

drivers of participation

Facts, figures & policy issues affecting the labor market

Ernest Berkhout
Emina van den Berg
Bert Hof
Jules Theeuwes



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LAYOUT BY: CadForm, Breukelen, the Netherlands

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1 how will the recession and the financial crisis affect the 2010 Lisbon strategy?

Lately, it seems that every economic policy discussion is dominated by the economic crisis, and understandably so. The severity of the current recession was unforeseen, and we still don't know how deep it will be, what damage it will do or when it will be over. The European Union's 2010 Lisbon employment targets, originally agreed upon in 2000 by the then fifteen Member States, are all affected by the recession in an important way. Just as some targets were about to be realized, the economic downturn washed away this possibility.

In this paper, we will examine the current European labor market, in relation to the economic crisis and the Lisbon targets. We will show that the targets will not be met in the short term, and that in the long term, they will not be sufficient to match labor demand. The aging population will continue to challenge our labor markets and underscore the need to increase labor participation post-crisis.

Some drivers of labor market participation have proven to be useful in the past. For example, it is essential to keep employees connected to the labor market, and to keep their skills and competencies up to date. The longer people stay away from work, the lower their chances of re-entering the work force at a later stage. We will discuss the importance of the Flexicurity model and the special role of temporary agency work therein.

Impact of the crisis

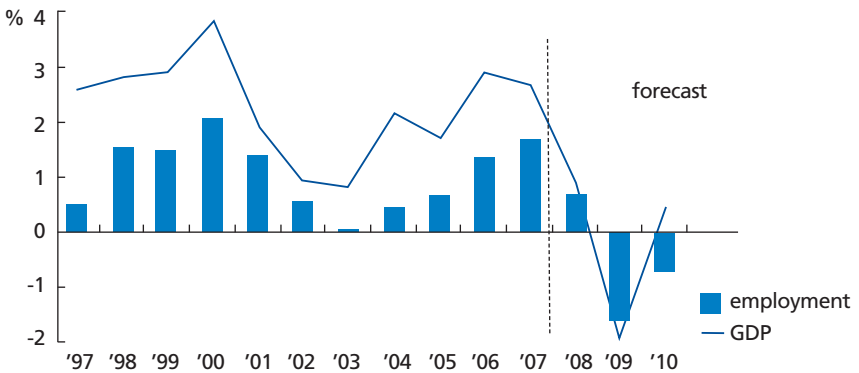
The financial crisis that dominated 2008, and 2009 so far, illustrates the limitations of any forecasting exercise. In the short run, the only sure thing is that the economic indicators will not improve in 2009. The latest EU interim forecasts¹ predict a negative GDP growth of almost 2% in 2009, and a modest growth of only 0.5% in 2010, for the European Union.

1. See ec.europa.eu/economy_finance/thematic_articles/article13727_en.htm.

This unfortunate outlook spreads to all countries, although differences are easy to see. Forecasts for 2009 range from -7% GDP for Lithuania and -5% GDP for Ireland, to -2% for France, Spain and Italy to +2.7% for Slovakia. Unemployment is expected to rise to an average of nearly 9% in 2009, even higher in 2010.

Spain will be hit extraordinarily hard, with unemployment reaching 16% this year, and nearly 19% in 2010. That would mean a return to the conditions of the early 1990's, when Spain faced an all-time high of 19.5% unemployment. Even low-unemployment countries, like Austria, Cyprus, Denmark, and the Netherlands will face unemployment levels of 5-6%.² Figure 1.1 puts these forecasts into long-term perspective for the euro area.

Figure 1.1 EU interim forecasts, GDP and employment growth rates, euro area



Source: EC, 19 January 2009, EU interim forecasts for 2009-2010, carbon copy from ec.europa.eu/economy_finance/thematic_articles/article13727_en.htm.

Put simply, the countries that were unlikely to meet Lisbon targets in 2010 *before* the impact of recession and financial crisis are certainly not going to meet targets now that a recession is occurring. Even countries that were getting close will not be able to meet the targets anymore. In fact, because of the recession, none of the targets will be met in 2010 for the EU as a whole.

2. The forecasts mentioned here are EU forecasts from January 2009. Since then, some countries have published their own forecasts, which are often more negative.

The Lisbon employment targets

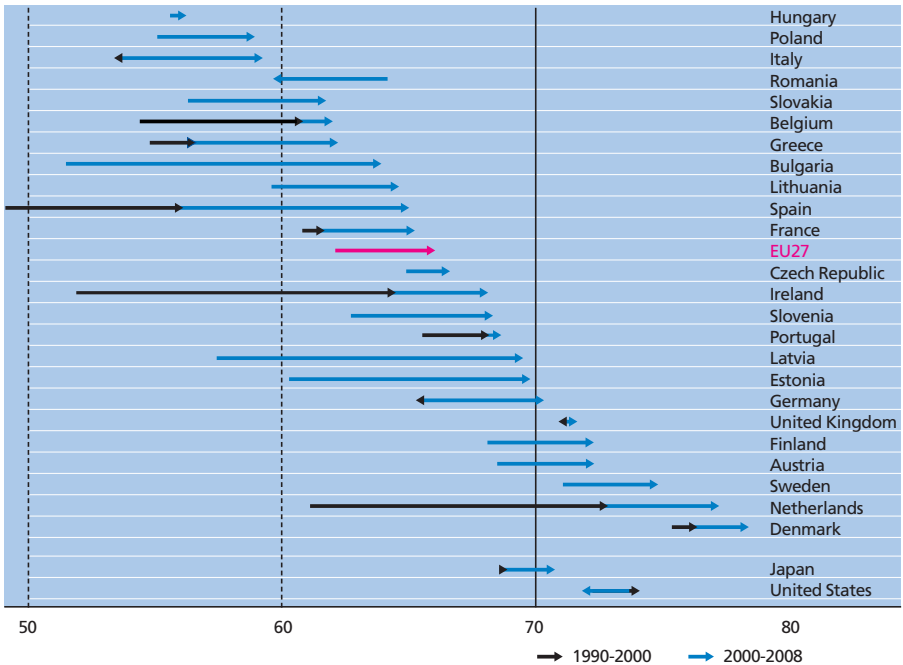
As most readers already know, the four targets are, in short:

1. An employment rate of at least 70%, overall.
2. An employment rate of at least 60% for women.
3. An employment rate of at least 50% for the elderly.
4. An unemployment rate of 4% or less, overall.

Overall employment

Figure 1.2 shows the development of the employment rates for most countries (target 1). The dark blue arrows show the development during the last ten years of the 20th century (1990-2000). The light arrows show the development in the first eight years of the current century (2000-2008). The red arrow is the EU-27 average.

Figure 1.2 Development of employment rates, 1990-2000-2008



Source: Eurostat LFS (lfsq_ergan, 2008); OECD LFS (2008). Japan & US data are for 2007.

Europe has shown a steady rise in employment since 2000, but has remained below the Lisbon target of 70%. In 2008, the average EU-27 employment rate was 66%, and only seven countries met the overall 70% employment target: Denmark, the Netherlands, Sweden, Finland, Austria, the UK, and Germany. Estonia and Latvia were close to the target in 2008. Most Eastern European countries are below average³. For the EU-27 as a whole to reach the 2010 target, labor market participation has to strongly increase in some of the larger countries, such as Poland, Italy, Spain, and France. Even if a recession had not occurred, it does not seem likely that this would have happened in such a short time.

Women

Another important target for 2010 is to reach an employment level of 60% among women (target 2). Although some countries clearly lagged behind, this target seemed realistic before the recession. In 2002, female employment was at 55.5% for the EU-15, and by 2008 this percentage had risen to 59% for all EU-27 countries combined. In other words, we were getting very close. Denmark, Sweden, the Netherlands, and Finland all have female participation rates more than 10 percentage points above the target, and they compensate for other EU countries that still lag behind, such as Italy, Greece, and Hungary. However, because of the recession, the target will probably not be met for the EU as a whole in 2010.

Elderly workers

The average European employment rate for the elderly (people aged 55-64) was 46% in 2008, while the 2010 target is 50% (target 3). Portugal, the Netherlands, Germany, and the Anglo-Saxon and Scandinavian countries are well above average. Spain, Bulgaria, and the Czech Republic are close. In the rest of Eastern and Central Europe and in Italy, it's clear that employment rates for the elderly are lower than in other countries. That means there is still a lot to gain, especially in the long term, when the economic cycle will move upward again. However, we see again that before the recession, the Lisbon target of 50% employment for this age group seemed realistic, and likely could have been reached in 2010.

The unemployed

The unemployment rate target (target 4) of the Lisbon agenda is even more ambitious than the other three targets. In 2000, only four countries

had an unemployment rate below, or equal to, the target rate of 4%: Austria, Luxembourg, the Netherlands, and Portugal. The EU-15 average was 7.7%. In 2004, unemployment was even higher, and only since 2005 can we see signs of recovery. In 2006, however, the average unemployment rate dipped below the original levels of 2000. Realistically, the target for the EU-15, EU-25 and EU-27 remains out of reach.

Beyond the Lisbon targets: short-term and long-term drivers

It appears the financial crisis will make it impossible for most of the countries to reach all of the Lisbon targets in 2010, or even shortly thereafter. The current recession leads to a sharp and sudden decrease of labor demand and an increase in unemployment. However, it is important to remember that, even during a recession, population trends do not stop. Focus on the long term remains necessary: once the recession has lifted, the long-term issues we were working on before the crisis will be waiting for us. Ironically, although long-term predictions exhibit more uncertainty than short-term projections, they are more resistant to specific shocks, such as the current recession and financial crisis.

For example, the aging EU-population will be a crucial factor in labor participation, especially after 2010. If the employment rate (the share of people, aged 15-64, who are employed) remains constant, employment supply will decline in the coming years, because the share of people in the working age ('potential employment') will decline.

Assuming constant consumer demand and labor productivity, either fewer people will have to produce more goods and services, or the employment rate will have to increase, *even if the Lisbon targets have already been met*⁴. In this way, an overall employment rate of 70% will not be enough: 80% is more realistic. So the question of how to raise participation levels is, and remains, very relevant, indeed.

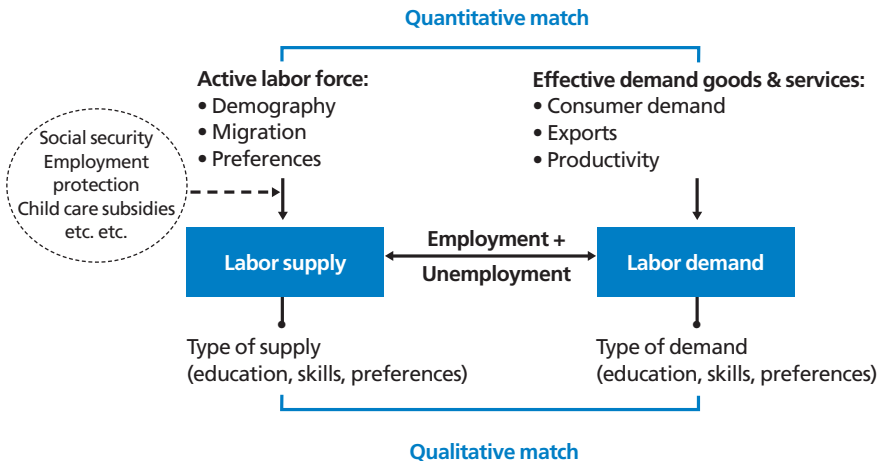
3. In Romania, participation levels have actually decreased since 2000.
4. Alternatively, employment rates are subject to the effects of rising per capita demand and rising labor productivity. The first implies that employment rates will have to rise; the second implies that they can fall to meet demand.

2 drivers of participation: keeping the Lisbon strategy in sight

Background

Over the years, European labor markets have become more and more dynamic, with more types of contractual arrangements, and more complex and more frequent transitions. To extend country-specific empirical findings into more general conclusions, it is helpful to illustrate the dynamics with an analytical framework. Figure 2.1 shows a simplified, and somewhat modified, version based on Schmid & Modrack (2008)⁵.

Figure 2.1 An analytical framework of employment dynamics



In general terms, labor supply will decline in the coming years. Demography (in case of an aging population in combination with a declining birth rate) will negatively affect supply, and migration can only offset a small portion

5. Günther Schmid & Simone Modrack (2008), Employment Dynamics in Germany: Lessons to be learned from the Hartz reforms, WZB Discussion Paper, Order number: SP I 2008-102.

of this. Theoretically, the decline in labor supply could be matched to labor demand by stimulating productivity, in which case labor demand will decrease, too. There are at least two good reasons why relying on such a strategy alone is not enough. First, productivity growth may not be 'skills neutral'. For parts of the population, it may actually lead to increased unemployment, while there is still an overall shortage of labor. Secondly, and perhaps more importantly, labor demand is not expected to fall at all. Although productivity growth may help lower labor demand, an increase in consumer demand and exports will probably override any advances made.

Wage effects will act as a partial correcting force, but an increase in participation is vital to balancing labor supply and demand in the future. That is, there must be an increase in the active labor force. In other words, more people need to become active in the labor market. There are various options to help make that possible. Most relevant is the idea that participation should be made worthwhile for a greater number of people. In short, we need to *'make participation pay'*!

Even if labor demand equals labor supply (a 'quantitative match'), some people may be unable to find a job. They may not have the education and skills required to do the work (a 'qualitative mismatch'). The obvious, but not simple, solution is to improve the competencies of those people. This requires training and work experience.

It is also important to recognize that the longer people are away from a job, the less likely they are to become employed again: unemployment fosters unemployment. Welfare systems, like social security and employment protection, play an important role here. Generous systems may be well intended, but they may not stimulate people to become employed again. Reallocation and reactivation are key to a well-functioning labor market. 'Make participation pay' is equally important here.

Increasing participation

An intensive meta-study by SEO Economic Research in Amsterdam, scheduled for publication later this year, explores the drivers of participation, and focuses on what scientific literature tells us about the actual effects of labor market policies already in place⁶. The issues discussed

6. Although the study is elaborate, we do not claim that it is comprehensive or exhaustive.

here are all based on individual studies that can be found in the complete report. Although experiences from the past are no guarantee for the future, they can give valuable insights into how to model future policy. In this compact overview on the drivers of participation, we look at the three target groups of the Lisbon agreement: women, the elderly, and the (long-term) unemployed. Often, women and elderly citizens who are not working are not considered unemployed, but rather not part of the active labor force, if they do not receive unemployment benefits. Note that unemployment, in and of itself, is not the real problem: long-term unemployment is, however!

Evaluations of policies aimed specifically at increasing female and elderly participation are generally more conclusive than evaluations of policies aimed at increasing the participation of the unemployed in general. For that reason, tailor-made approaches to increasing participation in these two key groups tend to be more effective than general measures to increase overall participation.

Women

Female participation rates have been identified as the most important factor in explaining the current variation in participation rates across countries. They have also been identified as the most important factor in overall participation growth. In most EU countries, female labor participation has increased strongly over the past thirty years. The timing has varied, with some regions, such as the Scandinavian countries, showing earlier increases in female participation. In the last two decades, the largest increases have been observed in some southern European countries (Spain, Italy, Greece, and Portugal) as well as in some northern European countries (the Netherlands, Belgium, Luxembourg, Germany, and Ireland).

The studied evaluations of female participation policies point towards the following:

- an effective way to increase participation is to introduce an equal tax treatment plan, under which non-single women are taxed the same as single women, and as men;
- childcare availability (in the right place and for the right hours) is even more important than price;
- (paid) parental leaves have varying effects, depending on the type of

institution, but excessive leave periods lead to fewer returns, and lower wages are a negative side-effect;

- availability of part-time opportunities can prove effective, at least in countries with a strong female preference for part-time work (like Denmark, France, and the Netherlands); and
- studies on temporary agency work show positive effects. Agency work is often more flexible and provides more opportunity to combine work and family responsibilities, resulting in a higher female labor force participation.

Female education, cultural attitudes and gender discrimination remain major factors in female participation rates.

Table 2.1 Drivers for women

Employment effect on target group		
Costs and provision of childcare	+/0	US, Canada, +; the Netherlands, Italy, UK, Germany, France no/small effect
(Paid) parental leave	+/-	Europe (Denmark, Finland, France, Germany, Greece, Ireland, Italy, Norway, Sweden, UK)
Equal tax treatment for married women	++	17 countries (the Netherlands, UK, Belgium, Australia, Germany, Japan, New Zealand, Ireland, Austria, France, Canada, Sweden, Denmark, US, Spain, Portugal, Finland)
Part-time work opportunities	+	Denmark, France, the Netherlands
Temporary agency work	+	UK, US, Spain

+ = positive, - =negative, 0 = zero, +/- = mixed

Best practice Sweden: equal tax treatment for married women

Non-single working women are effectively taxed more heavily than men and single women in most OECD countries. Sweden is a good example of the transfer from joint to separate and equal taxation, which has led to more participation by married women (most probably in combination with other family-friendly policies).

Best practice Netherlands: high (part-time) participation

Labor market participation of women in the Netherlands has increased steadily for many years. A cultural explanation for this change is a shift in the dominant ideology of the 'best' way to organize work and care in society. The dominant conservatism of the 1950's and 1960's indicated that the man should be the principal breadwinner, whereas the women should be responsible for the household. This is the so-called 'male breadwinner/female home caretaker model'. In recent years, this dominant conservative model has changed in the direction of a 'male breadwinner/female part-time caretaker model'⁷. This change is reflected in the increase of female (part-time) labor market participation.

Elderly workers

With an increasing share of elderly persons in the population, and a large decline in the share of the prime working-age population, countries are facing substantial pressures on public finances. This is especially relevant to old age benefits that are financed through a pay-as-you-go system. The most obvious solution is to encourage people to work longer and retire later. The primary way to encourage this is to get the financial incentives right. Financial incentives embedded in pension systems (or other welfare benefits) play an important role in work-retirement decisions. It is essential that older people do not face a large implicit tax if they chose to continue to work. Raising the statutory retirement age one year, while leaving in place existing early retirement schemes, could raise the participation rates of older workers. An actuarially neutral social security system⁸, in which social security is independent of the retirement age and therefore does not distort the retirement decision, could increase participation rates for older males in OECD countries. Linking pension contributions to pension benefits also seems to stimulate participation among older workers. The same conclusion can be made for different reforms in early retirement schemes. Nevertheless, financial incentives in pension systems alone are not sufficient to promote employment opportunities of older workers. It is essential that other welfare benefits, like unemployment and disability benefits, are not used as alternative pathways to an early exit from the labor market. Restricting access to these benefit systems reduces early retirement and causes older workers to participate longer.

7. Also known as the '1,5 job per family model'.

8. Such a neutral system means that if people decide to retire later or earlier than the statutory retirement age, their social security wealth will increase or decrease, accordingly.

The health status of older Europeans has a major influence on their probability of employment. People with health problems or severe restrictions in activities have a much higher probability of being out of the labor market.

Improving the employability of older workers is important. On-the-job-training for older workers, in particular those with a lower education

Table 2.2 Drivers for older workers

Employment effect on target group		
Raising the statutory retirement age	+	many OECD countries (Australia, Canada, Japan, Norway, Sweden, UK, US, Germany, Ireland, Portugal, Finland, France, Italy, the Netherlands, Spain, Belgium)
Creating an actuarially neutral social security system	+	many OECD countries (Austria, Norway, New Zealand, Belgium, Korea, Luxembourg, Australia, Canada, Japan, Norway, Sweden, UK, US, Germany, Ireland, Portugal, Finland, France, Italy, the Netherlands, Spain, Iceland)
Linking pension contributions to pension benefits	+	European countries (Belgium, Germany, Italy, the Netherlands, UK, Sweden, Denmark) & America
Reforming early retirement schemes (various)	+	the Netherlands, US, Spain, UK, Sweden, Denmark, Germany, Japan, Canada, France, Belgium, Italy
Introducing lump-sum bonuses to delay retirement	+	the Netherlands
Stricter access to non-employment benefit systems	+	Germany, Belgium, Italy, Finland, the Netherlands, Hungary, UK, Canada
Training-on-the-job	+	EU
Alternative employment modes (e.g. part-time retirement)	+	no 'all-or-nothing' decision; knowledge transfer to younger colleagues
Health	++	many European countries (Germany, Belgium, Austria, Denmark, Spain, France, Greece, Italy, the Netherlands, Sweden, Switzerland)

+ = positive, - = negative, 0 = zero, +/- = mixed

level, has been found to reduce the probability to retire. For older people, alternative employment models, such as part-time retirement, could provide more opportunities to extend their working lives and ensure maintenance of their skills, experience, and know-how. In particular, part-time retirement provides them with a bridge between employment and retirement.

Best practice Belgium: closing early retirement routes and reforming retirement incentives

The Belgian government has recently taken a series of steps to discourage early exits from the labor market and encourage re-entry of those who remain inactive. These measures have included the closing of some early-retirement paths, and activation measures, such as individualized road maps for returning to work, follow-up interviews and possible sanctions in case of insufficient job search activities.

Since 1997, the compulsory age of retirement for women has gradually risen from 61 in 1997 to 65 in 2009. Another reform to retirement incentives was recently introduced, in which all workers who work beyond the age of 62, or beyond 44 years total, receive a pension supplement of € 2 per 'extra' day worked. Although Belgium has taken significant steps forward, it still needs to put more emphasis on interventions to 'make work pay', by modifying the unemployment benefit system, for instance.

Best practice the Netherlands: reforming occupational early retirement schemes

The increase in participation among older workers in the Netherlands has been caused, in part, by reforming the occupational early retirement scheme (VUT). A generous and actuarially unfair early retirement scheme was changed into to a less generous and actuarially fair capital-funded pre-pension scheme. This shift has caused a lower incidence of early retirement.

Unemployed

Policies aimed at reintegrating the unemployed can be defined as Active Labor Market Policies (ALMPs). Properly designed ALMPs improve the efficiency of the job-matching process and enhance work experience and skills, and therefore can reduce short- and long-term unemployment.

Studies on the effect of ALMPs on employment probability show mixed outcomes: among different programs and also between countries. Most studies on monitoring show desirable effects on the exit rate or duration of unemployment. Studies that do not show desirable effects were targeted at people who had a good chance of finding a job on their own. Studies show that benefit sanctions and/or bonuses show positive effects on the unemployment exit rate. Job search assistance and other public employment services have mixed effects: in America, positive effects are found, but only among disadvantaged women. In the Netherlands, the effect of public employment services is not uniformly positive or negative. The same can be said about training programs and wage subsidies. Although wage subsidies are often found to be positive, most studies are incomplete. They do not take into account substitution effects and long-term effects, which makes them unsuitable for general conclusions. For training programs and wage subsidies to be effective, the policy must fit the actual problem. One-size-fits-all measures are certain to fail, while tailor-made approaches are a precondition, but no guarantee, of success.

Subsidized work in the public sector ('artificial jobs') has hardly had any positive effects. Only one study indicates that ethnic minorities in the Netherlands profit from subsidized work experience.

The 'stepping stone effect', a gradual re-entry into the labor market through temporary work, is shown to bring outsiders into permanent employment (see also paragraph 'The role of temporary agency work'). This effect has been found in many countries, including Italy, Germany, Belgium, the UK, and the Netherlands. Temporary work includes increasingly more agency work, and evidence shows that temporary work agencies are more effective than public agencies in getting the unemployed back to work.

Best practices: Belgium's subsidized service cheques

Since 2003, private household workers in Belgium can be paid for their services with a 'household service cheque'. These cheques have three objectives: job creation, service creation, and reducing undeclared work. In five years' time, around 90,000 jobs have been created for (long-term) unemployed people, those with low levels of formal education, and ethnic minorities. An added benefit of the service cheque system is that

Table 2.3 Drivers for the (long-term) unemployed

Employment effect on target group		
Monitoring	+	The Netherlands, UK, US. More effective if combined with bonus/malus
Benefit sanctions	+	The Netherlands, Sweden. Threat of sanction has positive spill-over effects
Financial bonuses	+	US, proportional effect. Negative side effects.
Public employment services	++/0/-	No general conclusions possible. Mostly positive, but also negative. US positive, but very specific groups. The Netherlands mixed.
Training programs	++/0/-	No general conclusions possible. The Netherlands, Sweden, Germany , UK. Mostly positive, but also negative. Most widely used labor market policy in EU.
Wage subsidies	+/-	More comprehensive studies needed
Subsidized work in the public sector ('artificial jobs')	-	The Netherlands: if present, stepping stone-effect is only short-term. Many countries: zero or negative.
Temporary work	+	Belgium, Germany, Italy, UK, the Netherlands clearly positive stepping stone. Italy also temporary agency work. US unclear. Spain only effect for higher educated. Spain is odd case: very much fixed-term contract, very low agency.

+ = positive, - =negative, 0 = zero, +/- = mixed

most employees eventually find a fixed job. Around 60% start with a fixed contract immediately. Temporary work agencies play an important role in matching supply and demand of jobs that are eligible for service cheques. In addition to Belgium, Austria and France use service cheques for household service and other similar jobs.

The importance of flexicurity

Increasing labor market participation is helped considerably with sophisticated systems of flexicurity. Essentially, flexicurity means striking a good balance between flexible job arrangements and employment security⁹.

9. EC (2007), Towards Common Principles of Flexicurity, COM(2007) 359 final.

Flexibility, in this context, is associated with successful ‘moves’ within the labor market: transitions from job to job, from unemployment/inactivity to work, from job to training and back to job. But flexibility also entails flexible work organization, or the relative ease of combining work responsibilities and personal responsibilities.

Security is interpreted as ‘employment security’, facilitating smooth transitions between jobs without income insecurity. It is about facilitating unemployment benefits, but also about training programs to improve people’s skills, so that they can progress in their working lives, and find (new) employment. International governance systems, such as the International Labor Office (ILO) and the European Union (EU), have embraced the flexicurity concept. The European Commission has reached a consensus that flexicurity policies can be designed and implemented across four policy components:

- flexible and reliable contractual arrangements through modern labor laws, collective agreements and work organization;
- comprehensive lifelong learning strategies to ensure the continual adaptability and employability of workers;
- effective ALMPs that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs; and
- modern social security systems that provide adequate income support, encourage employment and facilitate labor market mobility.

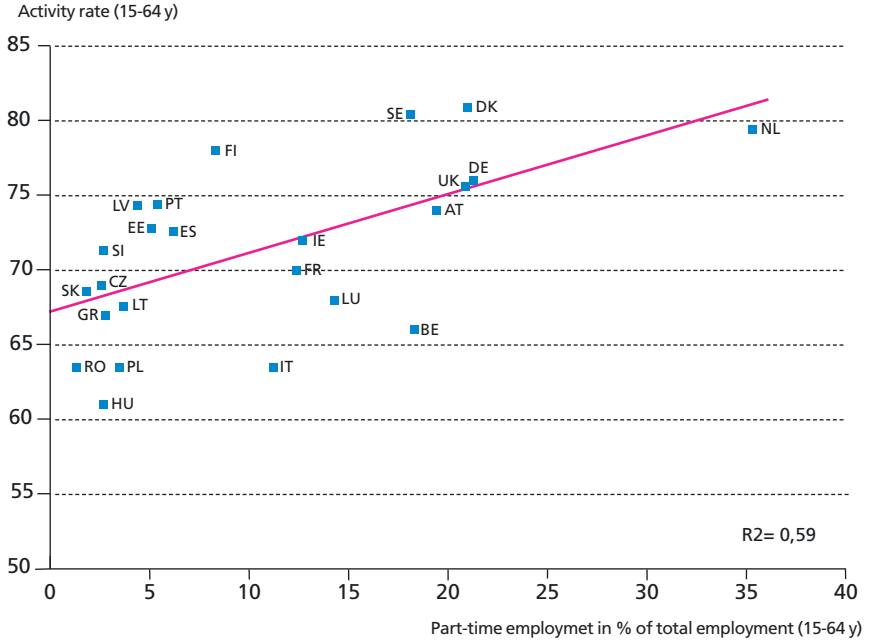
Despite evidence that these four components greatly increase employment security, the European Commission agrees that they will not be effective unless they are accompanied by social dialogue.

Figure 2.2 serves to illustrate the positive relationship between part-time employment as a flexible form of labor, and the overall activity rate.¹⁰ Although we only present one graph here, a similar relationship exists for temporary work.

Research indicates that flexibility is important in achieving higher participation rates, although there is not necessarily a cause-effect relationship between the two. Certainly, a balance must be found. Too much job protection, for example, tends to slow down labor reallocation,

10. The share of part-time work is defined here as those employed part-time, either self-employed or in open-ended contracts, as a percentage of total employment.

Figure 2.2 Part-time employment as percentage of total employment and activity rate (2008)



Source: Günther Schmid, based on Eurostat: Labor Force Survey and his own calculations

to increase unemployment duration and to harm the employment prospects of ‘outsiders’ by favoring ‘insiders’¹¹. For the labor market to function efficiently, some amount of flexibility is needed, simply to ‘grease the wheel’. However, flexibility alone is not enough. For example, too little employment protection might have unwanted income consequences for employees in transition periods. Further, *work security* is by no means evident, and requires that workers’ skills match the requirements of available jobs. To prevent the creation of a new group of outsiders, the long-term unemployed, it is crucial to keep employees connected to the labor market, and to ensure that their skills and competencies are up to date. The longer people stay away from work, the lower their chances of re-entering the work force later on.

11. EC, Employment in Europe 2006, Chapter 2.

Flexicurity is instrumental in enabling people to make smooth transitions from one job to another, from one sector to another, etc. Combining flexibility and security will be a major factor in labor market policies for the coming years. EU member states could benefit from each other's experiences in the use of flexicurity pathways, and thus find the right combination of flexibility and security for their specific country's needs.

The role of temporary agency work

Temporary work agencies play a special role in promoting smooth labor transitions and increased participation. They are part of most flexicurity strategies, because they provide some favorable characteristics that are often not found in other flexible forms of labor. For example, temporary agency work is the most preferred form because of their function as 'transition managers'. And, since matching labor supply with demand is a common goal of employer, employee and agency, the agency itself is a key part of that 'triangular' relationship. Temporary work agencies actively improve matching, irrespective of the business cycle, and in both scarce and abundant labor markets.

Work agencies often act as a kind of 'impresario' for the employee. As a consequence, temporary workers served by an agency have a lower risk of becoming unemployed than workers with a fixed-term contract. Work that is managed by a temporary agency often facilitates easier transitions from unemployment to work, thus bringing more people to the labor market. Often vocational training is provided, such as through the use of bipartite funds in Belgium, the Netherlands, France, Italy, Spain, Luxembourg and Austria. The use of RPL ('Recognition of Prior Learning') by the Dutch bipartite fund has recently been recognized as very helpful, for labor markets in general, but also for employees themselves.¹²

Because of the negative effects of staying unemployed for longer periods of time, matching labor supply with demand is even more important in a recession than in prosperous economic times. In many countries, rising unemployment in some sectors goes together with vacancies in other sectors, especially in light of the current recession. This so-called 'sectoral gap' might be closed more easily by public-private partnerships with temporary work agencies, as many of them operate across many different sectors. In so far as a recession acts as a driving force for sectoral changes,

this cross-sectoral matchmaking benefits the economy, also in the long term.

Temporary agency work might act as a 'stepping stone' to more regular employment. Recently, SEO Economic Research has shown that in the Netherlands, people with a temporary agency work job have almost the same perspectives on a more permanent job as people who directly obtain a regular job¹³. The main difference is that the persons with a temporary agency work job more frequently change jobs and spend less time in unemployment. As such, they impose less of a burden on the welfare system, and gain more job experience. The effect of agency work is that unemployment spells are significantly shorter.

As we saw in the paragraph 'Increasing participation' temporary work (which also includes agency work) acts as a stepping stone for the unemployed, especially in countries like the UK, Italy, Germany, Belgium, and the Netherlands (Table 2.3). The importance of temporary agency work is also underscored by the EU, seeing 'temporary agency work [...] as a key factor in meeting the requirements of the Lisbon Strategy, as it contributes to increasing both employment and competitiveness.'¹⁴

Private employment agencies play an important role in matchmaking and transitions in the labor market, and play an active role in contributing to a flexicure, and thus sustainable, active work force.

12. See http://www.kenniscentrumevc.nl/evc_nl/11cf2c21c134747892d544c26df1c55e.php.

13. Arjan Heyma, Chris van Klaveren m.m.v. Marloes de Graaf-Zijl (2008), Uitzendbaan versus direct dienstverband: vergelijking loopbanen CWI-cliënten, SEO-rapport 2008-12, Amsterdam.

14. Council of the European Union, press release, 2837th Council meeting: Employment, Social Policy, Health and Consumer Affairs, Brussels, 5-6 December 2007.

3 creating a sustainable labor market: do's and don'ts

It seems clear that on the whole the Lisbon employment targets will not be met in 2010, crisis or no crisis. This underscores the need to stay focused on long-term issues. Increases in participation rates will make the EU the world's most competitive knowledge-based economy. But what are the do's and don'ts in terms of short- and long-term targets? And how can we ensure that short-term solutions do not hinder long-term goals?

Long term: do's and don'ts

We know that the evaluation of policies aimed at increasing the labor force participation of women and the elderly are generally more conclusive than evaluations of general policies aimed at increasing the overall participation of the unemployed. Although a one-size-fits-all remedy does not exist, successful policies are the ones that 'make participation pay'.

Don't

- Don't forget that, in addition to pensions and early retirement systems, (too generous) unemployment, disability and other welfare benefits may be used as alternative pathways to an early exit from the labor market.
- Don't rely on general training programs or general wage subsidies to increase participation. Although they might help, they will not do so if they are not specific enough. Targeting the right groups is the issue here.
- Don't expect increasing childcare subsidies alone to stimulate female participation. In the US and Canada, a reduction of childcare costs may have stimulated labor force participation of women, but in the Netherlands, Italy, United Kingdom, Germany, and France a reduction of childcare costs by itself was not enough to change employment rates of women. Flexible childcare supply is a more important factor in those countries.
- Don't overdo it on the parental leave: being away from work for too long decreases the probability of re-entry, and has negative wage effects.

Do's

- Revise existing welfare systems (tax, pensions) to remove incentives that encourage people to leave the work force. For example, financial incentives embedded in pension systems and other welfare benefits play an important role in work-retirement decisions. It is essential that older people do not face a large implicit tax if they chose to continue to work. Also, female participation may increase if second earners' incomes are taxed more equally to first earners' incomes ('make participation pay, not staying at home in the kitchen...').
- Facilitate work-family balance to stimulate the supply of part-time and flexible labor. This may include ensuring flexible childcare availability and (paid) parental leaves. It may also include increasing part-time work opportunities, especially in countries with a strong female preference for part-time work (like the Netherlands, France, and Denmark).
- Promote skill development of workers in order to meet the skill requirements of jobs available. That is, promote a qualitative match between labor supply and labor demand. Gaining more competencies enhances employees' employability.
- Implement and improve flexicurity systems. The main goal should be to combine flexible contractual arrangements with employment security and skills enhancement. EU member states should benefit from each other's experiences in using flexicurity pathways.
- Make use of the matchmaking experience of temporary work agencies in public-private partnerships. That might help to bridge the 'sectoral gap' between unemployment in one sector, and persistent vacancies in other sectors.

Short term: do's and don'ts

Short-term policies should support, not hinder, long-term goals to increase participation. A balance between the two is important. The primary short-term objectives should be to stimulate people to keep in touch with work, and to facilitate easy labor reallocations.

Don't

- Don't take general measures that will eventually lead to a decrease in labor supply, like introducing more generous early retirement schemes. These permanent reductions in labor supply will be irreversible, and will enhance the long-term effects of the greying population.

- Don't create 'artificial' jobs (public jobs that compete with market jobs). Such jobs have not proven to be effective, and interfere with the 'normal' job creation process.
- Don't let the government budget run out of control. All debts will need to be repaid, which will lead to increased taxation, and may harm the future supply of labor.

Do's

- Try to get people from unemployment back to work as quickly as possible. The longer people are unemployed, the less likely they are to return to the labor market. Keep their skills and competencies up to date in the meantime.
- Enhance the skills of people who become unemployed, using a tailor-made approach directed towards a quick return to the labor market. The system of recognition of prior learning (RPL) can be useful in improving this qualitative match of labor supply and demand.
- Recognize the important role of private employment agencies in the matchmaking and transition process, especially in more difficult economic times.
- Combine policies for stimulating short-term demand with policies to improve long-term supply. As the OECD mentioned in their report, *Going for Growth*: the current recession should be used to improve the structure of our economies.

