

## Chapter 9. Protecting and supporting workers

*This chapter focuses on the role of policies and institutions for promoting an effective labour supply by ensuring that work is accessible, attractive and sustainable over the life-course. This first of all requires tackling barriers to employment through the use of a comprehensive activation strategy that combines measures to enhance motivation with measures to promote employability and foster job opportunities. However, it also requires measures to make work more attractive and sustainable by ensuring that work pays, workers are protected against the risk of unemployment and workers can enjoy a healthy work environment.*

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The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Note by Turkey:

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## Introduction

To promote quality jobs for all in a changing world of work, policies and institutions to promote productivity growth and job creation need to be combined with policies and institutions to support an effective supply of labour. Yet, many jobless and marginally attached individuals face various barriers to good quality employment, relating to their individual situation as well as the quality of the jobs available. Addressing these barriers is crucial to prevent that a sizeable share of the working-age population is effectively excluded from the labour market.

Promoting an effective labour supply requires a mix of policies that stimulate both job quantity and job quality. It includes policies that primarily relate to job quantity, i.e. employment and social policies that address employment barriers related to work motivation, worker employability and job opportunities. If designed well, such measures can also improve job quality through enhanced job matching, with potentially important implications for earnings and job stability. However, an effective labour supply also requires policies that ensure that work is attractive and sustainable over the life-cycle through improvements in job quality. This includes, amongst others, measures to ensure that work pays, to protect workers against the risk of joblessness and to support a healthy working environment.

The remainder of this chapter is structured as follows. Section 9.1 discusses the role of in-work and out-of-work benefits to make labour markets more secure by protecting workers against the risk of unemployment and in-work poverty, while preserving and promoting good work incentives. Section 9.2 presents the main elements of a comprehensive activation strategy based on a mutual-obligations framework that seeks to make work accessible for all by tackling employment barriers. Section 9.3 discusses how governments can support a quality work environment to ensure that work is attractive and sustainable over the life-course. The last section concludes.

### 9.1. Protecting workers against the risk of unemployment and in-work poverty

This section focuses on the role of out-of-work benefits for protecting workers against income losses in the case of joblessness and in-work benefits for protecting workers against the risk of in-work poverty. Apart from supporting the incomes of poor working families, in-work benefits also play an important role in alleviating the potentially negative impact of unemployment benefits on work incentives.

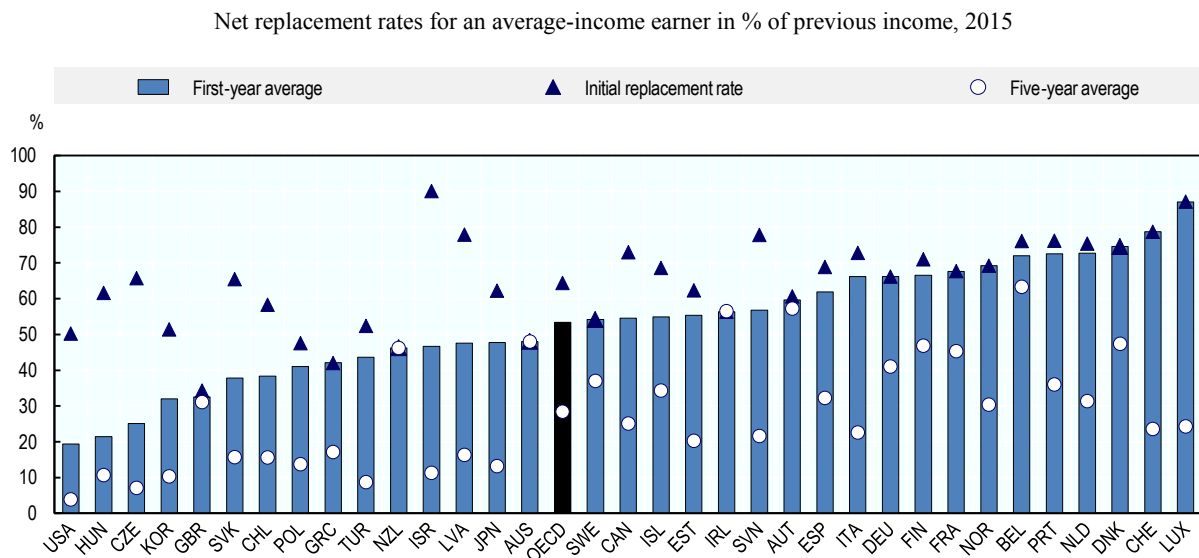
#### *Insuring workers against joblessness*

Public income support for the unemployed, either in the form of unemployment insurance or assistance programmes, serve two main policy objectives. First, these programmes protect individual workers against the risk of income loss during joblessness, smoothing consumption between unemployment and employment spells. This also acts as an automatic stabiliser at the aggregate level (see Chapter 13), while ensuring a fair distribution of income and containing poverty (see Chapter 10). Second, by alleviating liquidity constraints and allowing more time for workers to look for a suitable position, unemployment benefits can enhance the quality of job matches in terms of both earnings and job stability, with potentially important implications for aggregate efficiency.

There is considerable variation across countries in the design of unemployment benefit systems, and hence, the extent to which they support incomes during joblessness and

facilitate job search. Figure 9.1 summarises some of the key institutional details by means of net benefit replacement rates - which express the net income of a beneficiary as a percentage of net income in the previous job – for different unemployment durations. On average across countries, the replacement rate declines from 64% at the start of the unemployment spell to 53 % during the first year and just 28% on average during the first five years. In countries with universal unemployment benefit systems such as Australia, New Zealand and the United Kingdom, modest unemployment benefits are available to all non-employed persons subject to a means test. Most other countries operate mixed systems with unemployment insurance benefits for those who meet certain contribution requirements and means-tested social-assistance benefits for those who do not receive unemployment benefits. In those countries, the generosity of income support tends to decrease over the unemployment spell due to the role of declining benefit schedules or limits to the maximum duration of receiving unemployment insurance benefits.

**Figure 9.1. Unemployment benefit schemes protect workers against the income losses during joblessness**



*Note:* The net replacement rate is the ratio of net income out-of-work to net income while in-work. Unemployment benefits include unemployment insurance, unemployment assistance as well as family benefits. Social assistance and housing-related benefits are not included. Calculations consider cash income as well as income taxes and mandatory social security contributions paid by employees. They are averages over four different stylised family types (single parents and one-earner couples, with and without children) and two earnings levels on the lost job (67% and 100% of average full-time wages). OECD is the unweighted average of the countries shown.

*Source:* OECD Tax- Benefit Models, [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives).

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*Unemployment benefits smooth consumption and can also contribute to better post-unemployment outcomes if well designed*

Unemployment-insurance and assistance programmes are indeed effective in smoothing consumption between job spells. While unemployed persons who are not eligible to income support dramatically reduce their level of consumption, the drop is usually very limited among those who are eligible (Gruber, 1997<sup>[1]</sup>; Kroft and Notowidigdo, 2016<sup>[2]</sup>).

These positive effects on consumption tend to be larger among unemployment-benefit recipients, who have no assets and those whose spouse is not employed (Browning and Crossley, (2001<sub>[3]</sub>). Unemployment insurance can also play an important role in supporting aggregate demand during economic downturns. For example, evidence for the United States suggests that the effects of adverse economic shocks on aggregate consumption are larger in counties with less generous unemployment insurance (Di Maggio and Kermani, 2016<sub>[4]</sub>).

Evidence on the ability of income-support schemes to improve the quality of job matches is mixed. While unemployment-benefit recipients can take more time and be more demanding in terms of the job offers to accept, their employability tends to decline over the unemployment spell as a result of human capital depreciation and discrimination among recruiters against long-term unemployed (Schmieder and Von Wachter, 2016<sub>[5]</sub>). Recent studies detect no or only small positive impacts of the generosity of unemployment insurance on post-unemployment earnings.<sup>1</sup> The effects on post-unemployment earnings may depend on the characteristics of workers as, for instance, financially constrained workers benefit more from generous benefits than other recipients (Centeno, Centeno and Novo, 2009<sub>[6]</sub>) or the design of unemployment insurance systems.

Poorly designed unemployment benefits can contribute to job instability if they provide incentives for alternating between short-duration jobs and unemployment (Boeri, Cahuc and Zylberberg, 2015<sub>[7]</sub>). This is more likely to arise in the absence of waiting periods for receiving unemployment benefits, when minimum contribution requirements for eligibility are too short, and when rules are implicitly designed to cover seasonal variation in labour demand. Moreover, poorly designed partial unemployment insurance schemes may provide incentives for workers to become unemployed when partial benefits are withdrawn after some period of time and rights for full benefits are restored quickly e.g. Kyyrä (2010<sub>[8]</sub>), Fontaine and Malherbet (2016<sub>[9]</sub>), Le Barbanchon (2016<sub>[10]</sub>). Partial unemployment insurance associated with low eligibility requirements can also create incentives for firms to lay off workers or make excessive use of flexible contracts, increasing the cost of income-support schemes.

### *Generous unemployment benefits may discourage job-search efforts and increase joblessness*

More generous unemployment insurance may lengthen unemployment spells and the overall level of unemployment through its impact on job-search incentives and the acceptance rate of job offers (Chetty, 2008<sub>[11]</sub>). The usual argument is that unemployment insurance reduces incentives for job search by distorting the relative price of leisure and consumption. This is the “moral hazard effect” and reduces social welfare. However, it may also reduce job-search intensity by reducing the pressure on cash-strapped unemployed persons to find a job. This “liquidity effect” follows from the consumption-smoothing role of unemployment insurance and is intended.

In normal times, more generous unemployment benefits tend to reduce job-search intensity and increase the duration of unemployment spells, with varying intensity across countries and groups (Tatsiramos and van Ours, 2014<sub>[12]</sub>; Schmieder and Von Wachter, 2016<sub>[5]</sub>). Rigorous impact evaluations of reforms reveal that a 1% increase in the replacement ratio raises the duration of unemployment between 0.4% and 1.6%. Moreover, the elasticity of unemployment duration to benefit levels is greater than its elasticity to the maximum duration of entitlements: a one-month increase in the duration

of benefit entitlements leads on average to an increase in unemployment duration of a bit less than one week.

Job-seekers tend to search more intensively around the time unemployment-insurance rights expire. Empirical studies for Austria, France, Germany and the United States highlight a significant spike in the exit rate from unemployment to employment in the period immediately preceding the exhaustion of rights. In the case of France, this behaviour turned out to be stronger among medium to high skilled workers than among the low skilled who benefit from fewer job opportunities and have less leeway in deciding when to exit unemployment (Dormont, Fougère and Prieto, 2001<sub>[13]</sub>). The peak is even more pronounced when all types of transitions are taken into account, i.e. not only exits to employment but also the exits to training and inactivity (Card, Chetty and Weber, 2007<sub>[14]</sub>).<sup>2</sup>

The aggregate impact of unemployment insurance is likely to be smaller than that measured at the individual level due to spill-over effects. A reduction in the generosity of benefits increases competition for jobs among jobs-seekers and reduces the effectiveness of job search.<sup>3</sup> This in turn reduces the time it takes for firms to fill vacancies, leading to higher job creation and aggregate employment (Landais, 2015<sub>[15]</sub>; Landais, Michailat and Saez, 2018<sub>[16]</sub>). For instance, the extension of the maximum duration of unemployment benefits in Austria in the late 1980s increased the job-finding rate among non-eligible workers (Lalive, Landais and Zweimüller, 2015<sub>[17]</sub>). As a result, the elasticity of unemployment duration to the generosity of benefits at the aggregate level tends to be smaller than that at the individual level (Schmieder and Von Wachter, 2016<sub>[5]</sub>).

*The design of unemployment benefit systems needs to strike a careful balance between their costs and benefits*

Since income support is essential to smooth consumption over job spells but can also reduce job search effort if too generous, policy makers need to strike a balance. The optimal level of income support is primarily an empirical problem which requires rich country-specific micro-data sets that allow comparing the social welfare gains stemming from smoothed consumption and the behavioural costs due to reduced search efforts. This is an avenue for future research and the available evidence is still scattered at this stage – e.g. Schmieder and von Wachter (2016<sub>[5]</sub>). However, since the duration of unemployment tends to be more sensitive to the level of benefits than to its maximum duration, countries with very short benefit durations could improve welfare by extending them. Similarly countries featuring long unemployment duration and high replacement rates could benefit from lowering replacement rates.

There are a number of further design issues that can help to strengthen work incentives during the unemployment spell and limit overuse by workers and employers. First, it is possible to increase the responsibility of workers and employers for the use of unemployment benefits. The responsibility of workers can be increased by relying at least to some extent on mandatory self-insurance as is the case in some emerging economies (see Chapter 16).<sup>4</sup> The responsibility of employers can be increased through the experience-rating of employer social security contributions for unemployment insurance based on the recent dismissal behaviour of individual employers, as is done in the United States. This forces firms to internalise the social cost of their workforce policies.<sup>5</sup> Second, one can strengthen work incentives by reducing the participation tax associated with moving from benefits to work. This can be done explicitly through the use of in-work benefits as discussed in the next sub-section or by embedding income-support

schemes in an effective activation strategy based on the principle of mutual obligations which links benefit receipt to active job search and the right and duty to participate in training and other employment-support programmes (Section 9.2).

### *Making work pay*

The marginal effective tax rate of moving into work from unemployment benefits (participation tax) amount to 77% on average across OECD countries, but can be close to 100% in a few countries such as Austria, Luxembourg and Norway (Figure 9.2).<sup>6</sup> Participation taxes tend to be smaller in the case of means-tested social assistance benefits but remain sizeable, amounting to 66% on average across OECD countries.<sup>7</sup> The financial incentives to take up gainful opportunities at the bottom of the distribution can be enhanced through in-work benefits (IWB) or tax credits. In the case of second-earners, work incentives can be strengthened by relying on individual rather than family-based taxation.

### *Well-targeted, permanent in-work benefits can make work pay and support living standards of low-income families, provided incentives are properly understood*

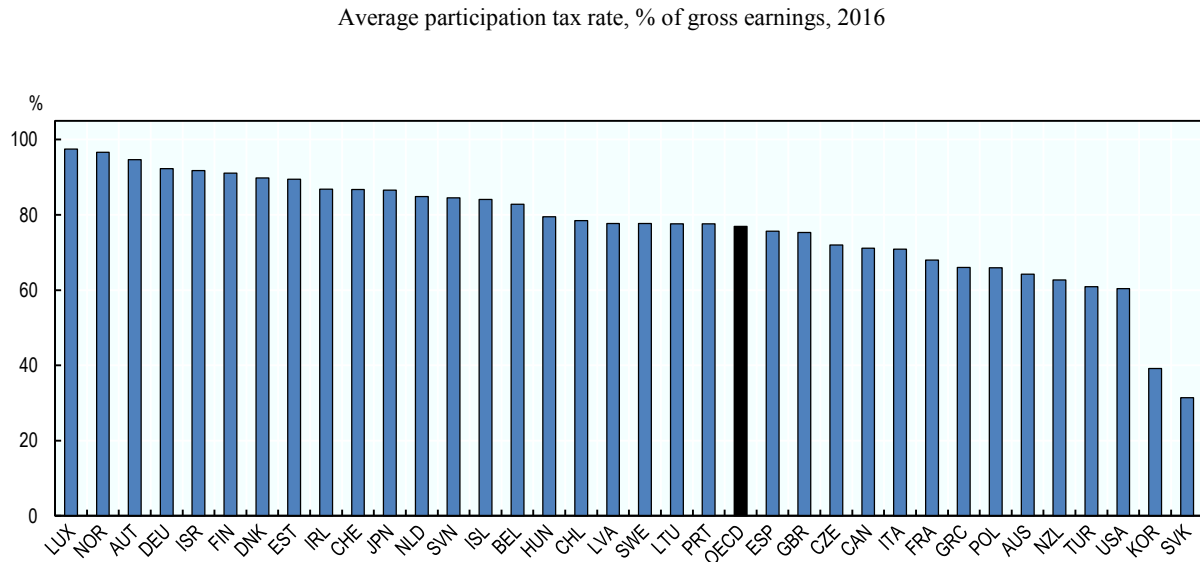
IWB schemes are designed to create a significant gap between the incomes of people in work as compared with the income that they would get if they were out of work, thereby making work pay, while supporting the incomes of the most vulnerable in or out of work. They pursue, therefore, the twin goal of, on the one hand, enhancing employment and the movement of workers up the earnings ladder and, on the other hand, ensuring a greater inclusiveness of the labour market. In order to avoid creating new disincentives higher up the earnings ladder, IWB must avoid threshold effects by maintaining a sufficiently large phase-out region over which benefits are withdrawn gradually.

The effectiveness of IWB depends on their targeting, the duration for which they are provided and the way they are operated. First, the effects of in-work benefits on work incentives are more pronounced when targeted at groups that are more sensitive to financial incentives such as lone parents (Immervoll and Scarpetta, 2012<sub>[18]</sub>).<sup>8</sup> Moreover, in-work benefits are more effective when they are provided permanently, i.e. as long as needed, rather than for a limited maximum duration. The evidence suggests that temporary in-work benefits have limited effects on poverty in the longer-term (van der Linden, 2016<sub>[19]</sub>). Finally, IWB systems tend to be more effective when they are operated in a simple and transparent way. If potential beneficiaries do not understand the IWB system, the desired labour-supply response tends to be smaller (Chetty, Friedman and Saez, 2013<sub>[20]</sub>). This is more likely when the interaction with other taxes and benefits is complex.

The effectiveness of in-work benefits further depends on the institutional settings of each country. If earnings distributions are compressed at the bottom, it is more difficult to accentuate work incentives in a meaningful way. IWB in these cases either would be very expensive, – because their phase-out region would include many workers resulting in a high fiscal burden – or largely ineffective, – because they would make little difference to recipients (Immervoll and Pearson, 2009<sub>[21]</sub>). Furthermore, their effectiveness in reducing in-work poverty can be enhanced by complementing them with binding wage floors in the form of statutory minimum wages, or negotiated wage floors set by collective bargaining (see Chapter 8). By providing a minimum level below which wages cannot fall, they help avoiding that employers capture most of the programme benefits through lower wages,

thereby achieving the intended redistribution to low-wage workers (OECD, 2009<sup>[22]</sup>; Nichols and Rothstein, 2015<sup>[23]</sup>).<sup>9</sup>

**Figure 9.2. Work incentives for unemployment-benefit recipients vary significantly across OECD countries**



*Note:* Marginal effective tax rate of taking up work at 67% of the average wage for recipients of unemployment benefits in one-earner couple with two children. This shows how much of the new gross earnings are 'taxed away' through the payment of taxes and the loss of benefits. Transitional 'into work' benefits are included where applicable, on an annualised basis. Supplements are included.

*Source:* OECD Tax-Benefit Database, <http://www.oecd.org/social/benefits-and-wages.htm>.

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### *Participation tax rates for second earners can be lowered by moving to individual taxation*

Participation tax rates may also be very high for second-earners as a result of family-based taxation. A few OECD countries operate family-based systems of labour income taxation – where the family rather than the individual is the unit of taxation –, on a either compulsory or optional basis (Thomas and O'Reilly, 2016<sup>[24]</sup>). Family-based tax systems often create important work disincentives for second earners, when marginal tax rates are progressive and/or tax credits means-tested. In this case, second earners are effectively taxed at higher marginal tax rates than a single individual would be, because the primary earner has already “used up” the lower tax brackets and any tax credit available to the family. Moving to individual-based systems usually improves the work incentives for second earners. This would also leave more space for targeting in-work benefits on low-income families (instead of individuals) without jeopardising work incentives (Immervoll and Pearson, 2009<sup>[21]</sup>).

## 9.2. Tackling all employment barriers simultaneously

This section discusses the need for, and key requirements of, a comprehensive activation strategy to tackle all employment barriers effectively. In order to be comprehensive, an activation strategy should combine measures to ensure that jobless people are motivated to search actively and accept suitable jobs, with measures that increase the employability of those that are least employable. Therefore, the activation strategy is consistent with a mutual-obligations framework that makes income support and effective re-employment services conditional on beneficiaries taking active steps to find work or improve their employability. The cost-effectiveness of employment services can be improved through sound performance management and the use of digital technologies.

### *A comprehensive activation strategy is needed*

Jobless and marginally attached individuals face various barriers to quality employment. These barriers may include lack of adequate education, skills and/or work-experience, health problems (see Box 9.1), care responsibilities, lack of transportation, lack of suitable information on job vacancies and how to qualify for them as well as lack of access to new job search tools and technology, discrimination, or other social problems, and insufficient financial incentives due to the impact of labour income on taxes and benefits (CEA, 2016<sup>[25]</sup>; Fernandez et al., 2016<sup>[26]</sup>; OECD, 2015<sup>[27]</sup>).

Importantly, recent research – e.g. Sundaram et al. (2014<sup>[28]</sup>); Fernandez et al. (2016<sup>[26]</sup>) – shows that only a small fraction of those persistently unemployed face high benefit-induced participation tax rates – i.e. the net marginal tax on labour income associated with the transition from joblessness to employment, taking into account all taxes and transfers – and that, in general, other barriers play an equally or more important role.<sup>10</sup> This suggests that a comprehensive activation strategy, going beyond the strengthening of work incentives, is needed to promote successful transitions into stable jobs and overall employment levels more generally.<sup>11</sup>

Re-employment services and active policies provide help to the unemployed (and other inactive groups) with finding work and seek to improve the quality of job matches. Countries spend on average 0.5% of gross domestic product (GDP) on active policies, with a large cross-country variation ranging from 2.1% in Denmark to 0.1% in the United States and even less in Mexico (Figure 9.3). Typical services include the provision of labour market information, job search assistance (e.g. guidance for finding jobs, help drafting a resume), direct placement or active job brokering (e.g. collecting job vacancies, making job referrals), training and rehabilitation services, subsidised employment opportunities, and in certain cases, direct job-creation measures.

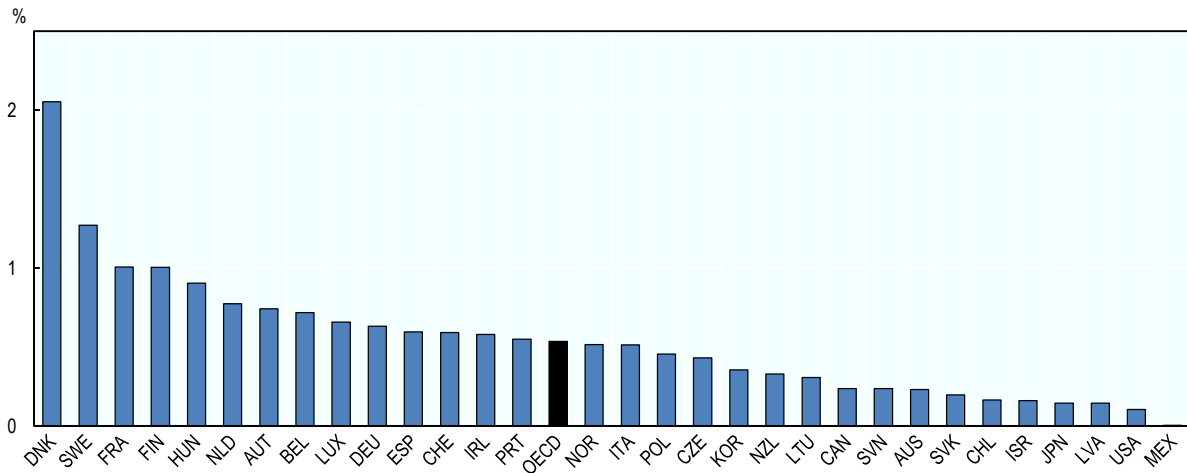
An effective activation strategy requires combining measures to ensure that jobseekers have the *motivation* to search actively and accept suitable jobs with actions to expand job *opportunities* – for example, by addressing demand-side barriers through actively engaging and assisting employers in hiring and retaining workers and addressing high non-wage labour costs, as well as reaching out to employers to utilise new recruitment tools – and interventions to increase the *employability* of those who are less employable – for example, by offering intensive case-management and placement services, participation in training and subsidised employment programmes, as well as lifting supply-side barriers to participation related to for example transportation, childcare, or social problems.



A holistic approach is needed to address all employment barriers through coordinated actions concerning the provision of employment services and the administration of active programmes as well as the design of tax and benefits policies (OECD, 2015<sup>[27]</sup>). For example, even in the presence of aggressive job brokering strategies by the public employment service (PES), workers may not succeed in gaining or maintaining jobs in the absence of access to suitable transportation or if they lack the necessary competences. Similarly, workers who enrol in training and re-employment programmes may lack the motivation for making the most out of them.

**Figure 9.3. Public spending on active labour market policies**

Total spending on active measures<sup>a</sup> as a percentage of GDP in OECD countries, 2015<sup>b</sup>



*Note:* OECD is the unweighted average of the countries shown. Countries are ranked by decreasing order of public expenditure in active measures.

*a)* Data cover administration, training, employment incentives, sheltered and supported employment and rehabilitation, direct job creation, start-up incentives.

*b)* Data refer to active measures and to 2014 for Estonia, to 2011/12 for the United Kingdom, to FY 2014/15 for New Zealand and to FY 2015/16 for Australia, Canada, Japan and the United States.

*Source:* OECD/Eurostat Labour Market Programme Database, <http://dx.doi.org/10.1787/data-00312-en>.

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### Box 9.1. Fostering effective return-to-work policies for people with health problems

Preventing long-term sickness absence and disability-benefit claims is a major challenge in many OECD countries, calling for specific return-to-work measures for people with health problems. Data for a number of OECD countries demonstrate that after a period of around three months, return to work becomes very difficult for people off-work for health reasons (OECD, 2013<sup>[29]</sup>; OECD, 2013<sup>[30]</sup>). Effective policies to control sickness and disability caseloads typically focus on the start of a sickness spell, with special attention for people with stress and mental health-related problems. Promising return-to-work policies include:

- *Moving towards more informative, capacity-oriented sickness certificates from doctors.* For example, the United Kingdom has shifted from providing “sick notes” to preparing “fit notes” which focus on the work a patient can still do and

describe in some detail what tasks he or she can reasonably perform and what workplace adjustments may be necessary (OECD, 2014<sub>[31]</sub>). Some countries, including Sweden, also developed better sickness absence guidelines for doctors, with for example information about the typical duration for sickness for a particular illness to prevent the certification of unreasonably long absences (OECD, 2013<sub>[30]</sub>).

- *Promoting a gradual return-to-work instead of allowing workers to stay away sick until they are fully recovered.* Norway recently made partial sick leave the default option for certifying physicians, compelling them to justify why they may have prescribed full sick leave. At the same time, it introduced tools to support physicians through online feedback about their certification behaviour (OECD, 2013<sub>[32]</sub>). More recently, Finland and Austria have also started to promote a partial return to work for sick workers to rebuild their full work capacity (OECD, 2015<sub>[33]</sub>).
- *Compelling employers to address an employee's health-related work problems at an early stage.* Employers in Denmark, Norway, Sweden and the Netherlands, for example, are obliged to develop a return-to-work plan after around eight weeks of absence, jointly with the employee, and facilitate an early return to work through the introduction of concrete adjustments in the workplace.
- *Developing early-intervention services to provide counselling and treatment referrals to sick-listed workers,* thereby bridging a gap in the existing institutional structure. In 2013, Austria introduced fit2work, a counselling service to support employees with mental health problems (typically after 40 days of absence) as well as their employers (OECD, 2015<sub>[34]</sub>). The United Kingdom has trialled a similar programme, Fit for Work, providing occupational assessments for employees (typically after 4-12 weeks of absence) also with a particular focus on mental health issues (OECD, 2014<sub>[31]</sub>).

### ***Address all employment barriers related to motivation, employability and opportunities***

#### ***Universal and moderately-generous benefits increase the scope and effectiveness of a mutual-obligations approach to activation***

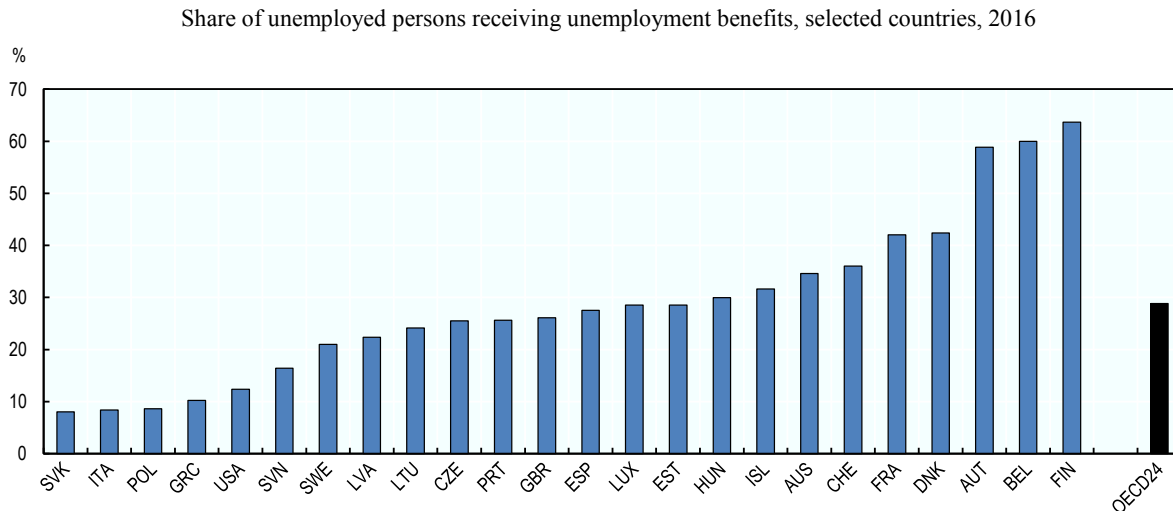
Unemployment and social-assistance benefits provide the principal instrument for linking jobless people to employment services and active labour market programmes. By contrast, those not receiving income support can find accessing employment services significantly more difficult: they may be excluded by design or lack the information or motivation to register with the public employment services (Immervoll, 2012<sub>[35]</sub>; OECD, 2015<sub>[27]</sub>). Indeed, the “mutual-obligations” framework – in which governments commit to providing jobseekers with benefits and effective employment services and, in turn, beneficiaries have to take active steps to find work or improve their employability by participating in employment services – is based on the premise that workers receive benefits. Where monitoring and enforced sanction systems are in place, its effectiveness tends to increase with the generosity of benefits by raising the cost of sanctions and strengthening financial incentives for taking up gainful employment. Consequently, the accessibility and adequacy of benefits plays a crucial role in determining the scope and

effectiveness of a mutual-obligations approach that is supported with the threat of benefit sanctions.

Despite the importance of high benefit coverage for providing effective re-employment support to the most vulnerable, only a minority of unemployed workers receive unemployment benefits in most OECD countries (Figure 9.4), often because of stringent eligibility criteria for initial benefit entitlements or short maximum durations, curtailing continued benefit reciprocity. In most countries, jobseekers who do not receive unemployment benefits have access to means-tested social benefits – see OECD (2018<sub>[36]</sub>). However, in this case, “mutual obligations” are often less strictly enforced. To the extent that employment services find it difficult to reach out to potential clients that receive social-assistance benefits or no benefits at all, unemployment insurance should be designed so as to maximise coverage, while maintaining work incentives.

However, improving coverage is challenging to the extent that unemployment-benefit entitlements are still largely based on the notion of a unique employment relationship at any point in time. Many countries are struggling to provide adequate coverage for workers on non-standard work contracts such as self-employed, multi-employer employees and various forms of crowd workers, who only work occasionally and/or combine multiple income sources, with no statutory working hours. These issues are developed in Chapter 12.

**Figure 9.4. Only a minority of unemployed workers receive unemployment benefits**



*Note:* Some European countries are excluded due to missing information in EU-LFS data. OECD-24 corresponds to the unweighted average of the countries shown. 2015 figures for Australia. Unemployed workers are identified according to the definition of the International Labour Organization.

*Source:* OECD (2018<sub>[36]</sub>), *OECD Employment Outlook 2018*, [https://doi.org/10.1787/empl\\_outlook-2018-en](https://doi.org/10.1787/empl_outlook-2018-en), based on: Household, Income and Labour Dynamics in Australia (HILDA) for Australia; European Union Labour Force Survey (EU-LFS) for European countries; and Current Population Survey (CPS) for the United States.

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*Strictly-enforced eligibility criteria for benefits can motivate jobseekers to look for jobs, but require a balanced articulation of warnings and sanctions*

An effective activation strategy must define strict eligibility criteria, involving the suitability of job offers, requirements to report on the outcomes of independent job-search efforts, the obligation to participate in active programmes and the determination of benefit sanctions for non-compliance with these rules. If suitably designed, these rules help ensure that new benefit recipients, who are relatively employable, return to work quickly, while maintaining the motivation of benefit recipients who require longer-term measures, such as training, to restore their employability. Frequent interviews with caseworkers and effort verification based on documented actions are usually found to yield positive employment outcomes. However, excessive monitoring based on bureaucratic procedures may be counterproductive, while inducing a shift from informal to formal job-search methods, particularly for the most-qualified (van den Berg and van der Klaauw, 2006<sup>[37]</sup>; OECD, 2015<sup>[27]</sup>). Flexible individual action plans developed by caseworkers can be better tailored on the characteristics of the client.

Benefit provision and employment services work best if they are either integrated into a single service provider (one-shop agency) or strictly coordinated. The UK experience suggests that merging the public employment service and benefit agency has improved employment outcomes and services for clients and has been cost-effective (OECD, 2014<sup>[31]</sup>). Experience from other countries, such as Australia, Finland, Ireland and Switzerland, suggests partnership approaches between organisations and agencies (including those in the private and not-for-profit sector) can improve the co-ordination of service delivery, especially for disadvantaged client groups or in high-unemployment areas (OECD, 2013<sup>[38]</sup>). The problem of coordination typically arises where employment services are decentralised, while the administration of benefits takes place at the national level. To enhance coordination, information must be shared across institutions and an incentive structure must be designed to ensure that local offices have the right incentives to monitor eligibility conditions and impart warnings and sanctions, e.g. OECD (2014<sup>[39]</sup>); Duell et al. (2010<sup>[40]</sup>); Duell, Singh and Tergeist (2009<sup>[41]</sup>).

Enforced sanctions for non-compliance are an integral part of sound eligibility criteria. However, sanctions should be used with moderation as there is evidence that their positive impact on exit rates may come at the expense of lower quality of post-unemployment outcomes, with higher risk of subsequent re-entry into unemployment or overall exit to inactivity (Arni, Lalive and Van Ours, 2013<sup>[42]</sup>; van den Berg and Vikström, 2014<sup>[43]</sup>; Card, Kluve and Weber, 2015<sup>[44]</sup>; Busk, 2016<sup>[45]</sup>). Often the simple threat of being referred to more intensive but constraining programmes results in increased search effort and job finding (Graversen and van Ours, 2008<sup>[46]</sup>; Røed, 2012<sup>[47]</sup>; Bredgaard, 2015<sup>[48]</sup>), and so do early warnings of benefit sanctions (Arni, Lalive and Van Ours, 2013<sup>[42]</sup>; Lachowska, Meral and Woodbury, 2016<sup>[49]</sup>). In the case of assistance-benefit recipients, safeguards must be included in the system to prevent that excessive sanctions result in severe loss of child welfare or increases in poverty among vulnerable groups (Griggs and Evans, 2010<sup>[50]</sup>). In practice, the graduation of warnings and sanctions is likely to require some discretion from decision-makers. Overall, the overarching principle should be to intensify and maintain engagement rather than cutting links with the jobseeker altogether.

*Effective job-search assistance and other active programmes require intensive counselling, personalised services as well as skilful case management*

Early and frequent counselling interviews have been identified as an efficient way of assisting jobseekers (OECD, 2015<sub>[27]</sub>). However, individualisation of content is key: highly-tailored counselling and employment services (e.g. in-depth review of skills and experience, development of individual search plans, direct referral to vacancies matching the jobseeker's competences) tend to be associated with improved employment prospects and post-unemployment outcomes. By contrast, low-intensity counselling interventions do not seem to have substantial impact on labour market outcomes – e.g. van den Berg and van der Klaauw (2006<sub>[37]</sub>).

More personalised services and better case management require sufficiently low client-staff ratios. Recent small-scale experiments in Germany suggest that the hiring of additional, suitably qualified, caseworkers can substantially improve the performance of local public employment services thanks to increased monitoring and enhanced job-brokering. Such investments may even pay for themselves, as the increase in staff expenses may be more than offset by the reduction in benefit dependency (Hainmueller et al., 2016<sub>[51]</sub>). Similarity in social background between caseworker and jobseeker can contribute to successful performance, possibly as a result of enhanced communication, motivation, and trust (Behncke, Frölich and Lechner, 2010<sub>[52]</sub>), provided that this does not lead to softer attitudes by the caseworker (OECD, 2015<sub>[27]</sub>).<sup>12</sup> Lower caseloads also allow for a better diversification of competences within the public employment service and, hence, more effective and tailored responses to the specific needs of clients.

*Profiling tools are an effective way to target costly interventions*

Profiling tools have been used by many countries, sometimes very early in the jobless spell, as a way to efficiently allocate jobseekers to less or more intensive service streams in a context of limited resources. Effective profiling tools typically involve an initial questionnaire or interview, the use of a regularly-evaluated statistical matching model and adjustments based on feedback from clients and service providers. The need for formal categorisation of clients is greater where resources constraints are stronger (OECD, 2015<sub>[27]</sub>) and clients are very heterogeneous in their needs for support (Lechner and Smith, 2007<sub>[53]</sub>). Profiling tools may be particularly useful in the assignment of jobseekers to more intensive and expensive programmes, such as training.

Training and rehabilitation programmes have been shown to produce better and more stable effects on long-term individual performance than strategies based only on job-search assistance and sanctions – e.g. Card, Kluve and Weber (2015<sub>[44]</sub>). Yet, lock-in effects due to missed job opportunities during training may reduce effective labour supply in the short-run (Kluve, 2010<sub>[54]</sub>). This underlines the importance of “mixed strategies” characterised by selective referrals to training for those in most need (i.e. for whom lock-in effects are less important and potential gains greater), with job-search assistance remaining the key tool for other jobseekers. Such strategies crucially require adequate profiling tools and skilful case-management.

*Effective out-placement services require reaching out to employers*

Expanding available and accessible job opportunities requires that public employment services act as competent job brokers with the trust of employers. Actively developing contacts with employers is a major factor in reducing unemployment duration (Hainmueller et al., 2016<sub>[51]</sub>). Instead of only passively registering vacancies, PES staff

may actively solicit employers for new job offers or even apply reverse-marketing techniques when this makes particular sense (OECD, 2012<sub>[55]</sub>). PES placement can also be enhanced by proposing career development and training services to small and medium enterprises that often do not have the capacity to provide these in-house (OECD, 2014<sub>[56]</sub>).

More generally, monitoring labour demand with respect to the skill requirements of job vacancies is essential for the PES to ensure efficient matching of jobseekers to prospective employers. In this respect, it is crucial that countries develop effective systems and tools for assessing and anticipating skills needs (OECD, 2017<sub>[57]</sub>) and that these are used to inform PES actions.

*The provision of subsidised employment opportunities could be part of a comprehensive activation strategy if done cautiously*

Direct job creation and employment/hiring incentives represent additional instruments that can be used to promote opportunities within a comprehensive activation policy. Compulsory referrals of the long-term unemployed to direct job creation measures are often costly but are easily implementable, tend to increase job finding in the months ahead of programme participation thanks to a threat effect and can promote the integration of disadvantaged groups, at least in the short-term. The scheduling of job-creation measures several months ahead, combined with intensive counselling and training measures to promote market work helps to maximise the threat effect and minimise programme costs. This provides some support in favour of the use of job-creation measures as one element of a comprehensive activation strategy. However, they must be used with great caution because their effects in fostering self-sufficiency in the long-term are uncertain (OECD, 2015<sub>[27]</sub>; Card, Kluve and Weber, 2015<sub>[44]</sub>).

By contrast, hiring subsidies, that is, wage subsidies or tax rebates granted for a limited period of time, can be cost-effective in the case of temporary lack of demand (Cahuc, Carcillo and Le Barbanchon, forthcoming<sub>[58]</sub>) or to provide relevant work experience to specific groups (Brown, 2015<sub>[59]</sub>). To minimise deadweight costs, they should be conditioned on net job creation, while taking account of the administrative costs of monitoring eligibility requirements on take-up. Targeting hiring subsidies on the most disadvantaged (e.g. the long-term unemployed) can further help to reduce deadweight costs, while contributing to a more inclusive labour market through a more equal sharing of employment opportunities, albeit at the cost of potentially greater displacement and substitution effects. Targeted discretionary recruitment incentives can be an effective tool for caseworkers to promote trial hires of jobseekers with significant employability barriers, in particular if efforts are made to ensure that they provide valuable work experience and at least some prospect of being retained in their job beyond the subsidy period (OECD, 2015<sub>[27]</sub>).

*Enhancing the cost-effectiveness of employment services through sound performance management and the use of digital technologies*

The cost-effectiveness of employment services, whether provided publicly or privately, can be improved through sound performance management. This requires measuring and evaluating performance in terms of job placements and, especially for harder-to-help groups, longer-term employment outcomes. A few countries rate local employment office performance in terms of outcomes with adjustments for jobseeker and local labour market characteristics, based on rigorous and tested statistical methods. When well developed,

this approach encourages the robust measurement of outcomes, helps identifying further factors influencing performance and generates relatively accurate and objective ratings of local office performance (OECD, 2013<sub>[38]</sub>).

Several OECD countries have experimented with the outsourcing of employment services to private providers. Contracting out job-placement and training services appears an attractive option to the extent that it opens up the market for these services to competition, which might decrease costs as compared to public delivery and stimulate innovative ways of responding to client needs. Experiences with outsourcing of employment services in Australia and the United Kingdom, the countries which have gone furthest in this regard, are very informative (OECD, 2012<sub>[55]</sub>; OECD, 2014<sub>[56]</sub>).<sup>13</sup> One challenge is that contracting out requires the capacity to design an appropriate incentive contract for private providers and to effectively monitor service delivery. This requires building up a number of skills that are not necessarily within the core competences of the PES. In the absence of appropriate incentive contracts, private service providers may have incentives to engage in “cream-skimming”, i.e. focussing on easy-to-place individuals, or “parking”, i.e. paying less attention to hard-to-place jobseekers (Finn, 2011<sub>[60]</sub>).

To implement an effective activation strategy with the involvement of private service providers, a number of conditions must be met (OECD, 2015<sub>[27]</sub>). First, the size of the market for private services must be large enough. This allows for effective competition between local providers and facilitates benchmarking provider performance. Second, relative provider performance must be outcome-based and measured accurately with a fee structure that varies by client group, depending on their distance to the labour market. This requires effective profiling tools to support client categorisation and ensure that also the hard-to-employ receive adequate services. Third, inefficient providers should have their contracts terminated to avoid poor performance affecting service quality to clients (OECD, 2015<sub>[27]</sub>). Finally, contracts should be prescriptive with a detailed specification of service requirements, without undermining competition. However, striking the balance between prescription and competition can be challenging in practice.<sup>14</sup>

Programme evaluation is a crucial component of sound performance management. To make rigorous evaluation possible, the initial design of policy measures should be adapted, where feasible through the use of randomisation. Evaluations can cover various aspects of the implementation of new policies and programmes and give insights into what effects the policies and programmes had, for whom and why. More generally, evaluations allow for a continuous improvement of policies and programmes, but unsuccessful ones need to be adjusted or terminated. It is also advisable to test new programmes locally, possibly on the basis of random trials, and implement them on a larger scale only after rigorous evaluation. Care must be taken in comparing different types of programmes since certain measures are conceived to pay off over a longer time horizon than others, e.g. training and requalification against work-first strategies (Card, Kluge and Weber, 2015<sub>[44]</sub>).

Digital technologies are transforming the way the PES operates while making it easier to exploit information about vacancies and jobseekers. By automating a number of tasks such as benefit applications and vacancy registration, digitalisation allows the PES to concentrate resources on activities requiring personal interactions (e.g. counselling, certain types of training). However, safeguards must be introduced in digitalised systems to avoid creating a digital divide handicapping more disadvantaged jobseekers, in particular displaced older workers that lack basic IT skills (OECD, 2017<sub>[61]</sub>).

### 9.3. Supporting workers by securing healthy work environments

Protecting and supporting workers goes beyond the provision of adequate benefits and effective employment services in case of job loss. Equally important are policies that prevent unemployment and non-employment in the first place by making work more attractive and sustainable over the life course (European Foundation for the Improvement of Living and Working Conditions, 2015<sub>[62]</sub>).<sup>15</sup> One key element of the prevention of joblessness is adult learning policies that help ensure workers remain employable throughout the lifecycle (see Chapters 10 and 14). Another critical element is the quality of the work environment which makes it not only attractive for people to become or stay employed, but also makes work more sustainable by preventing the risk that work impairs one's health and people are forced to leave the labour force prematurely.

#### *The quality of the work environment is key for the sustainability of work*

According to the *OECD Job Quality Framework*, the quality of the work environment is one of the three key dimensions through which work affects well-being (OECD, 2014<sub>[63]</sub>; Cazes, Hijzen and Saint-Martin, 2015<sub>[64]</sub>). A poor work environment – characterised by intensive job demands with insufficient job resources (e.g. feedback and support) – reduces worker well-being, weakens worker engagement and productivity<sup>16</sup> and increases the risk of physical and mental health problems (Saint-Martin, Inanc and Prinz, 2018<sub>[65]</sub>). A poor quality working environment can not only cause burnout, but also increase the risk of coronary heart disease, musculoskeletal disorders and common mental disorders (Harvey et al., 2018<sub>[66]</sub>; Kivimäki et al., 2012<sub>[67]</sub>; Hauke et al., 2011<sub>[68]</sub>).

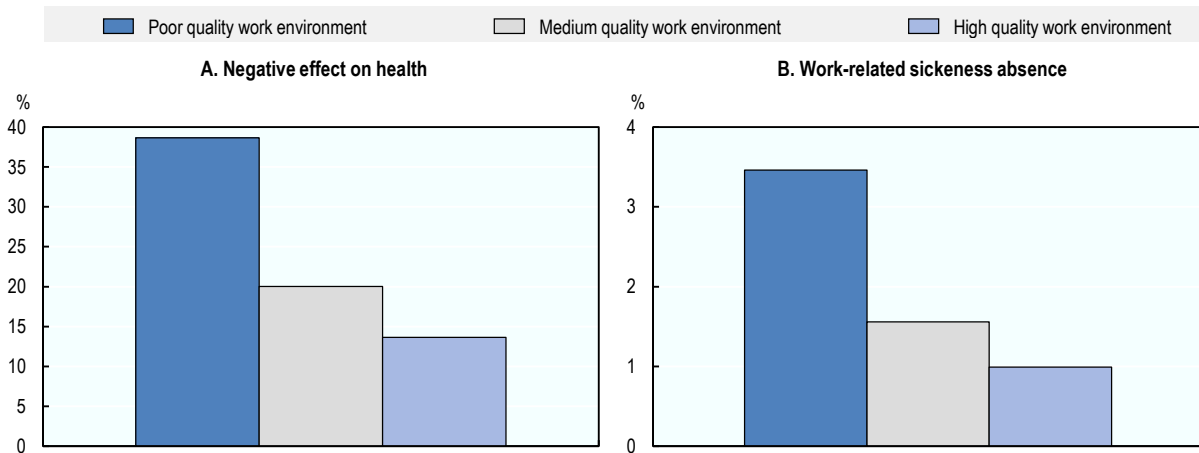
Data from the European Working Conditions Survey for 2015 show a strong correlation between the quality of the work environment and self-reported health and well-being outcomes (Figure 9.5). For instance, almost 40% of workers facing a poor work environment say that work affects their health negatively compared to less than 15% of those with good working conditions. Similarly, work-related sickness absence is more than three times as frequent for workers reporting a poor work environment as for those reporting a good one. Job satisfaction and work engagement is also significantly higher for those in jobs with high quality work environments.

Work-related health problems can lead to prolonged periods of not working and often, particularly among older workers, result in permanent withdrawal from the labour market. Moreover, as emphasised by Arends, Prinz and Abma (2017<sub>[69]</sub>), a good quality work environment is not only key for preventing work-related health problems with long-term consequences for workers' careers, but also for allowing people with health problems to return to work more quickly after an illness and to remain economically active for longer. Therefore, the quality of the work environment is key for sustaining an effective labour supply over the life course.



**Figure 9.5. The quality of the work environment affects health and well-being**

Share of workers in Europe reporting that the work environment affects their health, 2015



*Note:* In a poor quality work environment, there are more job demands than job resources; in a high quality work environment, there are more job resources than job demands; and in a medium quality work environment job demands equal job resources.

*Source:* OECD calculations based on the 6<sup>th</sup> European Working Conditions Survey (2015).

StatLink  <http://dx.doi.org/10.1787/888933881382>

Despite its importance, the quality of the work environment has received little attention in national and international policy debates to promote long-term labour market performance. Two recent OECD initiatives have sought to address this issue. The first is the OECD Framework for the Measurement and Assessment of Job Quality (OECD, 2014<sub>[63]</sub>; Cazes, Hijzen and Saint-Martin, 2015<sub>[64]</sub>) which defines the quality of the work environment as one of the three main dimensions through which job quality affects well-being and contributes to the mainstreaming of quality-of-the-work-environment issues in the broader policy debate on labour market performance. The second is the 2016 *Recommendation of the Council on Integrated Mental Health, Skills and Work Policy* which seeks to promote better policies to improve the work environment, to safeguard labour productivity and job retention, and enhance the inclusion of people with mental health problems in the labour market (OECD, 2015<sub>[33]</sub>).<sup>17</sup>

### *Legislative measures, financial incentives and management practices*

Effective policies to promote the quality of the work environment require a mix of legislative measures, financial incentives and actions to promote good workplace practices.

#### *Promote and enforce legislation for psychosocial risk assessment and prevention*

Over the past decade, a number of OECD countries have put in place more effective legislative frameworks for the prevention of psychosocial risks. Such legislation requires employers to routinely assess, prevent and control psychosocial risks at work, in addition to any physical workplace hazards, such as noise or dust, which have long been the only focus of health and safety regulations and labour inspection authorities. In some

countries, legislation merely provides guidelines for employers, while others compel employers to engage occupational health specialists.

Denmark and Belgium provide two interesting, far-reaching examples. The *Working Environment Act* in Denmark includes 24 sector- and job-specific guidance tools that describe in concrete terms both the risks of stress and psycho-social health problems in the workplace and the instruments that companies can use to address them. Inspectors from the *Working Environment Authority* have been trained to support employers in their obligations. Preliminary results suggest that employers appreciate the guidance tools (Senior Labour Inspectors Committee, 2008<sup>[70]</sup>; OECD, 2013<sup>[71]</sup>). In Belgium, the *Well-Being at Work Act* requires employers to draw up five-year prevention plans to address the problems identified by psycho-social risk assessments; establish more specific annual action plans; and appoint a psycho-social prevention advisor to assist companies in implementing their risk prevention policy. Evaluations have shown that implementation of these obligations has so far been weak, reflecting a lack of awareness by employers and limited resources for prevention advisors (Service public fédéral Emploi, Travail et Concertation sociale, 2011<sup>[72]</sup>; OECD, 2013<sup>[29]</sup>).

Legislative requirements in relation to the prevention of psycho-social risks have boosted the development of professional support and tools available to employers and fostered greater public awareness of psycho-social workplace risks. But the use of psycho-social prevention tools by companies remains uneven, especially because the vast majority of small and medium-sized enterprises struggle to comply with the stricter regulations and because occupational health services, which support companies in the prevention of health risks, still tend to concentrate their attention mainly on physical rather than psycho-social risks.

New legislation to prevent work-related health problems will only be effective if properly implemented and enforced. Ways to improve the implementation and enforcement of legislation to prevent psycho-social risks include: i) specifying compulsory employer obligations in regard to psycho-social risk assessment and risk prevention; ii) providing targeted tools and support mechanisms that enable employers of all sizes to make adjustments to the work environment; iii) directing resources in the labour inspectorate and occupational health service to psycho-social issues; and iv) involving worker and employer organisations in the enforcement and sharing of good practices.

#### *Provide adequate financial incentives to employers to promote good working conditions*

The effective implementation of more comprehensive and stricter regulations can be enhanced by matching legal obligations with financial incentives. In most OECD countries, employers pay for workers' compensation insurance, which covers the costs of work-caused health problems, i.e. work accidents and occupational injuries. However, the general taxpayer rather than the employer bears the main responsibility for the costs of all other diseases or injuries, many of which are also work-related to a certain degree.<sup>18</sup> As a result, employers tend to invest less in the quality of the working environment than would be desirable from an economic point of view. Governments should ensure that firms face the right incentives to internalise the social cost of poor working conditions by increasing the responsibility of employers for the costs of work-related health problems, beyond work accidents and occupational diseases. In principle, this can be achieved by requiring employers to cover part of wage-costs during sickness for a certain period; by experience-rating employer social security contributions

for disability insurance against long-term illness; and, by making the cost of workers' compensation schemes for the employer dependent on the presence of health risks in the workplace.

In many OECD countries, employers are obliged, by law or through collective agreement, to cover sick-pay costs for a certain period. The length of this period and the share of the wage to be paid, however, differ drastically across countries. In the Netherlands, employers are legally obliged to cover 70% of wage costs during the first two years of sickness.<sup>19</sup> Moreover, employers face an obligation to facilitate and promote the return to work of sick employees, enforced with financial measures.<sup>20</sup> In the United Kingdom, employers have to cover a part of the wage costs during the first six months and have only limited re-employment obligations. Other countries including Austria (6-12 weeks), Germany (six weeks), Italy (up to 180 days), Luxembourg (13 weeks for white-collar workers), and Switzerland (up to six months, varying with tenure) also impose several months of continued wage payments in the case of sickness.<sup>21</sup>

While employer-provided sick pay is common across OECD countries, only a few countries operate longer-term disability insurance schemes with experience-rated employer contributions, where contributions are higher for employers whose employees were more likely to end up claiming disability in the past. In the Netherlands, public disability insurance is experience-rated by taking account of past benefit claimants with a partial earnings incapacity. Similarly, Finland operates a public disability insurance system with experience rating for large firms. Moreover, in countries where private disability insurance plays an important role such as Switzerland and Canada, experience-rating has also become more common (OECD, 2006<sub>[73]</sub>; OECD, 2010<sub>[74]</sub>).

While employer co-payments are the exception for disability benefits, employer premiums to workers' compensation schemes, which compensate the cost of work-caused health problems, are more frequently varied by actual risk. In most countries, the risk relates to an entire sector rather than an individual employer, according to the occurrence of work injuries and occupational diseases in the sector. In some OECD countries, however, there is no compensation-differentiation across sectors and employers. As a result, low-risk sectors effectively subsidise compensation payments in high-risk sectors and firms face no financial incentives to invest in the prevention of work-related health risks.

Rigorous scientific evidence on the impact of financial incentives for employers on the incidence of sickness and disability is scarce. However, there is some indication that countries imposing obligations for continued wage payments during sickness experience lower levels of sickness absence and that increasing that period has tended to reduce it (OECD, 2008<sub>[75]</sub>; OECD, 2010<sub>[76]</sub>). Moreover, experience-rated disability insurance in Finland and the Netherlands appears to have reduced disability benefit inflows (Koning, 2004<sub>[77]</sub>; Korkeamäki and Kyyrä, 2009<sub>[78]</sub>). Similar moderately positive findings are also available for risk-rated premiums for workers' compensation schemes (Tompa, Trevithick and McLeod, 2007<sub>[79]</sub>; Elsler et al., 2010<sub>[80]</sub>). While these results suggest that financial incentives for employers can contribute to the prevention of both work-related and work-caused health risks, they may also have potentially important side effects by providing incentives for discriminatory hiring practices against population groups facing higher health risks (e.g. older workers). Further research and policy experimentation is necessary to better understand how financial incentives can be designed to reduce sickness and disability claims, while minimising any unintended consequences related to the hiring and firing behaviour of firms.

### *Improve management's responses to workers' stress and mental health issues*

While risk assessment and prevention can ensure a healthier work environment, not all health risks can be avoided. Enabling management to deal with (mental) health problems when they arise is equally critical, not only for workers, but also for business, because of the massive impact such health problems can have on economic performance.<sup>22</sup> This is particularly important for small and medium-sized enterprises that tend to be unaware of the need for better information and support to deal with workplace stress, workplace conflicts and mental health complaints, which can weigh heavily on the work environment and significantly heighten the risk of recurrent sickness absences (Arends et al., 2014<sup>[81]</sup>; OECD, 2015<sup>[33]</sup>).

Ambitious policy changes have to be introduced to assist employers in dealing with mental health problems at work and improving the quality of the work environment more generally. Measures for improving managers' ability to respond to workers' mental health issues include providing stress prevention and mental health training for managers, worker representatives and workers; developing the health competence in human-resource departments to support managers and workers; and offering guidelines and toolkits that help line managers in dealing with workers' mental health problems.

Especially in English-speaking OECD countries, many big companies have put in place *Employee Assistance Programmes*, which offer short-term counselling to employees with personal problems that affect work performance, whether or not those problems originate in the workplace. These programmes often provide support for mental health, drug and alcohol issues; counselling for divorce and parenting problems; services targeting wellness and health promotion; and work-related supports such as career counselling. These services are often provided free of charge and have been shown to contribute to decreased absenteeism, greater employee retention and reduced medical costs through early identification and treatment (Hargrave et al., 2008<sup>[82]</sup>; Lam and Walker, 2012<sup>[83]</sup>).

## Conclusions

An effective labour supply requires policies that ensure that work is accessible, attractive and sustainable over the life-course. This calls for policies that ensure that work pays, protect workers against the risk of joblessness, and support a safe and healthy working environment. It also requires that quality work is accessible to all by effectively tackling all barriers to employment simultaneously through measures that promote work incentives, worker employability and job opportunities.

The chapter provides three key insights:

- Public income-support programmes for the unemployed alleviate concerns about job security among the employed and mitigate financial hardship among the jobless, with important consequences for worker well-being. The design of unemployment-benefit systems should strike a balance between the potential costs associated with reduced work incentives and the benefits in terms of greater consumption smoothing and enhanced job matching. The balance between costs and benefits can be enhanced by increasing the responsibility of employers and employees for the use of unemployment benefits, combining out-of-work benefits with well-designed in-work benefits, and embedding income-support policies in effective activation strategies based on a rigorous mutual-obligations framework.

- Tackling all barriers to employment requires a comprehensive activation strategy that combines measures to enhance motivation with measures to promote employability and foster job opportunities. Jobless persons typically face various barriers to employment at the same time and consequently activation strategies should go beyond strengthening work incentives to be effective. Unemployment and social-assistance benefits are crucial for the effective implementation of comprehensive activation strategies since they provide the principle instrument for linking jobless people to employment services and provide substance to the threat of benefit sanctions that underpins the mutual-obligations framework. This highlights the importance of high-coverage social protection systems for overcoming employment barriers.
- High-quality work environments are critical for the health and wellbeing of workers but also contribute to the sustainability of work up to an older age, thereby helping to deal with the challenges of population ageing. While employers are the first actors for providing good quality working conditions, governments also have an important role to play. Where appropriate, they should modernise legislative frameworks with respect to health and safety to go beyond the prevention of physical health hazards by requiring firms to take appropriate actions for the assessment and prevention of psycho-social risks. Legislative action could be supported with innovative financial incentives that increase the responsibility of employers for work-related health risks. However, further research is needed on their design, effectiveness and unintended side effects.

## Notes

<sup>1</sup> No or small positive effects are found in Card, Chetty and Weber (2007<sub>[14]</sub>) for Austria, van Ours and Vodopivec (2008<sub>[89]</sub>) for Slovenia, Caliendo, Tatsiramos and Uhlendorff (2013<sub>[95]</sub>) for Germany and Centeno, Centeno and Novo (2009<sub>[6]</sub>) for Portugal, while Schmieder, von Wachter and Bender (2016<sub>[90]</sub>) find negative effects for Germany.

<sup>2</sup> There is no exception for older workers: an extension of the duration of potential entitlements also increases the duration of unemployment, especially as the retirement age is approaching (Lalive, 2008<sub>[91]</sub>). However, some of the outflows observed at the time benefits expire could reflect exits from the labour market and not returns to employment.

<sup>3</sup> The number of unemployed persons may also increase because it induces inactive persons to look for work as employment is associated with better social protection.

<sup>4</sup> Self-insurance can take the form of individual unemployment saving accounts from which workers can make withdrawals to support their income and job-search. They are typically funded through mandatory contributions on wages and, in some circumstances, can benefit from public subsidies notably when savings are insufficient to cover minimum withdrawal amounts (e.g. Chile).

<sup>5</sup> However, to be effective, this system must rely on rules simple enough for employers to be able to predict the cost of their separation decisions, which can be a challenge in practice (Krueger and Meyer, 2002<sub>[88]</sub>).

<sup>6</sup> These figures refer to a one-earner couple with two children taking up work at 67% of the average wage. Supplements are included.

<sup>7</sup> These figures become even greater when additional expenditures incurred by the working household are taken into account, such as transport and childcare (OECD, 2018<sub>[36]</sub>).

<sup>8</sup> Yet, as these groups often incur additional costs upon raising their hours of work (e.g. childcare costs), systems providing an immediate payment are preferable with respect to those providing only an end-of-year tax rebate.

<sup>9</sup> The critical issue is, however, setting the minimum wage at an appropriate level, as overly high minimum wages tend to compress the earnings distribution at the bottom of the wage ladder, so that, as discussed above, IWBs are likely to become either very expensive or ineffective.

<sup>10</sup> For instance, in Italy, less than 10% of people with no or limited labour-market attachment would face significant benefit losses when taking up a job (Browne and Pacifico, 2016<sub>[94]</sub>).

<sup>11</sup> This chapter focusses on general activation of the labour force. Specific policy actions concerning group-specific barriers are discussed in Chapter 11.

<sup>12</sup> Yet, the effect of tougher caseworkers is concentrated on easier-to-employ clients, for which monitoring and sanctions are likely to be the most effective – see e.g. Huber, Lechner and Mellace (2017<sub>[84]</sub>); Lagerström (2011<sub>[85]</sub>).

<sup>13</sup> There are very few success stories and experiments typically took several years of fine-tuning (OECD, 2015<sub>[27]</sub>; Stephan, 2016<sub>[86]</sub>). In Australia, the outsourcing framework was introduced in 1998, but significantly revised in 2003, with further changes in 2009 and 2015 (OECD, 2012<sub>[55]</sub>).

<sup>14</sup> The Australian experience shows that excessively prescriptive contracts may induce providers to become bureaucratic, thereby promoting the use of standardised actions plans and undermining innovation, a key advantage of increased competition (Fowkes, 2011<sub>[87]</sub>). However, rigorous evaluations have shown that the lack of prescriptive contracts tends to end up in inefficient

programmes, casting doubts on the feasibility of effectively outsourcing employment services to private providers (Stephan, 2016<sub>[86]</sub>).

<sup>15</sup> Several chapters of this Volume address this question directly or indirectly, e.g. looking at labour demand, labour regulations or product market flexibility.

<sup>16</sup> The relationship between the quality of the work environment and productivity is discussed in more detail in Chapter 7 of this Volume as well as in (Arends, Prinz and Abma, 2017<sub>[69]</sub>).

<sup>17</sup> <https://legalinstruments.oecd.org/en/instruments/334>

<sup>18</sup> Worker compensation schemes only provide limited incentives for employers to prevent work-related health problems because: i) the costs of compensations tends to be partially socialised; ii) presenteeism, typically considered more costly to employers than absenteeism, is not addressed; and iii) mental health problems are poorly covered, because the link with work is difficult to establish.

<sup>19</sup> This can even increase to 100% depending on the applicable collective agreement and may extend to a third year if the employer has not fulfilled his/her reintegration obligations.

<sup>20</sup> Dutch employers have to make every reasonable effort to make it possible for the sick worker to return to the previous job, another job in the company or a job in another company. During this period, workers cannot be dismissed unless they fail to comply with their co-operation obligation and refuse to accept another position in the company.

<sup>21</sup> In some countries, employers can reinsure their sick-pay risk with a private insurer. The role of continued wage-payment obligations for the incentives of firms to invest in the quality of the work environment may depend on the ability of firms to re-insure and the extent to which fees for private insurance have an element of experience-rating. Far-ranging re-integration obligations are not easily insurable and, hence, can have potentially important financial consequences, further strengthening incentives for the prevention of work-related health risks.

<sup>22</sup> Businesses that invest in better work environments and high-performance work practices see improvements in the quality of products and services and equally in customer satisfaction and loyalty (Saint-Martin et al., 2018). Improved productivity outcomes also translate into stronger financial performance and higher rates of business survival. The impact on economic performance can be sizable, with convincing evidence for causality (Bryson, Forth and Stokes, 2017<sub>[92]</sub>; Sadun, Bloom and Reenen, 2017<sub>[93]</sub>).

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