Chapter 4

Labour market policies

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4.1 Introduction

Labour market policies come into play in the context of the broader social regulatory function exerted by labour market institutions. Their rules and norms take the shape of concrete practices, guiding and constraining action, legitimising it, thereby reducing uncertainty (Gualmini & Rizza, 2013). Labour market policies counteract market failures (Solow, 1994), and their concrete interventions modify the distribution of income and labour.

The scope of labour market policies could be confined to those interventions aimed at reducing unemployment and providing social protection for the unemployed, as well as promoting and maintaining a high and stable level of employment. However, some interventions may be differently motivated from those oriented towards curtailing or boosting employment. For example, an excessive shrinking of consumption in periods of economic recession may be averted by the implementing of unemployment benefits, which at the same time have a role in backing businesses and checking unemployment expansion. Similarly, working time reduction schemes involving wage compensation can safeguard jobs while ensuring a certain stability of household income.

The nature of the resources employed and the actors involved represent a further criterion to consider when defining labour policies. In particular from the 1990s onwards, non-public actors have also gained ground in the dispensing of labour policies. Hence, referring to labour market policies as state-implemented interventions no longer suffices, although it must be pointed out that the resources draw on the public budget.

More specifically, labour market policies can be divided into three macro-categories, depending on the purposes and instruments used (Reyneri, 2011; Gualmini & Rizza, 2013; Samek-Lodovici, 2014; Vesan, 2014):

1. the regulation of work relations, i.e. the set of interventions that regulate the interaction between labour supply and demand;

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2. passive policies, i.e. the interventions that aim to ensure a form of income support in the event that the beneficiaries are unemployed or at risk of unemployment;
3. active policies, namely, the set of measures designed to remove non-legislative obstacles that may preclude entering and remaining in the labour market.

Labour market policies can also be distinguished from more general employment policies – such as interventions aimed at lowering labour costs through the general cutback of taxes and/or social security contributions – because they incorporate a precise guiding criterion: that of selectivity, addressing specific groups of individuals (*target groups*).

In this regard, the target groups are:

1. the unemployed, i.e. people who are out of work but actively looking for a job and willing to accept a job opportunity should one arise;
2. people at risk of unemployment, i.e. those who have not yet lost their job but who are at risk of losing it involuntarily because of the critical economic situation or a period of sectoral and/or company crisis;
3. discouraged workers, i.e. those who are not currently in the labour force but who would be willing to join it under certain conditions. These are people who have looked for a job in the past and would be willing to work but do not expect to be able to access a job; or people who are overburdened with care duties – often women – who, having changed their circumstances and been relieved of their domestic obligations, would be ready to enter the labour market.

Historically labour policy trends and comparative data have revealed a wide divergence among countries, not only in terms of the greater or lesser employment protection provided by legislation, and in terms of public expenditure reserved for labour market policies, but also regarding the subjects to whom employment protection and promotion policies are addressed. While devoting little attention to labour market policies as an autonomous question, the vast body of comparative literature on the welfare state has shed light on the variety of policy development paths. In a first phase, up to the 1970s, the introduction and development of labour market programmes were explained through economic and demographic independent variables: the GDP growth rate, the structure of the population in terms of age, the level of industrialisation and urbanisation (Wilenski, 1975). Subsequently, "power resource theory" focused on the plurality of political actors and interest organisations to the fore, concluding that large and entrenched trade unions, strong left-wing parties and pro-labour government coalitions were key explanatory variables for understanding the variety and extent of interventions in different countries (Korpi, 1978). From the 1980s onwards, the role of the state, its administration and the efficiency of its bureaucracy came under the spotlight (Flora & Alber, 1981).

Investigating the relationship between change and stability in the long term represents the most appropriate perspective for understanding similarities and differences between labour policy regimes, where by "regimes" we mean "relatively coherent and stable schemes of social regulation, differentiated according to certain models and variants that in part resume old differences and in part develop new profiles" (Mingione, 1997, 111–112). In this respect, the institutionalisation of a certain labour policy regime and its stability can be accounted for by the consideration that margins of manoeuvre in the field of labour market policies will be conditioned by the "institutional paths" defined in the past (Weishaupt, 2011). The stability of particular institutions generates "winners" who will have an interest in preserving the status quo. Pierson (2004) has called this situation "institutional inertia", the positive feedbacks of which, in terms of policy outcomes and political mobilisation, lead to a certain equilibrium that will be resistant to change. Hence a "lock-in" phenomenon of labour market institutions is engendered that governments will tend not to change in order to not risk generating negative effects for the consensus they need.

By observing the level of "complementarity" and the extent to which institutions tend to reinforce each other through mutual interaction, Hall and Soskice (2001) offer a perspective that identifies a particular mechanism to account for their continuity. According to this perspective, two varieties of capitalism can be identified: the so-called "liberal market economies" and the so-called "co-ordinated market economies", each responding to a different logic, the ultimate basis of which lies in the greater or lesser ability of firms to co-ordinate with each other and with workers. Labour market policies will consequently be embedded in the variant of national capitalism and constitute an integral part of the same set of complementary institutions that partake in distinguishing the specific variant.

More recently, Thelen (2014) proposed three trajectories of liberalisation in the field of labour policies. These depend on the coalitions between interest groups that have strengthened over time, resulting in different distributional outcomes that hinge on the capacity of actors to coordinate and the degree of inclusion, i.e. the extent to which welfare interventions are encompassing.

4.2 Labour market policies in different growth models

Labour market policies feature different institutional orientations and routes that trace the various development paths ensuing from the combination of economic growth and inequality patterns, presented here in Chapter 1. The cross-country comparison shows that each labour policy regime tends to be associated with a specific institutional configuration linked to a consistent underpinning logic. Hence, limited economic support and weak legislative

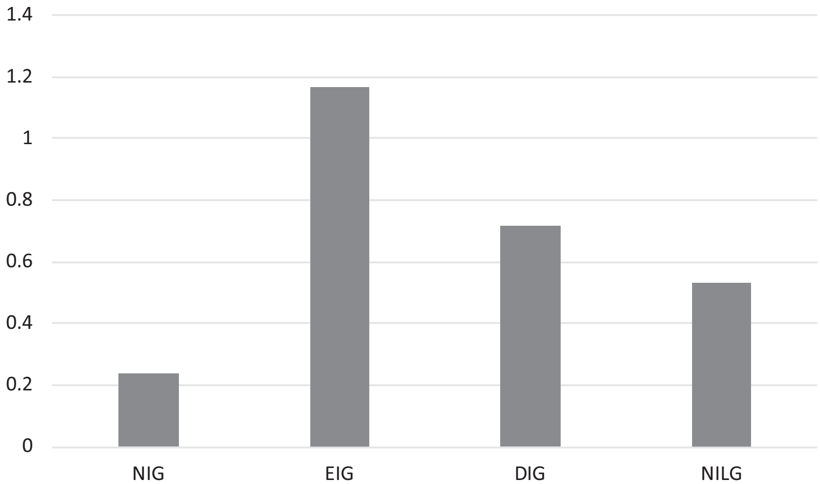

Figure 4.1 Expenditure on active labour market policies by growth model, as a percentage of GDP (2017).

Note: Missing countries: Greece. United Kingdom: 2011 data. Italy: 2015 data.

Source: Elaboration on OECD data.

protections, combined with underdeveloped active labour market policies in some cases endorse the supremacy of the market as a mechanism for regulating labour relations (*non-inclusive growth*). Substantial interventions in active policies and training, addressing a wide range of employed and unemployed, as well as the pursuit of greater equality, are manifest in other national cases (*egalitarian inclusive growth*). In other countries, there are protection insurance schemes and integrated education and training policies, with rights linked to employment status and tendencies towards dualisation between insiders and outsiders (*dualistic inclusive growth*), while a historical lack of training policies and employment services and the displacement of protection schemes condition other national cases (*low non-inclusive growth*).

Figure 4.1 shows how the egalitarian inclusive growth model exhibits higher spending on active labour market policies. This is a long-term trend corroborated by the 2017 data.

Through the analysis of some of the characteristic and important areas such as training and employment services, expenditure on active policies can be further investigated (Figures 4.2 and 4.3). These interventions have different objectives. Training is related to investments in human capital and skills development, while employment services are aimed at job seekers. In the latter case, the focus is on activating recipients of income support to push them to return to work quickly (Busemeyer & Garritzmann, 2019; Garritzmann et al., 2018).

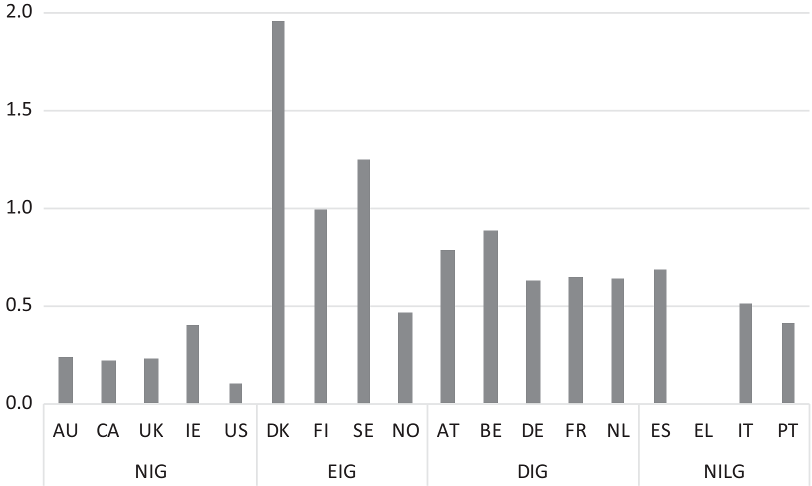

Figure 4.2 Expenditure on active labour market policies by country, as a percentage of GDP (2017).

Note: Missing countries: Greece, United Kingdom: 2011 data. Italy: 2015 data.

Source: OECD (2020), Labour market programmes: expenditure and participants, OECD Employment and Labour Market Statistics (database).

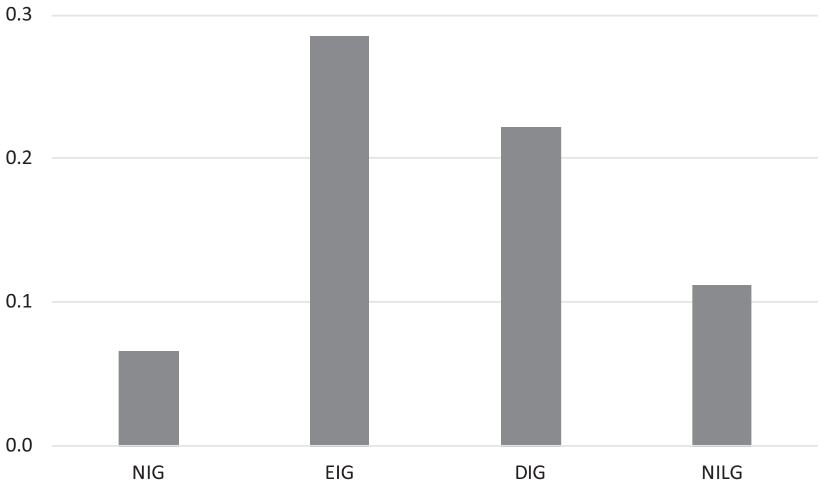

Figure 4.3 Expenditure on training policies by growth model, as a percentage of GDP (2017).

Note: United Kingdom: data from 2011. Italy: data from 2015.

Source: Data OECD.

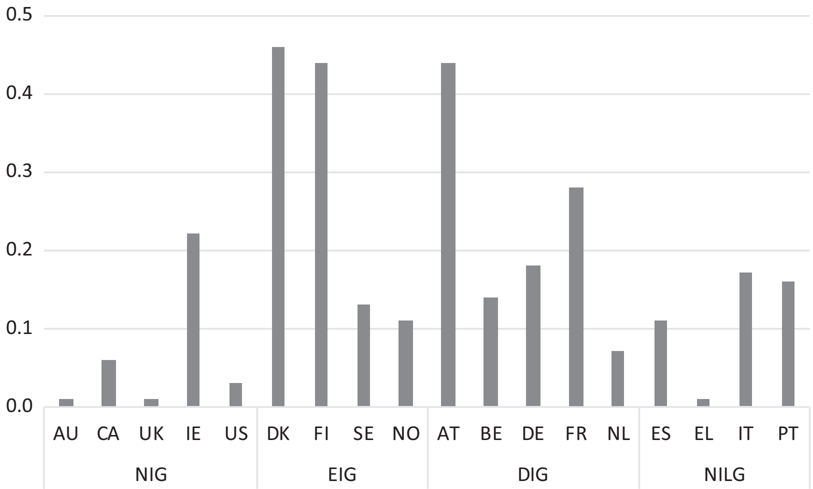

Figure 4.4 Expenditure on training policies by country, as a percentage of GDP (2017).

Note: United Kingdom: 2011 data. Italy: 2015 data.

Source: OECD (2020), Labour market programmes: expenditure and participants, OECD Employment and Labour Market Statistics (database).

Of note is the fact that the egalitarian inclusive growth model invests more in training (especially in Denmark) (see Figures 4.4 and 4.5), while dualistic inclusive growth countries focus on employment services (especially Germany) (see Figure 4.6). The non-inclusive growth (NIG) model shows similar levels of expenditure for both policy areas, at a very low level. In countries with low and non-inclusive growth, little is invested in training policies and employment services compared to the two inclusive growth regimes (egalitarian and dualistic), though slightly more in training compared to the NIG countries.

The OECD defines formal training as an activity that a person undertakes within an adult learning institution or centre, or by following an education or training programme within a company. A closer inspection of the data available on *formal* and *non-formal* training reveals that the distinguishing feature of formal training is the issuing of a certificate upon completion of the course. The activity is institutionalised and structured, has learning objectives, and is delivered by a trainer or educator (Werquin, 2007).

Alongside formal learning there is non-formal learning, which can be described as a process of *learning by doing*, i.e. learning through *"hands-on"* experience. Also this activity is structured and follows predefined learning objectives, but unlike formal learning it does not lead to certification and may take place in companies but may also be pursued externally.

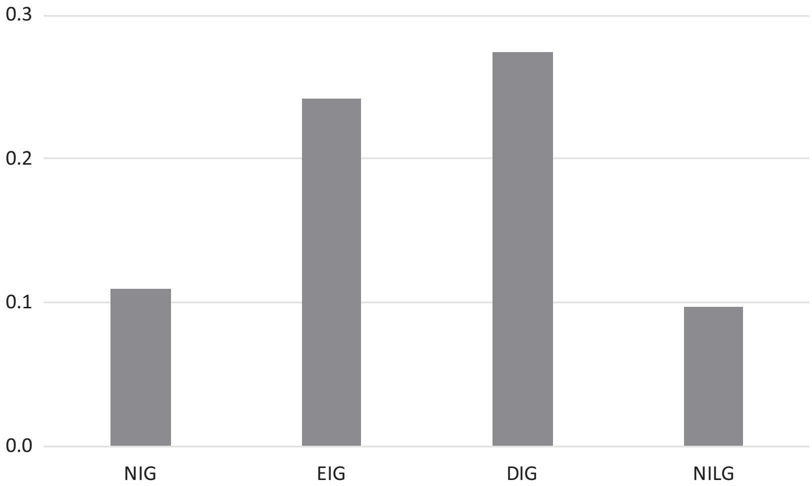

Figure 4.5 Expenditure on employment services by growth model, as a percentage of GDP (2017).

Note: Missing countries: Greece. United Kingdom: 2011 data. Italy: 2015 data.

Source: Elaboration on OECD data.

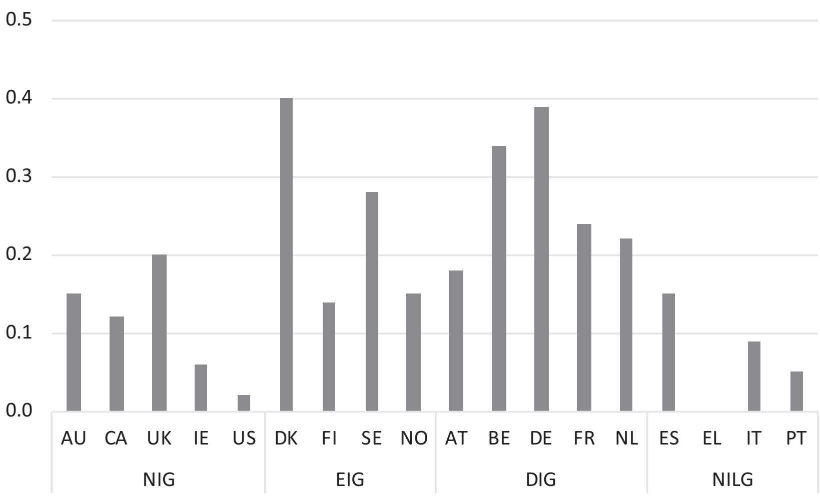

Figure 4.6 Expenditure on employment services by country, as a percentage of GDP (2017).

Note: Missing countries: Greece. United Kingdom: 2011 data. Italy: 2015 data.

Source: Elaboration on OECD data (2020). *Labour market programmes: expenditure and participants, OECD Employment and Labour Market Statistics* (database).

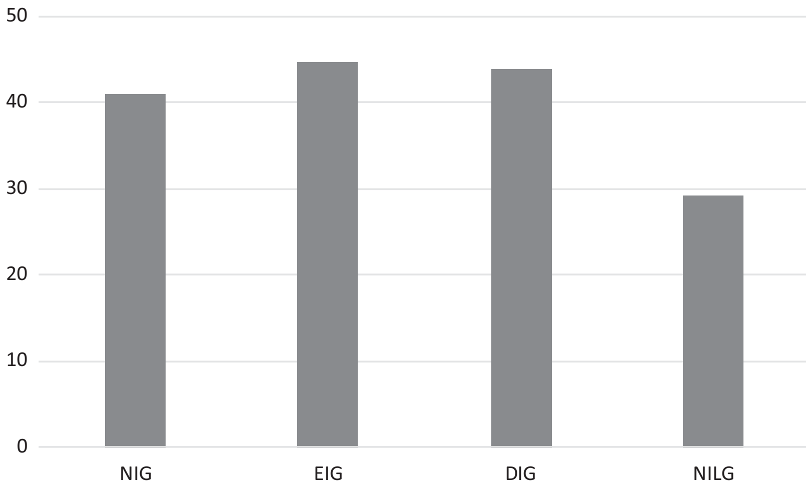

Figure 4.7 Participation in non-formal job-related training by growth pattern, as a percentage of the population aged 25–64 (2016).

Note: United States, Ireland, and Canada: 2012 data.

Source: Elaboration on OECD data.

Generally speaking, formal training schemes are less implemented to provide training for individuals in the 25–64 age group. This is hardly surprising, if we consider that formal training, especially that which takes place within educational institutions, is more important for the lower age groups. However, from a comparative perspective, there are some interesting reflections to express on growth models (Figures 4.7, 4.8, 4.9, and 4.10).

In the first place, the model based on EIG is confirmed as that which invests most in training, both formal and, in particular, non-formal. Worthy of note is that in the case of formal training, the gap between the EIG and the NIG countries narrows, confirming the important role of educational institutions in skills training in Anglo-Saxon countries (Estevez-Abe, Iversen & Soskice, 2001).

In the case of the DIG model, however, formal training is revealed as having significantly less weight. This also seems to corroborate the claim in the literature on types of capitalism that within coordinated market economies the training of workers' skills takes place mainly in-house.

The comparison of NIG and NILG trends leads us to a further consideration. Notwithstanding the fewer resources in the former type devoted to training in terms of expenditure on GDP compared to the latter, participation in training activities is higher, confirming the critical issues distinguishing the non-inclusive low growth model (Figures 4.11 and 4.12).

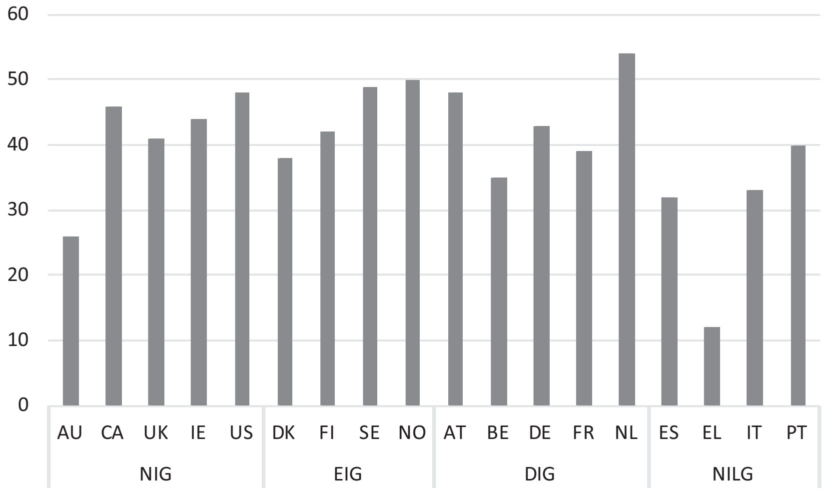

Figure 4.8 Participation in non-formal job-related training by country, as a percentage of the population aged 25–64 (2016).

Note: United States, Ireland, and Canada: 2012 data.

Source: Survey of Adult Skills (PIAAC).

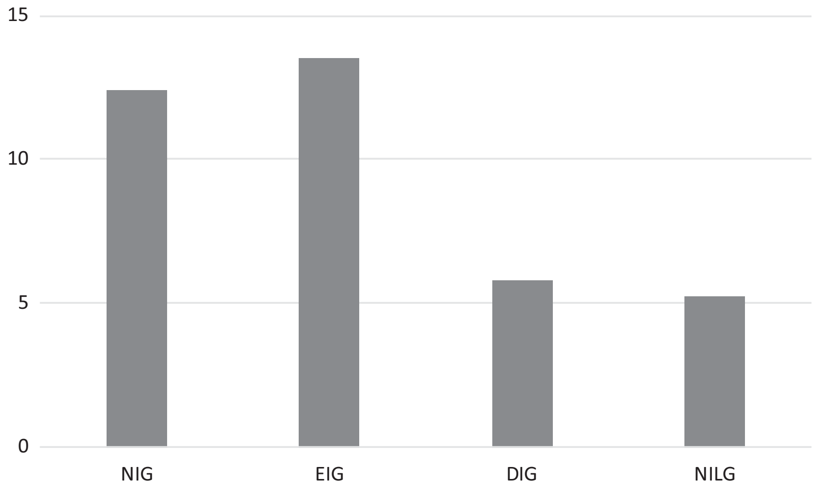

Figure 4.9 Participation in formal education by growth pattern, as a percentage of the population aged 25–64 (2016).

Note: Canada and the United States: 2012 data.

Source: Elaboration on OECD data.

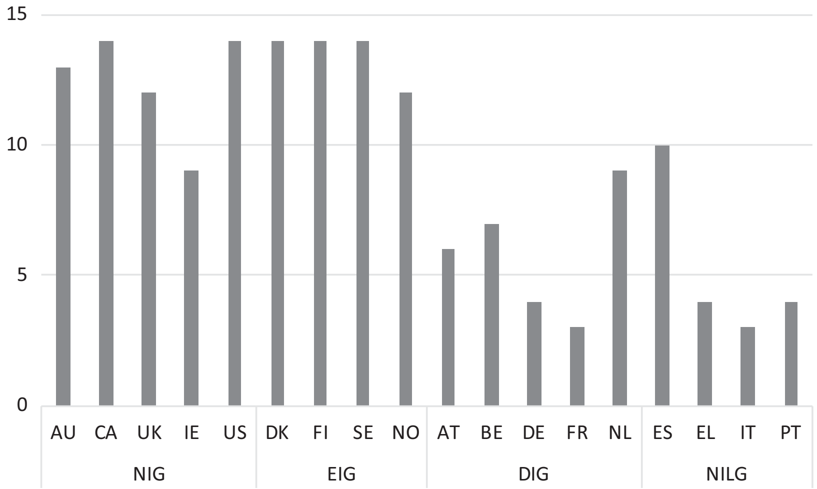

Figure 4.10 Participation in formal training by country, as a percentage of the population aged 25–64 (2016).

Note: Canada and the United States: 2012 data.

Source: Survey of Adult Skills (PIAAC).

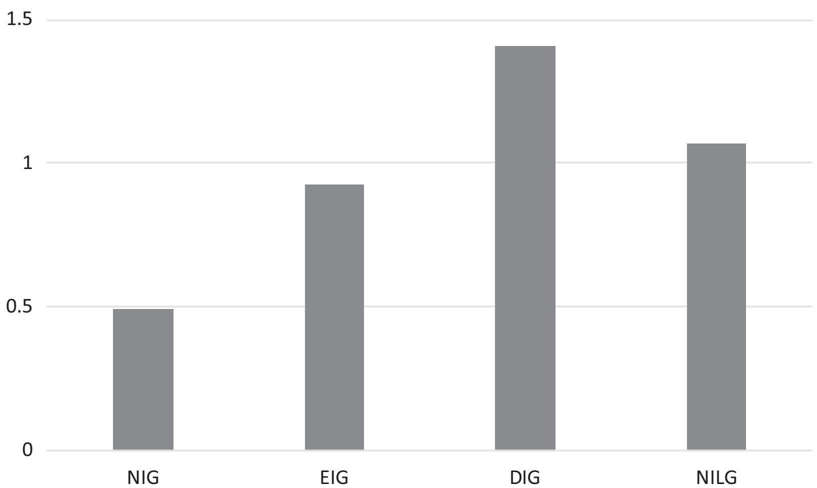

Figure 4.11 Expenditure on passive policies by growth model, as a percentage of GDP (2017).

Note: United Kingdom: 2011 data.

Source: Elaboration on OECD data.

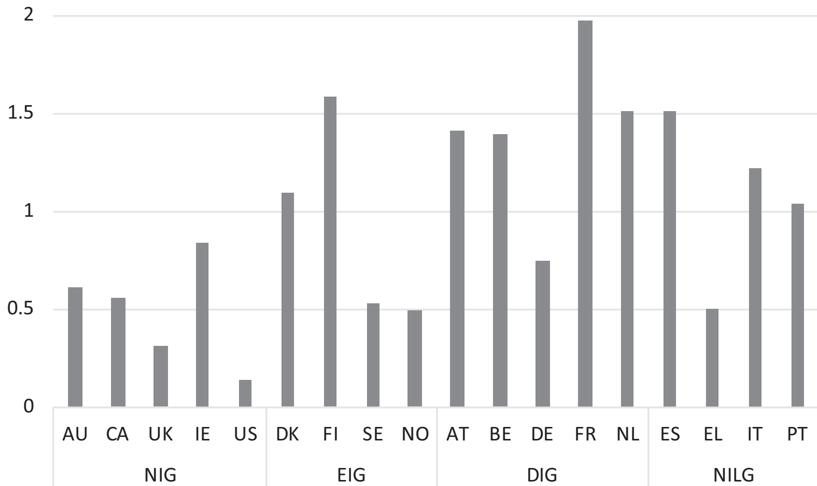

Figure 4.12 Expenditure on passive policies by country, as a percentage of GDP (2017).

Note: United Kingdom: 2011 data.

Source: Elaboration on OECD data.

As far as the *passive policies* are concerned, dualistic and non-inclusive low-growth countries devote relatively more resources to this policy instrument, even in the face of averagely high levels of unemployment, especially in the non-inclusive low-growth model.

With regard to the question of entitlement to benefit, Figure 4.13 shows the net replacement rate at the second month of unemployment and at the 24th month.

The NIG countries are the least generous, with a replacement rate of 42.6% during the second month of unemployment and 28% after 24 months. The value for the USA, which falls to 6% in the 24th month, is worthy of note. In contrast, the DIG countries provide the highest replacement rates during both time-points considered, while similar but slightly lower values are those of the EIG countries. The values of the NILG countries invite reflection: the replacement rates (56.2% at month 2 and 41.2% at month 24) are lower than those of the egalitarian inclusive growth and dualistic inclusive growth countries but higher than the non-inclusive growth countries. It should be noted that, compared to the Scandinavian and Continental countries, the difference between the replacement rates at the second month are modest, while the gap widens when we compare the replacement rates at the 24th month (the gap with the DIG countries is about 12 points, while with the EIG countries about 15 points). In other words, despite the fact that the phenomenon is particularly widespread, the risk of long-term unemployment is less well protected in these countries.

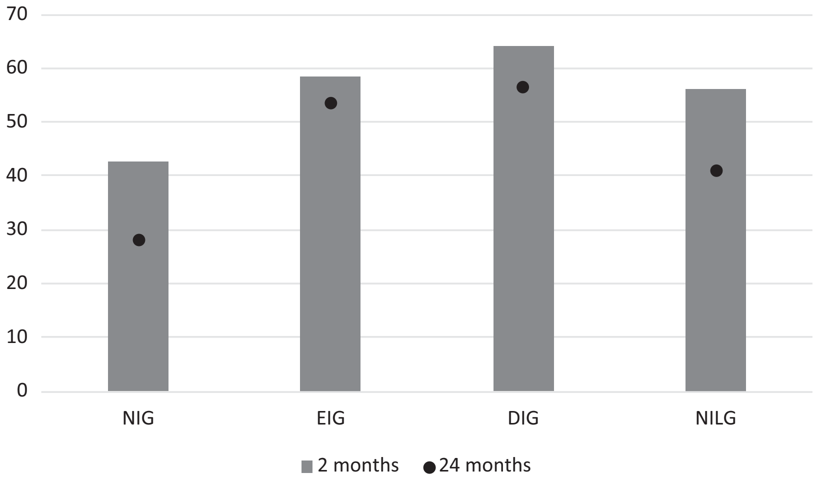

Figure 4.13 Net replacement rate of unemployment benefit at the second and 24th month, % average salary, individual without children (2017).

Source: Elaboration on OECD-SOC data.

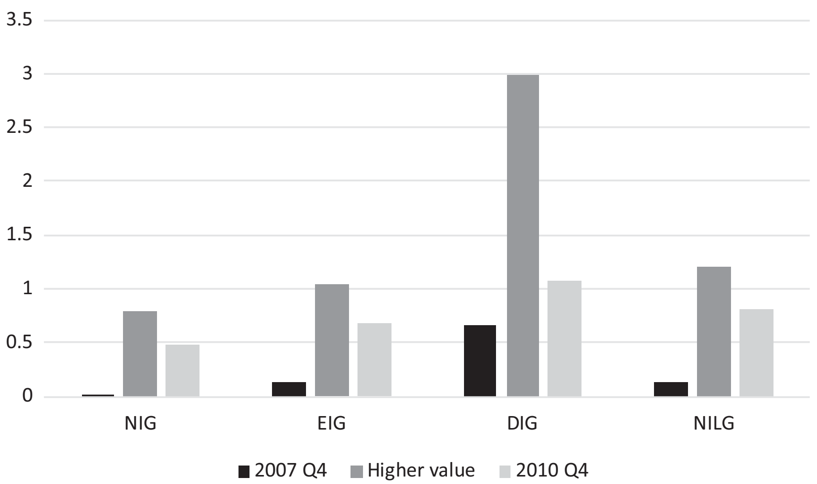

Figure 4.14 Share of workers involved in short-time work schemes during the crisis by growth pattern.

Note: Missing countries: UK, USA, Greece, Sweden. Denmark: No data for 2010.

Source: Hijzen and Martin (2013).

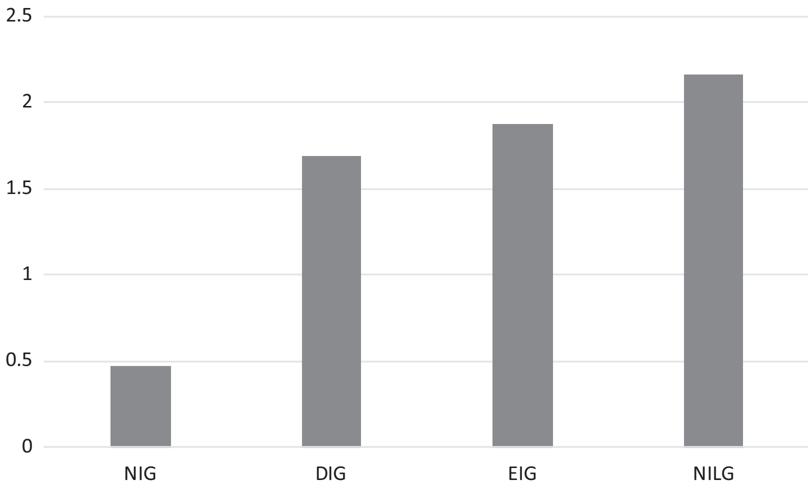

Figure 4.15 EPL fixed-term workers by growth pattern (2013).

Source: Elaboration on OECD data.

Figure 4.14 shows the percentage of workers who participated in short-time work programmes, i.e. those interventions that support wages and simultaneously safeguard jobs for those who have suffered reductions in their working hours as a result of an economic crisis. These interventions are particularly widespread in the industrial sector (Thelen, 2014). The data refer to the last quarter of 2007, immediately preceding the crisis, to the last quarter of 2010, following the “responses” given by the various countries to the employment crisis and, finally, to the period when the highest values were recorded, i.e. around the third quarter of 2009 (Hijzen & Martin, 2013; Hijzen & Venn, 2010). It is clear from this figure that dualistic inclusive growth countries are the ones to make most use of short-time work schemes, followed by NILG countries. In particular, the countries that have made the most use of these schemes are Belgium, Germany, and Italy, the only ones where the percentage of workers involved exceeds 2% of employees.

The following figures (4.16, 4.17, and 4.18) present data on Employment Protection Legislation (EPL), which measures, first, the constraints contained in the legislation in relation to recruitment and dismissal procedures in the case of permanent employment, and second, the rules relating to the temporal extension of employment relationships and the definition of hours (EPL fixed-term employment).

The EPL index is higher for workers with permanent contracts (Figure 4.15), regardless of the growth pattern, with one important exception, however, France (Figure 4.16). Regarding the EPL aimed at permanent workers, it can

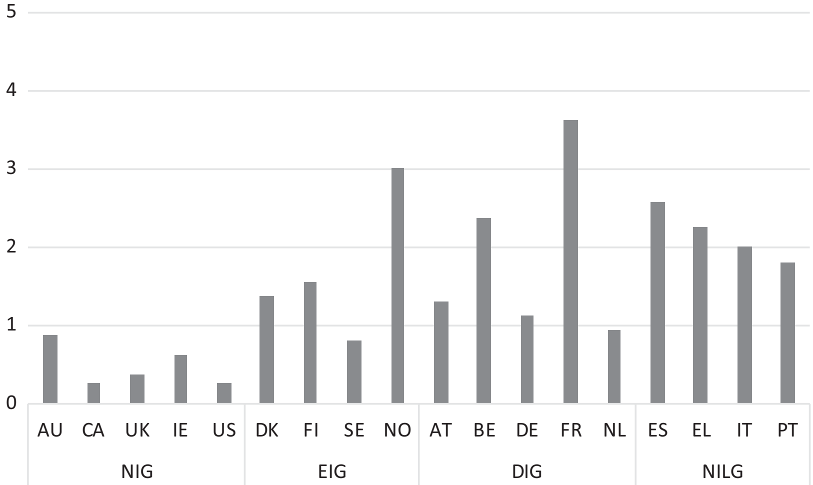

Figure 4.16 EPL fixed-term workers by country (2013).

Source: OECD.

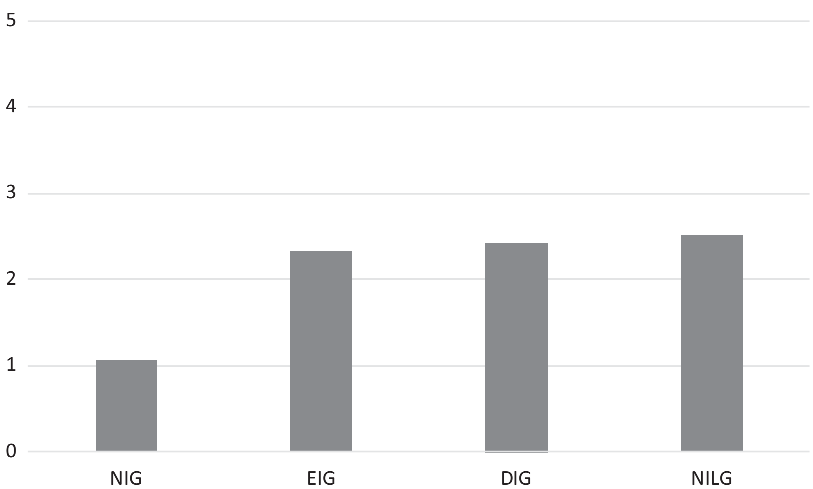

Figure 4.17 EPL permanent workers by growth pattern (2013).

Source: Elaboration on OECD data.

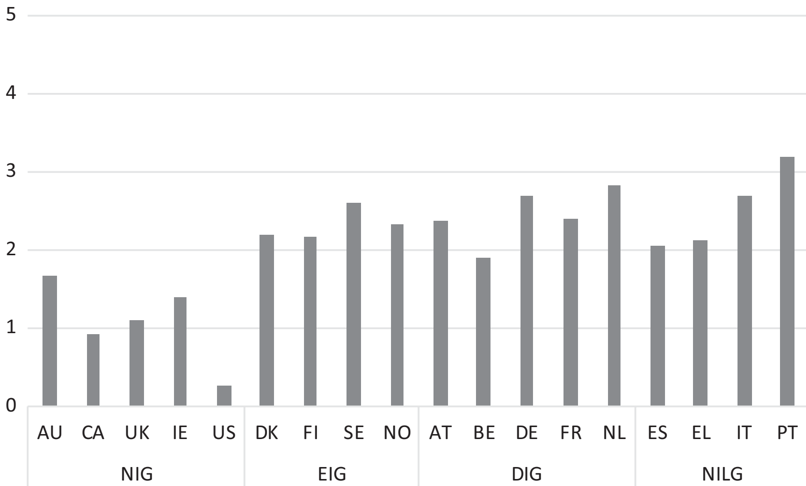

Figure 4.18 EPL permanent workers by country (2013).

Source: OECD.

be seen that the main difference is between the low level of the NIG type and the other three. Nonetheless, it should be noted that as no post-2013 data are available, the effect of major labour market reforms implemented in some countries that have reduced the EPL index more recently (Italy and Spain, for example) does not emerge.

4.3 Concluding remarks

Summarising, in conclusion, the characteristics of labour policy interventions, it is useful to underline the distinction regarding the incidence of public consumption or investment expenditure on the gross domestic product (Beramendi et al., 2015; see also Chapter 1). Also in this policy arena there is a different weight of measures oriented towards investment (active labour and human capital development policies and employment services) or measures oriented towards consumption (unemployment benefits and short-time work schemes), depending on the growth patterns.

In cases of non-inclusive growth, all areas of labour market policies are underdeveloped. Low legislative employment protection, low income protection interventions in favour of the unemployed, combined with almost non-existent short-time work schemes to support workers during cyclical crises, and little intervention in active policies. The only policy areas showing significant interventions are employment services, especially in the UK, and formal training, chiefly in the US. This confirms the importance in those countries of educational institutions in skills training, on the one hand, and of employment services that encourage the unemployed to return to work as soon as possible, even in low-wage areas, on the other.

A broad array of interventions to develop active labour market policies is what most distinguishes the inclusive and egalitarian growth model. In particular, the role of formal and non-formal training is pinpointed, demonstrating the importance of the acquisition of general and specific skills required by an innovation-oriented production system in the context of a labour market featuring high mobility. Furthermore, the intensive training programmes in the EIG model target both the employed and the unemployed, while low spending on employment services shows that the activation of income support recipients is of secondary importance compared to increasing qualification levels. As far as passive policies are concerned, the EIG model illustrates scarce use of short-time work schemes addressing only workers already employed and a preference for universalistic supports such as unemployment benefits, which, integrated with active policies and training that focus on all, workers and non, help develop a strong institutional complementarity with a coordinated and innovation-oriented business system (as shown by the data presented in this volume with reference to innovation policies). Finally, the considerable turnover in the labour market (especially in Denmark) is favoured by the lower value of the EPL index for permanent employment in comparison with the dual inclusive growth model and the non-inclusive low growth model.

Compared to the other models, the dualistic inclusive growth model has the highest expenditure per GDP on passive labour market policies and the most largesse in the net replacement rate of unemployment benefits. The protection of employed workers threatened by cyclical downturns with working time reductions is also strong, as shown by ample compensation schemes linked to short-time work, combined with high legislative protection of insiders with full-time, permanent jobs. In the field of active policies, there are only two significant areas of intervention: non-formal training, which mostly targets adult employees in industrial enterprises – the *insiders* – and employment services. The latter have been strengthened, especially in Germany, with the aim of accompanying workers supported by welfare schemes to reintegrate into the labour market in low-skilled services, as shown, among other things, by the high number of low-wage workers in that sector (Thelen, 2014).

Finally, the low-growth, non-inclusive model differs from the others in its meagre use of active labour market policies, with lower spending than in the EIG and dual models and slightly higher spending than in the NIG model. Expenditure on training is also scant and much lower than in the EIG and DIG models. Moreover, employment services are underdeveloped, meaning that spending as a proportion of GDP is the lowest of all the growth models. As a result, the support offered by labour market policies for re-entering the labour market is very low, excluding a very large share of the active population ensnared in long-term unemployment. Participation in formal and non-formal job-related training among the population aged 25–64 is also weak, the lowest of all the growth models. Labour market policies in the low-growth, non-inclusive model thus focus on protecting those who are already in employment, as confirmed by the higher EPL index for permanent employment and the high expenditure on short-time work schemes in favour of the employed during economic downturns.

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