Unemployment and non-employment: towards an integrated approach

Thematic Paper

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1. Introduction

The 70% employment target (integrated guideline 16) has become the key benchmark of the European Employment Strategy. The shifted focus from unemployment to employment can be explained by the fact that the unemployed are but one category within a wider range of non-employed groups that can – at least, partly - be re-integrated into work. According to the ILO definition, an unemployed person is someone who is (a) out of work, (b) actively looking for work, (c) willing to work and (d) immediately available for work. Many people in active age may fulfil one or more, but not all, of these conditions for various reasons such as sickness, disability, early retirement, household or care work, education etc. According to Eurostat and OECD figures, the overall rate of non-employment is about four times larger than the rate of unemployment (35% versus 8.5%); along the same lines, the share of GDP spent on work incapacity and social assistance alone was two and a half times the share of expenditure on unemployment (2.4 versus 0.9% - Carcillo & Grubb 2006:13). These figures justify increased attention for other branches of social protection and their interplay with labour market policy.

The 2005 issue of ‘Employment in Europe’ (EC 2005a) has devoted a specific chapter to the ‘inactive’ population in working age: i.e. those who are neither employed nor unemployed.¹ Roughly speaking, inactivity is concentrated among the same groups as unemployment: women, young people, older people, non-EU citizens, and the low-skilled. Yet, the reasons for inactivity may be very different between those groups: young people are often studying, women take up more care work or household tasks, the low-skilled may be discouraged job seekers or in work incapacity... Moreover, shares and patterns of inactivity differ widely across Member States.

For example, the inactivity rate is twice as high in Malta (42%) as in Denmark (20%). Whereas the Nordic countries are all in the top 5 of activity rates, the bottom group consists of Southern, Central and Western European countries. Whereas 36% of all inactive people are ill or disabled in Sweden, the corresponding share in Germany is barely 8%. Whereas 4 in every 10 inactive people have family responsibilities in Cyprus, this applies to no more than 1 in 20 in Slovenia. This suggests that cultural and institutional factors (including social protection) play an important role as determinants of inactivity.

¹ We will adopt the EC’s terminology although we think that the label ‘inactivity’ is misleading. It is used to denote a wide scope of states / activities outside the formal labour market, many of which (education, household work, voluntary work etc.) are definitely productive. Note also that ‘inactivity’ does not necessarily mean ‘dependency on benefits’, as many non-employed individuals do not draw any personal benefit.
And yet, there are also some common trends in inactivity rates. For the EU as a whole, the inactivity rate has decreased over the past twenty years – except in the beginning of the 1990s. There is a marked decrease among women, and a shift from older to younger age groups. Those trends mainly reflect the positive effects of recent policies: increased female labour market participation, a tendency for older workers to stay in work longer and increased participation in education among young people. Note however that the shifts remain rather modest overall.

The purpose of this seminar is to examine the role of modern social security regulations in promoting employment without giving in on decent social protection standards, according to section one of the employment guidelines (see Integrated Guidelines for Growth and Jobs 2005-2008, the key toolbox of the revised Lisbon Strategy – EC 2005c). These issues are to be tackled in a more comprehensive way, by considering different types of non-employment and their interactions.

2. General framework: transitional labour markets

The life course approach advocated in Guideline 17 can be theoretically framed in the TLM-model (Transitional Labour Markets) launched by Schmid (1998). The enhanced model, discussed in Schmid & Schömann (2004) and de Gier & van den Berg (2005) distinguishes between different states of employment and non-employment, and considers transitions between all these states, as reflected in figure 2.
The TLM approach has an obvious analytical relevance for our purpose. To begin with, Schmid and the TLM-team claim that the non-employment states (labelled ‘unemployment’ and ‘inactivity’ above) should not necessarily be regarded as unproductive. Unemployment, old age or work incapacity (the bottom and right frames in the graph) may to some extent constrain the individual’s scope for human activity – and thereby also his welfare. But education, household work, care activities, voluntary work or simply leisure (the left and top frames) may well be preferred over paid employment in some circumstances. Therefore, according to the authors, the primary aim of social policies is to raise welfare and prevent exclusion rather than to maximise (individual) employment at any time, at any cost.

A second principle of the TLM approach is its emphasis on transitions between - and combinations of - states as opposed to a static analysis of different states. The key role of policies consists in fostering flexible combinations and mobility between states, as long as such movements contribute to welfare improvement over the life cycle. Obviously, not all movements involve a welfare improvement. Policies aim to prevent exclusion and to foster transitions that raise the individual’s long-term welfare level. It is therefore necessary to distinguish between ‘favourable’ (inclusive) and unfavourable transitions. For example, movements from work to education, or from paid work to household work may in some circumstances be optimal, both from a private and a social point of view. Such transitions are indeed encouraged through specific benefits in many countries. It is equally important that the return to (or combination with) paid employment be facilitated. What matters in this context is the (long-term) welfare improvement of individuals rather than their short-term (primary) income or employment status. In addition, from a life-course perspective, facilitating temporary or part-time withdrawal from the labour market may help prevent definitive exits and thus raise aggregate employment.

Whenever transitions are involuntary and imply a welfare loss (with some degree of uncertainty), we are dealing with (social) risks. The TLM framework can be used to examine and manage new social risks such as skills obsolescence, ageing or family insecurity along with traditional social risks such as work incapacity or retirement. Risks can be addressed in several ways: through financial mechanisms (social security) or other policies that aim at preventing or remedying human damage.
The former type of policies include insurance and income support measures, tax-benefit reforms and the like; the latter refer to active labour market policies as well as a range of other policies that can be classified as ‘active social policies’: lifelong learning, work-life reconciliation measures, rehabilitation etc.

Figure 3: Managing social risks through social security and/or other social policies

(a) social security

(b) other social policies

To summarise,

“As a normative concept, TLM envisage (...) new kinds of institutional arrangements to prevent (...) transitions from becoming gates to social exclusion and to transform them into gates to a wider range of opportunities for the employed as well as for the inactive or unemployed people. TLM aim at ‘making transitions pay’ through institutional arrangements which enhance employability and flexibility both for the unemployed (integrative transitions) as well as for the employed (maintenance transitions) through a differentiated set of mobility options, entitlements and income insurance not only in case of unemployment but also in case of income variations related to risky transitions. TLM focus therefore on preventative measures to avoid open unemployment or ‘exclusionary transitions’. They support the development of career paths, allowing the combination of paid and unpaid activities (including especially education and training), facilitating job-re-entry or two-way mobility and gradual retirement. In brief: TLM aim at providing institutional arrangements which mutually support flexibility and security (‘flexicurity’).” (Schmid & Schömann, 2004: 19).

In this way, the TLM approach fits neatly to the flexicurity discourse underpinning the EU’s newly developing social model.

In their Employment in Europe 2005 edition, the EC used a simplified version of the TLM-model which distinguishes only between employment, unemployment and ‘inactivity’ (i.e. any other non-employment state). The aim was to measure the intensity of the yearly flows between the three states (on average for the EU25). The findings are extremely relevant for our purpose (see table 1).
Table 1. Yearly transition rates between employment, unemployment and ‘inactivity’

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<th>Employment</th>
<th>Unemployment</th>
<th>Inactivity</th>
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<tr>
<td>Employment</td>
<td>94.1</td>
<td>2.9</td>
<td>3.0</td>
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<tr>
<td>Unemployment</td>
<td>29.9</td>
<td>48.5</td>
<td>21.6</td>
</tr>
<tr>
<td>Inactivity</td>
<td>9.5</td>
<td>4.2</td>
<td>86.3</td>
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Source: EC 2005a: 232

- First of all, the table shows that the hazard rates from work into unemployment (2.9%) or inactivity (3%) are more or less equal – family responsibilities and retirement being the main reasons for leaving the labour market.

- On the other hand, the return flows into work are extremely different: whereas 29.9% of the unemployed take up another job within a year, no more than 9.5% of the ‘inactive’ return to work in the same time span. For simplicity, we disregard intermediate transitions within the previous 12 months. In other words, exits from the labour market are much more likely to be long-lasting than unemployment spells.

- The fact that roughly a third of those re-entering the labour market after a period of ‘inactivity’ end up in unemployment suggests how difficult the return to work is for those individuals. Many others may not even take the step and stay in ‘inactivity’, with their efforts remaining invisible in the statistics.

- Fourthly, more than one in every five unemployed persons leave the labour market within a year. Many transfer into the ‘other’ state (probably some kind of social or unemployment assistance); a substantial number get discouraged; and many end up in long-term sickness or disability. The sharp contrast in sickness / disability hazards between employed (0.4%) and unemployed individuals (3.1%) suggests how harmful unemployment can be for the (physical or mental) health of those concerned.

The figures raise many issues that deserve further investigation. For our purpose, they appear to confirm the interest of monitoring transitions other than between work and unemployment; and the need to design policies that reduce the risk of gradually drifting away from the labour market or other forms of participation. Leaving aside the vast body of knowledge about the fight against unemployment, the following, more novel questions will be briefly addressed in the next sections of this paper:

- How / to what extent can / should transitions from employment into ‘inactivity’ be prevented by means of targeted policies?

- How / to what extent can re-entry of ‘inactive’ individuals into jobs be fostered? In particular, is a pathway via unemployment likely to be more effective than specific programmes

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2 For simplicity, we disregard intermediate transitions within the previous 12 months.
3 4.2% / (4.2 + 9.5)%
4 Another (complementary, though somewhat less plausible) explanation is unobserved heterogeneity between employed and unemployed individuals.
targeted at particular categories of ‘inactive’ people? And

- How / to what extent can / should transitions from unemployment to other states of non-employment be avoided?

Admittedly, the TLM model also has its shortcomings. One of the flaws in the theory is its focus on the micro-level: external effects through taxes, government budgets, aggregate demand etc. tend to be largely ignored, whereby non-employment states seem apparently more desirable (at the individual level) than they really are from a macro-economic (or social) point of view. It is therefore desirable to analyse the social costs and benefits of transitions before classifying them as risks or opportunities.

Further, it must be acknowledged that TLM-research has until now concentrated on transitions ‘between the centre and the periphery’ of figure 2, i.e. between employment and non-employment. Transitions ‘around the margins’ – i.e., between different states of non-employment – have been largely neglected. This is precisely one of the key issues of the present paper.

In the next sections, we will subsequently discuss each of the two strands of policy mentioned above, with a particular emphasis on ‘the margins of the TLM model’ (shifts between unemployment and inactivity). The aim is to examine flows between different states of (non-)employment and the (anticipated and/or undesired) impact of policies on these flows.

3. Social security policies

Traditionally, the main role of social security was to compensate for income losses in the event of unemployment, work incapacity or retirement. As financial benefits were the main instruments, economists have devoted a lot of research to issues relating to market imperfections which are typical in insurance markets, such as information asymmetry, cream-skimming or adverse selection, moral hazard etc. ‘Smart’ insurance mechanisms have been introduced under umbrella terms such as tax-benefit reforms or making work pay with a view to correcting perverse effects wherever necessary, with a particular focus on work incentives. Before discussing concrete examples of such mechanisms, let us examine the theoretical views underpinning recent reforms and their relevance for our subject.

3.1 The insurance approach

The economics of social security (Atkinson & Micklewright 1991; Barr 2001) are closely connected with the neoclassical theory of labour supply, which considers individual labour supply decisions as the result of a trade-off between income and leisure. In this context, (forced) non-employment means a sort of ‘rationing’ in the individual’s time allocation, resulting in a welfare loss if the (forced) increase in his leisure time is outweighed by his reduced income. As a response to uncertainty about such welfare losses in the future, income insurance schemes have been set up to collect savings and to compensate for part of the income losses in periods of non-employment. They are therefore Pareto-optimal – at least, within some limits. Too generous compensation schemes with ‘soft’ admission criteria, high benefit levels and a long duration of entitlement, are seen as potentially

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5 Child allowances and health insurance will not be discussed here.
harmful because such regulations may imply a minimal welfare loss (or indeed welfare gain) for non-employed beneficiaries, thereby reducing the incentives to re-enter the labour market (moral hazard effect). As a consequence, social insurance may discourage employment and become counter-productive. The OECD Jobs Study (OECD 1994) therefore advised Member States (if necessary) to reform their unemployment benefit systems, restrict entitlement periods and reduce replacement ratios in order to ‘make work pay’. The EU Employment Guidelines, developed around the turn of the millennium, urged Member States to “review and, where appropriate, reform their benefit and tax systems to reduce poverty traps, and provide incentives for unemployed or inactive people to seek and take up work”.

As concluded in the Joint Employment Report 2006-07 as well as the Annual Progress Report 2006-07, submitted by the Commission on 12th December 2006 and adopted by the EPSCO Council on 22nd February 2007, measures to make work more attractive through financial incentives, including lower taxes, the use of in-work benefits and an increased minimum wage are now widely used (EC 2006b). These measures are mostly targeted at low and middle income earners but an increasing number are being targeted towards specific groups. Moreover some member States are strengthening the obligations and activation requirements for unemployment benefits.

Most of the empirical research along these lines has been concentrated on unemployment – with mixed findings. Summarising roughly, we can state that the impact of the level of benefit on exit hazards is not unambiguously negative, as higher benefits generally go in pair with stronger active labour market policies (see e.g. EC 2005b: 168). As regards duration limits, most recent studies find a peak in individual exits from unemployment just before the expiration of entitlements, but none of them has taken into account external effects of individual exits on the employment opportunities of other people. It is quite plausible that the suspension of benefits simply leads to a revolving door effect (with job finders pushing others into unemployment) without raising the aggregate employment level. Some studies also pointed at the fact that exits from unemployment do not necessarily mean entry into jobs, as part of the transitions lead to uninsured inactivity or other benefit schemes (social assistance or disability). Moreover, in its reassessment of the Jobs Strategy, the OECD openly admits that excessive cutbacks may be held responsible for increased poverty in some countries: “Cutting benefit levels and their duration have succeeded in raising work incentives but, beyond certain thresholds, this may compromise social objectives” (OECD 2006: 10). As a consequence, the revised OECD Jobs Strategy has shifted away its emphasis from restricting unemployment benefits to other activation measures (see below). The EC (2005b; 2006a) acknowledges that high benefits are ‘no major obstacles’ or indeed make flexible and risky labour contracts more acceptable.

All in all, the ‘making work pay’ approach seems to remain relevant in relation to specific groups or types of transition. Depending on the country, these groups may be included in the unemployment insurance or in related schemes. For example, single parents may find it financially unattractive to take up part-time employment, even though it is the only feasible alternative. Solutions include different kinds of in-work benefit (temporary cumulation of earnings and benefits, work bonus systems), tax deductions (reduced social security contributions, working families tax credit etc.) or cheap employment-related child care services.

It has also been widely acknowledged that the exit from social assistance to work is more problematic than from unemployment insurance to work. The reason is that standard social assistance schemes involve a poverty trap effect (i.e. an implicit marginal tax rate of 100%) which is more discouraging than an unemployment trap effect. Again, poverty traps ‘bite’ mainly in part-time
and low-paid jobs: which are the typical segments for unqualified and weak job seekers. In this context, minimum wages and/or wage subsidies to raise the quality of jobs may have a more positive impact on (re-)employment hazard rates than in-work benefits.

**Older (employed or unemployed) workers** have in the past been actively encouraged to leave the labour market through enhanced benefits, exemptions from job search, or early retirement schemes. On the macro-level, these schemes have undoubtedly contributed most to the passive use of social security: it was openly admitted that their primary objective was to reduce labour supply. Apart from their negative effect on labour supply, early retirement schemes generate a heavy financial burden which (if funded by payroll taxes) also discourages the demand for labour. Both the Jobs Strategy and the European Employment Strategy have therefore emphasised the need to restrict (if not abolish) early retirement. As demonstrated in the introduction, recent trends display a slight reduction of inactivity rates among ageing workers. Much remains to be done in this area, but reforms meet fierce opposition on the part of older workers and unions who fear a reverse substitution between early retirement and unemployment – at least, in the short run.

What about financial disincentives in work incapacity benefits? In principle, the problem should apply less here, because a ‘neutral’ third party (physician or medical commission) is supposed to control the work (in)capacity of applicants. Nevertheless, in the past decades, the Nordic countries, The Netherlands and the UK have been confronted with sharply increasing shares of their active population in work incapacity states. This has raised concerns about the generosity of disability insurance schemes – and indeed, about ‘arbitrage’ between different schemes based on their generosity by jobless individuals. As Carcillo and Grubb (2006: 8) put it, “the tightening of eligibility conditions and associated requirements for unemployment benefit schemes may have a limited impact and not result in higher employment if the unemployed transfer to non-employment benefits.” Further (ibid: 17) “the contrast between the indefinite duration of disability insurance benefits and the limited duration of unemployment insurance benefits creates a potentially strong incentive to claim disability rather than unemployment benefits.” The idea is not illusory, considering the overlaps between the target groups of unemployment and work incapacity insurance schemes: in many EU member states, more than 20% of the unemployed have long-lasting health or disability problems. However, should the transition of an unemployed person with health problems from unemployment to work incapacity benefits – particularly in a context of tightening activation of the unemployed - be regarded as perverse?

Again, we think that the argument of financial disincentives may be relevant in specific situations. For example, full-time incapacity may be an eligibility condition for benefits; *progressive rehabilitation* is sometimes made impossible by the complete suspension of benefits, once a person starts even working part-time. Similarly, the risk of getting reduced benefits after having tried out a less demanding and less well-paid job may prevent people from entering a rehabilitation pathway. Flexible regulations including partial benefits and the guarantee of falling back on the higher benefit level may be more appropriate incentives than cutting back on benefits.

In sum, it seems that the ‘making work pay’ strategy remains relevant (a) with respect to older workers (prevention of early retirement) and (b) ‘at the fringes’ of the labour market (motivating weak groups of benefit recipients to take up precarious jobs). In the mainstream of social insurance, the approach seems to be on the decline. An alternative theory is currently gaining ground, which precisely advocates higher benefits, in order to foster mobility.
3.2 The capabilities / resources approach

The Nordic countries, which have always been admired for their strong labour market performance, also have a reputation of granting high benefits. The revised OECD Jobs Strategy admits that “innovations in the design of benefit systems, combined with intensive assistance to jobseekers and close monitoring of their job-search intensity, allow reasonably generous benefits to be maintained while achieving low unemployment and high labour market participation.”

The theoretical underpinnings of this unorthodox (?) finding can be found in Sen’s capability approach and Dworkin’s concept of resources (Sen 1985; Dworkin 1981). Considering employability as one dimension of an individual’s capabilities, generous insurance schemes can be seen as an investment in the resources needed to raise the employability of job seekers. This applies in particular to disadvantaged groups that are faced with disproportionate risks of unemployment and inactivity. Schmid & Schömann (2004) criticise traditional social security schemes for (incorrectly) assuming equality of resources between the agents sharing their risks. They see redistribution of resources as one of the four pillars of an ideal social protection system (Schmid & Schömann 2004: 25). Transfers would take the form of subsidised ‘mobility accounts’ financed through general taxes. These mobility accounts could be used to insure the income risks related to transitions and (where appropriate) to invest in their own employability.

Several authors have found positive effects of the generosity of social protection on labour market flexibility, and workers’ mobility in particular. Aldeghi (1991) demonstrated that job seekers disposing of a telephone, a newspaper subscription, a car etc. were more likely, ceteris paribus, to find jobs. Nicaise and Groenez (2004) studied aggregate flows between five states of social protection in 13 EU-countries in the period 1993-1997. We distinguished between underprotection (with incomes below the social assistance level), social assistance, social insurance, (decent) work (with earnings exceeding the social assistance level) and ‘other’ (mainly dependence on other family members’ earnings). We then examined the impact of several macro-economic determinants (GDP/capita, business cycle effects) and social policies (generosity of the unemployment insurance, intensity of active labour market policies) on aggregate mobility rates between the different states of social protection. We found that higher unemployment benefits and longer entitlements have a positive impact on mobility into (decent) work. The positive effect of longer entitlements on (aggregate) re-employment chances can be explained by the fact that greater security prevents job seekers from prematurely accepting precarious jobs and thus ensures a better matching process. Further, in line with the research on collective bargaining, we found that higher benefit levels raise the inflow into unemployment. This is because the welfare loss in the event of a lay-off is reduced and, consequently, both employers and employees are less reluctant to separate.

Summarising the above arguments, generous unemployment insurance schemes are not just “harmless if accompanied with strong activation rules”. We would argue that they even tend to foster aggregate flows into and out of unemployment, despite some (moderately) negative effects on individual hazard rates. Despite the absence of any evidence on other branches of social security, we expect our findings to apply equally to work incapacity benefits – but not to social assistance (because of the poverty trap effect) nor to early retirement.
4. **Active social and labour market policies**

The key message of this paper is that active social and labour market policies can have a greater impact on labour market performance than financial incentives. However, their impact crucially depends on whether they invest in the individual’s capabilities.

4.1 **ALMP: employment versus inclusion?**

Kluve (2006) presented a comprehensive meta-analysis of more than 100 microeconomic evaluation studies of active labour market policies (ALMP) that have been carried out in Europe in the 1990s. He found strong evidence of positive effects (on employment) for recruitment subsidies and start-up grants in the private sector as well as for ‘services and sanctions’ (job search assistance, counselling etc.). Training programmes appear to have more modest, though still positive, effects. Public relief employment on the other hand seems rather ineffective – at least, in terms of post-programme employment of beneficiaries. Further, ALMP prove to be more effective for adults than for young people.

The problem with microeconomic evaluation studies is that they disregard (positive as well as negative) externalities. For example, training programmes may contribute to the removal of bottlenecks in local labour markets; they also raise the productivity of workers and the competitiveness of firms. Public employment schemes may produce services that add to a country’s welfare, etc. On the other hand, targeted programmes may generate substitution and displacement effects at the expense of other groups. ‘Services and sanctions’ may force some beneficiaries into low-quality jobs or (in the worst scenario) exclude them altogether. Overall, ALMP tend to boost effective labour supply, and thereby exert a downward pressure on wages and working conditions – unless they go in pair with investments in the beneficiaries’ human capital. It is therefore not excluded that ALMP simultaneously raise employment and the risk of social exclusion. This risk is acknowledged in the 2006 edition of Employment in Europe (EC 2006a),\(^6\) which seeks to reconcile labour market flexibility and inclusion through the flexicurity concept.

Our own study (Nicaise & Groenez 2004) is rather critical about the social impact of ALMP in Europe in the mid-1990s. We found that, overall, ALMP had pushed more people below the (national) poverty line. Our findings point to the existence of substantial adverse effects such as creaming, carousel, substitution and displacement effects, as well as the lack of quality of programmes.

The flexicurity orientation of current EU policy aims to resolve the dilemma between employment (through flexibility) and income security, and to contribute to the development of policies that combine ‘more and better jobs’. Interestingly, the EC’s own analysis (EC 2006a, ch. 2) indicates (a) that flexibility and security can be reconciled, and (b) that this combination performs well in terms of employment. A cluster analysis based on a set of indicators grouped EU countries into five clusters (Anglo-Saxon, Nordic + Netherlands, Continental, Southern and CEE) with the Nordic-Dutch cluster displaying clear flexicurity characteristics. High wages and generous social protection

\(^6\) “In recent decades, a number of atypical forms of labour contracts have proliferated in some Member States (...), bringing with them enhanced flexibility for the adjustment of labour levels by firms, but at the expense of reduced employment and income security...” (EC 2006: 75)
combined with rather flexible labour contracts and strong ALMP seem to result in high employment rates, high security and low inequality. It would be useful to break down the ALMP indicators further in order to assess the relative performance of different types of active measures – both in terms of employment and security.

4.2 Active policies for inactive people

To what extent can the lessons from the previous subsection be transposed to other groups of non-employed people? It must be borne in mind that these groups are very heterogeneous: some are completing an education programme or return to the labour market after devoting a period to their family; others are faced with multiple obstacles such as poor health, low education, psychological distress etc. Carcillo & Grubb (2006) quote examples of welfare-to-work programmes targeted at social assistance recipients that produced the same ambiguous results as mentioned above. The 1996 Welfare Reform in the US is probably the most outstanding example of a programme that succeeded in shifting people massively off welfare into work-while leaving most of them in poverty.

For vulnerable groups of ‘inactive’ people, special high-quality programmes need to combine the following characteristics:

a) **early profiling** of the target group, so as to allocate resources most effectively (e.g. screening of patients to prevent them from ‘sliding down’ and to maximise the chances of successful rehabilitation);

b) **personalised counselling** (in order to build a relationship of trust, make the client participate actively in the process and identify the most appropriate support);

c) an **integrated, multi-service approach** (building on local partnerships between different service providers such as labour market services, social guidance, housing, child care, health care etc.); and

d) **flexible pathways** – in terms of timing as well as contents and monitoring. The ‘work first’ principle may be justified for some individuals (e.g. those faced with severe financial problems) while others may need a bridging period to invest in progressive rehabilitation or education. Some may prefer voluntary work to develop their social skills or regain self-confidence, etc. What matters from a life-course perspective is the long-term sustainability of labour market integration, rather than quick results.

This brings us to the links between ALMP and active social policies (ASP). The latter have been developed in Nordic countries (Denmark, Finland) and The Netherlands. The term is used to denote policies “targeted at unemployed, marginalised and excluded groups in society. (...) Some policies and programmes aim at integration, social inclusion and participation in a wider sense than paid jobs only” (ASPEN website). The social activation experiments in The Netherlands, targeted at long-term social assistance recipients, constitute a nice example of a programme investing successfully in the capabilities of a group that is far remote from regular employment. The experiments consist of customised integration pathways departing from the conventional ‘work first’ principle, although the ultimate objective of the experiments remains integration into regular jobs. The pathways include

voluntary work, home care, rehabilitation training etc. – even with temporary exemption from job search, embedded in an integration contract with the municipal social service. Apart from the employment effects – which were quite modest in the short and medium term - successive evaluations have shown a strong impact on the participants’ self-confidence, social contacts, sense of citizenship, structured lifestyle and mental health (see Meinema & Nicaise 2004). Admittedly, the long-term efficiency of this approach remains to be proven by means of further follow-up evaluation.

4.3 The public employment service (PES) as a one-stop shop?

Carcillo & Grubb also discuss the question as to whether inactive people can be reintegrated more effectively into the labour market by transferring them first into unemployment. The argument in favour of this strategy is that public employment services are the mainstream provision for this purpose: other groups of job seekers can benefit from their economies of scale. Indeed, in table 1 above, the exit probability from unemployment into work appeared to be three times larger than the corresponding exit hazard from inactivity. On the other hand, it must be borne in mind that the inactive have different characteristics. Some of them may be better off with the PES, while others need more specialised services. Most importantly, Carcillo & Grubb (2006: 37) warn that simply transferring new groups of clients to the public employment service without extending its resources accordingly may cause an overload, resulting in ‘parking’ of the new clients or even reduced outflow rates for all job seekers.

In view of the differentiated approach advocated in the previous subsection, we think that the ‘one-stop-shop’ solution is not (always) the most appropriate one. It seems more realistic to set up partnership agreements between the PES and other local agencies that have a closer link with each target group.

5. Conclusion

This paper has explored the potential role of modern social protection systems in reducing non-employment. To some extent, this issue can be seen as an extension of the role of unemployment insurance schemes in reducing unemployment. We used ‘transitional labour markets’ as the general framework and ‘plugged in’ two theories (the insurance approach and the capabilities approach) that seem most relevant to interpret the rationale of reforms.

To begin with, the TLM framework has shown that the term ‘inactivity’ does not adequately reflect the reality of non-employment, as many people outside the formal labour market (including benefit recipients) are actually carrying out productive tasks. Some of these activities can be seen as investments in their own future employability – or the employability of their peers. One may argue that the success of the ‘active welfare state’ partly depends on the activities of the ‘inactive’. Whereas, broadly speaking, it is a legitimate policy goal to reduce aggregate non-employment, it appears much more difficult to answer the question what categories of non-employed individuals need to be transferred into work. In practical terms, discouraging exits or facilitating the return to work seems more appropriate than uniform regulations, given that the same state may well have a different value to different people – and thus to society.
The policies to achieve these objectives are wide-ranging. They include social security regulations as well as active social and labour market policies. Again, it is crucially important to assess the relevance and effectiveness of these policies from a dynamic perspective.

One of the golden rules in social protection, as in any form of insurance, is the *primacy of prevention and rehabilitation over compensation*. As we have seen, this boils down to investments in the capabilities (to begin with the employability) of individuals. Innovative financial arrangements (such as individual learning accounts or mobility accounts) may encourage individuals (together with their employers and/or the state) to invest in their own health and human capital. The provision of *integrated services* is a more direct (and probably more secure) way to achieve the same goal, particularly with vulnerable groups.

The *time dimension* is equally important, as duration dependence may unnecessarily aggravate distress and welfare losses. It is worth noting that spells of ‘inactivity’ are generally much longer than unemployment spells. Apart from prevention, early profiling of clients may help allocating services to those who are most likely to benefit from them. Degressive benefit paths and duration limits have proved to reduce the individual spells of dependence on benefits; however, it remains to be proven whether they also reduce aggregate benefit dependency. We have also pointed at perverse effects of such arrangements on social exclusion.

In general, a (slight) paradigm shift seems to be ongoing as regards the role of financial (dis)incentives in labour market policies. The flexicurity paradigm admits that *generous benefit schemes may well foster mobility*, particularly in combination with strong active labour market policies.

**References**


