



Active labor market policies and low inequality go hand in hand

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Active labor market policies (ALMP) do not only play an important role in getting unemployed quickly back into work. High spending on active labor market policies and low inequality also go hand in hand. Unemployment creates economic inequality and this inequality would be larger if the country does not spend money on activation of unemployed in order to help them get a job. Furthermore, there is a redistributive effect because everybody contributes via taxes, but ALMP tend to benefit low-income unemployed. The term "active labor market policies" refers to the activities that job centers undertake in relation to the unemployed. This includes a wide range of activities from recurring conversations and guidance about employment and education to public and private work experience

for a limited amount of time. Generally, there are two goals for ALMP. The first is to test if the unemployed are ready to take a job. The second is to contribute to a more efficient labor supply through further education, clarification of actual job opportunities and motivation to increase the intensity of job search.

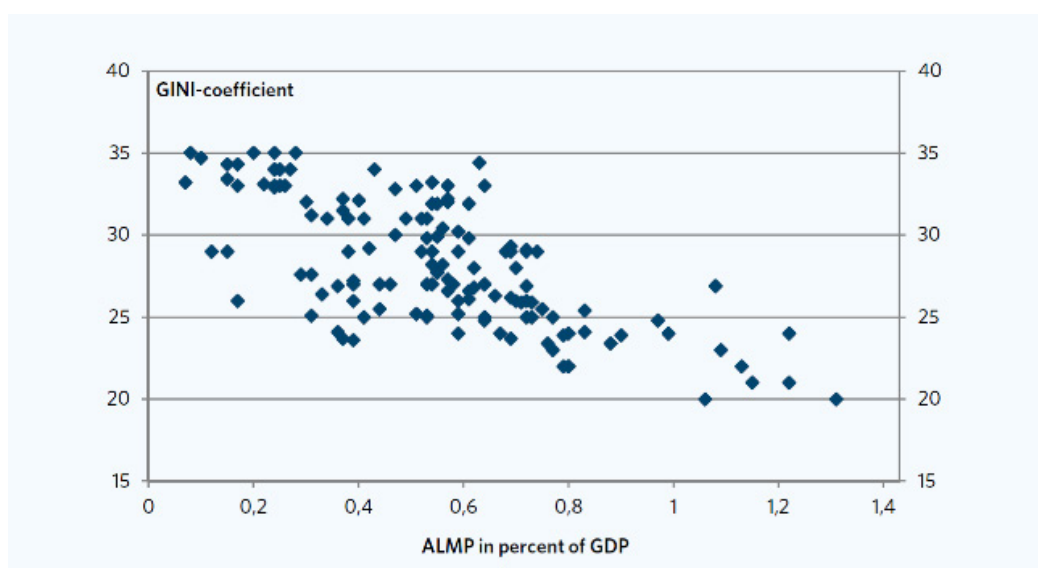
Countries that spend more on ALMP typically experience less inequality, whereas countries that do not spend much experience higher inequality (figure 1).

This evidence does not explain, however, whether high spending on ALMP reduces inequality or whether countries that have a low degree of inequality simply choose to spend more on ALMP – the causality can go both ways. Either

way, if the active labor market policy of activation takes place within one year of unemployment instead of two, the unemployed will find a job faster. On top of this, the job is more likely to pay a higher wage than the job the unemployed would have found if the activation had been within two years instead of one (Rockwool Foundation Research Unit, 2013). This indicates that ALMPs focused on getting the unemployed back to work fast, will have an even better effect.

The effect of ALMP depends on the state of the economy and whether unemployment is high or low. When the level of unemployment is low, given less competition among the unemployed, then the economy can gain a lot from ALMP as they can contribute more efficiently to raise employment even further.

FIGURE 1: COUNTRIES THAT SPEND MONEY ON ALMP ALSO EXPERIENCE LESS INEQUALITY



ALMP spending in percent of GDP

Note: We are looking at yearly data from 1995-2011 for Denmark, Sweden, Finland, Norway, France, Germany, The Netherlands, Italy, Spain and Greece.

Source: Own calculations on basis of OECD-data

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The opposite can also be claimed – that is, the effects from ALMP is larger, when unemployment is high. In this case, the argument is that when unemployment is high, there is a larger group of unemployed persons with different qualifications. Therefore, it is easier for some members of this group to find a job. As with the other argument, one should notice that in this case, there will be many well-qualified people applying for one job, which might make it more difficult. Nevertheless, the Danish research institute The Rockwool Foundation Research Unit, looks into both claims empirically and finds that the first argument holds. That is, the effect of ALMP is highest when unemployment is low. Practically, they compare the outcomes of two labor market reforms that were introduced respectively when unemployment was high and when unemployment was low.

Data shows that no matter if unemployment is high or low, the effect of ALMP will decrease, the more there is spent on the program. It is very likely that the first money spent in a program has a bigger effect than the last money spent. The more people that are activated, the harder it gets to do so efficiently. This might be explained by the fact that the people that are easy to activate (e.g. because they have good qualifications), are the ones that will find a job faster. In the end, the ones that are left might not have good qualifications or might not be able to take a job and therefore, an activation program will have a bigger challenge economically by trying to find a job for this group of people.

Nevertheless, if the goal is to reduce inequality, there might be reasons enough to keep the programs going even if they

become less efficient. Besides helping unemployed get back to employment, the programs prove to be essential in order to include the weakest groups in society. Even if the programs are unable to provide a job to an unemployed person, it will likely give him or her a higher level of social contact, better social skills and better fundamental educational and general skills. These skills can be very valuable for people who have severe difficulties finding a job. Furthermore, unemployed persons who are part of an activation program are less likely to be criminal than unemployed persons who are not in an activation program, but just receive passive unemployment benefits. That means that even if the programs fail to reduce the economic inequality in some cases, they will reduce inequality in the sense that they include some of the weakest people of society in other ways.

References

Rockwool Foundation Research Unit (2013). "Aktivering kan reducere uligheden i samfundet" (Danish paper). May 2013.

