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Expenditure on labour-market policy  
in Europe since the crisis.  
A multiplier of inequality between countries?

EZA seminar

A RENEWED SOCIAL DIALOGUE WITHIN THE NEW WORLD OF WORK:  
challenges and opportunities for the Juncker Commission

23 November 2017, Bonn

# What does a social investment approach to social policy mean for the EU?

- ▶ In global comparison, Europe stands out for its welfare states, which have been developed mostly in the period after WW2. Since the mid-1970s, welfare states have often been discussed as a fiscal burden hampering growth. Retrenchment has not really happened, however, rather welfare state change.
- ▶ The social investment approach to social policy has recently gained more prominence, especially at EU level. The idea: Instead of cushioning or repairing damage done by markets, the main task is to endow people with what it takes to prevent or overcome difficult situations. The social investment approach thus seeks to combine social and economic objectives by unlocking the productive value of social policy.

# What does a social investment approach to social policy mean for the EU?

- ▶ By some, social investment is seen as a means of saving the European Social Model. By many, it is criticised as a purely employment oriented, economi(sti)c approach to social policy.
- ▶ My point is: if social policy has a productive value – if it is an investment on which a pay-off can be expected – then social policy comes in as a dimension of inequality between countries. The contribution of social policy to a countries' economic dynamism and well-being depends on the concrete policies this country can afford and is able to implement.
- ▶ Therefore the question of this talk: **is social policy a motor of divergence within the European Union?** The example of labour-market policy.

# The Re-InVEST research project

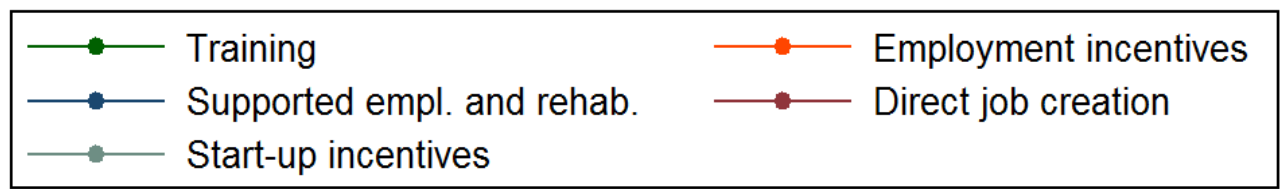
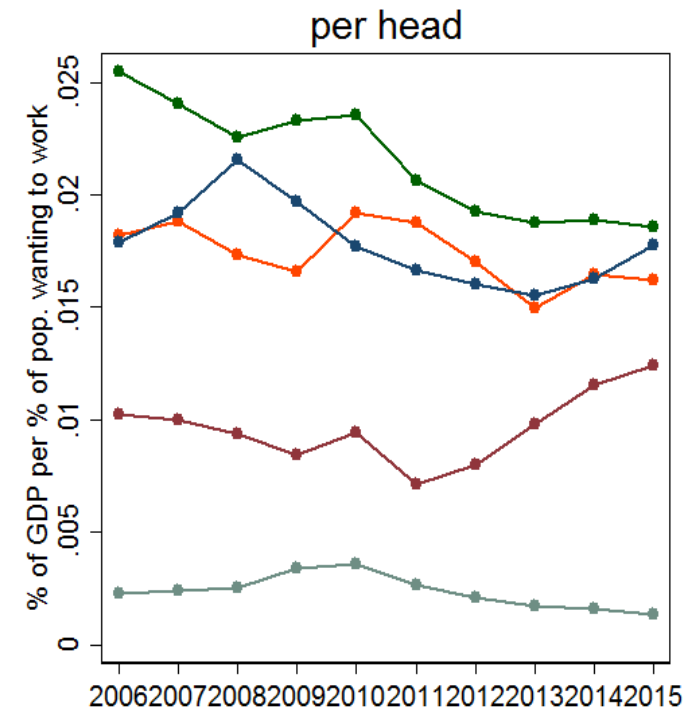
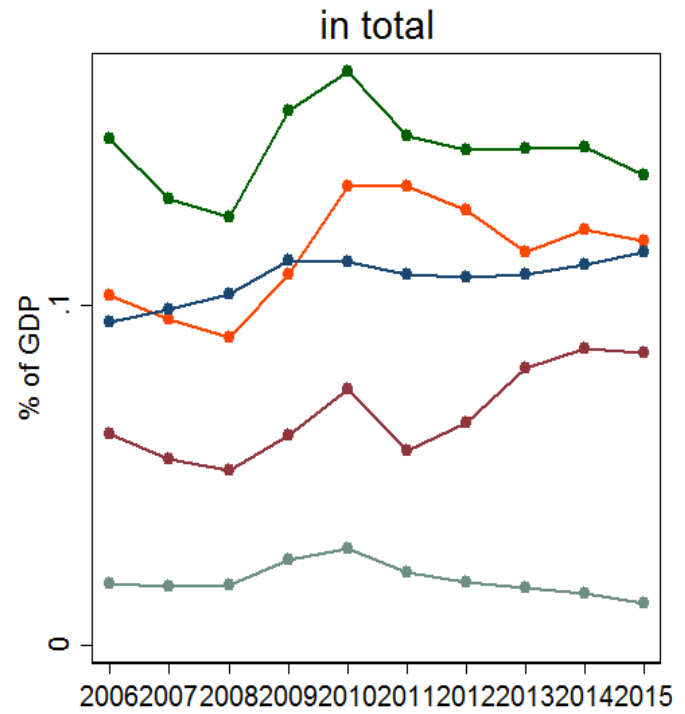
- ▶ EU-funded network project, 2015–2019, research teams from 12 countries, academics and NGOs.
- ▶ Main objectives:
  - ▶ Diagnosis of the social damage of the crisis, which includes the potential damage done by anti-crisis policies.
  - ▶ Revision of social investment with regard to the effective promotion of human rights and capabilities.
  - ▶ Application of this perspective to key social policies: early childhood education, health care, housing, water, financial services, active labour market policies and social protection.
- ▶ Mostly qualitative research, seeking to empower vulnerable groups through active participation in the research process.

# Patterns and trends of labour-market policy spending in Europe

# The case of labour-market policy

- ▶ Subject: Efforts in terms of active and passive labour-market policy (LMP) made by European countries in the years between 2006 and 2015
- ▶ Database on LMP provided by Eurostat and DG EMPL
  - ▶ Interventions aimed at three groups: unemployed, employed at risk and inactive persons willing to work
  - ▶  $LMP = Services + Measures (ALMP) + Supports (PLMP)$
  - ▶ Expenditure as: aggregate or per person wanting to work; relative (% GDP) or absolute (PPS), optionally adjusted to national living standards.

# Expenditure on active LMP in Europe (mean across countries), 2006–2015



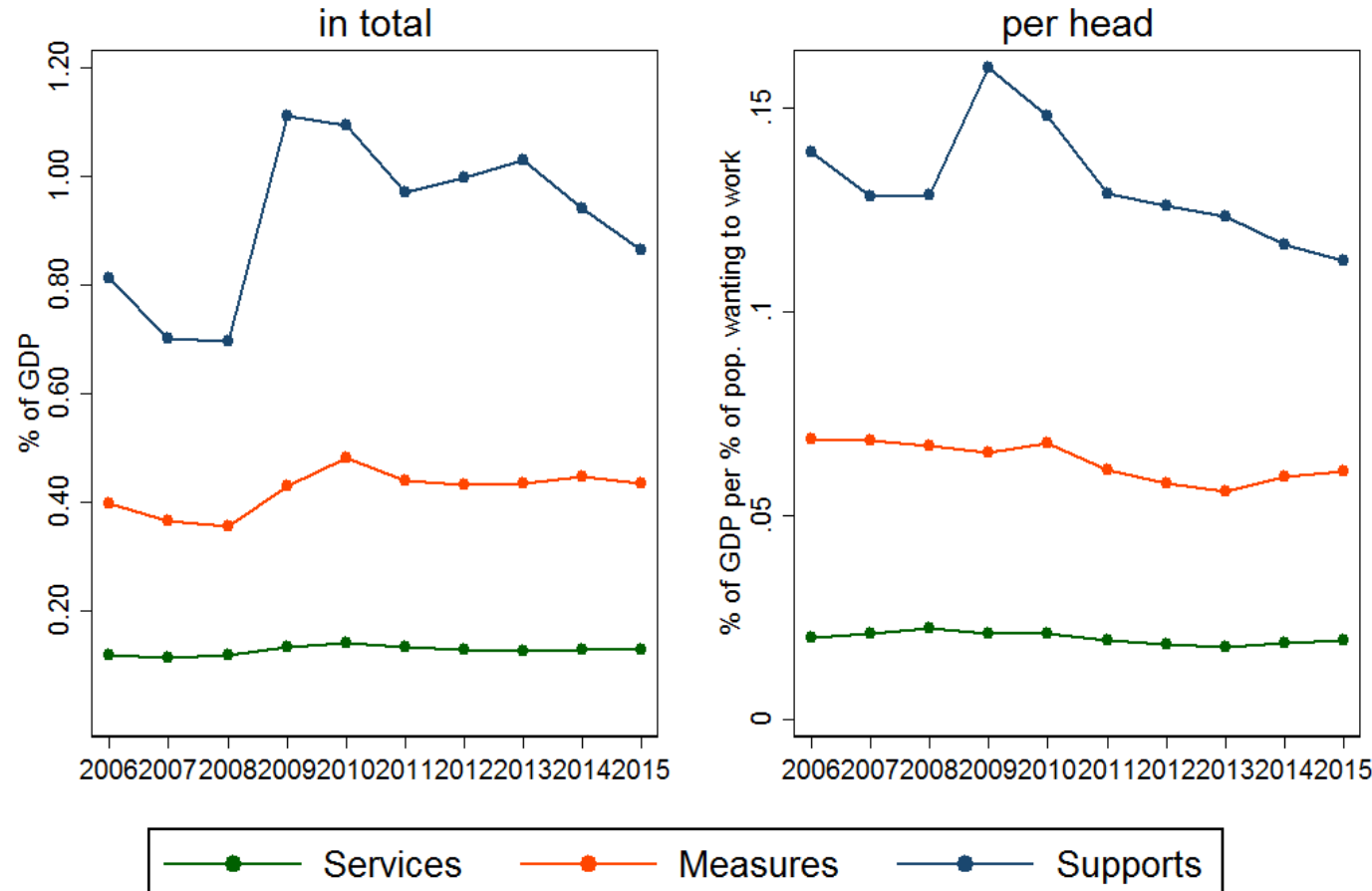
Training the most important measure, but also strongest decline per head.

Expenditure for measures with short term impact stepped up in total.

Source: Eurostat/DG EMPL, own calc. \* Includes: AT BE BG CY CZ DE DK EE EL ES FI FR HU IE IT LT LU LV MT NL NO PL PT RO SE SI SK. Some values imputed.



# Expenditure on overall LMP in Europe (mean across countries), 2006-2015



PLMP continues to dominate ALMP, also as a response to the crisis.

Expenditure on aggregate goes up, spending per head declines.

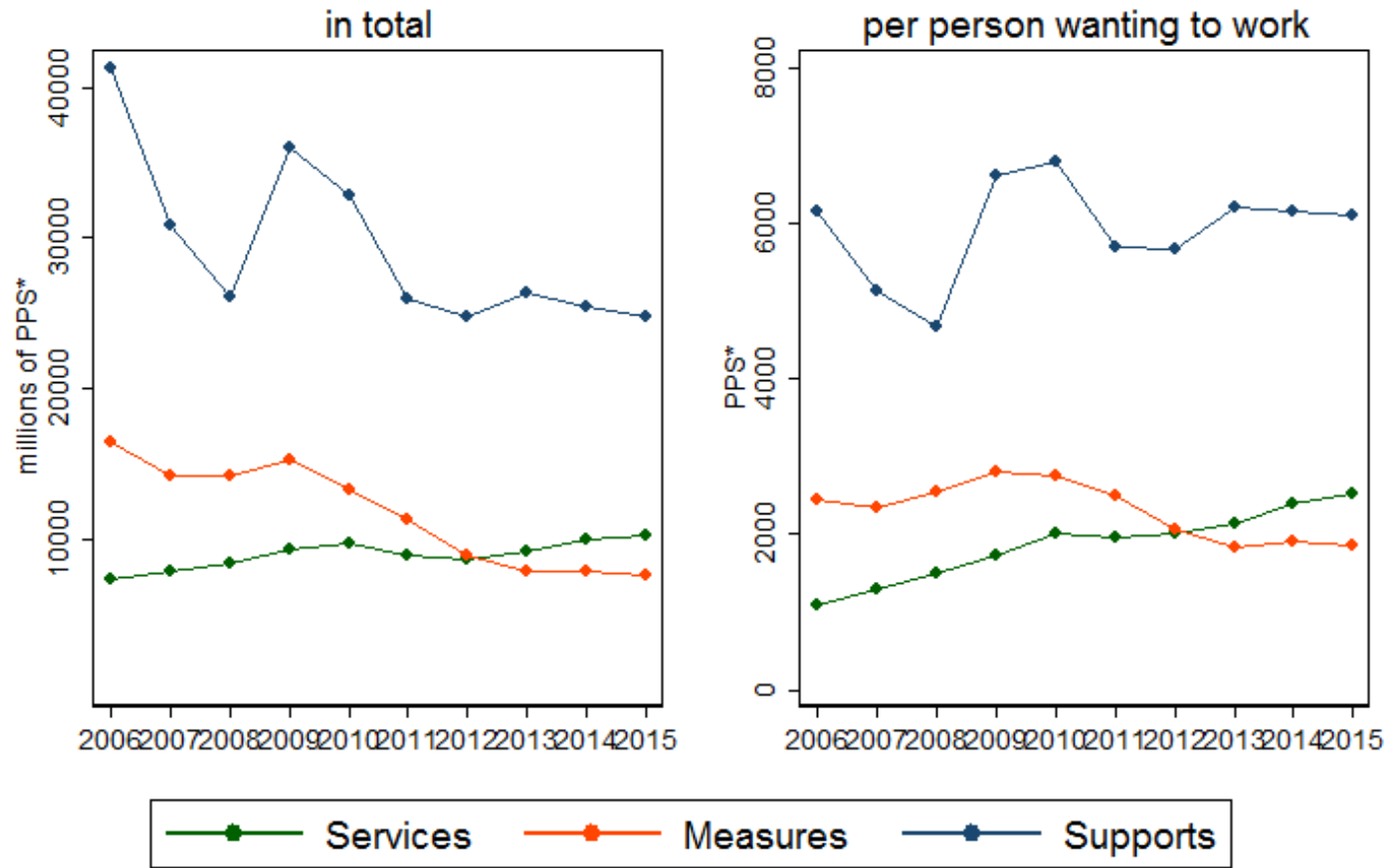
Behind the mean values, we have quite heterogeneous country cases...

Source: Eurostat/DG EMPL, own calc. \* Includes: AT BE BG CY CZ DE DK EE EL ES FI FR HU IE IT LT LU LV MT NL NO PL PT RO SE SI SK. Some values imputed.



# Germany: spending per head stable even though total spending declines

Absolute LMP spending in DE, 2006–2015



Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.

# Austria: expenditure per head stabilised by increased total spending

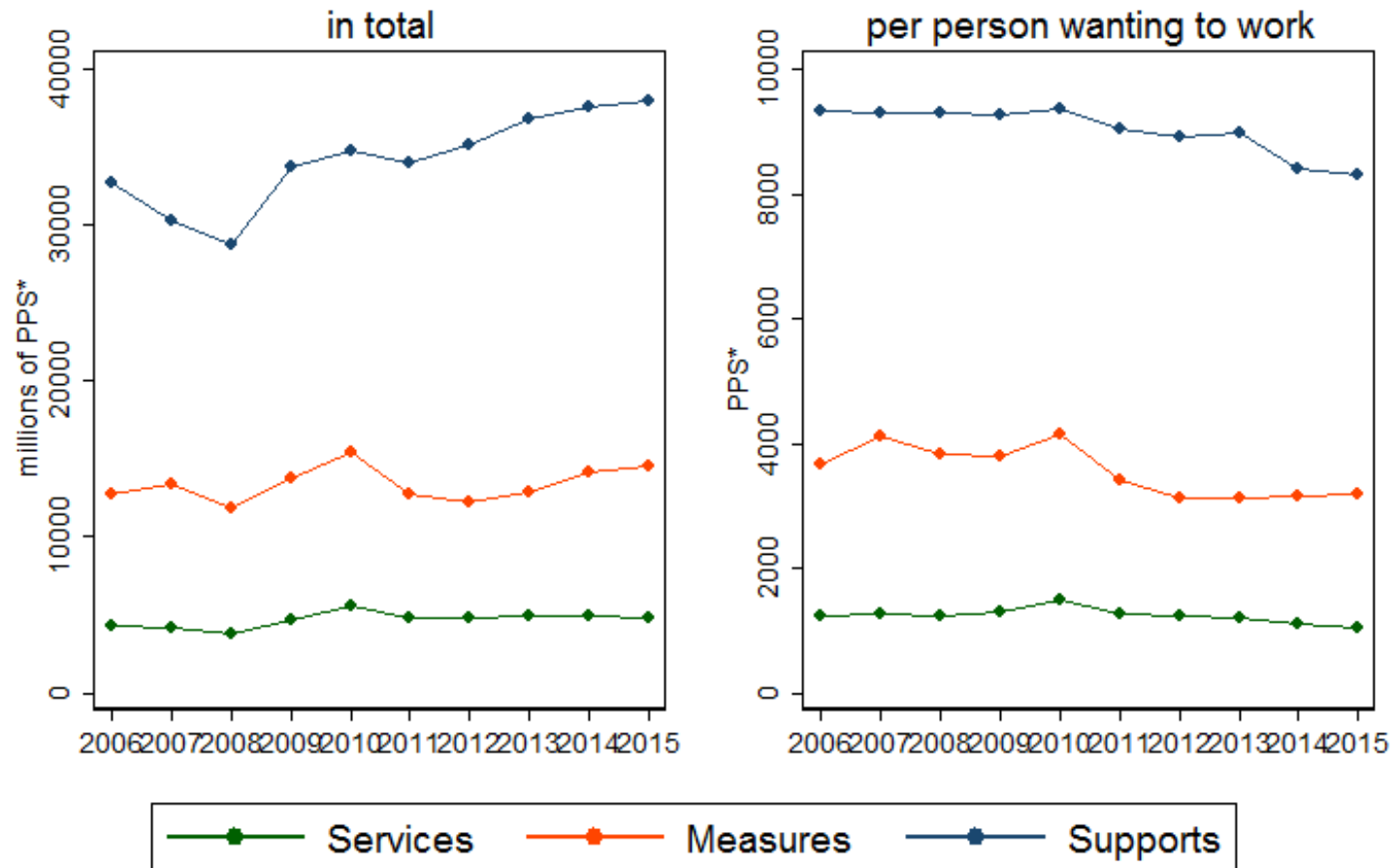
Absolute LMP spending in AT, 2006–2015



Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.

# France: expenditure per head stabilised by increased total spending

## Absolute LMP spending in FR, 2006–2015



Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.

Portugal: no clear trend for aggregate spending, but decline in ALMP and PLMP spending per head.

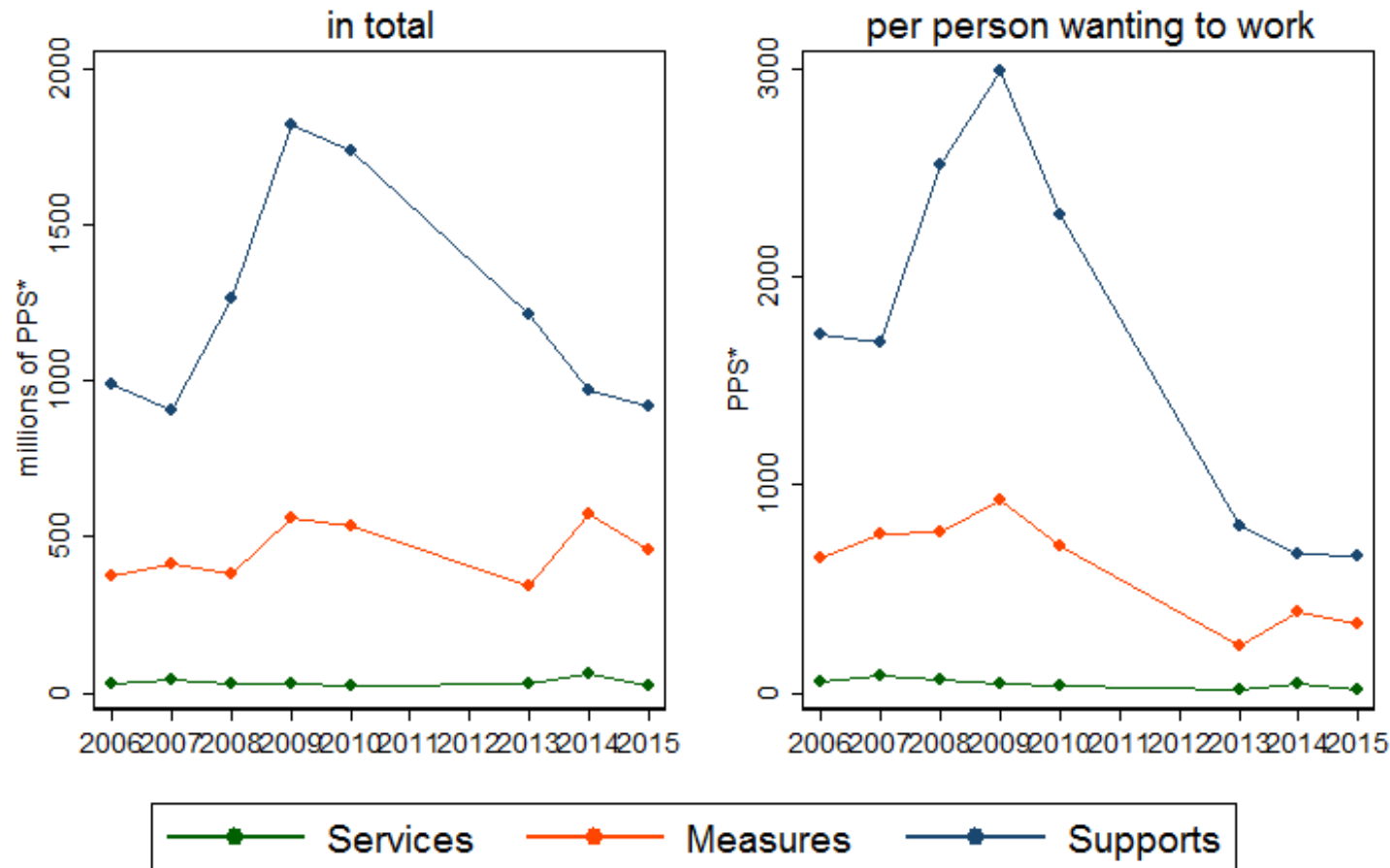
### Absolute LMP spending in PT, 2006–2015



Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.

Greece: boost in aggregate PLMP spending not sustained;  
drop in per-head spending of both active and passive LMP.

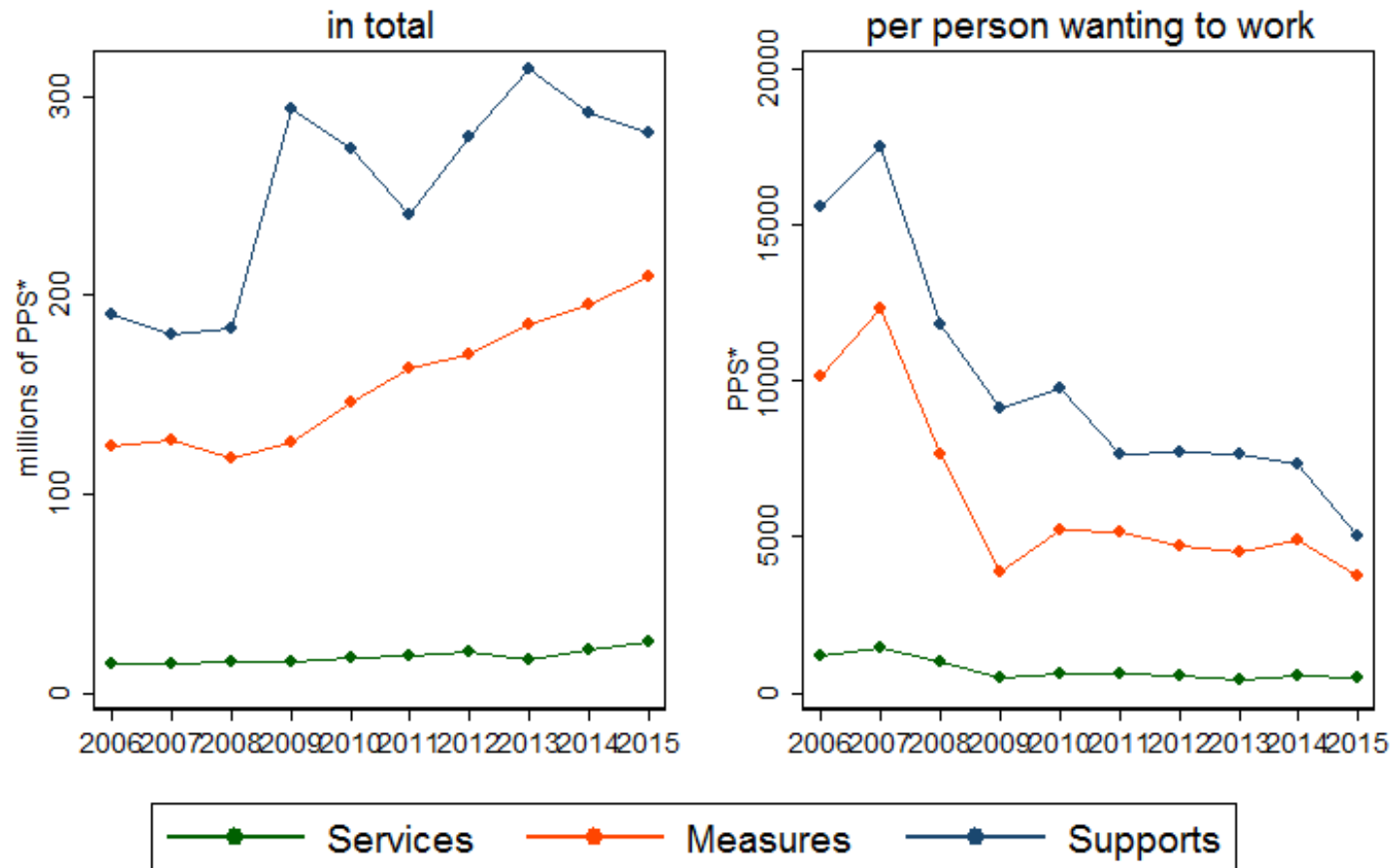
### Absolute LMP spending in EL, 2006–2015



Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.

Luxembourg: hike in aggregate spending, and still per-head spending declines constantly.

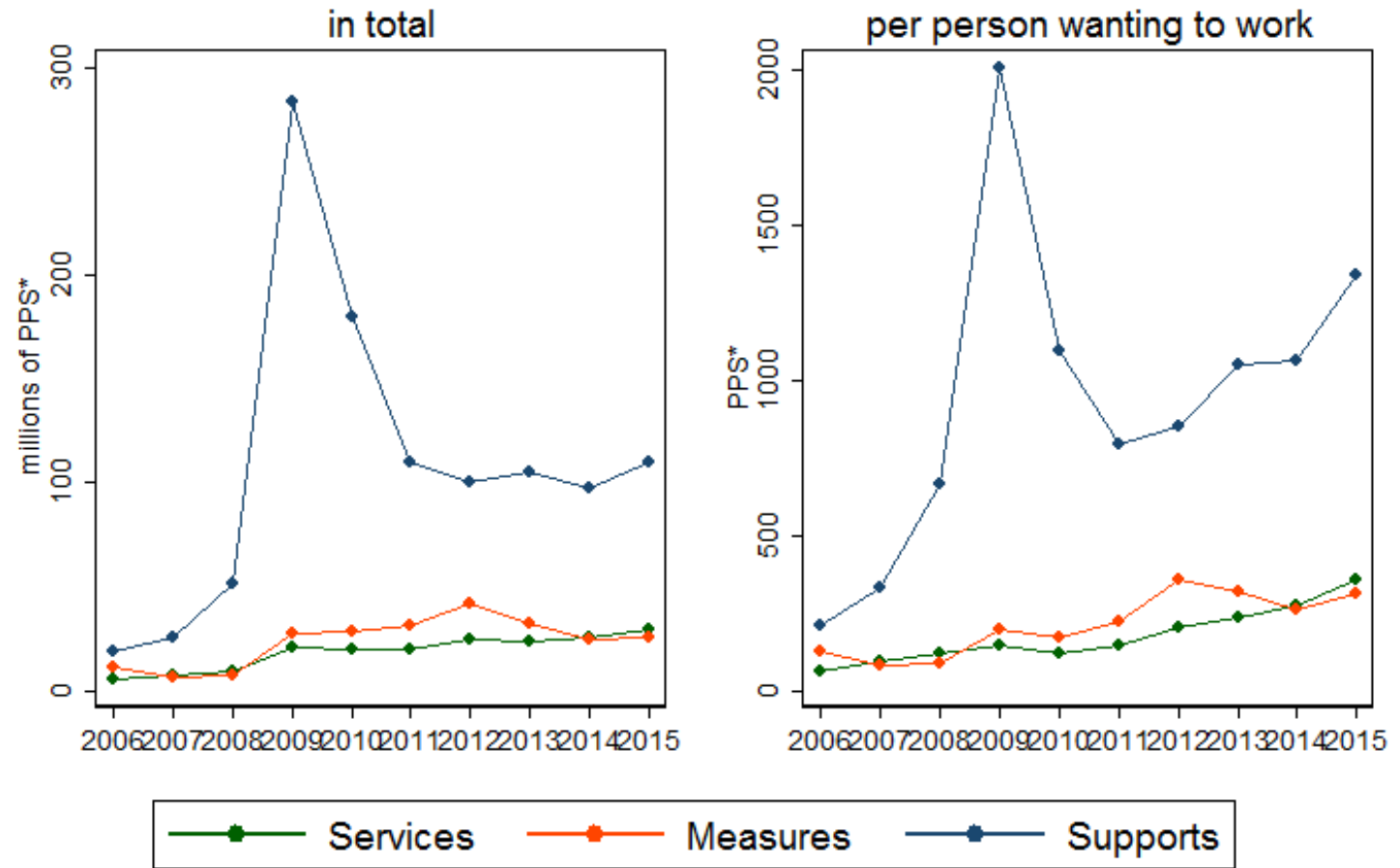
### Absolute LMP spending in LU, 2006–2015



Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.

# Estonia: long-term extension of expenditure, starting from a very low level

## Absolute LMP spending in EE, 2006–2015

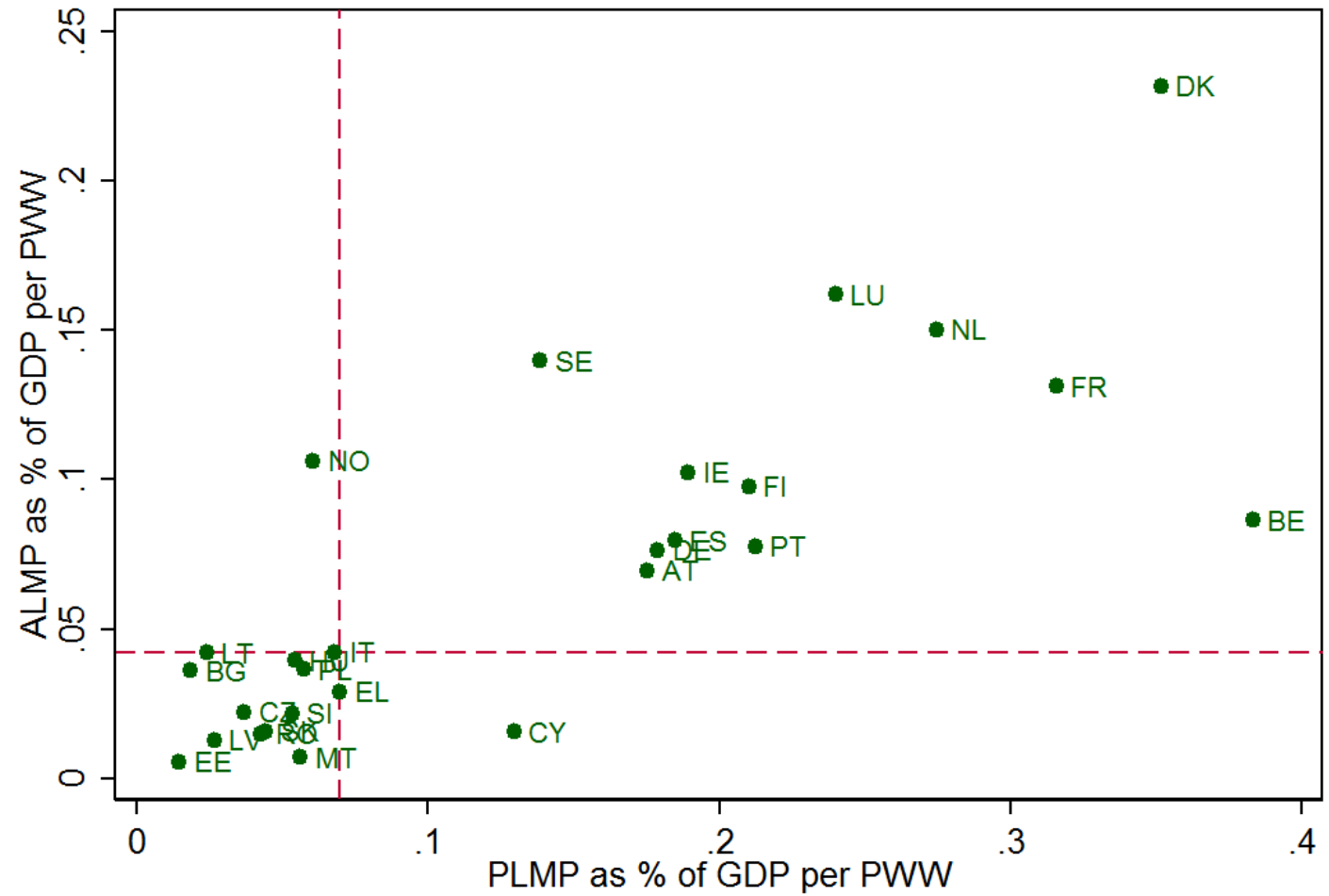


Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.



# Are there “ALMP-” and “PLMP-countries”?

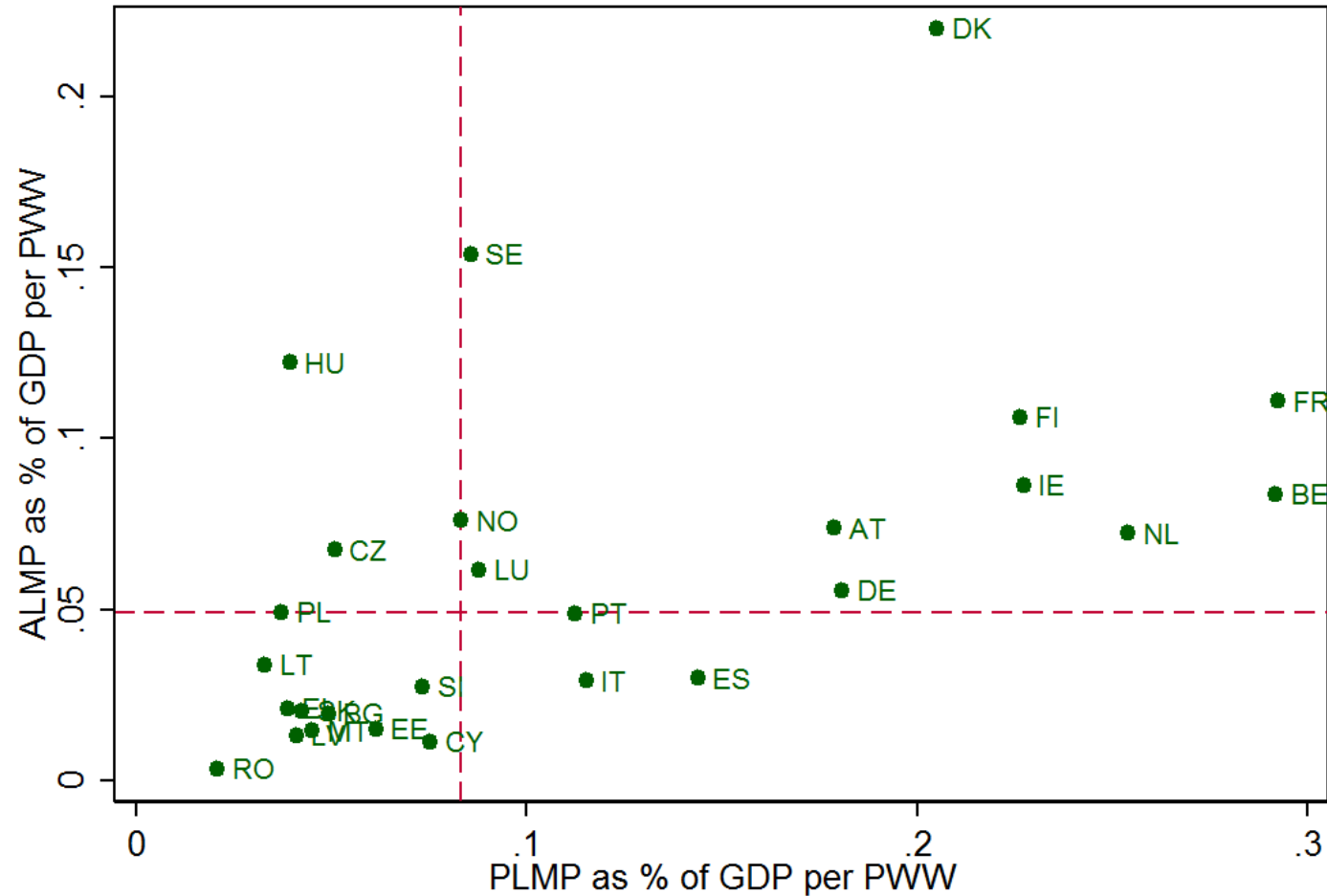
**Active and passive relative LMP expenditure per % of population wanting to work, mean of 2006-2007**



Source: Eurostat/DG EMPL, own calc.

# Are there “ALMP-” and “PLMP-countries”?

**Active and passive relative LMP expenditure per % of population wanting to work, mean of 2013-2014**

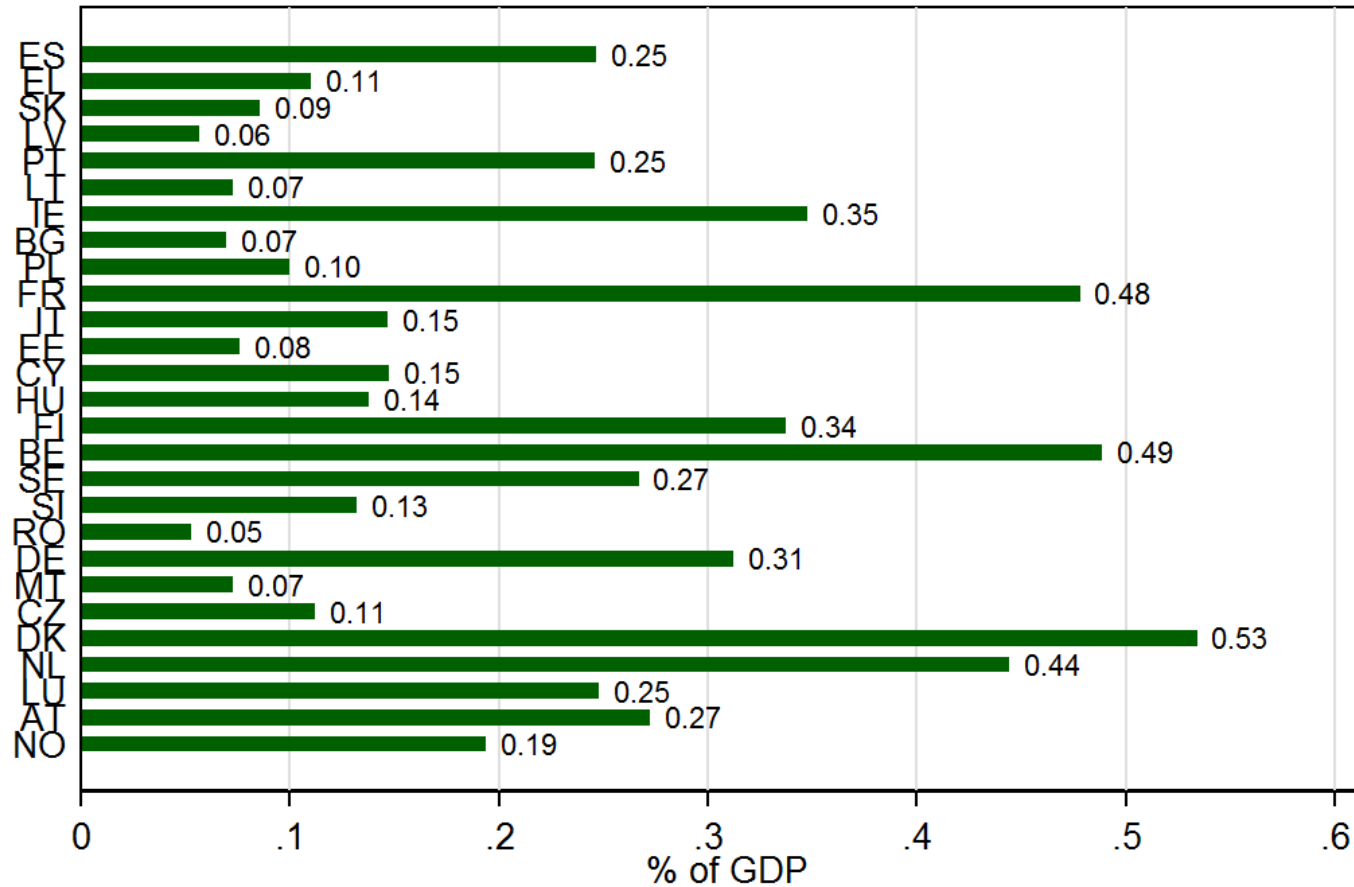


Source: Eurostat/DG EMPL, own calc.

# What drives LMP expenditure?

# LMP expenditure driven by need?

**Mean yearly LMP expenditure per % of population wanting to work, as % of GDP, 2006-2015**



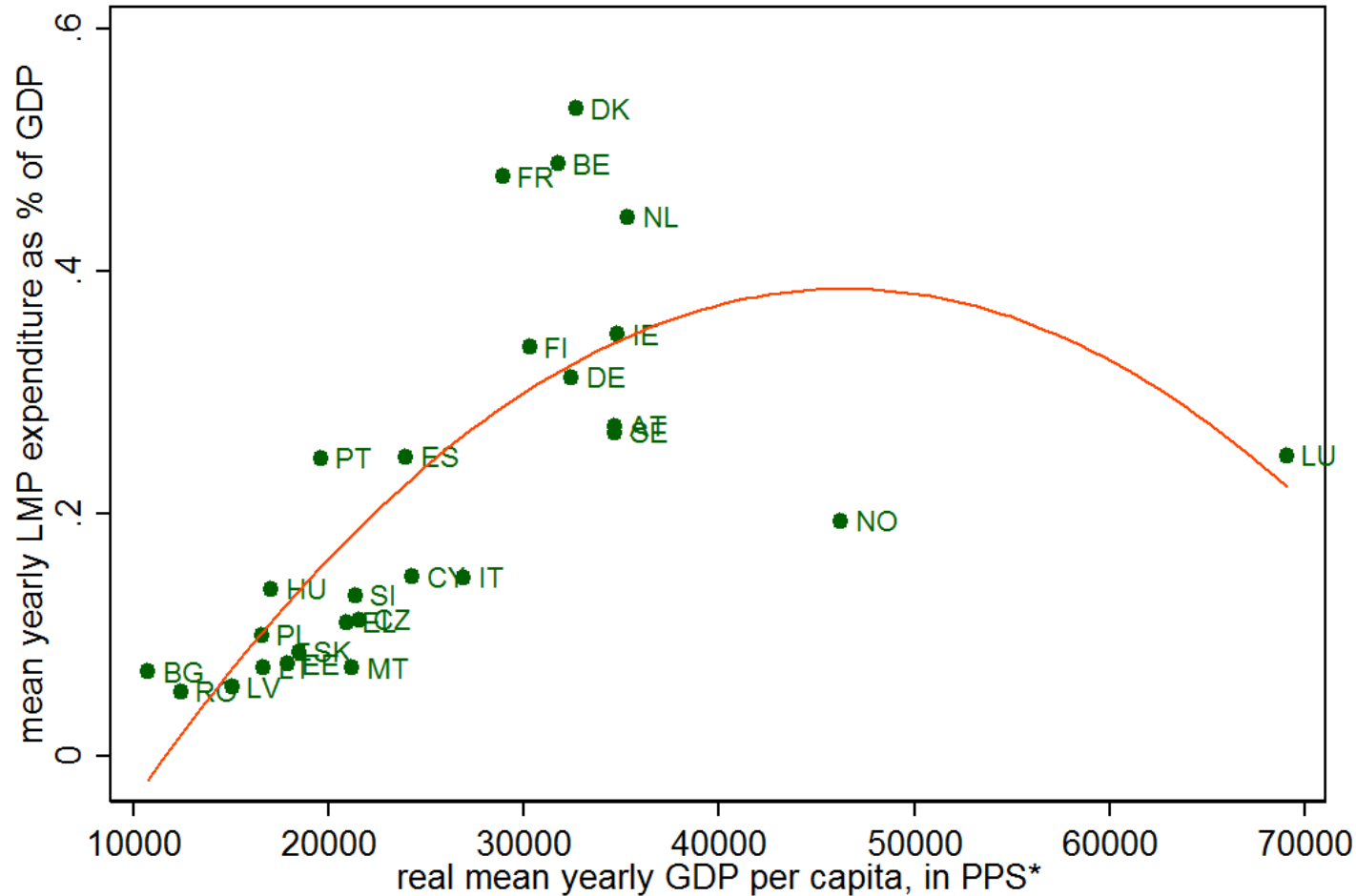
Rather a negative link between LMP expenditure per head and unemployment rate!

Source: Eurostat/DG EMPL, own calc.

Sorted by unemployment rate, mean of 2006-2015

# LMP expenditure driven by wealth?

**Mean yearly LMP expenditure *per head* as % of GDP and GDP per capita, 2006-2015**

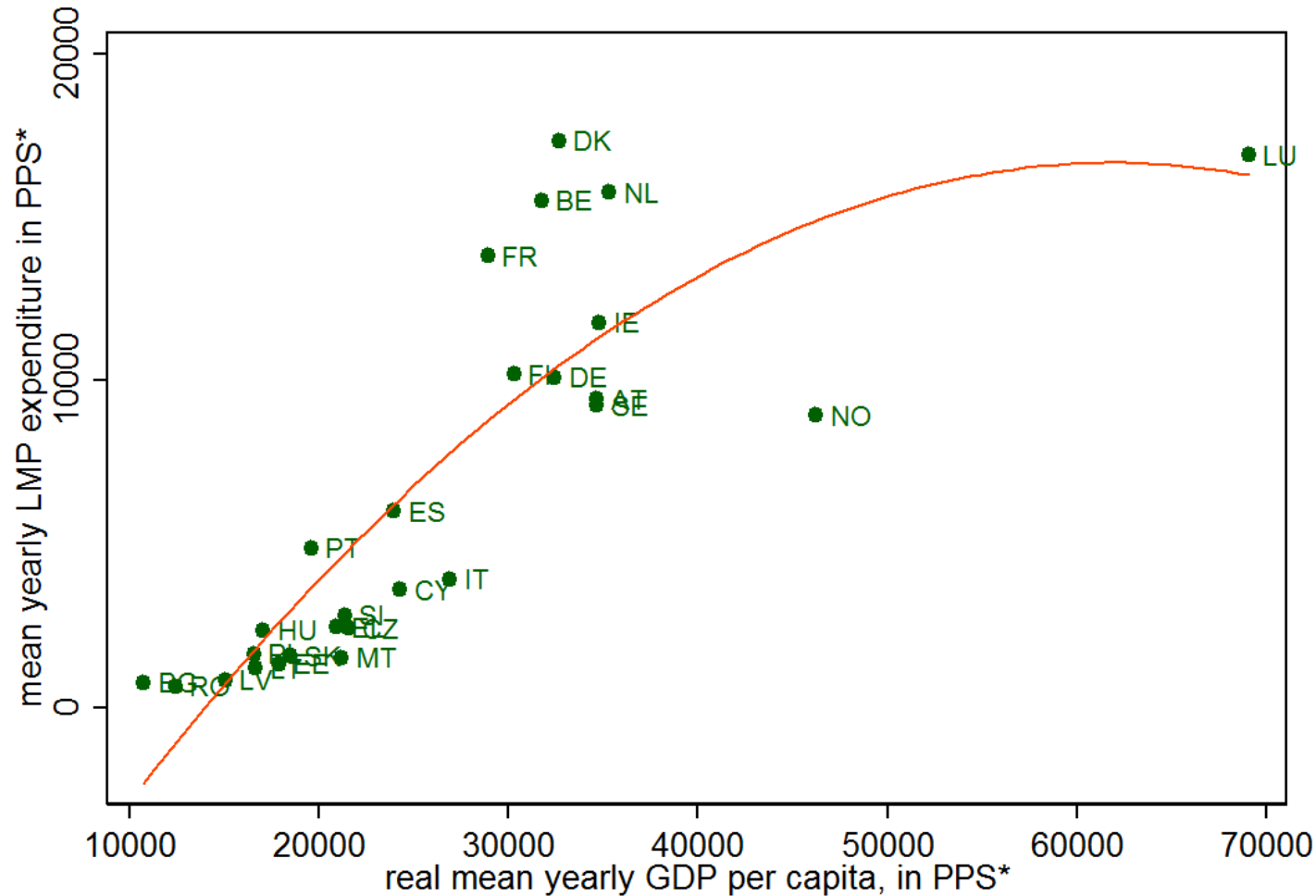


LMP spending per-head correlated with GDP.

Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.

# LMP expenditure driven by wealth?

**Real mean yearly LMP expenditure per head and GDP per capita, 2006-2015**

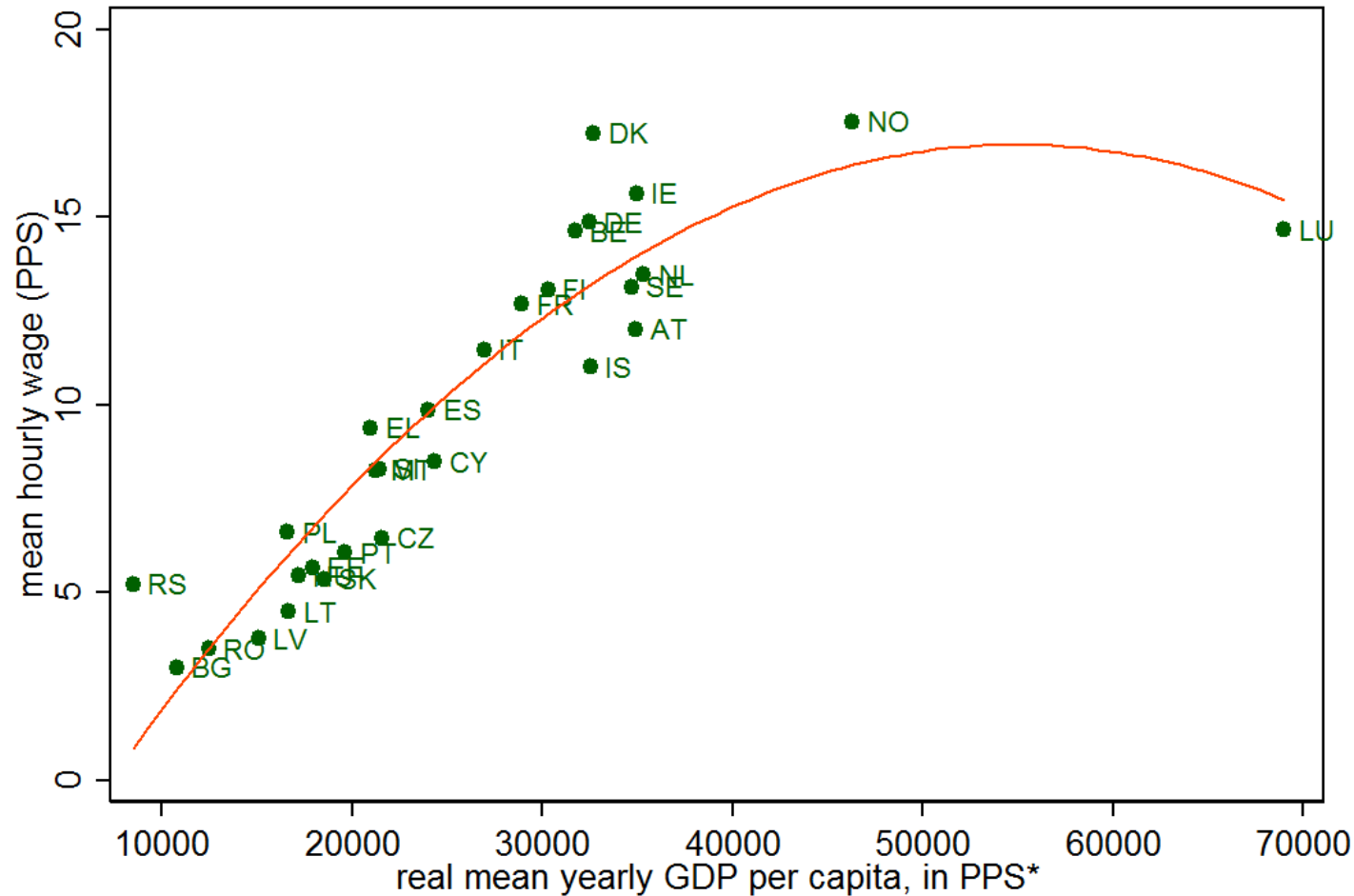


In real terms:  
 LMP spending  
 per-head clearly  
 grows with  
 countries'  
 wealth.

Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.

# LMP expenditure driven by costs?

## Association between countries' wage levels and GDP per capita (2006-2015)



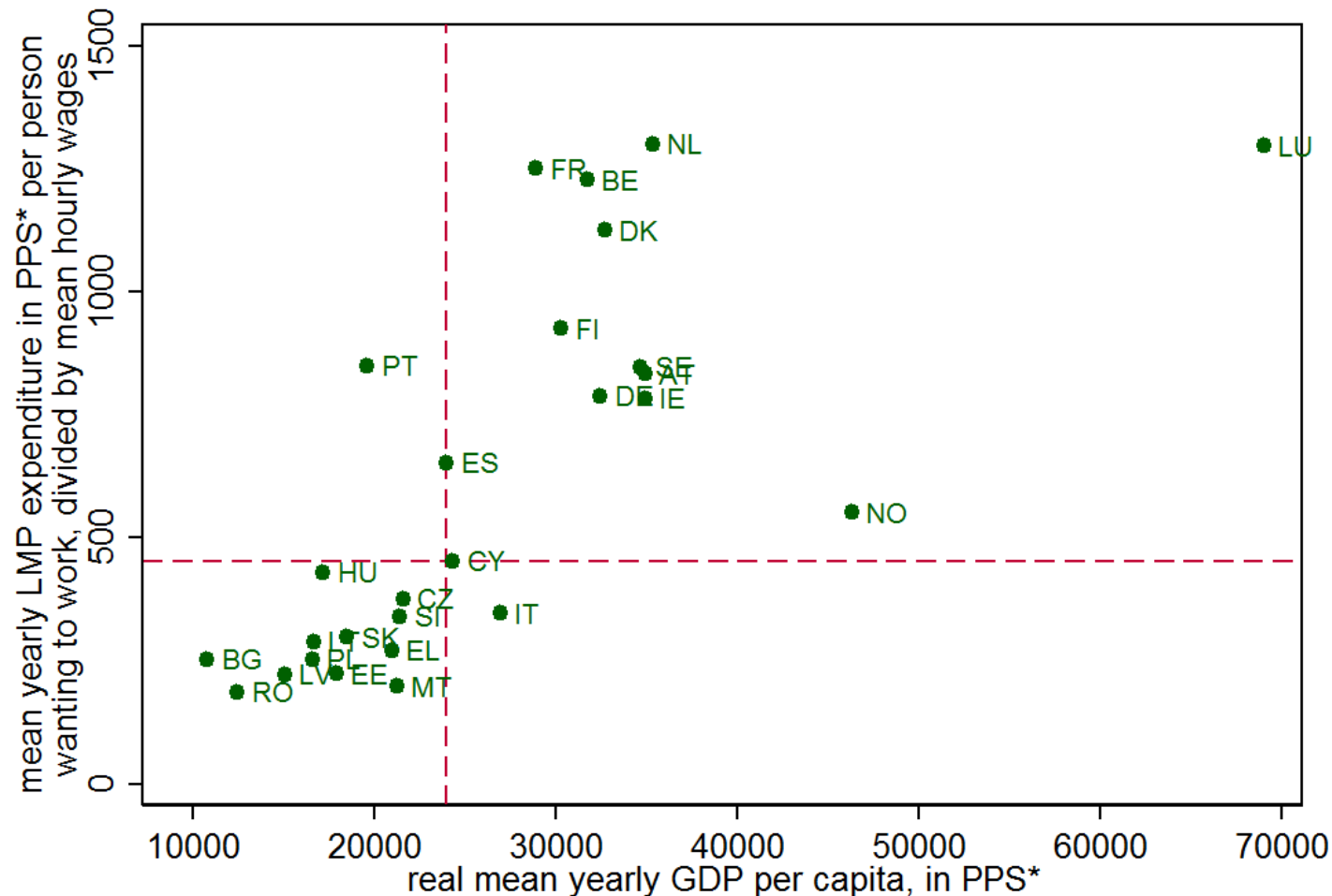
Close link between GDP and hourly wages – cost of LMP (often wage replacement) should thus be higher in richer countries

Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.



# LMP expenditure driven by costs?

**Real mean yearly LMP expenditure per head, adjusted for wage levels, and GDP per capita,**

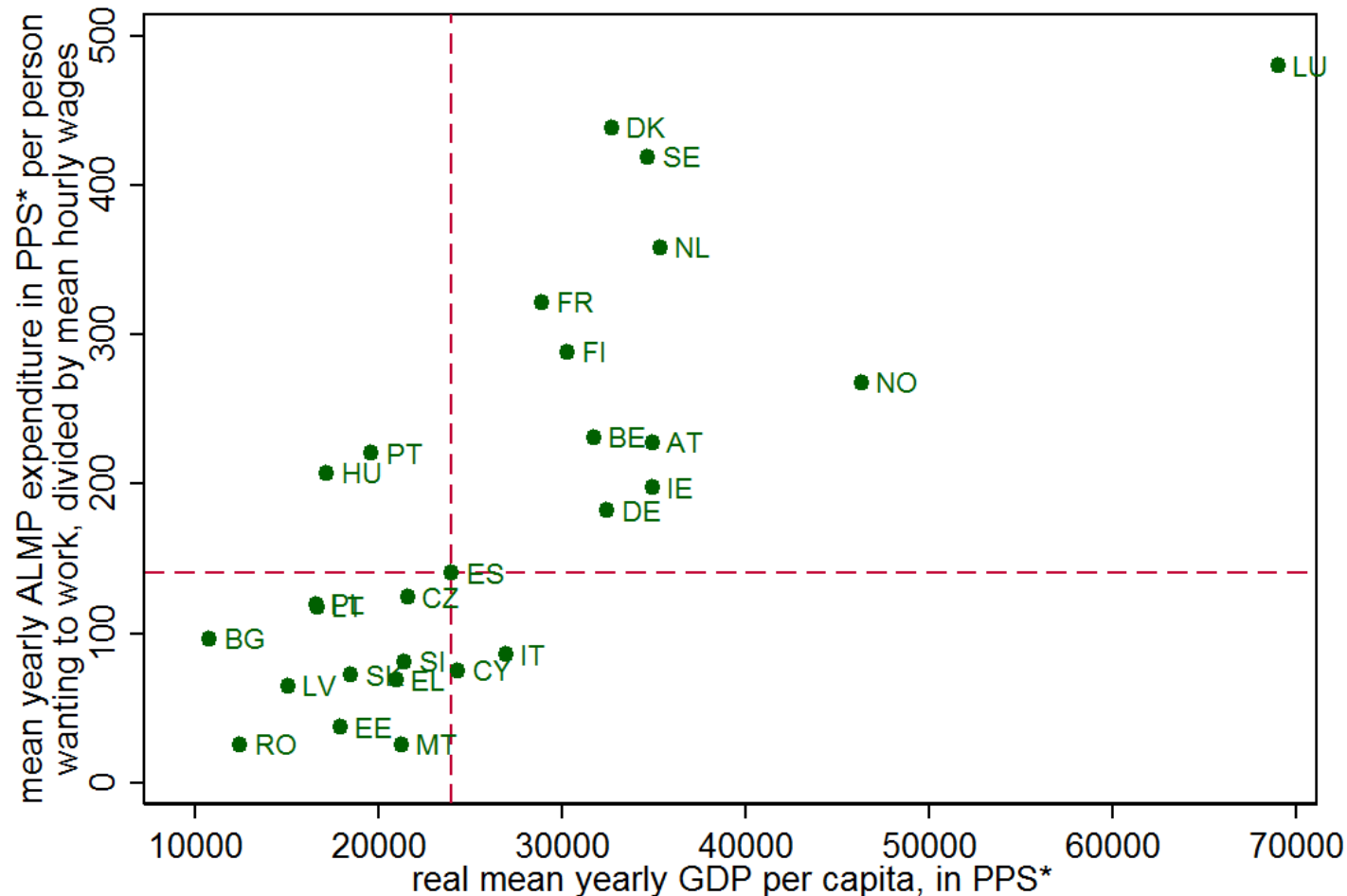


LMP spending per-head grows with countries' wealth, even if adjusted for wage levels.

Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.

# LMP expenditure driven by costs?

**Real mean yearly ALMP expenditure per head, adjusted for wage levels, and GDP per**

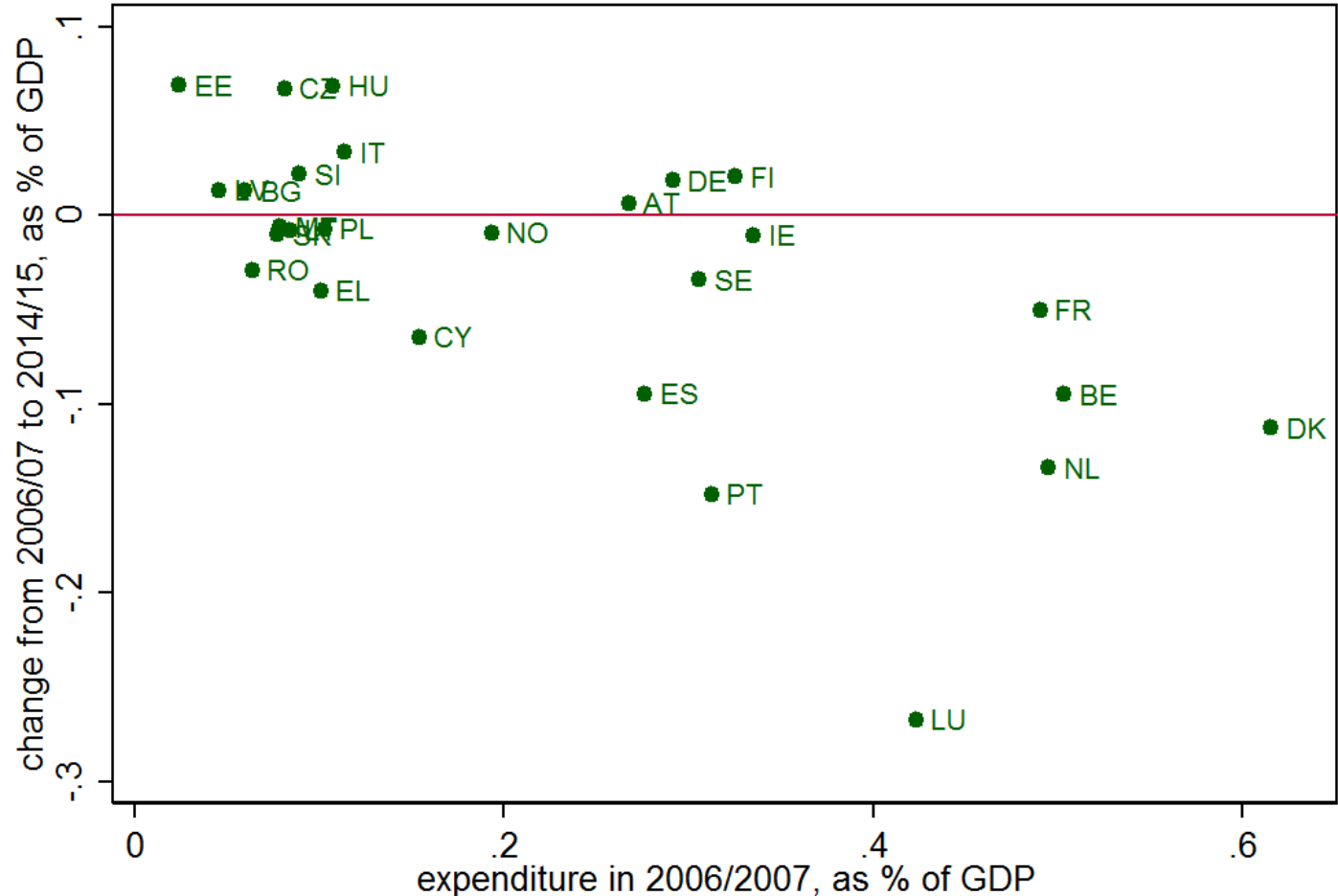


ALMP spending per-head grows with countries' wealth, even if adjusted for wage levels.

Source: Eurostat/DG EMPL, own calc. \* Amounts calculated at prices of 2011, divided by 2011's PPP.

# Some signs of convergence of LMP in Europe

**Initial spending amount and subsequent change (p.p.).  
Need-weighted LMP expenditure as % of GDP**



Source: Eurostat/DG EMPL, own calc.

Big spenders markedly reduce LMP, while small spenders show various trends

Is labour-market policy expenditure  
really productive expenditure?

# Is LMP really productive? Theoretical reasonings...

- ▶ Contrary perspectives on the relationship between LMP and labour-market functioning in general
  - ▶ Neo-liberal view: markets would function better if intervention were minimized. Financing LMP requires taxation, which raises the cost of labour above the market-clearing level (Bradley and Stephens 2007).
  - ▶ Institutional view: markets need to be framed by non-market institutions in order to function optimally. Social policy sometimes has to shield workers from market forces and/or has to equip workers for the labour-market.

# Is LMP really productive? Empirical findings...

- ▶ The literature on *aggregate* effects of *active* LMP says: It is not certain that expenditure generally has a positive effect on employment. Empirical results are ambivalent.
- ▶ Effectiveness dependent on time and place, measures chosen and (their fit to) the specific labour-market challenge(s). E.g. matching problems or lack of human capital more easily addressed by policy than a substantial lack of jobs.
- ▶ Effectiveness limited: LMP programmes are plagued by revolving door effects, deadweight loss and negative externalities.
- ▶ Mixed results also for *passive* LMP: Several studies see higher unemployment resulting from higher replacement rates, longer duration of payments, and broader coverage. Others criticise their methodology and find the exact contrary.

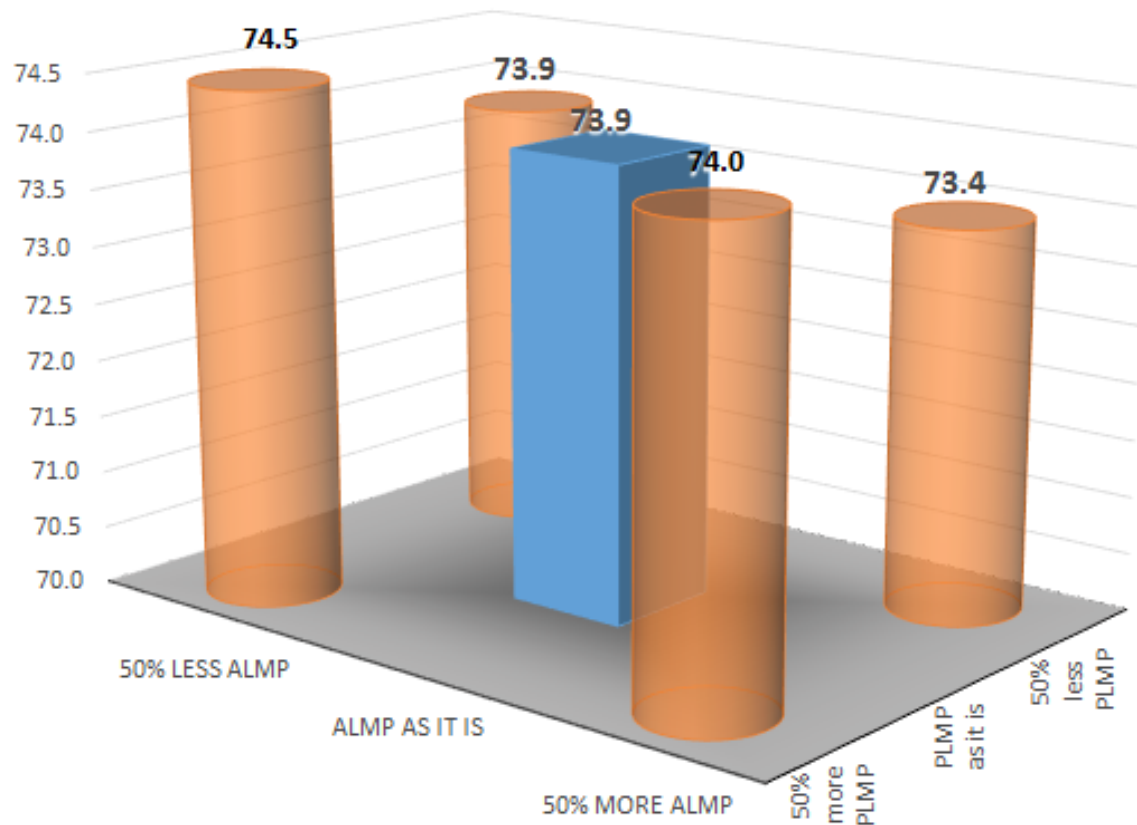
# LMP effectiveness researched in the context of Re-InVEST

- ▶ Method and data: Eurostat/DG EMPL spending data, EU-SILC micro-data, period 2006–2015, multilevel regression analysis, between-effects,  $N = 273.300$  persons, 29 countries.
- ▶ Level “effects”: ALMP spending correlates negatively with the probability of sample persons being economically active. Yet, it is positively linked to employment (as opposed to unemployment). The inverse holds for PLMP spending.
- ▶ Limitation: causality cannot actually be established by the present kind of design. We can speak of correlations. And: expenditure of prior years is used, so no direct inverse causality from labour-market situation to spending possible.



# LMP effectiveness researched in the context of Re-InVEST

**Mean estimated probability of being economically active, by LMP spending two years before: factual and counter-factual levels**

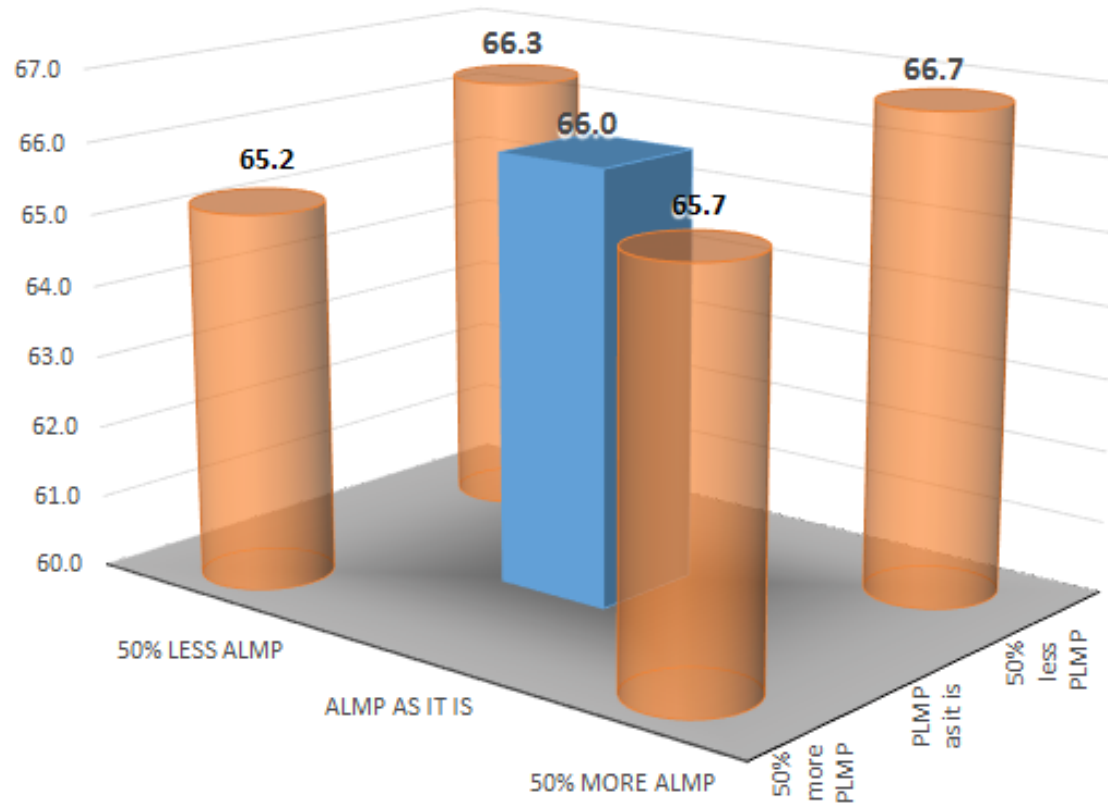


The more is spent on passive LMP, the more people are active in the labour-market, while active LMP is negatively correlated.

Causality from policy to employment statuses is not certain.

# LMP effectiveness researched in the context of Re-InVEST

**Mean estimated probability of employment (vs. unemployment or inactivity), by LMP spending two years before: factual and counter-factual levels**

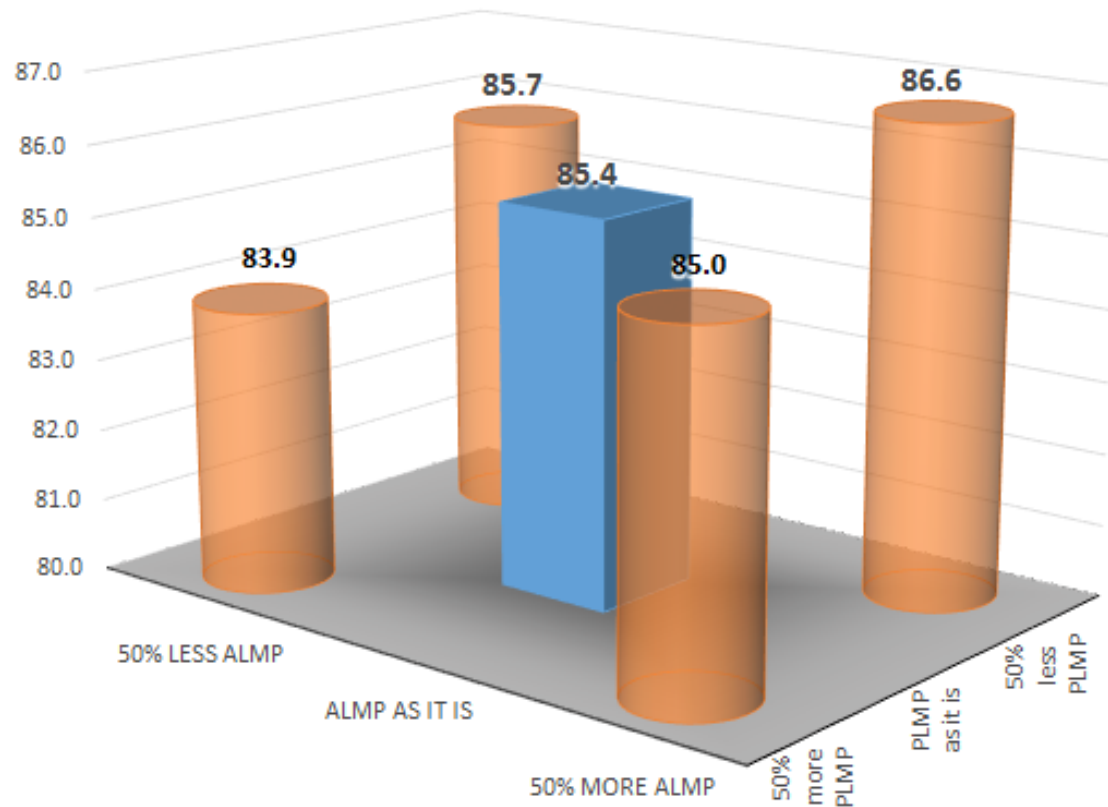


For current spending, the activity rate is 66% on average in sample countries.

The higher the ALMP spending, the higher the employment probability, while PLMP is negatively correlated with employment.

# LMP effectiveness researched in the context of Re-InVEST

**Mean estimated probability of employment (vs. unemployment), by LMP spending two years before: factual and counter-factual levels**



The higher the ALMP spending, the higher the employment probability, while PLMP is negatively correlated with employment.

For current spending, the employment rate is 66% on average in sample countries.

# Summary and discussion

# Summary on empirical results

- ▶ Findings on LMP success remain ambivalent. We can expect *some* impact for well-designed measures which fit to labour-market challenges.
- ▶ General picture of increased LMP spending on aggregate, thus larger fiscal cost, and a decreased spending per person wanting to work, thus smaller “generosity” / potential impact.
- ▶ Small signs of convergence: big spenders decreased expenditure, some small spenders stepped up their LMP spending.
- ▶ LMP expenditure in European countries is at very unequal levels. Rather than need or cost, countries’ wealth seems to determine how much is spent (even in relative terms, i.e. as % of GDP).

# Discussion: is the EU headed for a common labour-market and social policy? (I)

- ▶ In order to function as one society, Europe would have to secure some homogeneity of chances and living conditions between countries. This can in principle be achieved by social policy.
- ▶ It has shown in the crisis (and in the data presented here), however, that resources for social policy are not where social issues are the most pressing. Social risks and social protection diverge in Europe.
- ▶ Also, asymmetric public spending in Europe fuels economic and social divergence – even though at a limited extent due to probably limited aggregate effects of policy.

## Discussion: Is Europe headed for a common labour-market and social policy? (II)

- ▶ The most obvious solution would be a policy steered and financed at EU level. Resources could be granted under the condition of social (or ecological) reforms. Possibly, preserving the welfare state requires supra-national policies anyway, due to globalisations' pressures.
- ▶ Yet, building a more “social Europe” can make voters in “donor countries” turn their back on the EU. Similarly, populations at the receiving end may feel patronized.
- ▶ Are the European narrative and the cohesion felt by the EU population(s) strong enough for building solidarity and for allowing fruitful and open discussion on (reforming) institutional structures?



# Thank you for listening and for comments!

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