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Testimony

Subcommittee on Human Resources
Committee on Ways and Means
U.S. House of Representatives

November 17, 2015

Chairman Boustany, Ranking Member Doggett, and members of the Committee, thank you for inviting me to testify on this important topic.

My name is Douglas Besharov, and I am a Senior Fellow at the Atlantic Council, where I conduct research on international competitiveness and comparative domestic policy. I am also a professor at the University of Maryland School of Public Policy, where I teach courses on poverty alleviation and program evaluation. I also direct our Welfare Reform Academy (WRA) and our Center for International Policy Exchanges (CIPE).

The Financial Crisis and subsequent recession of 2007–2009 have left many economic problems in their wake. One of the most worrisome has been a weak labor market—with high levels of joblessness (though not technically “unemployment”) and declining wages—that shows little indication of more than modest improvement for some time to come. Other developed countries have been grappling with these same issues and I have been asked to describe the policies they have implemented in response. (I will do so on the basis of ongoing projects at the Atlantic Council and the University of Maryland.)

Declining labor force participation

Post-recession unemployment has finally fallen from its high of 10 percent in October 2009 to a welcome decline to about 5.0 percent at this writing. But the unemployment rate is only one measure of the labor market's health, and other indicators continue to be worrisome.

- **More long-term unemployment.** In October 2015, about 25.8 percent of the unemployed had been without a job for six months (down from a high of about 45 percent in September 2011, the highest since World War II) compared to about 11.4 percent in 2000.¹
- **Less employment.** In August 2015,² only about 68.9 percent of working age Americans (ages 16-64) were actually employed (compared to its high of about 74.1 percent in 2000). Some attribute this decrease to the growth in the number of Americans attending college and retiring early. However, the pattern is also true for Americans in their “prime” working age (ages 25-54). Between January 2000 and October 2015, the percent of employed Americans of prime working age declined from about 81.8 percent to about 77.2 percent.³
- **More part-time employment.** In August 2015, only about 79 percent of those of working age were working full-time (compared to about 81 percent in 2007, before the beginning of the economic downturn).⁴ Between August 2007 and August 2015, the number of full-time workers slightly declined (from about 118.8 million to about 117.1 million), while the number of part-time workers increased from about 22.4 million to about 23.8 million.⁵ The number of individuals working part-time either because they were unable to find full-time work or because of “slack work or business conditions”⁶ increased by about 1.8 million over this period (from about 4.4 million to about 6.2 million), or about 41 percent.⁷

¹Bureau of Labor Statistics, “Table A-12. Unemployed Persons by Duration of Unemployment,” <http://www.bls.gov/webapps/legacy/cpsatab12.htm> (accessed October 8, 2015).

²Data from the most recent month of the CPS are not yet available for working age individuals.

³Bureau of Labor Statistics, “Employment-Population Ratio - 25-54 yrs,” <http://data.bls.gov/pdq/querytool.jsp?survey=ln> (accessed October 2015).

⁴Full-time workers include those who worked thirty-five or more hours a week, worked part-time for noneconomic reasons but who usually work full-time, did not work in a week but who usually work full time, and worked full time but usually work part time for economic reasons.

⁵Authors' calculations from U.S. Census Bureau, Current Population Survey.

⁶Bureau of Labor Statistics, “Table A-8. Employed Persons by Class of Worker and Part-time Status,” <http://www.bls.gov/webapps/legacy/cpsatab8.htm> (accessed November 2, 2015).

⁷Authors' calculations from U.S. Census Bureau, Current Population Survey.

- **Stagnant wages.** Wages were also weak, although that depends on the period measured. The 2014 median hourly wage was \$17.09, roughly the same as 2001's \$17.11.⁸ (Total median compensation might be modestly higher if fringe benefits are included.)⁹ Another measure, average weekly earnings, seems to show more progress. Between October 2007 and October 2015, average weekly earnings increased from about \$24.23 to \$25.20.
- **Less job seeking.** Although unemployment rates have slowly inched downward, so have the number of people *looking for jobs*, resulting in a decline in the labor force participation, that is, those looking for a job as well as in a job.) In August 2015, the labor force participation rate was only about 72.3 percent (compared to its high of about 77.6 percent in January 1999).¹⁰ About 5.2 million working age Americans (about 2.5 percent) did not have a job and were not looking for one (even as they said they wanted one). That took them out of the “labor force,” and, hence, not officially “unemployed.”¹¹

All told, in August 2015, about 68.8 million Americans of working age were underemployed (about 6.1 million), unemployed (about 4.6 million), or out of the labor force (about 55.8 million); that is about 33.7 percent of the population. In that same month, there were about 31.8 million Americans of *prime working age* who were underemployed (about 3.6 million), unemployed (about 3.9 million), or out of the labor force (about 24.3 million) or about 25.4 percent of this segment of the population.¹² (See figures 1 and 2.)

⁸U.S. Department of Labor, Bureau of Labor Statistics, “May 2001 National Occupational Employment and Wage Estimates: All Occupations,” http://www.bls.gov/oes/2001/may/oes_00A1.htm (accessed October 23, 2015); and U.S. Department of Labor, Bureau of Labor Statistics, “May 2014 National Occupational Employment and Wage Estimates United States,” http://www.bls.gov/oes/current/oes_nat.htm#00-0000 (accessed October 23, 2015).

⁹Lawrence Mishel and Kar-Fai Gee, “Why Aren’t Workers Benefitting from Labour Productivity Growth in the United States,” *International Productivity Monitor* 23 (Spring 2012): 31–43, <http://www.csls.ca/ipm/23/IPM-23-Mishel-Gee.pdf> (accessed October 23, 2015).

¹⁰Authors’ calculations from U.S. Census Bureau, Current Population Survey.

¹¹“Unemployment” is defined by the federal government as being without a job *and also* looking for one.

¹²Authors’ calculations from U.S. Census Bureau, Current Population Survey.

Figure 1
Enrollment in Select
U.S. Cash and Noncash Government Programs
2000-2014

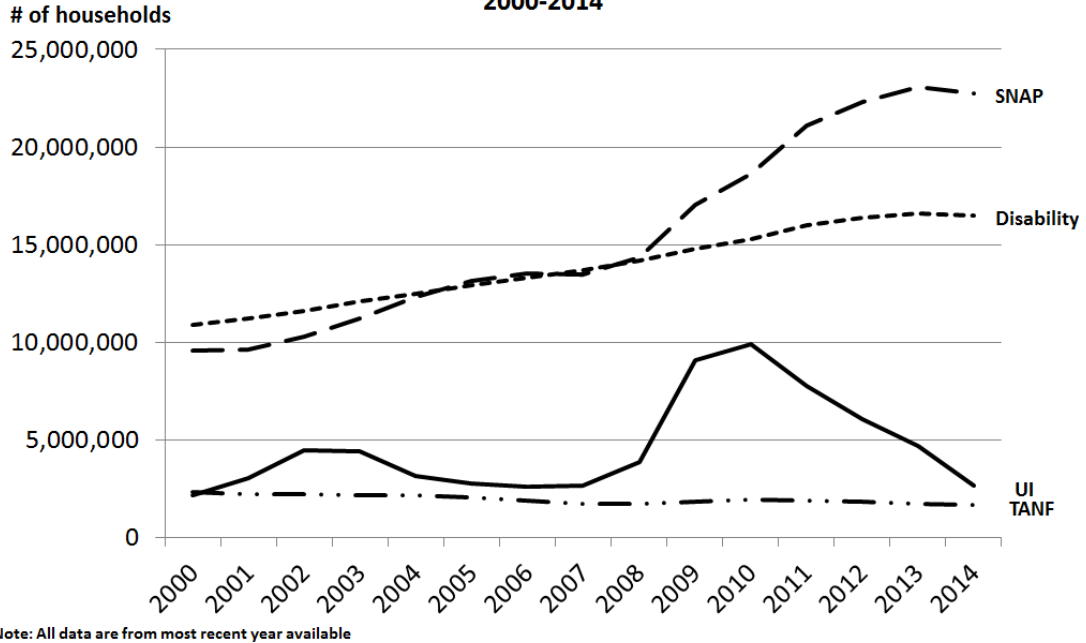
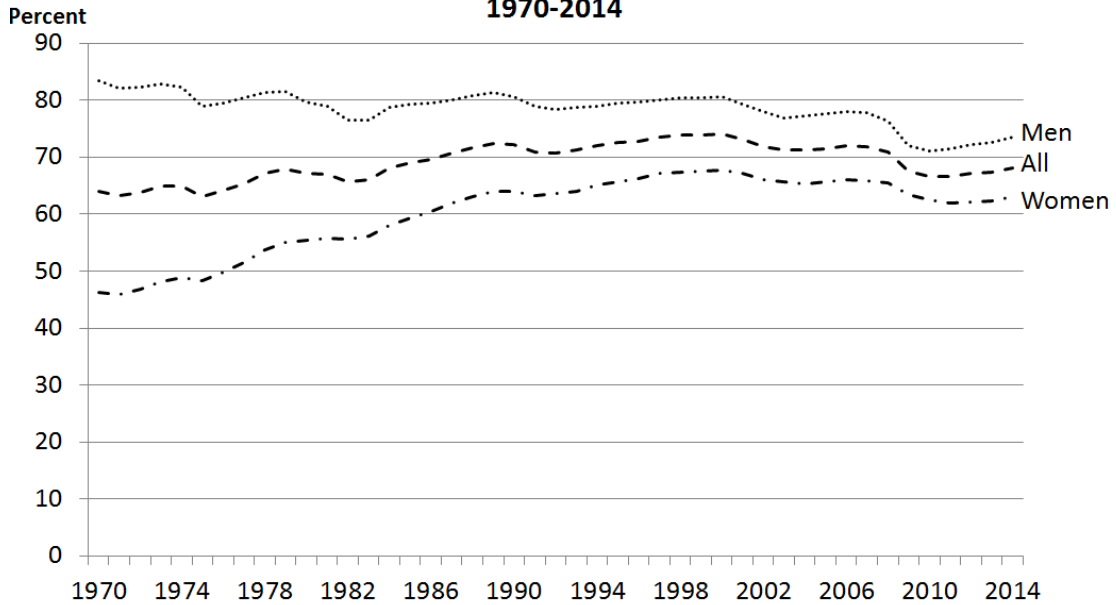


Figure 2
Employment/Population Ratio
United States by Sex
1970-2014



Starting in the 1970s, many European countries experienced similarly worrisome declines in employment and labor force participation. Across the original fifteen members of the European Union (EU-15),¹³ between 1970 and 1982, the percentage of the population employed fell from about 61 percent to about 57.8 percent (before beginning a slow increase). For men, the decline was much longer and steeper, from about 83.7 percent in 1970 to about 70.5 percent in 1994.¹⁴ The labor force participation of individuals of working age increased from about 62.1 percent to about 67.6 percent during this period, but only because more women were entering the labor force. For men, the labor force participation rate declined from about 85.2 percent to about 78.5 percent. At the same time, in most countries, new highs were reached in the percent of the population receiving government benefits from unemployment, disability, and social assistance programs.

In response, a growing number of developed countries introduced policy reforms aimed at “activating” the recipients of safety net benefits who might be able to work, that is, requiring them to perform work-related activities while receiving benefits. (The US welfare reforms of the 1990s were an early part of this movement, but since then, some other developed countries have made more fundamental reforms to their labor activation policies.) Since the 1990s, one country after another has modified its safety net programs, as described in this policy brief. The countries that made the most extensive changes are Australia, Denmark, Germany, the Netherlands, the United Kingdom, and, to a lesser extent, Austria, Finland, France, Ireland, Italy, Japan, Norway, Spain, and Sweden. These countries made both substantive changes (tightening eligibility, limiting the duration of benefit receipt, and mandating job search and other work-first activities) and administrative changes (consolidating programs, decentralizing authority, outsourcing services, and incentivizing systems of financing and reimbursement).¹⁵ The key aspects of the changes can be summarized under three overarching themes:

- **Synchronizing benefits** across safety-net programs to facilitate seamless benefit receipt over time as well as activation efforts, so that, as individuals were time-limited off UI and Disability programs, they were transitioned to cash welfare or subsistence programs;
- **Encouraging work** by embedding coordinated activation requirements, phase outs and time limits on benefits (before transfers to other programs), and workforce development services in most major safety-net programs and, when possible, by reducing high marginal tax rates and other disincentives to work; and

¹³Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

¹⁴Organisation for Economic Co-operation and Development, “OECD Stats Database,” <http://stats.oecd.org/#> (accessed August 6, 2014).

¹⁵Many, but not all, of these changes were discussed at a joint University of Maryland/OECD conference titled “Labour Activation in a Time of High Unemployment” held at the OECD headquarters in Paris, France on November 14–15, 2011.

- **Decentralizing authority while strengthening accountability** in order to facilitate programmatic innovation and experimentation within ongoing performance measurement systems, often operated using performance-based funding mechanisms.

(See table 1.)

Table 1
European Social Welfare Program Changes

	Tighten eligibility (income or categorical)	Limit duration of full benefits (reduce or end)	Require work-first activities	Consolidate/synchronize programs	Devolve authority	Outsource services (privatization)	Incentive systems of financing and reimbursement
Australia	W	W	UI	UI, D, W		UI, W	UI, W
Austria			D				
Denmark	UI, W	UI, D	UI, D	UI, D, W			D, W
Finland							D
France	W		W	UI, W			
Germany		UI	UI, W	UI, W	UI, W	UI, W	
Ireland			UI, W			UI, W	
Italy			UI		UI		
Netherlands	UI, D	UI, D	W		W	W	D
Norway				UI, D, W			
Spain						UI	
Sweden	D	D	D				
UK	D	UI, D	UI, D, W	UI, D, W		UI, W	

Between 1994 and 2008, the employment population ratio in the EU-15 increased dramatically from about 60.0 percent to about 67.5 percent. The rate subsequently fell during the economic crisis and in 2014 was about 65.9 percent, or about 9.8 percent higher than in 1994. Similarly, the overall labor force participation of the EU-15 continued to rise (even during the economic downturn) up to about 73.8 in 2014. As with the 1970-1994 period, the increase in the labor force participation rate was driven by more women joining the labor force. However, unlike the 1970-1994 period, the labor force participation rate for men has slightly increased, from about 78.5 percent to about 79.4 percent.¹⁶ Some countries, such as Germany and the United Kingdom, have experienced more substantial increases in the male labor force participation rate over the last five or ten years.

Few of the more recent policy changes have been rigorously evaluated. However, there is some evidence from econometric and time series evaluations that tend to show that these policies can have a positive effect on lowering long-term recipients and increasing labor force participation. The OECD, for example, examined the unemployment data for countries with “strong activation approaches” (Australia, Austria, Denmark, New Zealand, Norway, Switzerland and the United Kingdom) during the recent economic downturn and found that, while unemployment rates increased, they stayed “below former peaks.”¹⁷ In addition, the OECD’s review of the literature finds both historical and current examples of the implementation of activation programs during times of high unemployment lowering the receipt of unemployment benefits and increasing employment.¹⁸ For example, although caseloads began to decline before Germany’s reform of its unemployment assistance social assistance programs and the Netherlands’s reform of its disability program, the declines in both countries persisted and did not revert upward to previous levels with the onset of the Financial Crisis in 2007 (see figures 3, 4, and 5).

¹⁶Organisation for Economic Co-operation and Development, “OECD Stats Database,” <http://stats.oecd.org/#> (accessed October 23, 2015).

¹⁷Organisation for Economic Co-operation and Development, *Employment Outlook 2015* (Paris, Organisation for Economic Co-operation and Development, July 2015).

¹⁸Organisation for Economic Co-operation and Development, *Employment Outlook 2015* (Paris, Organisation for Economic Co-operation and Development, July 2015).

Figure 3
Employment/Population Ratios
in the US and EU-15
1979-2014

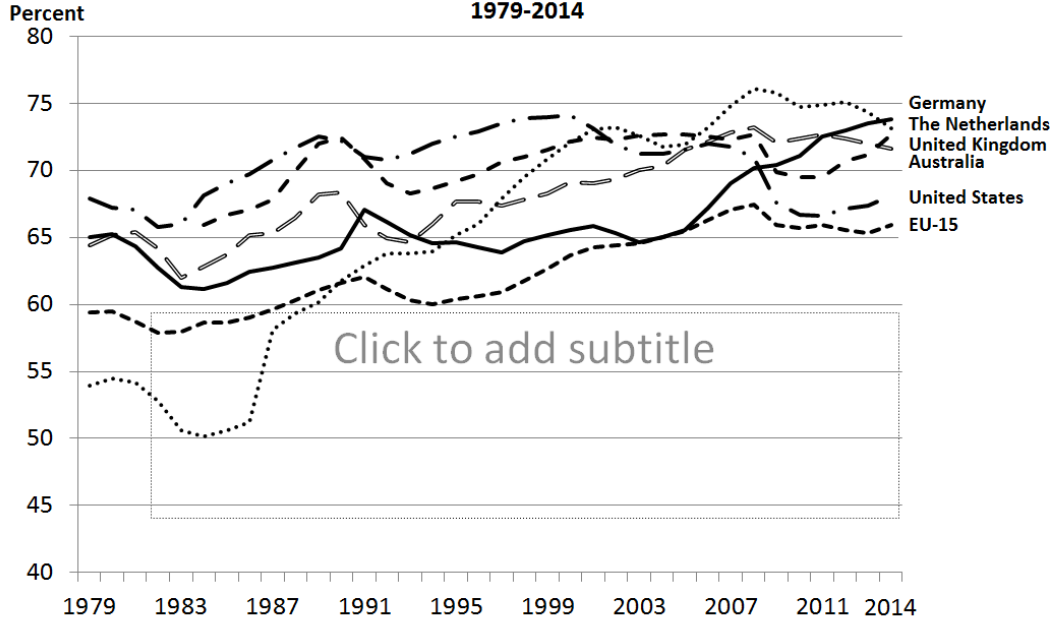


Figure 4
Employment/Population Ratio
EU-15 by Sex
1970-2014

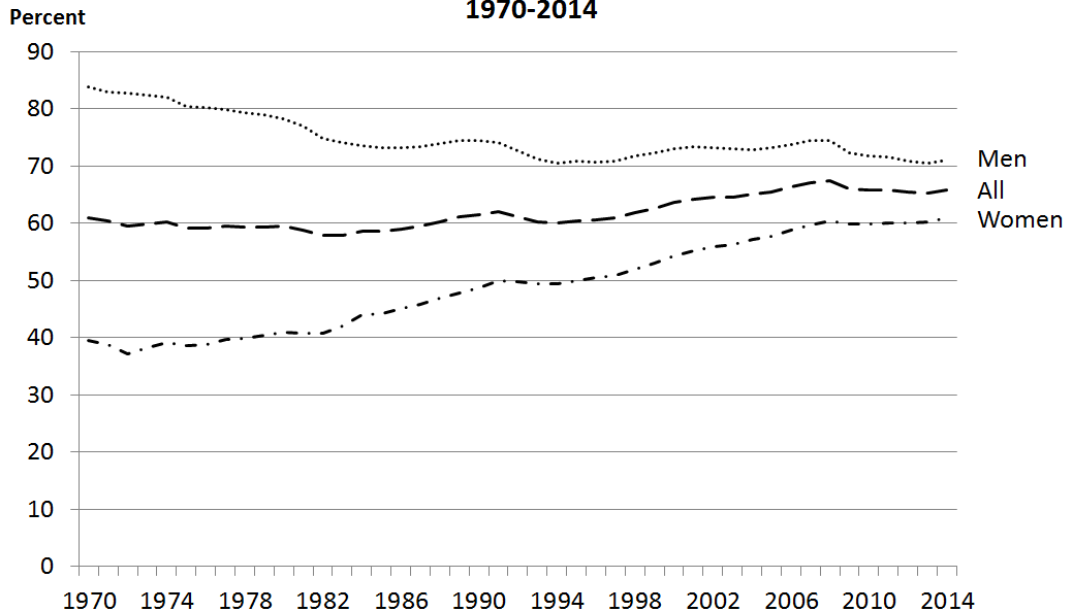
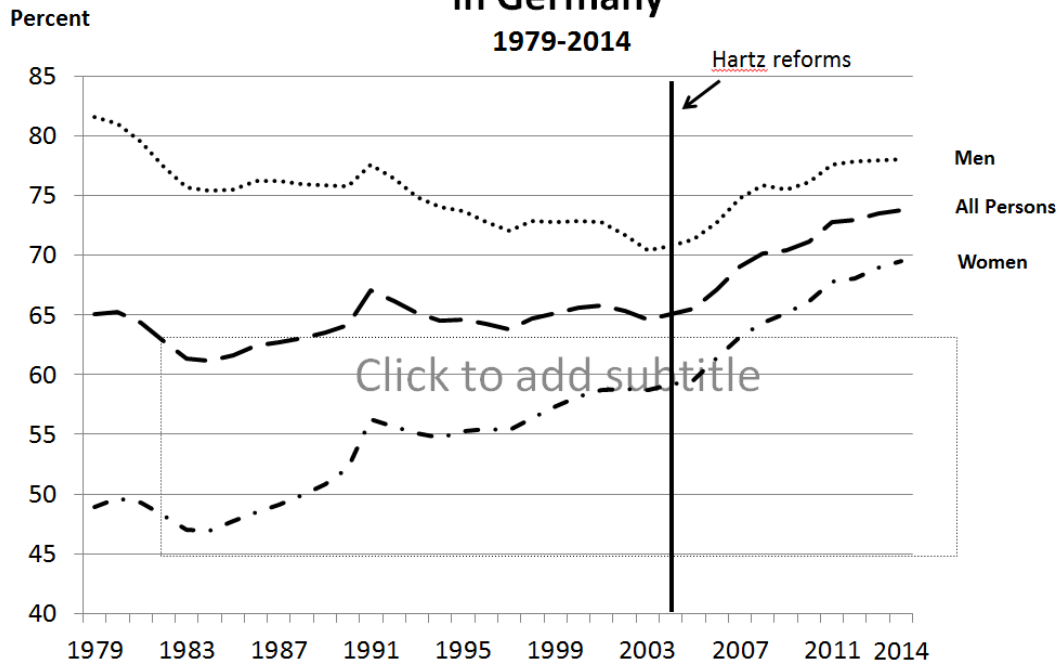


Figure 5
Employment/Population Ratios
in Germany
1979-2014



A word of warning from the World Bank, however. A World Bank review of labor activation programs concludes: “that well-designed policies can have a positive impact on employment outcomes for participants, but that many existing policies have in fact failed to prove effective or cost efficient.”¹⁹ Moreover, the changes seem to enjoy reasonable political acceptance from the left and right. If not initially, over time. And they seem to have maintained the essentials of that nation’s safety-net.

Hence, it is worthwhile reviewing what these countries have done to adjust their safety nets to encourage labor force participation at a time of labor market weakness. It is not that their programs should be simply transplanted here; there are surely too many economic, social, and political differences for that to be possible, let alone make sense. But just as certainly, the general approaches they adopted are worthy of consideration.

¹⁹Herwig Immervoll, *Activation Policies in OECD Countries: An Overview of Current Approaches* (Washington, DC: World Bank, 2012), 8, http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/280558-1334441996287/SPL_Policy_Note_14.pdf (accessed August 8, 2014).

Appendix

European Social Welfare Program Area Changes

Encouraging work-related activities (“activation”) for those receiving social benefits

Over the past two decades, many OECD countries have instituted labor activation requirements in their unemployment insurance and cash welfare (“social assistance”) programs and other countries are contemplating making similar changes. These policies (including time limits, phase outs, work-related activities, and suitable job provisions) are all designed to encourage recipients to move off of unemployment insurance and into employment sooner than they might otherwise do. This is generally done by either reducing or ending benefits, or by requiring recipients to participate in activities that can help find employment or that can make employment seem preferable.

Denmark. Between 1994 and 2010, Denmark reduced the maximum number of years that persons could receive unemployment benefits (from seven years to two years), after which they are transferred to social assistance and receive lower benefits. It also added requirements that recipients must participate in activation activities (job search and job counseling, job training, or subsidized employment) for at least a month for every six months of benefit receipt and also attend quarterly interviews with Public Employment Service staff to discuss their job search activities. It also reduced the time after initial receipt of benefits that recipients are required to begin participating in activation programs (from fifty-two weeks to thirteen weeks for those under thirty, and from fifty-two weeks to thirty-six weeks for those thirty and older), and added partial and full benefit sanctions for noncompliance (depending on the degree of noncompliance).²⁰ After two years, recipients are transferred to the social assistance program.

During this same period of time, Denmark made a number of changes to its social assistance program by requiring recipients of social assistance to participate in activation programs, including job counseling, job training, and subsidized employment; establishing a time period for when recipients are required to begin participating in activation programs (after thirteen weeks of receipt for those younger than thirty and after nine months of receipt for those thirty and older); adding a requirement that parents in two-parent households must each have worked 450 hours in the previous two years to remain eligible for benefits, and reducing the amount of social assistance benefits for married couples and recipients under twenty-five if they have received benefits for longer than six months.

Activation programs include job counseling (with as skills assessments), job training (either placement in public or private programs for those who lack qualifications or skills), and subsidized employment (either

²⁰ European Commission, *Assessment of the 2011 National Reform Programme and Convergence Programme for Denmark* (Brussels: European Commission, 2011), http://ec.europa.eu/europe2020/pdf/recommendations_2011/swp_denmark_en.pdf (accessed October 27, 2015); and European Foundation for the Improvement of Living and Working Conditions, “Denmark: Social Partner’s Involvement in Unemployment Benefit Regimes,” <http://www.eurofound.europa.eu/eiro/studies/tn1206018s/dk1206019q.htm> (accessed October 27, 2015).

public or private and typically used as on-the-job training to retrain or upgrade skills).²¹

France. In 2009, France replaced its existing social assistance scheme (a combination of a single parent allowance and “minimum insertion income”) with the *Revenu de Solidarité Active* (RSA), which “represents a stronger emphasis on obligations (on part of the recipient) and a higher benefit for those who have been combining benefits with low-paid work.”²²

The RSA emphasizes work and work-related activities through incentives and requirements. Under the previous cash welfare scheme, earnings above a certain threshold led to a complete loss of cash welfare benefits. Under the RSA, benefits are only reduced by 38 cents for each additional dollar earned up to a maximum monthly income of about 1,300 euros for single parents with one child, and about 2,200 euros for a couple with two children (a structure that is similar to the US Earned Income Tax Credit).²³

New RSA recipients are now subject to work and work-related activities requirements. Recipients must meet with local government councils that are responsible for the training and support of RSA recipients for assessments on their ability to work. The local councils determine if the recipients are to be placed on the “employment path” or the “social path.” The “employment path” is for those recipients who are deemed capable of work. They are assigned either to the local *Pole Emploi* (Public Employment Service) or to another organization that will provide them with activation services (such as job training). The “social path” is for those recipients who are deemed not ready for employment, and they are provided services, including family counseling and mental health services, to assist them in becoming ready for work.²⁴

The recipients who are assigned to the *Pole Emploi* are obligated to search for suitable employment, with an increasingly restrictive set of rules on the jobs they may consider unsuitable (and therefore refuse). In the first three months of assistance, recipients may reject employment opportunities that pay less than their previous job. Between three and six months, they may reject employment opportunities that pay less than 95 percent of their previous jobs. Between six and twelve months, they may reject employment opportunities that pay less than 85 percent of their previous job. After twelve months, however, they may only reject employment opportunities that pay less than their current RSA benefit.²⁵

If recipients fail to appear at the *Pole Emploi*, fail to accept suitable employment, or fail to meet the work-related requirements set by another organization to which they may be assigned, the local councils may either reduce or suspend their recipients’ RSA benefits until they are in compliance.

According to government reports, the process of implementation of the RSA’s activation requirements

²¹Torben M. Andersen, “A Flexicurity Labour Market in the Great Recession: The Case of Denmark,” (paper presented at CPB-ROA conference on Flexibility of the Labour Market, The Hague, January 2011), http://www.cpb.nl/sites/default/files/paper_flex_andersen_0.pdf (accessed July 5, 2011).

²²Ivar Lodemel and Amilcar Moreira, “The Activation of Minimum Income Recipients in Eight European Nations: A Decade of Reform and Early Impacts of the Economic Crisis,” (paper presented at Labour Activation in Times of High Unemployment conference, Paris, France, November 14-15, 2011), 14.

²³Ministère de l’Économie, de l’Industrie et de l’Emploi, The ‘Revenu de Solidarité Active’ or “Earned Income Supplement: Its Design and Expected Outcomes,” *Tresor-Economics* no. 61 (July 2009).

²⁴Sandrine Gineste, *Adapting Unemployment Benefit Systems to the Economic Cycle, 2011: France* (Brussels, European Employment Observatory, 2012).

²⁵Ivar Lodemel and Amilcar Moreira, “The Activation of Minimum Income Recipients in Eight European Nations: A Decade of Reform and Early Impacts of the Economic Crisis,” (paper presented at Labour Activation in Times of High Unemployment conference, Paris, France, November 14-15, 2011).

and sanctions at the local level is still incomplete and program improvement efforts are ongoing.²⁶

Germany. In the early- to mid-2000s, Germany's "Hartz reforms" formally linked its UI and social assistance programs so that, after one year on UI, recipients are transferred to social assistance.

Prior to the Hartz reforms, Germany had two forms of unemployment benefits: "unemployment insurance" and "unemployment assistance." "Unemployment insurance" was for workers who had paid into the unemployment insurance fund for a minimum of twelve months. Workers were eligible to receive benefits for up to thirty-two months at a replacement rate of 67 percent of their previous wages. Workers who reached the thirty-two month time limit were eligible to receive "unemployment assistance" which had no time limit but a replacement rate of 57 percent of their prior wages.²⁷

The Hartz reforms created a two-step and two-tiered program for unemployment and social assistance benefits:

- Unemployment Benefits I (UB I), under which the unemployed who have paid into the unemployment insurance fund for twelve of the previous twenty-four months receive benefits for up to one year, with the benefits replacing about 67 percent of previous net income;
- Unemployment Benefits II (UB II), under which the able-bodied low-income, and UB I recipients who have reached their time limits receive benefits. These benefits are means-tested and provide a standardized amount of benefits that are much lower than UB I. (Some estimates put it at 40 percent lower.)²⁸

UB II recipients are subject to a 30 percent reduction in benefits if they do not take "acceptable work," including community service or job training, that is offered them. After what seems to have been slow implementation immediately after the passage of the Hartz reforms,²⁹ it appears that the programs are operating as intended, although there are continuing concerns of the localities focusing on providing services to those recipients who are easier to assist to the detriment of the more difficult to assist recipients.³⁰

The Netherlands. In the early- and mid-2000s, the Netherlands reduced the maximum duration of UI benefit receipt (from sixty months to thirty-eight months), increased the number of months of work needed to be eligible to receive benefits (from twenty-six weeks to thirty-six weeks), and required all unemployment insurance recipients to participate in job search (and take "suitable" employment when offered) or else receive a reduction in benefits (25 percent reduction for four months after the first incident of noncompliance, going to 50

²⁶Cyril Nouveau to Douglas Call, personal communication, February 20, 2013.

²⁷Burkhard Heer, "The German Unemployment Compensation System: Effects on Aggregate Savings and Wealth Distribution," *Review of Income and Wealth* 48, 3 (September 2002): 371–394, <http://www.roi.w.org/2002/371.pdf> (accessed June 8, 2012); and Werner Eichhorst, Maria Grienberger-Zingerle, and Regina Konl-Siedl, "Activating Labor Market and Social Policies in Germany: From Status Protection to Basic Income Support," *German Policy Studies* 6, no. 1 (2010): 65–106.

²⁸Werner Eichhorst, Maria Grienberger-Zingerle, and Regina Konl-Siedl, "Activating Labor Market and Social Policies in Germany: From Status Protection to Basic Income Support," *German Policy Studies* 6, no. 1 (2010): 65–106.

²⁹Werner Eichhorst, *The Gradual Transformation of Continental European Labor Markets: France and Germany Compared* (Bonn: IZA, March 2007).

³⁰Timo Weishaupt, Henning Jorgensen, and Alex Nunn, "Delivering Activation: The Perpetual Reform of Public Employment Services in Europe," in *Labor Activation in a Time of High Unemployment: Encouraging Work While Preserving the Social Safety Net* (New York: Oxford University Press, forthcoming).

percent for every incident of noncompliance thereafter). Finally, UI recipients who reach the time limit are to be moved to social assistance.

For its social assistance program, in 2004, the Netherlands imposed the Netherlands imposed activation requirements on social assistance recipients (low-income adults who do not qualify for Unemployment Insurance). Recipients are required to register as “job seekers,” take any “acceptable” employment that is offered, and participate in any activation program required by the municipality. Recipients who do not comply are subject to a benefit sanction. Municipalities are not required by the national government to mandate activation services, but more than 80 percent do so,³¹ presumably because they get to keep any savings from reduced caseloads and have to pay for any increases. Many municipalities use a “work first” approach, requiring individuals to either work for the municipality or placing them with a for-profit company while providing job search and job readiness services.³²

United Kingdom. Starting in 1997, the UK progressively added additional activation requirements (such as mandatory job search, work experience, and subsidized employment) to the receipt of unemployment benefits and coupled them with sanctions for noncompliance.

In 2010, the UK implemented the Work Programme, which imposed activation requirements for those receiving Employment and Support Allowance (for the disabled) or Job Seekers Allowance (for the unemployed). Participation was made mandatory for the long-term unemployed (recipients ages eighteen to twenty-four who have received benefits for nine months and recipients ages twenty-five and above who have received benefits for twelve months) and disability recipients who are deemed eligible for work.³³

In addition, a separate program, “Mandatory Work Activity,” was established to provide a four-week work experience program for the recipients of unemployment benefits (under the “Job Seeker’s Allowance”) who are not yet required to participate in the Work Programme but who are deemed to not be committed to looking for employment.³⁴

Failure to participate in the Work Programme or Mandatory Work Activity can lead to a reduction or termination of benefits.³⁵ Sanctioning occurs under any of the following conditions: refusing to sign Jobseeker’s

³¹See European Social Network, *Social and Employment Activation* (Brussels: European Social Network, 2006); European Commission, “Work and Social Assistance Act (WWB)—Netherlands,” <http://www.uk.ecorys.com/idele/themes/activation/studies/wwb.pdf> (accessed July 6, 2011); Marieke Blommesteijn and Luuk Mallee, *Minimum Income Scheme: Work and Social Assistance Act* (Brussels: European Commission, April 2009); and Wim van Oorschot, “The Dutch Welfare State: Recent Trends and Challenges in Historical Perspective,” *European Journal of Social Security* 8, no. 1 (2006): 57–76, <http://spitswww.uvt.nl/~worschot/wvo/ArtikelenOnline/DutchWSejss.pdf> (accessed May 27, 2011).

³²Bunt, M. Grootsholte, D.R. Kemper, and C. van der Werf, *Work First and the Prospects on the Labour Market: Research into the Effects of Work First in the Netherlands* (The Hague: Council for Work and Income, 2008), http://rwi.nl/CmsData/Work_First_Engelse_vertaling_RWI_febr_2008.pdf (accessed June 14, 2012).

³³Her Majesty’s Treasury, *Spending Review: 2010* (London: Her Majesty’s Treasury, October 2010), http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf (accessed July 5, 2011).

³⁴Department for Work and Pensions, *Mandatory Work Activity – Equality Impact Assessment* (London: Department for Work and Pensions, March 2011), <http://www.dwp.gov.uk/docs/eia-mandatory-work-activity.pdf> (accessed July 14, 2011).

³⁵Newcastle City Council, “Welfare to Work Plans and Changes,” http://www.newcastle.gov.uk/core.nsf/a/wr_bbi_welfaretowork#Mandatory (accessed October 27, 2015).

Agreement,³⁶ leaving job voluntarily (but not in the case of voluntary redundancy), losing job due to misconduct, failure to apply for or accept a job that is offered, failure to show availability for and actively seeking work, failure to attend a compulsory training or employment scheme, failure to carry out a direction from a Jobcentre Plus adviser. JSA recipients who have activated one of these conditions may avoid sanctions provided they give good reason.³⁷ The length and amount of the sanction varies depending upon the nature of the offense, and the claimant's prior history of sanctions.

Work experience in the Mandatory Work Activity may be performed for the government or a non-profit and must make "a contribution to the community."³⁸ Examples of work experience include working at a charity shop, performing maintenance work for public housing, renovating and recycling old furniture, and providing office assistance at a government job training facility.³⁹

Outsourcing activation and employment services

To increase programmatic flexibility and accountability by escaping the strictures of government agencies, some OECD countries have outsourced (contracted out) various activation services.

Australia. Between 1998 and 2009, Australia replaced its government-run Public Employment Service for the low-income and unemployed (Commonwealth Employment Service) with a system of contracted-out activation service providers called Job Services Australia. Service providers are rated using a star system to assess how well they do at meeting outcome objectives, and payments are made to service providers based on the employment outcomes of recipients (with providers receiving higher payments for more difficult-to-serve recipients).

In 2009, Australia modified its profiling system for recipients of Newstart Allowance by creating "streams" of activation services based on recipients' level of disadvantage; less disadvantaged recipients receive less-intensive services and the more disadvantaged receive more-intensive services. Recipients who do not find employment after being in a stream for a defined period of time are moved to a more-intensive stream.

Because Australia does not have a separate social assistance system, both the unemployed and the low-income receive benefits from the Newstart Allowance program. Prior to 2009, Newstart Allowance recipients themselves selected the service providers of job search assistance and, if necessary, more intensive training. Service providers received payments based on the employment outcomes of the recipients. This created incentives for providers to make greater efforts to help those easiest to serve ("creaming") and make less efforts

³⁶An agreement essentially outlining what actions the job seeker will do in his or her employment search. Number of calls per week, etc.

³⁷ UK Department of Work and Pensions, *Jobseeker's Allowance: Overview of Revised Sanctions Regime* (London: UK Department of Work and Pensions, 2013), <https://www.gov.uk/government/publications/jobseekers-allowance-overview-of-sanctions-rules> (accessed October 27, 2015).

³⁸Department for Work and Pensions, *Mandatory Work Activity: Equality Impact Assessment* (London: Department for Work and Pensions, March 2011), <http://www.dwp.gov.uk/docs/eia-mandatory-work-activity.pdf> (accessed June 14, 2012).

³⁹Centre for Economic and Social Inclusion, "Government Work Experience Schemes: What are the Differences?" <http://www.cesi.org.uk/keypolicy/government-work-experience-schemes-what-are-differences> (accessed June 13, 2012).

with those more difficult to serve (“parking”).⁴⁰

Since 2009, all recipients of Newstart Allowance have been assigned to one of four activation “streams” in the new Job Services Australia (JSA) program. The streams are based on the level of disadvantage, with the less disadvantaged recipients being assigned to stream 1 and the most disadvantaged to stream 4. The services provided to recipients increase in intensity by stream: recipients in stream 1 are required to complete an employment plan and then perform an independent job search; recipients in higher numbered streams are required to participate in increasingly more intense job training and more frequent meetings with job counselors.⁴¹ All recipients (excepting parents with dependent children under six) are required to meet an “activity test” indicating that they are searching for employment and willing to take “suitable” employment⁴² or participate in an activation program.

Recipients who refuse to participate in employment or an activity lose their benefits until they comply.⁴³ Recipients who have not found employment after twelve months in a stream “can be allocated to a higher stream or, more frequently, enter the work experience phase where they continue until they cease claiming benefit.”⁴⁴ As described below, service providers receive higher payments for designated employment outcomes for hard-to-serve recipients.

The Netherlands. The Netherlands devolved the responsibility for providing activation services for social assistance recipients to municipalities. The national government remained responsible for providing activation services to the unemployed and the disabled, but does so through contracts to for-profit providers.

As part of the new scheme, municipalities were instructed to contract out up to 70 percent of activation

⁴⁰Dan Finn, *Job Services Australia: Design and Implementation Lessons for the British Context* (London: Department of Work and Pensions, 2011), <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf> (accessed June 7, 2012).

⁴¹Dan Finn, *Job Services Australia: Design and Implementation Lessons for the British Context* (London: Department of Work and Pensions, 2011), 15, <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf> (accessed June 4, 2012).

⁴²“Suitable” employment “must take into account other circumstances, including (but not limited to) whether the:

- location of either the workplace or the child care venue makes the total travel time to work unreasonable;
- cost of travel to and from work is unreasonable;
- parent will be financially better off as a result of undertaking the work; and/or
- work is unsuitable on the basis of moral, cultural, or religious grounds.

Suitable work must comply with occupational health and safety standards and must also pay wages that meet legal requirements.” Participation Review Taskforce, *Participation Review Taskforce Report* (Canberra: Department of Education, Employment, and Workplace Relations, August 2008), 10.

⁴³See Centrelink, “Activity Tests and Participation Requirements for Job Seekers,” [http://www.centrelink.gov.au/internet/internet.nsf/filestores/lw054_1007/\\$file/lw054_1007en.pdf](http://www.centrelink.gov.au/internet/internet.nsf/filestores/lw054_1007/$file/lw054_1007en.pdf) (accessed May 27, 2011); and Herwig Immervoll, “Minimum-Income Benefits in OECD Countries,” (conference paper, Measuring Poverty, Income Inequality, and Social Exclusion, Paris, March 16–17, 2009), http://www.umdcipe.org/conferences/oecdumd/conf_papers/Papers/Minimum-Income%20Benefits%20in%20OECD%20Countries-Policies%20and%20Challenges.pdf (accessed May 27, 2011).

⁴⁴Dan Finn, *Job Services Australia: Design and Implementation Lessons for the British Context* (London: Department of Work and Pensions, 2011), 15, <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf> (accessed July 5, 2011).

services for social assistance recipients to for-profit providers.⁴⁵ The reason was because of the perceived “expense, inflexibility and poorer results” of services provided through the national government.⁴⁶ (The national department that had been responsible for providing activation services to the unemployed and disabled was privatized and allowed to compete against the for-profit providers for contracts. It did not successfully compete and so went out of business.)

United Kingdom. The UK created a national bidding system (“Invitation to Tender”) for private vendors (nonprofit and for-profit) to provide Work Programme services in eleven regions of the country.⁴⁷ Forty contracts were awarded in April 2011, with two or three vendors in each region, based on their size, financial strength, and ability to deliver services (including working with smaller local subcontractors).

These contracts are a form of “pay-for-success” funding, that is, vendors receive payments only if they successfully place their clients into jobs and the clients stay employed. In the first three years of the contract, the government makes small upfront payments for new clients (in addition to payments for successful placements and longer-term employment). The upfront payments will be discontinued after the third year. After that, payments to vendors will be made only when clients have been employed for between three months (for more difficult-to-serve clients) and six months (for less-difficult-to-serve clients) and receive payments for the additional months that clients stay employed (up to two years, depending on the type of client).⁴⁸ For example, vendors will receive the highest compensation for clients who had been receiving disability benefits for longer than a year and who remain employed for more than two years after receiving services.⁴⁹ Because of unforeseen challenges in implementation, various contract arrangements were modified between 2011 and 2014. For example, because so many providers were having difficulty in meeting the minimum performance standards required to maintain the contracts, the Department of Work and Pensions eliminated the minimum performance standards and is instead reviewing the performance of providers in the bottom 25 percent.⁵⁰

Coordinating welfare, employment, and disability systems

To avoid the duplication of service provision some countries have combined the operations and activation rules of their unemployment and social assistance and/or disability

⁴⁵Dan Finn, *The British ‘Welfare Market’: Lessons from Contracting Out Welfare to Work Programmes in Australia and the Netherlands* (York: Joseph Rowntree Foundation, November 2008), <http://www.jrf.org.uk/sites/files/jrf/2306-welfare-unemployment-services.pdf> (accessed July 6, 2011).

⁴⁶Dan Finn, *The British ‘Welfare Market’: Lessons from Contracting Out Welfare to Work Programmes in Australia and the Netherlands* (York: Joseph Rowntree Foundation, November 2008), 26, <http://www.jrf.org.uk/sites/files/jrf/2306-welfare-unemployment-services.pdf> (accessed July 6, 2011).

⁴⁷UK Parliament, Work and Pensions Committee, *Work Programme: Providers and Contracting Arrangements* (London: UK Parliament, 2011), <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/71806.htm#note47> (accessed July 15, 2011).

⁴⁸Department of Work and Pensions, *The Work Programme* (London: Department of Work and Pensions, 2012), <http://www.dwp.gov.uk/docs/the-work-programme.pdf> (accessed June 7, 2012).

⁴⁹Department of Work and Pensions, *The Work Programme Prospectus* (London: Department of Work and Pensions, November 2010), <http://www.dwp.gov.uk/docs/work-prog-prospectus-v2.pdf> (accessed May 20, 2011).

⁵⁰National Audit Office, *Department for Work & Pensions: The Work Programme* (London: National Audit Office, July 2014), <http://www.nao.org.uk/wp-content/uploads/2014/07/The-work-programme.pdf> (accessed August 12, 2014).

programs.

Australia. In 1996, Australia consolidated the administration and provision of unemployment benefits, social assistance to lone (single) mothers, disability payments, pensions, and other social benefits into one agency called Centrelink. In one-stop offices around the country, Centrelink staff determine eligibility for benefits and link recipients to activation programs.⁵¹

Denmark. In 2007, Denmark combined the services for unemployment insurance, social assistance, and disability recipients into one-stop job centers in each municipality. The job centers are run jointly by the municipalities and the national Public Employment Service and provide labor activation services.⁵² These job centers are “responsible for all people seeking to stay in or return to employment, irrespective of the type of benefit they receive, their insurance and employment status, and their distance to the labour market.”⁵³ Those recipients who go to the job center are put into one of three groups: the first group are those who are job ready, the second group are those who are not currently job ready but may move into employment in the future, and the third group are those who are determined to be unlikely to return to work. Recipient placement in these groups is reassessed every three months.⁵⁴

France. In 2009, France combined its services for unemployment insurance and social assistance recipients by merging the preexisting separate agencies into a new agency, called the *Pole Emploi* (or Public Employment Service).⁵⁵

Germany. As mentioned above, Germany’s “Hartz reforms” formally linked its UI and social assistance programs so that, after one year on UI, recipients are transferred to social assistance. Previously, there was no time limit for receiving benefits, but after thirty-two months of benefit receipt, benefits were reduced from 67 percent of prior wages to 57 percent. Under both programs, they face heightened activation requirements, including job search, job counseling, job training, and work experience (“one euro jobs”).

As part of the Hartz reforms, Germany created one-stop centers that were jointly operated by the national government and local governments. This was an effort to reduce the fragmentation of services as unemployment benefits had been provided through the national government and social assistance provided through the local governments.^{56, 57}

⁵¹John Halligan, *The Centrelink Experiment: Innovation in Service Delivery* (Canberra: Australian National University, 2008), http://eprints.anu.edu.au/anzsog/centrelink/pdf/whole_book.pdf (accessed July 6, 2011).

⁵²OECD, *Sickness, Disability, and Work: Breaking the Barriers, Denmark, Finland, Ireland, and the Netherlands* (Paris: OECD, 2008).

⁵³Christopher Prinz, “Chapter 4: Sickness, Unemployment, and Return to Work in Denmark,” in *Mental Health and Work: Denmark* (Paris: OECD, 2013), 73, <http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&accname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0> (accessed March 20, 2013).

⁵⁴Christopher Prinz, “Chapter 4: Sickness, Unemployment, and Return to Work in Denmark,” in *Mental Health and Work: Denmark* (Paris: OECD, 2013), <http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&accname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0> (accessed March 20, 2013).

⁵⁵Antoine Magnier, “A French Policy Perspective,” (presentation, Labour Activation in Times of High Unemployment conference, Paris, France, November 14-15, 2011).

⁵⁶Willem Adema, Donald Gray, and Sigrun Kahl, *Social Assistance in Germany* (Paris: OECD, January 2003), <http://www.oecd-ilibrary.org/docserver/download/fulltext/5lgsjhvj7pzn.pdf?expires=1309964577&id=id&accname=guest&checksum>

Norway. In 2006, Norway consolidated its unemployment insurance, disability, social assistance, and old-age pension programs into the Norwegian Labor and Welfare Administration (NAV). Because a significant share of those receiving benefits had received them from multiple programs, condensing to one agency was meant to streamline applications and make service provision easier.⁵⁸ Although the funding streams remain separate, all are administered within the same agency. The national government and local municipalities created joint NAV offices to streamline administration and provision of services, and to create an easy interface for recipients needing more than one kind of benefit.

United Kingdom. As part of the 2010 package of changes to its unemployment, disability, and social assistance programs, the UK created the “Universal Credit.” As an integrated working-age credit, it provides a basic allowance with additional elements for children, disability, housing, and caring to support people both in and out of work. As such, it replaced the working tax credit, the child tax credit, the housing benefit, income support, income-based Jobseeker’s Allowance, income-related Employment and Support Allowance. The purpose is to create a single phase-out rate for benefits, reduce the high marginal tax rate for workers, and radically reduce the duplication and complexity of previously existing benefit programs. The government estimates that combining these programs resulted in a maximum marginal tax rate of 65 percent, compared to the previous rates of between 75 and 96 percent.

Incentivized systems of financing and reimbursement.

To encourage employers to internalize the costs of unemployment and disability payments (and thus take actions to prevent both) and to encourage government agencies to target benefit payments to the truly needful (and thus reduce the number of recipients), some countries have deliberately embedded financial incentives in the way they tax employers to pay for benefits and in the way they reimburse local programs for benefits distributed.

Finland. In 2006, Finland created incentives for employers to reduce the number of disability recipients by making them responsible for a substantial portion of disability benefits. To encourage employers to reduce the likelihood that their workers will become disabled and to provide continued employment for sick or disabled employees, in 2006, Finland mandated that large employers pay as much as 80 percent of the total disability bill through experience-rated insurance premiums.⁵⁹ (Experience rating is the process by which premiums vary according to the employer’s history of claims, in this case disability.) Large companies are divided into eleven contribution categories each with a different contribution level based on their history of disability cases. Since 2007, company size is determined by payroll amount. Prior to that, company size was determined by the number of employees. About 51 percent of employees are working for “large” employers, measured by payroll over 1,788 million euros (in 2009).⁶⁰

Eligibility for disability begins with sick pay resulting from a doctor or hospital evaluation. For the first

=3F7D3C8D53BDC1D8065F2CF6B60DE4C4 (accessed July 6, 2011).

⁵⁷Hilmar Schneider and Klaus F. Zimmerman, *Agenda 2020: Strategies to Achieve Full Employment in Germany* (Bonn: IZA, March 2010), <http://www.politiquessociales.net/IMG/pdf/pp15.pdf> (accessed July 15, 2011).

⁵⁸Nicola Duell, Shruti Singh, and Peter Tergeist, *Activation Policies in Norway* (Paris: OECD, 2009), <http://dx.doi.org/10.1787/226388712174> (accessed May 27, 2011).

⁵⁹OECD, *Sickness, Disability, and Work: Breaking Barriers: A Synthesis of findings across OECD Countries* (Paris: OECD Publishing, 2010), http://www.oecd-ilibrary.org/social-issues-migration-health/sickness-disability-and-work-breaking-the-barriers_9789264088856-en (accessed November 23, 2011).

⁶⁰Marjukka Hietaniemi, Finnish Centre for Pensions, email message to author, November 23, 2011.

nine days, the applicant is fully compensated by the employer. At this point, the applicant may claim sick pay from KELA, Finland's social insurance institution. Depending on the circumstances, the claimant may receive sick pay for up to three hundred working days.⁶¹ Upon a more extensive medical examination, the claimant may receive one of two disability benefits: an ordinary disability pension or an individual early retirement pension. If there is a work capacity loss of 40 percent to 59 percent, a partial benefit may be rewarded for an ordinary disability pension.⁶²

The Netherlands. In 2004, the Netherlands devolved the provision of social assistance and activation programs (job counseling, job training, and subsidized employment) to municipalities. The national government determines the amount of funding municipalities receive for social assistance through an econometric model that takes into account the past number of recipients and, in larger municipalities, other demographic and regional labor market factors to estimate how many social assistance claimants the municipality *should* have. If the number of recipients exceeds the estimated number, the municipality has to pay the difference out of municipal funds. If the number is lower, the municipality keeps the excess (much like the US TANF block grant).⁶³ There are, however, some reports that when municipalities exhaust funds from this funding stream, municipalities will shift social assistance recipients to another funding stream.

⁶¹OECD, *Sickness, Disability, and Work: Breaking Barriers: A Synthesis of findings across OECD Countries* (Paris: OECD Publishing, 2010), http://www.oecd-ilibrary.org/social-issues-migration-health/sickness-disability-and-work-breaking-the-barriers_9789264088856-en (accessed November 23, 2011).

⁶²Tomi Kyyra, "Early Retirement Policy in the Presence of Competing Exit Pathways: Evidence from Policy Reforms in Finland," (discussion paper, Network for Studies on Pensions, Aging and Retirement, 2010), <http://arno.uvt.nl/show.cgi?fid=111138> (accessed November 29, 2011).

⁶³Peter Tergeist and David Grubb, *Activation Strategies and the Performance of Employment Services in Germany, the Netherlands and the United Kingdom* (Paris:OECD, December 2006), <http://www.oecd.org/dataoecd/32/22/37848464.pdf> (accessed July 6, 2011).