

Activation programmes for the unemployed reduce inequality

The inequality that is generated by unemployment would be greater in Denmark if the country did not spend money on activation programmes that motivate unemployed people to find work.

This effect is demonstrated by a study published by the Rockwool Foundation Research Unit. One of the analyses in the study showed that bringing forward activation – i.e. obliging unemployed individuals to enter an activation programme sooner than they otherwise should – had doubly positive effects. First, more of the unemployed were persuaded to seek, and find, employment. Second, more of them obtained better-paid jobs than they would have done without activation being brought forward.

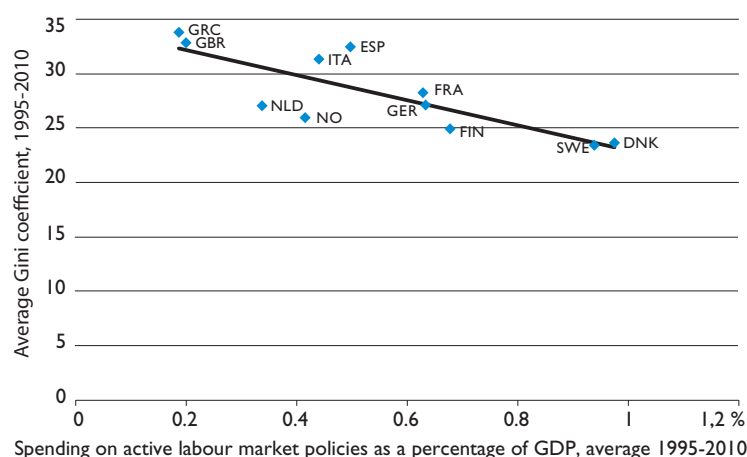
Another analysis shows that low-paid workers were influenced by receiving extra attention in the form of letters, interviews and courses in job search skills earlier in their unemployment spell than previously. This additional attention meant quite simply that more of the low-paid found work more quickly, yet without having to accept less pay than they would otherwise have done.

DKK 16 billion in all

Despite these positive effects, questions remain over whether Denmark has found the right mix of activities and the right level of intensity for its active labour market policies. No other OECD country currently spends as great a proportion of its GDP for this purpose – in fact, Denmark spends three times the OECD average on activating the unemployed. Torben Tranæs, Research Director at the Rockwool Foundation Research Unit, explains that such a level of spending cannot remotely be justified in economic terms.

Denmark spends DKK 16 billion on active labour market policies, of which around half is spent on social assistance payments or unemployment benefits and the remaining 8 billion on the actual

FIGURE 1
Countries with low income inequality spend a lot on active labour market policies



There is a positive correlation between high spending on active labour market policies and high levels of financial equality. The lower the Gini coefficient, the more equal the society it describes.

costs of activation programmes. That is an awful lot of money, and it does not generate an adequate return for society in terms of additional employment. However, the spending does also create social and income distribution benefits. Everyone pays for the spending via the tax system, but the analyses show that it is especially people on low incomes who reap the benefit.

An estimation of the relationship between high spending on active labour market policies and high levels of income equality is another of the outcomes of the analyses. A comparison across European countries shows that there is a correlation between income equality and spending on activation programmes. Thus, a high level of inequality is associated with low spending, and vice-versa – though it is not possible to say anything about the causality in this relationship.

As well as active labour market policies creating greater equality, whether directly or indirectly, there are benefits in other areas. For example, unemployed individuals in activation programmes commit less crime on average than those who simply receive unemployment benefit.

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The motivation effect is greatest when unemployment is low

It is especially when the level of unemployment is low that mandatory activation contributes to getting more unemployed people into work. Despite the fact that the people who are unemployed in times of economic growth, and thus in times with low unemployment, tend to have relatively poor qualifications, it is especially in these periods that the unemployed do find jobs before they are obliged to enter an activation programme.

This is revealed by an analysis conducted by the Rockwool Foundation Research Unit.

It is not particularly obvious that the prospect of activation would have its greatest effect in times of low unemployment. One could equally well have expected the opposite.

The argument that could be made for expecting the greatest effect to be found at times of low unemployment is as follows. When unemployment is low, there are many opportunities on the labour market, and for a given individual there are thus many jobs to choose from. An unemployed person facing the prospect of being obliged to enter an activation programme against his or her wishes will therefore find that it is relatively easy to do something about it – it is just a matter of choosing which way to go.

However, there is a small problem with this argument – namely, that the pool of unemployed people at times of low unemployment is composed of people who have evident difficulty in getting a job, or who are not interested in having a job, since they are unemployed despite the many jobs available.

In contrast, the argument that could be made for expecting the greatest effect to be seen when the level of unemployment is high runs like this. When unemployment is high, the pool of unemployed people is made up of individuals from all walks of life, including many who are highly qualified. This means that when activation is in prospect, it is relatively easy for the highly-qualified people to do something to avoid it, as they have strong CVs on which to base their job search ac-

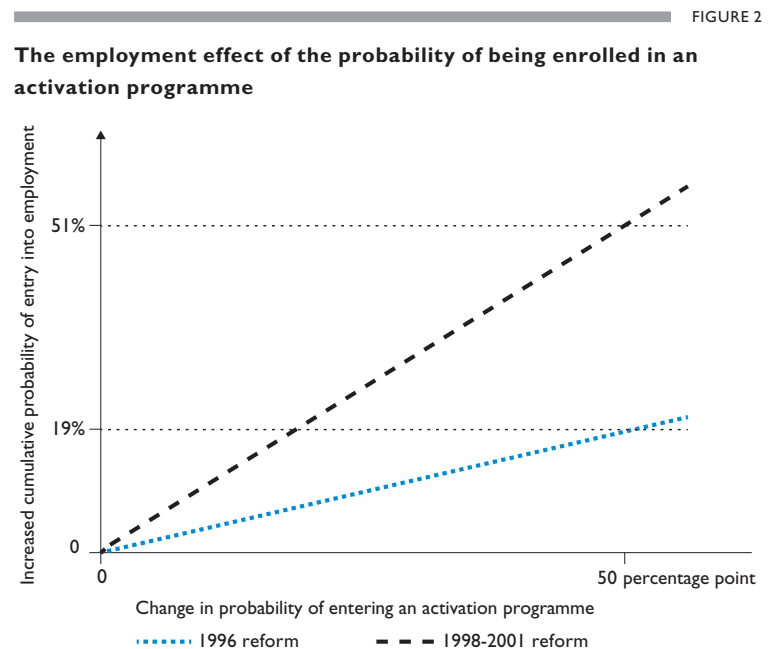
tivity. There is also a problem with this argument, namely the obvious one that there are very many applicants for each of the jobs that does come up.

These, then, are the two lines of reasoning that the Rockwool Foundation has tested empirically, with the result that the first argument – i.e. that the prospect of activation will have its greatest effect at times of low unemployment – has proved to be the correct one.

Two labour market reforms

The empirical test was performed by comparing the effects of two labour market reforms – one carried out at a low point in the economic cycle, the other at a time of economic growth.

In 1996, when the overall level of unemployment in Denmark stood at 10%, the period during which unemployment benefit was payable was shortened from



SOURCE: THE ROCKWOOL FOUNDATION RESEARCH UNIT

Note: The effect is the externally-driven change in the probability of entering activation.

If the probability of being obliged to enter an activation programme is increased through changes to the legislation on unemployment benefit, this has a marked effect on the transfer from unemployment to employment. The effect is greatest when the economy is performing well and unemployment is low.

seven to five years, and mandatory activation was brought forward from being after four years of unemployment to being after two years.

Two years later, from 1998 and through to 2001, when unemployment in Denmark was on average 5%, another reform was introduced that gradually reduced the time before activation from two years to one year.

It is already well known that the prospect of activation motivates unemployed individuals to find work. This effect, known as the motivation or threat effect, has already been well documented, and was again found in the present analysis. It is evident that in both 1996 and 1998, the closer an unemployed person came to mandatory activation, the greater was the probability that the person would find a job for himself or herself.

However, that is not the main issue investigated by the analysis; rather, it is the question of whether the effect is greatest at times of high or low unemployment.

And the analysis shows that the motivation effect was greater from 1998 and onward than it was in 1996.

As Figure 2 shows, if the likelihood of entering activation increased by 50 percentage points in the period after 1996, the cumulative probability of finding employment increased by 19%, whereas the increase in the probability of finding employment was 51% in the years after the

later reform. If, for example, the probability of changing status from being unemployed to being employed from one month to the next was 3% in both cases, this increased to 3.6% and 4.5% respectively after the two reforms.

Motivation for skilled and unskilled workers

The analysis does indicate a factor that could explain why the motivation effect is greatest at the time of low unemployment: the educational profile of the unemployed.

In general terms, it is the case that people without work in times of high unemployment comprise a very mixed group. All kinds of people, from different social strata and with different educational backgrounds, experience periods of unemployment at such a time. The opposite is the case when the level of unemployment is low; at such times, the least well educated section of the population is overrepresented among the unemployed.

This may contribute to explaining why the motivation effect is greatest at times of low unemployment. The motivation effect is positive and statistically significant for both skilled and unskilled workers, but not for people with higher education. Since the unskilled make up a larger proportion of the unemployed at times of low unemployment, this factor will in itself make it likely that the greatest effect will be found in such periods.

Bringing forward activation makes the unemployed find work – and at higher pay

When activation programmes are brought forward in time, more of the unemployed will look for work and find it more quickly; and in many cases, the jobs they find are better paid than would otherwise have been the case.

This is the essence of the conclusion reached through an analysis conducted by the Rockwool Foundation Research Unit based on the 1998 reform of Danish labour market policy.

In that reform, entry into an activation programme was brought forward to being one year after the start of a spell of unemployment, as opposed to two years previously.

It has already been well document-

ed that bringing forward activation gets more people into work. The new finding is that the unemployed do not have to pay a price in the form of accepting lower pay in order to find a job more quickly. On the contrary, it seems that the increased likelihood of having to enter activation increases the frequency of exit from unemployment to jobs with higher pay, while the frequency of entering jobs with lower pay remains unchanged.

In general, there are more unemployed people who find new employment at lower rates of pay than there are who find jobs with higher pay. However, bringing forward activation increases the average probability of finding a job with higher

pay – for example, after 1998 it became 35% more probable that a person would find a job if the likelihood of activation increased by 50 percentage points.

Before the reform, the average change in rate of pay was a little greater for those who took a job at a lower rate of pay than for those whose pay increased. After the reform, the change in pay was of the same order on average, regardless of whether it was upward or downward.

Less inequality

The results of the analysis show that the average re-employment wage increased during the period when activation was brought forward. Early activation thus appears to reduce the inequalities created by unemployment.

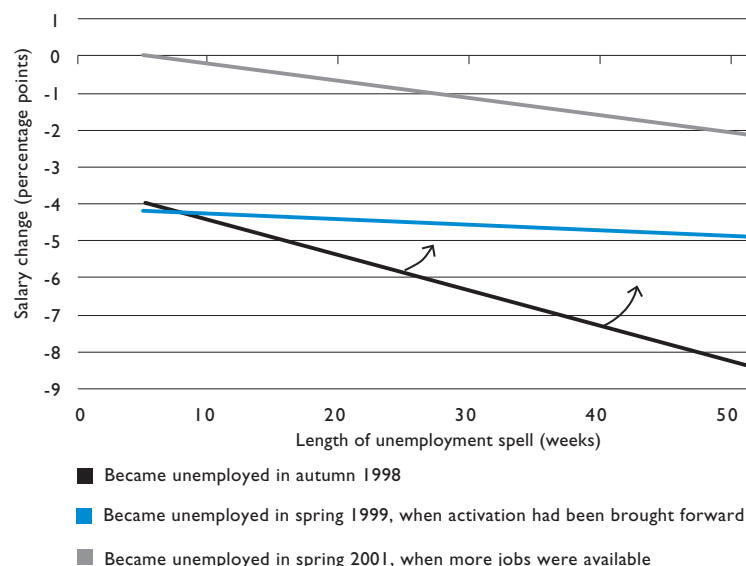
Unemployment means a reduction in pay

Long spells of unemployment lead to large reductions in pay, while short spells result in small reductions – so it is an advantage if unemployed individuals get back into work quickly, as Figure 3 illustrates.

The black line on the graph indicates the relationship between the length of the unemployment spell and the amount a person could expect to have to go down in salary, for unemployment spells in Denmark starting in the autumn of 1998. Salary reduction is measured in relation to what everyone else earns, i.e. in relation to the wage distribution on the Danish labour market as a whole. If a person became unemployed in the autumn of 1998 and remained unemployed for 40 weeks, he or she could expect to drop seven percentage points in the wage distribution. A person who was fortunate enough to find a job after only 10 weeks would go down only four percentage points in the pay hierarchy.

When the probability of entering activation increases, for example as a result of entry to activation programmes being brought forward, this can cause both more intensive job search activity on the part of unemployed individuals and a reduction in the reservation wage (the lowest wage the unemployed person will accept). Both these factors result in individuals finding jobs more quickly, but they affect the re-employment wage in different directions. Greater job search activity alone will tend to lead to higher pay, while a reduction in the reservation wage

FIGURE 3
Length of unemployment spell and decrease in salary as a result of unemployment



SOURCE: THE ROCKWOOL FOUNDATION RESEARCH UNIT

The longer a person is unemployed, the greater his or her loss in pay on re-employment. Bringing forward activation appears to have reduced the decrease in pay (as indicated by the arrows).

taken in isolation will tend to result in lower pay.

The analysis shows that the average re-employment wage increased. This indicates that an increased probability of being obliged to enter an activation programme caused unemployed individuals to increase their job search activity to a greater degree than it caused them to reduce their reservation wage.

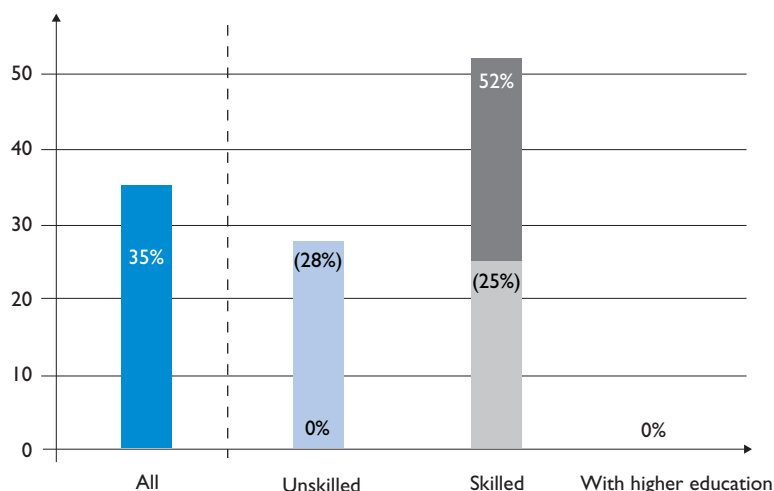
Intensified job search activity limits the decrease in pay

If increasing the likelihood of activation persuades the unemployed to intensify their job search activity, it can then also reduce the drop in wages, even if the length of the period of unemployment is not reduced. The increased job search activity will result in the unemployed individual finding more job opportunities, which in turn increases the probability that among these will be jobs with higher rates of pay.

This is seen by comparing the black line with the blue line in Figure 3. As mentioned above, the black line shows the reduction in wages suffered on average by people who became unemployed in the autumn of 1998. The blue line indicates

FIGURE 4

Increase in the probability of obtaining a high wage rather than a low wage when the probability of entering an activation programme increases by 50 percentage points



SOURCE: THE ROCKWOOL FOUNDATION RESEARCH UNIT

Note: The figures in parentheses give the increase in probability found when slightly less statistically reliable results for effects are included (significant at the 10% level).

Bringing forward activation has no effect on the re-employment wage for unemployed individuals with higher education. The effects found for 'all' come from skilled and unskilled workers.

the average wage reduction experienced by people who became unemployed in the spring of 1999. The difference between the prevailing circumstances in the autumn of 1998 and the spring of 1999 was that entry to activation had been moved forward by three months. The general economic situation was unchanged. As the figure illustrates, the loss of pay was less for those who became unemployed in the spring of 1999 than it was for those

who became unemployed in the autumn of 1998, regardless of the length of the spell of unemployment.

The upper line in Figure 3 shows the loss of pay for individuals who became unemployed in the spring of 2001. The line lies even higher on the graph than the other two. Note that the graph plot can be shifted upwards by the existence of more job vacancies as well as by more intensive job seeking. The difference between the graph plots for autumn 1998 and spring 1999 must be attributed predominantly to the bringing forward of entry into activation programmes. However, the further upward movement of the plot for 2001 must be attributed both to the greater number of job vacancies resulting from the improved economic situation and to the earlier activation and the resulting increased likelihood of having to enter an activation programme. The analysis presented here identifies an increased movement upward in pay and an unaltered movement downward in pay when we control for changes in the economic situation.

It is reasonable to assume that the change from the autumn of 1998 to the spring of 2001 can be attributed to both earlier activation and the improved economic situation.

Not the highly educated

The analysis shows that bringing forward activation has no effect on the number of unemployed people with higher education who find either higher-paid or lower-paid jobs. The effects found come from skilled

How pay is measured

The extent to which unemployed individuals exit unemployment for a wage which is higher or lower than they were receiving before becoming unemployed is measured by focusing on the position of the pay rate in the wage distribution.

The method used is to allocate everyone on the Danish labour market to one of one hundred groups, according to their pay. The first group – known as the first percentile – is composed of the one hundredth of the employed who receive the lowest wages. The next group is that one hundredth of

the population with the next lowest rate of pay, and so on.

An investigation was made of whether those leaving unemployment moved up or down in the overall wage distribution. Thus, if an individual was in the 55th percentile before becoming unemployed and was in the 56th percentile or higher on leaving unemployment, the rate of pay had increased.

Individuals who were registered as unemployed for a period after completing their activation and before finding work were not included in the study.

and unskilled workers. The reasons that there are no effects for unemployed individuals with higher education may be that these people are less averse to participating in activation programmes, and that their job market is governed to a greater extent by fixed placement on salary scales. First and foremost, the explanation may simply be that people with higher education can gain entry to the activation programme courses and job placements of their choice. For example, a Photoshop course or a wage-subsidised job at the National Museum of Denmark

may be decidedly attractive propositions for a recently graduated architect, while other graduates might well be interested in spending six months or a year working for a publisher. In addition, some unemployed individuals with higher education may well see activation activities as an investment (they may look good on a CV) or simply as something interesting to participate in. On a more general level, the cost of very early re-employment for individuals with higher education may be that they have to leave their field of specialisation.

The analyses that form the basis for this Newsletter

The analyses described in this Newsletter formed a part of a project carried out by the Rockwool Foundation Research Unit on the effects of Den-

mark's active labour market policies. The publications associated with this project are listed below.

Johannes K. Clausen, Lars Pico Geerdsen and Torben Tranæs. *The motivation effect of active labor market programs on wages*. Odense: University Press of Southern Denmark.

Signe Hald Andersen. *The wage effect of a social experiment on intensified active labor market policies*. Odense: University Press of Southern Denmark.

Johannes K. Clausen and Torben Tranæs. *Beskæftigelseseffekten af fremrykket aktivering i gode og dårlige tider* (The employment effect of bringing forward activation in good and bad times). Odense: University Press of Southern Denmark.

Signe Hald Andersen. *How scary is it? – Review of literature on the threat effect of active labor market policies*. Odense: University Press of Southern Denmark.

Torben Tranæs. *Hvorfor aktivering? Et essay om den aktive arbejdsmarkedspolitik i Danmark* (Why Activation? An essay on Active Labour Market Policy in Denmark). Odense: University Press of Southern Denmark.

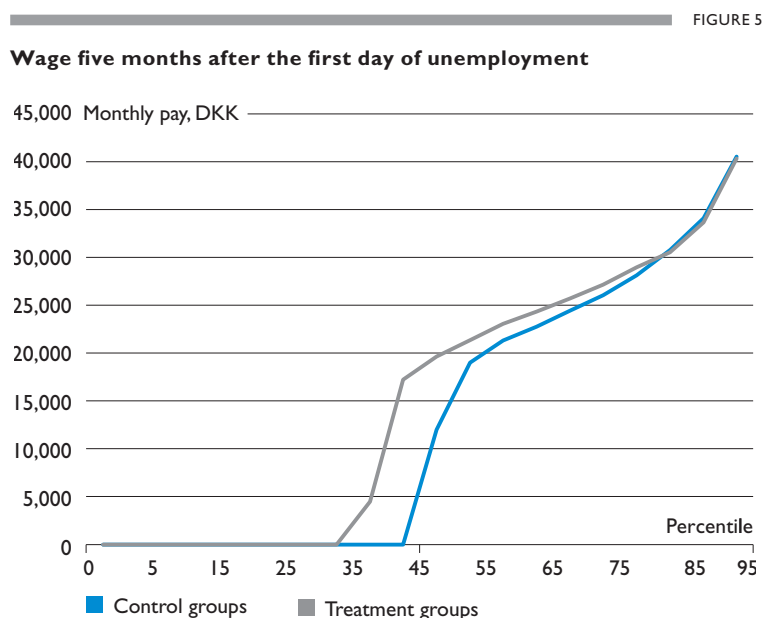
Trine Filges, John Kennes, Birthe Larsen and Torben Tranæs. 'Labour market programmes and the equity-efficiency trade-off'. Reprinted from the *Journal of Macroeconomics* 33 (2011), 738-753.

Previous studies by the Rockwool Foundation Research Unit on the effects of activation programmes

Fallesen, Peter, Lars Pico Geerdsen, Susumu Imai and Torben Tranæs. 2012. *The Effect of Workfare on Crime: Youth Diligence and Law Obedience*. Odense: University Press of Southern Denmark.

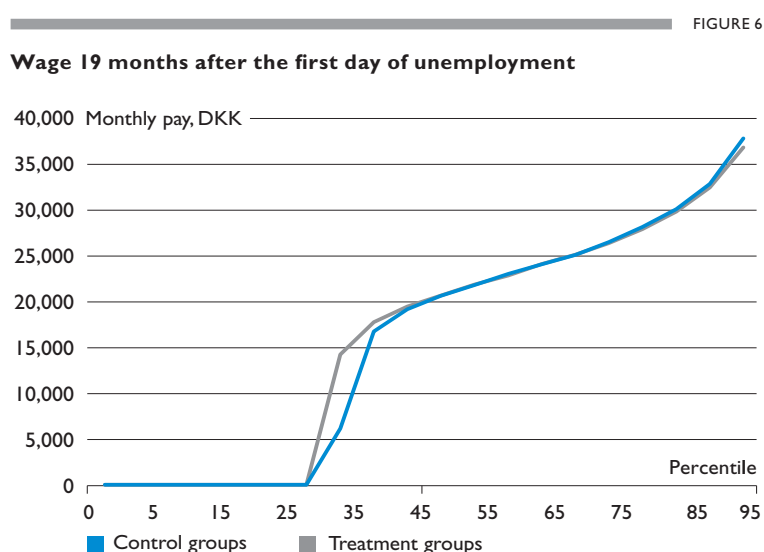
Geerdsen, Lars Pico, Susumu Imai and Torben Tranæs. 2008. 'Er aktivering bedre end lediggang?' (Is activation better than unemployment?), Chapter 5 in Torben Tranæs and Lars Pico Geerdsen (2008), *Forbryderen og samfundet. Livsvilkår og uformel straf* (The offender and society. Life conditions and indirect punishment). Copenhagen: Gyldendal.

More intensive help with job seeking gets the low-paid into work more quickly – at the same rate of pay



SOURCE: CALCULATIONS BY THE ROCKWOOL FOUNDATION RESEARCH UNIT ON THE BASIS OF FIGURES FROM STATISTICS DENMARK

Five months after the first day of unemployment, the effect of the five months with special treatment shows itself in the form of a higher rate of employment in the treatment group.



SOURCE: CALCULATIONS BY THE ROCKWOOL FOUNDATION RESEARCH UNIT ON THE BASIS OF FIGURES FROM STATISTICS DENMARK

After nineteen months, the levels of employment in the two groups are similar. No effects of the special treatment are now visible.

When a job centre pays extra attention to an unemployed person in the form of letters, interviews, and activation programmes very early in the unemployment spell, the person in question finds a job more quickly than would otherwise have been the case. However, this applies only to a particular group of the unemployed, namely those who are willing to accept low-paid work.

This was one of the findings of an analysis of an experiment conducted in 2005 and 2006 in the then-existing Danish counties of Storstrøm and Sønderjylland. For a period of five months, half the unemployed people in these counties, selected at random, were made the subjects of special initiatives when they registered at the job centre. They received a letter about the experiment, attended an additional two-week course in job-seeking, were given special activation treatment, and were required to meet their case officers more often than other unemployed individuals.

The group that received this special attention is referred to here as the treatment group, while the remaining people in the study are referred to as the control group.

The analysis shows that the special attention had the desired effect, namely that a larger proportion of the treatment group found work more quickly than the others. However, this effect was limited to a very specific section of the group, those who were willing to work for a relatively low rate of pay.

Figure 5 shows the status for the two groups of unemployed people after five months of unemployment. A wage stated as DKK 0 means that the person in question was still unemployed, and thus receiving unemployment benefit or some other form of public support instead of an actual wage.

Five months after their first day of unemployment, almost 35% of the treatment group were still receiving no wages, while the same was true for almost 45% of the control group. In other words, the extra attention paid meant that more of the unemployed had found work quickly.

At the same time, it can be seen that

TABLE 1

The jobs found by the members of the treatment group

	5 months	6 months	12 months	13 months	18 months	19 months
Additional proportion in work	5%	5%	2%	2%	1%	0%
Average wage:	- 9%	- 8%	- 9%	(-6%)	(-6%)	(-5%)

SOURCE: CALCULATIONS BY THE ROCKWOOL FOUNDATION RESEARCH UNIT ON THE BASIS OF FIGURES FROM STATISTICS DENMARK

Note: Figures in parentheses are not significantly different from zero.

The table shows the differences in the proportions earning a wage and the differences in actual wages between the treatment and control groups of unemployed individuals at points 5, 6, 12, 13, 18 and 19 months after the start of the unemployment spell.

almost all the additional people who found work were at the low end of the wage distribution. For wages over DKK 25,000 per month, there was little, if any, difference between the two groups.

The extra attention was effective in the short term, then, but in the long term it made no difference to the number of people who found work. As Figure 6 shows, the two groups were virtually indistinguishable after 19 months; in both cases, around 70% were in work and earning a wage.

Definite gains

It is clear that the extra attention and assistance with job seeking had an effect – a motivational effect. The prospect of additional interviews, courses and activation motivated the unemployed individuals to choose to work rather than to remain unemployed. The fact that the members of the treatment group found jobs to a greater extent than the members of the control group might, however, be attributable to two different factors.

One explanation could be that the unemployed became more active in their job seeking and more realistic in their expectations regarding wages, and thus had a greater chance of finding a job at a wage they found acceptable. On the other hand, the movement from unemployment to work could be an indication that the unemployed individual in question became less demanding, and accepted a job and a wage that he or she would otherwise not have accepted.

If the first explanation is the correct one, then society would gain through this approach – the extra job search activity and realistic wage demands would get unemployed people into work more quickly, enabling them to earn a wage and pay tax. If, on the other hand, the second explanation is correct, then society would actually be losing out. If an engineer elects to work as a taxi driver in order to avoid activation, there is a significant loss in terms of the resources of society. The engineer's education, knowledge, and potential to earn more, and thus to pay more tax, would all be lost.

There is no doubting the existence of the first effect – a gain for society because the treatment group found work more quickly. It is true that the two groups resembled one another closely after 19 months, but as Table 1 shows, society gained because more people in the treat-

ment group began working and paying tax in the period before 19 months had passed instead of receiving public benefits.

No indications of losses

In contrast, there is no indication of the existence of the potential loss to society from the unemployed offering their services at too low a wage. It is true that the additional exit from unemployment occurs at the lower end of the pay range. However, there is much to suggest that those individuals who leave unemployment more quickly than they would otherwise have done are the ones who would have obtained a low wage in any case.

If large numbers of engineers had chosen to work as taxi-drivers, for example, this would have been revealed by a permanent gap between the wages of the two groups. If ten engineers in one group found jobs as engineers, but ten engineers in the other group took jobs as taxi drivers, then in the long run there would be a difference in the average pay of the two groups – and that is not the case.

As Table 1 shows, there is temporarily a lower average rate of pay for the treatment group. After five months their wage is nine percent lower than that of the control group. After twelve months the average pay of the treatment group is still nine percent lower; but after thirteen months the difference is no longer significantly different from zero.

These figures indicate that there is no loss to society resulting from poor use of qualifications. They are also indications that the lower average wage at the outset is the result of the low-paid individuals in the treatment group entering employment more quickly than those in the control group, but entering the same types of job.

Huge amount of evidence that the prospect of activation motivates the unemployed to find work

An active labour market policy works; it makes unemployed individuals put in extra effort to find themselves jobs. Sometimes the effect is large, sometimes it is small – but it is there.

This is clearly shown by a systematic review of research, conducted by the Rockwool Foundation Research Unit.

The systematic review focused on a particular aspect of active labour market policy, namely the motivation effect – i.e. the fact that unemployed people are motivated to find work when they face the threat of having to do something active in return for their unemployment benefit.

The analysis shows that this motivation effect does exist. When the unemployed face the imminent prospect of extra interviews, of activation programmes, of having to participate in full-day workshops, or the like, they have a greater tendency than otherwise to exit from the benefit system and – in many cases – to find employment.

The systematic review included studies from the Scandinavian countries, the UK, the Netherlands, Belgium, Switzerland, the USA and Australia. The studies related to various periods between 1994 and 2011, and they focused on the motivation effect for all target groups – which meant that they covered both people with unemployment insurance and people receiving social assistance payments.

The active labour market policy elements covered in the studies, and which persuaded the unemployed to exit from the benefit system, were varied. They included extra interviews, the bringing forward of activation programmes, additional letters with information about forthcoming interviews, obligatory courses in job seeking, and requirements for the documentation of extra job search activity.

In one – Danish – study, a further investigation was made of the effect of the distance the unemployed person had to travel to the place where activation took place. Was it possible to demonstrate that a long distance to the place of activation was such a disadvantage that it made it

more likely that the unemployed person would find a job? The answer was ‘Yes’. The greater the distance to the place of activation, the more likely it was that the unemployed person would find an alternative to receiving benefits, and thus would cease to be registered as unemployed.

The studies differ from one another with regard to the size of the effect of the active labour market policy strategies. Some of the studies indicate only small effects, for example a Swedish study that discovered a 2.2% greater tendency to exit from unemployment. Others reveal what must be regarded as very large effects, such as an American study in which a 50% greater tendency to leave unemployment was found.

However, the common factor for almost all the studies, virtually without exception, is that they pointed in the same direction: they indicated that activation initiatives increase the tendency of unemployed individuals to leave the social security or unemployment benefit systems before the activation programmes actually begin.

Two types of effect

A recurring topic in the public debate in Denmark is whether active labour market policies work, and whether they are worth their cost.

Active labour market policies consume significant amounts of resources. It is therefore worth examining closely whether the efforts made have any effect (see page 12).

In discussing this issue, it is important to keep in mind that various active labour market initiatives can be assumed to have effects on two different levels.

One type of effect is the direct effect of the programme – the likelihood that interviews or job search courses, for example, actually provide the unemployed with new competences that better equip them to look for and find jobs, or that further education and internships actually supply knowledge and experience that make a significant difference to the labour market situation of the person concerned.

TABLE 2

Studies of motivation effects

Year	Country	No. of subjects	Results	Motivational factors
2011	Denmark	5,180	Positive	Intensified labour market activation programme
2011	Denmark	4,513	Positive	Activation programme brought forward
2010	Switzerland	327	Negative	Interviews
2010	Belgium	4,855	Positive	Interviews about planned job search activities
2009	Denmark	4,473	Positive	Activation programme brought forward
2009	Sweden	2,544	Positive	Activation programme brought forward
2008	Denmark	4,473	Positive	Activation programme brought forward
2008	Denmark	4,513	Positive	Activation programme brought forward
2008	Schweiz	8,612	Positive	Subjectively perceived threat effect
2006	Sweden	3,336	Positive	Activation programme brought forward
2004	UK	55,051	Neutral	Obligatory job search activity
2004	Denmark	6,547	Positive	Activation programme brought forward
2004	Denmark	55,406	Positive	Prospect of activation
2003	Kentucky, USA	1,981	Positive	Interviews
2003	Denmark	33,431	Positive	Activation programme brought forward
2003	Denmark	9,792	Positive	Prospect of activation
2003	Denmark	1,808	Neutral	Special programme for unemp. young people
2002	Sweden	238,942	Positive	Prospect of activation
2002	UK	4,565	Positive	Interviews
2002	Maryland, USA	23,758	Positive	Interviews about planned job search activities
2002	Australia	21,165	Positive	Prospect of activation
2002	Norway/Sweden	250,000	Positive	Prospect of activation
2001	Denmark	190,000	Positive	Prospect of activation
2000	Switzerland	11,163	Positive	Prospect of activation
1997	Maryland, USA	23,758	Positive	Interviews about planned job search activities
1997	USA	2,671	Positive	Prospect of activation
1996	Sweden	12,709	Positive	Threat of obligatory activation
1996	UK	4,565	Positive	Interviews
1996	The Netherlands	722	Neutral/Positive	Interviews about planned job search activities
1994	Washington, USA	9,634	Positive	Interviews about planned job search activities

SOURCE: THE ROCKWOOL FOUNDATION RESEARCH UNIT

Research into these direct effects has not produced any unambiguous results. Some studies indicate that effects do exist, but other studies suggest that any effects that may be present are certainly not commensurate with the costs of the active labour market policy.

The other type of effect is the motivation effect. The prospect of something happening motivates the unemployed person to make additional efforts in the direction of finding a job. In other words, activation programmes function as a test of whether or not the person concerned is genuinely available for work. It is this second type of effect, the effect of the threat of having to participate in an obligatory programme, that is included in the research review, together with the related effect of interviews and help with job seeking.

The studies of the motivation effect are based on the assumption that an individual offers to supply labour to the extent to which he or she benefits from doing so, i.e. the additional *utility* he or she gains. The amount of utility is determined by the following two factors, among others: the amount one can earn by working (relative to the amount of benefit payment one would otherwise receive), and the amount of additional leisure time one can have by not working. The motivation effects in this instance change the overall utility for the unemployed person, because – to a greater or lesser extent – activation takes away leisure time from the person concerned. If an unemployed person is faced with simultaneously having both a low income and reduced leisure time, a job may suddenly appear more attractive than would otherwise be the case.

This effect is amplified through counselling interviews and other assistance with job seeking.

Few long-term unemployed people in Denmark

In recent decades, Denmark has put intensive effort into activation programmes, and there are some indications that this – through the motivation effect – has contributed to the relatively low level of long-term unemployment in Denmark compared to that in neighbouring countries.

The table provides an overview of the results from existing studies of the significance of the motivation effect for the return of the unemployed to the labour market.

Activation generates employment at a very high price at the margin

The annual pay for each of the last of the additional jobs created by Denmark's active labour market policies would have to be up to DKK 1 million if the financial gains to the public purse were to balance the costs.

This is the conclusion reached through the calculations carried out by the Rock-

wool Foundation Research Unit on the basis of effect measurements from organisations such as the Danish Economic Council.

Active labour market policies have had an effect on employment, but in the vast majority of programme areas the impact made by the last billions of kroner spent

The goal is greater employment and improved economic growth

There has occasionally been a tendency to forget the overall socioeconomic perspective of active labour market policy in the public debate.

However, since the middle of the 1990s, when active labour market policies really began to be used in earnest in Denmark, it has been argued that they pay their way in purely economic terms.

The argument for using the many billions of Danish Kroner on active labour market policies is as follows. An active labour market policy creates more employment. Spells of unemployment are shortened through various initiatives to check genuine availability for work and to motivate the unemployed, and this increases the supply of labour and thus the level of employment.

At the same time, active labour market policy initiatives are a key element in the Danish 'flexicurity' model. The conventional wisdom concerning flexicurity is that in Denmark it is relatively easy to dismiss employees, but that on the other hand the unemployed receive a relatively high level of benefit, and that society (in part through the active labour market policies) contributes to retraining people and to helping them adapt their qualifications to the demands of the labour market. Thus, the active labour market policy channels the qualifications of the labour force to meet the needs of firms, so that firms always have people with

the right skills available. The whole system, it is claimed, contributes to a dynamic Danish economy characterised by growth, despite the high level of security provided by the social security net.

One possible weakness of the model is that it is possible for there to be too much flexibility – that firms and employees may have too little incentive to maintain their relationship with one another. Instead, firms change employees and employees change jobs on even the slightest mismatch between qualifications and needs. When a firm and an employee part company, valuable knowledge specific to the particular firm is lost – in the first instance from the firm that loses an employee, but subsequently from another firm from which a replacement employee is recruited.

Another possible weakness is that the flexicurity model, with its great emphasis on active labour market policies, takes away some of the continuous process of adjustment of the qualifications of the labour force from firms themselves. And if the activation system, with its courses, training, etc. run externally to firms, as is the case today, is actually less effective at carrying out this qualification alignment than firms themselves, then there is the possibility that society as a whole will lose out as a result of a decline in overall productivity.

has been very small. The exceptions are interviews with unemployed individuals by their case officers and assistance with job search activities. Both these programmes seem to have had a sizeable effect.

The final billions have little impact

Denmark spends around one percent of GDP – in 2012, around DKK 16 billion – on active labour market policies, according to the Danish Economic Council. Of this, the Ministry for Employment reports that approximately one half – over DKK 8 billion – is used to provide income benefit payments to the participants in the programmes. Very few analyses have been carried out of the overall effects of these policies. The 2012 report from the Danish Economic Council attempted a ‘marginal analysis’ – an investigation of what would happen if small changes were made in spending. The Council concluded that if the activation budget was trimmed by ten percent, so that the unemployed simply received benefit payments, unemployment would be 0.05 percentage points higher during times of economic prosperity. If, for example, the rate of unemployment was 5%, then it would rise to 5.05%. Such a reduction in the activation budget would save the public purse DKK 0.8 billion annually.

With a workforce in Denmark comprising 2.86 million people, 0.05% of the workforce represents 1,430 individuals. Thus, society gains 1,430 extra people being in work as a return for the last DKK 0.8 billion (105 million euro) spent on active labour market policies. The cost to society of this public activity is actually DKK 0.95 billion, following standard practice of adding 20% to cover the transaction costs and the distortion effects of the taxes raised. Or, to put it another way,

if Danish society elected to cut DKK 0.8 billion per year from its spending on its active labour market policy, 1,430 fewer people would be in employment, and society would save almost DKK 1 billion.

The two figures – the socioeconomic cost and the effect on employment – can be compared directly to one another. If there were to be a profit for Denmark from the investment, then each of the additional people in employment would need to earn an average annual salary of at least DKK 640,000. The 1,430 people would have to generate at least as much money as the cost of the policy.

The problem is that the extra people in employment earn nothing like that sum. For example, unemployed people with unemployment insurance who find a job after activation earn an average of DKK 310,000 in their first year of full-time employment.

It is also worth noting that even if these people did earn DKK 640,000 a year each, there would still be a net cost to the public purse. The costs to society of active labour market policies are DKK 0.8 billion; the income from the 1,430 extra people in employment would only be that portion of their wage that was paid by them in taxes and fees, plus the saved (i.e. net) cost of unemployment benefit.

In fact, the additional people brought into employment would each have to pay DKK 484,000 in tax per year before the costs to the public purse were balanced, which would mean that they would each have to earn a little under DKK 1 million.

Also true in adverse economic times

The effect at a low point of the economic cycle is roughly the same as that calculated above for a high point in the cycle for all active labour market policies ex-

Motivation or threat effect: The prospect of activation, prompts able unemployed individuals to find employment in order to avoid participation in the active programmes.

Lock-in effect: An unemployed person exhibits a reduced level of job search activity and thus a reduced probability of exit from unemployment to employment during a period of activation.

Programme effect: The change in the labour market prospects of an unemployed person resulting from an activation programme as a consequence of the qualification or knowledge acquired.

cept interviews. The Danish Economic Council identified a very large effect for that particular element of active labour market policy during periods of low economic activity (though there was no effect in periods of greater prosperity). One additional interview per year allocated on each unemployed person will of itself reduce unemployment by 0.1 percentage points.

Other studies have also found sizeable positive effects from interviews and the like, even during periods of economic prosperity. This accords well with the general finding of the research that there are large motivation effects resulting from active labour market policy (though primarily in the case of men).

The first billions are probably recovered

If interviews, etc. are disregarded, then the average effect of the last billions of kroner used on active labour market policy is very modest. On the other hand, there is a huge amount of empirical evidence to suggest that many of the active labour market programmes do work. It is therefore very probable that the first billions of kroner that are spent have a greater effect than the last, and that this socioeconomic investment is quickly recovered. The more activation effort that is put in, the harder it is to make it effective.

In general, the pattern found is that the programmes that are effective have a positive motivation effect and/or programme effect, but a negative persistence effect. Strategies that motivate the unemployed, such as obligatory interviews concerning availability for work and job search activities, have demonstrably good results.

Interviews and assistance with job search activities pay their way

An analysis of a Danish programme of this type called 'Hurtig i gang' ('Quick off the mark') was made by a group of Danish and Dutch economists (Gautier, Muller, Klaauw, Rosholm and Svarer, 2012). Like the analysis carried out by the Danish Economic Council, this analysis was well suited for use as input in cost-benefit analyses, since it measured not only the effect in isolation on the unemployed individuals subjected to the activation input, but also the overall effect on the market, or on society; thus, both direct and

indirect effects were calculated.

This is important, since a programme that makes some unemployed people put more intensive effort into job seeking may very well make it more difficult for other unemployed individuals to find work. In addition, firms also react to the number of unemployed people looking for work, and the intensity with which they are doing so. The analysis was the first in Denmark to take these effects into account in the evaluation of a specific programme. When these effects on overall unemployment are taken into consideration, it is found the effect measured is also dependent on how great a proportion of the newly unemployed are exposed to the additional activation effort. The researchers found positive effects on unemployment of 0.04, 0.08 or 0.07 percentage points, depending on whether 20%, 70% or 100% of the newly unemployed were subjected to the additional input. Thus, additional activation of the first 20% of the newly unemployed resulted in a reduction in the overall unemployment level of 0.04 percentage points. An increase of three and a half times in the number of people subjected to additional efforts resulted in a doubling of the effect, but further intensification of input then caused the level of the effect to begin to decline again.

The programme of activation input studied in this analysis is relatively inexpensive. The annual pay of the people who are found employment through the programme therefore need not be at the level of DKK 640,000 mentioned above for the effort to pay off in socioeconomic terms.

The average rate of pay required is greatest if all newly unemployed individuals are exposed to this treatment. In such a case, the average annual rate of pay needs to be DKK 552,000 to achieve break-even. If 70% of the newly unemployed receive the treatment, then the average pay of those who find employment needs to be DKK 311,000 for the additional effort to pay off; and if only 20% of the newly unemployed are given this additional help, then those who find work need only earn DKK 168,000 per year for the input to cover the cost of the treatment. If we consider public finances in isolation, then in order to bring costs and receipts into balance the additional people in employment would have to pay taxes of DKK 376,000, 183,000 and 52,000 per year each on average if activation efforts

were to be made for 100%, 70% and 20% of the newly unemployed, respectively. The first is not realistic, but the last is highly realistic.

This underlines the large differences that exist between the various programmes. On the one hand, the marginal effects of the great majority of areas of input are very small, and the extra employment created would require completely unrealistic wages to be paid if the input

were to be economically worthwhile; but on the other hand, there are programmes that, if applied to an appropriate extent, are effective, and can clearly pay for themselves in socioeconomic terms, and also in terms of net income to the public purse.

In Denmark, programmes have been developed which are rather cheaper than the original 'Quick off the mark' scheme, and these have also proved to have significant employment effects.

An international comparison: Active Labour Market Policies and the crisis

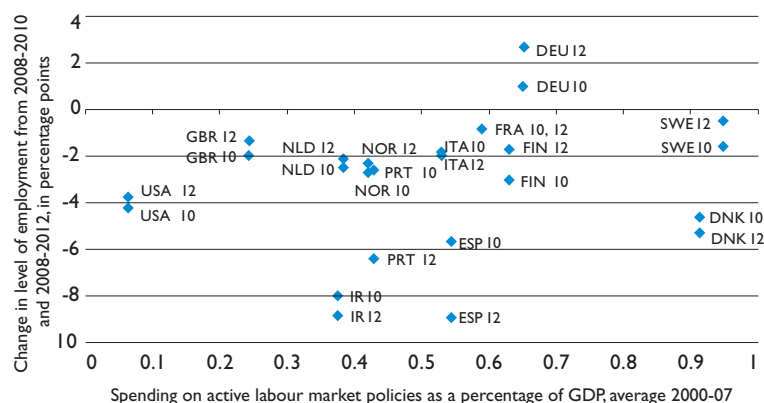
Generally speaking, those countries which spent a great deal of money on activation programmes before the current economic crisis have done no better in terms of level of employment during the crisis than those countries which spent less. Figure 7 shows a comparison of levels of employment after 2008 with spending on active labour market policies in the years before. It is not possible to use spending on activation during the crisis years for comparison (i.e. for the years after 2008), since those countries which were hardest hit by the crisis would automatically experience increasing costs for their active labour market policies. Consequently, the two periods are separated in the figure.

The figure shows that Denmark, which was at the top of the scale for spending on activation programmes, suffered more with regard to changes in employment level than Norway or Finland, both of which spent significantly less, and Sweden, which spent about the same.

It should be noted in addition that Sweden carried out a number of important changes in its benefit and activation systems in 2006, all of which were targeted at helping the unemployed to adjust to the requirements of the labour market.

In the south of Europe, Spain, Portugal and Italy all spent about the same amounts on active labour market policies, but have seen very different effects of the crisis on levels of employment. It appears that there was a positive correlation between spending and employment in the more central countries (the Netherlands, France and Germany) but a negative relationship in the Anglophone countries (the UK, Ireland and the USA).

FIGURE 7
The relationship between spending on active labour market policy before the economic crisis (2000-07) and the level of employment during the crisis (2008-12) in selected OECD countries.



SOURCE: OECD

Note: The Y axis shows observations from 2008-10 (marked 10) and 2008-12 (marked 12).

There is no clear relationship between heavy spending on active labour market policies and how comparable countries have managed in terms of rate of employment during the economic crisis.

The figure shows changes in the levels of employment both during the period 2008-10 and during the period 2008-12. The first measurement is marked 10 in the figure, and the second, 12. It is interesting to compare these two periods in order to see whether countries were able to adapt between the time of the first measurement, when their economies had been hit by external shocks, and that of the second, when they have had a little time to react to the situation. It is clear that the various countries exhibited different levels of adaptability. While the situation deteriorated in countries such as Denmark, both Sweden and Finland recovered more

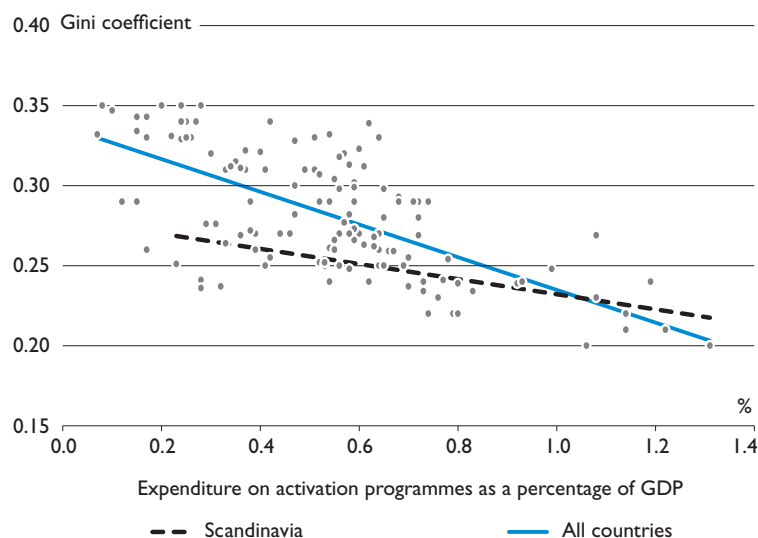
quickly. There are certainly countries which have done even less well than Denmark during the crisis (Ireland and countries in Southern Europe), but there is no evidence that in comparable countries

there is any relationship between the size of the active labour market policy budget and the ability to weather external economic shocks.

Countries with low income inequality spend a lot on activation

FIGURE 8

Spending on activation programmes and social equality in selected countries



SOURCE: THE OECD AND EUROSTAT

Note: The figure includes observations from Denmark, Finland, France, Greece, the Netherlands, Italy, Norway, Spain, Sweden and Germany. There are observations for each country for every year between 1995 and 2010. The OECD includes income benefits for participants in the costs of activation programmes.

Social inequality is lower in countries which spend a lot on active labour market policies than in those that do not.

Societies which spend a lot on active labour market policies are also societies with a narrow gap between rich and poor.

This is revealed by an analysis across European OECD countries in which the two factors were compared. Calculations were made of the proportion of GDP spent

by each country on active labour market policies and of the Gini coefficient for each country. The Gini coefficient is a measurement of how equal incomes are in a country on a scale from 0 to 1. If one person earned all the income in the country, the coefficient value would be 1, while if everyone in the country had exactly the same income, the value would be 0.

As Figure 8 shows, there is an inverse correlation between the two measurements. Great financial inequality (high Gini coefficient) is associated with a low budget for activation, while less inequality (low Gini coefficient) is associated with high spending on active labour market policies.

The study gives no indication of causality in the relationship. It is possible that spending on activation directly reduces differences in income. However, another possibility is that those countries which have low levels of income inequality for some other reason also elect to spend a lot on their active labour market policies.

Governments that emphasise both economic efficiency and income equality use active and passive labour market policies as complementary instruments. That is to say, governments elect to spend a lot on active initiatives if they also spend a lot on passive labour market policies (i.e. payment of unemployment benefit or the like). The Nordic countries all spend on active and passive policies in this com-

Changes in Danish passive and active unemployment expenditure

Today, no other OECD country spends as great a proportion of GDP on activation as Denmark. Spending is three times the average for OECD countries and ten times that of the USA.

Spending on active labour market policies has remained relatively con-

stant as a proportion of GDP, and generally independent of the economic cycle. While spending on passive policies is highly dependent on the economic situation, the same is not true to the same extent of spending on active policies.

plementary manner. This fact may lend support to the perception of these countries as prioritising equality more than others do.

In any event, the results of this analysis do indicate that there may be reasons other than purely economic ones why Denmark spends significantly more on active labour market policies than do the countries with which it is normally compared.

Equality, inclusiveness and crime

As is demonstrated in the article on page 12, it is extremely difficult to argue that all the billions of Danish Kroner expended on active labour market policies is money well spent, from the point of view of generating employment. In fact, it clearly is not.

However, it may be that the explanation for so much money being used on activating the unemployed is to be found elsewhere. For example, the aim might be to create a number of social and income-distribution effects – namely equality, social inclusion, and crime reduction.

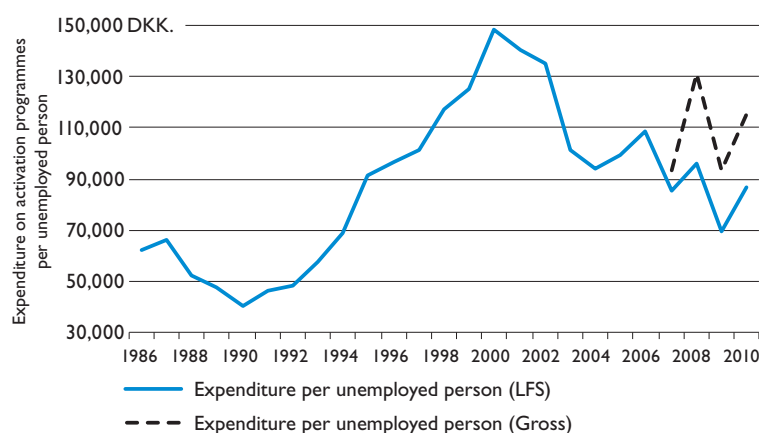
There is much to suggest that high expenditure on active labour market policies creates greater equality. Various studies show that to a great extent, the money is spent on people with low levels of education and low incomes. They are more likely to be the recipients of the money, whether in the form of income replacement paid during activation, or in the form of courses and other activities that they find interesting and beneficial.

It also creates greater equality in that the motivation effect prompts the less educated to seek and find work more quickly than they otherwise would have done, and in that the prospect of activation makes more people find jobs at higher rates of pay without having an effect on how many find jobs at lower rates of pay.

In relation to the weakest groups in particular, it is also a question of investment in their greater inclusion in society. Activation may not help the weakest in society to find jobs, but it does give them more social contacts, better social skills, and better basic educational and general skills. In this way equality in society is increased, even if in this respect it is not economic equality.

At the same time, several studies indicate that activation discourages criminal behaviour. There seems to be evidence

FIGURE 9
Expenditure on active labour market policies per full-time unemployed person, in 2010 prices



SOURCE: CALCULATIONS BY THE ROCKWOOL FOUNDATION RESEARCH UNIT ON THE BASIS OF FIGURES FROM STATISTICS DENMARK AND THE OECD

There was an increase in expenditure on activation from the beginning of the 1990s until the turn of the millennium; after 2000, expenditure declined. The blue graph line, which is based on unemployment as indicated by the Labour Force Survey (LFS), probably represents an overestimate of the fall in expenditure per unemployed person towards the end of the period. Gross unemployment, which is the figure on which the black graph line is based, has only been calculated in Denmark since 2007.

in this respect for the truth of the saying that the devil will find work for idle hands to do. People who are on activation programmes are convicted of criminal offences less frequently than members of comparable groups.

Active labour market policies

The term *active labour market policies* refers to activities carried out by job centres in relation to the unemployed.

These policies include repeated interviews concerning availability to work, temporary employment in the public and private sectors in internships or posts with wage subsidies, and guidance and training courses, which may involve either short periods of counselling and help or longer courses, including standard courses of education.

There are two overall goals of active labour market policies. One is to check that unemployed people really are available for work. The other is to help unemployed people upgrade the qualifications they have to offer the labour market, to assist them in identifying current job opportunities, and to motivate them to engage in more intensive job search activities.

The status of active labour market policies in Denmark: an overview

The principal goals of Denmark's comprehensive active labour market policies are to raise the level of employment and to make the economy more dynamic and adaptable through improved qualifications of the unemployed and through checking the availability for work. In addition, there are a number of social and income distribution considerations which also play a role in the priority given to active labour market policies by Danish politicians. Denmark is among the OECD countries which spend the most on active labour market policies; spending in this area amounted to DKK 16 billion in 2012, of which around a half was for unemployment benefits for participants in activation programmes.

Have Denmark's active labour market policies in fact worked – have they had any effect? Such a question implies many subsidiary questions. Is there any effect resulting from the last billions of Danish kroner spent? Is there an effect from the average of all the money spent? Are there effects during some periods only, for example in good economic times, but not bad times? Is there, in fact, any effect at all? If there are effects, then the next question which arises would be, which types of programme 'deliver the goods'? And finally, do any of the effects bear comparison with the costs required to achieve them?

Employment effect: As this Newsletter argues, Danish active labour market policies do have an effect on employment. However, this is not achieved, as one might expect, primarily because unemployed individuals learn useful skills from the courses they attend, skills that will improve their position on the labour market. Rather, it is first and foremost the motivation effect – that is to say, the effect that prompts the unemployed to find work for themselves in preference to entering activation programmes – that generates the employment effect. Programmes that provide assistance with, and extra motivation for, job search activities through interviews and counselling also contribute

to the employment effect. There is comprehensive and convincing documentary evidence for this, as the article on page 10 shows. The motivation effect works most efficiently in times of low unemployment, but there is also an effect when unemployment is high – though it is significantly less (see page 3). There is much to indicate that the motivation effect from early entry into activation programmes plays a role in maintaining the number of long-term unemployed in Denmark at a relatively low level.

Are the effects worth the money? In general, the effects of the last DKK billions spent on almost all types of programme are so small that the extra people entering employment as a result would have to earn an average of a little under DKK 1 million per year to repay the costs to the public purse. The exceptions are interviews and help with job seeking. These programmes would pay for themselves if the resulting additional people in employment earned slightly less than DKK 200,000 per year – but only provided that the programmes were not applied to too large a proportion of the unemployed (see page 12).

Robustness in crisis and growth: Growth in productivity has been weak in Denmark since the mid-1990s, and of the EU member states, only Greece, Spain, Portugal, Cyprus and Ireland have experienced a greater reduction in employment levels than Denmark as a result of the first major economic crisis seen since the extension of the active labour market policy programme in Denmark (see page 15). It is not known whether the active labour market policies have contributed to this poor employment development, but it is clear that they have not proved to be the active ingredient in some economic 'magic potion' that would enable prosperity and welfare to continue to grow together in parallel in Denmark as well as ever.

Social effects: In contrast, the active labour market policies have contributed to

the redistribution of society's resources in Denmark (see pages 1 and 16). It seems that early obligatory activation, after only one year, helps ensure that people who become unemployed do not lose as much in terms of earnings. They find work again more quickly, and, because of their more intensive job search activity, they have better jobs to choose from than was the case when the period during which the unemployed could receive benefits was long, and when mandatory activation was not applied until after several years of unemployment (see page 4). This is not inconsistent with the report on page 8, which shows what happens when motivation is increased through more intensive assistance with job search activity and even earlier activation. The result of these actions is that the low-paid unemployed find work again even more quickly. The more rapid return to employment is not achieved at the expense of taking lower-paid jobs, and thus has no costs on that front. However, there are results that suggest that this overall outcome conceals positive effects for men and negative effects for women.

So has the additional spending on active labour market policies been a mistake? That is not necessarily the case. On the one hand, the employment effect is largely attributable to the increased motivation created, and not to anything that unemployed individuals may learn during activation. The activation system that exists today thus represents a very expensive means of generating motivation. It could be done more cheaply. On the other hand, the research suggests that to a large extent, it is participation in activation programmes that creates the positive social effects, the reduction in crime, the social inclusion for marginalised individuals, etc. Once again, there is a question as to whether these effects are best achieved through active labour market policies, or whether they could be better created by some more direct method. In both instances, the issues involved are not necessarily concerned with how much in total should be spent on activation, but at least equally with how the money should best be used – for which efforts and programmes.

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