

Effectiveness of the Active Labour Market Policy on Employment Incentives or is there Time to take into Consideration the Universal Basic Income?

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ABSTRACT

From policy design and implementation theory

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1. INTRODUCTION

Flexicurity or the so-called "golden triangle" of the labour market as defined by Madsen (2002) consists of three interconnected and interdependent segments: active employment policy (hereinafter: ALMP), a flexible labour market (especially many new jobs) and generous welfare schemes in case of unemployment. In the past, several important factors have been identified in Slovenia, which have an impact on the deteriorating security of the Slovenian labour market. Kozjek (2009) notes that the right link between flexibility and security is crucial, since too much flexibility can lead to major social changes, and too much safety can lead to rigid labour market which prevents the adaptation of employment to the conditions in the economy. The system to be followed is the introduction of a social security system that would prevent high employee mobility from feeling uncertainty or marginalization, and accept the ALMP, which should be based on training and education as the basis of employability.

ALMP represents both a set of measures by which countries directly and selectively intervene in the labour market, and there are various interpretations of the understanding of empirical macroeconomic research and many contradictory evidence of microeconomic studies. (Svetlik and Baltic, 2011; Calmorfs, 1994) An effective labour market policy would thus further boost employment outcomes to the effects associated with the number of unemployed and vacant posts.

The European Statistical Office shares the employment policy measures in three major groups (Eurostat, 2016): services in the field of labour market (this is the assistance to the unemployed offered by the Employment Agency of Slovenia, the Social Work Centres) labour market measures (these are interventions aimed at changing the status of the unemployed person) and support and unemployment assistance (including passive employment policies - unemployment benefits and early retirement benefits).

For Slovenia, OECD data (2019) show that in comparison with other countries both the EU and the OECD, we devote a relatively low percentage of GDP to the ALMP. Somewhat better, above the EU average, we cut off when we compare the share of unemployment benefit² that the unemployed receive after six months of unemployment or, after one year of unemployment, after six months, the unemployed receive 67% of the previous salary, and after one year this share is 39%. In this basis we could conclude, that Slovenian system provides security net when a person becomes an unemployed, but at the same time ALMP programmes do not provide enough opportunities for increasing the employability of people on the labour market or increasing the competitiveness and flexibility of employers.

Long-term unemployment presents special problem in addressing unemployment, is not only an economically defined problem, but also a problem strongly linked to demographic trends that have a significant impact on the labour market. The rate of registered³ unemployment in the time of the crisis, that is, from 2008 on, is growing, and from 2015 onwards it is falling. Interestingly, the rate of registered long-term unemployment is falling, but it is still high, and in 2018 it still represents more than half of all unemployed.

Table 1: % in GDP for ALMP and Public expenditure services and administration costs

Slovenija	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
% ALMP in GDP	0,57	0,69	0,65	0,49	0,44	0,98	1,19	1,26	1,13	1,21	1	0,76	0,74
% PES and administration costs in GDP	0	0,1	0,09	0,09	0,08	0,1	0,11	0,1	0,09	0,09	0,09	0,08	0,08

Source: OECD, 2019

² Calculations are made on single person without children, with previous labour income 67% of average income.

³ When addressing in this paper unemployment or long-term unemployment, I will address registered unemployment. In Slovenia we distinguish two types of unemployment (Institute of Macroeconomic Analysis and Development, 2019):

- registered unemployment: compares the number of persons registered within Employment Agency of Slovenia units,
- survey based unemployment: it is noted by quarterly labour force surveys. The survey is conducted in accordance with the instructions of the International Labour Organization (ILO) and the Statistical Office of the European Union (Eurostat). According to these, unemployed are those respondents who were not active during the reference week, but are actively looking for work and are ready to accept work in the next two weeks.

Table 2: Registered unemployment and long-term unemployment

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Annual average of all unemployed	9,9%	8,0%	6,9%	8,6%	10,6%	12,0%	12,0%	13,3%	13,5%	12,7%	11,8%	10,1%	8,6%
	85.836	71.336	63.216	86.354	100.504	110.692	110.183	119.827	120.109	112.726	103.152	88.648	78.474
The annual average of the long-term unemployed	41.891	36.494	32.334	31.487	42.750	50.174	55.157	55.355	59.858	59.676	55.079	47.049	40.607
Share of long-term unemployed among all unemployed	48,8%	51,2%	51,1%	36,5%	42,5%	45,3%	50,1%	46,2%	49,8%	52,9%	53,4%	53,1%	51,7%

Source: Employment Agency of Slovenia

The question that we are asking in this thesis is whether the ALMP adequately addresses the causes of long-term unemployment or, should the country have to address it differently? The answer to this is crucial if in the future we would want to replace the policies which the state implements, and here both the active and passive policies labour market policies. Universal basic income (hereinafter: UBI) which departs from the work, participation of the individual in the labour market and from social policies, brings complete separation of the individual's entitlement to income from employment status. Today's systems of social security and social services are linked to the work or participation of an individual on the labour market; its readiness to work, restraint from work, permanent or temporary incapacity for work. Social insurance systems provide for those who can not work in the labour market, which can not work on the labour market, and the amount of remuneration from such insurance depends on how much individuals contribute to the system (Bubnov Škoberne & Strban, 2010). UBI on the other hands essentially interrupts the connection of the European social model to the idea of work. The idea of the UBI, which was gradually developing, but did not have the right political support, has, in the years since 2015, experienced a real boom in attempts to revive the welfare state. The Finnish right - central government, was the first European state which on 1 January 2017 launched a two - year pilot project to examine the effects of the introduction of the UBI. (Kela, 2017; De Wispelaere & Striton, 2017)

On the question how effective ALMP programmes really are we can respond by carrying out their evaluation. The European Commission (2017) notes that public employment services have the potential to (i) increase their effectiveness and efficiency in order to ensure that job seekers are more likely to find employment, and (ii) increase their effectiveness and efficiency with the lowest possible costs. In order to assess the effects of the APZ, which will be of interest to the issues of adapting the labour market from a microeconomic point of view, with an emphasis on changes related to unemployment using microeconomic techniques, in this thesis we will use a matching function model⁴. (Južnik Rotar, 2008, 2011; Klužer, 2008) In the literature, this method is more often used to study the descriptive incidence of the unemployed in different groups of the population, especially among young people. (Marelli in Vakulenko, 2014; Bruno et al., 2014; Carcillo et al., 2015; Eichhorst in Neder 2014; Mauro in Mitra, 2015; Bell in Blanchflower, 2015; Monastiriotis in Tomić, 2018) The coefficients associated with the number of job vacancies, the number of unemployed and employment programs will tell us the extent to which an increase in employment will increase if the listed variables increase. A positive link between the expenditure for programs, the number of participants and the exits for employment will confirm the effectiveness of the measures.

⁴ The Beveridge curve, together with the development of the Philips curve, is often used to illustrate the situation on the labour market in conjunction with macroeconomic developments. The U / V curve says:

- at any moment, some vacancies will always co-exist with some number of unemployed;
- the number of vacancies will decrease over time if the number of unemployed increases, and vice versa.

The main assumption of the curve is that the unoccupied demand is equal to the free supply on the labour market. The vacancy rate and the unemployment rate are the same. So we do not have the dominance of Keynesian and not classical unemployment. In this case, existing unemployment will be the result of a market failure and not an excessive supply of demand on the labour market, which is in line with the natural rate of unemployment (Christl, 1992). By encouraging the integration of job vacancies with the unemployed, we will reduce the number of unemployed. Among the variables that increase the efficiency of aggregation, there is an active employment policy. The aggregation process will be determined by a matching function that links the new recruitment of workers with the size of the unemployed and job vacancies (Blanchard, 2006).

In order to verify that the idea of introducing UBI in the Republic of Slovenia is enjoying enough political support, we will use the structured interview method with text analysis. In recent years, the UBI concept has been one of the more widely used among political parties in Slovenia within electoral purposes and classified as such in their programs. This is particularly interesting because of the findings of Boljka (2011), which states that UTD does not enjoy the necessary political support as a concept that in its ideal version does not renounce its own guidelines: unconditionality, universality, individuality and sustainability. We will try to obtain the answers from all parliamentary parties, as UBI as a concept poses a threat to established explanations of problems, beliefs about paid work, social justice, social inequality and freedom as essential elements of the functioning of the existing capitalist system.

Questions we want to answer in this thesis are:

1. How could a social security system be reformed in order to adequately address the changing nature of the work?
2. Is it possible to transform the social security system in a way that encourages active participation in the labour market and gives people greater incentives to work?
3. How could a complex system of social support be simplified to make it more effective?
4. Would the introduction of the UDI, which would replace the APZ, increase the effectiveness of public policies in the labour market for the long-term unemployed?

2. METHODOLOGY

In the doctoral thesis, the methodology will be based on various quantitative and qualitative methods of research.

Quantitative methods will be used to evaluate the effectiveness of the ALMP - how much funds are required by the programs and how much of it costs it, but at the same time we want to know how the programs should be implemented to achieve maximum performance in terms of cost-effectiveness. We are interested in how effective inclusion programs are, the programs for preparing for the reintegration of people into the labour market, how support programs and motivational programs affect the social activation of temporarily unemployed persons and whether the loss of monetary assistance or salary compensation in cases of unemployment is an important factor for inclusion in the labour market.

A qualitative method of a structured interview with text analysis will be used to verify the acceptability of UBIs in parliamentary parties. The UBI concept has already appeared several times in political debates. It was discussed in the National Council (2010), and on the initiative of one of the deputy groups the discussion was also conducted by the Committee on Labor, Family, Social Affairs and Disabled People of the National Assembly (2017). In the run-up to parliamentary elections in 2018, the debate also took place in the public debate during whole pre-election period. In these discussions, it was also shown that the parties which advocates for UBI did not accept the UBI in its ideal version and would be unacceptable to them as such. By structured interviewing and text analysis I will analyse the factors that influence the successful implementation of public policies or projects. (Hill, 2009; De Wispelaere & Noguera, 2012; Fung, 2015)

The qualitative method of the case study will be used for the analysis of the Finnish pilot project, which was completed at the end of 2018. The results will be compared with the results that will be obtained from research on concrete monitoring of the implementation of the ALMP and the passive employment policy in Slovenia. Although De Wispelaere (2016) refers to interpretive methods and comparative research as a possible tool for choosing the optimal strategy that public policy makers should use when considering the introduction of UTD - it is rational that before any decision arises, examines what is happening in other administrative systems, and investigate whether these decisions have been taken as desired or are they feasible at all - the author also points out that individual solutions can not be transferred from one political-administrative area to another (right there). Pal (2005), in particular, sees in the case study method a double advantage: the problem can be fully contextualized and it is possible to highlight issues that are important for politics and policy itself.

3. HYPOTHESES

Hypothesis 1: "Participants in the formal training program are more quickly involved in the labour market than participants in non-formal training."

Hypothesis 2: "ALMP programs are more effective in the activation of young people and are more likely to be included in them than in the case of unemployed with low education or unemployed older than 50 years."

Hypotheses are designed to analyse the effectiveness of ALMP programs for integrating long-term unemployed into the labour market. We want to find out whether the measures (there are five of them) increase the individual's employment prospects, and consequently reduce the level of inactivity and reduce the dependence of such individuals on financial social assistance. Within this objective, we want to determine the factors of the integration of long-term unemployed persons into ALMP programs. Data from the Employment Agency of Slovenia show that over half of all long-term unemployed are older than 50 years of age. At the same time, the employment rate of older persons in Slovenia is among the lowest in the EU. As already noted by Južnik Rotar (2008, 2011), Klužer (2008) and EIPF (2012), we can study the descriptive incidence of the unemployed in various groups of the population through a matching function model. For the empirical estimation of the effects we will use the Cobb-Douglas function. Positive coefficients related to the number of vacancies, unemployed persons and employment programmes should show the extent to the increase of outflow to employment if we increase the variables. Positive relations confirm the efficiency of the programme.

Hypothesis 3: "Successful implementation of the UTD needs to establish cooperation between political decision-makers, contractors (public administration and external providers) and a civil and professional society that develops and promotes the idea."

In order to verify the hypothesis, a structured interview method with text analyses will be used to analyse which we will provide us with information of the acceptability of the concept of UBI for political decision makers. Cooperation or participation is one of the five principles of good governance, which is strongly linked to the responsibility (political) and potentiality of the implementation of such an idea. Therefore, we want to answer the question of how, why and in which way can participate in the design and implementation of the UBI concept.

Hypothesis 4: "The replacement of financial social assistance and other benefits of passive politics with UBI has a positive impact on the faster activation of unemployed people."

In order to verify this hypothesis, the case study method will be used. The first results of the pilot project which took place in Finland from 1 January 2017 to 31 December 2018 are known. We will analyse whether the eligibility for monetary social assistance and the right to receive unemployment benefits affect the faster activation of the unemployed. Here, in particular, we have in mind low and medium-sized beneficiaries of monetary compensation in which the trap of unemployment is the highest and who have employment opportunities, but because of low incomes and eligibility for monetary compensation, they do not make necessary effort.

4. EXPECTED RESEARCH RESULTS AND CONTRIBUTION TO SCIENCE

The doctoral thesis will examine labour market policies in terms of their activation effectiveness. In the case of the long-term unemployed in Slovenia, it can be concluded that the measures that the state offers in this segment of the labour market are not sufficient. One of the essential contributions of this doctoral thesis will be to identify the causes of (in)effective labour market policies. The doctoral thesis will be from the perspective of the public policy analysis in terms of phases of the policy-making cycle, represent the fifth phase, ex-post evaluation public policy and the creation of an alternative proposal in the form of a UBI. Thus, the doctoral thesis will be the first one in Slovenia to verify the political acceptability of using the UBI concept as an alternative public policy proposal. One of the main contributions of the doctoral thesis will also be the emphasis on interdisciplinarity, the connection of the fields of social protection and employment with the political field, the field of administration and the field of economy. The support of political decision makers and politics is crucial in the implementation phase, since the various challenges within implementation phase are solved in such a way that the policy-maker adopts various decisions, which are often difficult, but they must give priority to one goal before another, which means they do not treat them equally but by value. This is especially important because UBI by definition does not enjoy the same support among different political options.

The results of the doctoral thesis could also be used in the event that decision makers decide on a segment of the long-term unemployed to use UBI instead of current active and passive policies. Such an approach can also be considered as a conception of a pilot project, especially if warnings of the European Commission on situations on labour market are to worsen

The doctoral thesis will also contribute to understanding the functioning of public administration mechanisms and interactions between different stakeholders.

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