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## LABOUR MARKET

# Labour Market Policies in the Western Industrialised Countries

by Günter Weinert, Hamburg \*

**The longer the high levels of unemployment continue in western countries the greater is the discussion about a policy aimed at reducing unemployment which is independent of general counter-cyclical and growth policies. What type of labour market policy measures have been adopted up to now in these countries?**

The economic recession of 1974–75 was the most severe which the western industrialised countries had experienced since the end of the war. Unemployment rose to levels which were no longer either known or considered possible. The unemployment ratio, i.e. the ratio of numbers unemployed to the total work force, had more than doubled in many countries in relation to the levels existing before the recession. As the fall in employment levels resulted largely from the recession, i.e. it was a business cycle phenomenon, there was in the first instance a not insubstantial optimism that the high levels of unemployment could be relatively quickly reduced. The economic recovery, however, was in general too weak to have a steadily reducing effect on the number of unemployed. Even in the countries showing the strongest economic recoveries the levels of unemployment are still unusually high. The reduction in the levels of unemployment has come to a standstill both in the United States and in the Federal Republic of Germany. In France and Great Britain the levels of unemployment continue to grow, interrupted only by static periods.

As unemployment had, prior to 1974, been of relatively low importance in practical economic policies, economists were somewhat unprepared for the phenomenon of high levels of unemployment. Even at the lowest point of the current recession there were several reasons for interpreting the worsening of the employment situation as a business cycle phenomenon. This implied that the problem could be solved through a rapid expansion of demand and production. Governments in nearly all countries therefore adopted measures to stimulate the economy. The monetary and financial policy measures, however, did not lead to an upswing on any decisive scale especially in the

investment field. The maxi downswing was followed by hardly more than a mini upswing and in the meantime the expansion even became almost everywhere gradually weaker.

The more the levels of unemployment took on the appearance of a long term phenomenon the more intensive were the discussions about policies for reducing unemployment independently of business cycle and growth. All activities by the authorities concerned with economic policy which are aimed at such a reduction of the levels of unemployment are considered here as labour market policies. This concept is therefore somewhat narrower than that adopted by other authors who consider labour market policy as synonymous with employment policies.

Also this narrowly defined labour market policy is not a new type of activity on the part of states brought on by the recession. Numerous forms of the measures practised or discussed today have belonged for a substantial period to the array of economic policy instruments employed in western industrialised countries. The present employment situation has, however, considerably raised the importance of labour market policies and consequently the attempt to find new frameworks for such policies.

In the following survey of labour market policies adopted by different western industrialised countries the various measures employed are classified according to their points of application. On the supply side one can differentiate between policies aimed at removing discrepancies between the skills possessed by unemployed labour and those required for vacant jobs, and those aimed at reducing the supply of labour. On the demand side, an increase in the demand for labour can be brought about either through direct creation of

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jobs or through a lowering of the price of labour. The individual measures can either take on the form of direct state intervention or pursue the desired effects indirectly, i.e. as an "offer" by the state to the target groups<sup>1</sup>.

### Promotion of Qualifications and Mobility

Already prior to the recession the authorities concerned with economic policy made efforts to ease structural unemployment. Until then this concept which has a number of very different interpretations attached to it implied above all the discrepancy between the supply of job vacancies and the suitability of persons out of work to fill them. Insufficient qualifications and/or local reasons are a hindrance to the employment of persons out of work. Labour market policy, therefore, is aimed at changing the qualifications of the unemployed and at increasing their mobility so as to move them to areas where there is a demand for labour. Measures for retraining and further training as well as promoting mobility have consequently a long tradition in most countries.

This more or less classical part of labour market policy has been subject to only a relatively small extension in recent years. Thus, for example, the Federal Republic of Germany, within the framework of its general counter-cyclical programme, made financial assistance available in order to aid mobility at the end of 1974 and for 1977 the funds which are available for promoting regional mobility of labour have been increased. In Great Britain in November 1975 bonuses were made available for unemployed who moved to regions where there were job vacancies. The small number of new measures which have been mentioned here should however not lead to the conclusion that the promotion of labour mobility is of small importance. This instrument, and particularly in connection with regional policy, has played a long and important role in the framework of labour market policy and therefore in recent years it has only been extended in isolated cases.

Also, additional labour market policies aimed at promoting or changing general qualifications have been hardly undertaken. The Dutch adopted policies in November 1974 aimed at reducing the quality discrepancies between supply and demand in the labour market, and in April and September 1974 Great Britain made additional funds available for job training and further training programmes.

Austria, too, introduced measures aimed at the further training of under- and unemployed as early

as 1974/75. Also, in Denmark since August 1976 job training and further training have been promoted. In the same month Belgium increased the range of unemployed persons who could be included in job training programmes. And the Commission of the European Communities agreed in April 1975 to the suggestion to make funds from the European Communities' social fund (in accordance with Article 4) available for, amongst other things, retraining programmes.

### Measures to Combat Youth Unemployment

In this connection the European Communities authorised for the first time at the beginning of 1976 aid for the retraining of unemployed young persons (under 25 years). Youth unemployment creates in fact a very special problem area which is also very critical on social and political grounds. If school leavers are unable to obtain employment they can hardly acquire specific job qualifications. Also, later incorporation in the job scene is made more difficult.

In order to prevent this danger different governments have set up special training programmes for young persons out of work. Thus, since 1976 in Belgium practical classes have been set up to employ young persons. Since autumn of last year the Dutch Government has made payments to firms towards training costs of school leavers they take on and for whom they provide practical training. A very comprehensive programme to fight youth unemployment was introduced a short time ago by the British Government. From autumn 1978 some 230,000 unemployed young people will have the possibility each year of obtaining work experience and/or visiting training courses. All previous measures to counteract youth unemployment have been integrated into this programme (Great Britain, for example, increased the finances in September 1976 for the training of young people) and some £ 160 mn have been made available; the net commitment has been estimated at £ 100 mn.

In a situation where the number of unfilled vacancies lies appreciably below the level of numbers unemployed, the provision for obtaining job qualifications through public finance is to be seen rather as a kind of preventive employment policy. For, the new phenomenon since the recession has in fact been less a shortage of satisfactory qualifications on the part of the unemployed which prevents them taking up unfilled job vacancies than a low level of demand for labour which shows itself in the continuing relatively low level of capacity utilisation.

This type of incongruity in the labour market is frequently also termed structural. In such a case

<sup>1</sup> The following description must necessarily be incomplete, if only because of the large number of measures. Also, only the limited range of labour market policies which have been practised in recent years is considered here.

this indicates a problem of quantitative disproportionality which can be lessened through, for example, such methods as training or re- or further training only as far as the participants in the programme do not appear in the unemployment statistics during the training period. A number of governments have therefore adopted a policy whereby the supply of labour is "artificially" reduced.

### **Reduction of the Labour Supply**

Several countries made use of this possibility already at an early stage by forcing down their relatively high proportion of foreign workers. In the first instance the recruiting of foreign workers in the Federal Republic of Germany, Austria and Switzerland was stopped and at a later stage the conditions relating to residence were made more difficult. This type of export of unemployment was pursued most strongly in Switzerland. The fact that the unemployment ratio in that country remained extraordinarily low in spite of the sharp fall off in production in 1975 (real GNP: - 7 %) and the only moderate recovery since then, is mainly attributable to the drastic reduction of the number of foreign workers which used to be rather high as compared with other countries. In several cases as, for instance, in France since the summer of 1977, attempts are made to bring about a remigration of foreign workers through repatriation payments. In contrast to Switzerland, however, none of the other countries is in a position to achieve by the use of this method anything like a solution of the underemployment problem.

In order to tackle the high levels of unemployment amongst the indigenous working population a number of governments employed in particular two measures to reduce the supply of such labour: a raising of the school leaving age and/or a lowering of the age of retirement. The raising of the school leaving age has been handled very cautiously up to the present. Thus in Belgium at the beginning of 1976 compulsory practical classes for young people were introduced. This measure was for a year in the first instance but in the meantime has been extended until the end of 1977. In the Federal Republic of Germany a new youth employment act entered into force on May 1, 1976 whereby the minimum working age was raised from 14 to 15 years. Likewise, a lowering of the age of retirement has, up to now, only been tackled in a limited number of cases. This is always proceeded with very carefully: early retirement schemes everywhere have been, at least formally, voluntary and these types of regulations are limited in time. The frequently criticised irreversibility of this policy instrument is therefore avoided.

Belgium was the first country to tackle the lowering of the age of retirement and it is here where this policy is being most intensively pursued. In December 1975 the Belgian Government decided, as from the following year, to reduce the retirement age limit to 62 years for men and 58 years for women. In August 1976 a further reduction to 60 and 55 for men and women respectively was undertaken and the "experiment" extended to 1977. In Great Britain, in September 1976, the possibility of voluntarily retiring one year earlier was made available for a twelve month period. There was, however, a condition attached to this, namely that the job vacancy which was created by the early retirement should be filled by an unemployed person who is registered at a labour office. In France the employers' association and the unions agreed in the middle of 1977 that there should be optional retirement for all types of employed persons in the private sector at 60 as opposed to 65.

In general, measures aimed at tackling the supply side of the labour market are subject to substantial weaknesses. An "artificial" reduction in the supply of labour contains the flaw that it can lead, under certain circumstances, to a marked fall back in the proportion of persons earning, or seeking to earn, wages or salaries, in the long run. Not unimportant in this connection is the disadvantage of short and medium term policies aimed at mitigating the unemployment problem when a return to the "old" growth path remains a long term aim. Attempts to solve present labour market problems through improving qualifications or through promoting mobility of people seeking work are of limited applicability and, on account of the low total level of work, are only suitable for solving the employment problem in very specific instances.

### **Expansion of the Demand for Labour**

On account of this, numerous labour market policy measures are aimed at increasing the demand for labour. This can happen directly through a large number of programmes aimed at creating work but also indirectly as for example through attempts to create, through additional demand, an increase in employment. These types of measures are differentiated from the general counter-cyclical stimulating measures through their much narrower area of application. The boundaries between labour market policy and counter-cyclical policy — which in general is aimed at global manipulation of overall demand, but occasionally promotes, as for example in 1976 and 1977 in Sweden, production for stock — are however, frequently fluid. An example of this is part of a special programme of the Government of the Federal Republic of Germany which was passed in September 1974 and which aimed at

supporting employment in the building industry in areas where unemployment was above average. This applies also to the additional building measures planned at the same time in the Netherlands as well as to the agreed substantial expansion of expenditure on public building to around \$ 4 bn by the United States Government in May of this year. This expansion of public building programmes was aimed at easing regional unemployment.

These measures aim directly at an expansion of demand and production in certain areas, i.e. they are of a sectoral or structural type. In contrast to long-run structural policies they aim at easing present employment problems in certain areas. They are thus primarily of a short-run nature. It goes without saying that they should in no way act against the general principles of structural policies aimed at promoting structural change where this is considered necessary.

This also applies to the connection between labour market and regional policies. The most comprehensive programme in this area was presented in Italy in the autumn of 1976. It provides for additional public expenditure for the creation of 420,000 jobs primarily for young people and for the Mezzogiorno region.

More strongly oriented towards unemployment than the general counter-cyclical or structural policies are measures specifically aimed at job creation. Numerous countries have raised the level of work through a classical type of labour market policy: namely the creation of additional jobs in public services. This is usually the case of limited employment of people out of work to carry out public services and tasks. As these are not of a permanent nature this does not result in structural expansion of the public sector. Thus, for example, in June 1975 Belgium increased the number of temporary jobs provided by public authorities for people out of work from 8,000 to 20,000. They were mainly employed in provincial administrations and numerous municipalities for maintenance work, but employment was also found in museums and hospitals. In August 1976 the Danish Government agreed to an extension of the time limits of a programme designed to "wind up" certain public appointments. The Federal Republic of Germany also took measures in 1976 and 1977 aimed at creating work. This year the Dutch and French, too, changed over to direct job creation through public finance. In January the Dutch Government passed a programme which among other things aims at the employment of people out of work on the building of bicycle ways, car parks and sanitation facilities. In April the French decided within the framework of the so-called Barre Plan II to create 20,000 additional

jobs in the public sector. But up to now the most comprehensive job creation programme, through the provision of additional public sector jobs, has — besides Sweden — taken place in the USA in the framework of a \$ 9 bn expenditure programme. This programme was passed in July of this year.

### **Redistribution of Work**

An increase in the volume of work is, at least theoretically, not the only way of increasing the demand for labour. There has been a long and intensive discussion of the possibilities of redistributing the available volume of work. The starting point of such a concept is the idea that a reduction of working time of the individual members of the workforce, either through a shortening of the working week or through an increase in the annual holidays, will result in a demand for additional labour<sup>2</sup>. In practice, however, little use has been made of this suggestion. Solely in the case of Denmark does the possibility exist for employees of the railways to take within a five year period an extended holiday, thereby allowing an increase in the number of persons employed. During the period of this special holiday the railway employee receives unemployment benefit. In Austria a shortening of the working week by 5% originally planned in stages was effected already at the beginning of 1975. In autumn of last year the Dutch social minister announced a job sharing programme for young people. Under this programme every free job would be filled by two young people, each one receiving half the wage plus half the unemployment benefit so that the income is raised to 80%.

The distribution of the available work amongst a larger workforce has been recommended by a large number of economists and institutes. However, on account of a number of doubts, there are very few instances where this has been put into practice. Account must be taken of the fact that a reduction in working time can lead to a faster increase in productivity. Because of this alone the increase in the numbers employed resulting from the redistribution of work is likely to be substantially lower than anticipated on the basis of simple arithmetics. In so far as the productivity effect does not compensate for the shortening of work time and the corresponding overtime does not appear possible, organisational problems and possible incongruity between the qualifications required for the additional vacancies and actual qualifications of the unemployed, as well as prob-

<sup>2</sup> This recommendation, aimed at reducing the work time of each employee, is subsequently aimed at the supply side of the labour market. It can, however, be associated with the demand side by the use of the size of the labour force as a measure of market size. It aims, in fact, at an increase in the demand for labour while at the same time leaving the size of the labour force unchanged.

lems of a possible spacial disproportionality, are thrown up. Changes of this type would bring about at the very least an additional cost.

The costs, or more accurately defined, the wages bill, form the cardinal problem in evaluating an instrument aimed at redistributing work. Should it be with or without a wage adjustment? A positive employment effect could, if at all, only be expected if the reduction in the work time of every employee were to proceed without wage adjustment. By contrast a complete wage adjustment would correspond to a substantial increase in the real wage. However, this would be deemed by almost all non-Marxist economists as an especially important reason for the present troubles in the labour market; namely that too high real wage levels are becoming increasingly important at least in the short run. This makes more difficult the redistribution of income in favour of profit, which is considered necessary to stimulate the propensity to invest.

### **Lowering the Price of Labour**

It is not only the opinion of economists that the high price of the factor labour is one of the causes of the consistently low level of employment. Apparently also most governments are of this opinion. A large number of labour market policies are concentrated therefore in nearly all countries on a cheapening of the factor labour even though these measures take a large variety of forms. Such measures can be divided into three groups. The states can provide financial assistance towards wage costs, make employment premiums available, or take over themselves certain social obligations which were previously met by the employer. The sole difference between the first two forms of aid is the basis of calculation.

The type of wage subsidy which has been followed in recent years in all countries has been very limited in its applications. It applies mostly to young people and without exception has been limited to specific periods. The lowering of the price of the factor labour through assistance from the state is only justifiable if it is limited in time and directed at individual groups of employees — groups which, because of potential later consequences, must be protected from particularly grave effects of unemployment.

A comprehensive policy of subsidising wages would contain the danger of a substantial fiscal burden and possibly also an inflation promotional element rather than any real chance of providing a sustained improvement in the employment position. The experiences in Italy with a very extensive fiscalisation of social burdens supports this fear. Where too high minimum wages or wage

rates are seen to be important causes of the employment crisis the parties to the wage negotiations are called upon to reverse this process through a restrained wages policy. In order to suppress the upward movement of real wages and simultaneously reduce inflation numerous governments have more or less directly taken part in wage negotiations. These types of income policy measures are intended to lead to a relative lowering of the price of the factor labour.

### **Dangers of Labour Market Policy**

From the countless suggestions that have been made for a labour market policy so far only a part have been put into effect. Apparently there exists substantial scepticism about the efficiency of many of these measures. On the other hand, the vast majority of such instruments which have been introduced have not been aimed at the cause of the problem. Since the current underemployment is primarily attributable to the low utilisation of capacities this applies, with certain reservations, to the measures which are aimed at improving qualifications and promoting mobility, but above all to those which are aimed at limiting the supply of labour. These have only been resorted to in isolated cases as the hope has continued that a higher level of utilisation at about previous levels of employment is possible at least in the medium term. The same applies, although not so strongly, to the measures aimed at increasing the demand for labour.

In spite of the weaknesses inherent in all the measures which have been introduced outside a general counter-cyclical policy to improve levels of employment, labour market policy should without doubt be awarded priority if the alternative is solely tolerance of high levels of unemployment. Nevertheless it is burdened with a whole range of dangers. The problems inherent in an increase in bureaucracy and "instrumentalisation" shall only be hinted at here. One of the things to be avoided is an increased bureaucracy through a too fine division of the measures. It would in any case be in the interest of the "beneficiaries" if the instruments which were employed could be easily comprehended. The creation of public advisory bureaux in Sweden, because the different forms of support available there are only difficult to grasp, may serve as a negative example. Even more problematical would be an instrumentalisation in the sense of built-in effects which would alter the economic and social system. These are implied in various proposals. Closely connected with the last mentioned danger is a demand for maintenance of flexibility. In the medium and long term all labour market policy measures should be reversible.