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# **Effectiveness of the anti-crisis labor market measures in the EU**

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# Effectiveness of LMPs in the crisis

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- The evaluation of the effectiveness of labor market measures takes time
- It is too early to draw **final** conclusions or for an **overall** assessment
- The EU Commission and the Employment Committee, OECD and other authors give some evidence on the effectiveness of the main measures adopted

# Effectiveness of LMPs in the crisis

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## Measures to maintain employment:

- successful in limiting the decrease in employment
- mainly STWA
  - more effective in the initial phase of the crisis
  - risks:
    - artificially maintaining employment in declining industries instead of an efficient reallocation
    - deadweight, substitution and displacement effects
  - possible countermeasures:
    - limited duration
    - precise eligibility criteria

# Effectiveness of LMPs in the crisis

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## Measures to create employment:

- Job subsidies: hiring incentives or reduction of non-wage labor costs;
  - Effective in terms of job creation, but risk of deadweight and costly
- Public-sector job creation:
  - Limited effectiveness

# Effectiveness of LMPs in the crisis

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## Measures to promote reintegration:

- Training:
  - Uncertain effectiveness, more effective in the long-run and if well targeted
- Job search assistance and activation measures:
  - Effective in short-run, but need labor demand
  - Important mainly in the recovery phase

# Effectiveness of LMPs in the crisis

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## Income support for the unemployed:

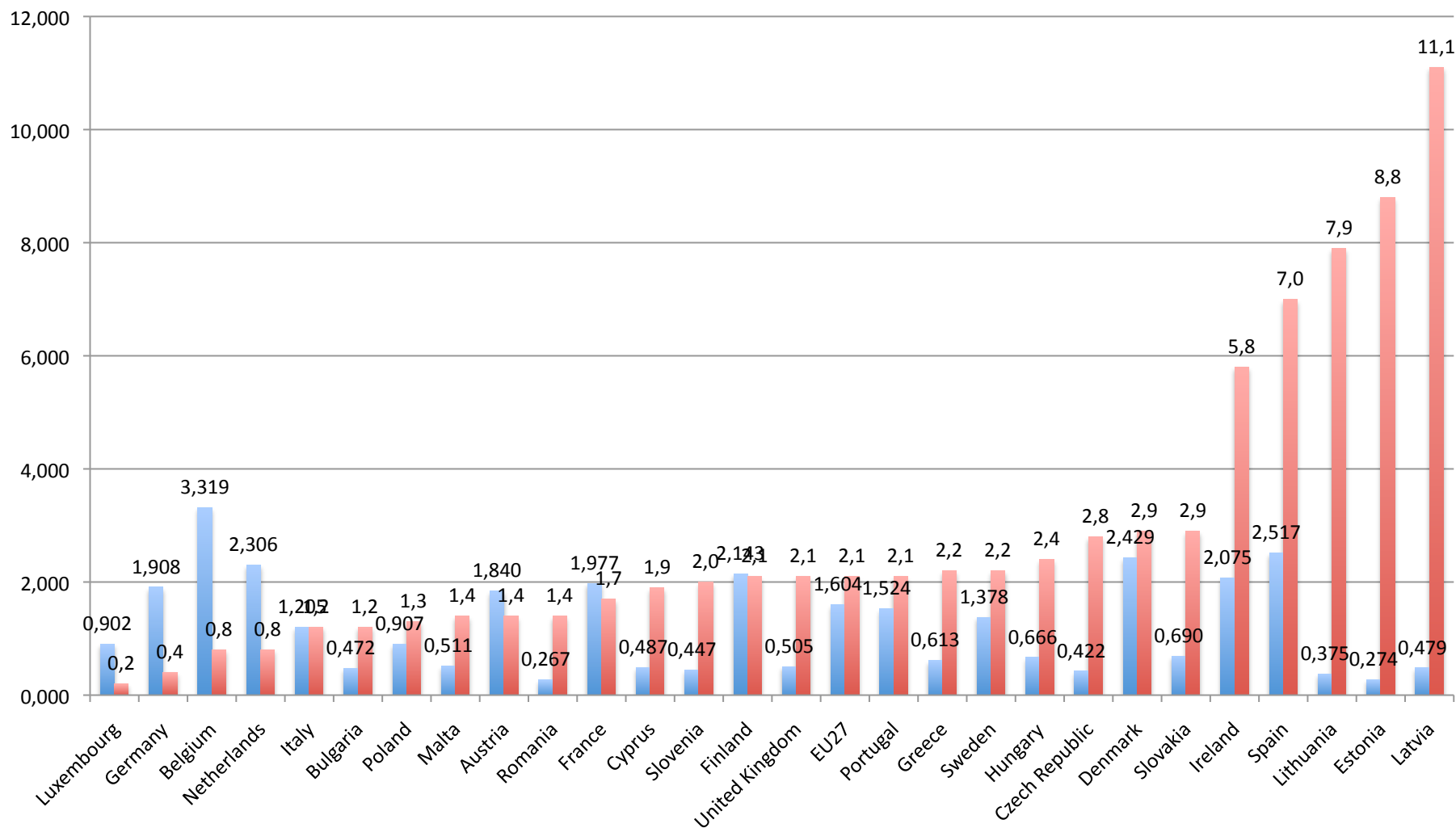
- Unemployment benefit:
  - discourage job search and re-employment
- Reduction of negative efficiency effects:
  - Decreasing generosity
  - Not too long duration
  - Activation policies: job search requirements
  - Sanctions

## Effectiveness of LMPs and public expenditure

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- The question of effectiveness of LMPs is becoming fundamental for EU Member States, since rising budget constraints
- Before the crisis, the public expenditure on labor market policies was declining:
  - 2005: 2.0% of EU-27 GDP
  - 2008: 1.6% of EU-27 GDP
- Priority: to choose the most effective policy mix and to finance it

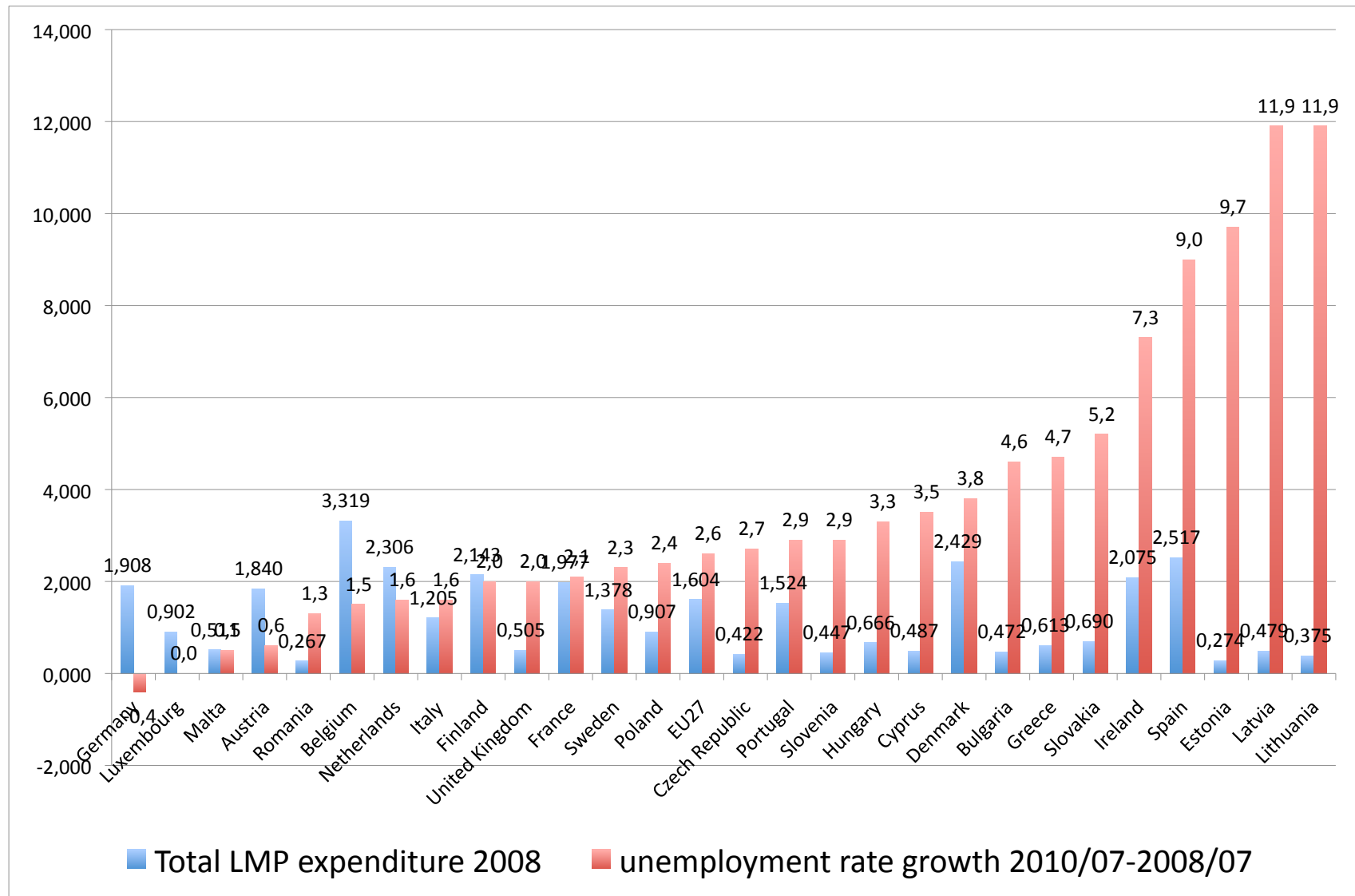
# LMP expenditure and unemployment rate



■ Total LMP expenditure 2008    
 ■ unemployment rate growth 2009/07-2008/07



# LMP expenditure and unemployment rate

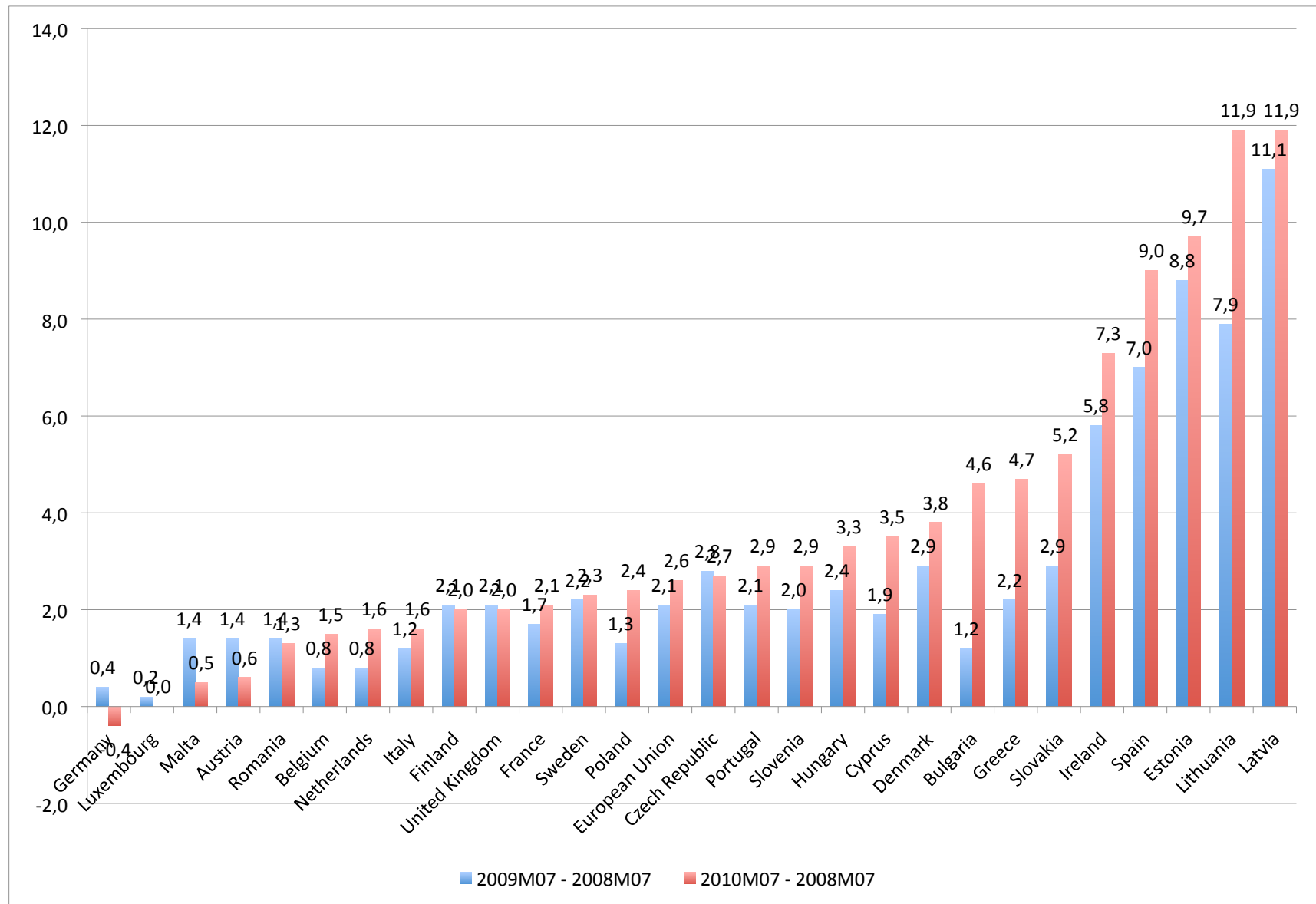


# Denmark: example of flexicurity

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- Interesting case with reference to the performance of the labor market during the crisis
- Model of flexicurity:
  - Non–restrictive dismissal protection legislation
  - Generous unemployment benefit
  - High level of ALMP
  - Efficient PES
- Before the crisis: low unemployment rate and a quick reintegration into the labor market
- during the crisis: doubled unemployment rate  
3.2% in July 2008 to 6.5% in September 2009 (highest level in April 2010: 7.4%)

# Growth of unemployment rate



# Effectiveness of social protection systems

Systems	Employment protection legislation	Unemployment benefit	STW compensations	Effective in the crisis
New welfare	Strict dismissal protection legislation	Non generous: <ul style="list-style-type: none"><li>• Short duration</li><li>• Low replacement rate</li></ul>	Yes	More effective (Germany, Austria, Belgium, Italy)
Flexicurity	Non-restrictive dismissal protection legislation	Generous: <ul style="list-style-type: none"><li>• Long duration</li><li>• High replacement rate</li></ul>	No or very limited as partial unemployment benefit	Less effective (mainly Denmark, Finland, Sweden, The Netherlands)

# STWA and flexicurity

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- Before the crisis: criticism to STW schemes
  - Passive labor market policy
- Now: new approach
- STW schemes:
  - Implementation tool for flexicurity:
  - combine internal flexibility for the employer with job and income security for the employee

	STW compensations	training activities during the time off/ training support for employees	Reduction-deferral of non-wage labor costs	Public expenditure	Income tax cut	Incentives to employ additional workers	Direct enterprise support (loan guarantees, low interest loans)	Mobility grants	(Re-)Training of unemployed people	Improving employment services	Unemployment benefits (amendments)
Germany	+	+	+			+	+			+	
Luxembourg	+	+							+		
Malta		+									
Austria	+	+							+		
Romania	new		+				+			+	+
Belgium	+	+	+					+			
Netherlands	new	compulsory	+			+	+		+	+	
Italy	+	+							+		
Finland									+	+	+
United Kingdom		+				+				+	+
France	+	+		+		+	+		+		+
Sweden			+			+				+	+
Poland	new				+		+		+		+
EU 27											
Czech Republic	new	compulsory	+					+			+
Portugal	+	+	+			+					
Slovenia	new	compulsory				+	+				
Hungary	new	compulsory	+			+	+				
Cyprus		+									
Denmark											+
Bulgaria	new		+			+				+	
Greece		+				+					
Slovakia			+					+			
Ireland		+							+		+
Spain				+					+	+	
Estonia					+		+		+		+
Lithuania		+			+		+	+			
Latvia		+			+		+		+		+