

## Successful labour market strategies in Europe - a comparison

Unemployment will remain the main challenge over the next few years in all EU Member States. Even if the level of unemployment may differ greatly from country to country, there are disadvantaged groups everywhere whose unemployment risk is significantly higher than that of others and whose unemployment very often becomes entrenched. The international division of labour (“globalised markets”) and the effects of information and communication technologies on the production process create acceleration and specialisation tendencies that represent considerable economic and social policy demands for all European countries. The consequences of international structural change can be seen in companies’ shorter planning horizons, increasing fluctuation on the labour market, an - at least imminent - exclusion of certain groups, the increase in precarious employment and a growing need to coordinate in order to bring together supply and demand on the labour market.

Generally speaking, the European economic trend can expect low economic growth in the medium term. Together with the strong segmentation of European labour markets, this is a poor prerequisite for reducing structural unemployment, which has already become entrenched in many countries, in a sustainable way. However, at the same time it is a question of integrating a growing labour supply (increase the participation rate of women, increase the participation rate of older workers, integrate migrants and people with migration background. These goals are ambitious yet necessary in order to safeguard society’s social cohesion and fully exhaust the EU’s economic potential as defined by Lisbon. A lasting improvement in the situation on the labour market therefore requires effective measures and sufficient resources in the area of labour market policy.

The strategies for combating unemployment within the EU differ considerably. They also differ greatly in terms of their effect and success. In its study “Designing and financing labour market policies: an international comparison”, the Chamber of Labour (AK) investigated the success of labour market policy strategies in countries on a par with Austria. Using the strategies of Denmark, Germany, the Netherlands, Sweden and the United Kingdom as examples, it ascertained which strategies could be considered “best practice”, what effects certain strategies have and what can be deduced from this for the labour market policy in Austria.

The study in brief:

- Unemployment is still far too high even in EU countries enjoying economic success like Austria.
- “Flexicurity” is only a successful labour market strategy if it means more than calling for ever greater flexibility. Social security also needs to be clearly strengthened. Social security reduces the fear of flexibility and competition on the labour market (EU integration) and leads to greater social cohesion and stabilization of the economy (avoidance of “panic saving” and the collapse of domestic demand due to unemployment).
- Denmark and Austria exhibit an equally high level of flexibility on the labour market. However, Denmark also reveals a high level of social security. Austria shows deficiencies here, namely comparatively low unemployment benefit and a short period for drawing unemployment benefit.
- At the same time, Denmark has the most successful labour market policy model. Whilst Austria has a lower unemployment rate than many other EU Member States, its labour market is “more unjust” (discrimination against women, employment rate among older people too low) and more crisis-prone than Denmark’s.
- Austria can likewise become a benchmark for Europe if it strengthens social security and continued vocational training and improves reconciliation of work and family life.
- Austria’s greatest hindrance: the lack of financial security for an active labour market policy and an insufficient number of childcare places.

### Comparison of models

The countries chosen for the survey also represent certain welfare state models: Denmark and Sweden represent the Scandinavian model, the United Kingdom is classified as the Anglo-Saxon or liberal model and the Netherlands, Germany and Austria represent the Continental European model.

It turns out on the whole that the Scandinavian model is the most successful at joining together labour market policy success and social security and therefore safeguarding social cohesion based on successful economic growth. We therefore recommend gearing the Austrian mixed system for labour market policy more to the Scandinavian model.

Denmark’s policy proved to be the most successful in the country comparison. There has been a sharp decrease in unemployment here in recent years. At the same time, the employment rate is also not only high in general, it is also high among older people and women (clearly the best value in the comparison on the whole). The high level of unemployment benefit acts as an automatic stabiliser in supporting economic activity and reduces the fear of unemployment. The successful labour market trend continues.

The Netherlands also managed to reduce unemployment significantly and provides a high degree of security. A key success factor in the past was a reduction in the labour supply; however, this was also facilitated by early retirements in the 1990s.

Whilst Sweden exhibits a relatively high unemployment rate compared to Denmark, the Netherlands and Austria, it nevertheless managed to significantly reduce it in the period under review. Expressed in full-time equivalent employment (FTE), Sweden has the second highest employment rate after Denmark among the countries in the comparison.

Whilst the United Kingdom also posted a sharp fall in unemployment over the last decade, this trend has not lasted. In addition, the extremely low level of unemployment benefit is probably one of the reasons for one of the highest poverty rates in the EU.

Germany combines low flexibility with relatively low social security and has the highest level of unemployment of all the countries in the study. However, Germany has also had to manage by far the most difficult structural change process of all the countries in the comparison as a result of reunification.

Austria is likewise one of those countries with a relatively low unemployment rate that is falling at present. However, unemployment has experienced a marked increase here in the last decade, the employment rate among older people is low and that of women is much lower than Denmark's. In addition, rising unemployment is again expected due to the unfavourable economic forecasts for Europe.

## Facts & figures

### Rising unemployment in Austria and Germany

Whilst Denmark and the United Kingdom have (roughly) halved unemployment since 1993, Sweden and the Netherlands have reduced this significantly, unemployment has increased in Austria and Germany - with the highest point reached in both countries in 2004 and 2005. In Austria, unemployment has increased from 4.0% (1993) to 4.8% (2006). In the United Kingdom, it fell from 10.0% (1993) to 5.3% (2006), and in Denmark from 9.6% (1993) to 3.9% (2006). Despite positive trends since 2005, Germany has been posting by far the highest level of unemployment on the job market with an unemployment rate of 8.4% (2006) - Denmark and the Netherlands have the lowest value of the countries analysed with 3.9% (2006). However, the positive trend in the last decade in the United Kingdom has not lasted. On the contrary, there was a rise in unemployment again in 2006.

### Employment increase in all countries except Austria and Germany

Whilst the employment rates ranged from 71.5% to 77.4% in all other countries, Germany (67.5%) and Austria (70.2%) lag quite some way behind by comparison. Expressed in FTE, employment in Austria and Germany has even fallen: by 5.1 percentage points in Austria between 1995 and 2005 and by 3 percentage points in Germany over the same period. In all the other reference countries, the employment rate also increased in terms of FTE (up 1.3% to 5% from 1995 to 2005).

### **“Flexicurity” leads to success - although only if the “security” aspect is clearly emphasised**

The policy approaches chosen differ according to the different welfare state ideas in the individual countries. In the process, several methods can lead to success, as evinced by the favourable trend in employment and unemployment in Denmark and in the United Kingdom, although they have a very different distribution effect. If we allow the longer-term trends on the labour market as well as the most recent labour market data to exert an influence on the evaluation of the different models, then the Scandinavian model clearly turns out to be the most successful. This can ultimately be put down to a proactive interpretation of the “Flexicurity” approach, which also emphasises a high level of social security. Accordingly, labour market policy strategies are to the fore helping people to adapt to the ever-changing economic environment and at the same time join together social security and stabilisation of the economy (domestic demand) via relatively high unemployment benefit.

### **Sufficient resources crucial to success**

It clearly follows from the comparison of active and passive labour market policy expenditure as a percentage of GDP that Denmark recorded the highest expenditure levels in 2005 in the area of active as well as passive labour market policy. On the other hand, both expenditure categories are the lowest in Great Britain. In Austria, 0.46% of GDP (Denmark: 1.43%) was spent on active labour market policy and 1.51% of GDP on passive labour market policy (Denmark: 2.51%). According to the analysis of the weighting of labour market policy instruments, clear potential exists not only for Austria to increase both expenditure levels in order to keep pace with Scandinavian standards.

### **Financing as stumbling block**

Even if agreement is reached on goals and programmes, a large stumbling block still remains as a rule: financing. This is also evident at the moment in the problems trying to implement the reform projects for the labour market in their entirety as proposed by the Austrian social partners. In so far as problems arise in the course of this, it is due to unsolved financing issues.

Labour market policy spending, in particular that on active labour market policy, should be seen not only as social expenditure, but as social and economic investments that also help integrate persons at a particular social and economic disadvantage. It is no accident that those European countries with very well developed social security and welfare systems also have the greatest economic dynamism (Scandinavia).

For economic reasons, those benefiting from labour market policy should finance it. This means on the one hand the workers who benefit from social support and further training and on the other the employers who benefit from well trained employees. However, it also benefits the public sector thanks to additional tax receipts that are induced directly and indirectly by an active labour market policy. For Germany, it is estimated that the fiscal effects alone of an active labour market policy would refinance 60% to 95% of the expenditure for an active labour market policy.

Unemployment insurance has been recognised in general as an effective automatic stabiliser and is part of textbook economics.

A legal claim to participation in active labour market policy can likewise contribute to economic stabilization. It would therefore represent an effective fiscal policy tool that should accordingly also be financed - in part - from taxes.

Another argument for opening the tax coffers comes from the debate on the tax burden on work, which is deemed too high. Denmark shows again that low non-wage labour costs also bring with them advantages for the labour market policy with its sharp fall in unemployment and high employment rate.

The labour market policy should therefore be generously furnished with resources that must in any case be used effectively and efficiently in order to support persons disadvantaged on the labour market. To enable this, the labour market policy should be financed by social security contributions as well as by taxes.

### **Austrian approaches to reform**

The **Austrian social partners** have reacted recently to the challenges facing the labour market policy with several reform models:

- + New, flexible severance pay model.
- + New incentive model for apprenticeship training.
- + More investments in active labour market policy, above all in higher quality training.
- + Reform of “educational leave”.
- + New package of incentives for older workers.

These models have already been implemented in part. However, some financing issues still remain unsolved.

### **Tasks for the future**

Insufficient protection against unemployment rightly makes people anxious of labour market flexibility and increasing competition on the labour market. Potential “losers” to flexibility can expect too little protection at present. However, “Flexicurity” is only successful in the area of active labour market policy if

- + Social security is strengthened by a higher level of unemployment benefit for longer
- + The quality of the job placement service is improved through systematic Case Management
- + The opportunities for continued vocational training are strengthened
- + The childcare facilities for working parents are improved
- + The incentives package drawn up by the social partners to increase the employability of older people is implemented and
- + There is greater financial security through supplementary public financing (tax) for active labour market policy and for the implementation of the reform models.

The special challenges facing the Austrian labour market policy lie above all in increasing the participation rate of women and older people, setting up and developing an integrated culture of further training and skills training for workers and job seekers as well as reintegrating job seekers into the labour market in a sustainable manner.

The participation rate of older people between the ages of 55 and 65 is a mere 35.5% in Austria (Lisbon target for 2010: 50%). Reconciliation of work and family life is still made a lot more difficult for women due to a long absence from the labour market, income losses and downgrading of jobs.

Further training is of vital importance for remaining in gainful employment. However, continuing training in enterprises financed by employers and the public is, compared above all to quite a few Scandinavian countries, a lot less developed. Fewer resources than in comparable countries have also been made available up to now to job seekers for further training and skills training.

The dynamics of the labour market must not be detrimental to certain groups of job seekers any more. "Revolving door effects", i.e. employment careers that consist of constantly entering and dropping out of gainful employment to take up unstable work affect above all younger workers or those with poor qualifications. Opportunities on the labour market are therefore distributed unequally. Evidence shows that the unemployment risk of migrants is exceptionally high.