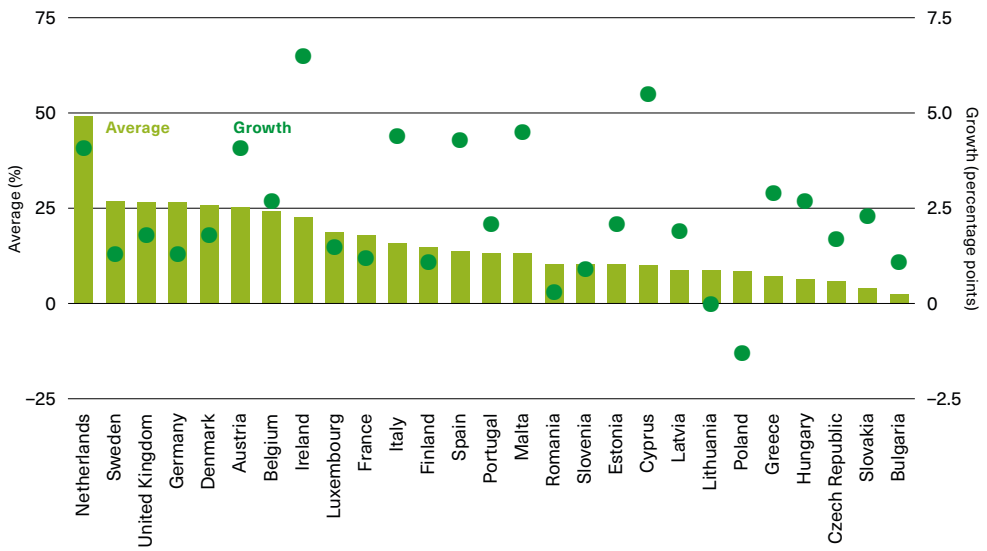
The reminder of this section focuses separately on each of the three main types of non-standard contracts presented earlier: part-time, fixed-term and self-employed.

21. In the inventory, 70 per cent of the measures in this area aimed to benefit workers directly, while in the LABREF database, this share was around 50 per cent.

2.1.1 Part-time employment

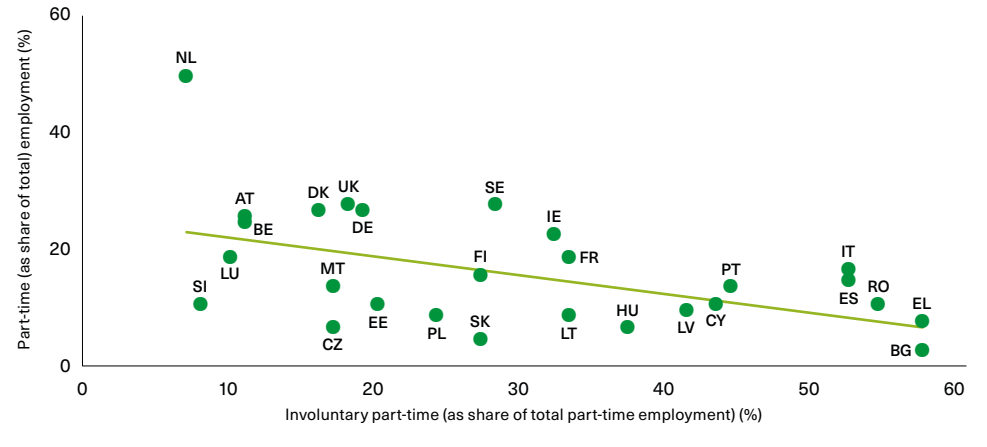
This section adopts the Eurostat definition of part-time employment, and hence the distinction between full-time and part-time workers in a main job was made on the basis of answers given by respondents to the Labour Force Survey.[22] Figure 2.6 presents the average share of employment in part-time contracts over total employment for each Member State over the period 2008–13 and also the change in the share over that period.

FIGURE 2.6 Part-time employment as share of total employment, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat [lfsa_epgaed].

FIGURE 2.7 Part-time and involuntary part-time employment, by Member State (2008–13 average)*



* Please see Appendix F for a list of country acronyms used.

Source: Eurostat [lfsa_eppgai].

22. The only exceptions are the Netherlands, where part-time working is determined on the basis of whether the usual hours worked are fewer than 35 and full-time on the basis of whether the usual hours worked are 35 or more, and Sweden, where this criterion is applied to self-employed persons as well.

The clear trend is an increase in the share of part-time employment, as only two Member States experienced decreases in their share of part-time employment between 2008 and 2013 (Lithuania and Poland, both of which started from low levels of part-time employment). However, this increase could have been driven by a combination of different factors: (i) it could be driven by firms offering a higher share of jobs of a fixed-term nature; or (ii) it could result from workers being more willing to accept such types of contract.

Figure 2.7 shows the relationship between the number of involuntary part-time workers[23] as a share of total part-time workers and the share of part-time employment in total employment in each country. Member States where part-time contracts were more widely used tended to exhibit lower levels of involuntary part-time employment, as is the case in the Netherlands. Moreover, data from Eurostat also suggest that jobseekers more often concentrate their job search on finding part-time jobs in countries where part-time work is more widely used. This evidence suggests that in Member States where part-time work is more widespread, part-time jobs tend to be better accepted by its labour force. This is likely to be a consequence of part-time workers having similar employment rights as full-time workers, and also a result of there being fewer financial incentives for second earners in the household to work full time (as is the case in countries such as Belgium, Luxembourg and the Netherlands).

A strong geographic pattern is also noticeable in figure 2.7: The seven countries with the highest share of involuntary part-time employment include most Mediterranean Member States (Cyprus, Greece, Italy, Portugal and Spain) and two recent Member States (Bulgaria and Romania). At the other end of the distribution is the Netherlands, which is not surprising given that it is the Member State with the highest share of part-time workers.

The economic downturn that followed the financial crisis may have had an impact on the level of part-time working in the EU (as hours of work tend to decrease during downturns, leading to reduced overtime use and higher use of part-time work), but there was already a trend towards the increased use of part-time work before the onset of the crisis. Moreover, evidence from the ILO (2015b) points to little or no change in the gap between the rights of full-time workers and part-time workers between 2008 and 2013, further reinforcing the idea that the pattern of part-time employment across the EU did not change significantly in the aftermath of the financial crisis.

2.1.2 Self-employment

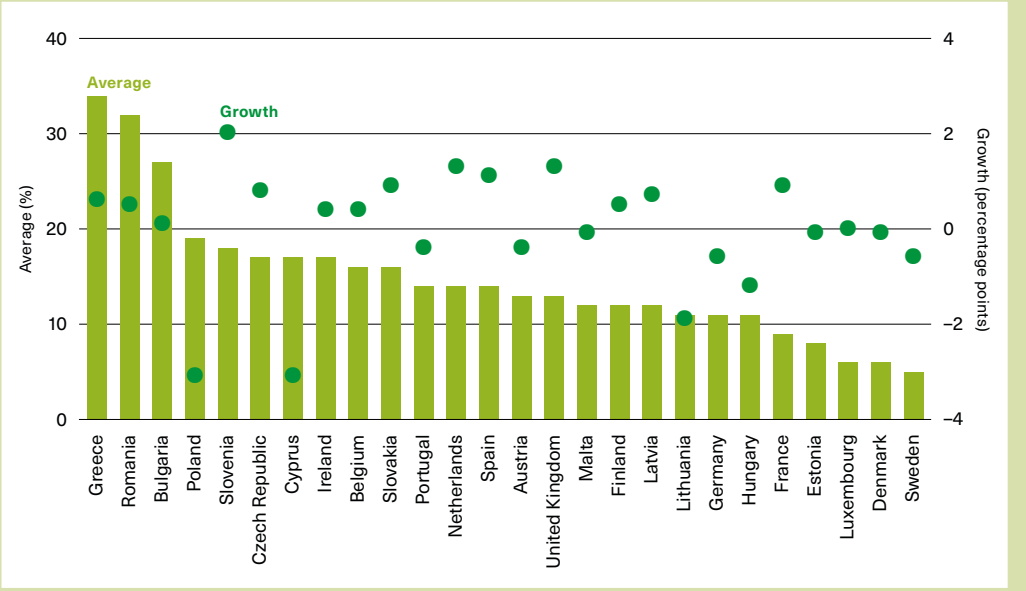
Eurostat defines self-employed workers as those "who work in their own business, farm or professional practice".[24] Figure 2.8 presents the average share of self-employment in total employment for each Member State, together with its growth.

Self-employment was a substantial component of the labour market in some Member States before the crisis, such as in Greece and Romania, where it accounted for about one-third of total employment. Over the post-crisis period, some Member States observed a strong decline in the share of self-employed workers (Cyprus and Poland), while in others the share remained remarkably low: in five countries, self-employed workers represented less than 10 per cent of the total employed workforce (Denmark, Estonia, France, Luxembourg and Sweden).

23. The Eurostat methodology defines as involuntarily part-time employed all persons working who declare that they work part time because they are unable to find full-time work.

24. "A self-employed person is considered to be working if she/he meets one of the following criteria: works for the purpose of earning profit, spends time on the operation of a business or is in the process of setting up his/her business" (http://ec.europa.eu/eurostat/cache/metadata/en/lfsa_esms.htm).

FIGURE 2.8 Self-employment as share of total employment, by Member State (2008–13)



Source: Eurostat [lfsa_esgan].

2.1.3 Fixed-term employment

This section adopts the Eurostat definition of fixed-term employment: all workers "who declare themselves as having a fixed-term employment contract or a job which will terminate if certain objective criteria are met, such as completion of an assignment or return of the employee who was temporarily replaced".[25]

The share of fixed-term employment in total employment differed greatly between Member States, from less than 3 per cent in Lithuania and Romania to over 25 per cent in Poland. Figure 2.9 shows both the average and the growth of the share of fixed-term employment in total employment for each Member State.

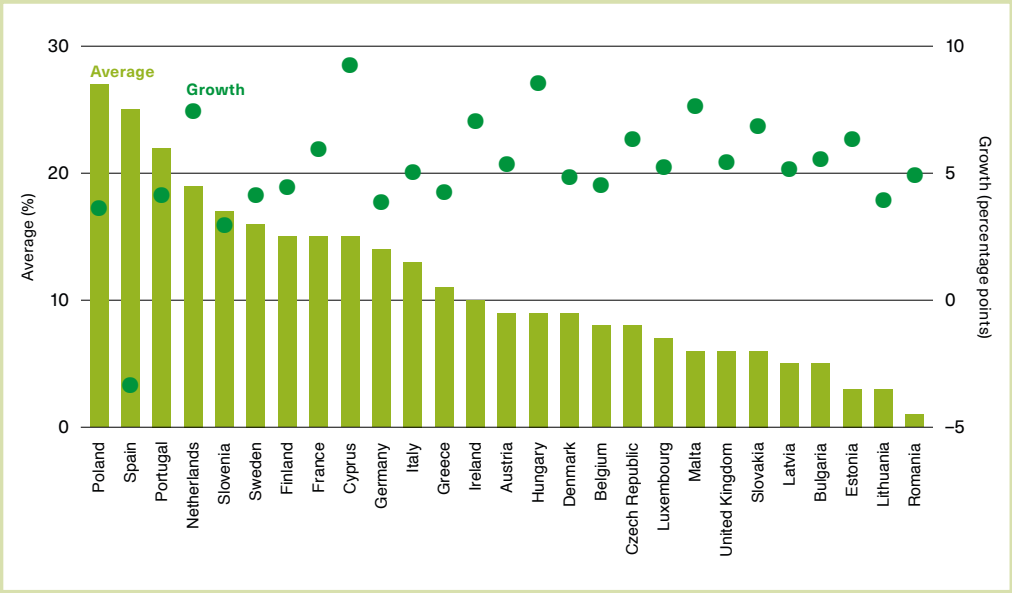
In terms of growth, the clear outlier in figure 2.9 is Spain, where fixed-term employment was severely reduced. This was due to the dual nature of the country's labour market and the wide use of fixed-term contracts in the construction sector, one of the sectors most severely affected in the aftermath of the financial crisis. However, the decrease in the share of fixed-term employment in the other Member States was never more than 2 percentage points, and in more than half of Member States the share actually increased. While a large portion of the job destruction seen during economic downturns occurs through the ending of fixed-term contracts (as in the case of Spain), which can usually be terminated quickly or at a lower cost to employers, it is also true that in times of uncertainty, firms are more likely to resort to fixed-term contracts when hiring new workers.

As regulation of fixed-term contracts often differs from that of permanent contracts, it is possible that policy interventions aimed at fixed-term contracts might have had an influence on the share of the labour market using temporary contracts. Indeed, an ILO (2015a) report that focuses part of its analysis on employment protection legislation shows that there was increasing equality in the treatment of workers with fixed-term contracts vis-à-vis those with permanent contracts in the EU between 2007 and 2013, even if the change (from 0.87 to 0.95)[26] was relatively small when compared with the change between 1993 and 2007 (of 0.56, which was driven mostly

25. http://ec.europa.eu/eurostat/cache/metadata/en/lfsa_esms.htm

26. According to the ILO computed index, which ranges from 0 to 1, with 1 being equal rights between fixed-term workers and "standard" workers.

FIGURE 2.9 Fixed-term employment as share of total employment, by Member State (2008–13)



Source: Eurostat [lfsa_etgaed].

by the implementation of the EC directive on fixed-term work: 1999/70/EC).[27] During the same period, constraints on the use and duration of fixed-term contracts also decreased (ILO, 2015a). However, these seemingly contrasting trends might have arisen from a willingness on the part of policy-makers to make fixed-term contracts more attractive to both workers and firms. It has been made easier for firms to use fixed-term contracts, while at the same time workers have been given greater incentives to accept or opt for this form of contract by being given guarantees that their rights are more closely aligned with those associated with permanent contracts.

2.1.4 The drivers of non-standard employment policy measures

The effects of changes to LMR on labour market outcomes in general, and on the levels of non-standard forms of employment in particular, have been the focus of a large stream of literature.[28] But another very important question concerns what drives policy-makers to focus a significant proportion of their policy effort on changing the legislative framework for non-standard employment relationships. Do governments change legislation to incentivize the use of non-standard types of employment, or is legislation changed as a reaction to the increased use of such types of contract?[29]

In order to shed some light on this question, this report now focuses on the relationship between the number of policy measures related to non-standard contracts identified in the ILO inventory between 2008 and 2013 and the evolution of non-standard employment (as a share of total employment) in the preceding 8 years (2000–07).

27. http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:31999L0070

28. See Scarpetta (1998), Nickell and Layard (1999), Nunziata (2003), Howell et al. (2006), Cazes and Tonin (2009) and Gnocchi et al. (2015) for a diverse sample of works on the topic.

29. Past reforms in the legislative framework for non-standard contracts could also have had an impact on the most recent efforts in that area. However, two possible effects work in opposite directions: on the one hand, Member States that have legislated for non-standard forms of employment more actively in the past might feel that they have an adequate legal framework in place and therefore have less of a need to implement policy measures in that area; but, on the other hand, one could also hypothesize that Member States that were more active in legislating for non-standard contracts in the past would also be more open and willing to update or make further changes to the legislation that governs such employment relationships. In studying this effect, no correlation was statistically significant, which could be a sign that both of these effects exist at the same time (making any trend impossible to isolate) or that none of them has a strong enough significance. Given this lack of statistical significance, these results were omitted from the main body of the report.

TABLE 2.2 Spearman's rank correlation coefficients

	Non-standard contract policy measures		
Part time	Average	0.35	*
	Growth	–0.35	*
Fixed term	Average	0.02	
	Growth	–0.09	
Self-employment	Average	0.39	
	Growth	0.03	

* Statistically significant at a 10 per cent confidence level.

Source: ILO Research Department estimates.

Table 2.2 presents the Spearman partial rank correlation coefficients between the number of policy measures implemented and changes in the use of the main types of non-standard contract. The use of partial rank correlations allows the analysis to control for unemployment and employment variations. It also allows the analysis to focus on intra-sample comparisons, while putting less weight on the total number of policy measures per country as an indicator.[30]

The results shown in table 2.2 gives some support to the hypothesis that Member States with a high share of non-standard forms of employment (particularly part-time) implemented on average more policy measures in this area. Therefore, it seems that policy-makers were to a certain extent legislating for non-standard contractual arrangements because of the widespread use of such contracts in their labour market.[31]

The hypothesis that Member States implemented policy measures targeting non-standard forms of employment between 2008 and 2013 as a reaction to growth in the use of these types of employment is rejected on the basis of the above results.[32] It can thus be concluded that on average Member States that had a higher share of non-standard contracts in their labour market for a considerable period implemented more policy measures targeting those types of contracts after the financial crisis.[33]

Monograph examples

The national monographs include further details about policy measures implemented across the EU aimed at non-standard forms of employment.

An example of a broad measure is one that targets different types of non-standard contract in the Netherlands. The Act on Work and Security (*Wet Werk en Zekerheid*), announced in April 2013 by the Ministry of Social Affairs and Employment, is principally aimed at creating a new, modernized balance between flexibility and security in the labour market: work security would increasingly replace job security. The Minister noted that employers were using more and more creative ways to evade the statutory minimum wage, such as paying expense allowances instead of wages. Against this background, the Act provides temporary and freelance workers with greater protection, ensures equal treatment and tries to tackle bogus employment arrangements more effectively (e.g. through limitations on the exclusion of the obligation to pay a salary to on-call

30. See Appendix B for a longer discussion on the merits of partial rank correlations in the context of the inventory compared with "standard" correlations.

31. However, the evidence is not overwhelming, given the levels of statistical significance observed.

32. Using the number of policy measures on non-standard contracts from the LABREF database provided similar results, both in terms of the direction of the relationships and their statistical significance (or lack thereof).

33. One should not, however, draw conclusions about the causal direction of such a relationship from this analysis. This report presents impact analyses for dismissal policy measures (section 2.2) and ALMPs (section 3.7). A similar analysis was not performed for policy measures targeting non-standard employment measures because the reverse causal relationship is, in principle, the same in both directions: i.e. the implementation of reforms to improve the legal framework for non-standard forms of employment should increase the popularity of this type of employment, while the increase in popularity should encourage governments to update that framework. Therefore, unless a suitable instrument can be found, such a causal relationship is impossible to identify in a methodologically sound manner.

employees and temporary workers, and limitations on the succession of fixed-term contracts). At the same time, the maximum duration of unemployment benefits was reduced from 38 to 24 months. The Act, adopted in June 2014, was the result of long and extended consultations and agreements. It gave a legal form to the Government Accord of 29 October 2012 of the government coalition partners, the PvdA (Labour Party) and the VVD (Liberal Party), the Social Accord of 11 April 2013 between government and social partners, and the Budgetary Arrangement of the administration as of October 2013.

Not all measures targeting non-standard forms of employment were aimed at regulating those types of employment relationships. In Italy, Law 78/2014 removed the need for general reasons for all fixed-term contracts (within the maximum limit of 3 years). As of 2014, there is a national limit that restricts firms to using fixed-term contracts for a maximum of 20 per cent of their total workforce, although there are specific exceptions permitted in the law, and collective agreements can allow deviation from this rule in any sector. Permanent contracts still account for the vast majority of employment in Italy, but new hiring is mainly taking place through temporary work contracts. At the end of 2012, 58 per cent of new hiring contracts were fixed-term contracts, while only 21 per cent were open-ended contracts, 9 per cent were collaboration contracts[34] and 3 per cent were apprenticeship contracts, with other contracts (temporary work agencies) covering the remaining 9 per cent (see table 2.3).

Some Member States tried to both regulate and promote non-standard forms of employment at the same time. For example, France established a minimum limit of 24 hours per week for part-time work,[35] while also creating a new employment status of "auto-entrepreneurship" in 2008. The new status was introduced with the dual aim of simplifying the administrative process for establishing very small firms and legalizing undeclared work. Its main feature is that social security contributions are paid only after the auto-entrepreneur declares an income, a striking difference from previous legal obligations on individual companies. Contributions are calculated according to turnover, and there are strict turnover ceiling limits and no possibility of hiring employees. Almost a million auto-entrepreneurs were registered in 2014. However, there have been some drawbacks to the status. For example, some auto-entrepreneurs have felt they face unfair competition, mainly from employers in the craft sector, and some wage earners have been pressurized into adopting this status as a way for their employer to avoid complying with labour code obligations. As a result, controls have been intensified and steps taken to reduce the attractiveness of this status (e.g. changes to the VAT regime, income tax and skills requirements, and higher social protection contributions).

TABLE 2.3 Hiring and firing in Italy, by type of contract (2012)

	Hiring		Firing	
	Number	%	Number	%
Permanent contracts	1 788 830	20.9	2 202 341	25.3
Temporary contracts	5 011 019	58.4	4 664 905	53.6
Apprenticeship	277 496	3.2	211 828	2.4
Collaboration contract	756 582	8.8	832 111	9.6
Other	745 247	8.7	791 384	9.1
Total	**8 579 174**	**100.0**	**8 702 569**	**100.0**

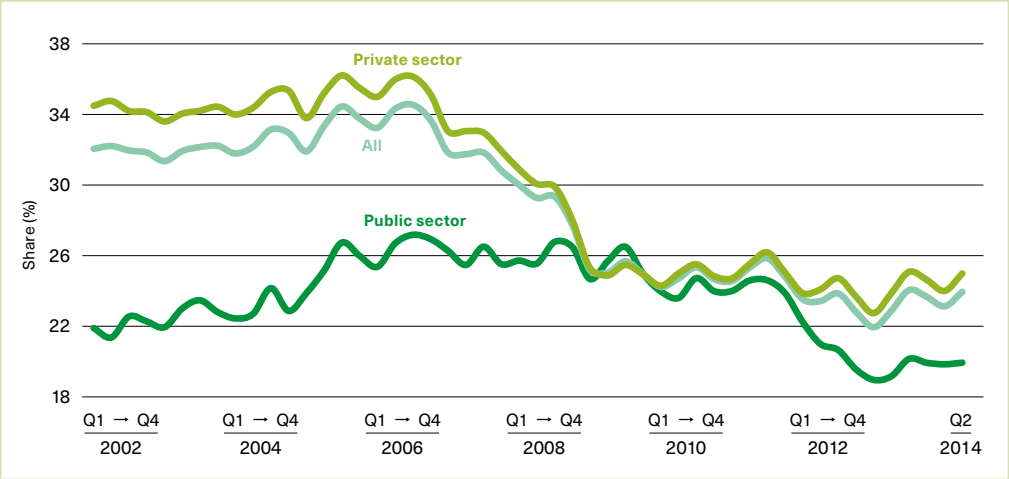
Notes: "Other" includes agency contracts and job on call also in the public sector.

Source: Italian Ministry of Labour, Italian monograph.

34. These contractual arrangements have been in place since the early 1970s and were regulated by national legislation in 1997 and by the "Biagi Law" of 2003. They provide a contractual framework for individuals who are not formally employees of the firm and yet provide their regular working services (material or immaterial – i.e. consultants) to firms that often utilize them as normal employees. Compulsory pension and other social contributions are lower for these workers, which makes their labour costs lower than those of regular employees. As a result, many firms make great use of this type of arrangement.

35. This measure, which is subject to numerous exceptions, in particular when contracts are agreed through collective bargaining, is aimed at improving income security.

FIGURE 2.10 Share of fixed-term workers in the private and public sectors in Spain (2002–14)



Source: Spanish Labour Force Survey, Spanish monograph.

The debate on the use of temporary contracts often focuses on the behaviour of firms and their incentives for using different types of contract. In many countries, however, the public sector also relies heavily on temporary contracts. This is the case in Spain,[36] as can be seen in figure 2.10.

In Spain, among the push-factors, decisions as to how to provide and fill vacancies in the public sector are constrained by the timing of public budgeting at the local level. Temporary employment has become a common route for entry into key public services, such as education and health. Students who have failed the civil service exams for teachers or nurses, for example, but who have performed well in some areas, can apply for interim jobs and fixed-term vacancies. The experience gained through these temporary contracts will be valuable in the next round of exams and so helps the students to join the civil service later on.

Overall, but with some exceptions, the countries covered by the monographs are taking steps towards regulating non-standard forms of employment in an attempt to narrow the gap between the rights of workers in standard forms of employment and those with non-standard contracts. At the same time, there was a parallel trend of facilitating the use of non-standard contracts by employers. However, the dominant policy focus seems to be on making non-standard forms of employment "more standard" by improving workers' rights. As discussed previously, this can be both an attempt to incentivize the use of such contracts and a reaction by policy-makers to the increasing share of non-standard forms of employment in some labour markets (particularly part-time work, which has increased steadily across the EU since the early 2000s).

36. In Germany, fixed-term employment represented 14.1 per cent of public employment in 2011, with the education sector in particular having a higher share (IAB, 2013). The share of fixed-term contracts in the public sector increased markedly after the introduction of austerity policies in 2003.

2.2 Dismissals

The legal framework upon which the rules governing the dismissal of workers are set is an important characteristic of every labour market. Hence, it is vital for policy-makers to understand how changes to these rules can affect labour market outcomes. The ILO inventory categorizes as dismissal policy measures all interventions that change to some extent the procedure through which employers must go when dismissing workers, be it at the individual or the collective level.[37]

Dismissal-related policy measures account for around 6 per cent of the total number of policies in the inventory. Out of the 31 interventions in this category, 24 aimed to make it easier for employers to dismiss workers. Among the large number of countries that introduced measures to make dismissal easier, Greece, Slovakia and Spain made the highest number of policy changes. The main features of these changes were reductions in notice periods and amounts of severance pay, and a widening of the valid reasons for dismissal, including economic reasons.

The main argument in support of making dismissal easier is that employers will be more willing to hire new workers if they know they will be able to dismiss them easily (e.g. if there is a dramatic decrease in demand for their products or services). However, decreasing the cost of and/or simplifying the process for dismissing workers could also lead to an increase in job destruction by firms, as dismissal procedures become easier and cheaper. Therefore, the most important question in this context is: Which effect dominates? This will determine the net impact of this type of measure on economic outcomes.

In other areas of analysis in this report it is difficult to quantify a policy's effect, either because it is hard to find a variable that clearly translates its impact into labour market outcomes or because it has a number of different effects that are hard to disentangle. Such issues are easier to overcome when it comes to dismissals. The two effects identified in the above paragraph can be closely translated into two variables: (i) the inflow rate into unemployment, and (ii) the outflow rate from unemployment. These variables can be loosely interpreted as (i) the probability that a worker loses their job during the period, and (ii) the probability that an unemployed worker finds a job over the period, respectively. It is important to stress that this interpretation is loose in the sense that it ignores the fact that individuals can move into unemployment from outside the labour market, and vice versa. However, there were no severe changes in labour force participation rates during the crisis,[38] and so the analysis will focus the interpretation on the flows between employment and unemployment.

Figure 2.11 shows the average inflow and outflow rates to and from unemployment over a 3-month period[39] between 2008 and 2013 for each Member State.

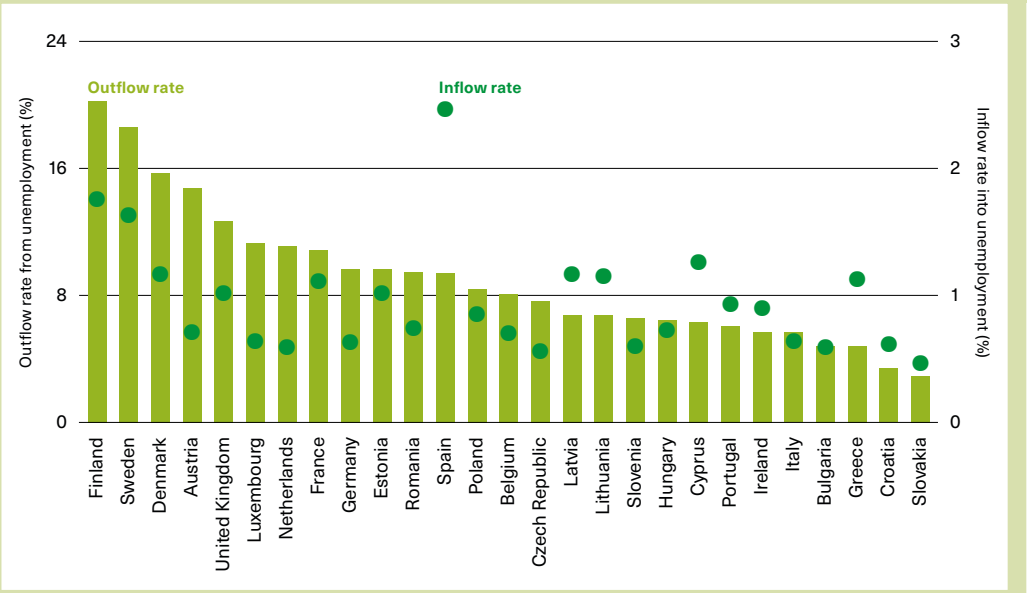
The three Member States with the highest average inflow rates between 2008 and 2013 were Finland, Sweden and Spain. But while Spain experienced a dramatic increase in its unemployment rate, the labour markets in Finland and Sweden were quite resilient to the effects of the financial crisis. This shows that high rates of inflow into unemployment are not necessarily correlated to worsening aggregate conditions in the labour market.

37. These can include changes to severance pay rules or to minimum notice periods for dismissal, among other types of intervention.

38. The EU-27 labour force participation rate increased 1.4 percentage points between 2004 and 2008 and 1.2 percentage points between 2008 and 2012, which suggests that, unlike other labour market variables, labour force participation growth has not been affected by the financial crisis – even if the composition of the non-participants of the labour force might have changed to some extent (e.g. participation by older members of the population has increased, but participation by discouraged young unemployed individuals has decreased).

39. Unemployment inflow and outflow rates are flow measures and describe the dynamics in the labour market. The inflow rate measures the rate at which an employed person enters the unemployment pool, while the outflow rate measures how quickly an unemployed person finds a job. These rates are directly related to the probabilities that an employed person becomes unemployed and an unemployed person becomes employed. While probabilities denote the likelihood of transition occurring within a discrete time period, inflow and outflow rates as reported in figure 2.11 correspond to instantaneous rates of transition on a monthly basis. These rates are calculated on the basis of data on the labour force, the unemployment rate and unemployment by duration. Various durations are used to calculate flow rates, relying on the methodologies developed by Shimer (2012) and Elsby et al. (2013). A more detailed description of the methods applied can be found at http://kilm.ilo.org/2011/download/FlowsEN.pdf.

FIGURE 2.11 Average unemployment inflow and outflow rates, by Member State (2008–13)



Source: ILO's Key Indicators of the Labour Market (KILM).

The outflow rates from unemployment, however, were positively correlated to actual economic performance after the crisis. Bulgaria, Cyprus, Greece, Ireland, Italy, Portugal and Slovakia are all among the Member States with low average outflow rates from unemployment during the period, as well as being more severely affected by the crisis.

In order to understand the causality channel working behind these relationships, this section focuses on the impact that dismissal policy measures have had on unemployment flows. The analysis is based on the following empirical model:

$$UFR_{it} = \alpha + \beta D_{it} + \gamma X_{it} + \varepsilon_{it}$$

The subscript i indicates the Member State, and t represents the period. In the sample at hand, all variables are measured quarterly. UFR_{it} represents the 3-month unemployment flow rate as calculated by the ILO. This can either be the outflow rate from unemployment (a proxy for job creation rate) or the inflow rate into unemployment (a proxy for job destruction rate). X_{it} is a vector of control variables and ε_{it} is the error term.

Variable D_{it} represents policy measures that facilitate dismissals. There were two different ways that this variable was coded. In the first, D was coded as a dummy variable. For each Member State, D was given the value of 0 until the quarter in which a policy that facilitates dismissals was implemented, after which the value became 1 until the last period.[40] This approach does not weight the number of policy measures per se: the binary variable is used simply to identify whether or not a country has implemented any policy measures of this type, regardless of their number. The second approach was to make D cumulative: for each Member State it was given the value of 1 after a dismissal policy measure was implemented, a value of 2 after a second measure was implemented, and so on.[41]

The empirical framework described above can, given the structure of the data set, create several econometric problems that need to be taken into account in order to ensure that the estimations lead to efficient, unbiased results. Most of these problems are discussed in detail in Appendix B,

40. Unless the policy is temporary, in which case the dummy reverts to 0 when the policy is terminated.

41. In a third alternative the cumulative D variable was further enhanced by including dismissal policy measures that increased workers' protection and assigning a negative (–1) weight to them. The results were not significantly changed.

TABLE 2.4 Impact of dismissal policy measures on inflow rates into unemployment (2008–13)

	(A)		(B)		(C)	
Dismissal policy measures	0.0008	***	0.0004	**	0.0003	*
	(0.0003)		(0.0002)		(0.0001)	
GDP growth	−0.0003	***	−0.0003	***	−0.0004	***
	(0.00006)		(0.00007)		(0.00006)	
Constant	0.0094	***	0.0095	***	0.0096	***
	(0.0001)		(0.0001)		(0.0001)	
R-squared (within)	0.06		0.06		0.07	
Observations	457		457		441	

Standard errors in parentheses. Significance level: *** 1 per cent, ** 5 per cent and * 10 per cent.

Source: ILO Research Department estimates.

where alternative estimation techniques, control variables and dismissal variables are used to ensure the robustness of the results that follow.

The analysis starts by focusing on the impact of policy measures facilitating dismissals on unemployment inflow rates (which are closely linked to job destruction rates). All coefficients presented in table 2.4 were estimated using the fixed-effects model (the reason for preferring this model over other possible estimation techniques is discussed in Appendix B). In all specifications, the dependent variable is the quarterly inflow rate into unemployment. Column A displays the coefficients obtained using the first method of coding variable *D* discussed earlier, while column B shows those obtained using the second coding method. Column C repeats the estimation of column B but using a 1-period time lag for all independent variables.[42]

The first important result to note is that the coefficient of the variable for dismissal policy measures is positive and is statistically significant under all specifications.[43] This impact is significant even when including a wide array of control variables.[44] This means that policy measures facilitating dismissals led to an increase in inflow rates to unemployment between 2008 and 2013.[45]

Regarding the control variable in the current regression, its sign is as expected, as GDP growth has a statistically significant negative impact on inflow rates into unemployment.

The low value of the *R*-squared in the regressions could be seen as a shortcoming in this analysis. However, under any specification considered, removing the dismissal policy measure variable from the regression decreases the *R*-squared value further, by at least 0.03. This indicates that the variable adds important explanatory value to the analysis of the determinants of unemployment flows in the EU after the crisis. Furthermore, the aim of the analysis is not to identify the determinants of the inflow rate into unemployment, but to assess the role of dismissal policy measures.[46]

42. Table 2.4 presents the reduced form of the model in the sense that it includes only one control variable to capture macroeconomic shocks that may influence this relationship – GDP growth. In the robustness checks section in Appendix B, alternative formulations with larger sets of control variables are described. Results obtained after expanding/altering the set of control variables remain largely unchanged.

43. This does not change in most of the alternative estimations presented in the robustness checks section of Appendix B.

44. As it is documented in Appendix B.

45. While this empirical model aims to evaluate the impact of particular policy measures on unemployment flows, it is vital to acknowledge that reverse causality might arise in empirical frameworks such as this one. From now on, the analysis assumes that if there is a reverse causal effect between unemployment inflows and policy measures facilitating dismissals, it is negative: more simply, it is assumed that governments are less likely to implement policies that make dismissals easier when firms are firing workers at a faster pace. Under this assumption, if there is a reverse causality problem in this context, it will imply that the coefficient of the policy measure variable is actually underestimated, and the results can thus be interpreted in the limit as a lower bound for the actual impact of facilitating dismissal in unemployment flow rates.

46. Note also that adding other control variables would increase the value of R-squared in the model without any significant changes to the results regarding the impact of dismissal policy measures, as further discussed in Appendix B.

TABLE 2.5 Impact of dismissal policy measures on outflow rates from unemployment (2008–13)

	(A)		(B)		(C)	
Dismissal policy measures	−0.009		−0.006	*	−0.005	
	(0.005)		(0.003)		(0.003)	
GDP growth	0.004	**	0.004	***	0.005	***
	(0.001)		(0.001)		(0.001)	
Constant	0.098	***	0.097	***	0.096	***
	(0.002)		(0.002)		(0.002)	
R-squared (within)	0.03		0.03		0.03	
Observations	457		457		441	

Standard errors in parentheses. Significance level: ***1 per cent, **5 per cent and *10 per cent.

Source: ILO Research Department estimates.

Although preliminary analysis included in Appendix B suggests the relationship between policy measures facilitating dismissals and outflow rates from unemployment (i.e. job creation) is not statistically significant, a similar regression analysis was undertaken for outflows from unemployment, as shown in table 2.5.

There is no statistically significant relationship between policy measures concerning dismissals and unemployment outflow rates. Moreover, in the one specification where the coefficient concerning the dismissal policy is significant, it has a negative sign. This points to the possibility that the positive effects of dismissal policies might have been muted for most of the period under consideration.[47]

The differences in the values of the *R*-squared between tables 2.4 and 2.5 suggest that dismissal policy measures have a stronger explanatory power when it comes to job destruction than when it comes to job creation.

Overall, the regression analysis supports the view that, to some extent, policy measures that facilitated dismissals led to higher unemployment inflow rates, without a discernible effect on unemployment outflow rates. This is in line with findings in the literature. For example, Bentolila and Bertola (1990) found that in several European countries, changes to firms' dismissal costs have larger effects on their firing decisions than on their hiring behaviour.

Monograph examples

Dismissal was an important aspect of the labour market policy agenda in several Member States. In the Netherlands, much debate has taken place in recent years on the ability of employment protection legislation (and the unemployment benefits system) to achieve a higher level of (full-time) employment. This culminated in the adoption of the Act on Work and Security in 2014. To be implemented over 2015–16, the Law will make the dismissal of workers on permanent contracts less costly (through lower severance payments) and the outcomes of the dismissal procedure more predictable (by removing the possibility of the employee bringing the matter before a civil court).

In Spain, most elements of the 2010 and 2012 reforms involved reductions in employment protection for workers on permanent contracts (i.e. reduced severance payments, reduced periods of notification, reduced compensation for unfair dismissals for new open-ended contracts, approval of public administration no longer required for collective dismissals, etc.). Nonetheless, the 2010 labour market reform package strengthened employment protection legislation for temporary workers, as the severance payment increased progressively from 8 days per year of service in 2008 to 12 days in 2015, a 50 per cent increase. There was also a change in the legal regime for domestic workers, who now enjoy the protection of the labour code.

47. An interesting topic for further research would be to expand this analysis over a greater period of time, in order to understand whether the lack of positive impact is related to the crisis, or if there is no evidence of this positive impact even when the economies are performing well.

2.3 Labour market regulation: Other categories

As described earlier in this chapter, there are several other categories of LMR besides non-standard employment and dismissals. These two categories were chosen as the main focus of the chapter because of their large number of policy measures in the inventory and the availability of data that could be used to identify the relevant trends and impacts. However, the other categories also attracted a significant amount of attention from policy-makers. Figure 2.12 presents a breakdown of these categories by main beneficiary.

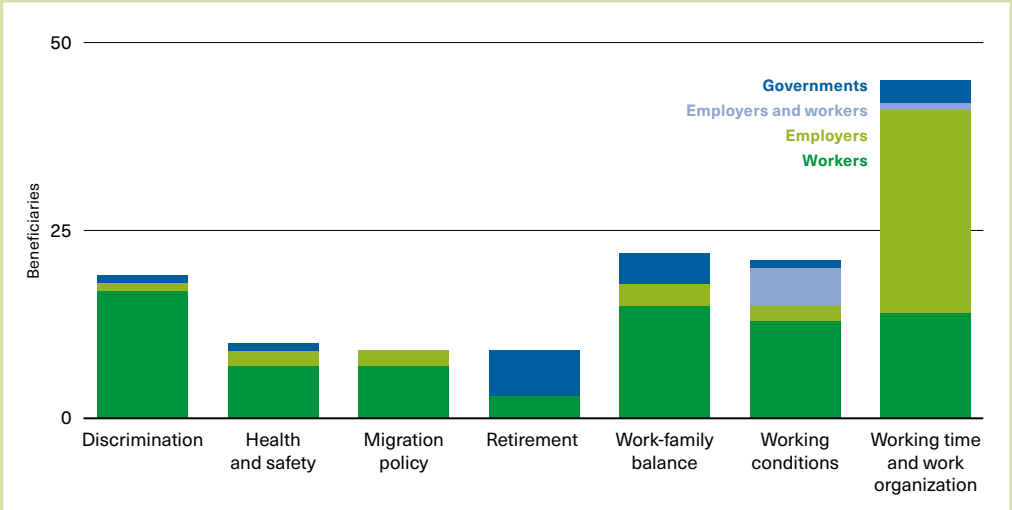
For the most part, workers were the main beneficiaries of these LMR categories, with two notable exceptions: (i) retirement, and (ii) working time and work organization. In the former, interventions were aimed mostly at prolonging workers' careers and hence reducing the pension burden on the social security system. In the latter, in more than half of the measures, employers were the main beneficiary.

The working time and work organization policy measures were mainly intended to make it easier for firms to make labour demand adjustments that did not involve job cuts – even though in many cases firms were not forced to prove that they did not reduce their employment levels. For example, some measures allowed employers to impose temporary layoffs and working-time reductions in cases of economic difficulty, while others widened the working-time reference to make it more flexible.[48]

In most cases, the other categories in this area aimed to improve workers' conditions in the labour market, either by reducing discrimination, improving occupational safety and health at work, improving migrants' rights vis-à-vis national workers or facilitating work–family balance.

Overall, LMR measures can be split into two broad groups of interventions. The first group includes policy measures aimed at changing the structure of the labour market to enable both workers and employers to better withstand the negative effects of the financial crisis on labour markets. Examples are policy measures targeting non-standard employment, changes to the legal framework of dismissal procedures and changes to working time and work organization rules.

FIGURE 2.12 Breakdown of other LMR policy measures by main beneficiary (2008–13)



Source: ILO Inventory of Labour Market Policy Measures.

48. It could be argued that policy measures in the family benefits category could have been included in this category, as they all affect working time to some extent. However, the fact that these measures are different in their nature leads to this separate categorization, as the main goal of working time and work organization policy measures was to improve the ability of employers to adjust their demand for work, while family benefits policy measures were implemented almost exclusively to improve the balance between work and family time for workers.

The second group includes policy measures that were more likely to be implemented even in the absence of a financial crisis and consequent recession. These are an integral part of natural labour market development, such as measures fighting discrimination, protecting migrants or promoting a greater work–family balance.

Monograph examples

The monographs provide interesting examples of measures taken towards the deregulation of working time.

In France, the legal working time limit is the same as it was at the end of the 1990s, at 35 hours per week, although there have been periodic attempts to increase it. In 2008, overtime was exempted from social security contributions. While this had a strong declarative effect, it was also widely used by enterprises: declared overtime hours increased by about 3 hours per full-time worker between 2007 and 2013, and 40 per cent of workers benefited from the measure in 2009. As well as being expensive (it cost €3.5 billion per year), the measure might have been detrimental to job creation, while benefiting those already employed. The exemption of overtime from social security contributions was reversed in 2012.

In Spain, the 2012 labour market reform focused heavily on promoting "internal flexibility", giving employers facing a downturn a set of adjustment mechanisms beyond dismissals and non-renewal of fixed-term contracts.[49] Employers had previously been allowed by the 2010 labour market reforms to reduce working hours for economic, technical, organizational and production-related reasons. In addition, the Spanish 2012 labour market reform also allowed companies to unilaterally change working hours, within the limit of 5 per cent of total yearly working hours. Other reforms concerned the introduction of overtime and additional working hours to those initially agreed for part-time workers in 2013.

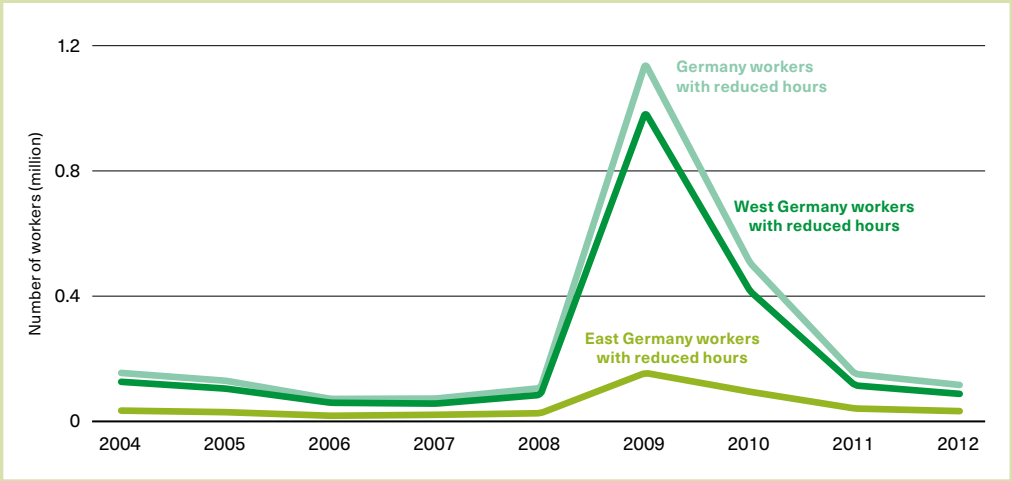
In Germany, the most important measure affecting working time was the extension of reduced working-time arrangements. When the scheme was at its peak in 2009, 1.14 million workers had worked reduced hours at some point. The main features of the scheme are as follows:

- To benefit from the short-time scheme (KuAG), companies have to apply to the Federal Employment Agency (*Bundesagentur für Arbeit*) and prove that they are affected by a significant and inevitable shortfall in demand for labour that affects at least one-third of their employees and 10 per cent of their working time.
- Workers without a family are compensated 60 per cent of the lost net wages; workers with a family receive 67 per cent. Social contributions such as pensions and health-care, long-time care and unemployment benefits are fully met by the Federal Employment Agency.
- Shortage of working hours presupposes there is an agreement between workers and employers to organize work-sharing.

In addition to KuAG, the use of accumulated time credits in working-time accounts was key to achieving temporary reductions in working hours during the crisis and stabilizing employment. Since the mid-1990s, numerous collective agreements have included provisions for working-time accounts (Bispinck, 1998). In companies with an export orientation, many workers were able to build up large working-time surpluses during the boom prior to the crisis, which they could reduce during the crisis, and sometimes even run into the negative. These provisions also helped companies in the following economic upswing, as they were able to draw on high labour availability without incurring additional costs, which increased their competitiveness (Herzog-Stein and Horn, 2013). Moreover deviations from collectively agreed or regular weekly working hours were permitted during the crisis within given limits.

49. However, available information shows that firms have not made much use of this new feature of collective bargaining at the firm level, which now supersedes sector-level agreements (ILO, 2015b). Firms have been more likely to use the new possibility of opting out of a sectorial collective agreement.

FIGURE 2.13 Short-time working allowance in Germany (2004–12)



Source: *Statistik der Bundesagentur für Arbeit. Eckwerte des Arbeitsmarktes und der Grundsicherung.* April 2012 and May 2014 (German monograph).

2.4 Concluding remarks

This chapter has analysed the policy measures in the inventory that were aimed at changing labour market regulation, other than by affecting wages. Two main types could be identified: (i) those that tried to change the structure of the labour market, and were to some extent directly related to the impact of the financial crisis in the labour market (dismissals, non-standard employment, working time and work organization), and (ii) those that were of a more general nature, and which are likely to have been implemented even if the financial crisis had not happened (antidiscrimination, health and safety, work–family balance, etc.).

In the case of non-standard employment measures, policy-makers tried to make it easier for employers to adopt non-standard forms of contract, while at the same time increasing the rights of workers under those contractual arrangements. This trend was also identified in the ILO's World Employment and Social Outlook (WESO) report for 2015 (ILO, 2015a). Moreover, Member States in which these types of contract were already widely used were more active in implementing policy measures in this area.

Regarding policy measures related to dismissal procedures, there was a clear focus on facilitating dismissals across most Member States. The impact analysis performed in this chapter shows that this led to an increase in job exit rates, but has thus far not translated into any change in the hiring behaviour of employers. This suggests that the beneficial effects associated with this type of policy measure were not felt in the aftermath of the crisis.

Most working-time policy measures focused on making it easier for employers to adjust the working time of their workforce, to cope with the significant (and often unpredictable) fluctuations in demand observed in the aftermath of the financial crisis, while the remaining categories of labour market regulation measures mostly tried to improve workers' conditions in the labour market.

Overall, policy-makers had two principal goals when they changed LMR during the period. The first was to improve workers' protection and rights in the labour market after the onset of the financial crisis. The second was to try to facilitate labour demand adjustment by firms in reaction to the negative impact of the financial crisis on the labour market, whether through giving greater incentives to the use of fixed-term contracts, through facilitating dismissal of workers or by making adjustments in working time easier.

3 Active labour market policies

The objective of active labour market policies (ALMPs) is to provide support to workers displaced by economic restructuring. They have been an integral part of the European social model since the end of the Second World War. In order to study the evolution of ALMPs in the EU-27 in the aftermath of the financial and economic crisis, this chapter complements the data gathered in the ILO Inventory of Labour Market Policy Measures with data retrieved from the Eurostat database regarding labour market measures, and therefore the definition of ALMP measure used throughout this report is identical to Eurostat's concept of "labour market policy measure". This concept covers labour market interventions "that provide temporary support for groups that are disadvantaged in the labour market and which aim at activating the unemployed, helping people move from involuntary inactivity into employment, or maintaining the jobs of persons threatened by unemployment".[50]

Table 3.1 shows the number of ALMP measures in the ILO inventory classified as ALMPs, broken down by category, and the number of Member States that implemented at least one policy measure in that category.

ALMPs were one of the most popular areas of intervention among Member States between 2008 and 2013, with all but two Member States[51] implementing at least one policy measure during the period.

The most popular ALMPs were those in the categories of training (42 per cent) and employment incentives (37 per cent), while considerably fewer policy interventions focused on public employment services (PES) and direct job creation.

TABLE 3.1 Breakdown of active labour market policy (ALMP) measures, by category (2008–13)

Category	Number of policy measures	Share of policy measures (%)	Number of countries
Training	55	42	18
Employment incentives	48	37	21
Public employment services	15	12	9
Direct job creation*	12	9	9

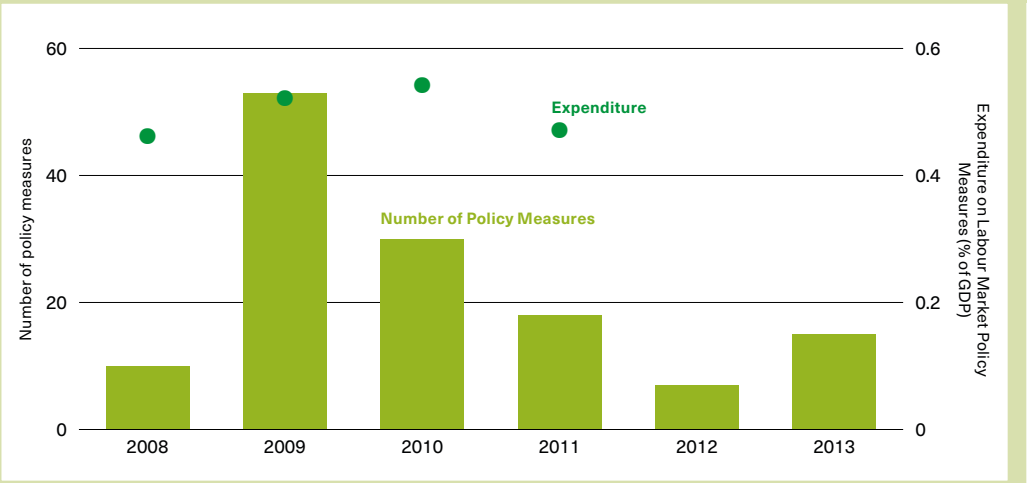
* Which include start-up incentives, as presented in Appendix A.

Source: ILO Inventory of Labour Market Policy Measures.

50. http://ec.europa.eu/eurostat/cache/metadata/en/lmp_esms.htm

51. Finland and Malta.

FIGURE 3.1 Active Labour Market Policy (ALMP) measures and expenditure (EU-27) (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat [lmp_expsumm].

Figure 3.1 shows the distribution of ALMP measures from 2008 to 2013. The figure also includes government expenditure[52] on labour market policy measures in the EU-28.[53] The pattern for the introduction of ALMPs is similar to that seen in the overall inventory: the number of measures peaked in 2009 and then dropped significantly; and the number in 2012 was below that in 2008, although it increased again in 2013. Regarding expenditure on ALMPs, there is a pattern of increasing spending until 2010, which could be related both to a lag in policy implementation and to an increase of inflows into unemployment, coupled with additional funding from expansionary fiscal policies in 2008–10. In 2011, however, the amount of expenditure was already below that in 2009, suggesting that the relative spending on ALMPs in the EU might have reverted to pre-crisis levels, even if the economic situation of most Member States was still much worse than it was in 2009.[54] The rest of this chapter makes use of different measures of both investment and participation in ALMPs across the EU to illustrate the trends and provide greater understanding of how those trends evolved after the crisis. These different elements and measures are used as complements to each other, as each of them provides an additional degree of information, even though in some cases there are potential drawbacks in their measurement or in comparing them across countries and time.

As policy measure activity and expenditure can vary considerably between Member States, figure 3.2 shows the number of policy measures in each individual country, together with the growth of expenditure on ALMPs using the most recent data available for each Member State.[55]

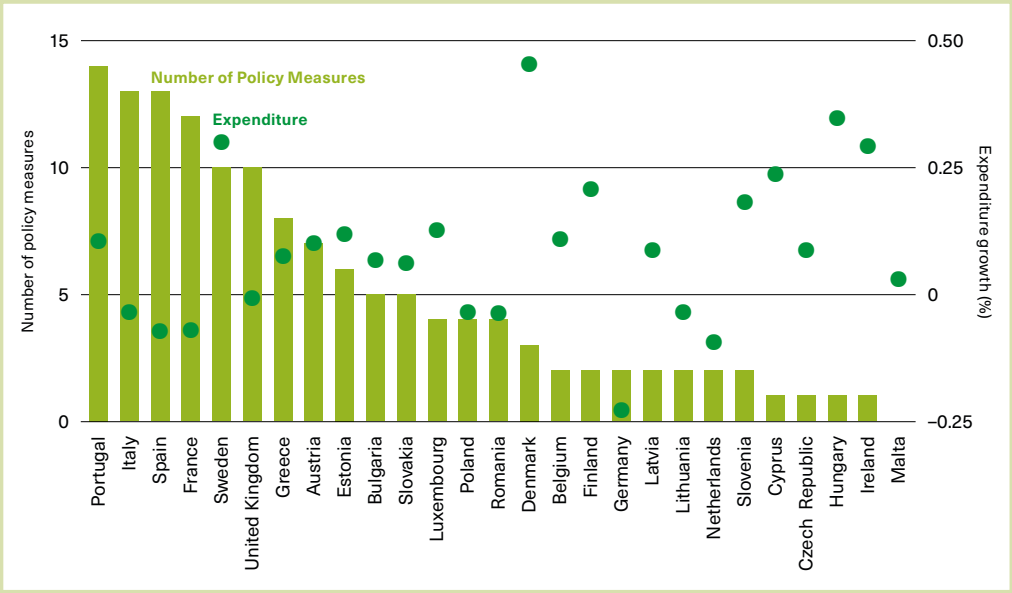
52. As an alternative, the overall expenditure in euros could have been used instead of the share of GDP, as the latter can be influenced by variations in GDP. However, using Eurostat data on expenditure (in millions of euros) does not change the outcome, as the pattern of expenditure is the same in terms of variation over the years in the sample. Furthermore, in the opinion of the authors, using the share of GDP gives a better idea of the relative importance that governments attach to this particular area in terms of their expenditure, as it shows how much of GDP is invested in supporting jobseekers. This is effectively what this chapter aims to investigate: how did governments change their support to jobseekers after the financial crisis?

53. Eurostat does not make data available for the EU-27 therefore data for the EU-28 is used as a proxy for the EU-27. Figures are only available up to 2011.

54. Moreover, 11 out of the 19 Member States for which data are available for 2012 at the date of analysis showed decreases between 2011 and 2012 as well, which indicates that this decreasing trend is likely to continue after 2011.

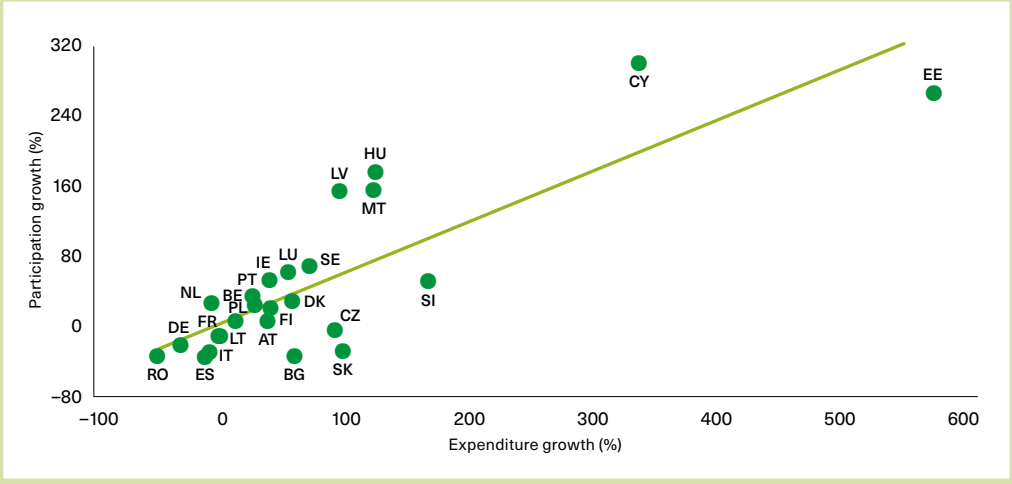
55. This chapter makes extensive use of data on labour market policy measures from Eurostat, especially data regarding expenditure and participation. For most Member States, the most recent data available at the date of analysis are from 2013, with the following exceptions: Greece (latest data available 2010), Cyprus and the United Kingdom (latest data available 2011) and Denmark, France, Hungary, Luxembourg, Malta, Poland, Romania and Spain (latest data available 2012). Whenever a graph indicates that the period of reference is until 2013, for the above-mentioned countries the most recent period of reference (as indicated in parentheses) is used instead of 2013.

FIGURE 3.2 ALMP measures and expenditure, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat [lmp_expsumm].

FIGURE 3.3 ALMP expenditure and participation growth by Member State (2008–12)*



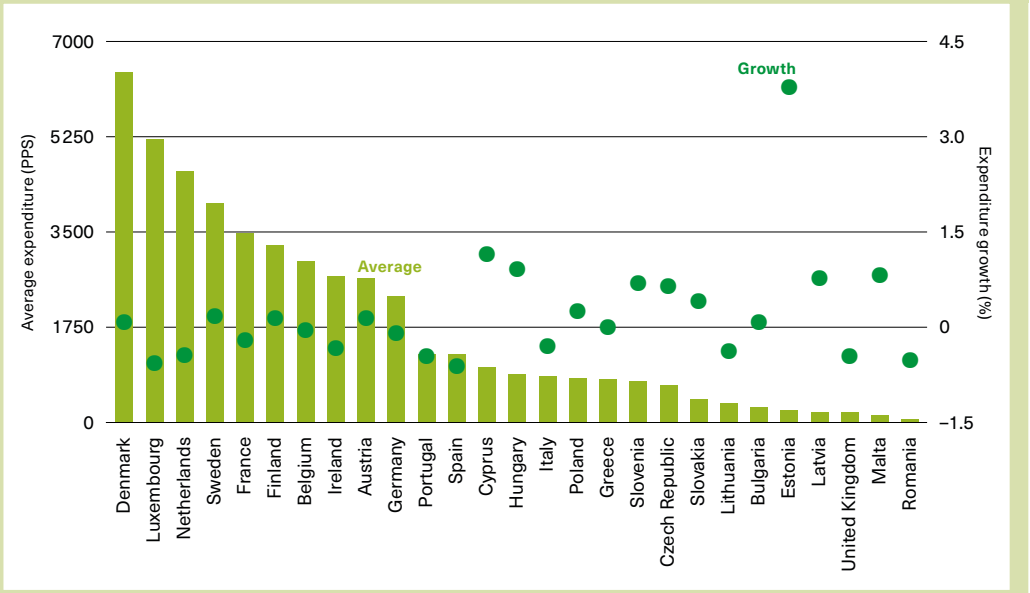
* Please see Appendix F for a list of country acronyms used.

Source: Eurostat [lmp_expsumm, lmp_partsumm].

Figure 3.2 shows there was significant activity by Member States experiencing higher levels of unemployment during the period, such as Portugal and Spain, as well as by Member States with lower levels of unemployment, such as Sweden or the United Kingdom.

The lack of correlation between the number of policy measures and the variation in expenditure on ALMPs indicates that adopting a more active policy stance did not necessarily lead to an increase in spending in that area. It is important to understand that expenditure can vary for different reasons, such as the level of investment per participant or the overall number of participants in a particular programme. In order to gain greater insight into the relationship between expenditure and participation, figure 3.3 plots the growth rate of the share of GDP spent on ALMP measures per country against the growth rate of the number of participants in ALMP per country between 2008 and 2012.

FIGURE 3.4 Expenditure on ALMPs per person wanting to work, in PPS, by Member State (2008–13)



Source: Eurostat [lmp_ind_exp].

Countries with an increase in the number of participants in ALMP programmes experienced higher increases in ALMP expenditure. In some cases the increases in expenditure and participation were extraordinary, such as Cyprus, Estonia and Hungary, where both expenditure and participation increased more than 100 per cent during the period.[56] This positive correlation might not be surprising, but is an important result nonetheless.

As there were significant variations in expenditure and participation in ALMPs over time, it is difficult to draw any conclusions using these two indicators in isolation. In order to complement the analysis, and to help understand which Member States made greater efforts to help jobseekers transition back to employment, figure 3.4 shows the level of expenditure of each Member State per jobseeker in purchasing power standards (PPS). This variable can loosely be interpreted as how much each government invested in each jobseeker enrolled in an ALMP programme.

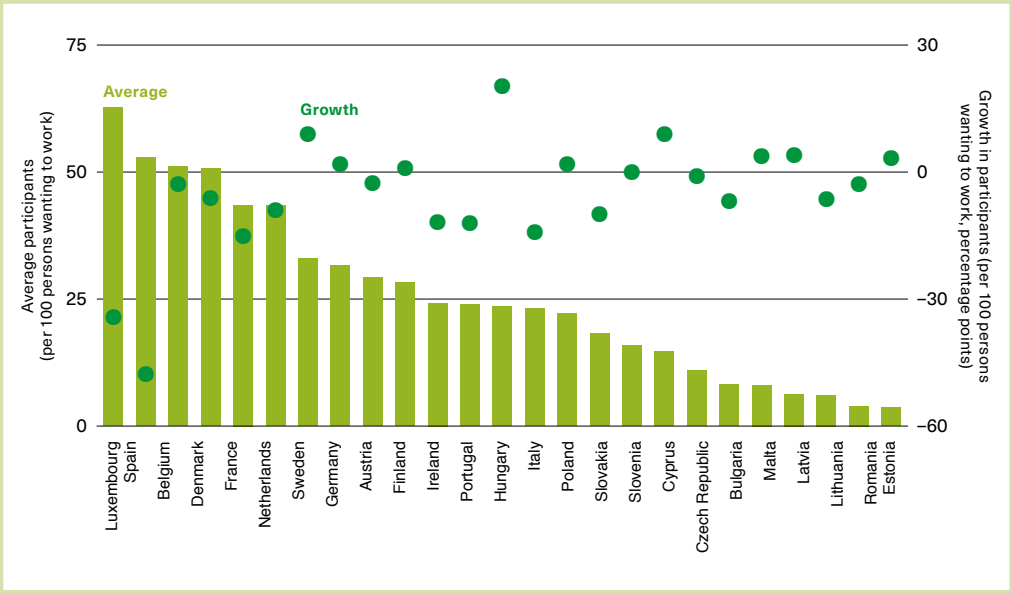
As can be seen from figure 3.4, countries in central and northern Europe generally spent more (in relative terms) on ALMPs than their counterparts in the south and east. It is also interesting to note that growth rates in expenditure were slightly higher in countries where there was less spending on ALMPs, which could be a sign of a catch-up.

Although these are important insights, the level of expenditure per participant by itself cannot give the full picture of how much effort was put into ALMPs by governments. To complement the analysis, and to understand how successful ALMP programmes in each Member State were in reaching potentially eligible unemployed workers, figure 3.5 shows the number of participants in ALMP programmes per 100 jobseekers. This indicator can loosely be interpreted as the participation rate of unemployed workers in ALMPs.

Together, figures 3.4 and 3.5 show that many of the Member States that invested more per jobseeker are also among those that provided ALMP coverage for a large portion of their unemployed workforce. The exception among the group is Spain, where on average half of the unemployed people participated in some kind of ALMP between 2008 and 2013, but where both expenditure and participation decreased significantly during the period. However, most of these countries

56. This positive cross-country correlation does not, however, depend on those outliers, as the cross-country correlation between the two variables is still around 0.45 even when all Member States experiencing growth rates over 100 per cent for any of the variables are excluded from the sample.

FIGURE 3.5 Participation in ALMPs, per 100 persons wanting to work, by Member State (2008–13)



Source: Eurostat [lmp_ind_actsup].

observed decreases in their participation rates, led by very high reductions in Luxembourg and Spain. While Hungary was the only country with an increase of more than 10 percentage points during the period, seven different Member States experienced drops in their participation rate of more than 10 percentage points, a clear sign that most ALMPs across the EU were not able to cope with the dramatic increases in unemployment following the financial crisis.

As previously mentioned, ALMP measures encompass a range of very different interventions aimed at improving the chances of an unemployed individual finding a job. The following section examines how Member States distribute their expenditure among different categories of ALMP, and how this relates to the findings in the literature. The rest of the chapter then examines the specifics of each particular type of policy measure, with sections covering PES, training programmes, employment subsidies, direct job creation and programmes targeting young unemployed workers.

3.1 Public expenditure distribution across ALMP categories

Policy-making decisions regarding ALMPs are usually constrained by budgetary limitations. They may also be constrained by the institutional capacity of PES to deliver the programmes, usually due to inadequate staffing and skills levels. This implies that governments often have to choose between different programmes when making their ALMP spending decisions. It is therefore crucial that policy-makers know which types of programme are more efficient in achieving the primary goal of helping participants to get back into employment. Analysing the impact of programmes of this nature, however, is far from simple. Nonetheless, a vast body of research has focused on estimating the impact of ALMPs all over the world.

Several prominent studies have analysed the literature in order that lessons can be learned from the numerous studies in the field. The study by Card et al. (2010), for example, analysed 199 programmes from 99 different studies between 1997 and 2005. Some important results came out of this analysis. The first was that job search assistance programmes, which in the ILO inventory fall under the category of "public employment services", are the most effective at increasing the chances of a participant finding a job. At the opposite end of the spectrum are public employment programmes, which were mostly found to have no effect on the future employability of participants.

Training programmes – which comprise the largest ALMP category in the ILO inventory – were found to have a positive impact in the medium term (2 years after completion), but no significant impact in the short term. Another important result of the analysis was that programmes targeting youth do not seem to be very efficient compared with programmes with no target population.

Another relevant study is that by Kluve (2010), which looked at 137 programme evaluations for 19 countries, 17 of which are EU Member States.[57] Its conclusions were similar to those of Card et al. (2010). Again, programmes targeting youth did not seem to yield positive results compared with general programmes, and direct employment programmes failed to show positive results. The study found training programmes to have modest results. This could have been a result of a lack of studies looking at the medium-term impact of these programmes, which were mentioned by Card et al. Private sector incentive programmes and PES are clearly the types of programme with better results across the studies considered, which to some extent supports the results of Card et al. Estevão (2003) also found that direct hiring subsidies have a greater impact on employment, even though some studies found significant deadweight losses associated with this type of programme.

In a study more directly related to the impact of ALMPs in economic downturns, Forslund et al. (2011) found it reasonable to rely more heavily on certain kinds of programmes in a recession. The argument is tied to the variations of the size of the lock-in effect over the business cycle.[58] The most suitable programmes to use during a downturn are those with a relatively large lock-in effect. The reason is simply that the cost of forgoing search time is lower in a recession. The study therefore concluded that training programmes should be expanded during a recession, while job search assistance should be reduced.

Given these results, and the vast amount of literature analysing these issues, it is important to understand the extent to which policy-makers take these results into account when deciding on which types of ALMP to focus on.

Table 3.2 presents the average share of expenditure on ALMPs by each country over the period 2008–13 (average), broken down by category. It shows that labour market services[59] received the most investment from the governments of nine Member States, while in eight Member States the biggest recipient was training. In six Member States, the highest amounts of spending went on employment incentives. Supported employment and rehabilitation programmes received the most funds in only three Member States. Only two Member States (Bulgaria and Hungary) invested the most in direct job creation, while no Member State dedicated more funds to start-up incentives than to any other category.

Both Card et al. (2010) and Kluve (2010) identified PES as one of the most efficient types of programme aimed at increasing an individual's chances of transitioning to employment. This is reflected by the relatively high levels of investment in PES by Member States. Whether this is to some extent a result of the findings in the literature is a harder point to prove.

Training programmes are another example of ALMPs that have been identified in the literature as having positive (albeit often more moderate) impacts on the probability of a participant finding a job. They were also the focus of a significant share of the funds Member States allocated to ALMPs.

The literature finds direct job creation to be a relatively ineffective type of ALMP, and this seems to be reflected in the fact that less investment was dedicated to this type of programme. However, this could also be partially due to the high costs such programmes entail.

Kluve (2010) points to a consensus in the literature on ALMPs in Europe that private sector incentive programmes have positive effects and improve job-finding probabilities (even in the presence of deadweight effects). This seems to be reflected strongly in the way Member States

57. The Member States were: Austria, Belgium, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, the Netherlands, Portugal, Slovakia, Spain, Sweden and the United Kingdom. Non-member states were Norway and Switzerland.

58. Lock-in refers to the decreased probability of a person finding a job while participating in a jobseeking programme, as their efforts are devoted to participation in the programme and not to searching for a job.

59. Which in the inventory are defined as public employment services (PES).

TABLE 3.2 Breakdown of expenditure on ALMP by category, by Member State (2008–13)

Country	Labour market services (%)	Training (%)	Employment incentives (%)	Supported employment and rehabilitation (%)	Direct job creation* (%)	Start-up incentives (%)
Austria	23	59	6	5	6	1
Belgium	27	20	26	17	9	0
Bulgaria	20	9	11	1	58	1
Cyprus	16	13	68	3	–	–
Czech Republic	41	7	11	29	11	1
Denmark	24	22	16	39	–	–
Estonia	38	45	11	–	0	6
Finland	13	51	15	10	9	2
France	27	36	6	10	17	5
Germany	42	33	8	4	6	7
Greece	6	24	39	–	2	30
Hungary	16	9	22	–	52	1
Ireland	22	42	6	1	29	–
Italy	9	42	42	0	1	5
Latvia	17	38	14	0	29	1
Lithuania	30	19	23	16	13	–
Luxembourg	11	8	67	2	12	0
Malta	74	12	12	0	1	1
Netherlands	32	11	14	43	–	–
Poland	16	9	22	37	4	11
Portugal	19	54	18	5	3	0
Romania	55	6	30	–	8	0
Slovakia	33	2	23	12	8	23
Slovenia	32	20	12	–	22	14
Spain	15	22	31	10	9	13
Sweden	21	7	48	22	–	1
United Kingdom	85	5	3	2	5	0

* Note that in the inventory, the last two columns, "Direct Job Creation" and "Start-up Incentives" are combined in the "Direct Job Creation" category.

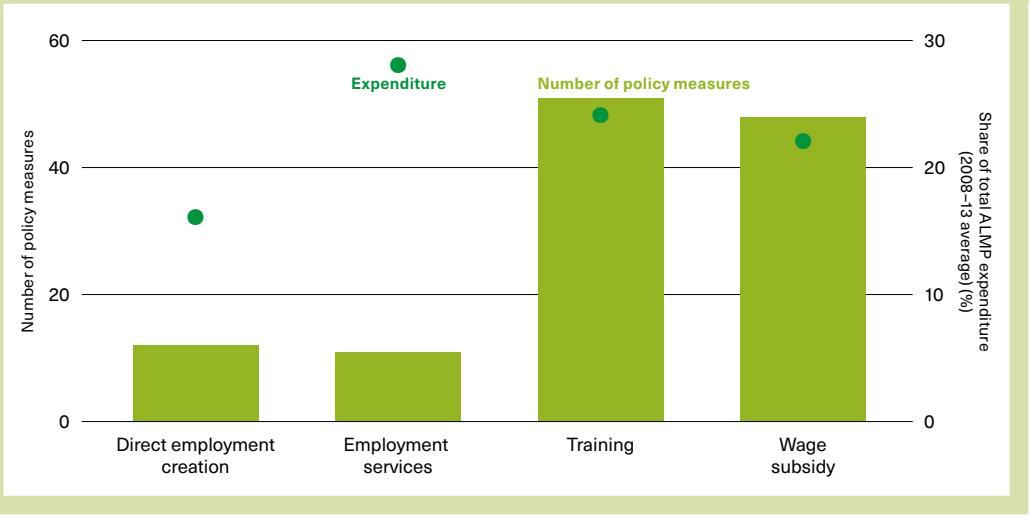
Source: ILO calculations based on Eurostat data.

allocate their levels of public spending in ALMPs, as the two main components of this type of programme (employment incentives and start-up incentives) are on average about 27 per cent of each Member State's total expenditure on ALMPs.

Table 3.2 suggests that overall, Member States are, to a significant degree, aware of the findings on the effectiveness of ALMPs, as most of their expenditure on ALMPs has been focused on the types of policy measures found to be most effective across the literature. There are, however, some exceptions, particularly where Member States have allocated a significant share of their expenditure in ALMPs in the category of direct job creation. This approach has been found to be relatively ineffective in improving the "employability" of participants, although it can still play a positive role in supporting their income, giving them access to social protection and preventing the skills erosion that comes with long periods of inactivity. This has been the case in Bulgaria (58 per cent) and Hungary (52 per cent),[60] where more than half of the expenditure in ALMPs was dedicated to this type of programme.

60. Also to a lesser extent in Ireland, Latvia and Slovenia.

FIGURE 3.6 ALMP measures and expenditure by category (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat [lmp_expsumm].

In conclusion, figure 3.6 shows the distribution of policy measures across the four categories[61] with equivalent categories in the Eurostat database, and the respective share of ALMP expenditure for the EU-27.[62] With the exception of PESs, where there is a relatively large investment from governments but few policy measures identified in the inventory, the share of spending and the number of policy measures seem to vary in the same direction, suggesting there is a positive correlation between policy activity and the share of funds dedicated to those activities.

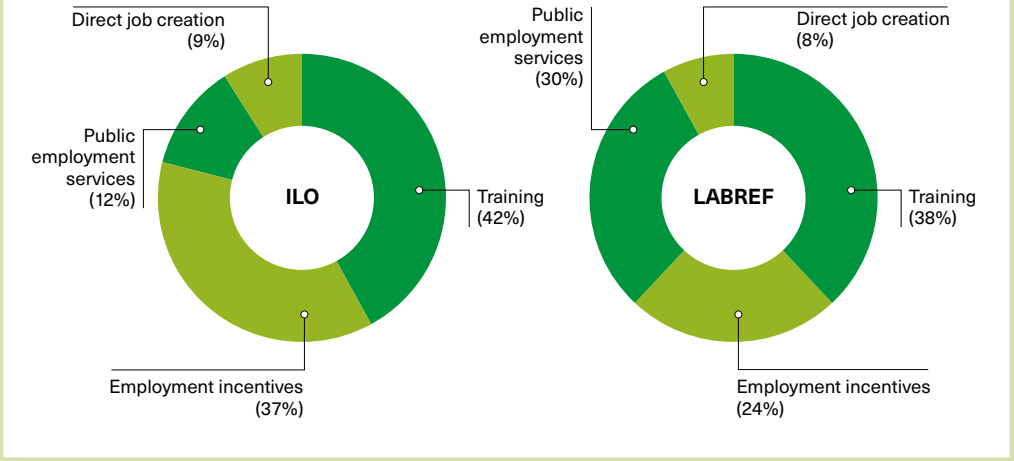
In order to understand how the numbers of policy measures dedicated to each type of ALMP in the inventory reflect the patterns observed in other databases, figure 3.7 compares the distribution of ALMPs between the four most popular categories in the ILO inventory and in the LABREF database. In both databases, training measures account for around 40 per cent of total ALMPs implemented between 2008 and 2013. Direct job creation accounted for slightly less than 10 per cent of all ALMPs in both databases.

The difference between the two databases is in the shares of employment incentives and PES, with the latter representing a larger share of ALMPs in the ILO inventory than in the LABREF database. However, it is important to note that the LABREF database isolates interventions targeting young people as a separate category, while in the ILO inventory the target population is a separate dimension. This implies that the four categories in the ILO inventory include policy measures targeting youth, which is not the case in the LABREF data. It is relevant to this comparison because most of the policy measures targeting youth are, according to the ILO methodology, classified as either training programmes (for example, apprenticeship-related programmes) or employment incentives. This means that, in reality, if the same methodology were applied to the LABREF database, training and employment incentives would constitute a larger share of ALMPs. The two databases are therefore closer than figure 3.7 suggests when it comes to the distribution of ALMPs across different types of programme.

As well as being useful for testing the robustness of the findings of the ILO inventory, the LABREF database can add an additional dimension to the analysis by allowing it to stretch back to 2000, allowing the pre- and post-crisis periods to be compared. A comparison of the numbers of ALMPs implemented in the two periods shows there was a significant increase after the crisis (even though the time span was shorter). The LABREF database shows that between 2000 and 2007, 322 ALMPs were implemented, while between 2008 and 2013, 457 ALMPs were implemented.

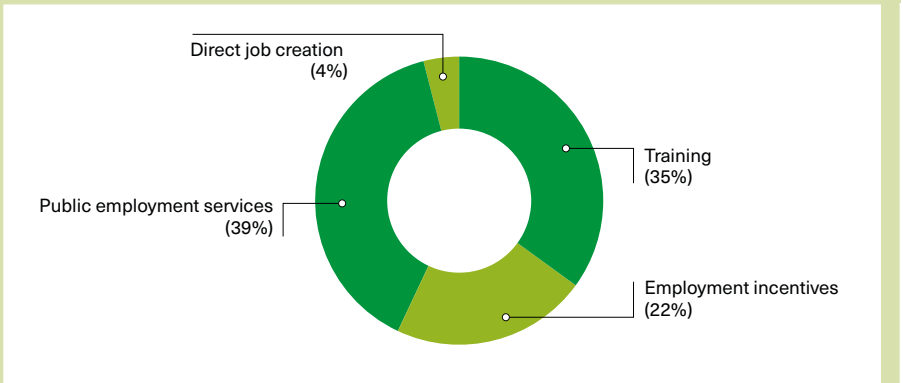
61. Direct employment creation expenditure includes both start-up incentives and direct job creation.
62. As an unweighted average between the 27 Member States.

FIGURE 3.7 Breakdown of ALMP measures by category (ILO Inventory and LABREF database) (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, LABREF database.

FIGURE 3.8 Breakdown of ALMP measures by category (LABREF database) (2000–07)



Source: LABREF database.

This represents a very significant increase: the average number of new ALMPs per year across the EU-27 almost doubled, from 40 to 76. When analysing the breakdown per category (figure 3.8), the composition is very similar to that in figure 3.7 for the LABREF database. The notable difference is the smaller share of ALMPs focused on PESs in the post-crisis period.

Having analysed the distribution of expenditure in ALMPs across different types of policy measure, the focus of the following sections will be on the individual categories of ALMP. The last section of the chapter considers policy measures targeting youth and their relationship with youth unemployment.

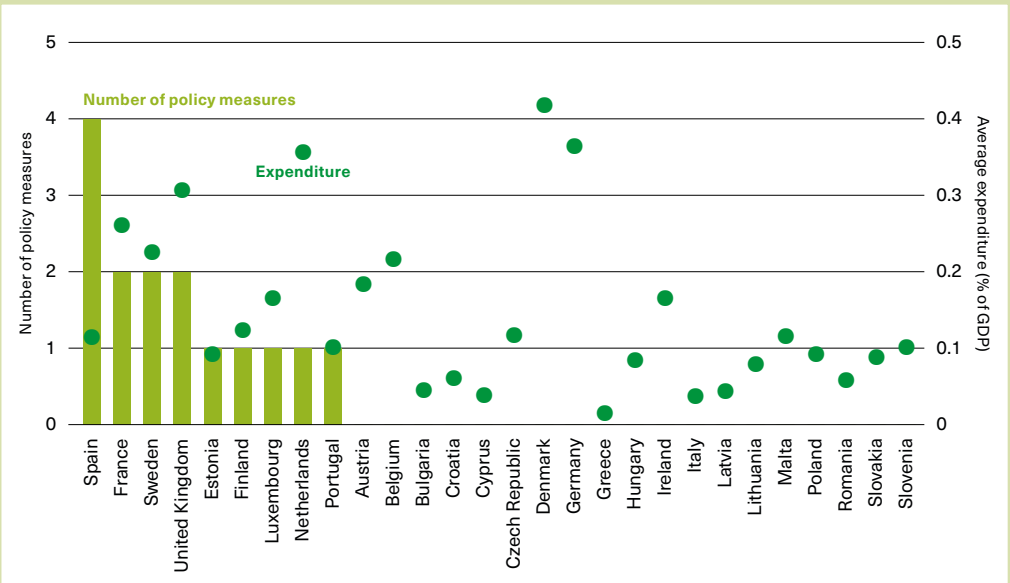
3.2 Public Employment Services

The concept of the Public Employment Services considered in the inventory is very closely related to that of "labour market services", of the Eurostat. Therefore, this section uses Eurostat's data on "labour market services" to illustrate cross country differences in this area during the period considered. The Eurostat defines labour market services as measures that "cover all services and activities of the PES together with any other publicly funded services for jobseekers".

The inventory includes 16 policy measures in this category. Their distribution across Member States, together with each Member State's average expenditure on labour market services, is shown in figure 3.9. No particular pattern can be seen, as Member States with very different labour markets were active in this category. Only four Member States invested more than 0.3 per cent of GDP in this type of programme, and all of these were Member States with more resilient labour markets. None of the 12 most recent Member States invested more than 0.1 per cent of GDP in labour market services, a clear sign that there is a significant amount of catching up to be done by these countries in terms of assisting jobseekers to find new jobs in a timely manner.

To help determine whether expenditure levels are led by an increase in the investment per jobseeker, figure 3.10 shows the average and the growth of each country's expenditure in labour market services per jobseeker, in PPS. The first noticeable conclusion to be drawn is that most Member States decreased their expenditure in PPS per jobseeker, meaning that in 2013, PESs in most EU Member States were investing less per jobseeker than they were before the financial crisis. It can again be observed that those Member States that better withstood the negative impact of the financial crisis were among those which spent more on their PES, again stressing the importance of these types of services in helping unemployed workers transition back into employment. This figure also shows that differences in expenditure levels do not seem to be dependent on the number of participants, which had increased in most countries due to the large inflows into unemployment observed after the crisis.[63]

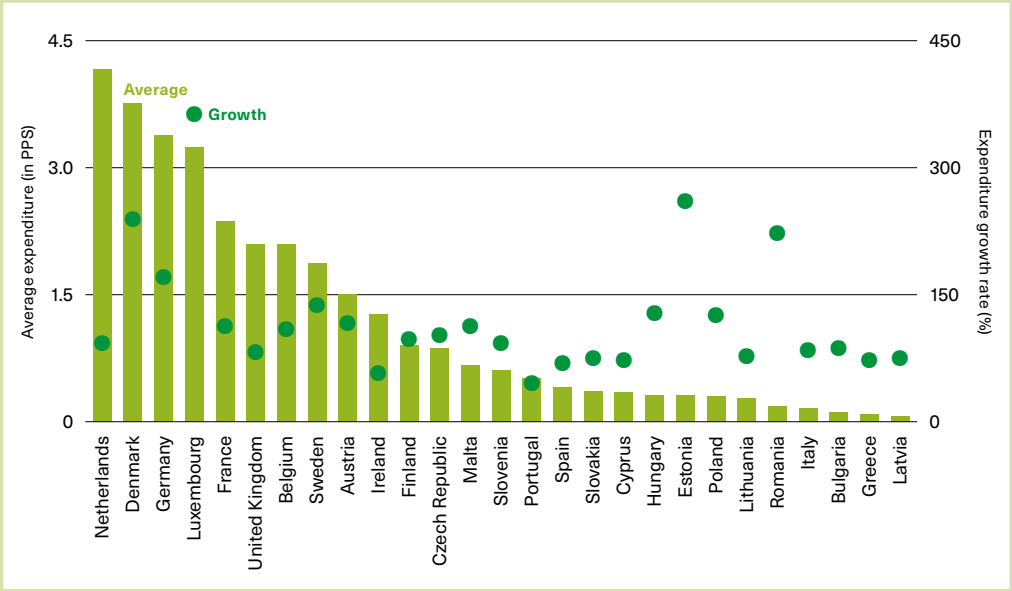
FIGURE 3.9 Public employment services (PES) policy measures and expenditure, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat [lmp_expsumm].

63. Data on participants in labour market services programmes are only available for a few Member States, and are therefore not presented for this category. This should not be confused with the number of people registered with a PES, as not all of them will necessarily be participating in a job search programme.

FIGURE 3.10 Expenditure on labour market services per person wanting to work, in PPS, by Member State (2008–13)



Source: Eurostat [lmp_ind_exp].

Monograph examples

France was one of the most active Member States in the inventory in implementing policy measures targeting PES. The French government undertook major institutional reform of employment services, with the objective of activating jobseekers. In 2008 the agencies responsible for employment services and unemployment insurance were merged, but the integration of the services provided to jobseekers had not been completed when the crisis broke. The coincidence between the reform and the crisis had disastrous consequences on registrations for services (delayed) and guidance and monitoring processes (disrupted). The task of reallocating staff across functions proved to be challenging, and the merger was expensive (in terms of labour costs) and time consuming (although these were independent of the crisis). Nonetheless, the reform, which was not completed until 2014, did lead to successful results: (i) a one-stop shop organization that provides integrated services to jobseekers (in particular those eligible for unemployment benefits) and companies; and (ii) more and better staff, with a significant increase in the number of employees (2,000 permanent jobs had been created in 2012, and 2,000 more in 2013) (Sénat, 2012). The new staff were dedicated to advising and monitoring jobseekers, and complemented internal transfers of staff from back-office to front-office functions. The objective was that 25.9 per cent of the total *Pôle Emploi* staff were to be totally or partially devoted to assisting jobseekers (*Projet de loi de finances pour 2014*).[64] These developments are particularly significant in a context of continued reduction of State staff and fiscal constraints. Also, a new range of PESs for employers was created in 2013, to improve job search efficiency and focus support (on job definition and job interviews) on enterprises in need.

ALMPs in the United Kingdom changed drastically after the general election in May 2010, with most programmes replaced by just one, the Work Programme. Before that, the Flexible New Deal (FND), introduced in October 2009, was aimed at increasing the support offered to jobseekers aged under 25 (and others, though with less intensity) while at the same time increasing the obligations of those jobseekers. If a person was still claiming jobseekers' allowance (JSA) after 12 months, they were then referred to a provider (such as a charity or a private company) for further work preparation support. The FND was discontinued in June 2011 when the Work Programme was launched, although it should be noted that the two programmes share many

64. http://www.assemblee-nationale.fr/14/dossiers/loi_finances_2014.asp

similarities. In total, the FND helped 16,300 people find permanent work, compared with a total of 279,000 people who entered into the programme, for a cost-per-job of £31,284.

The Work Programme is a welfare-to-work scheme. It was designed to replace most of the existing ALMPs introduced by the earlier Labour government with a single programme to increase efficiency. Its payments to providers are more dependent on placement results, and increase the longer placed persons remain in employment.

Individuals in receipt of the JSA are mandated to the Work Programme after 9 months, if they are between 18 and 24 years old, or after a year for those older than 25. Claimants keep the JSA while on the Work Programme and must prove that they are actively seeking and available for work. Statistics show that for the first 2 years of the programme, by September 2013, the total number of referrals and attachments to the Work Programme were 1.41 million and 1.36 million respectively. Of those, 208,000 job outcome payments were made to providers, representing 16.6 per cent of eligible referrals.

Both the FND and the Work Programme were designed to work mainly through the JSA, thereby tying benefits to mandatory participation in the programme, emphasizing the requirement for active job searching. Also, both programmes were designed to heavily involve external agents, such as private providers of the workfare industry or charity organizations, in providing education, training, job placements or voluntary work. Furthermore, both programmes were intended to focus on those between 18 and 25 years of age.

A significant difference between the two programmes is that the Work Programme puts greater emphasis on apprenticeships than did the FND.

The introduction of the Work Programme resulted in the ending of a programme designed to increase employment in the social care sector and another aimed at strengthening vocational education. Another programme introduced after 2010, the New Enterprise Allowance, provides more support for entrepreneurship and self-employment.

The United Kingdom example illustrates one approach to employment services. It relies on private providers to organize placements for jobseekers, and benefits are activated through compulsory participation in programmes.

3.3 Training

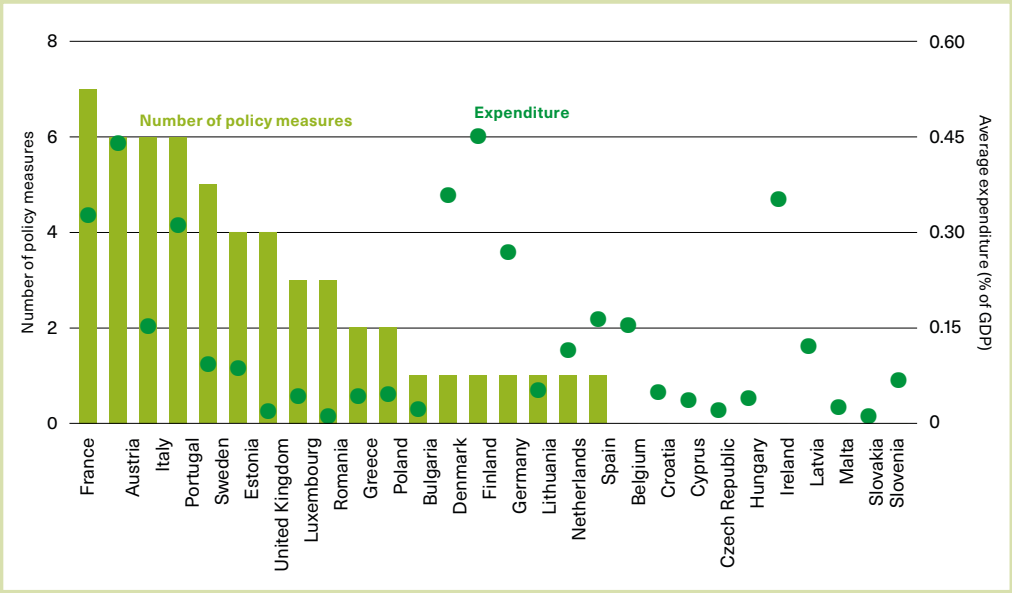
Policy measures related to training include three broad types of programme: (i) those which aim to upgrade the skills of current workers by promoting educational leave; (ii) those which focus on unemployed people and try to tailor training towards reintegrating them into the labour market; and (iii) those which target youth and the vocational training system.

Figure 3.11 shows the number of policy measures in the training category per Member State, together with average expenditure on those programmes per Member State, as a share of GDP. There seems to be no relationship between the number of training policy measures and the expenditure on training programmes.

Only a few Member States invested above the average level of expenditure on training programmes (only seven Member States spent more than 0.2 per cent of their GDP on training programmes). This was a heterogeneous group of countries, including both some that were more resilient to the effects of the financial crisis (e.g. Austria, Denmark and Finland) and some that were deeply affected (Ireland and Portugal).

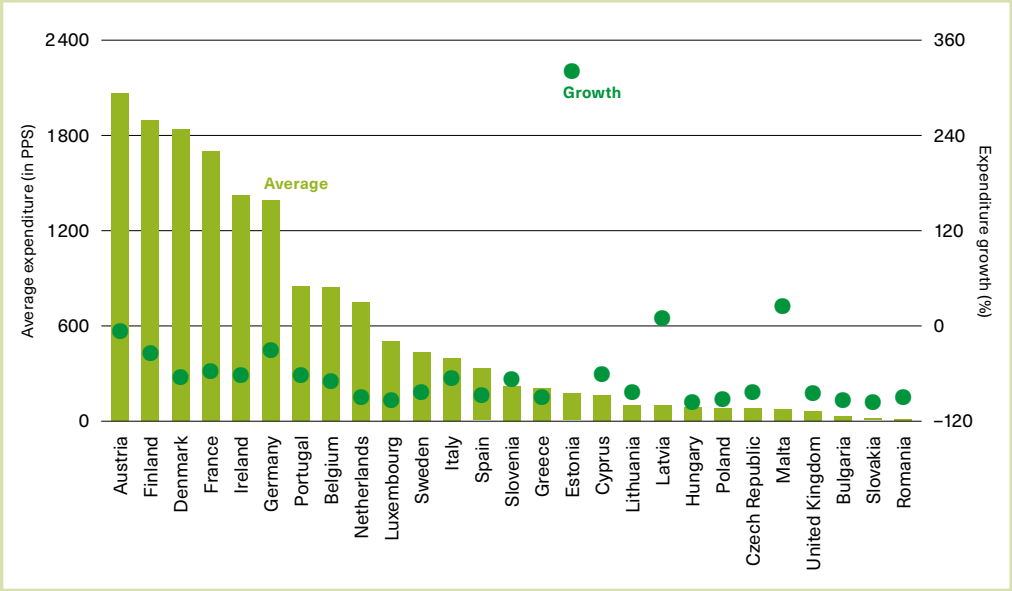
Figure 3.12 shows the average government spending on training programmes per jobseeker, in PPS, and the growth in spending during the period under consideration. Only three Member States increased their level of expenditure per jobseeker, all of which started from initially low levels. The investment in training programmes per jobseeker declined in 24 out of 27 Member States, which is worrying as unemployment (and in particular long-term unemployment) remains high in several of these countries.

FIGURE 3.11 Training policy measures and expenditure, by Member State (2008–13)



Source: ILO Inventory of labour Market Policy Measures, Eurostat [lmp_expsumm].

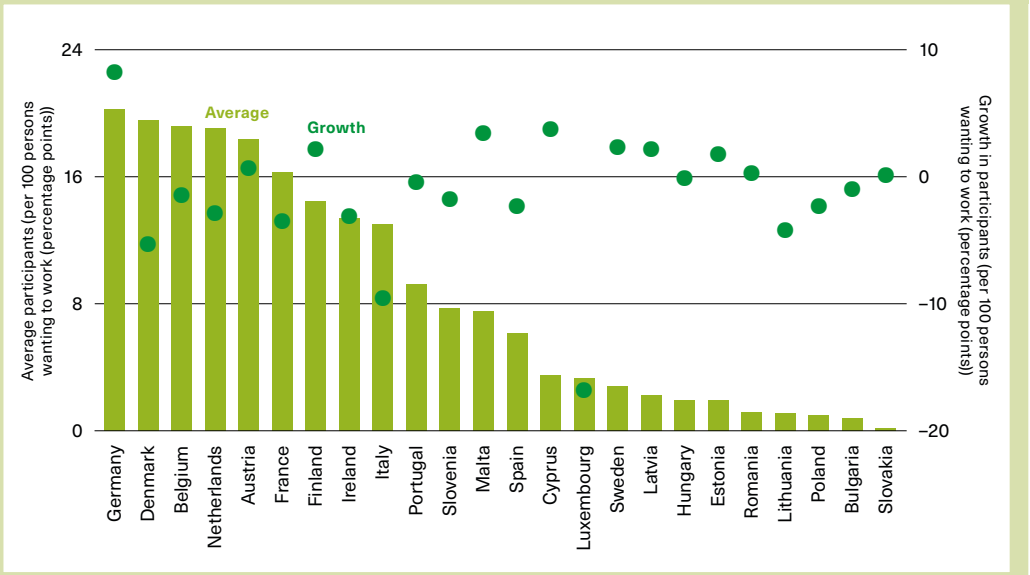
FIGURE 3.12 Expenditure on training programmes, per person wanting to work, in PPS, by Member State (2008–13)



Source: Eurostat [lmp_ind_exp].

In general, Member States that implemented more policy measures in this area seemed to spend more in terms of PPS per person. However, there were some exceptions. For example, Estonia and Romania spent relatively little on training programmes but implemented several policy measures in this area. In Estonia's case, spending on training programmes increased significantly during the period. This did not happen in Romania, however, most likely because its policy measures were focused more on restructuring its training programme system than increasing its investment in it.

FIGURE 3.13 Participation in training programmes, per 100 persons wanting to work, by Member State (2008–13)



Source: Eurostat [lmp_particip].

Looking at the data more closely, it is possible to identify two groups among the Member States with high average spending on training programmes: (i) those that implemented a small number of new policy measures because they already had good training systems in place before the crisis, such as Denmark, Finland and Germany; and (ii) those that spent in order to improve the effectiveness of their training programmes, such as Austria, France and Portugal.

To help determine whether participation in training programmes follows the trends seen in expenditure levels, figure 3.13 shows participation per 100 people wanting to work between 2008 and 2013.[65]

For some Member States that implemented new training measures, such as Estonia and Sweden, a significant increase in participation can be observed. However, for some other Member States, a decline in participation is seen, even if they implemented several policy measures in this area (and observed significant increases in unemployment rates). This was the case in France (which introduced the most training measures), Italy and Luxembourg.

Conversely, some Member States experienced significant increases in participation rates without having implemented any new policy measures in this area, such as Cyprus and Malta.

Overall, the picture regarding participation is not as gloomy as that for expenditure: more Member States increased their share of jobseekers participating in training programmes than increased their level of spending. Nonetheless, more than half the countries experienced a decrease in participation rates, which means that training programmes were reaching a smaller share of jobseekers than before the crisis. These patterns are problematic because as high levels of unemployment persist, the share of long-term unemployed workers tends to rise, and the longer individuals are unemployed, the harder it is for them to find a job. This suggests that governments need to invest more in these jobseekers in order to significantly improve their chances of finding new jobs.

65. Czech Republic, Greece and the United Kingdom were excluded due to the limited number of observations available.

Monograph examples

Training programmes were one of the most popular ALMP categories among Member States.

In Ireland, for example, the JobBridge National Internship Scheme was implemented in 2011. This scheme allows unemployed workers of any age who have been in receipt of unemployment benefits (Jobseeker's Benefit) or unemployment assistance (Jobseeker's Allowance) for more than 3 months to work as interns in a private firm or other organization where they can gain experience. The scheme allows employees to continue to claim unemployment benefits, while also receiving a weekly allowance of €50 for 6–9 months. There is no cost to the employer for having the worker for this length of time. An evaluation of the scheme (see Indecon, 2013) indicated that over half of the participants moved into paid employment (this includes interns who quit the scheme but later found a job). An important concern highlighted in the evaluation was that deadweight and displacement might have been significant factors in that many of the employers would have hired workers without the subsidy or with a smaller subsidy. While the Indecon evaluation analysed these concerns, the only data available were the responses of employers to a survey asking whether they would have hired in the absence of the subsidy. Clearly data based on observed behaviour would have been a much more desirable and credible way to assess these concerns. A feature of the evaluation was that success seems to have been measured in terms of employers retaining interns, whereas internship schemes are more generally seen as opportunities for workers to gain skills that will contribute to their future employability.

Internship was reformed in Poland in 2009 as well, from a programme providing young people with their first work experience to an activation measure for all jobseekers. Internship, i.e. practical on-the-job training, remunerated at 120 per cent of the unemployment benefit, was previously reserved for youth under 25 years of age and graduates under 27 years old, but became available to the long-term unemployed, older jobseekers and a range of other categories of jobless people for a maximum of 6 months (12 months for youth and graduates). In 2011, internship was the largest single ALMP, accounting for a quarter of total expenditure, followed by start-up incentive programmes. During the period 2008–13, almost 300,000 interns benefited from the programme at its peak (in 2013), while at its lowest level (in 2008) there were 169,860 interns. As a very rough indicator of the efficiency of internships, in 2013, 66 per cent of interns had left the unemployment registry 3 months after completion of the programme.

In contrast, Germany implemented some changes in its training system even though unemployment rates were declining after the crisis. For example, during the crisis the German WeGebAU training programme – promoting lifelong learning in small and medium-sized companies and supporting the training of older and low-qualified workers – was expanded as part of the second financial stimulus package (FSP II). The additional groups targeted were unskilled unemployed persons over 25 years of age and youth without vocational training. The funding was increased from €167 million in 2008 to €332.3 million in 2009 (Hippach-Schneider and Hensen, 2012, p. 26); in 2009, 95,402 persons were supported through this programme. Of these, 10,551 were older workers in enterprises with fewer than 250 employees. In 2010, expenditure on the scheme fell back to €274 million.

During the crisis, additional incentives and opportunities for training for employed workers were also created for low-qualified workers and temporary agency workers in partial unemployment (*Qualifizierung während Kurzarbeit*); demand for these schemes was low, however. Of the €150 million provided for low-skilled workers in 2009, only €35 million was used. Similarly, for the reskilling of temporary agency workers in partial unemployment, only €0.1 million of €200 million provided was used. Between 2010 and 2011, the number of unemployed participants in training provided by the Federal Employment Agency declined significantly, from 188,700 in 2010 to about 161,500 in 2011 (BiBB, 2014, p. 30f). This shows that issues regarding the delivery of programmes that could be attributed to a lack of knowledge of the number of eligible jobseekers or firms, or other factors (e.g. paperwork), are also common in countries with low unemployment.

3.4 Employment incentives

In the inventory, employment incentives include both hiring subsidies for new workers (to foster job creation by firms) and wage subsidies for workers already employed (to reduce levels of job destruction).[66]

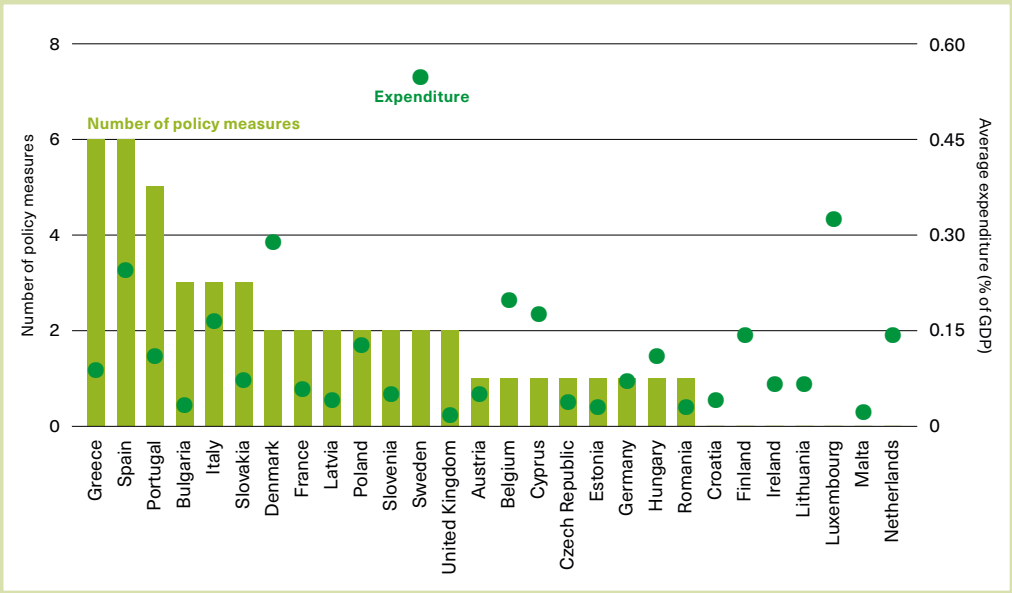
The literature shows mixed results for these types of incentive. Employment subsidies are a relatively successful type of policy measure in terms of increasing the future employability of recipients, but they are also associated with strong deadweight effects. The extent to which the first effect dominates the second remains unclear.

This section starts by presenting the number of policy measures dedicated to employment incentives implemented over the period of study and the average expenditure in this area by each country. Figure 3.14 brings some important insights to this analysis. In particular, it appears that countries that were more affected by the crisis were very proactive in implementing policy measures in this area, with Greece, Spain and Portugal being the three Member States with the most policy measures registered.

Figures 3.15 and 3.16 help to determine whether this increased spending was the result of higher expenditure per jobseeker or an increase in the number of participants in programmes of this type (or both).

Figure 3.15 shows the average and growth of expenditure in employment incentive programmes, in PPS per jobseeker. Comparing this figure with Figure 3.12 shows that the average levels of spending per jobseeker on training and on employment incentives were relatively similar. A small number of Member States (not common in both categories) spent more than 500 in PPS, while all other countries spent significantly less. In the countries that implemented the most employment incentive measures (Greece, Spain and Portugal), there was either a small increase or decrease in expenditure on this type of measure (per participant). It is very likely that budget constraints related to these countries' rescue programmes prevented increases in expenditure levels. Other countries active in this area of policy reform, such as Bulgaria, France, Italy and Latvia, also did not increase their level of expenditure per person.

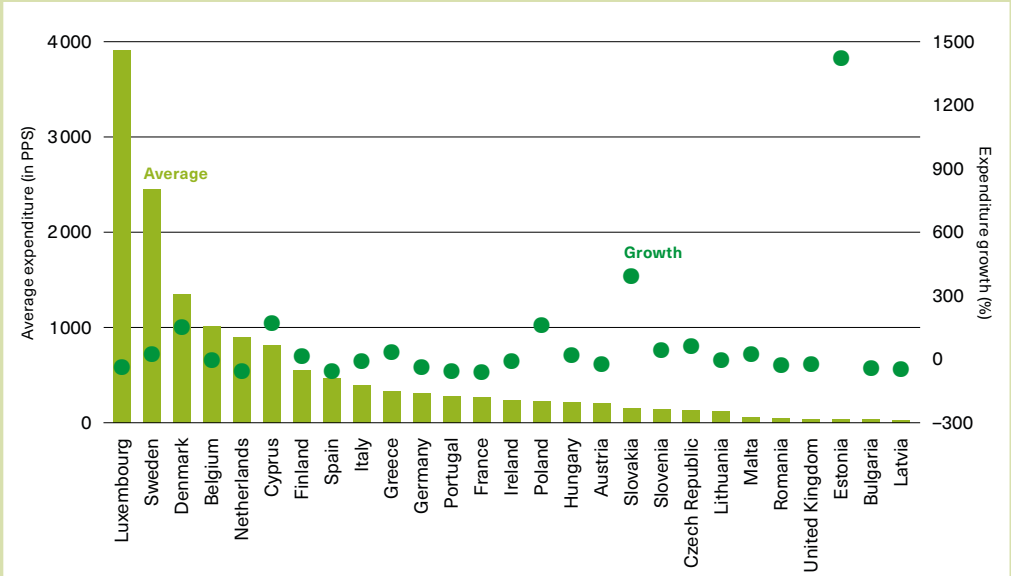
FIGURE 3.14 Employment incentive policy measures and expenditure, by Member State (2008–13)



Source: ILO Inventory of labour Market Policy Measures, Eurostat [lmp_expend].

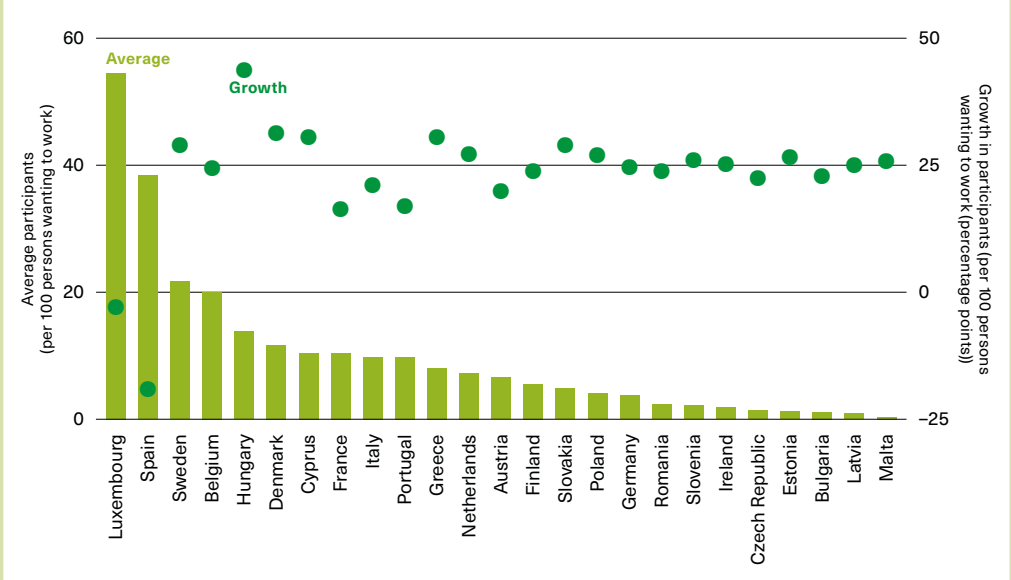
66. The Eurostat definition of employment incentives includes three main categories: recruitment incentives (or hiring subsidies), employment maintenance incentives (or wage subsidies), and job rotation and job sharing.

FIGURE 3.15 Expenditure on employment incentive programmes per person wanting to work, in PPS, by Member State (2008–13)



Source: Eurostat [lmp_ind_exp].

FIGURE 3.16 Participation in employment incentive programmes, per 100 persons wanting to work, by Member State (2008–13)



Source: Eurostat [lmp_particip].

Among the Member States implementing policy measures in this area, the greatest increases in public spending per person wanting to work were observed in Denmark, Cyprus and Poland. Focusing on growth figures, Slovakia and Estonia observed a dramatic increase in the investment in each jobseeker in such programmes. This underlines the dedication with which these two countries promoted these types of programmes, which was also identified in the inventory.

Figure 3.16 shows the number of participants in employment incentive programmes per 100 persons wanting to work. The share of jobseekers who participated in employment incentive programmes was relatively similar to that observed in training programmes (See Figure 3.13). Most

Member States had participation rates below 20 per cent with only four exceptions (Luxembourg, Spain, Sweden and Belgium). Moreover, in the two Member States with the highest participation rates (Luxembourg and Spain) there was a drastic decrease in participation between 2008 and 2012, suggesting some regression to the mean.

The overall picture suggests that most Member States did not manage to increase their participation rates significantly, as only four Member States observed increases of 5 percentage points or more (Cyprus, Denmark, Greece and Hungary). Moreover more than half the countries depicted in the figure presented reductions in their participation rates, which could have been partially due to the unprecedented increase in the number of jobseekers, with which ALMP systems were not fully able to cope.

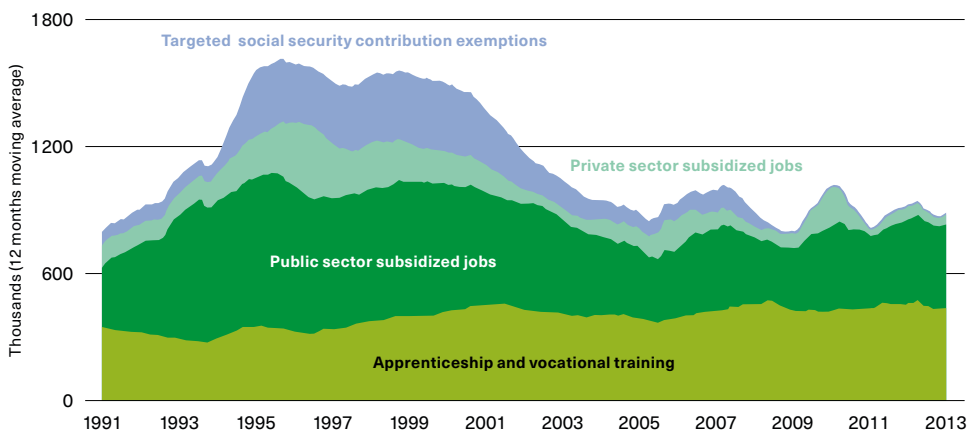
Monograph examples

Greece is a typical example of a country that has implemented programmes based on employment subsidies, even though their efficiency might be hampered by a lack of capacity in its PES. Over the past three decades, public expenditure on ALMPs in Greece never exceeded 0.4 per cent of GDP, even though unemployment never fell below its 1990 level of 6.4 per cent. From 2008 onwards, the PES increased the number and diversity of programmes offered based on, for example, financial or staffing requirements or the profile of jobseekers. In 2011, Greece was spending 0.96 per cent of GDP on ALMPs. There is still a lot of emphasis on wage subsidies in Greece (also in Italy), possibly because they are easy to implement, and are favoured by enterprises for the immediate reduction in labour costs they provide. They also lead to measurable results in terms of employment generated, even though displacement effects (of regular workers with workers benefiting from the measures) and deadweight losses (as some of the beneficiaries of these subsidies would have been hired even in the absence of the subsidies) are important factors to consider in the design of these programmes. The main programme introduced in 2010 subsidized up to 100 per cent of an employer's share of social security contributions for up to 12 months, provided the job was maintained for another 6 months, a condition put in place to reduce substitution effects. This programme was of benefit to 200,000 jobs and was targeted, though not exclusively, to small and medium-sized enterprises, older workers and people with disabilities. Some sectors, such as cleaning and security, were excluded. There were other types of reduction in social security contributions, some of which were still in effect in 2014, which were targeted at other specific beneficiaries, such as the tourism sector, low-wage earners, youth aged under 30, women over 45 and heads of single-parent households finding a job in a firm with fewer than 50 employees. Other programmes were even more targeted (to specific businesses in designated areas, youth in some regions, graduates aged below 35, marginal employment subsidy, etc.).

The complexity of the eligibility conditions for most of these programmes (not only employment incentives), together with very long application periods, has made them difficult to administer, and people who are interested have found it difficult to understand whether they fit the eligibility criteria. The large number of these programmes and the staffing problems in the PES have also added to the difficulty in monitoring the implementation of these programmes. As a result, many remained with well below the targeted number of participants, while enterprises were reluctant to apply for them because of the bureaucratic costs. The requirement to maintain the subsidized job for an extra period of time, to avoid substitution effects as explained above, makes more sense in a business environment where employers expect a cyclical downturn rapidly followed by increases in demand for goods and services. Their commitment to maintain employment might be difficult to ensure in the uncertain circumstances of the financial crisis, and subsequent debt crisis of 2011. It is thus not surprising that the deadlines for many programmes were extended more than once. There has been no assessment of the impact of ALMPs undertaken in Greece since 2008.

Not all employment incentives are put into operation through a PES. For example, the Swedish government adopted two payroll tax reforms, in 2007 and 2009, to increase labour demand for young workers aged 18–25 years. Despite some assessments critical of the efficiency of these

FIGURE 3.17 New entrants into publicly subsidized labour market programmes, France (1991–2013)



Source: Data Insee, French monograph.

reforms, the reduction of payroll tax has been continued. The payroll tax deduction for employees was relatively high – 11.1 percentage points in the first reform and 15.9 percentage points in the second reform. The cuts cost the Swedish Government around €1.6 billion per year in lost revenue.

In France, the crisis interrupted but did not reverse a long-term trend of lowering spending on ALMPs (1.3 per cent of GDP in 2000, 0.85 per cent in 2012), lowering numbers of participants and programmes and increasing targeting of narrowly defined vulnerable groups. Many changes were implemented in the early 2000s to reduce the number of public and private sector subsidized jobs and remove pre-retirement schemes. For example, at the peak there were around 700,000 new public sector subsidized jobs per year in the mid-1990s, whereas there were about 400,000 in 2013 (figure 3.17).[67] Public sector jobs were progressively reduced because their employment outcomes were disappointing, in particular with regard to exits from the programmes into stable jobs. Private sector subsidized jobs were reduced even more, and targeted social security contributions were phased out, as they generated large deadweight losses. Newer programmes were targeted at vulnerable groups and were more likely to have a training component, and hence were more efficient and less expensive.

Following the crisis, the trend in the decline in private sector subsidized jobs continued, with the exception of a 50 per cent surge in the number of participants in 2009. In contrast, by 2013 the number of subsidized jobs in the public sector had returned to its pre-crisis level.

In Italy, most ALMPs consisted of introducing and/or modifying the eligibility requirements for employment subsidies, according to what were deemed the categories in most need of employment opportunities at that particular time. For instance, in 2011, a subsidized labour contract (*contratti d'inserimento*) originally introduced in 2003 to support youth unemployment was open to women in a region where female unemployment was very high. In 2012, another employment subsidy for young women living in the South was introduced.

67. The peak in the *stock* of beneficiaries occurred in 2000 at 500,000, while in 2013 the number was down to 200,000.

3.5 Direct job creation

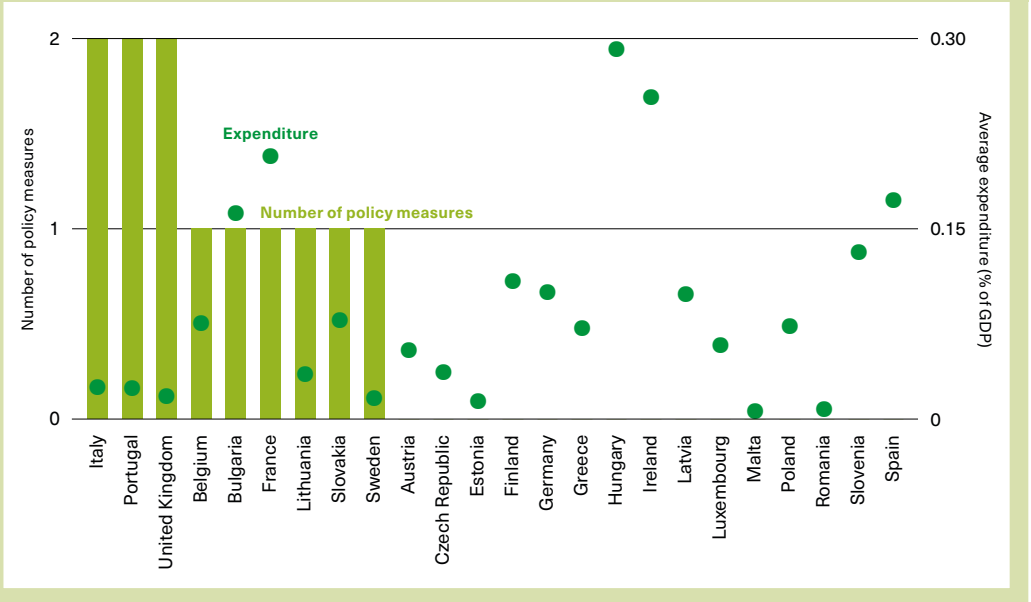
In the inventory this category comprises two different types of ALMP, as defined by Eurostat: direct job creation and start-up incentives. In this analysis these are combined into one category as they both lead to the direct creation of employment, be it by the state directly hiring unemployed workers or by the state to some extent financing the creation of new companies by individuals.[68]

Figure 3.18 shows the number of policy measures in this category and the average expenditure per Member State. Direct job creation was among the least popular categories of ALMP measure, comprising less than 10 per cent of the overall ALMPs in the inventory. This suggests governments were aware that this type of programme is less effective than other ALMPs. Indeed, 17 out of the 24 Member States presented in figure 3.18 invested less than 0.1 per cent of their GDP in direct job creation, underlining the fact that this type of policy measure was not very attractive to policy-makers and governments.

To ascertain whether the lack of investment in this area came from the expenditure or the participation side, figure 3.19 presents the average and growth of expenditure in direct job creation in PPS, per person wanting to work.

The number of Member States that increased their investment per jobseeker was very similar to the number that reduced investment, showing divergent trends. The level of expenditure per participant on this type of policy measure was not much lower than those observed for training or employment services. This suggests that the conclusion drawn from section 3.2 (that Member States invest more in ALMPs that the literature finds to be more effective) is most likely due to the greater number of participants in those programmes, rather than to the amount of money spent per participant in different categories. Moreover, the three Member States that spent the most money per participant on this type of policy measure (Ireland, France and Luxembourg) all significantly reduced their expenditure levels per participant.

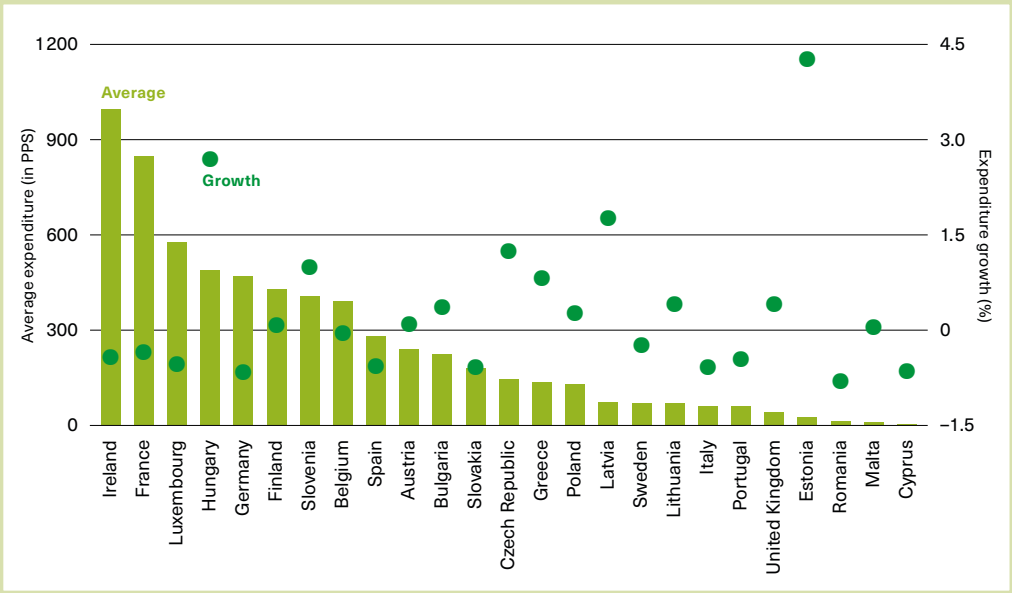
FIGURE 3.18 Direct job creation policy measures and expenditure, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat [lmp_expend].

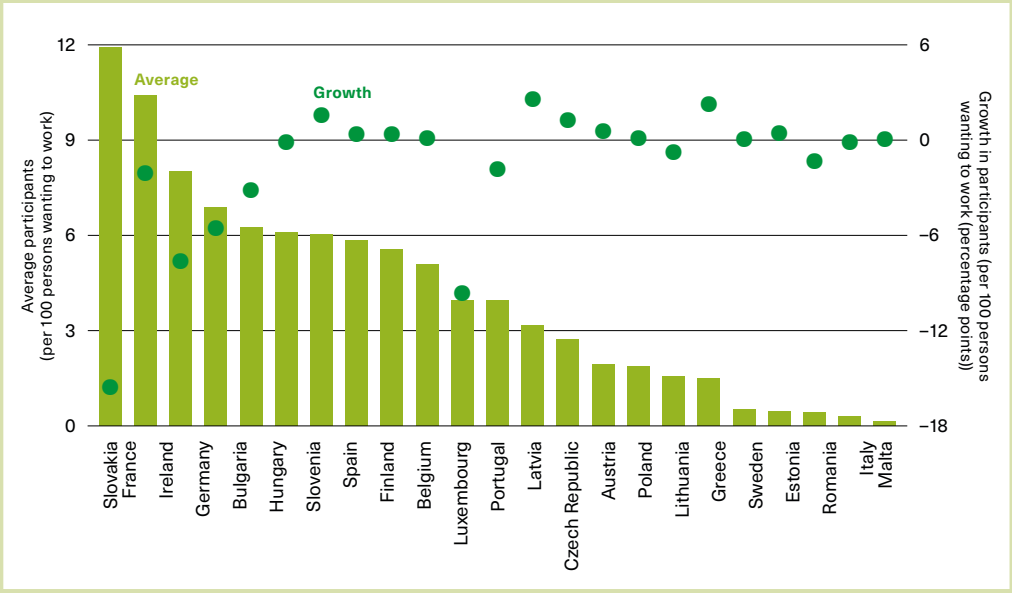
68. The inventory makes a distinction between changes to the legal framework governing self-employed workers (included in the LMR "non-standard employment" category) and the measures that give unemployed workers incentives to create their own jobs and hence become self-employed (under the ALMP category "direct job creation").

FIGURE 3.19 Expenditure on direct job creation programmes, per person wanting to work, in PPS, by Member State (2008–13)



Source: Eurostat [lmp_ind_exp].

FIGURE 3.20 Participation in direct job creation programmes, per 100 persons wanting to work, by Member State (2008–13)



Source: Eurostat [lmp_ind_actsup].

Figure 3.20 shows the average number of participants in direct job creation programmes per 100 people wanting to work and the changes in participation over the period. The numbers of participants in this category were much lower than for the other two types of programme previously discussed and many Member States saw their participation rates decrease during the period. In particular, significant decreases are observed for all of the five Member States with the highest average participation rates (Slovakia, France, Ireland, Germany and Bulgaria). Moreover, the highest increase in participation in this type of programme was less than 2.5 percentage points, further emphasising the lack of priority placed by governments on direct job creation.

3.6 ALMPs targeting youth and migrants

Young people have been particularly severely affected by the crisis, in terms of their chances of finding or maintaining a job. It is therefore important that youth employment is examined in greater detail. This report makes use of the target group concept adopted in the inventory to identify ALMP measures targeted at young people.[69] Figure 3.21 shows the distribution of these policy measures per Member State.

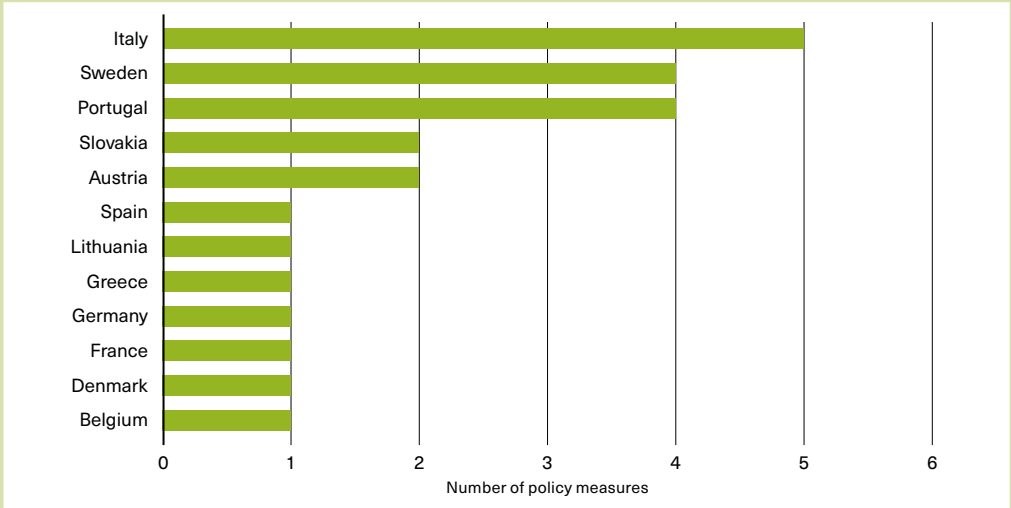
As seen in figure 3.21, the Member States hit hardest by the crisis, including Greece, Portugal and Spain, implemented at least one policy measure targeting youth, even though the pre-crisis literature finds that ALMPs that focus on youth are less effective than those aimed at the whole population. Other Member States also implemented ALMPs dedicated to young people.

Figure 3.22 shows the average unemployment rate across the EU for individuals under 25 years old. As seen in the figure, six of the Member States that experienced the highest youth unemployment rates between 2008 and 2013 implemented policy measures targeted directly at younger jobseekers. Interestingly, Member States with very low rates of youth unemployment also implemented policy measures of this type. In the cases of Austria, Denmark and Germany, however, the policy measures implemented were mostly dedicated to vocational training reforms or apprenticeship programmes and were therefore more focused on facilitating the transition of young people from education to employment than on helping young unemployed people. A large portion of the other policy measures concerned employment incentive programmes, as implemented in Italy, Portugal, Spain and Sweden.

Figure 3.23 shows the shares of ALMP measures targeting youth in the LABREF database and in the ILO inventory, together with the youth unemployment rate for the EU-27. The figure shows the period 2003–13 in order to allow for a comparison between the pre-crisis and the post-crisis periods.

As youth unemployment surged after the financial crisis, following the pattern of overall unemployment, policy-makers dedicated a higher proportion of their ALMP measures to young people (a trend observed both in the LABREF database and in the ILO inventory). However, the EU-27 rate of youth unemployment did not show any significant departure from its increasing trend after 2008, despite the implementation of the policy measures targeting young people. This suggests that these policy efforts were insufficient to invert the negative tendencies of struggling labour markets that disproportionately affected young workers, particularly in countries such as Greece and Spain.

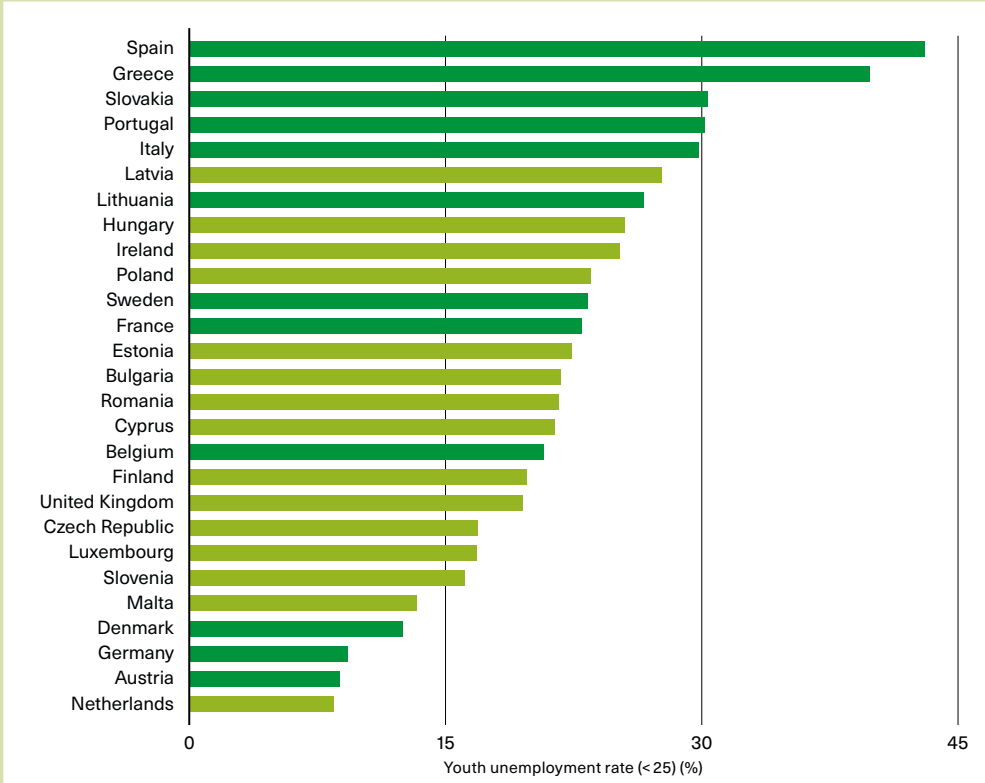
FIGURE 3.21 Policy measures targeting youth, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures.

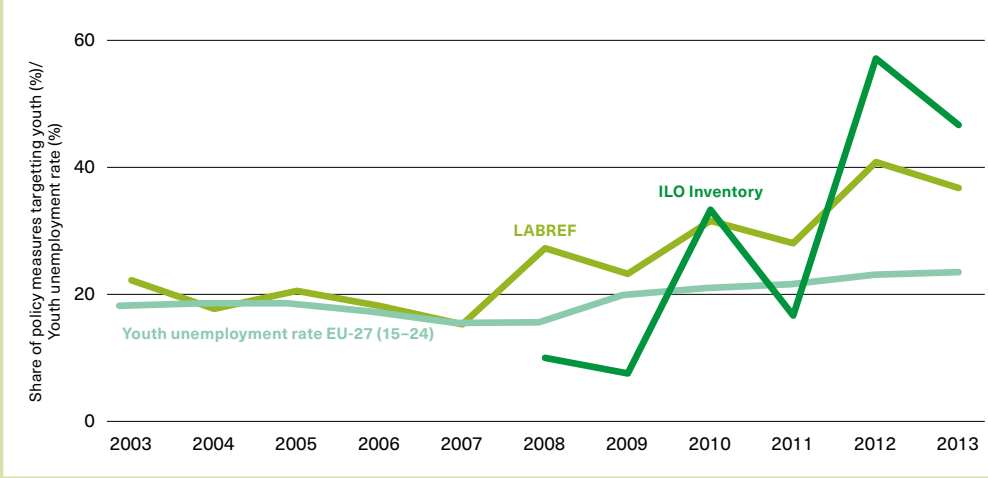
69. It should be noted that young people must be one of the target groups of these policy measures in order to be included in this group, but they do not necessarily have to be the only one.

FIGURE 3.22 Average youth unemployment rate, by Member State (2008–13)



Note: Dark green bars indicate that the Member State implemented at least one ALMP directly targeting young individuals.
Source: Eurostat [une_rt_a].

FIGURE 3.23 Policy measures targeting youth and youth unemployment rate (ILO Inventory and LABREF database) (2003–13)



Source: ILO Inventory of Labour Market Policy Measures, LABREF, Eurostat [une_rt_a].

Monograph examples

In several countries, ALMPs were introduced with clear and particular target groups in mind. In Germany, for example, there were vouchers for youth and older workers (*Eingliederungsgutschein*), and special incentives for beneficiaries of jobseeker assistance who start socially insured employment (*Einstiegsgeld*). Among the employment incentive schemes, *Arbeitsgelegenheiten in der Entgeltvariante* was deemed particularly successful with regards to integration into the regular labour market (Heyer et al., 2011, p. 28), whereas the *Beschäftigungszuschuss* was discontinued in March 2012 (for details see IBA, 2013, p. 48). Generally, the effectiveness of employment incentives, measured as the chance of being in regular employment after 3 years, is 20–40 per cent higher for beneficiaries of these schemes than for other jobseekers with a comparable profile. Yet, substitution and crowding-out effects may not have been sufficiently understood (Heyer et al., 2011, p. 17). Nevertheless, participation in such schemes provides stability and social contacts for the unemployed (IAB, 2014, p. 11). Where no viable job prospects for the unemployed exist, the support through ALMPs might be limited. Therefore, a recent suggestion was the creation of a "social labour market" for long-term unemployed persons who have a limited chance of reintegration in non-publicly supported employment (IAB, 2014, p. 11): such an institution could provide employment, stability and social contacts to the unemployed. Depending on the eligibility criteria, about 100,000 to 200,000 persons could benefit from it.

The Swedish government implemented the *establishment reform* for newly arrived immigrants and asylum seekers and their families in December 2010. In addition to traditional wage subsidies targeted to the foreign born, the PES has since then also been given a clearer role and a coordinating responsibility for speeding up the establishment of newly arrived people in the labour market. Within the framework of these establishment reforms, the government has emphasized workplace-based measures by introducing a "practical base year", consisting of a combination of on-the-job training and Swedish language classes. The government has also raised the level of compensation given to employers that organize these workplace-based arrangements. Furthermore, the government has extended the workplace-based measures to the public sector. To encourage employers to recruit newly arrived immigrants, amendments have also been made to the already implemented wage subsidy for the foreign born (*Instegjobb*), with the period of subsidy extended from 6 to 12 months in 2013. As previously mentioned, well-targeted measures and measures closer to ordinary jobs significantly improve the likelihood of securing regular employment and reducing the duration of unemployment. Against this background, the proposal to extend the duration of the already implemented wage subsidy targeted at newly arrived immigrants (*Instegsjobb*) could be effective. The additional resources allocated to the PES to monitor the job search of recipients of social assistance and the proposal to improve the coordination between various authorities might be a good instrument for combating the social exclusion of these marginal groups.

Another innovative programme is the Pathways to Work scheme (2013) in Ireland. This is a plan to tackle long-term unemployment that includes about 50 different measures. An important element of the scheme is the "youth guarantee". This is a state-backed guarantee that within 4 months of becoming unemployed or leaving education, every worker between the ages of 18 and 24 will be offered a place in education, training or employment.

In the United Kingdom, the Young Person's Guarantee was introduced in 2010 and provided a job offer, training or work experience to youth under 25 unemployed for more than 6 months. There were a number of schemes available, including the Future Jobs Fund introduced in 2009, which subsidized employment for disadvantaged workers, and the Community Task Force introduced in 2010, which provided work experience in jobs that benefit the community, for 3 months, renewable once only.

The Spanish Youth Guarantee was introduced in 2013, with the support of the European Commission, but its full implementation is facing some challenges. First, the programme is devoted to young people aged 16–24, or 16–29 for people with disabilities. In general, the threshold of 24 years of age is rather limited because in Spain integration into the labour market

is a longer process. Extending the programme to 29 years of age for everyone, or combining it with other programmes for jobseekers above 24 years of age, could be considered. Presumably, the latter option is more feasible.

Second, good practice in Nordic countries (mainly Finland and Sweden) shows that the promotion and coordination of the official vocational training system, non-formal training and validation procedures is crucial. In Spain, dual training (combining education and on-the-job training or apprenticeship) is relatively new. The Youth Guarantee programme may be an opportunity to develop dual training within a more flexible training and vocational education. In some autonomous communities (Catalonia and the Basque Country), such flexible systems are emerging around the *Centros Integrados* (centres with a special emphasis on dual training and lifelong learning). In these regional experiences, the role of the regional public administration in supporting this strategy was crucial.[70]

Third, the experiences of the Nordic countries are based upon personalized guidance to beneficiaries.[71] Because of the magnitude of unemployment in Spain and the small number of specialists in personalized counselling (even considering the special initiatives developed from 2010 onwards), this is a worrying obstacle for the successful development of the Youth Guarantee.

Fourth, the concept of the Spanish Youth Guarantee programme assumes that the programme will foster the coordination of public administration at different levels and will include innovative measures. But the set of measures chosen seems to be more of a collection than a structured strategy, while additional measures are too similar to what previously existed.[72] Again, international experience in Austria and Sweden shows that the Youth Guarantee brings a new impetus to the implementation of active policies, but it is not a panacea.

Fifth, the type of evaluation to be included as part of the implementation plan of the Youth Guarantee is worryingly close to a traditional monitoring and follow-up. The Youth Guarantee is an important programme and should be properly evaluated and include the counterfactual evaluation of pilot projects.

Finally, total spending on the Spanish Youth Guarantee is rather low by international comparisons.[73] Given all the constraints mentioned above, the most efficient way to implement the Youth Guarantee in Spain could be to increase the coordination between the Youth Guarantee and already existing programmes, for example by tailoring existing programmes to the needs of beneficiaries of the Youth Guarantee.

70. See Olazarán and Brunet (2013) for a regional comparison of the new strategies on vocational education and training.

71. http://www.eurofound.europa.eu/pubdocs/2012/42/en/1/EF1242EN.pdf

72. http://www.empleo.gob.es/ficheros/garantiajuvenil/documentos/plannacionalgarantiajuvenil_en.pdf

73. For 2014 and 2015, the European Commission provided a budget for the Youth Guarantee programme in Spain of €943.5 million, conditional on the country matching this amount euro for euro from its European Social Fund (ILO, 2014b; pp. 125–126). The total would then reach €1,887 million; however, the estimated cost of the Youth Guarantee programme, according to the Swedish experience, would be around €7 billion for Spain (ILO, 2012, p. 48), far above the resources allocated to this programme.

3.7 The impact of ALMPs

In most cases, the main goal of an ALMP is to improve its participants' chances of finding a job. This is done through a variety of approaches, as documented in this chapter, ranging from training to employment incentives or job search assistance. This section investigates the extent to which the ALMP efforts of Member States were translated into changes in labour market outcomes across the EU between 2008 and 2013. In particular, the focus is on unemployment outflow rates, which can be loosely interpreted as a job-finding rate (or job creation rate).[74]

The analysis is based on an empirical model very similar to that presented in section 2.2, represented by the following equation:

$$OFU_{it} = \alpha + \beta Pol_{it} + \gamma X_{it} + \varepsilon_{it}$$

where subscript i indicates the Member State, and t represents the period.[75] In the sample at hand, all variables were measured quarterly. OFU_{it} represents the 3-month outflow rate from unemployment as calculated by the ILO. X_{it} is a vector of control variables and ε_{it} is the error term. The variable Pol_{it} measures the number of ALMP measures implemented by each Member State until the period t.[76]

In a summary way, this model looks at the impact of ALMP measures on job creation rates between 2008 and 2013, controlling for a set of variables that might affect this relationship.[77]

Table 3.3 presents estimates using three different approaches: column A presents the benchmark results, using the preferred estimation approach – fixed effects; column B presents the results using one-period lag for all independent variables; and in column C the coefficients were derived from the same model as in A, but instead using an ordinary least squares (OLS) approach. For reasons discussed in detail in Appendix B, the fixed-effect model is the preferred estimation method.

The first thing to note in the results is that the sign of the coefficient of the ALMP variable is not what would be expected – it is negative. This would suggest that the implementation of ALMPs led to a reduction in the job-finding rate, the exact opposite of their intended function.

The results are, however, far from conclusive.[78] This stems from the potential bias arising from reverse causality already discussed in section 2.2. In the case of the relationship between ALMPs and job-finding rates, the sign of the relationship depends on the casual direction considered: Member States with a low job-finding rate are expected to implement more ALMPs (in order to fight those low rates) – a negative effect; conversely, one would expect that when countries implement more ALMPs, their job-finding rates will increase – a positive effect. As the two causal relations go in opposite directions, one can conclude that, at worst, the estimations represent a lower bound to the values of the actual coefficient: this means that even if the coefficient estimated is not as close to its true value as desirable, it is certain that (under the assumptions considered), the coefficient is below its true value. Hence, one can use this estimate as a lower bound for the real effect of ALMP on job finding rates.

74. See section 2.2 for a more detailed description of the variable.

75. Alternative estimations of the model were made using a one-period lag for the independent variables, with no significant changes in the results.

76. Using macro data on expenditure and participation would limit the analysis significantly, due to the fact that for many EU Member States there are no observations available even for 2012 and that observations are only available yearly, both of which would reduce the sample size significantly. Using country-level micro data would also not be feasible due to the lack of comparable data.

77. The benchmark analysis only controls for GDP growth, but robustness checks included alternative sets of control with variables such as the unemployment rate, the employment rate, labour force participation, labour productivity and the share of employment in each sector of activity. As the main results were unchanged, the benchmark analysis limits the control set to facilitate the presentation of the main result of the analysis. Variables such as expenditure or participation in ALMP could be an important addition to the analysis. However, given the lack of available data within the period and periodicities considered, this was discarded, as it would exponentially decrease the number of periods in the analysis, hence limiting the ability of the model to estimate any sort of impact.

78. For a discussion of the impact of the low R-squared values in the validity and relevance of the results, see section 2.2 and Appendix B.

TABLE 3.3 Impact of ALMP policy measures on outflow rates from unemployment (2008–13)

	(A)		(B)		(C)	
ALMPs	−0.006	***	−0.006	***	0.002	**
	(0.0007)		(0.0008)		(0.0008)	
GDP growth	0.004	***	0.005	***	0.003	*
	(0.001)		(0.001)		(0.001)	
Constant	0.111	***	0.109	***	0.0899	***
	(0.002)		(0.002)		(0.003)	
R-squared (within)	0.16		0.14		0.02	
Observations	457		441		457	

Standard errors in parentheses. Significance level: *** 1 per cent, ** 5 per cent and * 10 per cent.
Source: ILO Research Department estimates.

However, whereas in the analysis of dismissal policy measures (section 2.2) this brought a higher degree of relevance to the results, in this case this does not happen. This is because having a negative coefficient as a lower bound is not very informative, as it means that the true value of the coefficient can be either negative or positive (or zero).

One conclusion that can nevertheless be made is that ALMPs do not have a clear, significant impact on outflow rates from unemployment. This could be because some of these programmes were small in scale, lacked the proper institutional setting or did not receive a sufficient level of investment. In this respect, Portugal is perhaps the most illustrative case in the inventory. In 2010, the Portuguese government introduced a new economic package to tackle unemployment, which implemented several different ALMP measures spanning different categories. However, if the results are analysed, all indicators regarding ALMPs decreased in Portugal from 2010 onwards: expenditure on ALMPs fell from 0.6 per cent of GDP in 2010 to 0.4 per cent in 2012, and expenditure per person wanting to work (in PPS) dropped from 1,655 in 2010, to 944 in 2011 and 666 in 2012. Moreover, the coverage of ALMPs decreased drastically over the same period: the number of participants per 100 persons wanting to work dropped from 29 in 2010, to 20 in 2011 and 15 in 2012.

Therefore, while policy measures that act through a legislative channel, such as dismissal-related policy measures, influence outcomes through a more direct channel, the impact of ALMPs is not as clear, as they require parallel changes in public expenditure levels in order to have a significant impact on labour market outcomes. As many Member States found their public finances under stress as a result of the financial crisis, they were unable to increase their expenditure levels at the same pace as workers fell into unemployment. As the increase in the number of jobseekers did not correspond to an increase in investment to upgrade the efficiency and capacity of public employment services and programmes, policy measures alone became unable to help jobseekers transition back into employment.

3.8 Concluding remarks

Between 2008 and 2013, ALMPs across the EU underwent a significant number of changes. Member States tried to improve and strengthen their programmes to cope with the unprecedented inflow of potential participants resulting from the financial crisis and the historically high unemployment levels that followed.

However, this was not accompanied by a corresponding increase in the level of investment in this area. There has been an attempt by some Member States to catch up in terms of their overall ALMP expenditure levels, but across all categories and in most countries there was a tendency to spend less per jobseeker. This is particularly problematic in the current context, as long-term unemployment rates are high, labour markets are still sluggish and jobseekers need more help than before to transition back into sustainable employment.

Policy effort distribution has also been problematic. While much attention was given to employment incentives and training, fewer policy measures were dedicated to changing and improving PES.

Member States increased their spending mostly through labour market services, employment incentives and training programmes. These types of ALMP have been reported in the literature to be effective in helping individuals exit unemployment, which suggests that policy-makers are aware of which types of programme are more efficient in achieving the goal of helping unemployed workers find a job.

There were also significant differences as to which type of policy measure each country focused on. For example, if the groups of seven Member States implementing the most policy measures in the two most popular categories, training and employment incentives, are compared, only two countries are found in both groups.

As for the 11 Member States for which a national monograph was produced, there were few fundamental changes during 2008–13 regarding ALMPs, even though interesting innovations were observed in some countries. The crisis interrupted, but did not change, trends towards fewer employment incentives (particularly those that were loosely targeted) and more training for targeted groups of jobseekers (e.g. as was observed in France). In addition, the principle of mutual obligations, through which jobseekers are requested to engage in an active job search in exchange for the support that will help them to find a job, was reaffirmed in the United Kingdom, the Netherlands and France. The trend towards a strengthened integration of labour market and social protection policies continued.

Regarding innovation, using internships as a training component for all jobseekers, not only youth (as in Ireland and Poland), means it could act as a stepping stone to employment while also providing income support. However, such schemes need to be designed and implemented in such a way that they provide valuable work experience and avoid the displacement of workers.

ALMPs seem to have had a secondary role in those countries where significant labour market reforms were undertaken post-2008 (Greece, Italy and Spain). Yet these reforms require efficient PES and activation programmes for jobseekers to deliver efficient and fair outcomes. For example, decreasing severance pay for permanent contracts, which was a core element of labour market reform in Spain, will probably result in a higher probability of dismissal (*ceteris paribus*). Dismissed workers will need ALMP measures to move to new sectors and new occupations if the labour market reforms are to achieve their objectives. Nonetheless, fiscal austerity and/or the difficulty in leading institutional reforms to create a more efficient PES in these countries has proved challenging. It is therefore understandable that Greece, Italy and Spain (from 2012 onwards) prioritized hiring incentives, which are easy to implement and lead to measurable results, even though in most cases the literature identifies significant deadweight losses associated with this type of programme.

Impact analysis has shown, however, that these programmes did not have an impact on job-finding rates in an unequivocal way, a sign that the lack of investment behind these policy measures to some degree hampered their effectiveness.

4 Unemployment benefits

This chapter analyses those labour market measures taken by Member States that focused on countries' unemployment insurance systems and related social assistance benefits,[79] and examines their interrelation with other aspects of the labour market, including labour market outcomes.

4.1 Unemployment benefits measures and trends

Table 4.1 presents a breakdown of the unemployment benefits and assistance (UBA) measures by category, including the number of policy measures in each category, their relative share in the total measures in the inventory and the number of countries that implemented measures in that area.

UBA measures accounted for 10 per cent of the total measures in the inventory: a relatively small number given the dramatic increase in unemployment in almost every EU Member State during the period under consideration. The limited number of measures in this area indicates that countries either believed that the unemployment insurance and assistance systems which they had in place prior to the crisis would be able to accommodate the dramatic increase in the number of recipients or they feared the financial implications or the political costs that such reforms might entail.

Overall, relatively few new social protection programmes for jobseekers were implemented during the crisis, mainly due to the long-term nature of the planning and investment in capacity building and infrastructure involved (Bonnet et al., 2012). Nonetheless, some programmes were relaunched, building on past experience, such as public works in Latvia. However, many programmes which aimed to support jobseekers were overloaded by the large increases in number of participants across the EU, with pressure on countries' budgets limiting opportunities for policy-makers to expand or reform social protection programmes.

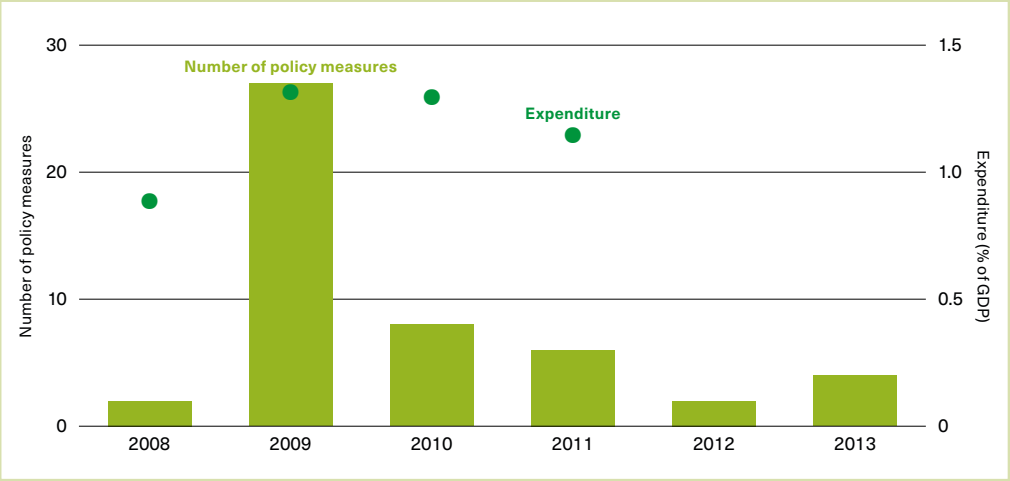
TABLE 4.1 Breakdown of unemployment benefits and assistance (UBA) policy measures, by category (2008–13)

Category	Number of countries	Number of policy measures	Share of policy measures (%)
Unemployment insurance benefits	13	31	60
General social assistance	13	20	40
Total		**51**	

Source: ILO Inventory of Labour Market Policy Measures.

79. Given the labour market focus of the project, the inventory includes social protection measures only in so far as they relate directly to jobseekers.

FIGURE 4.1 Unemployment benefits and assistance (UBA) policy measures and expenditure, (EU-28) (2008–13)*



* Expenditure data for the EU-27 was not available.

Source: ILO Inventory of Labour Market Policy Measures, Eurostat.

Figure 4.1 presents the total number of UBA measures and the share of GDP spent on out-of-work maintenance and support[80] (comprising mainly unemployment benefits and, to a lesser extent, payments to facilitate early retirement) for the EU-28.[81]

The figure shows a significant increase in the number of measures relating to benefits between 2008 and 2009, with a subsequent drop of similar magnitude. The increase in measures in 2009 is accompanied by an increase in the expenditure levels on out-of-work income maintenance and support. Expenditure in this area remained at an elevated level until 2011, which reflects the fact that unemployment rates across the EU did not fall significantly after 2008. However, from 2010 onwards the results show a decreasing pattern in out-of-work maintenance and support expenditure, indicating that a smaller share of unemployed workers is entitled to this kind of support as time goes on and labour markets continue to weaken. However, out of the 19 Member States for which Eurostat data are available for 2012 (at the date of analysis), more than half (11) showed increases in spending in this area (as a share of GDP).

To give a clearer picture of the distribution of these measures, figure 4.2 presents the number of measures broken down by Member State.

The profile of Member States which were most active in implementing UBA measures is mixed, with countries as diverse as Belgium, Estonia, France and Portugal being the more active countries between 2008 and 2013, and Malta, the Netherlands, Slovenia and the United Kingdom implementing no measures during the same period.

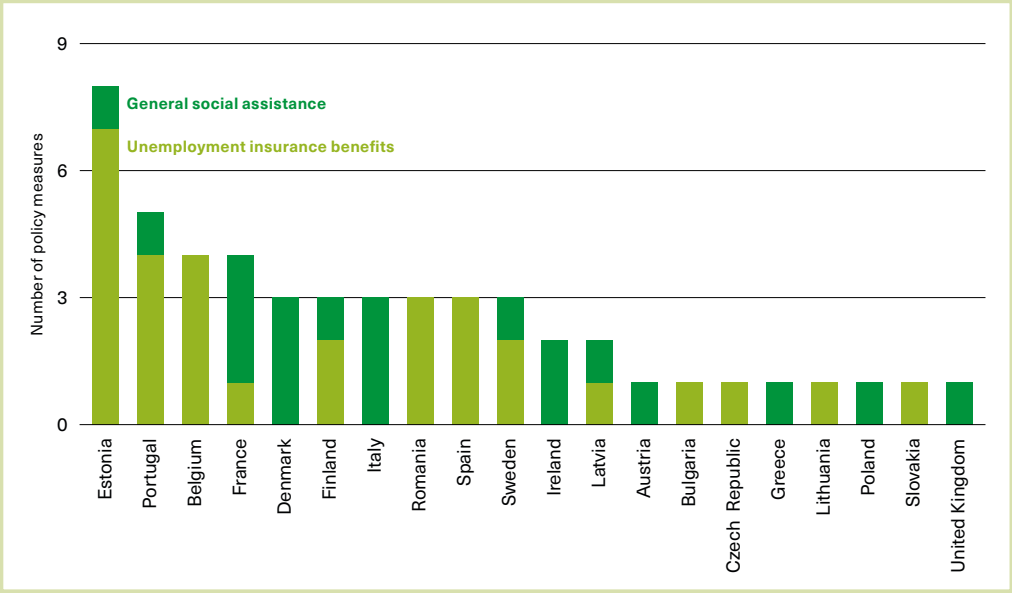
To clarify the overall direction of UBA measures, figure 4.3 presents a breakdown of all measures in this area in the inventory by main beneficiary.

The inventory highlights two clearly distinct types of UBA measures predominant between 2008 and 2013: those aimed at protecting workers, primarily by extending or increasing unemployment benefits, and those aimed at benefiting the government, mainly adopted for budgetary purposes.

80. See http://ec.europa.eu/eurostat/cache/metadata/en/lmp_esms.htm [22 Sep. 2015].

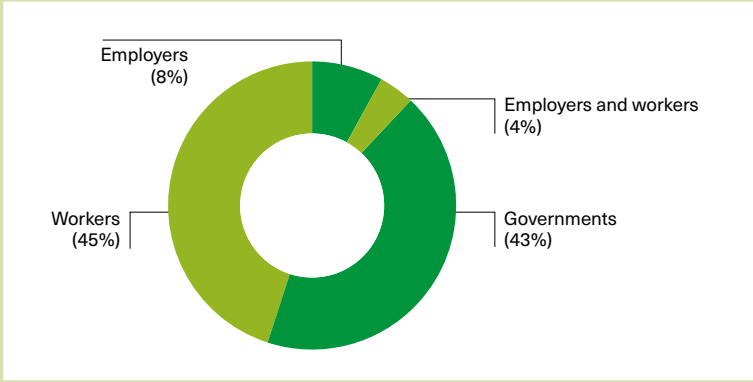
81. There are two cases of countries which have no measures recorded in the inventory, despite introducing certain changes over the period, Latvia and the United Kingdom, which are discussed in detail below using information from the monographs. A number of policy changes in the United Kingdom were initially launched as pilot schemes, such as the Universal Credit that replaced the Jobseeker's Allowance, which was rolled out in only four counties in 2013, and was still in its pilot phase during 2014, placing it outside the scope of the inventory. The Work Experience programme falls under the ALMP category of the inventory.

FIGURE 4.2 Breakdown of unemployment benefits and assistance (UBA) policy measures, by category, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures.

FIGURE 4.3 Breakdown of unemployment benefits and assistance (UBA) policy measures, by main beneficiary (2008–13)



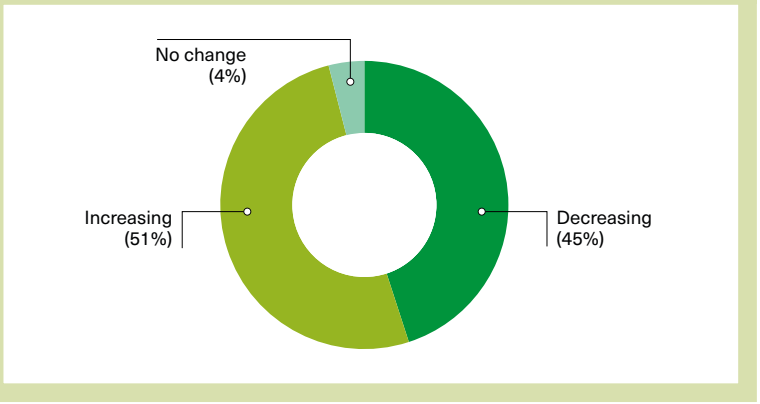
Source: ILO Inventory of Labour Market Policy Measures.

Measures targeting both employers and workers would, for instance, aim to simplify the system by clarifying the rules.

Figure 4.4 presents a similar breakdown based on the LABREF database's measures regarding the area of unemployment benefits between 2008 and 2013. LABREF's breakdown differentiates between measures that increased workers' rights and those which decreased them. The results concur with the findings stemming from the ILO inventory.

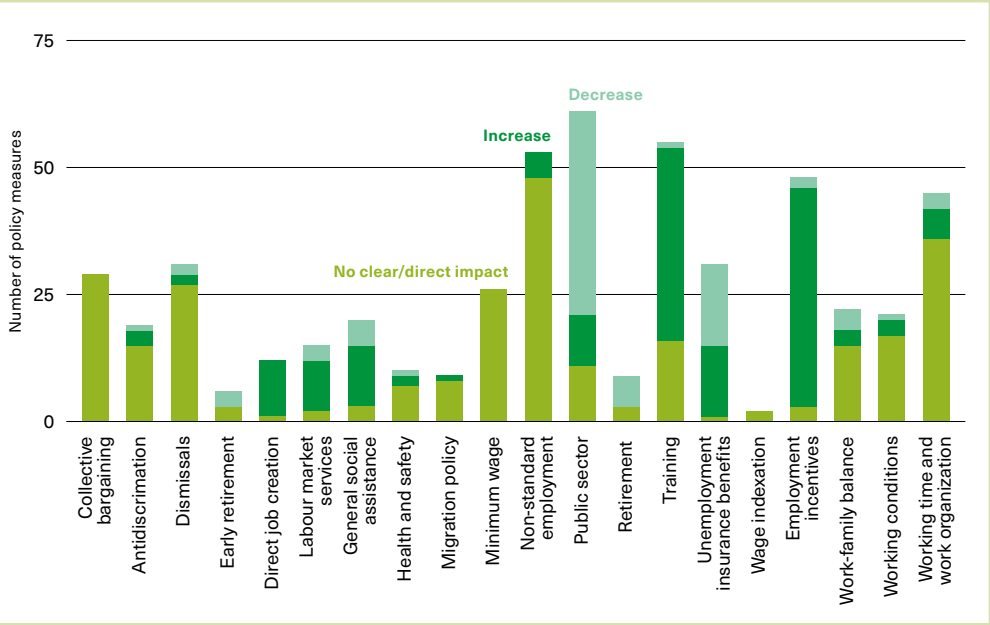
Following a widespread trend across the EU and other parts of the world, many recent reforms have linked the payment of cash benefits aimed at specific groups to participation in ALMP programmes, such as training, job search and career guidance (ILO, 2014b). In France, Germany and, to a certain extent, Spain, these integrated packages of passive and ALMPs have targeted recipients of social assistance, rather than just jobseekers. While some of these efforts have resulted in increased access to employment for the long-term unemployed (as was the case in Germany), it is important to ensure that such measures do not reduce effective access to benefits.

FIGURE 4.4 Breakdown of unemployment benefits and assistance (UBA) policy measures by direction (LABREF database) (2008–13)



Source: LABREF database.

FIGURE 4.5 Breakdown of total policy measures, by budgetary impact, by category (2008–13)

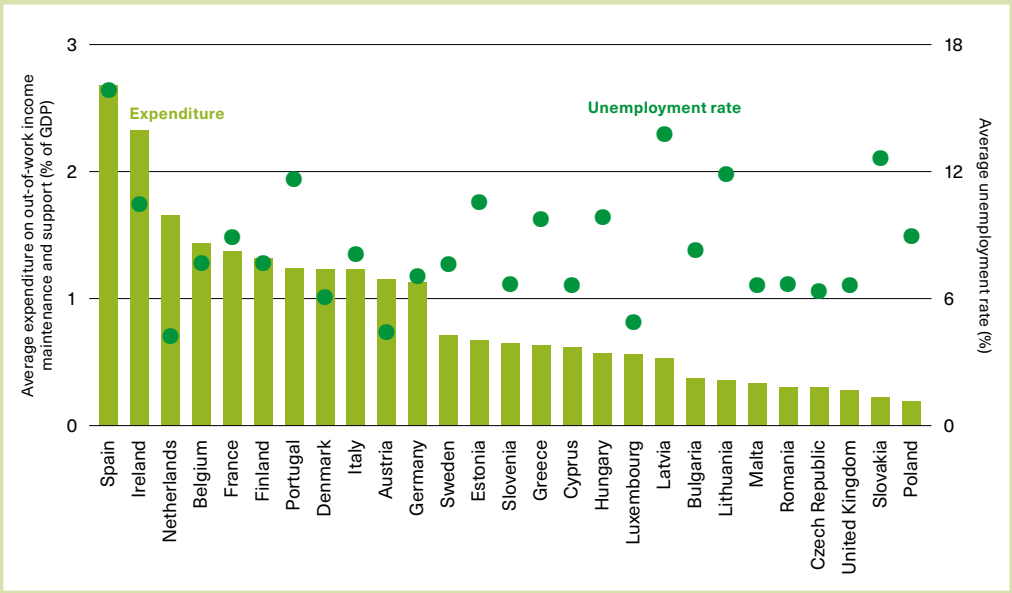


Source: ILO Inventory of Labour Market Policy Measures.

Examining the content of these measures in more depth, figure 4.5 presents the breakdown of each category's measures by their budgetary impact. The definition of budgetary impact used in the inventory categorized each intervention as either having led to a direct increase/decrease in public spending or as having had no direct and/or clear impact.

From figure 4.5, it can be seen that the public sector was the area that experienced the most drastic spending cuts, whether effected by wage cuts or decreases in employment. These findings are analysed in greater detail in Chapter Six. An examination of the two categories that fall within the UBA main area reveals a significant share of deficit-cutting policies. This is a worrying trend, particularly as economies are recovering slowly from the impact of the financial crisis and there are unprecedented numbers of jobseekers in need of unemployment insurance and social assistance/protection across the entire EU.

FIGURE 4.6 Expenditure on out-of-work income maintenance and support and unemployment rate, by Member State (2008–13)



Source: Eurostat.

To investigate the extent to which these measures have led to lower levels of expenditure in this area, figure 4.6 presents each Member State's expenditure on out-of-work income support,[82] together with each country's average unemployment rate during the same period.

No clear relationship between unemployment and out-of-work income maintenance and support expenditure emerges from the data in figure 4.6. In spite of their high expenditure levels, certain countries have high unemployment rates (e.g. Spain) while others have low unemployment rates (e.g. the Netherlands). At the opposite end of the expenditure spectrum there are countries with relatively high unemployment rates (e.g. Slovakia) and relatively low unemployment rates (e.g. Czech Republic). Out-of-work maintenance and support data do not entirely reflect the differences in the living standards of jobseekers across the EU, as they do not include housing benefits and family allowances. The monographs of France and Germany provide specific information on these factors.

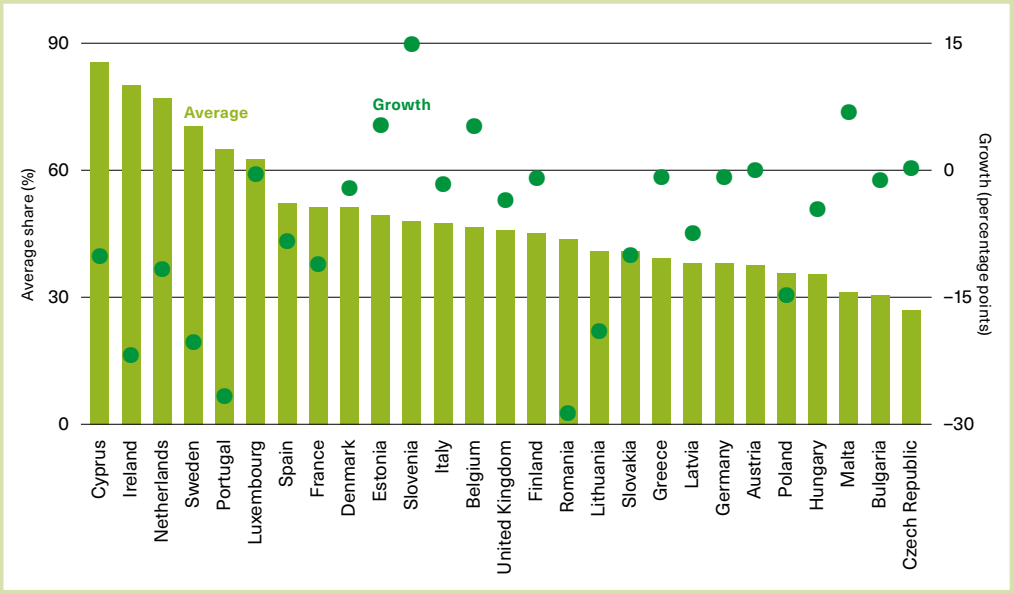
To gain a better understanding of the differences in unemployment benefit levels between Member States, figure 4.7 presents unemployment benefits as a share of the median wage for all economies, as calculated by the ILO based on country-level survey data. The figure shows both the average between 2008 and 2012 for each Member State, and its change in percentage points between 2007 and 2012.

Only four out of the 27 EU Member States showed an increase in unemployment benefit rates, compared with the median wage in the economy. In only six Member States were unemployment benefit levels higher than 60 per cent of the median wage – and this figure drops to just five when considering only the raw data for 2012, not shown in the figure.

Another interesting result was the relatively high unemployment benefit levels of countries such as Ireland, Portugal and Spain. Given the severe impact of the financial crisis on these countries, these high values could have been driven by falling or stagnant median wages. However, the more likely explanation is that these three countries already had high unemployment benefit levels

82. Data from Eurostat on out-of-work income maintenance and support cover "financial assistance that aims to compensate individuals for loss of wage or salary (out-of-work income maintenance and support, i.e. mainly unemployment benefits) or which facilitates early retirement"; they do not include housing benefits or child tax credit for out-of-work families.

FIGURE 4.7 Unemployment benefits as share of the median wage, by Member State (2008–12)



Source: ILO calculations based on EU-Statistics on Income and Living Conditions (SILC) data. The columns show the average of unemployment benefits as a share of the median wage for 2008–12, except in the case of Belgium (2006–11), Estonia (2008–11) and Ireland (2008–11), and the dots indicate the change in percentage points between 2007 and 2012.

when the crisis hit, since this measure of unemployment benefit level decreased between 2007 and 2012, by as much as 27 percentage points in Portugal. Nonetheless, Ireland and Portugal still ranked among the six countries with the highest unemployment benefits in relative terms across the EU (and Spain was still in the top 50 per cent) in 2012. At the other end of the distribution, lower unemployment benefit levels were evident in most of the recently acceded Member States, together with Austria and Germany.

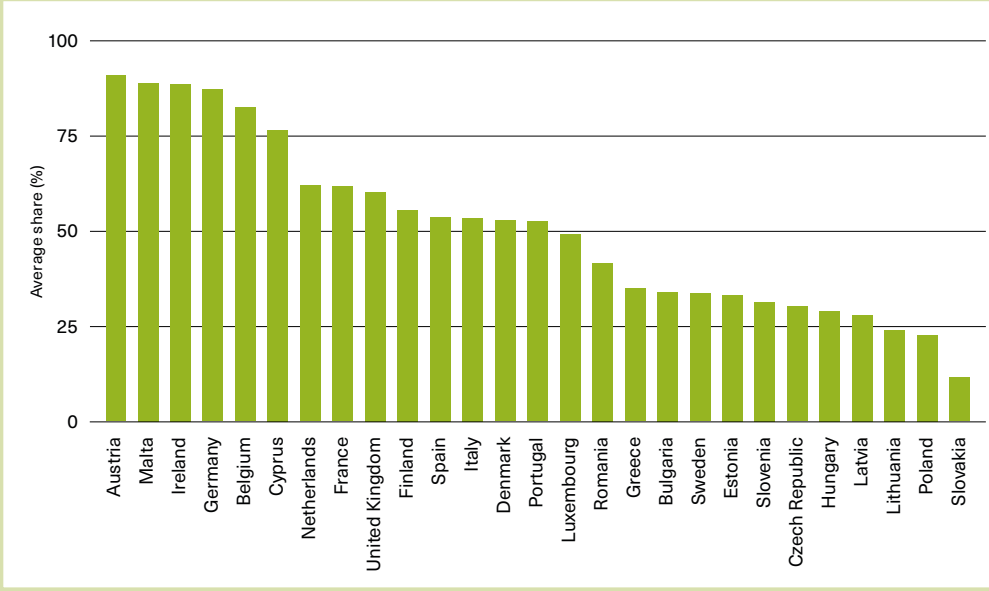
It is difficult to derive further generalizations from the data, and focusing on the most recent available values (2012) does not alter the ranking of Member States in any significant way.

When comparing the timing of measures registered in the inventory with the evolution of unemployment benefits observed in the data, some interesting cases can be identified. In Belgium (a Member State with a large number of measures in the UBA category) an initial increase in unemployment benefits as a share of the median wage was observed, which coincided with a stimulus package that increased unemployment benefits, among other social security benefits. In subsequent years this trend changed to a decrease, which could in part be due to the reduction in unemployment benefits implemented in 2011. In Estonia, an increase of 8 percentage points in 2010 coincided with the aftermath of the implementation of a measure that increased unemployment benefits. In Portugal, most of the dramatic 27 percentage point reduction mentioned earlier took place between 2009 and 2010, when the Government reduced the benefit amount to 60 per cent of the social support index (*Indexante dos Apoios Sociais*).

Another useful indicator for characterizing unemployment insurance schemes is the share of unemployed workers who receive unemployment benefits indicated in figure 4.8. Taking this variable into account reveals significant differences between Member States, with more than 85 per cent of the unemployed receiving unemployment benefits in countries such as Austria, Malta, Ireland and Germany, while in Lithuania, Poland and Slovakia fewer than 25 per cent of unemployed workers receive them.

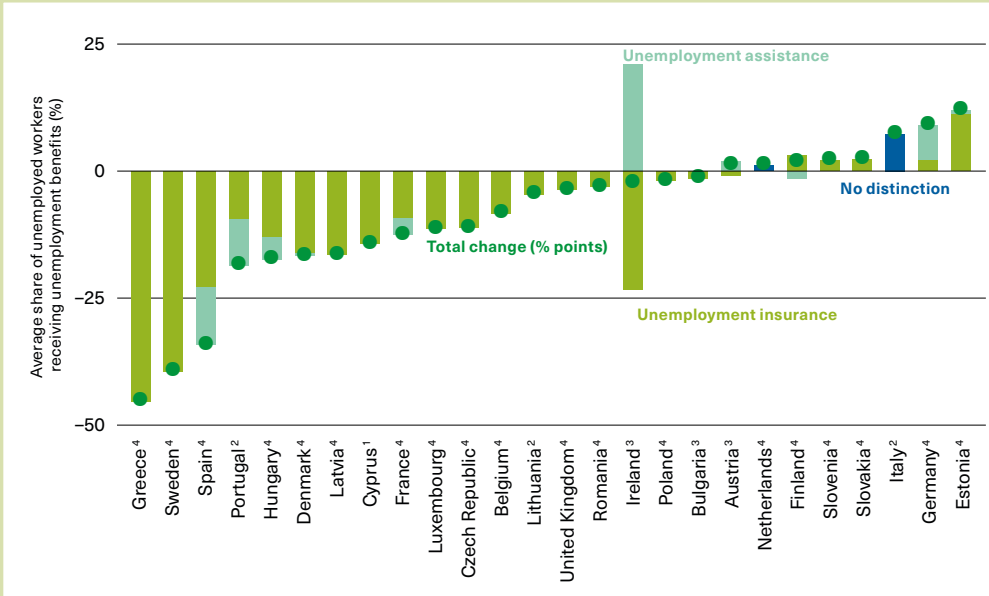
It should, however, be borne in mind that these results can be driven by several different factors, which can be grouped into two main sources: changes to the unemployment benefit system rules or changes in the composition of the pool of unemployed workers.

FIGURE 4.8 Average share of unemployed workers receiving unemployment benefits, by Member State (2008–13)



Source: ILO calculations based on EU-SILC data.

FIGURE 4.9 Change in the share of unemployed workers receiving unemployment insurance or assistance, by Member State (2007–14)



1 = 2007–11; 2 = 2007–12; 3 = 2007–13; 4 = 2007–14.

Source: ILO calculations based on EU-SILC data.

Figure 4.9 presents a decomposition of the change in the share of unemployed workers in receipt of income support in the form of unemployment insurance or unemployment assistance. Most Member States showed a decrease in the share of unemployed workers receiving unemployment insurance benefits in recent years. Dramatic decreases of 10 percentage points or more were observed in those Member States where long-term unemployment had increased most sharply, such as Greece, Spain and Portugal. While there was a decrease in the share of jobseekers receiving unemployment

insurance benefits, the share receiving unemployment assistance benefits remained relatively constant, with the exceptions of Spain, Portugal, Ireland and Italy. In fact, in Ireland the decrease in the share of unemployed workers in receipt of unemployment insurance was mainly offset by an inverse increase in the share of unemployed workers receiving unemployment assistance.

It is the long-term unemployed (those out of work for more than 1 year) who suffered more than the short-term unemployed from the reduction in coverage of unemployment benefits. In 2013, the average share of long-term unemployed workers receiving either benefit was 11 percentage points below the pre-crisis level, while coverage of the short-term unemployed remained constant, on average, although it increased in 17 out of 25 Member States with available data (European Commission, 2015).

These trends can largely be attributed to a mechanical effect of the increase in the average duration of unemployment in the EU, combined with low benefits for temporary workers, who often have shorter contributory histories and are the first to be dismissed. The level of support provided by unemployment insurance schemes depends on their design, conditionalities and duration of benefits. For example, the standard maximum duration of benefit payments is 24 months in France, the Netherlands and Spain, but 12 months in Greece and Poland.

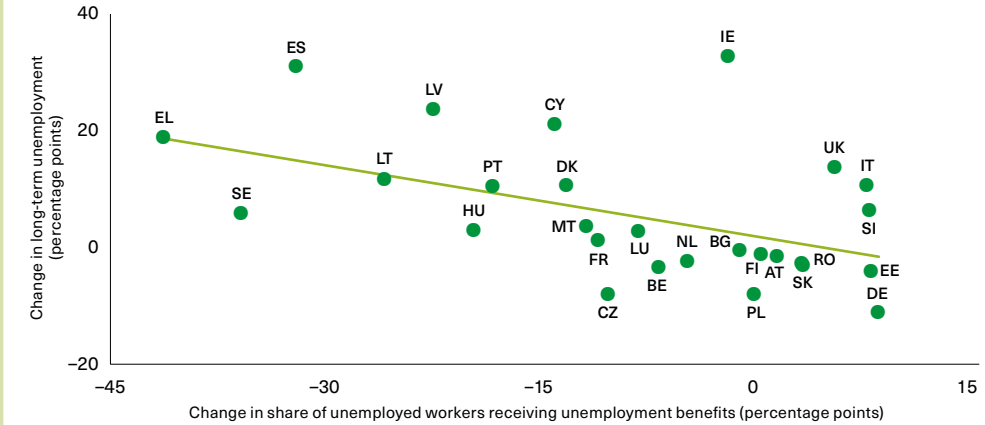
Since the 1990s, Member States have adopted the principle of activation of jobseekers, whereby income support is provided in exchange for readiness to participate in ALMP programmes and acceptance of job offers. This principle has become harder to implement during the Great Recession, first, due to the increasing number of long-term unemployed workers who are no longer in receipt of unemployment benefits and, second, due to cuts in spending on ALMPs during the economic crisis, which have posed new challenges to activation regimes in OECD countries (Martin, 2014). These two trends have had an impact on labour market participation in the EU. Those countries providing limited income support and limited ALMP support to the unemployed and long-term unemployed are also those with the highest share of discouraged workers (European Commission, 2015).

An interesting case is that of Sweden, a country that has also experienced a large decrease in the share of unemployed individuals receiving unemployment benefits. In Sweden, the unemployment insurance system is based on the voluntary membership of workers of insurance regimes subsidized by the state and administered by unions. No major change has taken place since the 2007 reform, which increased the cost of unemployment insurance contributions for union members, and linked them to the level of unemployment within the unemployment insurance fund. As a result, the number of workers contributing to the funds decreased. While in 2006 85 per cent of the unemployed were receiving UBA, by 2013 this figure had dropped to 29 per cent, at a time when the cost of voluntary contribution to unemployment had increased and a number of contributors had left the regime.[83] However, many of the unemployed participate in ALMP programmes and receive so-called activity support, instead of being classified as unemployed and receiving benefits from the unemployment insurance, while there is also a basic benefit available for those who do not qualify for unemployment benefits. The reform also tightened eligibility conditions by increasing the required contributory history, and shortened the maximum duration of benefits to 300 days. Interestingly, in Sweden, unemployment *assistance* (a job and development guarantee programme) provides for activation measures and income support linked to previous wage if the beneficiary was formerly eligible for unemployment insurance benefits.

Considering Member States with significant decreases in the share of unemployed receiving unemployment benefits, in Greece the percentage of unemployed individuals receiving unemployment benefits decreased by more than 40 percentage points, while in Spain it also decreased, by more than 30 percentage points, indicating that extended periods of high unemployment rates cause an increasing share of unemployed individuals to exhaust their rights to unemployment benefits.

83. Data based on Swedish Unemployment Insurance Board (2014) and Statistics Sweden (2014) Labour Force Surveys.

FIGURE 4.10 Change in share of unemployed workers receiving unemployment benefits and long-term unemployment, by Member State (2008–13)*



* Please see Appendix F for a list of country acronyms used.

Source: ILO calculations based on EU-SILC data, Eurostat.

To verify this fact, figure 4.10 plots the variation in the share of unemployed workers receiving unemployment benefits in each country during the period against the variation of the share of long-term unemployed workers, which proxies for the number of unemployed workers who have exhausted their rights to receive unemployment benefits.

The assumption that the sharpest declines in the number of unemployed workers receiving unemployment benefits would be evident in those Member States where the share of long-term unemployed individuals has increased (as a percentage of total unemployment) holds true, shown by the negative correlation in figure 4.10 between the variations of both variables, despite the fact that the fit is not optimal.

Institutional factors also played a role in explaining the differences between the number of unemployed workers in receipt of unemployment benefits in 2008 and in 2013. A good example from the inventory is the Belgian Government's decision to increase the qualifying period for young people to obtain unemployment benefits while limiting access to those benefits for the general population in the same year (2011). Indeed, the share of jobseekers receiving unemployment benefits in Belgium decreased by 3.4 percentage points between 2011 and 2012 (with a further decrease of 3.5 percentage points in the following year).

Of the 13 Member States with lower shares of unemployed workers in receipt of UBA, newer members of the EU (particularly those that joined in 2004 or later) had lower shares than older members – only two countries in this group had joined before 2004 (Greece and Sweden).

Monograph examples

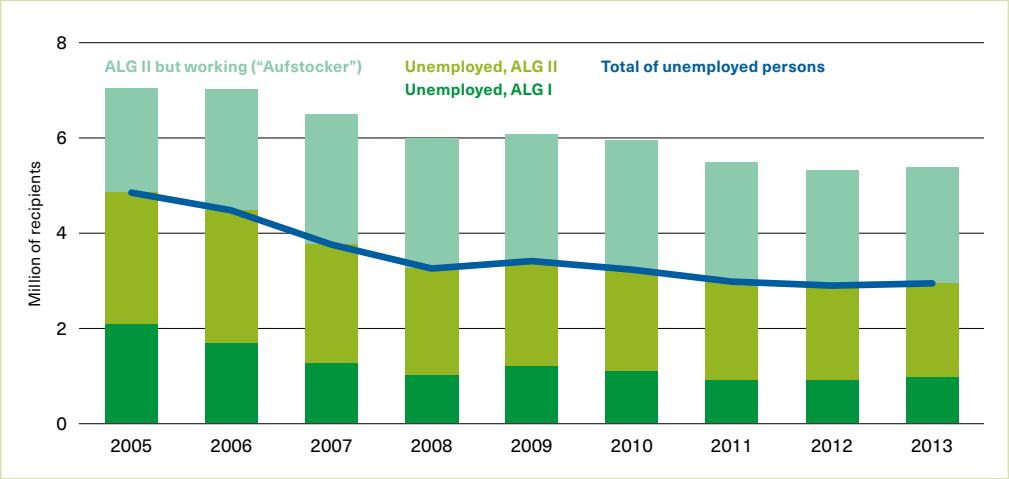
Although it is beyond the scope of this inventory to thoroughly examine every EU Member State's policy intervention over the diverse areas under consideration, the national monographs prepared for 11 Member States provide important and detailed insights into many different policy areas, as demonstrated in other chapters of this report. The following section uses information taken from national monographs to provide a more detailed analysis of some of the measures implemented between 2008 and 2013 aimed at reforming those Member States' unemployment insurance and unemployment assistance schemes.

Little change in Germany since the Hartz IV reform

There were no major changes in unemployment benefits (ALG I) or unemployment assistance (ALG II) in Germany following the Hartz IV reform in 2005. The Hartz IV reform introduced major changes, such as: (i) merging unemployment insurance and unemployment assistance for people fit to work; (ii) strengthening income and wealth eligibility criteria, tightening admissible reasons for refusing work; (iii) toughening the sanctions regime; and (iv) introducing new active labour market programmes and placement services. One feature of ALG I and ALG II is to allow recipients of unemployment benefits from insurance to work (up to 15 hours a week), as well as recipients of unemployment assistance (whose access to benefits is purely means-tested). In 2013, approximately 2.5 million persons received unemployment assistance while in a job. This number remained relatively stable even in times of declining unemployment: 2005–08 and 2009–12 (figure 4.11).

The average wage for working recipients of unemployment assistance was €6.20 per hour in 2013, and as low as €5 per hour for single parents in eastern Germany (Bruckmeier and Wiemers, 2014). Wages are particularly low for those who hold mini-jobs (Dingeldey et al., 2012).

FIGURE 4.11 Number of recipients of unemployment insurance benefits and unemployment assistance in Germany (working and non-working), (2005–13)



Source: Bundesagentur für Arbeit, German monograph. The figure shows the number of recipients of unemployment insurance benefits (ALG I) and unemployment assistance (ALG II).

The 2014 unemployment benefits reform in the Netherlands

In the Netherlands, an important reform was passed by Parliament in 2014, regarding the duration and eligibility conditions for unemployment benefits, which will be gradually implemented over the period 2016–19. This reform shortens the maximum duration of unemployment benefits for workers with more than 10 years of contributions. For these workers, the duration of unemployment benefits will increase by half a month (formerly 1 month) for every year of employment above 10, to a maximum of 24 months. For example, a person with an employment history of 24 years was entitled to benefit payments for a maximum of 24 months under the previous legislation; this will now be reduced to 17 months under the new law. Apart from reducing expenditure on unemployment benefits, the main purpose of the 2014 reform was to stimulate job search among older jobseekers, in recognition of the fact that very few people who have been unemployed for more than 2 years find a job, and building on the dynamic labour market for workers over 55 in the Netherlands. This dynamic is illustrated by the fact that the employment rate for individuals between 55 and 64 years old increased by more than 7 percentage points between 2008 and 2013.[84]

84. From 53.0 per cent to 60.1 per cent, according to Eurostat data.

In addition, the new scheme imposes the obligation that any job offer must be accepted after 6 months of unemployment benefits have been received, irrespective of qualification level, as well as the obligation to participate in any activities that the public employment services deem necessary in order to increase a jobseeker's chances of finding a job, such as training.

The reform has left unaltered the gap between the shortest duration of unemployment benefits, 3 months, for jobseekers who have contributed 26 weeks out of the past 36 weeks, and the next one, 4 months, available to workers who have contributed for 4 years out of the past 5 years. It is therefore difficult for workers in non-standard forms of employment, and youth, to qualify for unemployment benefits with a duration longer than 3 months.

The unemployment insurance system reforms in France

In France, a significant reform was implemented in February 2009, after much negotiation between the social partners, which addressed structural issues, while also taking into account the developing crisis situation (see table 4.2).[85] In addition, a one-off allowance of €500 was granted in the first phase of the crisis to jobseekers with a very short work history, namely those who had only worked 2–4 months and who were therefore not eligible for unemployment benefits.

TABLE 4.2 Changes in eligibility and duration of unemployment benefits in France (in months) (1997–2001)

	All workers					Older workers			
1997–2001	**1**	**2**	**3**		**4**	**5**	**6**	**7**	**8**
Affiliation needed	4	6	8		14	8	14	27	27
Reference period	8	12	12		24	12	24	36	36
Potential duration	4	7	15		30	21	45	45	60
	✘		✘			✘	✘		
2001–06		**A**			**B**			**C**	**D**
Affiliation needed		6			14			27	27
Reference period		22			24			36	36
Potential duration		7			23			36	42
									✘
2006–09		**I**		**II**	**III**			**IV**	
Affiliation needed		6		12	16			27	
Reference period		22		20	26			36	
Potential duration		7		12	23			36	
Since 2009	**Unique rule**					**Unique rule**			
Affiliation needed	4 to 24					4 to 36			
Reference period	28					36			
Potential duration	4 to 24					4 to 36			

No age condition; Over 50 years old; From 50 to 55 years; Over 55 years old.
Changes in rules: ✘ Removed settings; 22 New settings; 22 Unchanged settings

Source: Coquet (2011). The column numbers 1–8 (third row), A–D (eighth row) and I–IV (13th row), refer to the different ways of setting unemployment benefits in each period, according to contributory history. For instance, from 1997 to 2001, there were eight different ways, one for jobseekers with 4–6 months of contributions, one for jobseekers with 6–8 months, and so on. With the 2001 reform, the first benefit level for jobseekers with 4–6 months' contribution was removed, hence the red cross at the bottom of column 1. This means that between 2001 and 2006, jobseekers needed at least 6 months' contributions before being eligible to receive unemployment benefits.

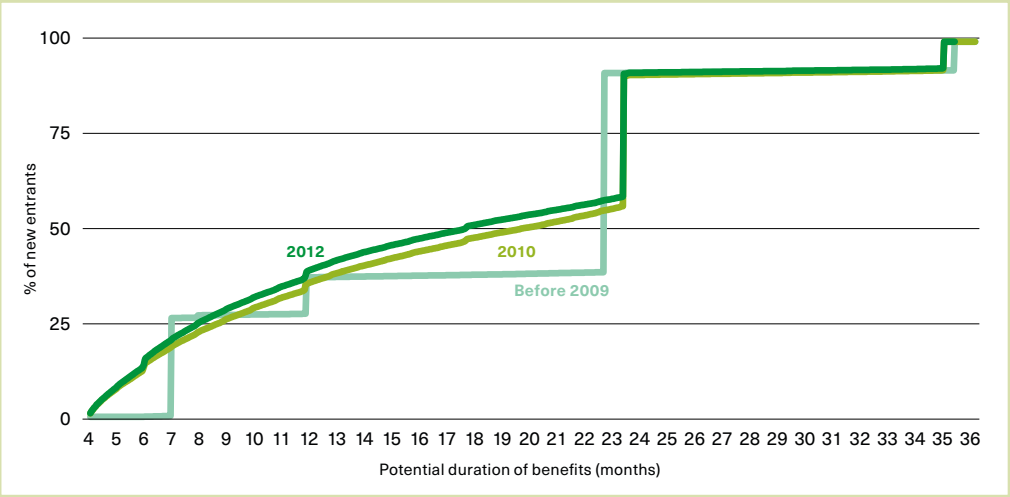
85. Unemployment insurance governance comes under the control of the social partners. Rules are negotiated for 2 or 3 years and formally embodied in a "collective agreement". The French Government then formally accepts this agreement, before enforcing it.

The main feature of the new unemployment benefits system is to make it easier for workers in precarious employment to qualify, by bringing down the minimum requirement for eligibility to 4 months of work over the past 28 months. In terms of impact, the reduction in the minimum contributory history needed to be eligible did not increase the share of recipients with short-spell records. In fact, a similar share of benefit recipients (25 per cent) receives the maximum duration of unemployment benefits of 10 months as did before the reform (figure 4.12). Before 2009, there was a spike at 7 months, which was the minimum duration of unemployment benefits at the time (now 4 months).

In addition, the reform removed the possibility of a jobseeker receiving benefit for a longer spell than his/her contributory history in order to increase job-search incentives. Overall, the reform was more or less self-financing as easier access to unemployment benefits was compensated by a decrease in benefit duration for some workers, and perhaps also due to the improved incentives.

A further reform took place in 2009 which increased the maximum duration of unemployment benefit from 23 to 24 months (figure 4.12). Two other important changes were implemented in 2012, with the removal of the exemption from job-search requirements for older workers; and in 2013, with the introduction of higher unemployment insurance contributions for employers of workers on very short contracts (for example, 7 per cent of gross earnings for contracts of 1 month or less, instead of 4 per cent on regular contracts). The impact of the latter measure was mixed. There were 735,000 beneficiaries in December 2013, and a total of €70 million additional contributions to unemployment insurance in 2014, while the Government had expected between €150 and €200 million.[86] With the same aim of reducing duality in the labour market, new legislation introduced in 2014 extended to all jobseekers the possibility of retaining some of their entitlement to unemployment benefits when they accept a short fixed-term job. This right was previously reserved for temporary agency workers. Another rule previously reserved for temporary agency workers, allowing the combination of unemployment benefits with work, whereby monthly benefits are reduced to 70 per cent of wages earned in the corresponding month, was applied to all jobseekers.

FIGURE 4.12 Inflows of beneficiaries of unemployment benefits by maximum potential duration in France (2008–14)



Note: The figure shows the percentage of new recipients of benefits from unemployment insurance at each maximum level of duration for the three regimes in place at various points between 2008 and 2014.

Source: Ministry of Employment (Dares), French monograph.

86. Source: Ministère du Travail (2015). Available at http://travail-emploi.gouv.fr/IMG/pdf/CONFERENCE_THEMATIQUE_DU_3_AVRIL_2015_-_Bilan_de_la_loi_de_securisation_de_l_emploi.pdf [23 Sep. 2015]. As the study points out, these results are not explained by a decrease in temporary work (which is, in fact, increasing), but could be due to a lack of information about the requirements among employers or the economic situation.

To summarize, the reforms of the unemployment benefits system undertaken in France between 2009 and 2014 introduced a greater degree of parity (between workers with different employment histories, between temporary agency workers and other workers, between generations and between jobseekers who return to employment on short-term contracts and those who remain on unemployment benefits). One interesting element of these reforms was a rare example of an attempt by a government to reduce the labour supply of temporary work, rather than the labour demand, by imposing higher unemployment benefits contributions on these workers.

Changes in unemployment benefits in the United Kingdom

In the United Kingdom, the main changes in unemployment benefits/unemployment assistance focused on: (i) strengthening the activation of jobseekers and people receiving social assistance, especially youth; (ii) tightening eligibility conditions for migrants or citizens returning to the United Kingdom to claim unemployment benefits; and (iii) reducing fraud.

The main reform was the progressive introduction of the Universal Credit system to replace unemployment assistance (the income-based Jobseeker's Allowance (JSA)) over the period 2012–16. Universal Credit was introduced with the goal of replacing six of the main means-tested benefits and tax credits: JSA, Housing Benefit, Working Tax Credit, Child Tax Credit, Employment and Support Allowance and Income Support. The functioning of Universal Credit is designed, in principle, to encourage work, as financial support is withdrawn at a slower rate than under the previous system with claimants able to earn more income and no limit on the number of hours a claimant can work per week before losing entitlement.

The Coalition Government also introduced, during 2011 and 2012, the single Work Programme to replace the 1998 New Deal workfare system. Many of the elements of this programme affect recipients of JSA. For example, those aged between 18 and 24 who have received JSA during the previous 9 months (or 12 months for those over 25) are required to participate in the Work Programme, which is a payment-for-results, welfare-to-work programme.

Two other changes have been introduced in relation to the JSA. First, for claims made from the first day of 2014, most jobseekers, including United Kingdom nationals returning from living or working abroad, will be unable to claim income-based JSA until they have been living in the United Kingdom for 3 months. Second, and perhaps more importantly, a tougher JSA sanctions regime was implemented in October 2012. This new regime increased the administrative penalty for benefit fraud to £350 or 50 per cent of the amount overpaid, whichever is higher, and extended periods for which those convicted of fraud forfeit their benefit, alongside any court-imposed punishments. The tougher sanction regime has had a massive effect in practice and the rates of sanctions have soared[87] – and have been found to be a key driver of the dramatic increase in the use of food banks.[88]

87. The number of sanctions stood at 29,367 in January 2009, 55,168 in January 2011 and 72,812 in January 2013, according to the United Kingdom Department of Work and Pensions. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/314605/sanctions_summary_may14_final.xls [23 Sep. 2015].

88. Oxfam, November 2014, Emergency use only: Understanding and reducing the use of food banks in the United Kingdom. Available at http://www.trusselltrust.org/resources/documents/Press/Foodbank-Report.pdf [23 Sep. 2015].

Two-phase changes in Spain's unemployment benefits system

The case of Spain provides a good example of the challenges faced by countries that, in the first phase of the crisis, adopted sectoral policies in response to the intensity of the crisis in some industries, and also addressed exhaustion of rights and non-eligibility to unemployment benefits, before turning to changes aimed at moderating public expenditure, in the second phase.

In a first phase, workers affected by temporary layoffs and reduction of working hours through an ERE (a Spanish institution providing a short-time work scheme) were granted an extension to their benefits period. The waiting period was eliminated so that workers could receive unemployment benefits immediately after losing their jobs. A special subsidy was created for those who had exhausted other unemployment insurance and assistance in August 2009 and phased out in February 2011, reintroduced later and finally replaced by another programme, "Plan PREPARA". This new programme is aimed at improving the capabilities of low-skilled workers coming from industries with high levels of temporary contracts (e.g. construction, retailing or hospitality).

Since 1 January 2010, a new regulation has been enacted facilitating the replacement of unemployment insurance by a lump-sum transfer, and opening this option up to the young unemployed (up to the age of 30 for unemployed men and 35 for unemployed women) who have a business project.

Finally, in 2010 unemployment insurance was extended, under certain conditions, to self-employed workers whose economic activity had stopped involuntarily and who had previously made contributions over at least 12 months.[89] The potential duration of these benefits ranges from 2 to 12 tmonths depending on the number of months of previous contributions.

The second stage of changes included the tightening of eligibility conditions for benefits from unemployment insurance in January 2010, with the obligation to accept any job offer and to participate in training programmes. Also, the additional unemployment assistance for jobseekers over the age of 45 with substantial family commitments (about 10 per cent of beneficiaries) was removed in 2012. In the same year, the level of benefits from unemployment insurance after the sixth month of receipt was reduced from 60 per cent to 50 per cent of the reference wage.

In December 2014, the Government and social partners agreed to implement a new subsidy for long-term unemployed workers with family commitments and without access to any other subsidy: the so-called extraordinary programme for employment activation (*programa extraordinario de activación para el empleo*). The maximum period for this subsidy is 6 months. In order to encourage a smooth transition to employment, this subsidy is compatible with a new employment for 5 months. The employer will receive the subsidy when hiring these workers, resulting in a significant decrease in the labour costs of these workers. The Government's estimation of the number of potential beneficiaries is around 400,000 unemployed workers from 15 January 2015 to 15 April 2016. Following the experience of the Plan PREPARA, this extraordinary programme includes activation activities designed and guided by the PES.[90]

89. The new unemployment contribution is mandatory for those self-employed workers who fall within the requirement for mandatory contributions for work-related accidents and professional illness (around 1 million persons at the enactment of this new measure). Other self-employed workers can voluntarily pay the unemployment contribution linked to the payment of the contribution for work-related accidents and professional illness (at the enactment of this measure, around 500,000 self-employed workers were paying voluntarily for the contingency of work-related accidents and professional illness).

90. The legal regulation of the extraordinary programme for employment activation (in Spanish) is accessible at: http://www.boe.es/boe/dias/2014/12/20/pdfs/BOE-A-2014-13249.pdf [25 Sep. 2015]. At the closing date of this report, no statistical information was available on this programme.

The case of Greece

The case of Greece can be taken as illustrative of the challenges faced by countries which took steps to address a lack of income support after jobseekers had exhausted their unemployment benefits, while also facing drastic reductions in public spending.

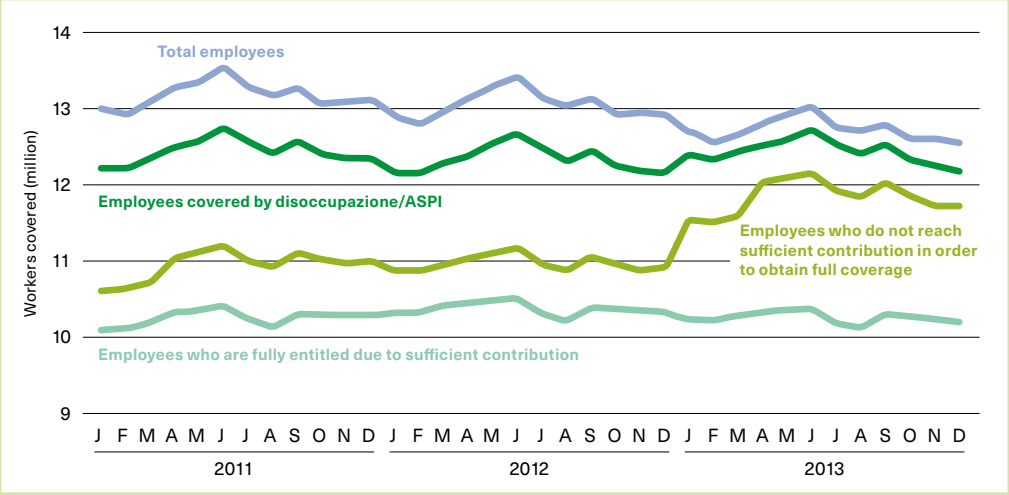
To a certain extent, eligibility conditions for social assistance targeting the long-term unemployed were relaxed in Greece over 2008–13. The income threshold for receiving such assistance was increased from €5,000 to €12,000 a year in January 2012. As a result, the number of recipients increased to 28,000 in 2013 (from 3,000 in 2011), representing 5 per cent of the total number of people in long-term unemployment. After January 2014, unemployment assistance was made available to those over the age of 25, while it had previously been reserved for those aged 45 or over. At the same time, the income threshold was decreased to €10,000 a year. The maximum duration of social assistance remained unchanged at 12 months. Purely means-tested schemes, of potentially unlimited duration, were implemented in two municipalities in 2014 on a pilot basis.

The Fornero reform in Italy

In Italy, the Fornero reform in 2012 addressed two structural issues of the unemployment insurance benefits system, including the low level and short duration of benefits, in comparison with other advanced countries, and the low coverage of workers with non-standard contracts. Other aspects of the system were left unchanged, such as the lack of job-search monitoring and the lack of social assistance available to jobseekers after exhaustion of their benefits from unemployment insurance. Nonetheless, pilot projects providing means-tested benefits of €200 per month were implemented in the larger cities in 2012 and 2013, and extended to southern Italy in 2014.

Regarding benefits from unemployment insurance for workers on standard contracts (now called Social Insurance for Employment, ASPI), the Fornero reform increased the replacement rate to 75 per cent of the previous wage and increased the maximum duration to 12 months (and to 18 months for those over 55). There was no change in eligibility conditions, set at 52 full-time weeks in the previous 2 years. Regarding unemployment benefits available to workers on non-standard forms of contract (now Mini-ASPI), the replacement rate was increased to 75 per cent of the wage for a maximum duration of half the number of weeks of contributions. Eligibility criteria were relaxed to 13 weeks of contributions in the previous 12 months. As a result, the number of workers covered by Mini-ASPI increased by about 800,000 between November 2012 and November 2013 (figure 4.13).

FIGURE 4.13 Workers covered by unemployment schemes in Italy (2011–13)



Note: The figure represents the number of workers covered by unemployment benefits for workers on standard contracts (ASPI) and the workers covered by unemployment benefits for non-standard contracts (Mini-ASPI) (red line).

Source: Ministry of Labour, Italian monograph.

Ireland's efforts to reduce the costs of unemployment benefits

In Ireland, there was a series of cuts in the level and duration of benefits from unemployment insurance (Jobseeker's Benefit) and the level of unemployment assistance (Jobseeker's Allowance).

Cuts to Jobseeker's Benefit (for jobseekers with 2 years of contributions)

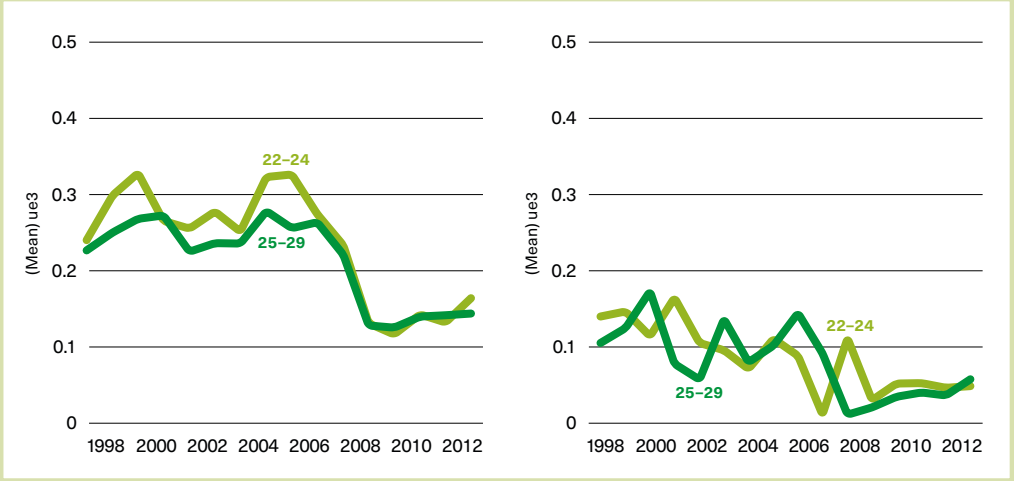
- In October 2008, the duration of benefits for claimants over 18 was cut from 15 to 12 months or from 12 to 9 months, depending on the length of time for which the worker had been paying social insurance.[91]
- From April 2013, the duration of benefits was cut from 12 to 9 months and from 9 to 6 months, respectively.
- The full adult rate was cut from €205 to €196 a week in January 2010, and to €188 in 2014.[92]

Cuts to Jobseeker's Allowance (means-tested)

- The full adult rate per week was cut from €205 to €196 a week in January 2010, and to €188 in 2014.
- The rate for workers aged 18–19 was cut to €100 in May 2009.
- The same rate, €100, applied to workers aged 20–21 from January 2010, reduced from €196.
- The rate for those aged 22–24 was reduced to €150 in January 2010, from €205. There was a further cut to €144 in January 2011.

While basic rates were cut by just over 8 per cent for all workers over the age of 25, there were larger cuts for workers under 25, especially those under 21 during 2010–11. This raises the question of whether the larger cuts for youth had any impact on outflow rates from unemployment. The Quarterly National Household micro-data follows workers over time so that it is possible to calculate transition rates between labour market status, and compare workers aged between

FIGURE 4.14 Transitions from unemployment to employment for ages 22–24 and 25–29 in Ireland (1998–2012)



Note: The y-axis shows the share of the stock of unemployed workers from the previous quarter who have moved to employment in the current quarter, differentiating between those who were eligible to Jobseeker's Allowance (right-hand panel) and those who were not (left-hand panel).

Source: Quarterly National Household Survey, Irish monograph.

91. The shorter duration is for workers with less than 260 weeks of social insurance payments.

92. Note that the basic adult rate is the same for Jobseeker's Benefit and Jobseeker's Allowance, apart from the recent lower rates for young workers claiming Jobseeker's Allowance.

22 and 24, who had cuts of around 30 per cent in Jobseeker's Allowance rates during 2010, with workers aged between 25 and 29, who had much smaller cuts of about 8 per cent in this period. In figure 4.14, the graphs for those who were not eligible to Jobseeker's Allowance and eligible jobseekers, show patterns of exit rates from unemployment into employment which are very similar for both age groups, suggesting that the older working group is a reasonable comparison group for the younger. There was no divergence in exit rates following the cut in welfare rates, suggesting that there was no substantial impact from the cuts in Jobseeker's Allowance.

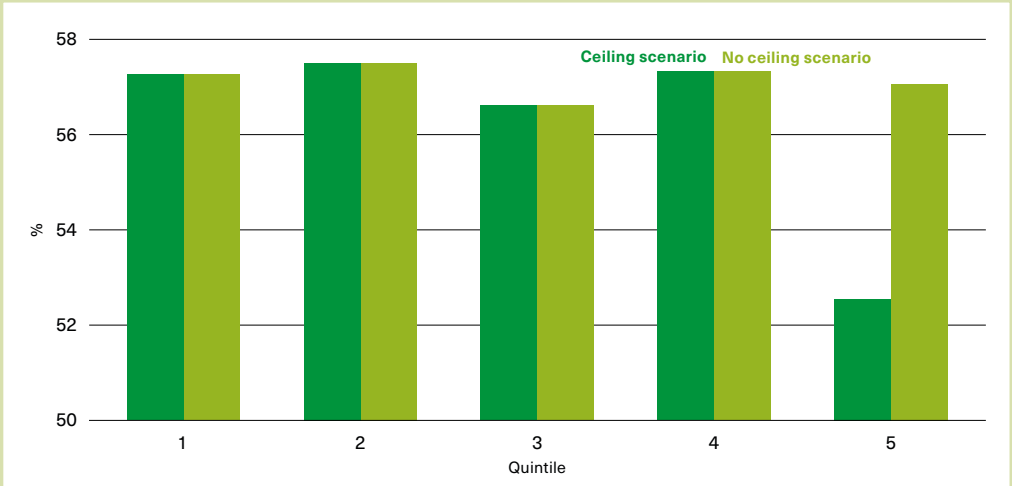
Changes in the unemployment insurance scheme in Latvia

In a similar fashion to Ireland, Latvia faced rapidly falling budget revenues and growing social spending as a result of the financial crisis,[93] and introduced a series of savings measures in the unemployment insurance benefits system, while also addressing structural issues (fraud) and giving additional support to jobseekers who had exhausted their entitlements to benefits or those with a short contribution history.

The first change, in 2008, was to tighten eligibility conditions by increasing the minimum qualifying contribution history, from 9 months in the previous 12 months, to 12 months in the past 18 months. This change was reversed in July 2009. Second, the duration of benefits from unemployment insurance was increased to 9 months for all eligible jobseekers, from 2009 to 2011, and again from 2013 onwards. Formerly, the minimum duration period had been 4 months. To counterbalance the increase in duration, jobseekers with working histories of less than 20 years had their benefits decreased to a maximum of LVL45 (in Lats, equivalent to €64) per month in the second part of their unemployment spell, which was considerably below the average level of the benefit.

Third, a ceiling of LVL11.51 (€16.40) per day was introduced in 2010, above which, only 50 per cent of the usual unemployment insurance benefits were paid. This was introduced as a temporary measure and it was initially planned to be phased out in 2012, but was later extended to the end of 2014, due to continuing budgetary pressures. Simulation shows that the introduction of the ceiling reduced unemployment insurance benefits for the highest-earning quintile of jobseekers, from 57 per cent to 52.6 per cent of previous wage (figure 4.15).

FIGURE 4.15 Replacement rate of unemployment insurance benefits in Latvia, by quintile (as a percentage of previous gross monthly wage) before and after the introduction of a ceiling in 2010



Source: Latvia's monograph calculations using EUROMOD-LV, version G2.0.

93. As an example, spending on social assistance benefits increased by a factor of 8.5 between 2008 and 2011 (Ministry of Welfare, annual reports on social services and social assistance in municipalities).

Fourth, as of November 2009, the reference wage used to calculate the level of unemployment benefits excluded 2 months (those in which the person received the highest and the lowest wage), while, since 2010, the reference wage has been calculated over a period of 12 months, instead of 6 months as previously.

Turning to social assistance, from September 2009 to December 2014 the Government initiated public work programmes, specifically targeting the unemployed who were not in receipt of unemployment insurance benefits. The participants of this programme were initially paid LVL100 (€142) per month for performing the simplest, non-commercial tasks not requiring particular skills in various municipalities, e.g. cleaning, building simple infrastructure items on the territory of the municipalities and child care. As of July 2011, this stipend was reduced to LVL80 (€114) per month. Nevertheless, the programme was in much demand among the unemployed and the waiting list for jobs financed under this programme ran to double the number of positions available (Azam et al., 2012). Overall, about 20,000 individuals participated in the programme per month, which equates to approximately 20 per cent of the registered unemployed not receiving unemployment insurance benefits (ICF, 2012).

In addition, the minimum level[94] of the Guaranteed Minimum Income (GMI), which is a means-tested benefit, was raised by almost 50 per cent in 2009.[95] A further major reform concerned the financing scheme: before the crisis, GMI and housing benefits were fully financed from the budgets of local governments but during the crisis period the central government budget provided 50 per cent of the social assistance benefits. Another major reform was related to eligibility for GMI: in 2010, the condition that a person who had previously taken out or given loans cannot be eligible for the benefit was removed.

4.2 Concluding remarks

The trends analysed in this chapter show a decrease of over 10 percentage points in the share of unemployed workers receiving unemployment benefits during the period 2008–13 in 11 Member States. In one country (Ireland), the decrease was fully offset by an increase in unemployment assistance. The share of jobseekers receiving unemployment benefits increased in one country (Estonia) by more than 10 percentage points. Setting aside the case of Ireland, changes in the share of jobseekers receiving unemployment assistance were less dramatic, with the exceptions of Spain and Portugal which experienced a decrease of close to 10 percentage points or more. There were small increases in Italy and Germany.

With the exception of four countries (Belgium, Estonia, Malta, and Slovenia) there was also a parallel decrease in the level of benefits as a percentage of median wages across all the Member States.

These two trends are due, at least in part, to changes in the level and composition of unemployment rates, as the long-term unemployed exhaust their entitlement to unemployment benefits. The share of long-term unemployed (jobless for more than 1 year) receiving benefits dropped by 11 percentage points in comparison to pre-crisis levels, while coverage of the short-term unemployed remained constant, on average. Lack of access to benefits could jeopardize the efforts undertaken by Member States since the 1990s towards activation of jobseekers, whereby income support to jobseekers is dependent on evidence of effective job search and participation in programmes that effectively promote and assist the return to work.

94. Municipalities can set a higher GMI for certain population groups, such as children or elderly people.

95. The minimum standard amount of GMI benefit was raised from LVL27 (€38) per month per household member in 2007, to LVL37 (€53) in 2009 and LVL40 (€57) in 2010.

In terms of policy, it can be concluded that relatively few countries made significant changes to their unemployment benefits/unemployment assistance systems; any reforms introduced were financially neutral or aimed explicitly at reducing costs (for example, those in Belgium, France and Ireland).

Some countries in the sample prioritized the reduction of labour market duality and gave additional protection to workers on non-standard forms of contract, such as France (targeting workers on short-term contracts), Italy (part-time workers and workers on temporary contracts) and Spain (the self-employed and workers on temporary contracts).

Most countries strengthened activation measures, especially France (by the removal of the exemption from the job-search requirement for older workers), the Netherlands (introducing, from 2016 onwards, the obligation to accept a job offer and compulsory participation in training), Spain (which introduced the obligation to accept a job offer and participate in training) and the United Kingdom (strengthening conditionalities for youth).

There were interesting initiatives to extend social assistance in the most badly affected countries, for example, the relaxation of eligibility conditions in Greece for long-term unemployed on a temporary basis, and in Italy (with the introduction of means-tested pilot projects). On a wider scale, Latvia was able to build on its experience with public works,[96] and increase the level of the existing minimum income to offer comprehensive – if not generous – support to the long-term unemployed.

96. In 1994, when unemployment rates had climbed to almost 15 per cent, Latvia had already extended the coverage of public works to combat long-term unemployment.

5 Wages

This chapter examines the evolution of wage trends across the EU between 2008 and 2013 and assesses the measures that helped to shape those trends.

5.1 Wage measures and wage trends

In policy terms, there are only a limited number of channels through which the governments of EU countries can influence wages, particularly in the private sector. One such channel is by the setting of national minimum wages. Governments can also modify the framework for collective bargaining and set guidelines for the social partners regarding wage negotiation. Finally, measures targeting the public sector affect the labour market in two distinct ways: first, they directly alter public sector wages and, second, they can influence private sector wages when public sector wages are used by private agents as a benchmark in their wage-bargaining process.

In order to understand the extent to which policy-makers across the EU have focused on each of these channels between 2008 and 2013, table 5.1 shows a breakdown of the measures relating to wages by category.

Table 5.1 shows the predominance of public wages,[97] collective bargaining and minimum-wage measures in this area between 2008 and 2013, which together account for 93 per cent of government interventions targeting wages. On the other hand, wage indexation, despite being a frequent topic of discussion within the context of the financial crisis and its aftermath, has only been recorded by two Member States.[98] Figure 5.1 presents the distribution of wage policy measures for the years 2008–13.

TABLE 5.1 Breakdown of wage policy measures, by category (2008–13)

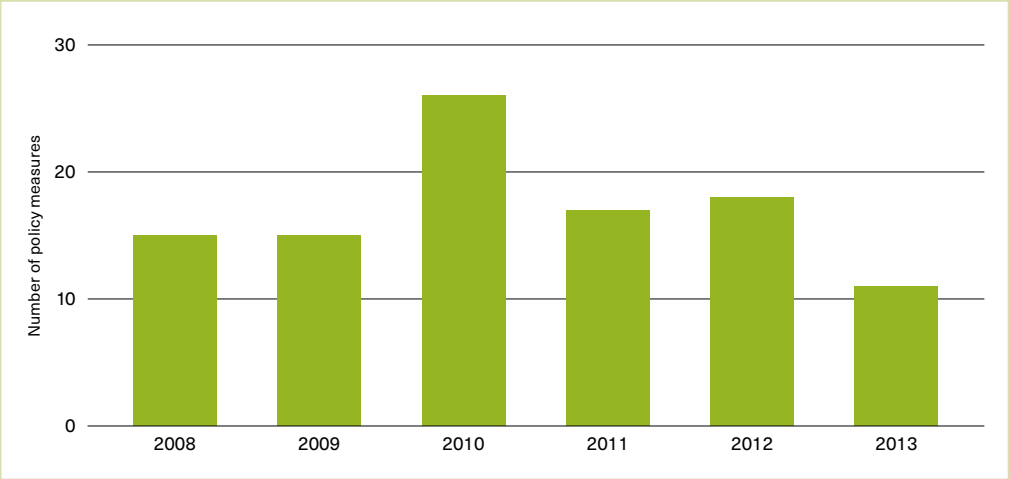
	Number of measures	% of total measures	Number of countries
Public sector wages	45	42	19
Collective bargaining	29	27	14
Minimum wage	26	24	13
Working time and work organization	5	5	3
Wage indexation	2	2	2

Source: ILO Inventory of Labour Market Policy Measures.

97. Measures targeting public wages are analysed in detail in Chapter Six, which is dedicated to all policy interventions concerning the public sector.

98. Cyprus and Luxembourg. On this very specific topic, LABREF has information for a higher number of countries, as discussed in section 5.3.

FIGURE 5.1 Policy measures targeting wages (2008–13)



Source: ILO Inventory of Labour Market Policy Measures.

Although the general trend of wage policy measures is similar to that in other areas of analysis, i.e. with an initial increase in the number of measures and a subsequent decline back to 2008 levels by 2013, the peak year in the case of wage policy measures is 2010 rather than 2009. It should also be noted that, while the number of measures undertaken in 2011 and 2012 was lower than in 2010, this number only dropped below 2008 levels in 2013.

For a clearer picture of how the policy focus on wages differed between countries, figure 5.2 shows the breakdown of measures directly targeting wages by Member State.

Once again, countries more severely affected by the financial crisis are at the forefront of policy changes, with Greece, Portugal, Spain and Latvia all being among the most active Member States in this area of policy change. Figure 5.3 shows the growth in productivity[99] and the wage share[100] for each Member State. All variables are expressed as the difference between the most recent figures (2013) and the corresponding values before the onset of the financial crisis (2007).

As observed in figure 5.3, the analysis shows no correlation between changes in productivity and the magnitude of the impact of the financial crisis on specific labour markets, as certain Member States which were badly affected by the crisis still reported strong increases in productivity (such as Latvia, Spain and Estonia), while Member States with more resilient labour markets experienced decreases in productivity (such as Germany and Luxembourg). It is important to acknowledge that the increases in productivity in some countries could be partially due to composition effects, as low-skilled workers were more susceptible to losing their jobs after the crisis, hence "artificially" inflating average productivity changes.

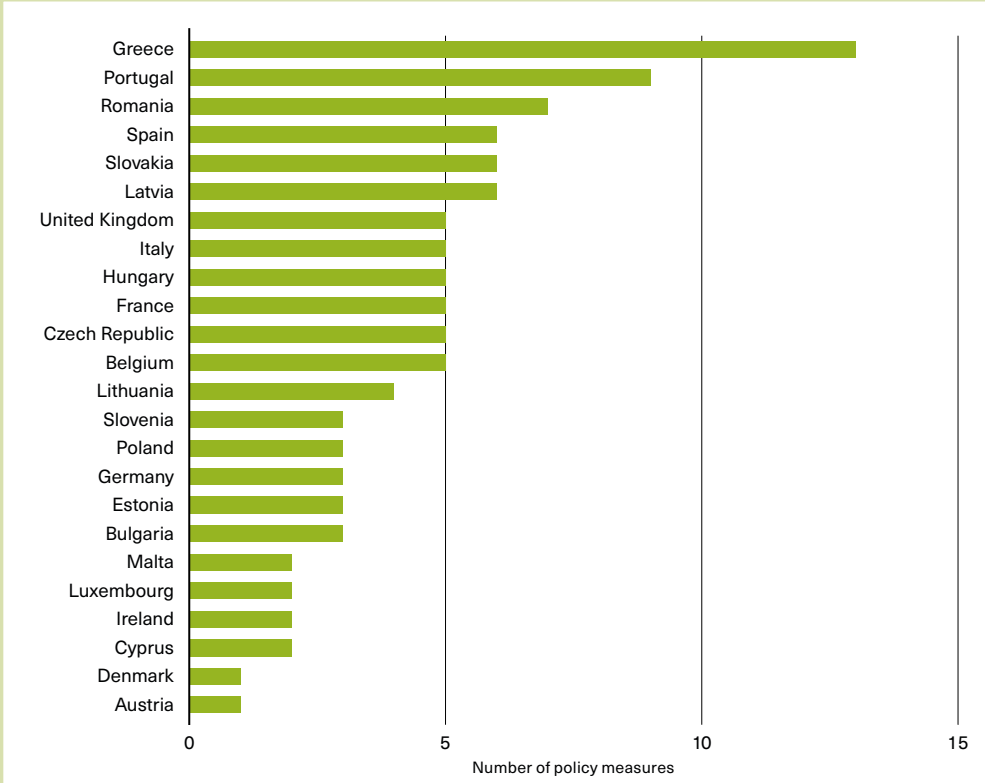
Approximately half of the Member States shown in figure 5.3 showed increases in productivity in the years that followed the financial crisis. In most of these countries (with the exception of Bulgaria, Slovakia and France), wages failed to keep up with this trend, as illustrated by a fall in the wage share.

Within Member States whose productivity diminished over the period, the wage share continued to rise (with the exception of Hungary and Greece). These opposing trends in the two broad categories of countries suggest a degree of wage rigidity across the EU, since the wage share failed to follow the same trend as the productivity share in all but five countries. This wage moderation could, in part, have been a consequence of wage-related measures; however, the opposite may

99. Measured in terms of GDP per person employed (substituting GDP per hour worked produced no relevant changes to the results presented in the figure).

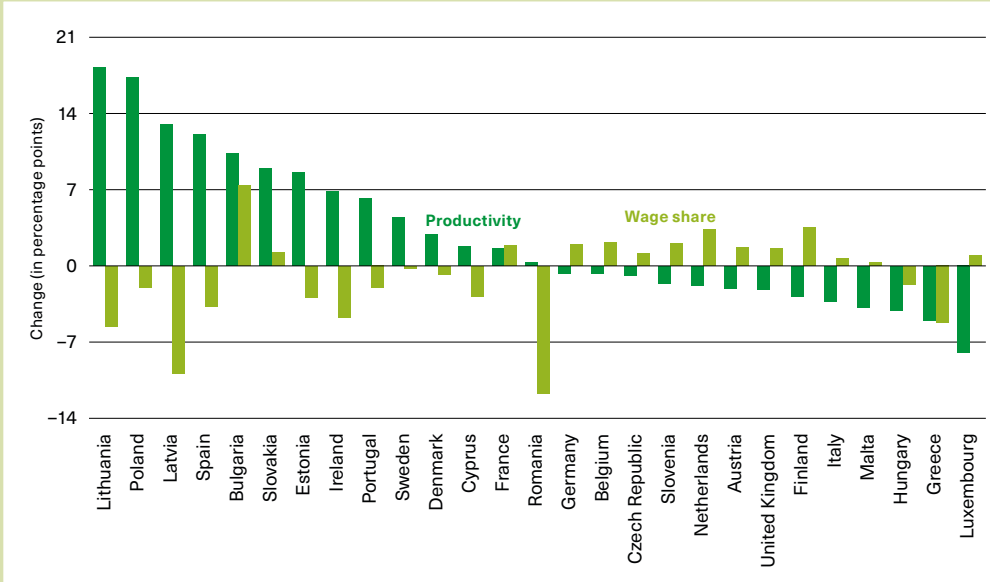
100. Which is defined as the total compensation of employees as a share of GDP.

FIGURE 5.2 Policy measures targeting wages, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures.

FIGURE 5.3 Changes in productivity and wage share, by Member State (2008–13)



Source: Eurostat.

be true. Governments may in fact have been attempting to fight wage stagnation, although given the public sector wage cuts and minimum-wage policy measures analysed later in this chapter, it is less likely that governments were trying to counter wage stagnation through the policy measures identified in the ILO inventory than that they were promoting wage moderation through small minimum-wage increases (and few freezes/decreases) or public sector wage cuts.

Combining the conclusions drawn from figures 5.2 and 5.3 above can be a useful exercise, as it provides insight into the wage trends of those Member States which were more active in implementing wage-related labour market measures. Of the 12 Member States that implemented five or more measures in the area of wages, six observed decreases in their wage share (and of the remaining six, none had increases of more than 5 percentage points in the wage share, which represent modest increases over the whole 5-year period).

The effect of these policies, and the difficulty of interpreting wage trends during the post-crisis period, can be illustrated by cases in a number of Member States offering examples of the "composition effect", examples of the percentage of workers experiencing cuts in earnings and illustrating how wage measures in the public sector could be linked to wage trends in the private sector.

Monograph examples

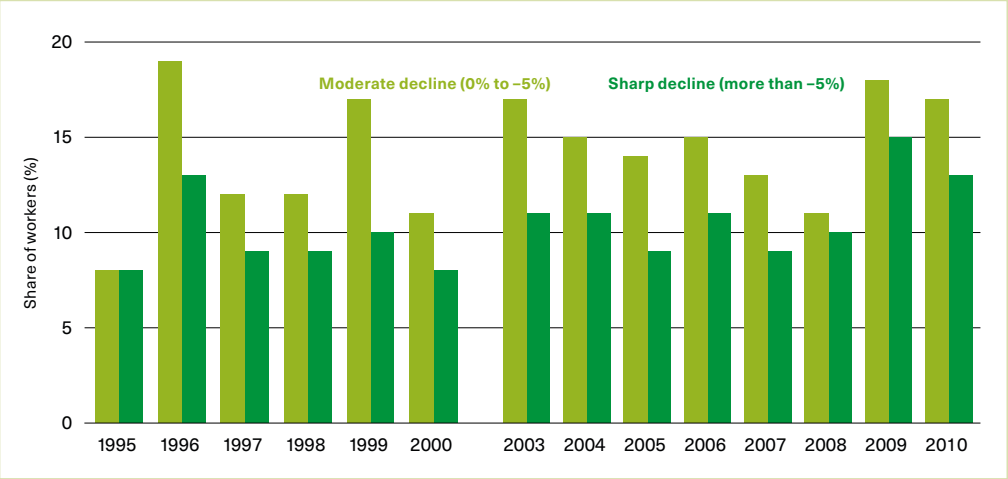
This section uses examples from various national-level monographs to analyse wage trends across EU Member States both before and after the crisis in more detail in order to identify the drivers of these trends and the degree of heterogeneity present between different countries. In France, according to Audenaert et al. (2014), wages increased by around 1.5 per cent between 2009 and 2010. However, this trend cannot be explained by economic growth alone, as a strong composition effect was also affecting the employed labour force at that time. Between 2008 and 2009 this composition effect resulted in a significant wave of job destruction in France, mostly affecting workers with fixed-term contracts and workers in precarious employment conditions. Studies show that without this composition effect the growth in average wages in France would have been at least 0.7 percentage points lower between 2009 and 2012.[101] A long-term structural trend was in effect as well that led to a higher level of qualifications in the French workforce as a whole. This trend had started long before the financial crisis and was documented as having put upward pressure on wages, contributing to the change in composition of the French workforce. All this evidence is important as it stresses the fact that average wages can be a deceiving indicator: in the French case, one could wrongly conclude that, on average, all wages increased by around 1.5 per cent during the period 2009–10, whereas most of this increase was in fact due to changes in the skill structure of the workforce, making it very likely that the increases in wages in France during the post-crisis period were modest at best. Indeed, in many cases, changes were actually negative, as illustrated in figure 5.4.

As shown in figure 5.4, in 2008, 21 per cent of the workforce experienced wage cuts (11 per cent had a moderate decline and 10 per cent a sharp decline), as opposed to 33 per cent in 2009 and 30 per cent in 2010 (where 17 per cent had a moderate decline, and 13 per cent a sharp decline).

In Ireland, Aedin et al. (2013) found that, while changes in median wages (defined as earnings from work per year) were small, the percentage of workers remaining in the same job and receiving wage cuts increased from just over 17 per cent in 2005–07 to over 50 per cent in 2008–10. The median wage cut for these workers went from 5 per cent to 6 per cent between the two periods. This study was based on an impressive data set comprising the income tax records of all employees.

101. For example, Verdugo (2013) and Audenaert et al. (2014).

FIGURE 5.4 Share of workers experiencing declines in annual wages in France (1995–2000 and 2003–10)



Source: Audenaert et al. (2014), Biscourp, Dessy and Fourcade (2005), Data Insee Déclaration Annuelle de Données Sociales.

In the United Kingdom, Blundell et al. (2013) show that in 2010–11, 13 per cent of workers remaining in the same job experienced a freeze in their annual wage, and 21 per cent received a nominal wage cut.[102] Wage cuts have often been higher in the public sector than in the private sector. Indeed, wage cuts in the public sector in Ireland reached between 5 and 8 per cent in 2009, and were followed by a wage freeze. In 2013, pay cuts of between 5 and 10 per cent were imposed on higher paid public sector workers. In the United Kingdom, the emergency budget of 2010 included a 2-year pay freeze within the civil service for all employees earning more than £21,000 and a flat rate £250 pay rise for those earning under £21,000.

A similar, though more marked, adjustment to wages in the public sector was observed in Latvia. Analysis using longitudinal administrative data on monthly wages of the entire population in 2006–13 (in the Latvian monograph) suggests that the decline in wages in the private sector was far less dramatic than that experienced in the public sector. In fact, wages of incumbent workers in the private sector hardly declined at all. The prevalence of "envelope wages" in Latvia, which had been declining between 2007 and 2013 – although still the highest amongst EU countries in 2013 with 11 per cent of workers receiving part of their wages in cash (European Commission, 2014) – might have contributed to this.

These country examples show that caution should be exercised before drawing conclusions about wage trends during the period 2008–13 based solely on average wages; changes in the composition of employment and cuts in public wages in some countries have an impact on cross-country and time-series comparisons.

102. The share of workers who experienced wage freezes/cuts in Ireland and the United Kingdom is based on the whole economy, and hence covers the public sector as well. Given the importance of wage cuts in the public sector in Ireland, and wage freezes in the public sector in the United Kingdom, this automatically results in a large impact on average wages. The French study is restricted to private wages, which partially explains the lower incidence of workers receiving wage cuts in France.

5.2 Collective bargaining

5.2.1 Trends in collective bargaining

It has been claimed that, during the initial period of the crisis (2008–10),[103] in most of the European countries, social dialogue has been invaluable in alleviating the negative impact of the crisis: "On the whole, industrial relations in Europe have been shown to be robust under strain and have been vital in mitigating the effects of the recession, although not to the same extent in all countries."[104] On the contrary, however, in the post-2010 period, conflicts started to increase,[105] largely due to the severe financial and budgetary constraints that left all parties involved with very limited negotiating room.

One of the conclusions of this study is that collective bargaining measures were aimed at changing the structure of the industrial relations system.[106] Some of these measures were intended to promote enterprise-level bargaining, while others modified the union representation mechanism and union rights or changed the conflict resolution system. In terms of conflict resolution, some measures restricted the right to strike by imposing a requirement for a minimum period of service while others promoted social dialogue.

These changes have, however, not necessarily been to the detriment of unions and workers. For example, decentralization of collective bargaining could be seen as a measure that has reinforced union rights at the enterprise level. Similarly, in Greece, the requirement that a collective agreement be of a fixed-term nature (with a minimum duration of 1 year and a maximum duration of 3 years) instead of an indefinite term could be regarded as promoting collective bargaining.

However, in Hungary a measure undertaken in 2011 has cut the entitlements and rights of union activists. In Greece, the right of an "Association of persons" (which is not a trade union and whose independence is not guaranteed) to negotiate enterprise-level agreements, provided that at least 60 per cent of the firm's employees participate, could facilitate wage reduction. These enterprise-level agreements have precedence over sectoral agreements, even if they involve less favourable terms. In 2012, while 4 per cent of agreements signed with a pre-existing enterprise union involved wage cuts, this was true for 65 per cent of agreements signed with "Associations of persons". The weakening of sectoral agreements has been further reinforced by the abolition of the extension principle. The principle of extension of collective agreements to cover employers and employees not parties to the agreements was previously embodied in the Greek labour law system.

After 2010, many measures have affected the structure of industrial relations as a direct response to the crisis, and the findings of this study are in line with the industrial relations report of 2012 (EC, 2013), which noted:

> Many measures were designed to correct fiscal imbalances and to restore confidence of financial markets in the capacity of national governments to undertake responsible and sustainable fiscal policies. In some countries, these measures included reforms of collective bargaining systems where they were seen as part of the problems to be addressed. Even if the Commission has always stressed the importance of social dialogue, autonomy of social partners and respect for national circumstances and practices, reforms were not always accompanied by a fully effective social dialogue (p. 11).

In order to understand the variation in these interventions over the period under consideration, figure 5.5 presents the number of measures in this category per year.

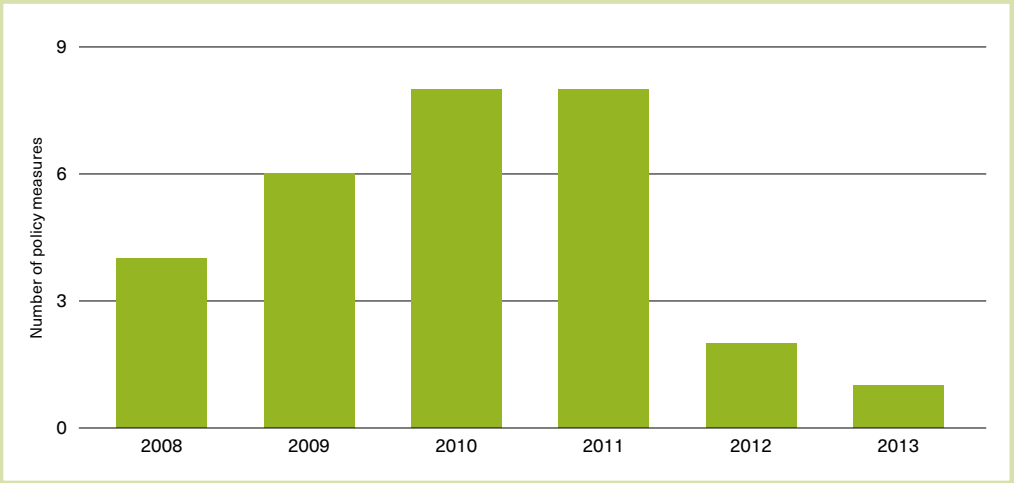
103. European Commission (2011, 2013); ILO/WB (2012).

104. European Commission (2011), p. 7.

105. The number of working days lost due to strikes and lockouts shows a continuous decrease in Germany since 2006, while there was a peak in France in 2010 (at 3.85 million) but no data for 2011–13. In the United Kingdom, the peaks are in 2007 (1.0 million) and in 2011 (1.39 million) respectively.

106. It is important to bear in mind that many changes can occur in collective bargaining that might not be the result of a particular measure; many changes and evolutions occurring as a result of social dialogue are driven by its two main actors: employers and workers.

FIGURE 5.5 Policy measures targeting collective bargaining (2008–13)



Source: ILO Inventory of Labour Market Policy Measures.

The majority of the measures classified as collective bargaining in the ILO inventory were implemented in 2010 and 2011, unlike other categories and main areas, where policy activity peaked earlier. However, as mentioned above, these policy measures could be of a different nature, and hence national-level illustrations provide clarification of the pattern behind the evolution of policy measures targeting collective bargaining.

Among countries that have introduced changes aimed at developing plant-level bargaining, Greece and Ireland have decentralized their wage-bargaining systems, as required by the Troika. In the case of Greece, the 4024/2011 law on collective bargaining was instrumental in opening the way for enterprise agreements to stipulate different conditions regarding employment and pay from those set under pre-existing sectoral collective agreements, as noted above. In Ireland, the employers' confederation withdrew from the cross-sector wage agreement in 2009, initiating a trend in favour of plant-level bargaining. In addition, the existing sectoral wage agreements were suspended in 2013 following a judicial ruling, thereby reinforcing the trend of plant-level bargaining. The decentralization process has also been encouraged in France, Italy and, to a certain degree, in Spain, as illustrated by further reference to the monographs in the next section, with mixed outcomes, as seen later in this report.

Nonetheless, national-level, sector-level and province-level bargaining remain important in many countries. For example, in Ireland, union and employer confederations have maintained a degree of national-level bargaining by providing national wage guidance to plant-level wage bargaining in 2010 and 2012. In the case of Austria, which is often considered to be a country that has decentralized its wage-bargaining system, sectoral-level bargaining remains important.[107]

In fact, what is referred to as the "decentralization of wage bargaining" often amounts to the removal of formal wage-setting mechanisms at the central level and replacing them with more informal coordination of bargaining among sectors. This is the case in Austria and Ireland, for example. The initiation of greater autonomy for sectors in the bargaining process had begun in some countries before the crisis occurred. In Sweden, for example, since the second half of the 1990s collective bargaining has been characterized by decentralization in both the private and the public sectors, and coordination of wage setting at the industry and sector levels. The spirit of these agreements was a desire to re-establish the pace-setting role of the sector exposed to

107. This change has seen a fragmentation of sectoral bargaining in the metalworking industry into six sub-sectors in order to make agreements more responsive to the specific economic context. Interestingly, negotiated wage levels have been approximately equal across all six sectors.

international competition. Another recent development is the recognition of the importance of the service sector and white-collar occupations in setting the pace of wage bargaining in other sectors. Traditionally, this role was played by the engineering sector.

To summarize, the main change in the collective bargaining process has been an adjustment in the importance of sectoral bargaining, allowing more sectoral flexibility and enterprise wage-setting options. One of these options is the "opt-out", which allows an enterprise to not apply wage rates set in the sectoral agreement. In most cases, however, provision is made for this option within the sectoral agreement itself and limited to enterprises facing economic difficulties. A further possibility is the "opening clause" which permits wage regulation to be fixed at the enterprise level. In this case also, it is the sectoral agreement which affords the option.

Consideration of some of the national monographs given below illustrates the fact that the deregulation of collective bargaining and encouragement of decentralized bargaining has taken place but has not yet resulted in an increased number of firm-level agreements.

Monograph examples

In Poland, where decentralized bargaining prevails, the main institutional change was connected to the repeal of the Negotiation-based System for Setting Average Wage Increases in Enterprises Act, with effect from 1 January 2010. The Act constituted the basis for the system of negotiating average wage growth, whereby, in enterprises employing more than 50 people, the scale of average wage growth was to be agreed upon by the parties involved in collective agreements by the end of February each year. The scale of wage growth had to take two factors into account: the financial condition of the enterprise and the value of indexes set by the Tripartite Commission. The Act guaranteed that wage bargaining at the company level took place annually. The number of collective labour agreements decreased over the period under consideration in Poland. Annual reports published by the National Labour Inspectorate record that, in 2008, 154 collective agreements at the company level were registered, along with 1,732 additional protocols amending the agreements, and, in 2013, the corresponding figures were 109 and 1,131 respectively. With respect to multi-establishment collective agreements, 88 agreements were in force in April 2014.

In Italy, fiscal incentives have been provided to promote local and regional wage bargaining since 2008. These reduce taxes on productivity-linked wage increases set at the local level. This measure has had a modest effect on the expansion of decentralized bargaining, as the fraction of industry workers benefiting from these tax reductions increased from 57 per cent in 2009 to 66 per cent in 2011. This measure cost €2.1 billion according to figures from the draft Stability Law for 2013–14. Other measures to promote decentralized wage bargaining included a nationwide agreement between social partners in June 2011. In this agreement, firm-level bargaining can derogate from national contracts with respect to salary schemes, allocation of working hours, and hiring and firing practices. Despite legal (and fiscal) encouragement, firm-level bargaining did not expand, mainly due to the economic recession. In parallel, several innovations were made to the bargaining process between social partners at the national level. Starting with the national contract signed in 2008 for the chemical sector, overriding clauses were introduced in response to the effects of the crisis on industry: workers and employers could accept less favourable conditions in terms of flexibility of hours worked, with respect to the national standard, but they could not go below the national tariff for hourly wages (in order to avoid the possibility of wage dumping). To summarize, the overall picture of wage dynamics in Italy in recent years is one of wage moderation imposed by external economic conditions and unaffected by a change of rules aimed at fostering decentralized wage setting. With a base level of 100 in 2005, real gross earnings per standard units of labour reached 100.5 in 2013, but productivity increases were also slack.

In Spain, traditionally, collective bargaining takes place between the most representative unions and employers' organizations in a specific sector, while agreements apply to all workers and firms in that sector. Recently, the bargaining level covering most workers has been the sector-province level (covering 51 per cent of workers in 2011 and 29 per cent in 2013). Although the figure for 2013 is not fully definitive, province-level bargaining is losing its central position in favour of sectoral

agreements at the national and regional level, rather than firm-level agreements. There were 1,957 firm-level agreements in 2013, compared to 3,422 in 2011, covering 0.51 and 0.93 million workers, respectively. Judging from these figures, Spanish collective bargaining is not moving in the direction of a higher relevance of decentralization but rather towards higher levels of centralization (at sector-national and sector-regional levels). This has the potential to improve coordination between the strategies of the various social partners. Regarding national-level bargaining, aside from limited agreements on very specific issues, negotiations between the social partners in Spain were unsuccessful, especially with respect to the cost of dismissals and collective bargaining, the main topics of the labour market reforms of 2010 and 2012 (ILO, 2014a). The 2010 and 2012 labour market reforms were undertaken unilaterally with the objective of providing opportunities for wage adjustment at the firm level with respect to sectoral agreements. It was believed that changing collective bargaining would allow internal flexibility through facilitating rapid adjustments in wages and working hours, whereas, with the previous system, only adjustments to employment levels were possible.

In France, where legislation to promote enterprise-level annual pay negotiation was already in place in 2004, new measures in favour of firm-level bargaining in cases of economic difficulty (*accords de maintien dans l'emploi*) were adopted in 2013. These measures allowed an enterprise confronted with "serious business difficulties" to negotiate an agreement with elected social partners that temporarily (for a maximum of 2 years) decreased wages (limited to 120 per cent of the minimum wage) and changed working hours (within limits fixed at the sector level) in exchange for maintaining the employment level at the enterprise. This measure, however, did not enjoy the success expected and very few such agreements were signed (*Le Monde*, 4 August 2014).

It is also interesting to consider an example where effective wages have increased by more than negotiated wages during the crisis. In the Netherlands, the composition of employment used to reveal changes in the price of (full-time) labour was last altered in 2000 (Van Gyes, 2012). As shown in Table 5.2, between 2008 and 2013, there was a decrease in collectively negotiated wages in the Netherlands in real terms: –1.9 per cent for the private sector, –4.4 per cent for government and –5.1 per cent for education. An examination of real wages in the private sector over the same period shows a –0.6 per cent decrease on average, while real public wages increased by 0.5 per cent for government and 1.2 per cent for education.

In general, effective wages increased more than negotiated wages in the Netherlands during the crisis period, especially so in the education and government sectors. One explanation is that the employment losses of lower paid workers drove down average wages, without, by definition, affecting the index of collectively negotiated wages. It is also possible that collectively agreed wages in (sub)-sectors were moderate because they reflected the poor economic prospects of the period 2008–13, or that low-paid jobs were overrepresented among collectively agreed wages, and that they increased at a slower rate than the highest level wages. Indeed, collectively agreed wages regulate *minimum* levels of wages per category of workers.

TABLE 5.2 Average and negotiated wages in the Netherlands (2008 and 2013)

Sectors	2008	2013	Nominal growth 2013/2008 (%)	Real growth 2013/2008 (%)
Hourly wages (€)				
Private	23.16	25.36	9.5	–0.6
Government	27.00	29.90	10.7	0.5
Education	26.20	29.20	11.5	1.2
Health	29.10	32.90	12.2	1.8
Collectively negotiated wages (2000 = 100)				
Private	121.30	131.10	8.1	–1.9
Government	123.90	130.40	5.2	–4.4
Education	124.80	130.50	4.6	–5.1
Health	123.30	137.00	11.1	0.9

Source: Netherlands monograph.

5.2.2 Wage impacts of collective bargaining

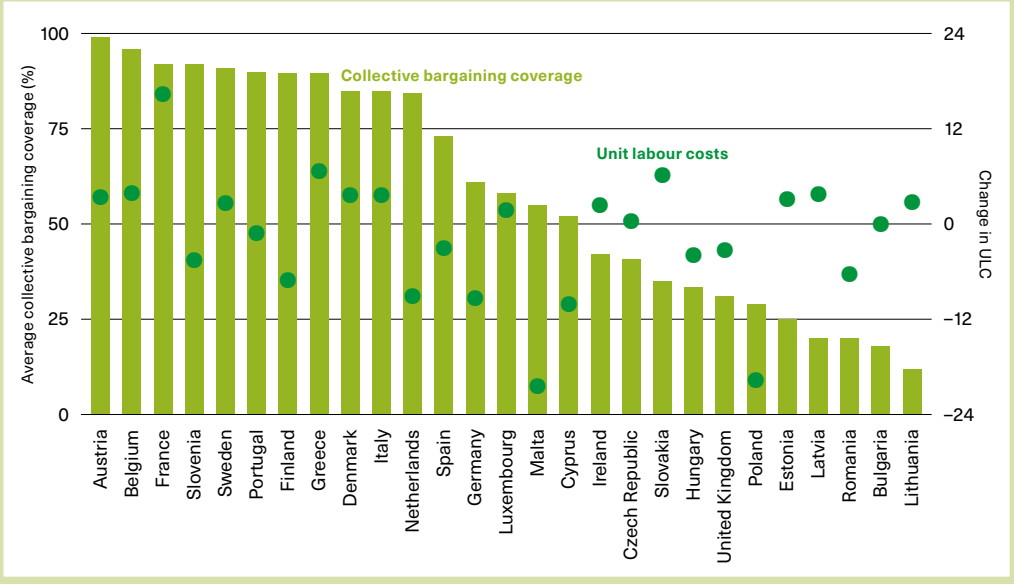
This section provides a detailed analysis of the impact of collective bargaining structures on selected wage indicators during the period under consideration.

The first aspect to consider is the relationship between the collective bargaining coverage rates[108] and unit labour costs (ULC) across Member States, in order to analyse whether countries in which a greater number of workers were covered by collective bargaining were more or less likely to experience an increase in ULC.

Figure 5.6 does not reveal any clear relationship between collective bargaining coverage and ULC variation among EU Member States, suggesting that the wage rigidity discussed in section 5.1 of this chapter is not strongly connected with the collective bargaining coverage levels in different Member States.

Nonetheless, employers' surveys show that collective agreements might deter the downward adjustment of wages. According to a survey conducted across 14 EU Member States in 2007–08 (Du Caju et al., 2013) in the years preceding the crisis, employers reported that nominal wage cuts were very rare across these countries. Employers also reported being reluctant to use wage cuts as a cost-cutting method, expressing the fear that this would have a detrimental effect on worker morale and productivity, and that they needed to hire and retain productive workers. A notable feature of this study is that it asked firms whether regulations or collective agreements had played any role in preventing wage cuts. The percentage citing these measures as reasons for not cutting wages was much lower in Hungary, Ireland, Lithuania and Poland than in Austria, Belgium, France, Italy, Portugal, Slovenia and Spain, with Czech Republic, Estonia and the Netherlands somewhere in the middle. Hence, there seems to be a greater reluctance to cut wages in those Member States where collective bargaining has a higher rate of coverage,[109] even though this is not clear from the results presented in figure 5.6.

FIGURE 5.6 Collective bargaining coverage rates and unit labour costs, by Member State (2008–13)

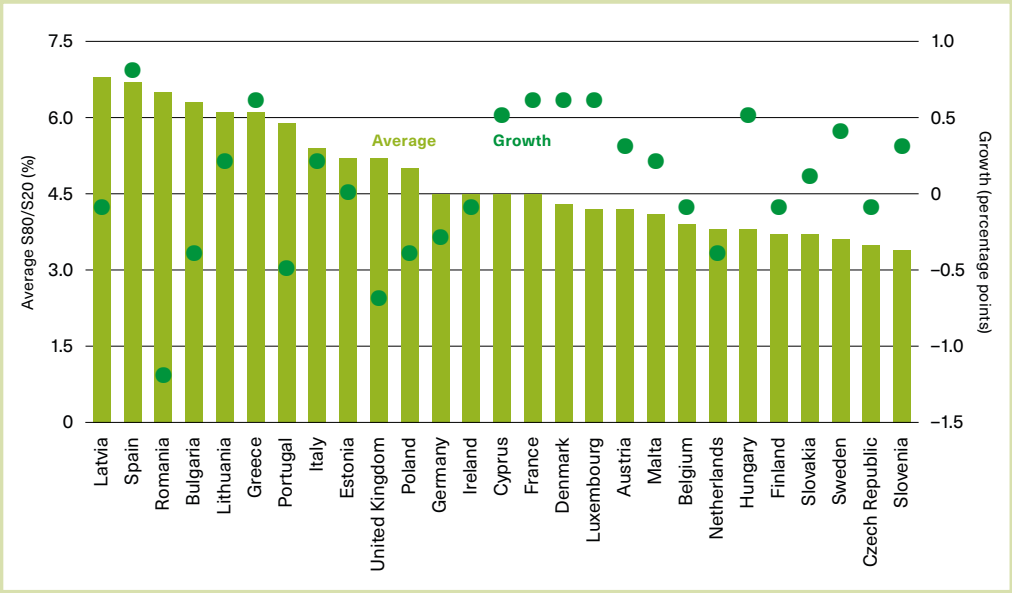


Source: Eurostat, ICTWSS 4.0.

108. Collective bargaining coverage data were retrieved from the ICTWSS: ICTWSS: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 34 countries between 1960 and 2012 4.0 data set. (For details on the methodology see: http://www.uva-aias.net/uploaded_files/regular/ICTWSScodebook40.pdf [24 Sep. 2015].) The value used for the collective bargaining coverage rate of each Member State was the most recent value available in the data set, with none being later than 2011.

109. In the same vein, in 2010–11, collective agreements also protected a number of workers in the United Kingdom from pay cuts. The pay freeze in the public sector of the United Kingdom, implemented in 2010–11, was applied immediately to all workers not covered by a collective agreement and delayed until the end of the agreed period for those within agreements.

FIGURE 5.7 Income inequality (S80/S20), by Member State (2008–13)



Source: Eurostat.

This last example shows that, even though an understanding of general wage trends is essential in order to analyse the evolution of a labour market (and the impact of many policy measures), focusing solely on them leads to an incomplete analysis, as it overlooks wage distribution issues that may exist even in economies where average wages are on an upward trend.

As average trends in wage-related variables do not allow for a complete understanding of the changes in worker compensation during the period of study, figure 5.7 attempts to complement the above analysis by focusing on inequality. Figure 5.7 presents the average and growth of the ratio between the highest and lowest quintile of the income distribution, used here as a proxy for wage inequality.[110] This can be interpreted as the higher the ratio, the higher the degree of income inequality in the economy.[111]

Not surprisingly, in general, countries that have faced the greatest difficulties in withstanding the effects of the financial crisis were among those with a higher degree of income inequality (Latvia, Spain, Greece, Portugal and Estonia). The United Kingdom is something of an outlier; it was a relatively active Member State in implementing wage-related policy measures (five in total) during this period, while recording a high level of inequality according to this measure, and having experienced relatively mild effects of the crisis.

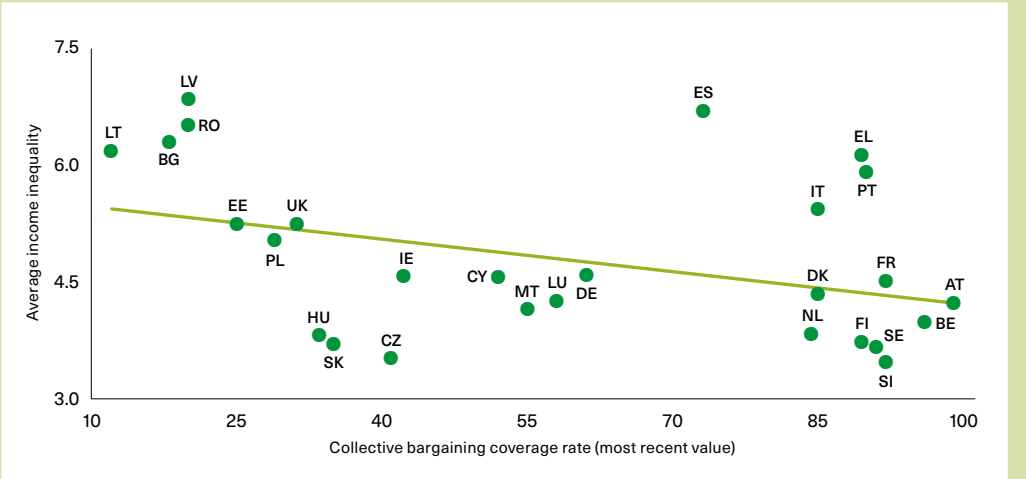
An interesting question that arises from the above analysis is whether collective bargaining plays an important role in fighting inequality (ILO, 2015c). Figure 5.8 plots the average inequality per Member State against its most recent measure relating to collective bargaining coverage.

In figure 5.8, collective bargaining coverage rates and inequality have a degree of negative correlation (–0.4) across the EU, suggesting that those Member States with higher collective bargaining coverage rates experience lower levels of inequality. This result could be interpreted as indicating that a more widespread use of collective agreements leads to better protection, both for the rights of low-income workers and for income levels, thereby, to some extent, reducing income inequality. In a similar fashion, equity and social concerns were more likely to be included in the design of fiscal packages of Member States in 2008–09, when trade unions were involved in the process (Nikolova and Watt, 2009).

110. Although this is, of course, not a perfect measure of wage inequality, it is the closest proxy that allows for such a broad cross-country comparison within the EU.

111. For more details, see http://ec.europa.eu/eurostat/cache/metadata/en/ilc_esms.htm [24 Sep. 2015].

FIGURE 5.8 Income inequality (S80/S20) and collective bargaining coverage rates, by Member State (2008–13)*



* Please see Appendix F for a list of country acronyms used.

Source: Eurostat, ICTWSS 4.0.

5.3 Minimum wage

5.3.1 Minimum wage and wage indexation trends

As indicated earlier in this chapter, the minimum wage is one of the few tools that governments have at their disposal to influence wage fixing in the private sector and the ILO database shows that it has been used extensively. It should be recalled that the database has only recorded major measures introduced in the minimum wage setting machinery and therefore has recorded minimum wage increases only when these were exceptional. Hence, regular adjustments to minimum wage levels in a majority of Member States were excluded from the ILO inventory, unless they represented a significant departure from previous adjustments.

Table 5.3 summarizes the main changes that have been implemented in Member States with regard to wage measures impacting the private sector, such as minimum wage setting and indexation mechanisms, before and after the crisis.[112]

As shown in table 5.3, before the crisis many European countries had either introduced or reinforced their minimum wage setting system. Clearly, since the crisis many measures have been implemented to contain the impact of the national minimum wage or the indexation mechanism for the countries concerned; however, there are still a significant number of countries that have continued to rely on minimum wage increases to conduct their wage policy. This is particularly the case in Central and Eastern European Member States, including Croatia (see Appendix E), but also in France, Germany and Greece. In Greece, several reforms took place, including the introduction of sub-minimum wages for youth in 2010, a decrease in the minimum wage by 22 per cent, a further reduction of the youth minimum wage in 2012 and the replacement of minimum wage fixing through collective bargaining by a minimum wage set by the Government in 2012.[113]

112. The different minimum wage systems in the EU are not presented here, as extensive literature on this subject is readily available. For a recent survey of literature on minimum wage mechanisms in Europe, see Verena Kern, Minimum Wages in the EU, European Parliamentary Research Service, 15 January 2015. See also the ILO Working Conditions Laws Database, available at: http://www.ilo.org/dyn/travail/travmain.home [24 Sep. 2015].

113. The current system is transitory. From 2016 onwards, the Greek minimum wage system could resemble the United Kingdom Low Pay Commission mechanism.

TABLE 5.3 Main policy trends in minimum wage, by Member State (2000–13)

	2000–07	2008–14
Austria	Guaranteeing homogeneous minimum wage standards by extension of collective bargaining in all sectors	Ensuring fair competition between Austrian and foreign firms
Belgium	Controlling wage indexation	Controlling wage increases and containing labour costs
Bulgaria	Setting the minimum wage mechanism	Increase in the minimum wage
Cyprus	–	Tripartite agreement in 2012 with an item on cost-of-living allowance
Finland	Wage increase and indexation	Wage moderation
France	Minimum wage adapted to new 35-hour working time	Technical change in the minimum wage mechanism Increase in the minimum wage
Germany	Extension of minimum wage by sector	Extension of minimum wage by sector Introduction of a national minimum wage (as of 2015)
Greece	Extension of wage protection to temporary workers	Decrease in the minimum wage New mechanisms for minimum wage fixing Wage increase containment
Hungary	Changes in minimum wage setting	Wage and Tax Monitoring Committee established to ensure public and private companies actually pay a 4–6 per cent gross wage increase agreed by the National Interest Coordination Council at the end of 2010
Ireland	Introduction of a national minimum wage	Reduction in the minimum wage
Italy	Prohibition on paying salaries under the level set by collective labour agreement to women employed under insertion contracts	Subsidies to enterprises which linked pay increases to productivity
Latvia	–	Swing of minimum wage freeze and increase
Lithuania	Changes in minimum wage setting machinery	Minimum wage setting machinery
Luxembourg	Extension of sector agreements on wages	Containing wage indexation mechanism by modifying the mechanisms of automatic indexation of wage
Poland	Change in minimum wage setting mechanism	Process of increasing minimum wage to 50 per cent of average wage
Portugal	Various changes	Minimum wage increases
Romania	Increase in the minimum wage	Minimum wage increases
Slovakia	Minimum wage setting procedure	Minimum wage increase
Slovenia	–	Minimum wage setting procedure
Spain	Wage increase guidelines	Minimum wage freeze
United Kingdom	Increase in the minimum wage	Increase in the minimum wage Reduction in minimum wage for youth

Source: ILO Inventory of Labour Market Policy Measures and LABREF.

The introduction of a national minimum wage set by the Government or a tripartite body in Croatia, Germany[114] and Greece was a major change. Of the other countries that have changed their policy approach to the minimum wage after 2008, most were those that had to adopt requirements set by the Troika: minimum wages were cut in Greece and Ireland (from December 2010 to July 2011) and their growth limited by the imposition of constraints on the criteria used for their adjustment in Ireland, and in Portugal with effect from 2012. In Latvia, the minimum wage was frozen in 2011, and then increased again in 2014. In Hungary, Poland and Spain, governments also decided to fix the minimum wage without consultation during 2008–13.

114. See the monograph section for further details on the case of Germany.

Along with minimum wage or collective agreement rate adjustments, several types of wage indexation mechanisms are extant in Belgium, Cyprus, Finland, Italy, Luxembourg, Malta and, to a lesser extent, Spain.[115] In Belgium, two reforms of the methodologies used to calculate the wage indexation calculation formula were introduced in 2012 and 2013, and a real-wage freeze was imposed in 2013–14, with no wage increases allowed in addition to wage indexation. In Finland, centralized agreements allowed for the implementation of an "income policy agreement" before and after the crisis. In 2013, a centralized agreement introduced wage moderation for at least the years 2014–15. In Italy, a price index is used for sectoral wage settlement, even though a new indicator of expected inflation has been negotiated. In Spain, the pay guidelines for inter-sectoral agreements, which existed until 2010 and guided wage revision based on the Government's inflation forecast, could be considered an indexation system.

Out of these seven countries, Spain is the only one to have abolished wage indexation and given prevalence to firm-level bargaining, as indicated earlier. The other six countries have introduced some reforms but retained wage indexation.

It can be seen from this review that countries have been active in the areas of wage indexation, adjustments to minimum wage levels and changes in minimum wage fixing, but consideration should be given to the way in which changes to minimum wages and to wage indexation mechanisms have affected wage trends in EU Member States. In order to assess the impact of these changes, the next section considers the characteristics of the system in each country (national minimum wages or other system) and the variation in minimum wage rates over the period. It also focuses on the most active countries, such as those that have been under the scrutiny of the Troika. When recommendations were made to these Member States that they reduce minimum wages or reform their wage indexation mechanisms, these were probably based on the fact that minimum wages played a role in the pace of wage setting in those Member States and could therefore potentially increase labour costs. The facts should be considered to see whether they support this hypothetical effect.

5.3.2 Impact of minimum wages

In order to more clearly understand the variation in minimum wages, figure 5.9 presents the minimum wage as a share of the average wage, together with its real growth over the period for Member States with a statutory minimum wage.

Of the 20 Member States with statutory minimum wages in place, only seven did not register an increase in minimum wages between 2008 and 2013 (as a proportion of the average wage). This confirms the conclusion reached in section 5.4. that a significant number of countries have continued to rely on minimum wage increases to conduct their wage policy. In real terms, the minimum wage only decreased in Greece and was unchanged in the Czech Republic. To test the hypothesis that much of this variation is driven by actual changes in the minimum wage, and not just by wage changes across the whole economy, figure 5.10 plots the growth of the minimum wage for each country between 2008 and 2013, both in real terms and as a share of its average wage.

It is clear from figure 5.10 that most of the variation in the difference between the minimum and the average wage is indeed driven by real minimum wage increases, which were over 120 per cent in the country with the highest variation in both measures (Slovenia), even if the fit is not perfect.

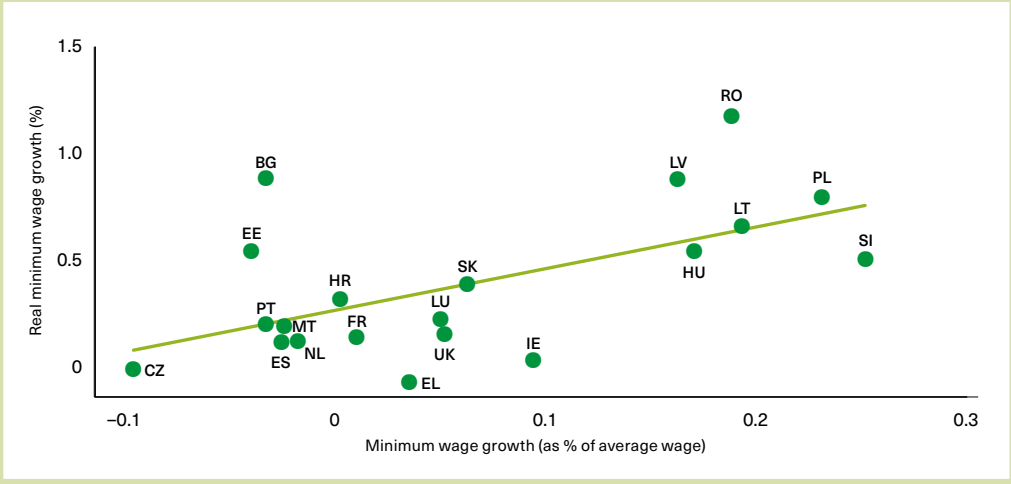
In fact, the only two Member States in which minimum wages were nominally cut at some point during this period (Greece and Ireland) observed increases in their minimum wages in relative terms.

115. This information is based on combining data from both LABREF and the ILO Inventory of Labour Market Policy Measures. The latter contained only two wage indexation measures.

FIGURE 5.9 Minimum wage as a share of average wage and real minimum wage variation, by Member State (2008–13)

Source: Eurostat.

FIGURE 5.10 Minimum wage growth, by Member State (2008–13)*



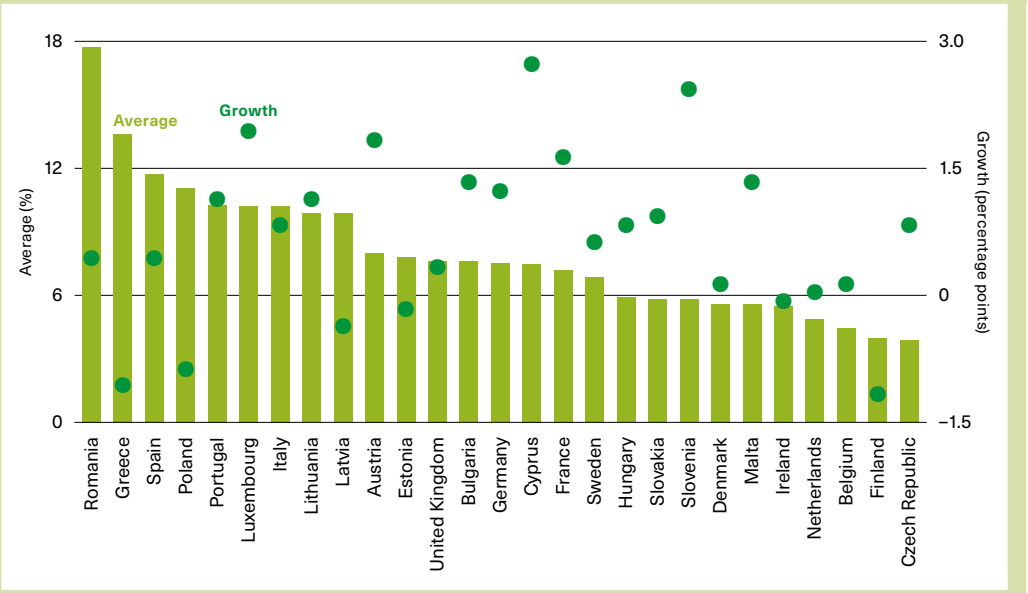
* Please see Appendix F for a list of country acronyms used.

Source: Eurostat.

There are no other clear patterns in the distribution of minimum wage variations as far as country typology is concerned, as countries with both high and low minimum wage levels before the crisis present increases and decreases.

If reference is now made to the Member States that implemented a greater number of policy measures in the minimum wage category presented in table 5.3, it is notable that two had significant increases in their minimum wages during the period (Latvia and Poland), and that the United Kingdom also had a slight increase in its minimum wage.

FIGURE 5.11 In-work at-risk-of-poverty rates, by Member State (2008–13)



Source: Eurostat.

The focus of this analysis now shifts to one of the main purposes of the minimum wage, which is to protect the lowest paid workers. Figure 5.11 shows the average and growth of the in-work at-risk-of-poverty rate[116] for the first 27 Member States, according to Eurostat.

Several significant observations that are worth discussing arise from figure 5.11. First, only six Member States saw their in-work at-risk-of-poverty rates decrease during the crisis. This is evidence of the negative effects of the crisis on most EU labour markets. In some cases (such as Cyprus and Slovenia), Member States experienced increases of more than 2 percentage points in this rate, representing around a 30 per cent increase in the rate for each of these countries. Although some of the Member States with higher in-work at-risk-of-poverty rates were those that were most badly affected during the crisis, it is important to note that some countries present above-average rates despite having succeeded in weathering the crisis relatively well, namely Luxembourg and Poland, while Ireland is an example of a country where precisely the opposite situation is observed.

Another interesting observation to be made from figure 5.11 is the relatively small variation in the growth of the in-work at-risk-of-poverty rate for some of the countries that experienced a deeper recession in the aftermath of the crisis, such as Spain (0.4), Latvia (-0.4) or Estonia (-0.2). Nonetheless, the trend is widely negative: although the rate remained stable at the EU-27 level at 8.4 per cent from 2007 to 2010, it later spiked to 9.1 per cent in 2012.[117]

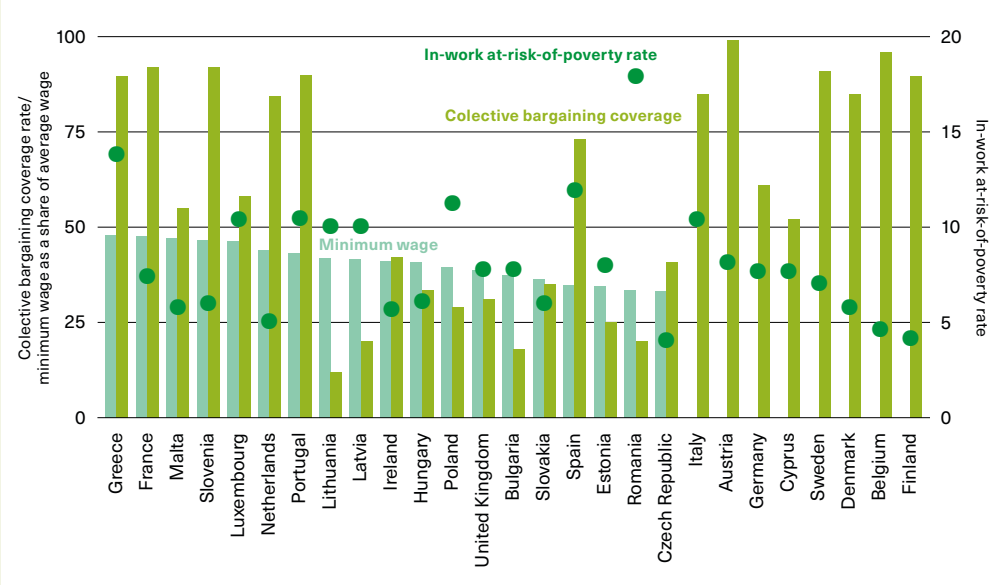
Finally, it is also important to note that in many cases the crisis has led to less average hours worked per worker. This, in turn, reduces work-related income (mainly wages), and thereby gives rise to a higher risk of in-work poverty.

In order to present a clearer picture of the drivers of cross-country differences with respect to in-work at-risk-of-poverty rates, data from previous figures in this chapter is combined in figure 5.12, which displays the following information on Member States: their average in-work at-risk-of-poverty rates, their most recent collective bargaining coverage rate and their minimum wage as a share of the average wage.

116. In-work poverty can be described in a general sense as the scenario of an employed person living in a poor household. For further insights into how Eurostat builds this rate, see: http://cope-research.eu/wp-content/uploads/2013/03/In-work_Poverty_in_Europe.pdf [24 Sep. 2015].

117. Eurostat estimates for 2013 set the rate at 9 per cent.

FIGURE 5.12 In-work at-risk-of-poverty rates, collective bargaining coverage and minimum wage, by Member State (2008–13 averages)



Source: Eurostat.

Neither minimum wages nor collective bargaining is shown to be significantly correlated with in-work at-risk-of-poverty rates, as both correlation coefficients are -0.1 and -0.2, respectively.

Two reasons for this lack of correlation could have been (i) that the impact of the minimum wage on the real wage can be limited to an extent and (ii) that many countries have made only minor changes to their minimum wages, restricting its impact on the working poor population. Existing data do not allow a thorough assessment of the impact of variations in the minimum wage. Even if it is difficult to draw any definitive conclusions regarding the impact of minimum wage policy measures on labour market outcomes based solely on the analysis undertaken so far, it is quite clear that there is a significant degree of heterogeneity in terms of minimum wage policy among Member States. This heterogeneity is a sign that the predominant level at which decisions regarding minimum wages are taken is the national level, hence leading to a diminished degree of coordination between the different EU members.

Monograph examples

A significant change to the German wage-setting mechanism was the introduction of sector-specific minimum wages from 1996 onwards, followed by a general minimum wage in 2015.

Sector-specific minimum wages were expanded using the 1996 Posted Workers' Act (*Arbeitnehmer-Entsendegesetz*), which provided that posted workers should be covered by the same minimum collectively agreed pay rates than other workers. The Act was originally designed "to provide [...] minimum conditions for employees posted to Germany by employers located abroad, [...] in the construction and associated industries" (Bispinck and WSI-Tarifarchiv, 2012, p. 2) and later the Ministry of Labour was enabled to declare provisions from collective agreements to be generally binding. Since 2007, an increasing number of sectors have been brought under the scope of the law. In May 2014, 13 sectors and temporary agency workers were covered by specified minimum wages through the Posted Workers Act and paid hourly wages ranging from €7.50 in laundry services to €13.95 in certain parts of the construction industry. Overall, nearly 4.5 million workers were covered under the various agreements.[118]

118. Source: data from WSI-Tarifarchiv, May 2014.

The introduction of a general minimum wage in July 2014 (*Gesetz zur Regelung eines allgemeinen Mindestlohns*) can be considered one of the most extensive social reforms to have taken place in the post-war era in Germany (Bosch and Weinkopf, 2014, p. 5). As a result, the Government now regulates wage setting outside the traditional bargaining structure between the social partners. A general minimum wage of €8.50 had to be paid with effect from January 2015. Exceptions applied to workers below 18 years of age, internships of up to six weeks, apprentices, volunteers, seasonal workers, transit truckers and former long-term unemployed during the first 6 months of employment. Sectoral minimum wages can still be negotiated so long as they are higher than the general minimum wage. During a transitional period of 2 years (to the end of 2016), lower sector-specific wage agreements may be concluded. Starting from 2016, the minimum wage is to be set bi-annually by a commission in which the social partners are represented. Projections of the number of workers affected by the introduction diverged significantly, from a maximum of 4 million workers (Projektgruppe Gemeinschaftsdiagnose, 2014, p. 34) to only 700,000 (Brenke, 2014). The latter estimate assumed that, between the year of estimation (2012) and the introduction of the minimum wage (2015–17), wages would increase, resulting in some low-paid workers being lifted above the threshold of €8.50 between 2012 and 2017.

5.4 Concluding remarks

Those Member States which were more severely affected by the crisis were more likely to introduce wage policy related measures, with the implementation of these measures reaching a peak in 2010. Member States that were most active in this policy area either experienced a decrease or a modest increase in wage share and unit labour cost.

Many countries took steps towards the decentralization of collective bargaining, including France, Ireland, Italy, Poland and Spain. In practice, this decentralization has not yet resulted in more active bargaining at the enterprise level in these countries. Nonetheless, some informal mechanisms of coordination between sectors have developed, certainly in Ireland and, to a lesser extent, in Spain. Formal collective bargaining at the sector level also remains important, although its focus is often on options to facilitate enterprise-level bargaining, rather than discussing sector-wide conditions of work and employment. Regarding the impact of collective bargaining, there is no clear relationship between variation in unit labour costs and collective bargaining coverage. This finding is in line with evidence on the decline of collectively agreed wages in a few countries.

The financial and economic crisis has accelerated the long-term trends towards nationally defined minimum wage rates in the EU. While Ireland and the United Kingdom introduced such minimum wage systems in 1999 and 2000 respectively, three other Member States reformed their minimum wage systems in the same direction between 2008 and 2015. Croatia introduced a national minimum wage in 2008, while changes were adopted in Greece during the period 2010–12 with a rate set by the Government with subminimum rates for youth. Germany introduced its own minimum wage system in January 2015. Before these reforms, Croatia, Germany, Greece, Ireland and the United Kingdom had their minimum wages fixed by collective agreements. As of 2015, only five EU countries have minimum wages set by sectoral collective agreements (Austria, Denmark, Finland, Italy and Sweden). In some of those countries, however, a statutory minimum wage is currently being debated.

Although minimum wage fixing machinery is moving towards closer convergence, there is still significant disparity between minimum wages throughout the EU, reflecting not only economic development but also political choice. One indicator of the importance – or the "bite" – of the minimum wage in the wage distribution is the percentage of workers in receipt of it. The monographs show that, in the United Kingdom, 5 per cent of workers were paid at, or below, the minimum wage in 2013, compared to approximately 4 per cent in the years leading up to the crisis. In Poland, estimates were broadly similar, with 4.2 per cent of male workers receiving the minimum wage in 2008 and 8 per cent in 2012. On the other hand, the number of workers receiving the minimum

wage in Greece was estimated to be 20 per cent in the pre-crisis period and approximately the same in 2013. The percentage in France peaked at 16.3 per cent in 2005, and stood at 12.3 per cent in 2013 (Martinel and Vincent, 2013). Obviously these cross-country differences could partly reflect variations in the proportion of low-paid jobs in the total number of jobs in the economies; they do, however, point to the exercise of strong political choice.

Nonetheless, of the 20 Member States with statutory minimum wages in place, only seven did not register increases in their minimum wage between 2008 and 2013 (as a proportion of the average wage of their economies). Wage indexation mechanisms which exist in some countries were also effective in protecting the purchasing power of wages. Most countries limited wage indexation but only one country (Spain) abolished it.

6 Public sector

6.1 Public sector and public administration measures and trends

The public sector in the EU has been widely analysed, including its reforms across the EU prior to the financial crisis.[119] The most common aim of those reforms was to restructure or even abolish specific regulation governing public sector workers and to align, as far as feasible, the rules governing the working and employment conditions of the public sector with the terms of private sector workers' contracts. This type of reform was known as "New Public Management" (NPM). These structural reforms focused on changing core management rules, introducing wage systems based on productivity and abolishing or relaxing seniority rules and life employment. After the crisis, however, the focus changed and these structural reforms lost ground to the benefit of much harsher adjustment measures, such as job and wage cuts. Indeed, structural reforms have often been implemented in compliance with the conditions of the bailout programmes which these countries have agreed with the Troika, particularly in countries which had implemented limited reforms before the crisis, such as Greece, Portugal and Spain.

Against this background, this chapter analyses the measures put in place over the period 2008–13 and considers the structure of national public sectors. An examination of the budgetary impact of these measures compared with other types of measures evaluates the extent to which the public sector has been the focus of structural adjustment measures.

Figure 6.1 presents the distribution of policy measures aimed at the public sector across the EU between 2008 and 2013.[120] For the sake of completeness, and to offer an insight into results discussed in greater depth elsewherve in the chapter, the figure also includes the share of GDP spent by the EU-27 governments on employee compensation.

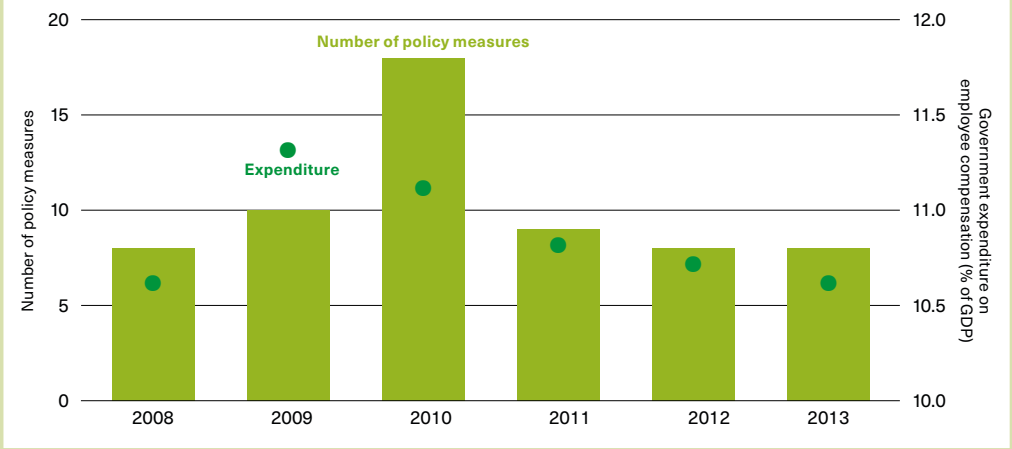
As in other parts of the inventory, there has been an increase in policy measures in 2009 and, most significantly, in 2010, with a subsequent decrease to 2008 levels. Interestingly, three-quarters of the overall number of policy measures concerning the public sector involved some change to public wages, either to their level, their setting mechanism or other related features. Other measures in the category were related either to job cuts or job mobility. This finding mirrors the observation made in the *Industrial Relations in Europe 2012* report (European Commission, 2013): "The impact of the crisis on industrial relations in the public sector is severe". Furthermore, figure 6.1 clearly shows a continuous, declining trend in governments' expenditure on public sector employee compensation since 2009, decreasing by almost 1 percentage point of GDP across the EU during the period.

To investigate the extent to which Member States differed in their emphasis on policy measures targeting the public sector, figure 6.2 breaks down the total number of these measures by country.

119. See, for example, European Commission (2013), Eurofound (2014), OECD (2011) and Vaughan-Whitehead (ed.) (2012).

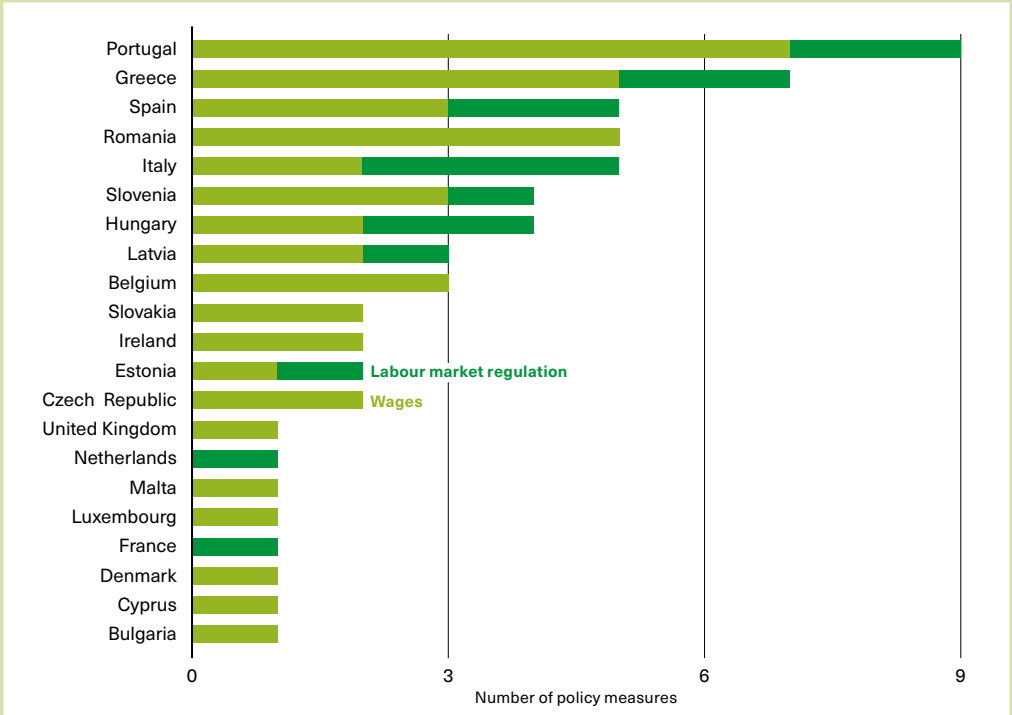
120. Note that the public sector is a category and not a main area under the inventory's dichotomy. Hence, policy measures under this category can belong either to the labour market regulation or the wages main areas.

FIGURE 6.1 Public sector policy measures and expenditure (EU-27) (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat.

FIGURE 6.2 Breakdown of public sector policy measures, by Member State (2008–13)

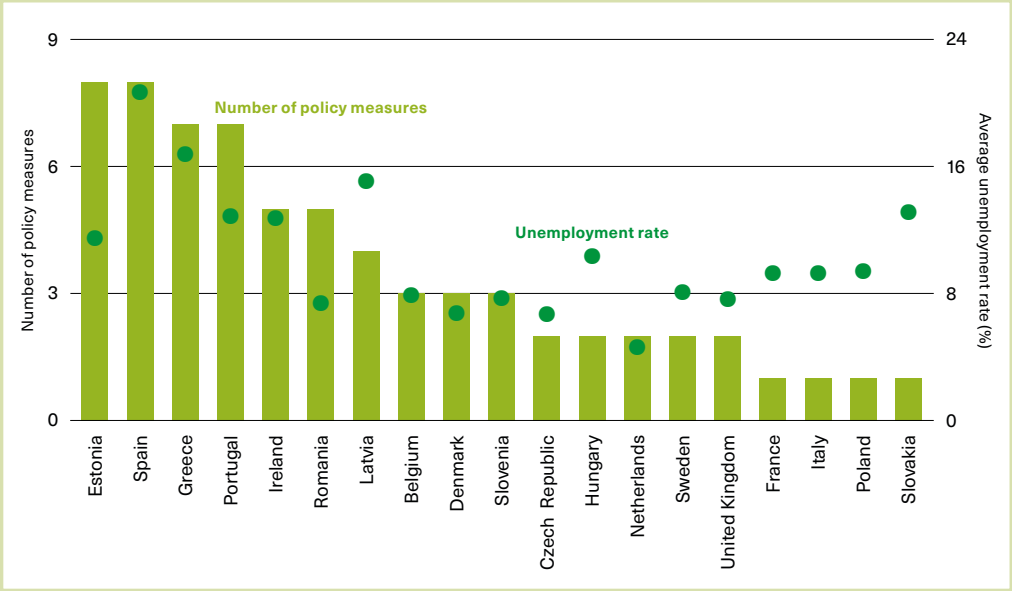


Source: ILO Inventory of Labour Market Policy Measures.

Once again, the countries that implemented more policy measures in this field were among those hardest hit by the financial crisis. When considering labour market policy-making, particularly in terms of its direct effect on the public sector, it is important to bear in mind the budgetary constraints facing Member States. In the inventory an attempt has been made to identify whether each measure led to either a direct and clear increase or a decrease in public spending (or if it had no, or no clear, impact on public finances), as illustrated earlier in the report, specifically in figure 1.5.

Overall, 31 per cent of the policy measures in the inventory led to a clear increase in public spending, while 17 per cent resulted in a decrease. The remaining 52 per cent had no clear or direct impact on public finances.

FIGURE 6.3 Deficit-reducing policy measures and unemployment rates, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat.

Focusing on the timing dimension illustrated in figure 1.5, there is a clear peak in the total number of policy measures in 2009 followed by a progressive drop over the course of the following 4 years – a pattern analysed in Chapter One. However, this decline was dominated by a decrease in those measures which increased public spending, falling from 71 in 2009 to 15 in 2013.

Interestingly, policy measures that decreased public spending (often associated with austerity measures) peaked slightly later, in 2010, declined, then underwent a resurgence in 2013.

Overall, the decrease from 143 to 61 policy measures between 2009 and 2013 is primarily explained by a diminishing number of policies that entailed higher government spending – in fact, these account for 68 per cent of the overall variation.

Clearly, budgetary concerns have placed constraints on the design of labour market policy. In terms of those measures that decreased public spending (which accounted for 15 per cent of the total number of policy measures in the inventory), figure 6.3 presents their distribution by Member State. Figure 6.3 also includes the average unemployment rate for each country during the period.

Clearly, those countries hit hardest by the financial crisis and subsequent recession were compelled to implement a greater number of measures which had, as a consequence if not as a main objective, the effect of decreasing the level of government spending.

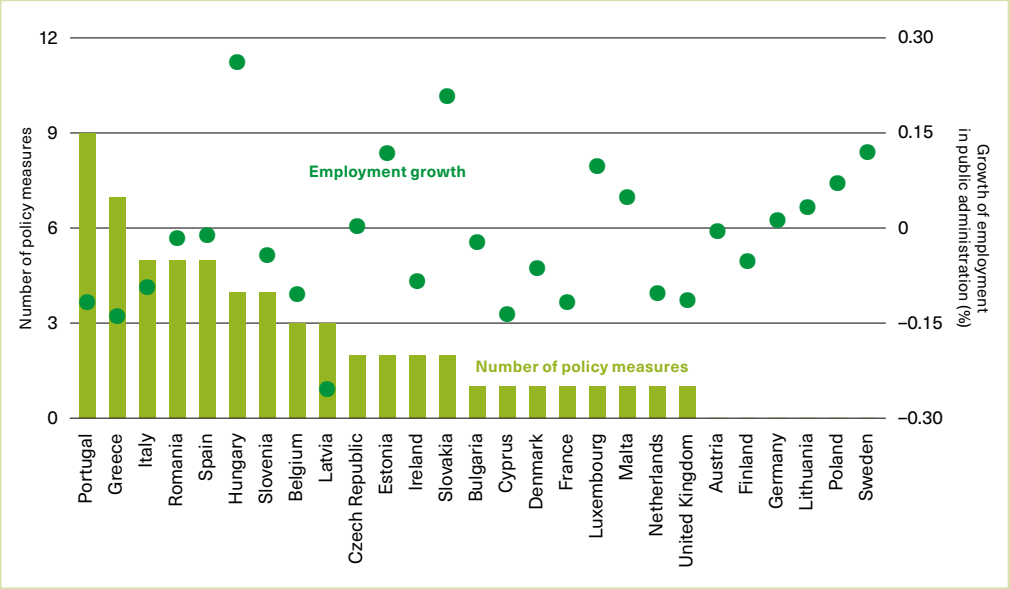
Moreover, and returning to the main topic of this chapter, the share of policy measures that led to a reduction in public spending is much higher in the public sector category, accounting for 66 per cent of policy measures across the EU (figure 4.5).

A careful analysis of the inventory's category dedicated to the public sector shows that governments addressed two main areas of action in the public sector during the crisis: public wages and public employment levels.

In order to understand the extent to which these policy efforts translated into lower levels of public sector employment, figure 6.4 plots the number of policy measures per Member State in the public sector category against the growth of employment in public administration (Sector O).[121]

121. Sector O: public administration and defence; compulsory social security, according to the NACE Rev. 2 classification rules.

FIGURE 6.4 Public sector policy measures and employment growth, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat.

There is a slight negative correlation between Member States in terms of the growth in the number of employees in public administration and the number of policy measures in the public sector. Although it is impossible to draw any causal conclusions using this analysis, there is a noticeable coincidence between countries which are more active in this policy field and those which are reducing their public sector employment levels.

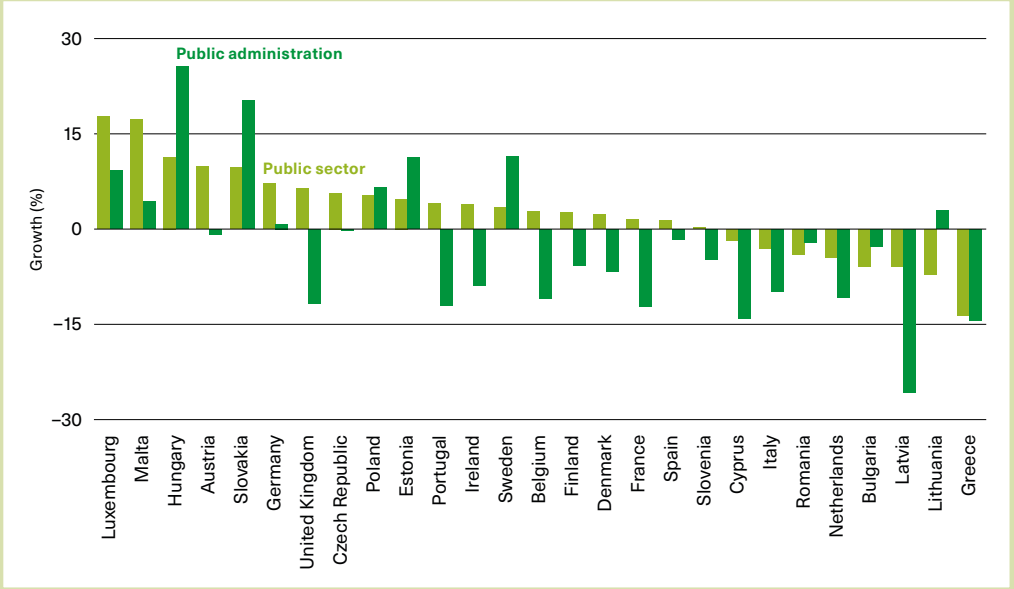
As the definition of public sector employment is the subject of much discussion, figure 6.5 presents the growth rates of Sector O for each country, and the combination of Sectors O (public administration and defence plus compulsory social security), P (education) and Q (human health and social work activities),[122] according to the NACE Rev. 2 classifications, defined as the public sector from this point onwards.

Considering figure 6.5, it is clear that there are significant differences between the two ways of looking at public sector employment in terms of employment growth in the aftermath of the financial crisis. Broadly speaking, Member States can be placed into four discrete groups: those in which both public sector and public administration employment increased (9); those in which both decreased during the period (7); those in which public administration employment decreased, but overall public sector employment increased (10); and the only outlier (Lithuania), where public administration employment increased but the broad public sector's employment decreased.

An important result observed from figure 6.5 is the fact that reductions in public administration employment are always larger than those in the public sector. Member States with steeper declines in public administration employment included, not only those countries which were more severely hit by the crisis (Portugal, Ireland, Cyprus, Latvia and Greece), but also countries that showed more resilience in the aftermath of the crisis, such as the United Kingdom, Belgium, Denmark and the Netherlands. This indicates that measures to cut public employment were not implemented solely by countries whose budgetary policy was severely constrained due to the effects of the crisis, but were a more general response from various Member States.

122. Note that the last two sectors also include those parts that fall within the private sector. These sectors were nevertheless added to the analysis for the sake of completeness, given that in many Member States they are predominantly public.

FIGURE 6.5 Public sector employment growth, by Member State (2008–13)



Source: Eurostat [lfsa_egan2].

Both public sector employment and public sector wages can be hard to measure due to the variety of possible definitions and comparison issues. In the absence of comparable data across countries for public sector wages, figure 6.6 illustrates the share of GDP spent in compensation awarded to employees in general government[123] and its relationship to the number of policy measures relating to the public sector implemented by each Member State.

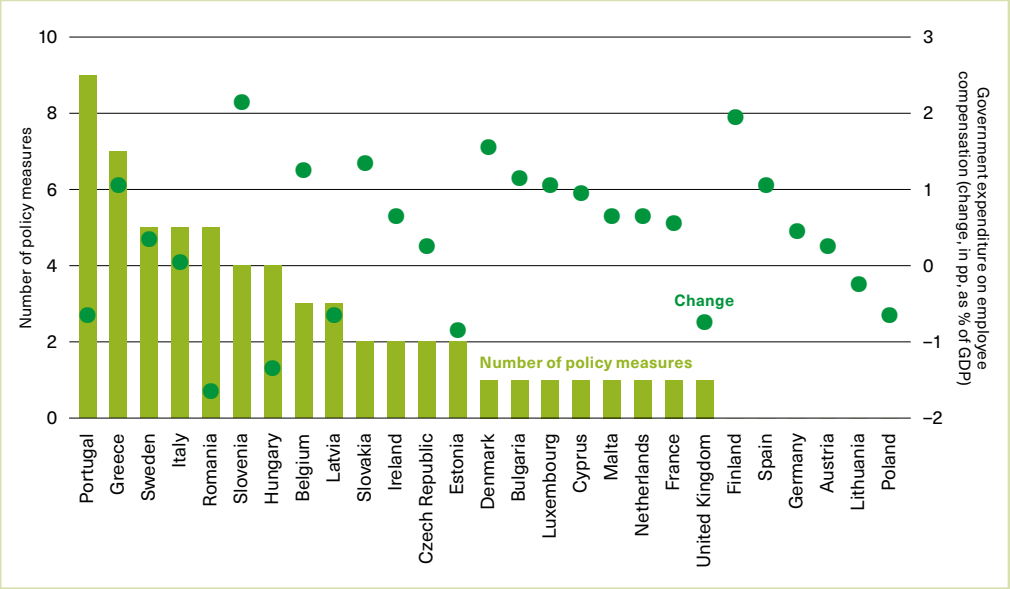
A negative correlation, albeit with a weak fit, is observable, suggesting that countries which implemented a greater number of policy measures relating to the public sector were among those in which spending on employee compensation in the public sector decreased most dramatically, whether through wages or employment variations (or both). This further supports the idea that most policy measures concerning the public sector had deficit cutting as their main objective, and were closely related to the strain that the effects of the crisis placed on government budgets.

As public sector wages were, according to the inventory, the object of almost 75 per cent of the policy measures in the public sector category, it is important to bear in mind not only the changes made to the public sector wage level (partially analysed in figure 6.6), but also the mechanisms that govern public sector wage setting, which are the subject of the following section.

In most European countries during the past decades, public sector wage setting has evolved to introduce elements of collective bargaining and decentralization. The most notable case is that of the United Kingdom during the period 1979–96, when the highly centralized pay fixing system was replaced by semi-autonomous executive agencies for the different sectors of the civil service. Later, the system was reorganized within a more coordinated framework that still maintained a relatively high degree of decentralization. Generally, decentralization implies collective bargaining but collective bargaining can also be introduced within a centralized system. Actually, with the exception of Austria and Luxembourg, all other EU countries have introduced collective bargaining in their public wage fixing system. For the purposes of this study, which focuses on the impact of the measures, the level of centralization is the most important variable. Our hypothesis is that the more centralized the system, the easier it is to implement restrictive wage-related measures.

123. General government includes central, state and local government, as well as social security funds. The definition includes "institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth" (see http://ec.europa.eu/eurostat/cache/metadata/en/gov_10a_main_esms.htm [25 Sep. 2015]).

FIGURE 6.6 Public sector policy measures and public expenditure on employee compensation, by Member State (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, Eurostat.

Following the example of the *Industrial Relations in Europe 2012* report (European Commission, 2013), Member States were divided into five different groups according to the degree of centralization of working conditions regulation in the public sector in the most recent year available (2011).[124]

(A) Centralized level of regulation, covering all employees: AT, CZ, FR, MT, PT

(B) Centralized level of regulation with group-specific differentiations: BG, EL, IE, LU, PL, SI

(C) Mixed level of regulation, covering all employees: BE, CY, DE, DK

(D) Mixed level of regulation with group-specific differentiations: FI, HU, IT, ES, RO, SK

(E) Decentralized level of regulation with group-specific differentiations: EE, LV, LT, NL, SE, UK.

The crisis has put a halt to the decentralization and collective bargaining process in the public sector. Many countries have returned to unilateralism in wage fixing. Austerity packages that include wage cuts or freezes have often been adopted without collective bargaining.

In the same way, reforms of the public sector and of the wage-fixing system as part of the NPM (see introduction) have also declined and became negligible after the crisis.

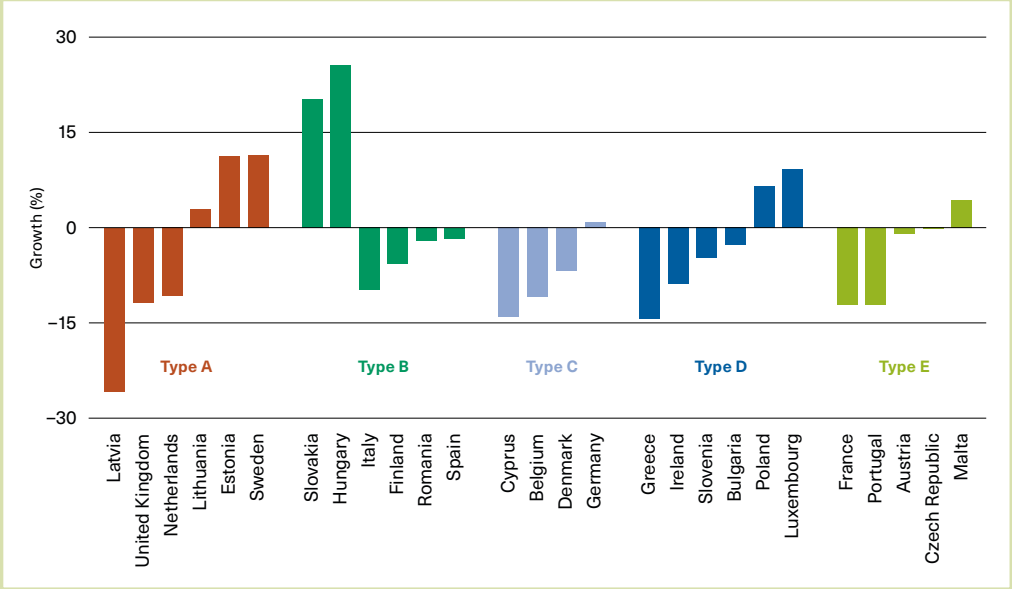
Against this background, government expenditure on wage compensation will now be examined across these five different groups, in order to understand to what extent public-wage-setting centralization levels impacted the way governments adjusted public wages (and, to a certain extent, public employment as well).

Figure 6.7 presents the growth rate of public administration employment between 2008 and 2013, separating Member States according to the groups mentioned previously.

It is interesting to note that there were almost no increases in public administration employment in Member States where public sector employment regulation covers all individuals (types A and C). This could indicate that governments in these countries found it easier to adjust their public employment levels following the crisis, but could also be a sign that the governments of these groups of countries considered the amount of existing public sector employment to be excessive.

124. Please see Appendix F for a list of country acronyms used.

FIGURE 6.7 Public administration employment growth, by Member State (2008–13)



Type A: Centralized level of regulation, covering all employees. Type B: Centralized level of regulation with group-specific differentiations. Type C: Mixed level of regulation, covering all employees. Type D: Mixed level of regulation with group-specific differentiations. Type E: Decentralized level of regulation with group-specific differentiations.

Source: Eurostat, European Commission (2013).

TABLE 6.1 Breakdown of public employment growth, by degree of public collective bargaining coordination (2008–13)

Country group	Public sector (%)	Public administration (%)
A	7.7	−4.2
B	1.3	−2.5
C	2.6	−7.7
D	3.0	4.4
E	−0.5	−3.8

Source: Eurostat, European Commission (2013).

To complete the analysis, table 6.1 presents the average (unweighted) growth rate of both public sector and public administration employment between 2007 and 2013, for each of the five groups of countries.

Focusing on public administration, only the group of Member States with a mixed level of regulation and with group-specific differentiations experienced an increase in employment, stressing the overall tendency across the EU for a reduction in employment in that part of the public sector.

Looking at the public sector in general, the inverse tendency is clearly visible, with only one group of countries having average negative levels of employment growth during the period.

Even though many policy measures in the public sector were aimed at decreasing the budget deficit, employment adjustments in this sector were effected mainly through public administration, and fewer (or none at all) through adjustment in the health and education sectors (which are predominantly public in many Member States). This could result, on the one hand, from the fact that public administration is an area in which adjustments to employment levels are easier to make, and on the other hand, from Member States' acknowledgment of the fundamental importance of the health and education sector to the welfare of the population and the overall development of the country.

Monograph examples[125]

It is important to bear in mind the fact that changes in public employment between 2008 and 2013 could mask important variations within the period due, for example, to the initial effects of the recession followed by countercyclical measures. Indeed, some countries experienced a rise in public sector employment on a temporary basis related to subsidized jobs created to alleviate the initial impact of the crisis. In France, for instance, the extraordinary action plans implemented when the crisis first erupted in 2008 generated a surge of approximately 30 per cent in the number of new participants and 50 per cent in the total number of participants in subsidized jobs, in both the private and the public sector. These efforts reached their peak in 2009, but were then rapidly removed, so that public sector subsidized jobs receded to their pre-crisis levels, while private sector jobs continued to follow the same declining trend as before the crisis (Bahu, 2012, 2014; Garoche and Roguet, 2014). In Poland, there was a cut in public sector employment affecting 148,000 workers during the period 2010–2012, although the period 2008–13 shows an increase on average. In Sweden, too, the slowdown that followed the initial phase of the crisis led to a reduction in tax revenues for local authorities responsible for the provision of social services, health and education, and resulted in a decline in public sector employment, mainly among employees on short-term contracts. The subsequent countercyclical expansionary measures in 2009–10 included increased government grants to municipalities and county councils (as well as making more resources available for ALMPs, infrastructure development, and social transfers).

In those countries which were most badly affected by the crisis, the reduction in public employment was still ongoing in 2013. In Greece, the financial crisis revealed structural issues concerning government budget imbalances and the resultant accumulation of public debt. Wages in the wider public sector (e.g. public utilities) had grown significantly faster than wages in other sectors for many years. The cumulative increase over the 1994–2009 period in (gross) nominal private sector wages (excluding the banking sector) was 137 per cent, whereas the cumulative increase in public sector wages was 291 per cent, and in publicly owned enterprises 356 per cent (Fotoniata and Moutos, 2010). The correction was severe, with wages in central government decreasing by 15.9 per cent over the period 2009–13, and by 29.1 per cent for public utilities. In Italy, a wage freeze was introduced in the public sector (initially in 2011 and then extended for an additional 3 years). A hiring freeze led to a 7 per cent reduction in public employment between 2007 and 2012. Obviously, reducing public employment affects employment opportunities, especially for youth with university degrees, mainly in the education and health services.

125. More examples from the monographs can be found in other chapters of this report, including some related to wage bargaining in the public sector in the Netherlands, Sweden and the United Kingdom (Chapter Five) and the use of temporary contracts in Spain (Chapter Two).

6.2 Concluding remarks

The public sector is one more domain where the crisis prompted countries to implement significant cost-saving measures, or even to stop reforms that had begun to be implemented before the onset of the crisis. While many of these measures were concerned with individual management performance and with work organization, 66 per cent of public sector measures led to decreased spending, especially in 2010, and again in 2013, and in particular in those countries worst affected by the crisis.

Regarding public sector employment, seven countries decreased both public administration and public sector employment (including health and education): namely Bulgaria, Cyprus, Greece, Italy, Latvia, the Netherlands and Romania. The reduction in public administration employment was systematically higher than the reduction in public sector employment, and was also evident in countries that were more resilient in the aftermath of the crisis, such as Belgium, Denmark, the Netherlands and the United Kingdom.

Changes in public employment between 2008 and 2013 could mask an important variation within the period due to the creation of subsidized public jobs on a temporary basis in France (2008–09), or in Sweden (2009–10), for example, or temporary cuts in public employment in Poland between 2010 and 2012.

Public sector wages had evolved during the decades preceding the crisis to introduce more elements of collective bargaining and decentralization. With the exception of Austria and Luxembourg, all Member States had actually introduced collective bargaining into their public wage fixing mechanisms. The crisis put a halt to the decentralization and collective bargaining process through the imposition of unilateral wage cuts and wage freezes, which were elements of austerity packages in certain countries (the “Croke Park Agreement” in Ireland being something of an exception). Public expenditure on employee compensation as a percentage of GDP decreased in eight countries (Estonia, Hungary, Latvia, Lithuania, Poland, Portugal, Romania, United Kingdom). In Greece, while public expenditure on employee compensation as a percentage of GDP showed no decline, there was nonetheless a severe decline in public wages.

Conclusion

This report has used the vast and invaluable information provided by the ILO Inventory of Labour Market Policy Measures, together with several other sources, to study and analyse labour market policy trends across the EU between 2008 and 2013, as well as their interaction with labour market outcomes.

In the aftermath of the financial crisis, Member States significantly increased their policy efforts in order to improve the resilience of their labour markets to the negative effects of the crisis. According to the inventory, these policy efforts peaked in 2009–10, but decreased to some extent thereafter. Overall, those Member States most severely affected by the financial crisis were more active in their efforts than countries which proved more resilient to the crisis.

The inventory highlights the existence of two broad types of policy measure. The first being measures that focused on improving the functioning of the labour market and increasing its resilience to negative shocks. These measures were designed to address the specific consequences of the crisis, and included a broad range of topics, from training programmes and changes in dismissal rules, to working-time arrangements and adjustments to the minimum wage. The second type comprised those measures that were not implemented in response to a specific economic context, but were of a more general nature. Measures to counter discrimination and to improve occupational safety and health are two examples of such interventions.

Overall, there was a general balance in the policy approach of Member States to labour markets between policy measures that aimed at improving the conditions of workers in the labour market – either by enhancing their rights or by increasing the support offered to jobseekers – and interventions where firms were the main beneficiaries – mainly allowing firms to adjust their labour demand in more flexible ways in order to make them more resilient to the negative demand shocks triggered by the financial crisis.

When assessing the impact of policy measures on public expenditure levels, it is clear that the decrease in policy activity after 2009 was largely driven by a reduction in the number of new policy measures that involved higher public expenditure. This may indicate that budgetary considerations of Member States provided a more compelling incentive for this reduction in policy intervention than the conclusion by governments that policy intervention had become less urgent than in the immediate aftermath of the crisis.

In order to allow for a more structured interpretation of the policy measures in the inventory, each category has been allocated to one of the four main areas of intervention: active labour market policy (ALMP) measures, changes in labour market regulation (LMR), interventions targeting unemployment benefits and assistance (UBA), or changes to the legal framework governing wage-related measures. Almost every EU Member State implemented measures concerning ALMP and LMR, highlighting the importance of these two areas in their policy efforts in the aftermath of the financial crisis.

In the LMR area, there was a balance between measures allowing employers more flexibility in adjusting to economic conditions and demand variations and measures aimed at protecting workers and jobseekers. A good illustration of this balance can be found in the area of policy measures targeting non-standard forms of employment, where a great number of measures were aimed at protecting workers against labour contract flexibility abuses (i.e. multiple renewals of fixed-term contracts or dependent self-employment) or at regulating temporary work agencies following the EU Council Directives 1999/70/EC and 2008/104/EC. However, there were still a significant number of interventions in the category aimed at making labour contracts more flexible or promoting self-employment. Finally, a deeper analysis of the inventory shows that measures aimed at increasing labour market flexibility have been focused more on working-time flexibility and dismissal than on non-standard contracts.

On the whole, with certain exceptions, the situation in countries covered by the monographs shows that steps have been taken towards regulating non-standard forms of employment, even though there are still many gaps in worker protection.

In the category of dismissals, the analysis shows that those countries which implemented a greater number of policy measures facilitating the dismissal of workers observed higher inflow rates to unemployment between 2008 and 2013. Since the evidence of this report points to the lack of a direct relationship between facilitating dismissal procedures and outflow rates from unemployment (which can be interpreted as job creation rates), these two factors combined imply that such policy measures led to lower levels of employment.

Another area where the actions of policy-makers seemed to lack beneficial impact was ALMP. ALMP measures were found to have had no significant impact on outflow rates from unemployment (i.e. job creation), even if ALMP was one of the areas in which Member States were most active. The fact that countries did not significantly increase their expenditure levels on labour market programmes (in many cases due to the strain on their budgets imposed by the crisis) prevented them from investing sufficiently in upgrading the infrastructure of their labour market services to improve efficiency and enhance their ability to cope with the unprecedented number of eligible participants.

As far as policy effort distribution goes, much of the attention relating to ALMP measures was directed at employment incentives and training, while fewer policy measures were dedicated to improving public employment services or promoting direct job creation. In terms of expenditure, Member States spent more on labour market services, employment incentives and training programmes. These are also the types of ALMP measures that studies have found to be more effective in helping individuals out of unemployment, which suggests that policy-makers were aware of the most effective types of programme.

Most policy measures in the inventory that led to direct increases in public expenditure were ALMPs, which emphasizes the need felt by governments across the EU to activate jobseekers. Nonetheless, in most countries the overall expenditure on ALMPs has decreased since the crisis, and there has also been a decline in the share of people wanting to work who participate in these programmes. Both of these are worrying trends that will have to be overcome if labour markets are to return to their pre-crisis performance in the future.

While the integrated approach to youth unemployment through Youth Guarantee Schemes has shown its capacity to deliver successful offers of training, job opportunities and internship, its success depends on coordination and cooperation between stakeholders, which can be challenging for countries that are in the process of downsizing their public services.

The unemployment benefit systems of most Member States were unable to cope with the unprecedented increase in the number of jobseekers resulting from the financial crisis, which led to reductions in the share of unemployed workers receiving unemployment insurance or assistance. This decrease was fuelled by the rise of long-term unemployment and temporary workers losing their jobs, both of which factors enlarged the pool of unemployed individuals who were not eligible to receive unemployment benefits.

In terms of policy changes, few countries made significant changes to their unemployment benefit/unemployment assistance systems, and the reforms introduced were mainly financially neutral or specifically aimed at reducing costs. Moreover, a significant number of policy measures in this area were aimed at reducing public deficit or continuing the pre-crisis trend of strengthening activation, and not at improving the support to jobseekers, hence leading to lower unemployment benefit coverage without providing any actual benefit for unemployed individuals. Nonetheless, there were some efforts to extend unemployment benefits to workers in non-standard forms of employment.

As in other areas, Member States that were more severely affected by the crisis introduced a greater number of wage policy related measures, with most of them experiencing wage share decreases during the period. Several Member States took steps towards the decentralization of collective bargaining; however, this decentralization process has not yet resulted in more active bargaining at the enterprise level in these countries. Nonetheless, informal mechanisms of coordination between sectors have developed in some of these countries. Formal collective bargaining at the sector level has also remained important, even if only to provide the framework for the development of firm-level bargaining.

In terms of the minimum wage, the financial and economic crisis has accelerated the long-term trend towards nationally defined minimum wage rates set by governments, usually following consultation with social partners, or by a tripartite body, eventually with independent experts. This is underlined by the reduced number of countries which currently do not have a statutory minimum wage, and the fact that this has been a topic of debate in recent years in those last few that lack a minimum wage.

Even though minimum wage fixing machinery seems to be converging across Member States, levels of minimum wage remain different across a range of indicators (such as ratio of minimum to average wage and percentage of workers earning the minimum wage), reflecting differing economic and political conditions and decisions.

Despite the negative effects of the financial crisis, out of the 20 Member States with statutory minimum wages in place, only seven did not register increases in their minimum wage[126] between 2008 and 2013.

The public sector was one of the domains where the effects of the crisis prompted countries to implement significant cost-saving measures, or even to halt management reforms that had commenced implementation before the onset of the crisis.

In seven countries, both public administration employment and public sector employment decreased between 2008 and 2013.[127] Reductions in public administration employment were consistently higher than reductions in public sector employment, with the former being observed not only in countries with more troubled economies, but also in Member States with more resilient labour markets.

In the decades preceding the crisis, public sector wages had evolved towards more decentralized collective bargaining, but in certain Member States the crisis brought a halt to some of the reforms that had promoted this process. After 2007, several governments imposed unilateral wage cuts and wage freezes, in some cases as part of austerity packages.

Overall, this report points to several policy trends during the period 2008–13 which were common to most EU countries. First, policy measures recorded in the ILO inventory have affected the nature of industrial relations. Deregulation of collective bargaining, the introduction in a significant number of countries of minimum wages set by governments and reforms geared towards deregulation of dismissals (sometimes implemented unilaterally) have placed social dialogue under strain, and are likely to shape the institutional framework of EU Member States going forward. Second, the strain put on public accounts by the crisis implies that some changes in policy measures were

126. As a proportion of the average wage of their economies.

127. Including health and education.

driven by financial constraints. The reduction in public spending has mostly severely affected public sector employment and wage bills, and to a lesser extent unemployment benefits systems and ALMPs. Third, a great effort was made by policy-makers to improve the resilience of their labour markets to the negative shocks associated with the financial crisis, and to achieve a balance between measures dedicated to aiding firms and measures aimed at protecting workers and jobseekers. Changes that gave more protection to workers included increases in the levels and coverage of minimum wages (with some exceptions), increases in the rights of workers in non-standard forms of employment and increases in social assistance for jobseekers to supplement the limits of unemployment insurance systems.

These policy responses have not always been able to meet the challenge of the unprecedented increase in levels of both unemployment and non-standard forms of work. Some groups of workers, notably youth and low-paid workers, are still in a far more precarious situation than before the crisis began. In order to be delivered successfully, these labour market policy measures need to be better coordinated. In particular, labour market reforms facilitating dismissals require efficient public employment services and subsequent activation programmes to support dismissed workers as they move into new sectors and new occupations, and they need to deliver efficient and fair outcomes.

Finally, a consolidation of the policy approach, together with dedication to the continuous improvement of labour market institutions and programmes, would seem to be indispensable in order for labour markets to bounce back from the deepest depression in the history of the EU. The capacity of collective bargaining in EU countries to have been a part of crisis solutions in the past and its resurgence at the sector-level in some of the most badly affected countries is encouraging in this respect. Even if it entails higher levels of public expenditure in the short term, a constant and continuous dedication to improving the resilience of labour markets, both by allowing employers to adjust their demand for labour more quickly and easily, while at the same time improving working conditions, and by increasing the support given to jobseekers, will provide the only path for policy-makers across the EU to enable labour markets to recover from their current sluggish state and resume a pattern of sustainable employment growth and improving working conditions.

A. Inventory user guide

Main area

Assign each measure to one of four main areas:

1. Active labour market policies (ALMPs)

   Examples: Vocational training; wage subsidies; apprenticeship programmes; early retirement; start-up incentives; hiring subsidies.

2. Unemployment benefits and assistance (UBA)

   Examples: Unemployment insurance benefits; parental leave; childcare; general social assistance/protection.

3. Labour market regulation (LMR)

   Examples: Dismissal rules; working time and work organization; non-standard contracts; health and safety; work–family balance.

4. Wages

   Examples: Minimum-wage changes; adjustments of public servants' wages; changes to wage indexation rules.

Categories

Assign each measure to a more specific category.[128] Table A.1 lists every category in the inventory, together with some examples of each.

TABLE A.1 Category examples

Category	Examples
Antidiscrimination	Gender equality rules; anti-harassment rules
Dismissals	Severance payments; notice periods; collective dismissal rules
Early retirement	Laws changing early retirement rules/age
Direct job creation	Direct job creation; start-up incentives
Public employment services	Changes in investment or organization of PES, Job search assistance, etc
General social assistance	Subsidies to individuals on low incomes; sick leave
Health and safety	Changes related to health and safety in the workplace
Collective bargaining	Social dialogue
Migration policy	Measures affecting migrant workers
Minimum wage	Minimum-wage levels; minimum wage setting mechanism
Non-standard employment	Self-employment; temporary work; part-time work
Public sector	Measures concerning civil servants (wages, contracts)
Retirement	Changes to retirement age
Training	Apprenticeships; vocational training; internships
Unemployment insurance benefits	Changes to unemployment insurance benefit levels and eligibility rules
Wage indexation	Changes to the way in which wage variations are determined
Employment incentives	Hiring subsidies; wage subsidies
Working conditions	Rights of workers
Work–family balance	Parental leave; child benefits
Working time and work organization	Overtime; job sharing; time savings accounts

Source: ILO Inventory of Labour Market Policy Measures.

128. Note that policies within the same category can be included in different main areas in certain cases.

Dates

These are dependent on the amount of information available. Most policies only had information either for the date of decision or the date of implementation, but seldom for both.

- *Date of decision*: Indicates the date when the policy was approved.
- *Date of implementation*: Clarifies when the policy started to be implemented.
- *Date of termination*: For policies with a specific duration, this indicates when the policy was discontinued.

In most discussion involving dates in this report, the date of implementation was used, and in cases where it was unavailable the date of decision was used instead.

Legal versus budget

This dimension captures whether a measure works mainly through a change in legislation or through a variation in the level of government spending.

- *Legal examples*: Changes to retirement age; improving the rights of temporary agency workers; minimum-wage increases; increase of maternity leave; changes to dismissal rules.
- *Budget examples*: Wage subsidies; training programmes; changes to unemployment insurance benefit levels; public employment cuts; direct job creation.

Government spending/budget impact

Does the policy increase or decrease the level of public deficit in a clear and direct way?

- *More*: For policies that imply an increase in government spending or that lead to a decrease in government revenue.

  Examples: Increase in unemployment benefits; new training programmes; reductions in social security contributions.

- *Less*: Conversely, for measures that lead to a decrease in government spending or that raise government revenue.

  Examples: Civil servants' wage cuts; tightening of unemployment insurance benefit eligibility criteria; termination of tax discounts; dismissal of civil servants.

Temporary

Specifies whether a measure is temporary in nature, i.e. whether it has a predetermined, specific expiry date.[129]

New programme/law

This column clarifies whether a policy is based on the implementation of a new programme or law ("Yes") or whether it works mainly through changes applied to previously existing policies ("No").

Coverage

This column classifies measures that either extended or limited the coverage of previously existing laws or measures.

Employer constraints

This column highlights policies that either increase or decrease a firm's constraints.

129. Only in such cases it will assume the value "Yes", and this should imply that columns concerning termination date must also have been filled.

- *"More" – examples*: Improvement of workers' rights; stricter gender balance rules; extension of parental leave; minimum-wage increases; increases in trade union powers; reduction of maximum duration of fixed-term contracts.
- *"Less" – examples*: Increase in maximum overtime hours; extension of working-time arrangements; lowering of severance payments; hiring subsidies; reduction in social security contributions.

Target group/criteria

This is used whenever a policy applies only to a specific part of the population, and clarifies which criterion is used in the target group identification.

- *Examples*:[130] Youth – age; temporary workers – contract type; immigrants – country of origin; start-ups – firm type; SMEs – firm size; parents – parental status; jobseekers – employment status; trade union workers – unionization; workers in troubled companies – firm's financial situation.

Main beneficiary

Attempts to identify the main beneficiary of each policy. Since many policies benefit more than one party, the inventory focuses on the agent through which the policy will directly impact the labour market. The actors can be one of the following:

- *Workers*: Minimum-wage hikes; improvement of workers' rights; training programmes for jobseekers; increase in unemployment benefits; stricter gender balance rules.
- *Employers*: Lower dismissal costs; minimum-wage freeze/cuts; expansion of working-time arrangements; increase in maximum number of consecutive fixed-term contracts; wage subsidies/social security contribution reductions.
- *Government*: Tightening of unemployment benefits eligibility criteria; cuts/freezes in public wages; decreases in public employment; increases in tax/social security contributions; increases in retirement age.

Source

Includes the Euronline link for each specific policy's source data.

130. For the old/youth categories the identification methodology was as follows: any measure for which eligibility defined a maximum age was considered "youth", whereas any measure that defined the target workers as the population above a certain age threshold were classified as "older".

B. Technical appendix

This appendix is divided into three sections. The first discusses the advantages and motivation behind the use of partial rank correlations in section 2.1. The second considers the econometric challenges presented by the empirical model used and the techniques used to overcome these challenges. The last section presents the alternative regressions that were run to check the robustness of the results presented in the main text.

(i) Partial rank correlations

The analysis of the relationship between the number of policy measures in the dismissal category and unemployment flows started with an analysis of the standard correlations between these variables (table B.1). In each case, two alternative measures of the flow rate were used: the average between 2008 and 2013, and the difference (in percentage points) between 2007 and 2013.

TABLE B.1 Correlation between number of dismissal policy measures and unemployment flows

	Inflow rate to unemployment (change)	Inflow rate to unemployment (average)	Outflow rate from unemployment (change)	Outflow rate from unemployment (average)
Total number of dismissal policy measures	0.35	0.12	–0.23	–0.34

Source: ILO Research Department estimates.

There was a positive correlation between the total number of policies on dismissals and the transition rate of workers to unemployment (both the average rate and the difference in the rate over the period. In contrast, there was a negative relationship between the number of dismissal policies and the transition rate out of unemployment, which is counter to what would be expected. It is hard to see how facilitating dismissals could actually decrease the job-finding probability.

However, there are two issues that could affect the validity of these results. The first is that other variables might have influenced these relationships; therefore, not accounting for them could have resulted in spurious correlations. Table B.2 presents the correlations between the five variables in table B.1 and other variables that might influence their co-movement.

TABLE B.2 Correlation between number of dismissal policy measures, unemployment flows and other labour market variables

	Number of policy measures	Inflow rate to unemployment (change)	Inflow rate to unemployment (average)	Outflow rate from unemployment (change)	Outflow rate from unemployment (average)
Real GDP growth	–0.46	–0.33	0.00	0.31	0.22
GDP per capita	–0.13	–0.17	0.08	–0.17	0.41
Government debt	0.46	0.03	–0.13	–0.07	–0.23
Employment protection legislation (2007)	0.35	–0.20	0.06	0.01	0.01
Inflow rate to unemployment (2007)	0.09	–0.28	0.95	–0.64	0.79
Outflow rate from unemployment (2007)	–0.13	–0.28	0.82	–0.77	0.93

Source: ILO Research Department estimates.

Starting with the number of policies facilitating dismissals, there are some important results to note. The first is that countries with lower GDP and lower GDP growth seem to have implemented more policies to facilitate dismissals. Moreover, Member States with higher government debt levels and less flexible labour markets seem to have implemented more policies in this regard – which appears to be consistent with events in most southern European countries.

Regarding unemployment flow rates, the correlations with GDP variables were as expected, with countries with higher GDP by both measures having higher unemployment outflow rates and lower inflow rates. There also seem to be negative (but smaller) correlations between unemployment flows and government debt and the pre-crisis level of employment protection legislation (EPL). There does not seem to be an obvious explanation for the correlation with government debt. However, the correlation between EPL and unemployment inflow rate is straightforward: it is harder for firms to fire workers in more regulated labour markets. The lack of a correlation between EPL and unemployment outflow rate seems to point again to there being no link between dismissal-related policies and legislation and the hiring behaviour of firms.

The correlations with the 2007 levels of unemployment flow rates are also quite interesting. The results suggest that there is a strong path dependence for both transition rates, as their average between 2008 and 2013 was highly correlated with their 2007 level, which is to be expected. However, in both cases there seems to be a negative correlation between the amount of change in the rate over the period and the 2007 level. This implies that, on average, from 2008 the flow rates increased more slowly in countries that had higher unemployment flows in 2007 than in other countries.

It is clear that several variables in addition to the number of policies in the dismissal category might be related to both unemployment transition rates. To overcome this problem, the concept of partial correlation is employed.

The second issue that arises when using standard correlations is the precision of the proxy measure. In this case, using the total number of policy measures as a measurement of policy effort might not have captured Member States' efforts (in this case, to decrease dismissal costs) with significant precision.

Given these two main issues, the analysis in this report used partial rank correlations instead of "standard" correlations. Partial correlations differ from simple correlations by controlling for other variables that might influence the relationship of interest when calculating the correlation. For instance, in the case above, it is possible that countries that implemented more policies facilitating dismissals were also victims of strong negative exogenous shocks to their economies that severely decreased their outflow rate from unemployment, hence generating the misleading perception that dismissal policies and job creation are negatively correlated. In this next step of the analysis, controls were introduced for a set of factors that might influence the behaviour of unemployment flows during the crisis in each country, from average real GDP growth rate to government debt, together with some pre-crisis labour market features that could influence the behaviour of these variables across state members (EPL levels, pre-crisis flow rates).

To overcome to some extent the criticism that might arise from using the total number of policy measures as a measurement, rank correlations were used. This entailed ranking countries according to each different variable, then using their ranks in the analysis, rather than the values of each variable. Even though this approach has the drawback of making numerical interpretation of correlations less straightforward, it has the advantage of putting less stress on the exact number of policy measures per Member State. It also allows for a more detailed within-sample comparison, which was the overarching goal of this project.

The analysis started by looking at the cross-country partial rank correlations between the unemployment flow rates and the number of dismissal policy measures (table B.3).[131] The table includes two alternative measures of each flow rate: the average rate and the change in the rate over the period 2008–13. Three different specifications are presented in the table: specification A includes 25 Member States and controls only for average real GDP growth between 2008 and 2013; specification B controls also for the EPL OECD Index for Dismissals in 2007 and the average public debt between 2008 and 2013, but includes only 21 Member States (as there are

131. If all policy measures are included in the analysis, not just those making dismissal easier, the results are not changed significantly. This is discussed further later in the analysis.

TABLE B.3 Partial rank correlations

	Specification A		Specification B		Specification C	
Inflow rate to unemployment – change	0.41	**	0.60	***	0.62	***
Inflow rate to unemployment – average	0.28		0.41	*	0.47	*
Outflow rate from unemployment – change	0.21		0.06		–0.24	
Outflow rate from unemployment – average	–0.12		–0.24		–0.32	

Source: ILO Research Department estimates.

Note: *, ** and *** indicate statistically significance at the 10 per cent, 5 per cent and 1 per cent confidence level, respectively.

no data on EPL for four countries in the first sample);[132] and specification C is similar to B, but it substitutes real GDP growth in the control for the average GDP per capita.

There is a positive statistically significant correlation between the total number of policy measures facilitating dismissals and the transition rate of workers into unemployment. This suggests that the job destruction that occurred between 2008 and 2013 was higher in those Member States where dismissal rules were to some extent changed in favour of employers during the period.

In contrast, the correlation between the outflow rates from unemployment and the number of policy measures facilitating dismissals is not statistically significant under any specification or measure of the variable. This implies that these policy measures had no impact on job creation.

The analysis suggests that between 2008 and 2013, this type of policy intervention principally affected the firing behaviour of firms, and had little, if any, impact on job creation. These results support the regression analysis undertaken in section 2.2.

(ii) Methodology

The specification of the empirical model and the data set structure described above give rise to several econometric issues. These had to be taken into consideration when choosing the most suitable econometric method for the estimations.

One of the problems that could have arisen if an ordinary least squares approach had been applied to the panel data set is that its estimations could have been biased if unobserved individual effects were statistically significant. There are significant differences between members' average unemployment flow rates over the period, suggesting this is an issue that should be taken into account.

One solution would be to use a fixed-effects model. This type of model assumes there is a correlation between the error term and the regressors. This is an intuitively compelling option for this analysis, since each country has its own historical, social, economic, political and institutional characteristics, which are likely to have permanent and significant influences on its economic and labour market performance. Alternatively, the problem of unobserved heterogeneity could be addressed by using a random-effects model. This model assumes that there is a country-specific effect, but that this is somewhat random: the effect has no correlation with either the regressors or with the error term. This is less likely to be the case in this particular empirical model.

A Hausman specification test was performed in order to test whether the extra orthogonality conditions imposed by the random-effects model were valid. If they were, it would mean the regressors are uncorrelated with the error term, and therefore the fixed-effects model would be consistent but inefficient, whereas the random-effects model would be consistent and efficient. If, on the contrary, the Hausman test results pointed to the existence of a correlation between the error term and the regressors, the random effects estimator would not be consistent, and the

132. Bulgaria, Cyprus, Malta and Romania.

fixed-effect estimates would be consistent and efficient. The results rejected the null hypothesis that the error terms are not correlated with the regressors, and hence the fixed-effects model was adopted for the benchmark approach.

As a robustness test, the Breusch and Pagan Lagrangian multiplier test was also used. The null hypothesis was that variance across countries is zero, which would mean that there are no significant differences across countries. The results of the test once again showed the appropriateness of the fixed-effects model.

Another alternative method would be to use a system general method of moments (GMM) estimator. This would overcome the problems with both the fixed-effects and the first-differences models,[133] and its use is appropriate in cases where there is significant persistence of the dependent variable (which seemed to be the case according to earlier correlation results). However, the system GMM model is better suited to data sets with a large number of individuals and a small number of periods, which was not the case in this sample. In this case, using a GMM approach would have led to a severe loss of degrees of freedom, given the low number of periods (23) available in the sample.

The negative bias of the fixed-effects model[134] is larger when there is a small number of periods and a large number of individuals in the sample and so would not be as severe in these estimations as it would be in other data frameworks. Therefore, as long as the results supported it, the fixed- and random-effects estimation methods were used as the main econometric framework throughout the analysis.

Another way to overcome unobserved heterogeneity in the sample would be to use a first-differences approach. However, this poses some other problematic issues given the lack of variability in the dismissal policy variable, particularly as it is coded as a dummy variable.

An instrumental approach would be yet another way to overcome unobserved heterogeneity in the panel. However, finding an appropriate instrument is often a very hard task. In this case, one could, for instance, consider the political composition of a country's parliament as an instrument for the number of policy measures. Under the assumption that parliaments with a greater share of "left wing" parties have a greater reluctance to facilitate dismissal procedures (as they are equated with less protection for workers), one could instrument the number of policy measures facilitating dismissals with the share of sittings in the parliament held by parties to the right of the political spectrum. This would, however, imply the collection of data that goes beyond the scope of this project, and would raise some politically sensitive issues to be avoided in a project such as this.

A Fisher test for a panel unit root, using an augmented Dickey–Fuller test, was also performed, to access whether or not the series for the dependent and the main variables were stationary. The advantage of this test, when compared with alternative unit root tests for panel data frameworks, is that it can be performed in an unbalanced panel, whereas most of the others cannot (Maddala and Wu, 1999). The test rejected the null hypothesis of the existence of a unit root, therefore proving the series for unemployment flow rates to be stationary.

133. The first-differences model is the specification used in the EC report analysing the LABREF database (http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp522_en.pdf [27 Sep. 2015]).

134. This bias arises when a lag is included for the dependent variable in the model.

(iii) Robustness checks

Given the nature of the relationships under analysis, there are several variables that could possibly have an influence. The low value of *R*-squared in all regressions suggests that most of the variation in unemployment flow rates is explained by variables not included in the specification presented in the main text of section 2.2. This section describes alternative formulations of the empirical model that were also tested. It is important to note that the selection of explanatory variables depended significantly on data availability – data needed to be available quarterly, between 2008 and 2013, in order for a variable to be included in the model. This means that, for example, variables that measure the overall EPL level of a labour market (such as the OECD EPL indices) could not be added to the analysis at this point.

- **Alternative measures of global economic performance.** The inclusion of GDP growth in the benchmark model was aimed at capturing macroeconomic shocks that might affect unemployment flow rates and, to some extent, policy implementation in the dismissal categories. Although GDP growth is the preferred way to measure such shocks (both because it is commonly used and because it is a rate, like unemployment flows), other variables were tested in its place. These included GDP per capita, productivity (per person and hour) and unemployment and employment growth rates. In none of the specifications did the coefficient regarding the dismissal policy measures variable cease to be statistically significant. Moreover, in most of these alternative formulations the coefficient was in fact larger than that of the benchmark coefficients, reinforcing the idea that the estimations of the main text can be a lower bound to the real value of this coefficient.
- **Expanding the set of control variables.** Different specifications with a larger array of control variables were also tested in order to ensure that their addition would not significantly alter the results of the benchmark analysis. Adding variables such as government consumption or debt, the share of exports and imports in GDP, or the share of employment in each sector of the economy[135] did not change the sign of the dismissal policy measure variable, nor did it reduce its statistical significance level in a substantial way.[136]

135. 1998–2008, NACE Rev. 1.1

136. It was always statistically significant at the 10 per cent confidence level at least.

C. The ILO inventory and other databases

In order to construct an inventory of this dimension and scope, several sources were considered. As the main purpose of the inventory is to list and classify a comprehensive array of the most important policy measures covering all relevant areas of intervention and all EU Member States, the optimal source would include information for all countries, which would make comparisons easier and less prone to measurement errors.

After careful consideration, it was concluded that the best way to achieve these two goals was to use data from the EIRO (Observatory on Industrial Relations) online database from Eurofound. The database is based on a "bottom-up" approach, and national correspondents use their discretion to identify the most important developments in industrial relations and working conditions in their countries at a given time. Another important reason for the choice of this database as a source is the way in which it presents its information. Unlike some of the alternative data sources, in the EIRO the data for each policy are presented in the form of an article providing a detailed description of the policy intervention in question. This detailed information was vital in fulfilling the ambition of the inventory to classify every policy measure according to a wide range of dimensions.

There were other valid and interesting alternatives to using the EIRO database, foremost being the very comprehensive LABREF database. There are clear differences between the EIRO and LABREF databases in terms of definitions and coverage, which is to be expected from qualitative databases. For example, the LABREF database includes labour taxation, but does not include occupational safety and health, or pension reforms (which is a small but important aspect of the ILO inventory).

The remainder of this appendix compares the main features and characteristics of the ILO inventory with those of LABREF, to assess whether choosing a different source of information could have changed the overall message of the report in any significant way. The conclusion shows that, overall, very similar results regarding trends in policy measures are found when comparing data from both sources. The appendix also discusses other sources of data which might have been chosen, such as the data from the Fondazione Rodolfo Debenedetti or the OECD Indicators of Employment Protection. The data from the Fondazione Rodolfo Debenedetti it is better suited to the study of longer term trends in terms of policies: for instance, its database on social reforms covers the period from 1980 to 2007 for the first 15 members of the EU, which clearly fails to overlap with the scope of this project. The FRDB-IMF labour market institution database covers the period from 1980–2005, which also does not span the period targeted by this project, while the OECD Indicators of Employment Protection database does not include several of the areas which are within the scope of analysis of this project.

As previously mentioned most of the dimensions of the LABREF database overlap with the goals of this project. The following section presents a comparison between this database and the ILO Inventory.

Overall, using the EIRO online database as a source helped the inventory to identify and classify over 500 policy measures between 2008 and 2013. This number strikes an important balance between providing a comprehensive and thorough look at EU-wide labour market policy interventions during the period, while not going into too much detail on policy measures that could either be too specific or too small to contribute in any significant way to the main goal of this project, which was to identify the main policy trends across the EU in response to the financial crisis.

(i) The inventory and the LABREF database

The LABREF database is a joint project managed by the European Commission and the Economic Policy Committee (EPC). The measures reported in the database 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. The database covers the whole European Union.

An argument can be made that the LABREF database is more comprehensive than the EIRO database, as it includes a total of 1,717 policy measures between 2008 and 2013, which is more than 300 per cent higher than those included in the inventory. But this number suggests that, on average, there was almost one policy measure implemented per month in every Member State during the whole period that had a significant impact on the labour market, which seems to be a very large number. A closer look at the database reveals that it includes certain policy measures that have had, at best, marginal impacts in the labour market, such as changes in Ireland's child benefit system, which affects only the benefits awarded to couples with three children or more. It was therefore concluded that the higher number of policy measures that would be in the inventory were the LABREF database to be used as data source would not bring sufficient extra relevant information to justify the exponential increase in the size of the inventory, and the extra work required.

In the end, the perfect balance would probably lie somewhere between the number of policy measures gathered from Eurofound and those in the LABREF database. In order to explain the main differences between the LABREF database and the final ILO Inventory, the rest of this section presents a series of figures comparing both databases across some of their more important dimensions, in order to understand how closely related they are in terms of composition and structure. Comparisons at the main area/policy domain level are left to the individual chapters in the report, where information from the LABREF database concerning the time period before the crisis is also used to complement the analysis whenever deemed relevant.

Table C.1 presents the share of policy measures in both databases dedicated to each category of intervention.[137]

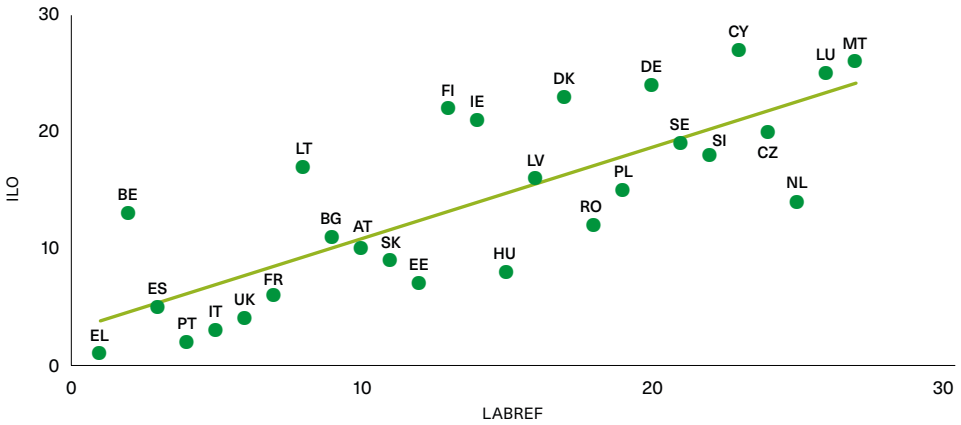
TABLE C.1 Breakdown of total policy measures, by category (ILO Inventory and LABREF database)

Comparable categories	ILO share (%)	LABREF share (%)	Difference (percentage points)
Non-standard employment	10	9	1
Working time and work organization	9	4	5
Dismissals	6	5	1
Health and safety	2	NA	NA
Retirement	2	NA	NA
Migration measures	2	4	–2
Early retirement	1	1	0
Training	10	10	0
Employment incentives	9	8	1
Public employment services	3	8	–5
Direct job creation	2	2	0
Unemployment benefits	6	6	4
General social assistance	4	4	0
Collective bargaining	5	5	0
Minimum wage	5	NA	NA
Wage indexation	0	NA	NA
Public sector	12	3	9
Work–family balance	4	8	–4
Working conditions	4	5	1
Anti-discrimination	4	–	NA

Source: ILO Inventory of Labour Market Policy Measures, LABREF database (ILO calculations).

137. Table C2 at the end of this section presents the algorithm that matches the categories in the ILO Inventory with the LABREF database in order to allow for a direct comparison between the two. Categories which were not clearly corresponded by any policy field in the LABREF database were excluded from the table – those with an "NA" value in Table C1.

FIGURE C.1 Ranking of Member States, by total number of policy measures (2008–13)*



* Please see Appendix F for a list of country acronyms used.

Source: ILO Inventory of Labour Market Policy Measures, LABREF database (ILO calculations).

It is fair to say that the composition of the two databases is remarkably similar. In only one case is the difference in share of policy measures in a category higher than 5 percentage points. This discrepancy is explained by the fact that the LABREF database presents a lower proportion of interventions in the public sector, mainly due to the fact that it does not record policy measures targeting the public sector unless they concern public wages, whereas the ILO Inventory also includes other types of measures, such as cuts in public employment.

Another important point that has been discussed previously in this report is the method of ranking countries in terms of the number of policy measures implemented. For the scatter plot in figure C.1, Member States were ranked according to the total number of policy measures implemented during the period.

There is a striking resemblance between the two databases, further endorsing the view that using the LABREF database as the main data source would not have significantly altered the main conclusions drawn from the analysis of this report.

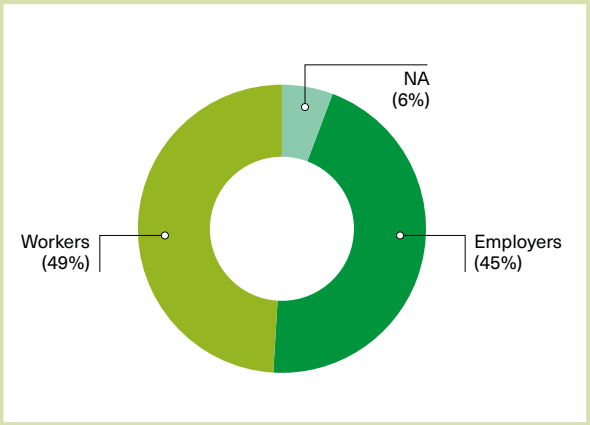
One dimension often used throughout this report is that of main beneficiary. Even though the LABREF database does not use the same nomenclature, this concept is directly related to that of the "direction" of a policy measure in the LABREF database. One can, without loss of generality, make a rough comparison between measures that are identified in the ILO Inventory as having workers as main beneficiaries and those in the LABREF as "increasing underlying policy settings". Figures C.2 and C.3 compare the breakdown of policy measures in each database according to these categories.

Although there are certain differences, both databases clearly identify workers as the group targeted in the greatest share of policy measures across the EU between 2008 and 2013. It is important to stress that some differences are to be expected as the overlap in topics is not absolute between the two databases. As mentioned earlier, for example, no public employment cuts are included in the LABREF database, which in this case would decrease the share of policies protecting workers.

So far, it has been shown that there is a remarkable overlap between the two databases in terms of the most important dimensions of their analysis. There is, however, one dimension where there are significant differences and this is the timing of policy interventions, as depicted in figure C.4.

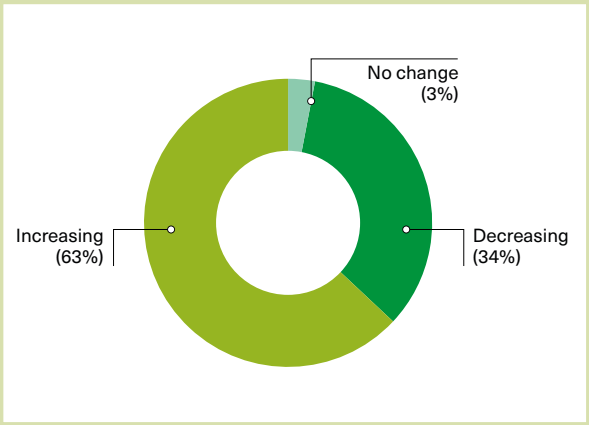
Clearly, with regard to timing, the behaviour described by each database is quite different: while the ILO Inventory identifies a peak in policy intervention just after the financial crisis hit European

FIGURE C.2 Breakdown of total policy measures by main beneficiary (2008–13)



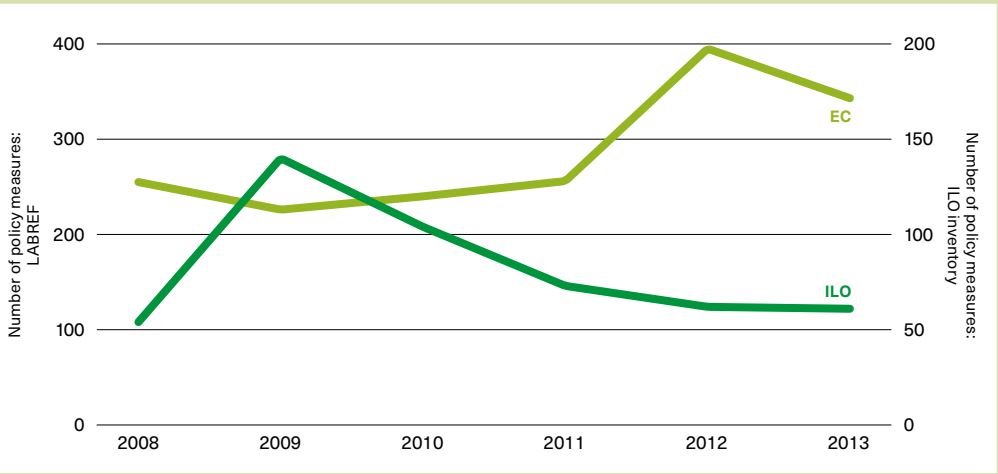
Source: ILO Inventory of Labour Market Policy Measures.

FIGURE C.3 Breakdown of total policy measures by direction (LABREF database) (2008–13)



Source: LABREF database (ILO calculations).

FIGURE C.4 Breakdown of total policy measures per year (ILO Inventory and LABREF database) (2008–13)



Source: ILO Inventory of Labour Market Policy Measures, LABREF database (ILO calculations).

labour markets in 2009, with a subsequent decline, the LABREF database identifies a constant, slow increase in the number of policy measures implemented from 2009 until 2012. It is difficult to determine the exact origin of this difference, but a detailed investigation shows that the difference is not constant across all areas of intervention. The ILO Inventory timing seems to be very similar across the different main areas, as can be seen in each of the chapters. In the LABREF database, there are some differences depending on the policy field: in half of the policy fields, the timing of policy intervention corresponds to that of figure C.4. The other half of the policy fields are divided between those that peak earlier in the period, as in the ILO Inventory, and those that peak somewhere between 2009 and 2012.

The LABREF timing perspective suggests that Member States took almost 4 years to increase dramatically the number of interventions to help sluggish labour markets in the wake of the crisis, which seems a rather odd finding. The ILO Inventory, on the other hand, suggests that Member States reacted faster to the negative effects of the crisis, and then progressively reduced their policy efforts, which would appear to be more coherent behaviour on the part of policy-makers.

TABLE C.2 ILO Inventory categories and LABREF database policy fields: matching algorithm*

ILO category	Corresponding LABREF policy fields
Non-standard employment	Definition of valid reasons for fixed-term contracts/Maximum duration of fixed-term contracts/Maximum number of renewals of fixed-term contracts/Part-time work/ Permanent contracts – other/Temporary agency work/Temporary contracts – other
Working time and work organization	Working hours management/Working time – Other
Dismissals	Collective dismissals/Definition of fair dismissal/Notice and severance payments
Migration measures	Immigration control/Measure to facilitate labour market integration of immigrants/ selective immigration policies
Early retirement	Early retirement
Training	Training
Employment incentives	Employment subsidies/In-work benefits (employment conditional benefit or tax credit)
Public employment services	Public employment services (job assistance, job-counselling, etc.)
Direct job creation	Direct job creation schemes
Unemployment benefits	Duration of unemployment benefits/Unemployment benefits – other/Coverage and eligibility conditions
General social assistance	Social assistance (housing, means-tested benefits)
Collective bargaining	Regulation by the Government of the wage-bargaining framework (e.g. extension of collective agreements, representativeness of social partners, etc.)/Social pacts, bipartite or tripartite framework agreements on wage setting/Wage setting – other
Minimum wage	Statutory minima
Public sector	Public wages
Work–family balance	Family-related benefits/Family-related working-time organization
Working conditions	Disability schemes, internal mobility, mobility – other, sabbatical and other special leave schemes/Sickness schemes/Special schemes for the disabled

* The categories in the inventory for which there was no clear counterpart in the LABREF database were omitted from the table.

Source: ILO Inventory of Labour Market Policy Measures, LABREF database.

(ii) Fixed-term employment

In certain cases, unlike in the case of the LABREF database, some alternative data sets can be compared with the inventory over a limited set of measures only. This is the case with the OECD's employment protection legislation (EPL) indices for regular temporary employment. As these indices focus only on a particular set of topics, it would make no sense to compare them with the total number of policy measures in the inventory, as they would include unrelated subjects, such as the minimum wage or ALMP measures. Hence, table C.3 compares the variations in these OECD indices with the number of policy measures per Member State across a selected number of categories.[138] This table, besides displaying the number of policy measures in these categories by Member State, also presents each Member State EPL index for both regular and temporary employment, as computed by the OECD. Table C.3 also includes the sign of the respective change: (+) for Member States where legislation became stricter between 2007 and 2013 and (–) in cases where strictness decreased over the same period.

In terms of those Member States which implemented a relatively smaller number of policy measures in this area, there has been little or no change in their level of EPL strictness, according to the OECD methodology, between 2007 and 2013. This is an early indication that the policy inventory does a good job of identifying policy changes in EPL for these two main areas.

138. Non-standard employment, working time and work organization, dismissals, retirement, public sector (non-wages) and working conditions.

TABLE C.3 Regular and temporary contracts: ILO Inventory policy measures and OECD index changes, by Member State (2008–13)

Country	Inventory policy measures	Regular employment		Temporary employment	
		Number of changes	Direction of changes	Number of changes	Direction of changes
Austria	5	0	NA	0	NA
Belgium	3	2	NA	0	NA
Bulgaria	4	ND	ND	ND	ND
Cyprus	1	ND	ND	ND	ND
Czech Republic	4	1	(–)	1	(+)
Denmark	2	1	(+)	0	NA
Estonia	5	1	(–)	1	(+)
Finland	3	0	NA	0	NA
France	11	1	(–)	0	NA
Germany	2	0	NA	1	(+)
Greece	14	2	(–)	2	(–)
Hungary	14	1	(–)	1	(+)
Ireland	3	1	(+)	0	NA
Italy	10	1	(–)	0	NA
Latvia	1	0	NA	0	NA
Lithuania	4	ND	ND	ND	ND
Luxembourg	2	0	NA	0	NA
Malta	5	ND	ND	ND	ND
Netherlands	11	1	(–)	0	NA
Poland	3	0	NA	0	NA
Portugal	10	3	(–)	2	(–)
Romania	1	ND	ND	ND	ND
Slovakia	9	2	(–)	4	(+)
Slovenia	7	1	(–)	0	NA
Spain	11	2	(–)	3	(–)
Sweden	0	0	NA	1	(–)
United Kingdom	9	1	(–)	0	NA

Note: ND = data not available; NA = not applicable.

Source: ILO Inventory of Labour Market Policy Measures, OECD.

Of the countries with a greater number of policy measures, the profiles as far as EPL changes go are more diverse. France, Italy, the Netherlands and the United Kingdom all implemented a significant number of policy measures during the period of analysis, which appear to have focused mainly on regular employment, as EPL strictness regarding temporary employment in these four countries has not changed according to the OECD. In contrast, countries such as Greece, Portugal and Spain deregulated both regular and temporary contracts during this period.

Looking at the sign of the changes in EPL across Member States, it is clear that there has been a tendency towards building greater flexibility into the labour market. Of the 14 countries that changed their level of EPL strictness between 2007 and 2013, only two increased it (Denmark and Ireland). With regard to temporary employment the trend is less clear: five countries increased their EPL strictness for these types of contract, while four others decreased it.

(iii) Dismissals

In order to gauge how effective the inventory is at capturing the changes identified by other works that focus on this type of policy/legislation, table C.4 presents the number of policy measures each Member State implemented in this category and the changes in strictness of the EPL index dedicated to individual and collective dismissals by the OECD.[139]

Out of the eight Member States where no policy measure was assigned to this category, seven observed no change in their EPL index between 2007 and 2013, as far as collective and individual dismissals are concerned. This underlines the ability of the inventory to identify most of the important changes in this particular policy field.

With regard to the direction of these changes, most countries that made changes to their EPL regarding dismissals did so by making dismissals easier for employers,[140] the exceptions being Denmark and Ireland; a trend that was already noted in the analysis of employment on temporary contracts (section 2.1). In the vast majority of Member States, the inventory's direction of change corresponds to that identified by the OECD index. In those cases where the inventory direction was mixed (meaning that policy measures were implemented in both directions during the period), in most cases the majority of policy measures followed the direction indicated by the OECD index (Greece, Slovakia and Spain). Ireland was the only Member State in which the direction of change in the inventory ran contrary to that of the OECD index. However, the particular policy measure identified in the inventory for Ireland only targeted banks covered by the state guarantee on all bank deposits and liabilities, and its narrow focus is the reason why such a change is not reflected in the OECD dismissal index.

TABLE C.4 Dismissals: ILO Inventory policy measures and OECD index changes, by Member State (2008–13)*

Country	Policies on dismissals	Main beneficiary	Dismissals (collective and individual)	
			Number of changes	Direction of the change
Austria	0	NA	0	NA
Belgium	0	NA	0	NA
Czech Republic	1	Employer	1	(–)
Denmark	0	NA	1	(+)
Estonia	1	Employer	1	(–)
Finland	0	NA	0	NA
France	1	Employer	1	(–)
Germany	0	NA	0	NA
Greece	4	Mixed	2	(–)
Hungary	2	Mixed	1	(–)
Ireland	1	Employer	1	(+)
Italy	3	Mixed	1	(–)
Latvia	0	NA	–	NA
Luxembourg	0	NA	0	NA
Netherlands	2	Mixed	1	(–)
Poland	0	NA	0	NA
Portugal	2	Employer	3	(–)
Slovakia	3	Mixed	2	(–)
Slovenia	2	Employer	1	(–)
Spain	5	Mixed	2	(–)
Sweden	2	NA	0	NA
United Kingdom	2	Employer	1	(–)

* The Member States for which the OECD has no data were omitted from the table.

Source: ILO Inventory of Labour Market Policy Measures, OECD.

139. The OECD EPL indices convert information on the strictness of employment legislation in each Member State (e.g. delays before notice can start, months of notice and severance pay) into cardinal scores normalized between 0 and 6, where higher scores represent stricter regulation. For more detailed information on these indices, see http://www.oecd.org/employment/emp/34846856.pdf [26 Sep. 2015].

140. This finding corresponds to a negative variation of the OECD index.

D. The ILO Inventory and the political cycle

The ILO Inventory of Labour Market Policy Measures is an invaluable instrument when assessing EU Member States' efforts to overcome the consequences of the financial crisis and subsequent subpar growth levels. This report uses the number of measures as an indicator of how active a Member State has been in a particular policy area. This is the best proxy for measuring this activity, as any weighting exercise of policy measures in such a vast span of policy areas would be hard to justify. However, other factors besides governments' dedication to each area of intervention can influence the number of policy measures implemented. One of them is the political cycle and the level of political instability in each country.

Political instability can lead to a high number of policy measures in certain areas, without any being in place long enough to have a significant impact on the labour market. Consider this hypothetical case: Country A has had no change in government over the past 6 years and implemented a training programme for unemployed workers in 2007 that has been the subject of only minor reforms until 2014. This counts in the framework of the ILO Inventory as one policy. Now consider Country B, which held elections in 2007, after which the Government implemented a training programme for unemployed workers. However, in 2009, early elections were called, and the new Government decided that the programme was inadequate, and therefore terminated it and implemented a new one. Four years later the Government failed to be re-elected. A third Government opted for a new training programme, discontinuing the previous one. Since a termination of policy is often counted as a policy in the EIRO online data set, this means that Country B would have a total of five policies, in contrast to the one of Country A. Given the time required to implement and translate such programmes into economic outcomes, it is easy to argue that Country A's programme was likely to be more effective than Country B's approach. Hence, in this particular

TABLE D.1 Elections and government changes, by Member State (2008–13)

Country	Changes in government	Number of policies	Dates	Elections between 2007 and 2014
Austria	0	18	–	2
Belgium	NA	17	NA	2
Bulgaria	2	18	2009, 2013	2
Cyprus	2	6	2008, 2013	2
Czech Republic	2	12	2010, 2013	2
Denmark	1	9	2011	2
Estonia	1	26	2007	2
Finland	0	10	–	2
France	1	30	2012	2
Germany	0	9	–	2
Greece	5	41	2007, 2009, 2011, 2012 (×2)	5
Hungary	1	25	2010	2
Ireland	1	12	2011	2
Italy	3	38	2008, 2011, 2014	2
Latvia	1	13	2011	3
Lithuania	2	13	2008, 2012	2
Luxembourg	1	8	2013	2
Malta	1	8	2013	2
Netherlands	1	15	2010	2
Poland	1	15	2007	2
Portugal	1	41	2011	2
Romania	1	18	2008	2
Slovakia	2	22	2010, 2012	2
Slovenia	3	13	2008, 2011, 2014	3
Spain	1	36	2011	2
Sweden	0	13	–	2
United Kingdom	1	38	2010	1

Source: ILO Inventory of Labour Market Policy Measures, ILO Research Department

case, the country with the higher number of measures in the inventory is in fact the one that had a less effective approach to the training of unemployed workers.

In order to attempt to control for such issues, table D.1 presents the number of changes in government of each Member State since 2007. For this purpose, a change in government is loosely defined as a change in the leader of the Government.[141]

The hypothesis that government turnover is correlated with the total number of policy measures is supported, to a certain extent, by table D.1. The four countries that did not have a change of government in the period under consideration averaged 12 policies in the inventory, while the remaining countries averaged 20 measures per country. Moreover, Luxembourg and Malta had only one change in government, in 2013 in both cases, which therefore had little time to have an impact on the inventory. These two countries had eight and nine policies in the inventory, respectively.

Another interesting observation from table D.1 is that six Member States[142] had an unweighted average unemployment rate of 6.3 per cent between 2007 and 2013, whereas the others had a rate of almost 10 per cent. Since this analysis is purely indicative, it is hard to draw any causal-related conclusions. It is therefore not certain whether political stability was possible due to a higher degree of resiliency within the economy from the outset, or, conversely, whether it was the limited political turnover that enabled the Member State to weather the crisis in a more resilient manner than other Member States.

141. The fact that some Member States have coalitions in power consisting of several parties can make this definition complicated to use, but it is used here more as an indicative variable, and is not critical in terms of the analysis.

142. Austria, Finland, Germany, Luxembourg, Malta and Sweden.

E. Croatia

The second half of 2008 was the point in time when the model of growth revealed all its limitations in Croatia, with the inflow of capital from abroad halting, slowing growth and increasing social costs. The accession of Croatia to the European Union, to become the 28th member in July 2013, took place amid poor growth prospects. Reforms undertaken over the 2008–13 period illustrate the challenges inherent in implementing economic stimulus measures in small open economies, with Croatia exhibiting trends seen in other EU countries, such as delays or cancellations of long-term structural changes and a surge in short-term proposals to combat the negative effects of the financial crisis.

In terms of employment protection legislation over the period 2008–11, some constraints regarding the use of temporary contracts and dismissals during probation periods were relaxed, while flexibility was introduced on the issue of breaks during work. A limited system of short-time working was implemented, whereby financial support to maintain full-time work could not exceed 20 per cent of the total wage bill. Hence the number of beneficiaries remained limited. On the other hand, the rules relating to collective dismissal were tightened. Studies on the impact of these counterbalancing elements of the reform show that their effect was relatively small in employment protection aggregate measures (Tonin, 2009). In 2013, the regulation on collective dismissal was relaxed to a certain extent with the shortening of the requisite notice period from 90 days to 30 days during the crisis. Since the end of 2013, the formulation of a new Labour Act has been on the governmental agenda. This new law should represent a radical step towards reducing the rigidity of employment protection and the unions have already declared their firm opposition.

Turning to unemployment benefits, after increasing unemployment benefits with an act in 2008 that linked them more strictly to previous wages, the rise in unemployment compelled the authorities to amend the act in 2009 by applying more stringent criteria to eligibility for those benefits. This constraint was corroborated by an increase in VAT and by the levying of a new "crisis tax" on different kinds of revenue.

This "crisis tax" was abolished from November 2010 and the method of calculating unemployment benefits changed again, with an increase in levels during the first months of unemployment. On the welfare side, a new Social Act tried to rationalize existing support and ensure a fairer distribution of benefits, with no additional funds available to finance the growing demand. The pension system, which had been awaiting reform for some years, was heavily restructured in 2010 by the introduction of a gradual process of harmonization in the retirement age of men and women, by penalizing early retirement and by reducing privileged pensions.

Regarding ALMPs, the first measure was aimed at tackling one of the main problems of social policy, namely, the registration with the Employment Service of people not actively looking for jobs. Since 2010, registration with the Employment Service, and social assistance, has been conditional upon a willingness to return to the labour market. As a result, in 2010, 26,000 people were removed from the unemployment registry.

Expenditure on ALMPs was drastically reduced in the immediate aftermath of the crisis. After 2010, with the introduction of the Economic Recovery Programme, the flows towards ALMPs were considerably reinvigorated. Matković et al. (2012) showed that the measures were globally effective. Nevertheless, a relatively small percentage of the unemployed was covered by ALMPs, 4.3 per cent in 2010 (Rinaldi et al., 2012). The Economic Recovery Plan also implemented support for entrepreneurship, financed through the joint resources of the Government and the financial system. The Plan led to the creation of mobile teams, specialized in counselling individuals threatened by unemployment. Later changes were minor, with the introduction in 2012 of additional incentives for employers who hire the long-term unemployed and take part in training programmes.

The crisis period was characterized by intense reform in the domain of industrial relations and the determination of the minimum wage. Regarding the latter, the legal framework used to set its value changed with the introduction of the Minimum Wage Act in July 2008 and the adoption of a formula linking the single rate minimum wage to the average wage and to economic trends.

The minimum wage was previously set though collective agreement. The new procedure led to a greater increase than would have been obtained through collective agreements and saw the minimum wage rise from 2,441 to 2,747 kuna per month in 2008. This raised concerns about the negative impact that such a sudden rise could have on the development of already existing informal payment systems for topping up wages (Grimshaw and Rubery, 2010). In 2013, the Government established a new method of determining the minimum wage by taking into account four different parameters (at-risk-of-poverty threshold, average household size, share of active population and consumer price index), with the vision that the Government would consult with the other social partners before each decision.

Regarding collective bargaining, in 2010 Government and employers planned to adopt a reform that would have removed the automatic extension of the validity of a collective agreement, as long as no new agreement had been made, even after the expiration of the period of the old agreement. This put the unions in a position of considerable advantage by giving them the right to accept only those new agreements whose conditions were more advantageous than those put in place by the previous agreement (Grgurev, 2013). In view of the continuing severity of the crisis during 2010, the employers, with the support of the Government, tried to challenge that principle. The reaction of the unions proved that, despite their fragmentation, they still had the power to effectively mobilize the labour force (Eurofound, 2012). Within a very short time span, they managed to solicit over 800,000 signatures against the planned reform, which was temporarily stopped. The proposed reform was later adopted in July 2012 without consulting social partners. According to the new Act, collective agreements expire 3 months after the conclusion of the period over which they had been concluded, unless the collective agreement explicitly specifies prolongation clauses. The Act also set new limits to union representation at the national level, raising the required minimum number of union members from 15,000 to 50,000 and thereby excluding from the dialogue one of the major confederations. In response, the unions organized public protests and submitted demands to the Constitutional court regarding the constitutionality of the Act.

The restructuring of the public sector through privatization and the creation of a precise tie between the wages of public servants and the economic trends in the country was one of the cornerstones of a general rationalization process (Gotovac, 2011).

In conclusion, changes in Croatia over the period 2008–13 resulted in the introduction of a small degree of flexibility into employment protection legislation, and strengthened the activation of jobseekers and beneficiaries of social assistance to seek work, while larger reforms were adopted to make collective bargaining more flexible. Although the process of minimum wage determination was changed to limit the participation of social partners, it is still too early to assess the medium-term effects of this policy on the level of the minimum wage.

F. List of country acronyms (EU-28)

The table below presents the list of country acronyms used throughout the report.

Country	Code
Austria	AT
Belgium	BE
Bulgaria	BG
Croatia	HR
Cyprus	CY
Czech Republic	CZ
Denmark	DK
Estonia	EE
Finland	FI
France	FR
Germany	DE
Greece	EL
Hungary	HU
Ireland	IE
Italy	IT
Latvia	LV
Lithuania	LT
Luxembourg	LU
Malta	MT
Netherlands	NL
Poland	PL
Portugal	PT
Romania	RO
Slovakia	SK
Slovenia	SI
Spain	ES
Sweden	SE
United Kingdom	UK

Source: Eurostat

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The **"Inventory of labour market policy measures in the EU 2008-13: The crisis and beyond"** report studies the way in which the labour market policies of Member States of the European Union evolved after the financial crisis of 2007/08, and the extent to which those policies were successful in mitigating the negative impact the crisis had on their labour markets.

Policy-makers reacted quickly to the crisis, with a balanced approach with respect to the main beneficiaries of those policy efforts. While a significant share of policies enhanced the rights of workers and increased the support offered to jobseekers, there was also significant effort dedicated to policy measures in which firms were the main beneficiary. After peaking in 2009/2010, however, these policy efforts decreased significantly thereafter.

Most of the attention of policy-makers went towards structural labour market reforms, together with interventions changing ALMP or wage rules, including collective bargaining.

The report highlights the need for constant and continuous dedication to the improvement of the resilience of labour market by policy-makers, even if this requires higher levels of public expenditure in the short term. A combination of policy measures which provide employers with enough flexibility to adjust their demand for labour together with interventions that improve working conditions and increase the support given to jobseekers will provide the only path for policy-makers across the EU to enable labour markets to recover from their current sluggish state and resume a pattern of sustainable employment growth and improving working conditions.

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