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„Labour Market Policies in Germany, France and the  
United Kingdom – a comparison“

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Wien, am 29.08.2009

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Creativity should never stop at the borders of the impossible – DANKE.

## **Abstract**

The following paper tries to give an overview over the labour market political measures of Germany, France and the United Kingdom, as a reaction to a recession. Here, the paper deals most of all with the recessions of the 1970s and 1990s as well as the current recession, which developed out of the financial crisis in 2008. It deals with the question of how the three examined countries reacted on those recessions, to be more precise, which labour market policies they used, and what were the main differences between them. Further this paper gives an overview over the most common labour market policy tools and players in the process of reducing unemployment.

## **Zusammenfassung**

Die folgende Arbeit versucht einen Überblick über die arbeitspolitischen Maßnahmen Deutschlands, Frankreichs und Großbritanniens, als Antwort auf eine Rezession zu geben. Hierbei werden besonders die Rezessionen der 1970er und 1990er Jahre sowie die aktuelle Rezession, die als Folge der Finanzkrise 2008 auftrat, begutachtet. Des Weiteren wird untersucht wie die drei Beispielländer auf diese Rezessionen reagiert haben und welche unterschiedlichen Methoden, bzw. arbeitsmarktpolitische Maßnahmen angewandt wurden. Außerdem werden die verschiedenen Instrumente und Akteure im Prozess der Verringerung der Arbeitslosigkeit vorgestellt.

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## Introduction

The following paper tries to give a view over the important labour market political developments and measures conducted throughout the recession in the 1980's and 1990's as well as the current recession. It deals with the question of how the three examined countries France, Germany and Great Britain, reacted on those recessions, to be more precise, which labour market policies they used, and what were the main differences between them. Further this paper gives an overview over the most common labour market policy tools and players in the process of reducing unemployment.

The severe recession in the beginning of the 1980's was caused by the Oil-Crisis in 1974/1975. After a short period of economic growth, which did not manage to decrease the inflation rates, another increase in the oil price caused even more restrictive fiscal policies, which again resulted in increasing interest rates and another period of economic stagnation. Besides this, the high levels of unemployment were also caused by the rapid growth of the working population due to the baby boom generation and the increasing labour force participation rate of the female working population.

The Iraqi gulf war and the German unification led Europe again into a recession in the 1990's. At first the unification had a stimulating impact on the European national economies, yet led to a severe inflationary pressure. Till 1998, the economic policy focused mainly on the consolidated currency and the compliance with the convergence criteria of the Maastricht Treaty. According to the treaty, the inflation rate, the budget deficit and national debt had to comply with certain defined criteria. The result of the economic measures taken was a poor economic growth rate and high unemployment.

The current recession had its origin in the collapse of the housing market in the USA. This, was followed by the Credit Crisis where on a worldwide scale, companies in the finance sector had to face severe losses or went out of business. Therefore the amount of available credit got less and less, making it close to impossible to receive a loan. In order to prevent the breakdown of the fiscal system many states put guarantees or socialised the affected companies. This took many states to the brink of a downfall. This led to an extreme loss of trust and therefore to a decline in investment activity. The aftermath is characterised by bankruptcy and high unemployment.



# **1. Definitions and Influencing Factors**

## **1.1 Labour Market Policy**

The Labour market is defined as a factor market, where factors of production, such as natural resources, capital and labour, are bought and sold. In terms of the labour market, the factor of production is labour; households are seen as the suppliers and employers as the demanders of labour.<sup>1</sup>

Labour market policy can be defined as the total of all measures that share the goal to influence the labour market, to assure that all individuals, capable and willing to work, find work, according to their abilities and propensities, to the best conditions possible, especially in terms of wages as well as working time.<sup>2</sup>

Labour market policy defines frameworks, which secure existing jobs and generate new ones, to cope with unemployment and secure and foster employment. Furthermore labour market policy also provides measures to correctly qualify and help unemployed people.

Labour market policy can be divided into two fields of actions, namely active and passive labour market policy. Active labour market policy tries to reactivate the unemployed and supply them with jobs, whereas the passive labour market policy helps to absorb the social consequences of sudden unemployment.

## **1.2 The State**

### **1.2.1 Germany**

The state, in its legislative function, defines the boundaries in which the labour unions and the employer associations can conduct their battle for the agreement on tariffs. The two parties can only act and react within these state-given boundaries. Boundaries can be the control function on the operational and interplant level as well as the Tarifvertragsgesetz (TVG) and the Arbeitsförderungsgesetz (AFG bzw. SGB III). The legislative organs of the state and the

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<sup>1</sup> See Keller, 1999

<sup>2</sup> See Keller, 1999

federal states conduct the creation of legal norms concerning labour market policies.<sup>3</sup> As the executive power, the state has to make sure that the two parties implement these legal norms. Main organs are the Bundesministerium für Arbeit, which is responsible for the functional matters and the labour market policy in general and the Bundesagentur für Arbeit, which is responsible for the implementation of the promotion of employment (SBG III). As the judicial power, the state is responsible for the two parties to comply with the legal norms.

### **1.2.2 Great Britain**

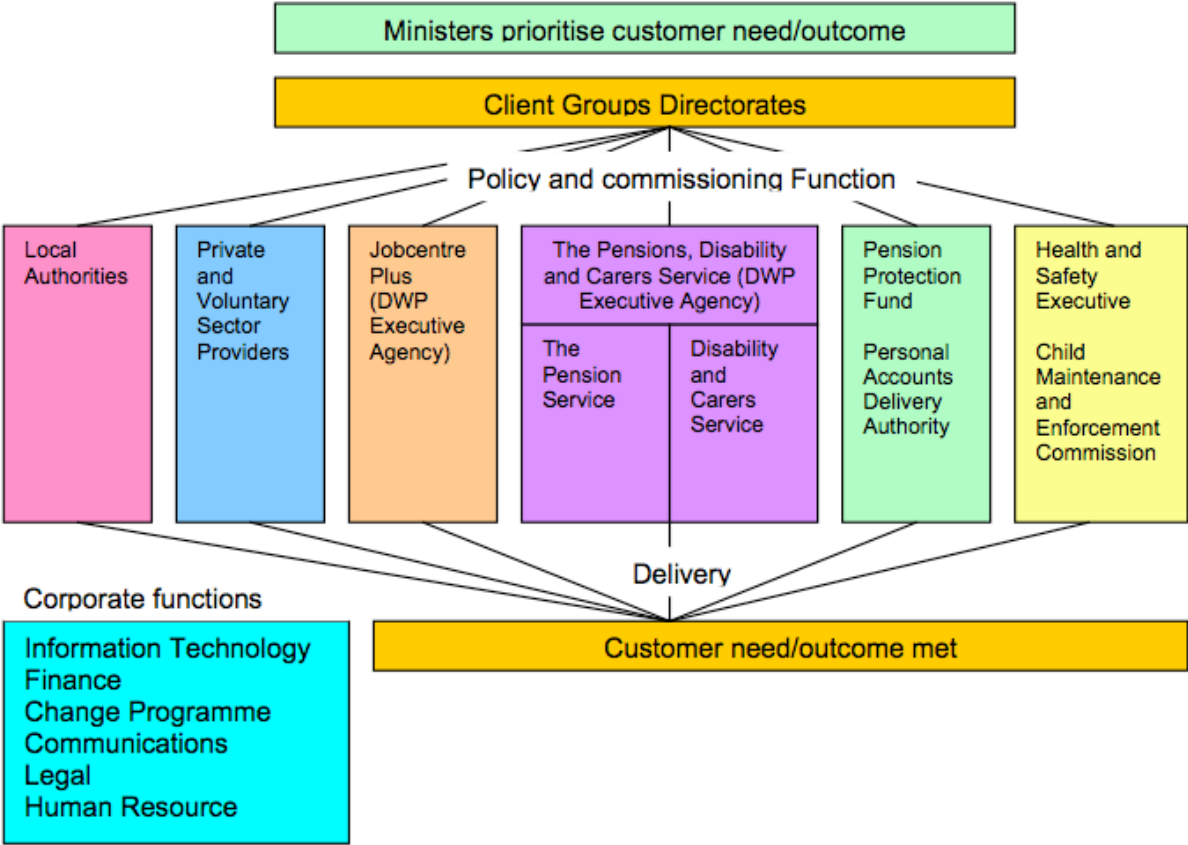
The department for work and pensions, with its two operational institutions, the Jobcentre Plus and the Pension, Disability and Career services, is the executive body, in terms of applying the governments plans for reduction of unemployment and fairness within the labour market. Whilst the Pension, Disability and Career Service concentrates on regulating the state pensions and credits as well as supporting the disabled, the Jobcentre Plus is responsible for the implementation of the governments labour market policies. Its main mission is to help people to reintegrate into the working society as well as administering social security benefits.<sup>4</sup>

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<sup>3</sup> See Zerche, et al.,2000

<sup>4</sup> <http://www.dwp.gov.uk>

**Figure 1: Organogram of the British Department of Labour**



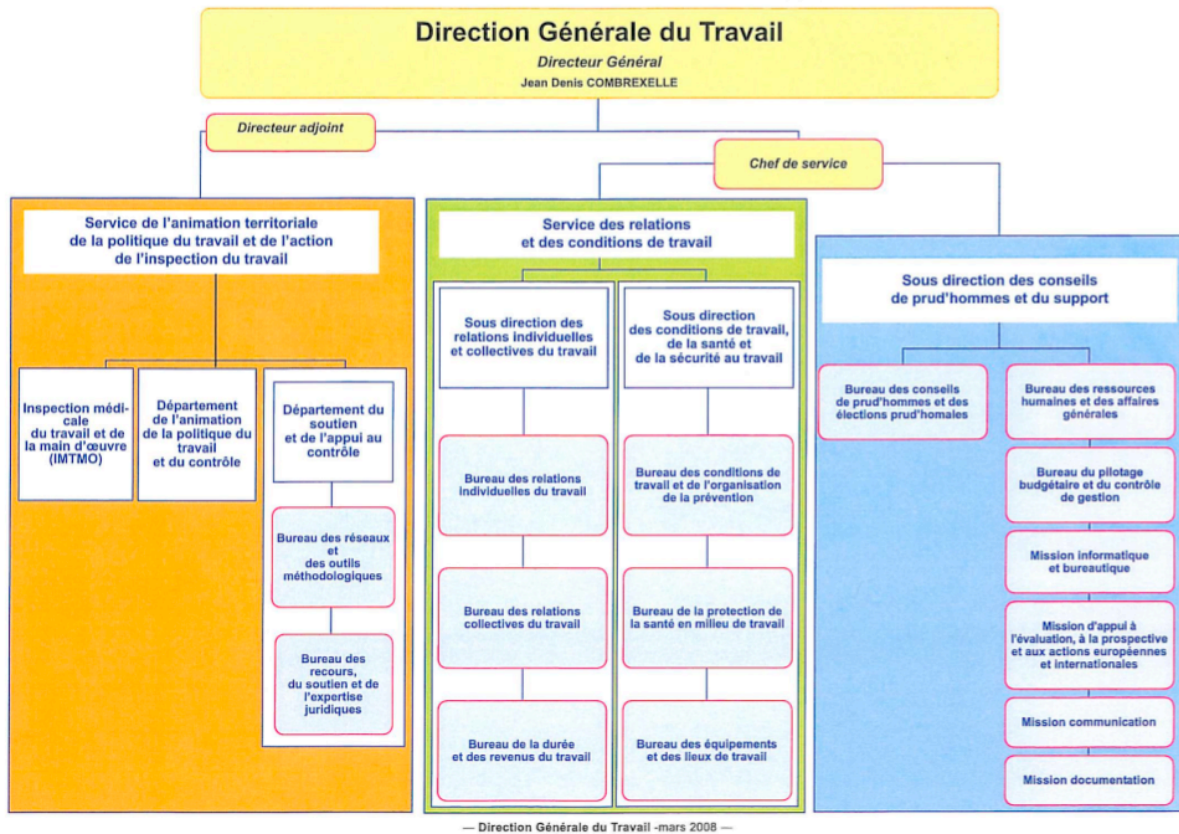
(Source: <http://www.dwp.gov.uk/about-dwp/what-we-do/>, 8.10.2009 13:34)

**1.2.3 France**

In France the Ministère du Travail, des Relations sociales, de la Famille, de la Solidarité et de la Ville is responsible for the implementation of the governments labour market policies and also represents the executive power in terms of unemployment reduction. The ministry is responsible for improving the relations between the employer and the employee and defines the legal boundaries for fair interaction between the two parties.<sup>5</sup>

<sup>5</sup> <http://www.travail-solidarite.gouv.fr/ministere>, 8.10.2009, 19:56

**Figure 2: Organogram of the French Direction Générale du Travail**



(Source: <http://www.travail-solidarite.gouv.fr/ministere>, 8.10.2009, 14:22)

## 1.3 Public employment services

### 1.3.1 Germany

Responsible for executing the labour market policy for the federal government is the Federal Employment Agency (Bundesagentur für Arbeit, BA). The BA is a public institution that is under direct authority and supervision of the Federal Ministry for Economics and Labour Affairs. (Bundesministerium für Wirtschaft und Arbeit, BMWA). Affiliated to the BA are 180 local employment agencies with about 660 branch offices, which are responsible for executing the labour market policy on the regional and local level. Furthermore there exist 10 regional directorates that supervise and coordinate the activities of the local agencies. The BA's main purpose is to assure that the labour market policy is cohesively and constantly executed in the whole country. It therefore gives out the overall directions for the activities of

the regional directorates and the local employment agencies.<sup>6</sup> The executive responsibilities of the BA are defined by the duties associated with the provision of the services established by the AFG/SBG III legislation.<sup>7</sup> Its general tasks consist of counselling and job placement services, labour market training, subsidised employment, support of self-employment and payment of income support during unemployment. Further it has to conduct and publish detailed labour market statistics on a regular basis and is also responsible for employment research.

### **1.3.2 Great Britain**

The British employment service, the Job Centre Plus, is an executive agency within the Department for Education and Employment. Affiliated to the employment service are 9 regional, 127 district and over 1000 local jobcentre offices. *“Each year the Secretary of State for Employment sets performance targets in an annual Performance Agreement concluded between the employment service and the ministry, which also specifies the resources available to the employment service for achieving its tasks.”*<sup>8</sup> Its employees remain public servants even though the employment service has more managerial autonomy than a government ministry. Its main task is to assist disadvantaged persons on the labour market, especially welfare recipients, by providing placement services and assistance.

The Department for Employment and Learning is responsible for all sorts of training measures for unemployed persons. It promotes qualification to prepare people for work.

The Department of Work and Pensions helps to promote employment opportunities for all individuals.

### **1.3.3 France**

In 2008, following an electoral pledge of assigned French president Nicolas Sarkozy, the Pole emploi evolved from the merger of the two pre-existing employment services ANPE (Agence

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<sup>6</sup> See Wunsch, 2005

<sup>7</sup> See SBG III

<sup>8</sup> See Mosley, et al., Management by objectives in european Public Employment Services, 2001 p.46

Nationale Pour l'Emploi) and the UNEDIC (Union Nationale pour l'Emploi Dans l'Industrie et le Commerce). It is now the new French national employment service, yet rather a holding organization for the two pre-existing ones. Its mission is to be the one single point of contact for job seekers in France. Its main tasks are the disbursement of unemployment payments and the guidance and support for jobseekers till they find their new job; this even includes a single contact person within the agency for every jobseeker. Furthermore it provides active job search by staying in close contact with the companies, where also the companies draw their profit from, in case they are looking for a quick replacement. It also supports companies with additional services, such as pre-selecting the candidates. It absorbs the costs of unemployment insurance contributions.

On an international level the Pole Emploi desires to become a trustworthy public employment service with great influence on the French employment market. It directs the internal activities of the job-mobility within the labour market network of the Pole Emploi International with the EURES (European Job Mobility Portal) and the bilateral and multilateral activities with the cooperation of zones outside the EU. Finally it has a strong connection and cooperation with Morocco to foster professional migration between the two countries.

## **1.4 The Trade Union**

Trade unions can be defined as voluntary, permanently existing associations of dependently employed jobholders, aiming to protect and improve their economic and social situation, i.e. the working conditions.<sup>9</sup> In order to achieve their goals, trade unions have to try and influence every possible detail of the labour market processes in favour of their members. Their success is directly connected to their form of organization. In order to maximize their success, trade unions have to adapt the organizational structure of the labour market, to which their members belong.<sup>10</sup>

One can distinguish three fundamental forms of organization for a trade union.

Industrial union: Every employee in one industry belongs to one trade union. This implies that it comprises several different professional groups. As one big institution, which represents all

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<sup>9</sup> See Keller, 1999

<sup>10</sup> See Keller, 1999

employees in an industry, an industrial union can be a strong negotiating partner for the employers.

Vocational union: In this form of organization all employees with the same profession or occupation are comprised. Here, the employer has several unions in his company with whom he has to negotiate. Furthermore the unions can stand in competition to one another. This is most common in the UK.

Ideology union: Here several unions with the same purpose can exist next to each other, yet they differ through ideological views. For example, unions with the same goals can differ by religious belief or political orientation. This form is characteristic for France.<sup>11</sup>

## **1.4 Organizations of the Employers**

Employer's associations are organizations that represent and promote the employer's collective interests in the labour market.

The Organizations on the employer side can be grouped in three types:

- The employer's association: responsible for social-policies and the bargaining political representation of interests towards the labour unions. (Dachverband: BDA)
- Trade associations: responsible for representing the widely varying interests towards the parliament, the political parties as well as the public. (Dachverband: BDI)
- The chamber of industry and commerce: as representative of the interests in the trade economy.<sup>12</sup>
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France follows a similar system as Germany. Here, one of the most influential organizations is the Mouvement des entreprises de France (MEDEF)<sup>13</sup>

In the UK, with its pluralist economic system, the institutional connection between the different parties does not exist, giving it less power and standing than in other countries. Here,

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<sup>11</sup> See Zerche, et al., 2000

<sup>12</sup> See Keller, 1999

<sup>13</sup> <http://www.medef.com/>, 8.10.2009 14:09

the employers' organizations are basically replaced by public relations organizations that try to influence the government policy-making.

## **2. Instruments of Labour Market Policy**

### **2.1 Job creation**

Programs that intend to support the creation of new jobs or the improvement and maintenance of existing jobs.

#### **2.1.1 Support for self-employment**

Another component of active labour market policy is the support of self-employment. These are programmes that grant financial aid to unemployed individuals, to help them with the formation of an independent company. The performance of this scheme is not entirely measured by the re-employment of the supported individual but also by the medium- and long-term creation of new jobs in the supported company itself (multiplier effect).<sup>14</sup>

The potential of unemployed persons, that is considered for such financial aid is estimated by the OECD to be 2-4 out of hundred at the maximum. Hereby mostly men, well-educated persons as well as former executive personnel and persons with technical know-how are considered.

*“Controlled experiments in the United States suggest that such schemes result in employment gains for men, primarily between the ages of 30 and 40, who have relatively high levels of education. Evidence from less rigorous evaluations of such schemes in other countries such as Australia, Ireland, Norway and the United Kingdom tends to confirm longer-term survivability, but only for a relatively small share of all enterprises started up in this manner.”*<sup>15</sup>

The financial aid is to be considered as the unemployment benefit the unemployed individual would be entitled to receive if not self-employed. For example, this amount as well as additional 300 Euro, are paid for a period of 9 months. If the individual can prove after this

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<sup>14</sup> See Neubert, 2003

<sup>15</sup> See Martin, What works among ALMP: evidence from the Oecd countries' experiences, 2000 , p.20



period, that the company is successful, he will receive another 300 Euro per month for six months. (Germany)<sup>16</sup>

Obviously, one has to take into account the accompanying bandwagon and substitution effects. Bandwagon effects can be minimized, if assistance for setting up a business is just offered to such cases that really do not work without the aid. A greater differentiation between the several cases should be deployed.

Substitution effects accompanying the support for self-employment cannot be eliminated and always have to be taken into account.<sup>17</sup> Whenever new companies enter an existing market rivalry is inevitable and will in most cases diminish the existing companies' profits.

### **2.1.2 Wage or employment subsidies**

Here the state pays employers subsidies in order to encourage the hiring of new workers or to enable employers to keep the existing employees, who otherwise may have been subject to lay off for cyclical reasons. These subsidies are normally paid directly to employers or workers or take the form of social security payment offsets. Unintended effects of this policy would be the substitution effect, where subsidized employees are traded for unsubsidized ones, or the hiring and firing of subsidized workers as soon as the subsidy period is over.<sup>18</sup>

### **2.1.3 Public job creation measures**

*“These programs – known by a range of terms including temporary community projects, labour-intensive projects, and workfare – involve direct job creation through public works or other activities that produce public goods or services.”*<sup>19</sup> These programs can be seen as effective short-term safety nets. By creating temporary jobs, they can reduce unemployment or short term poverty and help especially long term unemployed workers to regain contact with the labour market. Next to these effects these programs lead to the production of public goods and services and furthermore to basic physical and social infrastructure. Effects that have to be listed on the negative side are the bad public stigma of such jobs, which can lead to

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<sup>16</sup> See SGB III

<sup>17</sup> See Neubert, 2003

<sup>18</sup> See Betcherman, et al., 2004

<sup>19</sup> See Betcherman, et al., Impacts of active labour market programs: New Evidence from evaluations with particular attention to developing countries, 2004, p.5

a worse situation in terms of employability for the worker after the period. Furthermore they are still prone to be proven significantly helpful for workers.<sup>20</sup>

## **2.2 Labour market training**

*“The aim of further vocational training measures – in so far as they are conducted by the federal employment service – is to reintegrate unemployed people into the labour market and to avoid unemployment where it threatens. In addition to these measures maintain a certain supply of up-dated certified qualifications for the national economy.”<sup>21</sup>* Most training formats aim to evaluate the individual job-related skills, preserve and broaden them or, if necessary, adopt them to new technological developments. *“These measures provide opportunities to promote individual careers, they offer vocational qualifications and permit the participants to work in new employment relationships.”<sup>22</sup>* In order to be qualified to receive the federal employment service’ vocational training, one has to have already completed a course of initial vocational training or to have already gained work experience.

The directly incurred costs for the training courses are covered completely by the federal employment service. Cost may be the fees for courses but also the costs for enabling participants to take part. This may include cost for accommodation or even childcare.

Whereas the methods described above address directly the affected workers, measures are also taken to support the institutions that provide the vocational training. *“The aim of these measures is to maintain or to build up an adequate offer of training in a certain region in order to meet labour market demand and the demand resulting from occupational change.”<sup>23</sup>*

With these measures the government is hoping to improve employment structures of individual industries and to relax the labour market situation.

In financial means the support may be granted in form of subsidies or loans for investment in buildings and equipment. The recipients can be the local authorities or the associations of such authorities, the chambers of industry and commerce, the employers associations and

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<sup>20</sup> See Betcherman et al., 2004

<sup>21</sup> Blien, et al, Labour Market Policy in Germany, 2002, p.24

<sup>22</sup> Blien, et al, Labour Market Policy in Germany, 2002, p.24

<sup>23</sup> Blien, et al, Labour Market Policy in Germany, 2002, p.25

trade unions, charitable or professional institutions, foundations, but also firms that offer in-firm training programmes.<sup>24</sup>

### **2.3 Short-time working**

Short-time working is a pre-emptive measure to prevent layoff in case of cyclical loss of demand. The compensation received, reduces the costs of “labour hoarding” for companies. The application of short-time working measures is obviously linked with costs for all parties, yet it can be of great beneficial outcome when it helps to manage a cyclical crisis.

Short-time compensation gives employers the opportunity to keep their workers employed even though there is a temporary stoppage. The option to short-time working gives companies the possibility to avoid redundancy- and re-employment-costs. Furthermore it keeps knowledge and know-how with the company. Next to the short-time compensation depending on market conditions, there exist seasonal short-time compensations, which is mostly paid for stoppage within the building sector. Another variation is the so called “Transferkurzarbeitergeld” which is applied for operational restructuring measures.

Short-time compensation depending on market conditions is granted if companies or company departments have to cut their regular working hours temporarily due to economic conditions or inevitable circumstances.

Compensation depending on market conditions can generally be drawn if the reduction of working hours was legally agreed upon. The employment liable to insurance deductions is preserved and the entry requirements as well as the application for permit and all proceedings are being simplified.

Obviously there exists a severe salary cutback accompanying the short-time compensation. As for example, in Germany, the compensation adds up to 60% of the current net salary. If the recipient does have children in the household the compensation adds up to 67% of the net salary.<sup>25</sup>

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<sup>24</sup> See Blien, et al, 2002

<sup>25</sup> <http://www.bundesregierung.de/Webs/Breg/konjunkturpaket/Content/StatischeSeiten/fragen-und-antworten-kurzarbeit.html#doc706634bodyText1>, 5.5.09, 15:11

### **3. Reactions to former recessions**

#### ***3.1 The 1974/75 Oil Crisis and the following years of recession***

After a slightly over-heated boom at the beginning of the 1970s, which was already accompanied by rising inflation-rates, the quadruplication of the oil price and a series of other factors caused a severe international crisis. The period between 1975 and 1979 brings again higher growth rates but cannot decrease the inflation-rates or increase productivity. Without even really recovering from the crisis in 1974/75 another increase in oil prices shocks the economy in 1979. The governments react immediately with a restrictive monetary and fiscal policy, which leads to rising interest rates in 1980 and marks the beginning of another period of economic stagnation.

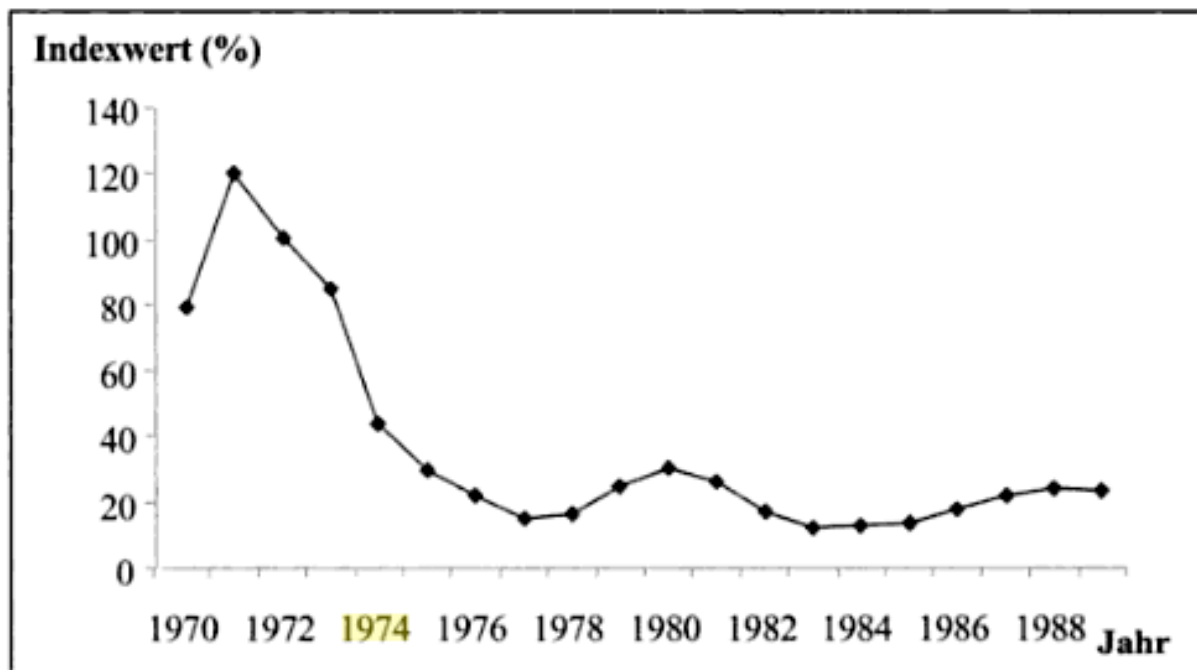
The oil crisis of 1974/75 and the following recession of 1981/82 forces Great Britain, France and Germany to react to the rise in unemployment. As direct response to the crisis, short-term job-sustaining measures, so-called anticyclic bridging measures, such as short-time work or layoff, were applied. Yet when in the period after the crisis, the usual expansion rates were not met, the described countries started a series of rather long-term active labour market policy measures to fight unemployment and to set the right impulse for a healthy economy.

##### **3.1.1 Germany**

Right after the creation of the new German labour market policy in 1969, the government had to face a severe increase in unemployment, which, even in times of a healthier economy, did not even come close to full employment. Due to the oil price shocks in 1974/75 the newly created labour market policy had to face challenges, different to its intended purpose. Due to the large-scale unemployment, the financing system intended by the government, got in a downward spiral with no hope to escape. Due to the constantly increasing payments provided by the unemployment insurance, the contribution rate to the same had to be increased as well accordingly. This in return led to an increase of the labour costs, which was highly jeopardising employment. At the same time, again due to the increasing unemployment, the costs of labour market policies, in terms of wage replacements, rose very quickly, which

limited the swing of active labour market policies such as vocational training.<sup>26</sup>

**Figure 3: Expenditures for vocational education per unemployed person**



(Source: Georg Altmann, *Aktive Arbeitsmarktpolitik*, 2004)

### **Labour creation measures**

Germany's labour creation program was, compared to other countries, by far more flexible in terms of possible fields of applications and program conditions. Due to its flexibility it offered a wide range of possible goal-setting options and therefore, at least theoretically, always a problem-fitted solution. Yet one has to consider the possible threat of excessive demand, due to too many different goals without clear priority settings.<sup>27</sup>

Germany granted wage- and material-costs-subsidies as well as loans mainly to the public and non-profit sector to encourage the creation of positions that are in the public interest. Difficult to place unemployed were preferably supported and allocated for one to maximal three years, where the employer received 60-100% of the wage from the state. At the peak in 1978, 16000 programs created 150000 temporary jobs with an average duration of 17 weeks.<sup>28</sup> The initially anti-cyclical use of labour creation measures, with an emphasis on long-term

<sup>26</sup> See Webber, 1982

<sup>27</sup> See Auer, et al., 1984

<sup>28</sup> See Auer, et al., 1984

unemployed in the construction sector, changed in 1977 with the implementation of the so called special program “Soziale Dienste”, to a sophisticated socio- and labour-political overall concept. Even though it was the special program’s declared goal, to provide the ever-growing number of women looking for part-time employment with job possibilities, it evolved predominantly to an employment program for university graduates.<sup>29</sup>

### **Short-time working**

In 1974 the extraordinary increase of participants of short-time working programs pointed to a risen possibility and willingness of employers to implement short-time working programs, in comparison to previous years. The intensive adoption of short-time working programs in 1975 confirmed this emphatically. On average 773000 short-time workers per month were registered, which was an increase of 481000 workers compared to the year before. Whilst in 1974 the ratio between unemployed and short-time workers was 10:5, in 1975 it was already 10:7.<sup>30</sup>

### **Labour market policies for older employees**

In 1983 the government passed a resolution for a reduction in working hours for employees with the age of 58 or older in the chemical industry, which affected more than 50000 workers. They were granted a so-called “elderly time off”, which meant that they could take every second week, after 1984 even weekly, a total of four hours off work. It was also possible to save these hours and then use them consecutively as a holiday. This implied the 36-hour week for older workers, whilst the 40-hour week was maintained for the rest of the workforce. By doing so the government created a temporary prevention of a reduction of working hours for workers of all age.

These measures were not accepted by a vast majority of the industry union, but it also had some advantages. With the reduction in working hours for older workers, the workload could be reduced and some new jobs could be created. Yet the problem of reintegrating the older workers was not solved. In 1984 the government passed a, with some parties disputable, law for early retirement. It aimed to ease the transition period between the working life and retirement. The deal was to grant 58 years old and older workers a transition pension of 65% of their gross income, which should motivate them to choose early retirement. Connected to this offer was a so called “reoccupation clause”, which intended to reoccupy a free job with

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<sup>29</sup> See Scharpf, et al., 1979

<sup>30</sup> See Bach, et al., 1976

either a registered unemployed individual or with an adolescent person.<sup>31</sup> In case of reoccupation the BA refunded up to 35% of the expenditures taken by the employers for the transition pension. There were no extra funds supplied for this matter, the BA had to pay these subsidies out of its general budget.

Still the effects of these measures seemed to be rather small. Till the end of 1985 approximately 370 collective labour agreements on the early retirement matter were negotiated, which affected approximately 275000 employees, yet only 45000 or 16% of the employees made use of the offer.<sup>32</sup>

### **Repatriation grant for certain foreign workers**

In 1983 the German government started a program, which tried to convince foreign workers who lost their job due to bankruptcy or closure or were working short time for more than half a year, to move back to their home country. The support payments contained 10000 DM of repatriation aid plus 1500 DM for each child. Furthermore the employee's contributions to the unemployment insurance were refunded already after half a year, compared to normally two years. The law was passed on the 1<sup>st</sup> of December in 1983. Till mid April already 7581 applicants were registered.<sup>33</sup>

**Figure 4: Programs with intention to increase employment 1974-1981**

DESCRIPTION	VOLUME in bil. DM
1. Single special program for regions with special structural problems (6 <sup>th</sup> Feb 1974)	0.900
2. Special program for supporting regional and local employment (25 <sup>th</sup> Sept 1974)	0.950
3. Special program economic recovery (12 <sup>th</sup> Dec 1974)	1.730
4. Program for supporting constructional and other investments (27 <sup>th</sup> Aug 1975)	5.750
5. Labour market and vocational training program for controlling youth unemployment (28 <sup>th</sup> Jan 1976)	0.235
6. Special program for severely disabled (1 <sup>st</sup> Nov 1976)	0.100

<sup>31</sup> See Prenner, 1992

<sup>32</sup> See Prenner, 1992

<sup>33</sup> See Auer, 1987

7. Labour market political support for employment (10 <sup>th</sup> Nov 1976)	0.430
8. Multi-annual public investment program for provision of growth and environmental issues (23 <sup>rd</sup> Mar 1977)	20.000
9. Program (25 <sup>th</sup> May 1977)	0.600
10. Resolutions for supporting economic growth and employment (14 <sup>th</sup> Sept 1977)	2.340
11. Second special program for severely disabled (2 <sup>nd</sup> Jan 1978)	0.100
12. Resolutions for strengthening demand and improving economic growth (28 <sup>th</sup> Jul 1978)	5.450
13. Third special program for severely disabled (28 <sup>th</sup> Mar 1979)	0.130
14. Labour market political program for regions with severe employment problems (16 <sup>th</sup> May 1979)	0.900
15. Employment measures within the scope of the Operation '82 (2 <sup>nd</sup> Sept 1981)	9.250
16. Fourth special program for severely disabled	0.250
17. Law for granting young unemployed education aid funded by federal funds (3 <sup>rd</sup> Jun 1982)	0.355
18. Single special program for creating public jobs (27 <sup>th</sup> Oct 1983)	0.160
19. Amendment to the law granting young unemployed education aid (24 <sup>th</sup> May 1984)	0.265

(Source: Auer, Chronik zur Arbeitsmarktpolitik, 1987, p.121)

### 3.1.2 Great Britain

#### Temporary Production subsidies

In 1975 Great Britain introduced a temporary employment program. The program was called TES (Temporary Employment Subsidy) and can be described as an employment maintaining wage subsidy that allows the resumption of production. By granting companies an employment subsidy, which was around 30% of an industrial average wage, 3% (205000 employees) of the employees in the manufacturing industry could be supported; all under the condition that no layoff is implemented.

The net employment effect was estimated to be of approximately 100000 individuals.<sup>34</sup>

<sup>34</sup> See Bruche, et al., 1982



The TES was criticised by many of Britain's trade partners as being competitively distorted and as a form of "export of unemployment". This resulted in a change to a form of conventional short-time work in 1977.<sup>35</sup>

## **Job creation measures**

### **In the private sector: marginal wage subsidies**

The British Small Firm Employment Subsidy granted every company with a maximum of 50 employees in structurally weak regions in the UK a subsidy of 20 Pounds per week per additional full-time employee for not more than 26 weeks. This approach was later extended for companies with up to 200 employees. The new conservative government ended the program in 1980. Till 1979 approximately 170000 jobs were subject to subsidies.<sup>36</sup>

### **In the public sector: job creation measures**

One of the first reactions of the government to the employment crisis in 1975 was the anti-cyclical Job Creation Program (JCP), which was mainly fitted for juvenile and older unemployed. The program mediated jobs in the public and non-profit sector where they were of great value. Next to JCP, Britain introduced in 1976 the Work Experience Program (WEP), which ran parallel to JCP and offered mediation for juveniles to gather more work experience. WEP mediated jobs mainly in the private sector. In 1978 roughly 25000 persons participated in the program. In 1981 Britain introduced the Community Program (CP), which replaced all preceding programs concerned with labour creation measures. The program was solely targeted on long-term unemployed. Juveniles from 18 to 24 years had to be unemployed for at least 6 months, adults, 25 and older, had to show proof of at least 12 months of unemployment. The program supported up to 130000 positions, where the subsidy per week and position was 92.5 Pounds, yet the average wage level per week and project would not exceed 60 Pounds.<sup>37</sup> With this average wage scheme the attempt was taken to foster part-time jobs. The longest duration for support was not more than one year, yet the support for a project, with changing participants, could exceed a year. The purpose was primarily to reduce long-term unemployment on a local level, but also to accomplish operations in the interest of the communities. Compared to other European programs, which acted mainly out of socio-political reasons, such as the regaining of the insurance benefits for the unemployed, Britain

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<sup>35</sup> See Bruche, et al., 1982

<sup>36</sup> See Bruche, et al., 1982

<sup>37</sup> See Auer, et al., 1984

tried to maintain a certain level of minimum-qualification and work habits of long-term unemployed on a rotational basis.

Statistics show that more than half of all participants worked in the construction-, landscaping- or environmental protection sectors. Most of the participants were men (78.6%), which did correspond to the gender distribution among long-term unemployed. Even though juveniles were allowed to join the program already after 6 months of unemployment, 70 % of all participants were unemployed for over a year, which shows that the target group was met.

Since 71% of all participants worked in a part-time job, the goal of creating those through average wage schemes, can also be seen as achieved.<sup>38</sup> Till August 1983 already more than 368 Community Program Agencies were founded, most of the time by local authorities, which coordinate more than 120000 jobs.

### **External Skill Training Measures**

One of the arguments favouring external skill training measures was the productive usage of the time of the recession. These measures provide some kind of waiting room for people between jobs, but gaining qualification whilst waiting for a new job, which facilitates later reintegration.

In Britain the extent of such programs, such as the TOPS-program (Tuition Opportunity Program for Students), doubled between 1974 and 1976, yet unemployment rose parallel and even more than doubled from 2.6% to 5.6% in the same period<sup>39</sup>. After 1978 the number of participants declined steadily. Reason for this loss was a change of emphasis from skill training measures to supporting the youth gaining work experience.

### **Youth programs**

The largest single program in Great Britain's active labour market policy was the Youth Opportunity Program (YOP), the purpose of which was to integrate school graduates being 18 years old and younger. In particular, school graduates, who were still without job three months after graduation, were offered the participation in company internships, professional training courses or special labour creation programs. Due to the rapid deterioration of the labour market condition the program was intensively extended. Whilst in 1978 only 30000 people enrolled in the program, in 1981 already 20% of the 16-18 year olds, more than

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<sup>38</sup> See Auer, et al., 1984

<sup>39</sup> See Bruche, et al., 1982

220000 individuals, participated<sup>40</sup>. This inevitably resulted in a loss of quality, since YOP participants were used as cheap manpower, especially by smaller firms with a lower degree of unionised organisation, to replace their normal workers. The Substitution effect was estimated to be 30%, yet only 30% of the YOP jobs offered real career opportunities, which severely limited the program's power of integration. Whilst in 1978 70% of the participants got a regular job, in 1981 only 40% managed to do so.<sup>41</sup>

### **Support for self-employment**

In 1982 the British government introduced a program that granted support to unemployed persons, who would found their own company. The omission of the jobseekers allowance is compensated by a slightly higher remuneration payment. This payment was granted for a period of up to 12 months, but just if the individual invested an amount of at least 1000 Pounds in the newly founded company. This was later extended to cooperative ventures, which did not exceed 10 people.<sup>42</sup>

Noticeable with this measure is the fact that the unemployed persons had to invest 1000 pounds at relatively high risk in the new company and this with an average of only 35 pounds job seeker's allowance per week previously.

## **3.1.3 France**

### **Short-time work**

In the beginning of 1975 France extended the regulations for short-time work, so that the national employment fund would now refund 80% of the contractual short-time compensation and subsidise 470 free periods compared to 320 before the extension. As a reaction the amount of free periods in the context of short-time working rose from monthly 323000 hours in average per year in 1974 to 1245000 hours in 1975, but dropped again to 583000 hours in 1976.<sup>43</sup> Not until the beginning of 1980, short-time working gained, through a severe deterioration of the labour market situation, again greater importance.

### **Job-creation measures**

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<sup>40</sup> See Bruche, et al., 1982

<sup>41</sup> See Bruche, et al., 1982

<sup>42</sup> See Prenner, 1992

<sup>43</sup> See Bruche, et al., 1982

### **Marginal wage subsidies in the private sector**

In 1975 France introduced recruitment subsidies that were linked to certain conditions. Employers, who would augment their overall workforce number, receive 50% abatement on the social-security contributions payments for one year. Yet the decree is only granted if the recruited personnel consists of certain population groups, such as women, juveniles or permanently unemployed. The net employment effects lie approximately between 6% and 25%. The greatest effect was observed with smaller businesses.

While this program is linked to certain conditions concerning population groups, the so called “solidarity contract for reduction in working hours”, grants the abatement of the social-insurance contribution to companies, that cut their weekly working hours, between September 1981 and September 1983, from 37 to 36 hours.<sup>44</sup>

### **Job-creation measures in the public sector**

The French program for job-creation in the public sector, called the “Emploi d’utilité collective-EUC”, aim primarily on creating permanent posts in new areas of requisition. Determining premises for the specific orientation of the program were three main facts; one being the existence of less mass orientated desires, which implied a certain change of values in a part of the population. The second being the existence of a third economic sector, which consisted mainly of smaller non-commercial or charitable firms, that employed in 1980 6% of the population.<sup>45</sup> Third fact was the rise in unemployment among people with higher education. The program tried to use and integrate those three premises. Each project was subsidised with 24000 Francs wage subsidy per participant, spreading them on one or two years of support. Yet the subsidies are considerably lower than in other countries. In 1979, the first year, only 4500 jobs were subsidised and not more than 15000 positions were created after the expansion of the program. The program did not only support rather traditional public utility work but also new founded companies or activities that should be profitable or at least self-supporting.<sup>46</sup>

Yet, with the program in progress, it loomed that the socio-cultural projects would be more supported. This was primarily the case due to the great experience of the organisations in the public sector, but also due to the great need of traditional services in the public sector, which could not afford to fill the empty positions because of the shortage of financial resources. The socio-economic projects had to rely on “alternative” demand in the area between the public

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<sup>44</sup> See Bruche, et al., 1982

<sup>45</sup> See Auer et al., 1984

<sup>46</sup> See Bruche, et al., 1982

and the private sector.<sup>47</sup> Additionally they were dependent on the purchasing power and stood closer to the verge of competing with the private sector than the socio-cultural projects did. To assure economic autonomy they would have needed to be supported for a longer period and needed more capital from the start.<sup>48</sup>

Another program introduced in France in 1979 was a “capitalized” payment of the unemployment allowance to unemployed, who founded a company. The prospective unemployment allowance for 6 months was paid in advance up to a maximum of 87000 Francs for one unemployed individual. In the period between 1979 and 1980 approximately 23000 non-workers used this offer.<sup>49</sup>

### **External Skill training measures**

One could observe that labour market training measures in France changed between 1972 and 1980 from mainly offering training courses for advanced education and vocational retraining for unemployed to measures for juveniles for introducing them to the labour market. Remarkably, the federal vocational training centre (AFPA) registered an increment of 73% between 1972 to 1975 but had to realize stagnating interest in the three following years (1%). This shift becomes even more notable if one combines all training measures in the broader sense, including internships and trainee programs. Even though less people signed up with the AFPA, the total expenditure in this area rose between 1977 to 1980 by 55%, where 70% of the growth, accounted for programs supporting the youth.<sup>50</sup>

### **Youth programs**

Next to the already mentioned programs above that were also mainly aimed at the youth, France introduced special programs solely geared towards the population between 15 and 24. Among others, subsidies for the improvement of apprentice conditions, internal vocational training measures and the so-called “short-internships” offered by companies or government-owned training centres.

Despite the large dimensions of the program, the long-term employment effects for adolescents are viewed with scepticism. The possible reduction of employment-costs generated by the measures is too little and too short range in order to influence entrepreneurial decision-making in favour of the youth. The net employment effect is estimated to be just

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<sup>47</sup> See Auer et al., 1984

<sup>48</sup> See Granger, 1980

<sup>49</sup> See Bruche, et al., 1982

<sup>50</sup> See Bruche, et al., 1982

above 5000 jobs<sup>51</sup>. Due to the prevention of a strong rise of unemployment at the end of the school year, the short-range results can be seen as very positive, yet do hardly influence the rise of unemployment in the long-term.

### **Reduction of labour supply**

With the period of lack of labour supply coming to an end and the beginning of the crisis in 1973 many European countries changed their labour market strategies from opening up new labour reserves at home and abroad to reducing the supply of labour domestically.

This reduction was aimed at those parts of the potential labour force, which could fall back to an alternative role outside the professional life or country. Groups that fall into this category are women (home-keeper), juveniles (family, school), the elderly (retirement) and foreigners (return to home country). Whilst this alternative is publicly accepted and legitimate, most affected groups do not exactly appreciate these measures.<sup>52</sup>

France passed a ban on recruitment and family reunion in 1974 to reduce the domestic labour force. In 1976 the right for family reunion was restored and in 1977 a ban on work permits for relatives was passed, but again repelled by the Supreme Court in 1978. In 1980 further restrictions came into effect. The grant or extension of a labour permit is dependent on the labour market situation in the several sectors and regulated by a rate that varies with the demand for labour.<sup>53</sup>

Next to a policy of restriction on admission, France also created incentives for families to return to their home countries, a payment to encourage reverse migration. Foreign employees with more than 5 years of residence in France were granted a reward (aide au retour) if they would return to their home country and promise not to re-migrate. The government covered all migration expenses as well as paying 10000 Francs for the worker, 10000 Francs for the spouse and 5000 Francs for every child under 18. The payout was given in their home country. From the beginnings in 1977 till 1981 around 58000 foreign workers (in total 91000 persons) made use of the payment for reverse migration, which caused a total cost of 500 bil. Francs for the French government.

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<sup>51</sup> See Bruche, et al., 1982

<sup>52</sup> See Bruche, et al., 1982

<sup>53</sup> See Bruche, et al., 1982

## **3.2 Recession in the 1990's**

### **3.2.1 Germany**

#### **Sonderprogramm**

In the first quarter of 1987 the German GDP dropped by 2.5%, up to date, still one of the worst drops in history. In 1989 the German government started a special program for long-term unemployed and difficult to place people as response to the long lasting high unemployment till 1988. The government supplied the program with an amount of 1.75 bil. D-Mark, which was divided into two parts. Part one being the employment support for normal long-term unemployed and the second part being measures for specially impaired long-term unemployed and hard to place unemployed. Up to 1989 the German government used several measures to counteract the problem, yet those weren't efficient enough or not used in the right way, to improve the situation. I will first give an overview of the main policies used till 1989 and afterwards describe the applied measures of the Sonderprogramm.

#### **Further vocational education and re-education**

An investigation by the Bundesanstalt für Arbeit led to the perception that only a small percentage of the participants are long-term unemployed and therefore are completely under-represented in one of the centrepieces of the German labour market policy. In 1991 only 9.6% of all participants who again found a job, were unemployed for more than one year.<sup>54</sup> This problem has several roots in the administrative requirements for the training programs, which in many ways, hinder long-term unemployed in taking part.

The granting for funding for these programs is strongly connected to whether participants are suitable for the program and are expected to be successful in finding a job afterwards. Even though the spectrum of acceptance was very broad, for many long-term unemployed this was an exclusion criterion. Unemployed that didn't receive any kind of unemployment assistance within the last three years, or women on maternity leave, that didn't yet work, had no entitlement to receive support during a participation in a program. Furthermore a lot of long-term unemployed lacked information about the training program and were therefore not motivated to participate.

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<sup>54</sup> See Schmid, et al., 1992

**Figure 5: Participation in vocational training measures, overall and by duration of unemployment 1987-1989**

Situation of the Participant	1987 total value	%	1988 total value	%	1989 total value	%
Not unemployed	213 218	35.8	249 764	44.2	211 903	43.3
Unemployed:						
Less than 1 year	304 774	51.1	257 062	45.4	221 065	45.1
1-2 years	43 580	7.3	34 375	6.1	32 406	6.6
2 years and longer	34 782	5.8	24 410	4.3	24 502	5.0
Total number of unemployed	383 136	64.2	315 847	55.8	277 973	56.7
Total Value	596 354	100	565 611	100	489 876	100

Source: Bundesagentur für Arbeit

### **Job creation schemes**

By looking at figure 6, one can identify the long-term unemployed as main stakeholders of this statistic, meaning that this group largely used those job creation schemes. Even though the overall number of long-term unemployed decreased in the three years their overall percentage increased to 52.4%. Other groups, such as women, the disabled or elderly also increased their percentage. Only the hard to place unemployed decreased, which is probably due to a new evaluation criterion introduced by the employment service.<sup>55</sup>

Yet this does not mean that these measures were successful in re-integrating the long-unemployed into the working population. For most long-term unemployed, job creation schemes were rather just an interruption to their unemployment; whilst approximately 25% of people that were without work for less than six months found one after or stay in the scheme, only 18% of people who were out of work for two years or more only found a job after participation.<sup>56</sup> But generally, one can resume that these schemes attracted long-term unemployed the most, yet didn't have the expected effect of re-integrating the unemployed

<sup>55</sup> See Schmid, et al., 1992

<sup>56</sup> See Schmid, et al., 1992



into the working-life.

**Figure 6: Job creation measures by selected criteria, 1987-1989**

Supported Employees/Current Measures	1987		1988		1989	
	Total	%	Total	%	Total	%
Men	70 887	61.8	68 200	59.4	57 291	59.1
Women	43 812	38.2	46 687	40.6	39 619	40.9
Under 25 years and without Education	27 168	23.7	25 293	22.0	20 871	21.5
Over 50 years	13 952	12.2	14 049	12.2	12 682	13.1
Long-term Unemployed	52 409	45.7	55 348	48.2	50 793	52.4
Severely disabled Persons	7 140	6.2	7 918	7.9	6 791	7.0
Handicaped Persons	8 311	7.2	7 594	6.6	6 331	6.5
Hard to place Persons	20 647	18.0	20 979	18.3	14 588	15.1
Total number of Participants	114 699		114 888		96 911	
Current Measures	50 505		52 465		43 685	

Source: Bundesagentur für Arbeit

## Wage subsidies

### Sonderprogramm

Due to the only slight efficiency for diminishing the number of long-term unemployed by using the measures described above, the two programs introduced in 1989 used different instrumental and institutional approaches to increase the chances for re-integration of the problematic group of long-term unemployed and hard to place people. The program consisted of four pillars: project promotion, possibility of social support, combination of measures and the cooperation of the institutions.<sup>57</sup>

The designated goal of the Sonderprogramm was to simplify the re-entrance of this special group of unemployed into working-life. Traditional labour market policy primarily uses employment and vocational measures solely to reduce unemployment; the Sonderprogramm

<sup>57</sup> See Schmid, et al., 1992

upgrades these measures with social support and improvement by mixing the measures.<sup>58</sup> The social support feature addresses explicitly the special problems of the Sonderprogramm's target group. Above all they aimed to improve the targeted person's personality to increase the chances on the labour market. By combining the three measures, employment, qualification and social support, at will (7 possibilities), a better concentration on individual problems was implied. This can be seen as a customized employment measure.

This customization was also applied on the adequate choice of an institution that offers programs for unemployed individuals. Institutions can be for example, public corporations or non-profit organizations in the private sector. Again programs could be taken at either one or a combination of several institutions, to adequately respond to the individual's problems and abilities.<sup>59</sup> The table below shows the distribution of the combination of the offered measures and services and elucidates the renunciation from using solely one measure exclusively. With 59.2 % the combination of all three measures was by far the most popular one. Looking at the following three combinations one can see clearly that the aspect of social support was very well adapted and asked for.

**Figure 7: Allotted Measures by the Sonderprogramm in per cent**

Employment	1.3
Qualification	0.0
Social Support	13.0
Employment + Qualification	3.6
Employment + Social Support	9.4
Qualification + Social Support	13.5
Employment + Qualification + Social Support	59.2

Source: Schmid et. Al. Neue Wege der Arbeitsmarktpolitik: Implementation und Wirksamkeit des Sonderprogramms, 1993, p.3

<sup>58</sup> See Schmid, et al., 1992

<sup>59</sup> See Schmid, et al., 1992

## **Modellvorhaben - a pilot scheme**

In addition to the Sonderprogramm, 8 prototype public employment centres were set up, where new ways of implementing labour market policies were tested. One of the key ideas was to create discussion groups (a so called round table of social courage), consisting of the regional social service providers and other labour market political players. These working groups could be seen as the institutional frame for fostering new ideas and concepts to reduce unemployment. The task assigned were as follows:<sup>60</sup>

- Coordination of providers, measures and financial aspects
- Contentual configuration of planned measures
- Development of individual support plans
- Development of new financial strategies (i.e. conflation and collective use of resources)
- Institutionalisation of political regional labour market networks

Goal of this program was, by considering the regional characteristics, to guide the unemployed through a series of instruments of labour market policies that are specially tailored to their individual needs and respect their circumstances.

To realize this scheme the key elements were the combination and pooling of existing financial facilities and institutions.<sup>61</sup> For this purpose the assigned “special” public employment centres were supplied with 50 mil. out of the 1.5 bil. program fund that were not subject to the Bundesanstalt für Arbeit guidelines and restrictions on spending this money and could be spent at will. The only restriction of this “special money pot” was that it had to be spend on wage subsidies, were the recipients had to be individuals that were unemployed for at least one year.<sup>62</sup> Therefore the capital had a flexible spending nature, which could be applied, for example, to a wage subsidy of 100%, the fostering of limited working contracts or the prolonging of the duration of support.

### **3.2.2 Great Britain**

After the economic boom towards the end of the 1980’s Britain had to face a strong recession starting in the middle of 1990. Until the beginning of 1992, the number of unemployed

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<sup>60</sup> See Schmid, et al., 1992

<sup>61</sup> See Schmid, et al., 1992

<sup>62</sup> See Schmid, et al., 1992

individuals rose by over a million and the GNP decreased by 4.5%. Due to the over-valuation of the British Pound within the European currency system, the trade balance deficit increased dramatically. Additionally the high rise in wages, compared to the major European countries deteriorated the competitiveness with the continent. When in July of 1992 the German Bundesbank raised the bank rate, the situation became unsustainable for the British economy and therefore the British government quit the membership in the European Monetary Union. This act implied a change of course towards a rather expansive monetary policy.

### **The Restart Program**

In April 1987, the British government introduced a program that reviewed in particular the situation of people having to cope with long-term unemployment, the so-called Restart Program. The unemployed, participating in this program had to meet up with a counsellor once a month for the period of half a year. *“During this interview the counsellor assessed the claimant’s recent unemployment history and offered advice on benefits, search behaviour, training courses and in some instances, initiated direct contact with employers.”*<sup>63</sup> Its main goal was to decrease the duration of unemployment for jobseekers and to reduce the spending on unemployment benefits for people who did not put the appropriate effort into searching for a job or who were essentially not available for work. Therefore the most important part of the program, was the positive help to willing jobseekers with true ambitions of finding a job yet with its negative threat component, its compulsory characteristics, where unemployment benefit claimants had to face the possibility of reduction or loss of their aid payments if they did not attend the meetings or made the appropriate effort to look for a job, the program went new ways among programs of other OECD countries.<sup>64</sup>

In order to qualify for the program, people had to be unemployed and claiming benefit, for an uninterrupted period of at least six months. Then the unemployed individual would receive a letter from the Restart office, stating the request of attending an interview at a certain place and time. The normal duration of such an interview was between 15 to 25 minutes and normally took place in an Employment Service Job Centre. After the first interview, the Restart counsellor would then recommend an individual course of action for every job seeker designed to assist in his/her search for a job. If an addressed person did not attend the interview, he/she would receive two more letters from the Restart office requesting them to do so. Once they did not response to these invitations for an interview after a third letter, the

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<sup>63</sup> See Dolton, et al., Unemployment duration and the restart effect: some experimental evidence, 1996, p.2

<sup>64</sup> See Dolton, et al., 1996

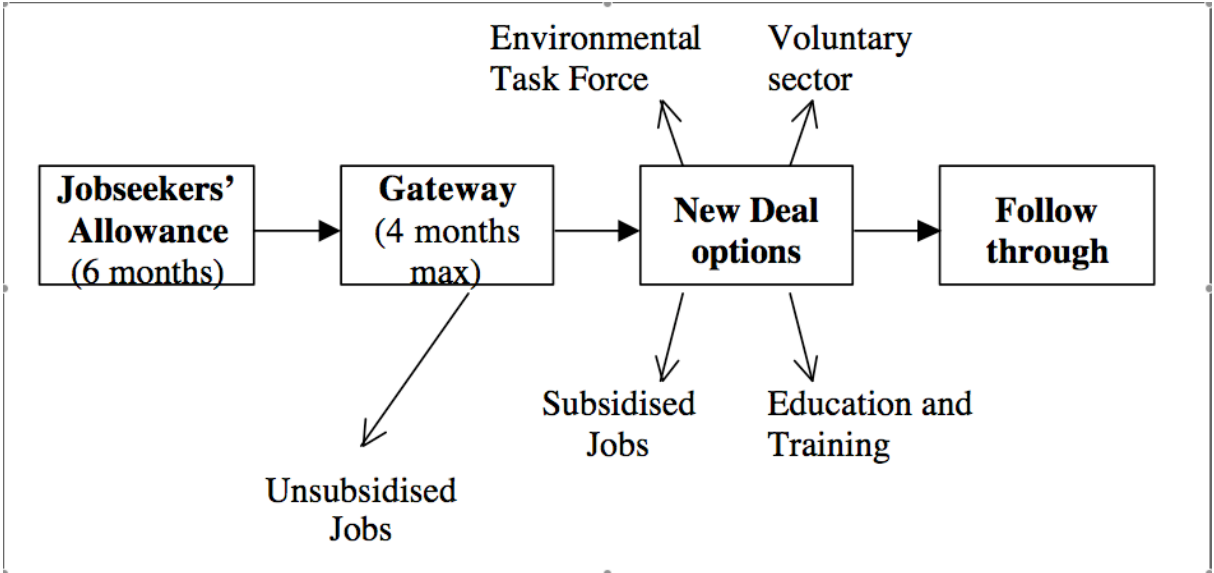
Restart office sent their details to the Unemployment benefit office, resulting in an immediate loss of their aid payments. To reverse this process they would have to come with evidence of attending an interview before being entitled to receive unemployment benefit again.<sup>65</sup>

**The New Deal**

The New Deal program in the United Kingdom, launched in 1989, was targeted at the young population aged between 18 and 24 years with at least 6 months of unemployment. Since participation was made compulsory, every refusal would lead to a loss of entitlement to benefits. *“The criteria for eligibility are simple: every individual aged between 18 and 24 by the time of completion of the sixth month on Job Seekers’ Allowance (JSA) – the standard flat rate Unemployment Insurance in the UK – is assigned to the program and starts receiving treatment.”*<sup>66</sup>

The program involved three major steps for an individual to go through. (See figure)  
 The first step was called the gateway, which can last up to 4 months. Here the individual experiences intensive job search assistance and small basic skills courses. Additionally, a personal advisor, who individuals are encouraged to meet at least once every two weeks, is assigned to enforce the job search.

**Figure 8: The New Deal**



(Source: Blundell et. al., Active labour market policy vs employment tax credits: lessons from the recent UK reforms, 2002, p.8)

<sup>65</sup> See Dolton, et al., 1996

<sup>66</sup> See Blundell, et al., Active labour market policy vs employment tax credits: lessons from the recent UK reforms, 2002, p.8

In the second stage the individual had four options. The first option was a six months duration of subsidized employment, where the employer received a 60 pounds a week wage subsidy for this period and in addition a 750 pounds payment job training actions at least one day a week.

The second option, with a maximum duration of 12 months, is a full-time education or training course the individual could enrol in, where they received an equivalent amount to the Job seeker's Allowance payment. They may have even been eligible for special grants in order to cover exceptional expenses. For the third option the job seekers could work in the voluntary sector and also receive an amount equal to the JSA plus 400 pounds extra, spread over the period of six months. The last option offered a job in the governmental Environmental Task Force, where individuals are again paid a wage or allowance at least equal to JSA and in addition 400 pounds extra spread over the six months period.<sup>67</sup>

*"In the first few months the program is operating, a very large increase in the flows to employment was observed, which then fell as the program matured."*<sup>68</sup> The program affected both qualified and unqualified individuals in a number of ways. Firstly, eligible job seekers received assistance in finding a job, which may have improved their chances. Secondly due to the wage subsidies paid, the costs for employment were less for the initial 6 months. Yet, if labour markets are not competitive, this may have led to a substitution of workers for these cheaper ones. An additional effect of the program may have been the decrease in wage pressure through the increase in labour supply and through the presence of wage subsidies. This led to an increase in employment for every type of worker and counteracted the effects of substitution.<sup>69</sup>

### **3.2.3 France**

France got in recession in 1993 along with most countries in continental Europe. The French economic policy followed the European convergence process by trying to meet the criteria of the Maastricht contract and the monetary policy set by the German Bundesbank. Yet the consolidation of the French exchange rate within the European monetary union caused higher interest rates than in other countries since the capital market not yet trusted the French

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<sup>67</sup> See Blundell, et al., 2002

<sup>68</sup> See Blundell, et al., Active labour market policy vs employment tax credits: lessons from the recent UK reforms, 2002, p.18

<sup>69</sup> See Blundell, et al., 2002

stabilization policy. The French fiscal policy couldn't quite counteract this restrictive monetary policy since it had to meet the restrictions of the deficit improvement.

### **Employment promotion in the private sector**

In the beginning of the 1990's the French government changed their conception of their labour market policy. Whilst the focus was lying up to then on hard to place people, their new goal was to improve the situation for the working class and therefore to reduce the growing splitting tendencies in the population. Compared to the problem-focused policy the new policy had its scope on a general improvement of the employment situation.<sup>70</sup>

These new strategies can be divided into three different groups. The first set of measures included the creation of a third sector situated between the private and the non-private sector. In 1991 the government created a program called "Emplois familiaux" that supported the employment of a home help or nanny with a tax reduction of 50% of the costs for employing such a person. Hereby the government helped households with children and two working parents who now could easier afford a nanny or caretaker and created several jobs.

A similar approach was the creation of so-called placement associations (associations intermédiaires) to help people with placement problems with finding a job and reintegration. These mediators offered temporary workers to private households, public corporations and private corporations in areas like home economics and cleaning services. The creation of jobs was in this case more important than the organizations profitability that compared to others had to cope with less trained workers and therefore could not compete with similar firms in the private sector. This fact was encountered with allowing the corporations to pay lower wages, which again was absorbed by social benefits for the corporations.<sup>71</sup>

The second group of measures addressed the working time (abatement temps partiel). At this time, part-time employment wasn't that popular in France than it was in other OECD countries. Due to analysis taken prior to the consolidation of the measures the government could expect a good reception, since more than others women welcomed a reduction of their working hours. The part-time working programs helped to enhance employment effects by redistributing jobs.<sup>72</sup>

The third group of measures, was a general exoneration from social contribution for employers and should through this, create incentives for creating jobs. This goal was first put into action by the government passing an arrangement for hiring new employees in a

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<sup>70</sup> See Hardt, 2003

<sup>71</sup> See Hardt, 2003

<sup>72</sup> See Hardt, 2003

corporation (Exo 1<sup>st</sup> salariè, 1989). Four years later in 1993, the next government reduced the non-wage labour costs in the low wage sector (allègement des charges sur les bas salaires). Here the incentive was the exoneration from payments to child and family services, for employment contracts that, looking at the wage, did not exceed the 1.2 times the amount of the minimum wage. This had tremendous consequences for the existing programs, since the traditional employment contracts (contrats de qualification, contrats initiative emploi) were no longer attractive enough for the low wage sector.<sup>73</sup>

### **Employment promotion in the non-private sector**

In 1990 the French government established a new program for the reintegration of problematic groups such as long-term unemployed, young unemployed people and recipients of social welfare. The program was called CES (contrat emploi solidarité). The participants had the status of a normal employed person and received a payment that was equivalent to the legal minimum wage, the SMIC (salaire minimum interprofessionnel de croissance).<sup>74</sup> The programs were due to its common welfare orientation often compared to the German “Arbeitsbeschaffungsmaßnahmen”.<sup>75</sup> In the following years the changing governments imposed follow-up programs to prolong the contracts of the participants. These programs were the CEC (contrat emploi consolidé) and the CEV (Contrat emploi de ville).<sup>76</sup> Looking at the period of the 90’s many critics see a great stagnation of the measures in the public sector. The measures had (most of all due to its low payments) a rather bad reception in the public and were rather unattractive for the vast majority.<sup>77</sup> The public’s expectations towards these programs were to satisfy their needs not yet covered by the existing public service, here critics say that the program in stead of assisting the existing public services, it acted more like a replacement to such.<sup>78</sup>

### **Vocational training measures**

Vocational training measures in France that offered unemployed people educational-, advanced training- and re-educational programs free of charge whilst receiving

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<sup>73</sup> See Hardt, 2003

<sup>74</sup> See Hardt, 2003

<sup>75</sup> See Hardt, 2003

<sup>76</sup> See Hardt, 2003

<sup>77</sup> See Hardt, 2003

<sup>78</sup> See Hardt, 2003



unemployment benefit, were most of the time offered within the framework of corporate internships with additional educational supplementation<sup>79</sup>

In 1988 the AFR (allocation de formation-reclassement) was put into action under the financial cooperation of the French government and the UNEDIC. The AFR was an education and reintegration program, which supported unemployed with social benefit throughout the whole time of their vocational training activities.<sup>80</sup>

With the experiences gained in the 1980's within the field of youth training and re-integration measures, the French government imposed two new programs, the CFI (crédit formation individualisé) in 1989 and the PAQUE (préparation active à la qualification et à l'emploi) in 1992. Those youth educational programs aimed at continuously supporting and guiding hard to place young unemployed throughout the whole process and many stages of vocational re-integration on an individual level. To assure the coordination and realisation of these measures on the local level, the government created institutions, so called missions locales that were called "guichets initiative-emploi".<sup>81</sup> By passing a five year plan in 1993 (11e Plan) the French government decentralised the vocational training measures for the young unemployed and gave the responsibility for implementation to the regional authorities whilst keeping the creation of the modalities centralised.

Due to the high costs the program PAQUE was shut down in 1994. Yet due to the decentralisation of the implementation authority and due to the end of PAQUE the costs for vocational measures sank significantly since 1993. Finally in 1994 the government started to restructure the vocational training modalities. The newly created SIFE (stage d'insertion et de formation) was created to simplify the confusing different co-existing vocational training programs. The SIFE was from then on the only concept for reintegration of the long-term unemployed, bundling all other programs.<sup>82</sup>

#### **4. Stimulus Packages for the present recession**

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<sup>79</sup> See Hardt, 2003

<sup>80</sup> See Hardt, 2003

<sup>81</sup> See Hardt, 2003

<sup>82</sup> See Hardt, 2003

## **4.1 Germany: Konjunkturpaket I&II**

On November 5<sup>th</sup>, 2008 the German federal cabinet passed the Konjunkturpaket I, which was slightly changed on November 12<sup>th</sup>. Next to enhancement and support of investments with focus on transport related projects, regional promotion of the economy and energy-efficient building, fiscal discharge for private households and companies, the government agreed on measures for the Bundesagentur für Arbeit. These labour-market related measures contained the additional recruitment of 1000 placement officers, for better and more intense facilitation of workers, the extension of the short-time working period to 18 months, as well as the improvement of vocational training measures. Supporting measures for companies covers the largest share of the package, which includes the reintroduction of the digressive allowance for depreciation and the temporary special amortisation for small and medium sized businesses.

In 2009 and 2010 the companies' disburdening will add up to more or less 2.2bil., respectively 4.7bil., due to the stimulus package. In total the economic stimulus package's fiscal impulse is rather small, with a volume of 4.2 bil. in 2009 and 7.7 bil. in 2010.<sup>83</sup>

Despite the described measures, the economic expansion, which results in mitigation of the rate of unemployment, did not exceed the economy's requirements in this matter. As a reaction, the German government passed another stimulus package, the Konjunkturpaket II, on January 12<sup>th</sup>, 2009. This package includes public investments and support for weaker communes, projects for fostering innovation and mobility, the support for the automobile industry, with the "Abwrackprämie", the reduction of the income tax, the reduction of the national health insurance, the increase of the social-transfer and measures for securing jobs. The labour market related measures occupy a total of 5.9 bil. Euro of the overall spending of 46.5 bil. for two years. The short-time work will be supported by refunding half of the social insurance contribution (2.2 bil.). Since January 1<sup>st</sup> 2009, the period for receiving the short-term compensation depending on market conditions is prolonged from 6 to 18 months. This new regulation concerns all employees, who are entitled to short-term compensation till December 31<sup>st</sup> 2009. This also includes employees who started receiving compensation in 2008. For vocational training measures, there will be funds amounting to 2.6 bil. provided. Furthermore, in the job-agency sector, there will be 5000 additional administrative positions created, to improve communication and placement for job seekers (0.2 bil.). Moreover the Federal Government plans to stabilise the contribution rates for the unemployment insurance to 2.8% by the end of 2010 (1 bil.).

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<sup>83</sup> See Horn, et al., 2009

## **4.2 Great Britain: The against the Recession Budget**

### **Job Centre Plus funding:**

In order to ensure that the Job Centre Plus has the capacity to supply a good personalized service for fighting the rise in unemployment, the government has set aside 1.7 billion pound. The aim is to help unemployed people to limit their period off work, where 25 per cent should get back to work within one month and 50 per cent within three months.<sup>84</sup>

These funds will also be applied to the Flexible New Deal employment program that offers long-term unemployed individual treatment from employment specialists

### **Support for unemployed 18 to 24 year olds:**

The government wants to put high emphasis on young adults that are out of work for more than 12 months. These individuals have been targeted for guaranteed support to re-enter the labour market.<sup>85</sup>

Amongst other measures, new training courses and community work placements will offer further chances to fulfil the guarantee put forward by the government.

Local authorities and voluntary sector partners will account for another 100000 new jobs. Here the main aim is to engage the 18 to 24 year olds in positions that are characterized through a high social perception. Furthermore the government wants to target especially areas around the country that have to cope with a high density of unemployment, with the funding of another 50000 jobs.<sup>86</sup>

### **Care sector-training boost – further help for 18 to 24 year olds:**

Last year over 100000 job vacancies in the social care sector stressed a need for trained people in this growing sector. In order to fill the surplus of vacancies in this sector, a funding scheme, called Care First, for providers that train and employ young people, has been introduced. The government offers providers a subsidy for training and employing 18 to 24 year olds, who did not work for a period more than 12 months.<sup>87</sup>

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<sup>84</sup> [http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG\\_177697](http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG_177697), 11.5.09, 16:32

<sup>85</sup> [http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG\\_177697](http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG_177697), 11.5.09, 16:32

<sup>86</sup> [http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG\\_177697](http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG_177697), 11.5.09, 16:32

<sup>87</sup> [http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG\\_177697](http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG_177697), 11.5.09, 16:32

### **September guarantee – education and training places:**

The government guarantees every 16 and 17 year old that desires a place on one of the courses to be accepted in the next academic year, by creating an other 54500 education and training places.

### **More jobs for the unemployed:**

In general the public sector will try to assure that 25 per cent of all people being externally recruited consist of people who are unemployed. A further 15000 jobs will be created by investing in housing, low carbon and other key infrastructure projects.<sup>88</sup>

## **4.3 The French reaction to the recession: the “plan de relance”**

*“With the 26.5 bil of the stimuli package we will finance certain concrete projects all over France; we will build, rehabilitate, accelerate investment projects and we will foster working projects all over France that will be stimulating for the economic activity and employment.”<sup>89</sup>*

In detail the stimuli package is divided into three main categories. The first one with a budget of 11.4 bil. Euros, contains payments to companies in the form of early tax credits for research programs or early refunds of the sales tax, in order to improve their financial situation and give them the opportunity to make investments. The second category with a budget of 11.1 bil. Euros is being invested in the financing of public investment programs for fostering the economic activity and employment programs, for measures for domestic construction and solidarity, for bringing forward the establishment of a fund for refunding the sales tax and for the doubling of the zero per cent credits. The remaining 4 bil. Euros are being put forward by major public enterprises to modernise and develop rail- and energy infrastructure and mail services.

In detail and in terms of labour market policy the French government will support especially smaller companies with an amount of 700 mil. of employment benefits. Furthermore the compensatory payments for short-time work will be increased and workers who were fired due to lack of work will be better taken care of with special individual re-integration measures. The number of labour market regions that are affected by transition contracts will be increased from 7 to 25. Also the French government decided to start all public construction

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<sup>88</sup> [http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG\\_177697](http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG_177697), 11.5.09, 16:32

<sup>89</sup> French Primeminister Francois Fillon at a cabinet meeting in Lyon

and renovation projects, which would normally start within the next 10 years or so, now and by doing that, creates a lot of job positions, especially in the struggling construction industry.<sup>90</sup>

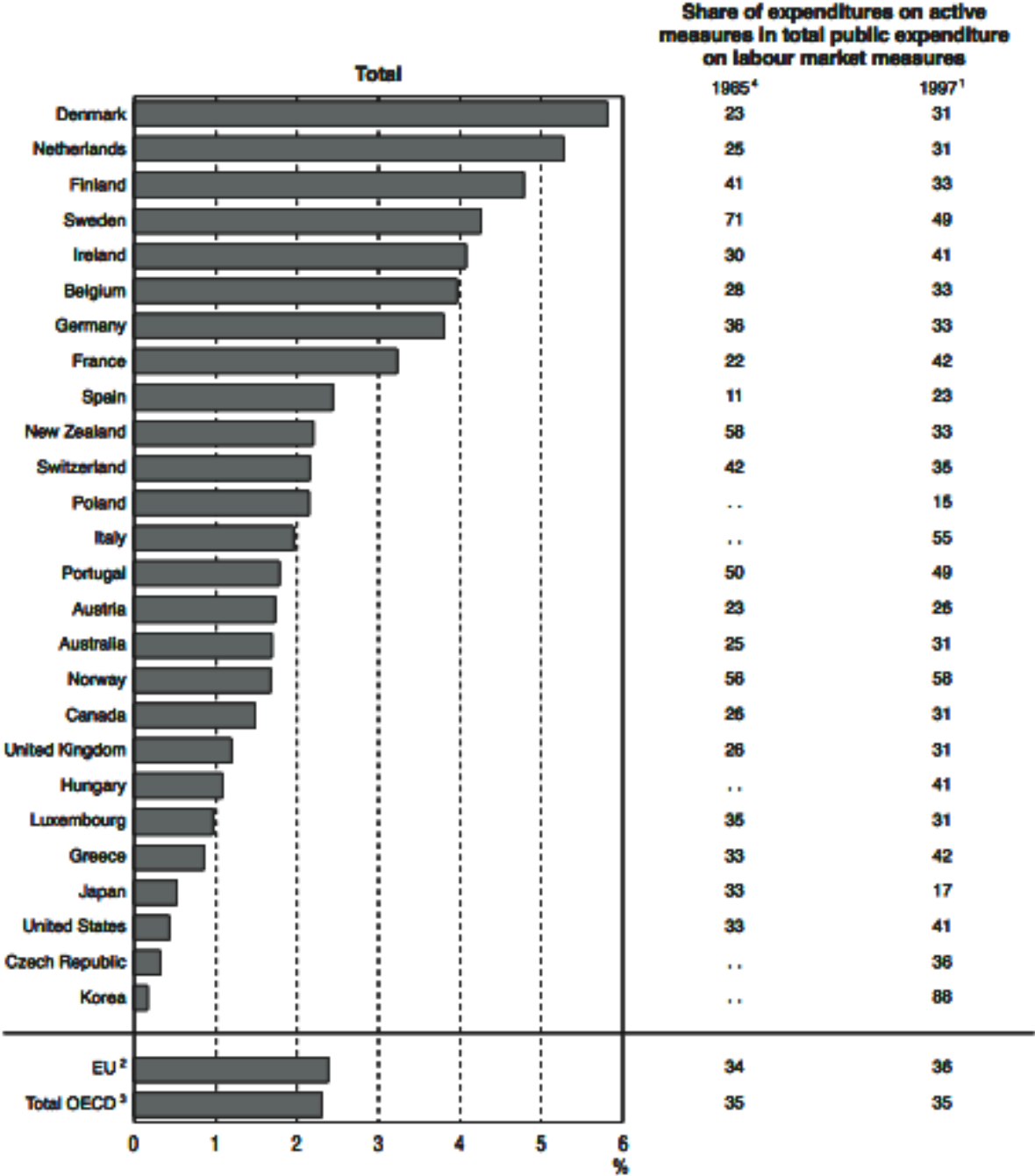
## 5. Summary and Conclusions

**Figure 9: Summary**

Recessions	Countries		
	France	Great Britain	Germany
<b>Oil Crisis</b>	<ul style="list-style-type: none"> <li>- Short time work</li> <li>- Wage subsidies in the private sector</li> <li>- Job creation measures in the public sector</li> <li>- Support for self employment</li> <li>- Youth programmes</li> <li>- Vocational training</li> <li>- Reduction of labour supply</li> </ul>	<ul style="list-style-type: none"> <li>- Temporary production subsidies</li> <li>- Private sector: marginal wage subsidies</li> <li>- Public sector: job creation measures</li> <li>- External skill training measures</li> <li>- Youth programs</li> <li>- Support for self employment</li> </ul>	<ul style="list-style-type: none"> <li>- Labour creation</li> <li>- Short time work</li> <li>- LMP for older employees</li> <li>- Repatriation program</li> </ul>
<b>Recession in the 1990's</b>	<ul style="list-style-type: none"> <li>- employment promotion in the private sector</li> <li>- part-time work</li> <li>- exoneration from social contributions</li> <li>- employment promotion in the public sector</li> <li>- vocational training measures</li> </ul>	<ul style="list-style-type: none"> <li>- Restart program</li> <li>- The New Deal</li> </ul>	<ul style="list-style-type: none"> <li>- Wage subsidies</li> <li>- Further vocational education</li> <li>- Job creation measures</li> </ul>
<b>Current Stimulus Packages</b>	<ul style="list-style-type: none"> <li>- Plan de relance</li> </ul>	<ul style="list-style-type: none"> <li>- Britain against the recession budget</li> </ul>	<ul style="list-style-type: none"> <li>- Konjunkturpaket I&amp;II</li> </ul>

<sup>90</sup> <http://www.gouvernement.fr/>, 10.8.09, 13:14

Figure 10: Public spending on total labour market measures, 1997, percentage of GDP



.. Data not available.  
 1. Data refer to 1996 for Ireland, Italy, Poland and Portugal.  
 2. Unweighted average, excluding Italy.  
 3. Unweighted average, excluding Czech Republic, Hungary, Italy, Korea and Poland.  
 4. Data refer to 1966 for Denmark and Portugal, to 1967 for Japan. Germany refers to Western Germany.

(Source: John P. Martin, What works among ALMP: evidence from OECD countries experiences, 2000, p.5)

Looking at the comparison of the three countries, France, Great Britain and Germany one can see similar approaches but also substantial differences in scale, content and organisation of the measures as well as of the institutional frame the political decisions are made.

The pattern for quick reaction to the start of a recession was in all countries more or less the same and focused on job preserving measures, trying to bypass the crisis and hoping for an early ending. Those measures were being reduced in the course of time but still kept on existing on a lower level as a permanent measure of intervention. After the initial phase of job preserving measures, job creation schemes came into focus. Here one can see the different strategies between the countries. Whilst Germany focused on older people, helping them to stay in the working world, Great Britain focused on the youth and introduced several innovative and input forcing youth programs. Germany can be characterized as a country, which always has made extensive and foremost very generous use of labour market policies and benefit payments. This also explains why it is amongst the OECD countries with the highest expenditures on labour market policies measured as a percentage of GDP. One can say that Germany focused to keep people in their job-position, making entry for younger applicants, trying to conquer the working life, more difficult. Great Britain on the other hand follows a policy of renewal, assisting the youth and therefore achieving a constant rejuvenation of the labour market. The strategy of reducing the labour supply by repatriating foreign workers and creating attraction by granting repatriation benefits was only conducted in France and Germany. Yet France extended this policy of labour supply reduction to other groups that presumably had a second choice of “profession”, such as women as housekeepers or juveniles with further education. In terms of vocational training measures France followed the example of Great Britain and experienced a shift in focus from concentrating rather on the re-training of older unemployed to giving younger unemployed a better start opportunity into the working world. This shift could be observed in the Oil crisis in 1974/1975 and was then again applied, due to its success, in the course of the recession in the 1990’s. Whilst the UK had always focused its vocational training programs on younger unemployed, Germany on the other hand rather focused on long-term unemployed and hard to place people in both recessions. In general one can observe strong similarities in the German labour market policy throughout all periods, even the current one. Short-time work and wage subsidies seem to always be the first answer to severe employment crisis. This is then most of the time being

followed by the “Arbeitsbeschaffungsmaßnahmen”, a typical German job creation scheme, which will most probably also be conducted within the next year for the current recession.

The basis for an enduring reduction of unemployment in all of these countries can only be a lasting recovery of the global economy. Labour market policy can only help to ease the negative consequences of this economic downtime for the labour market and the economy.



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FRENCH GOVERNMENT homepage, 2009, <http://www.gouvernement.fr/>, 10.8.09, 13:14

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## EDUCATION

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- Mar/01-present      **University of Vienna**  
International Business and Administration
- Specialisation: Electronic Business and Business Informatics
  - Master Thesis: Labour Market Policies as response to a recession in Germany, France and the UK - a comparison
- Oct/08-Sep/08      **University of California Los Angeles**, Summer term  
Psychology course
- Jan/00-Oct/00      **Military Service**  
Pioneer School Munich: Translator at ENTEC School,  
Ordinance
- Aug/97-May/99      **St.Clare's College, UK, Oxford**  
International Baccalaureate

## WORK EXPERIENCE

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- Aug/04-Sep/04      Spaten-Löwenbräu Gruppe      Munich, Germany
- Controlling:
- Involvement in sales planning
  - Participation in the expense statistic report
- Marketing:
- Organisation and execution of several events
  - Administrative tasks
- 
- Aug/03-Oct/03      Marker Technica Völkl Sports GmbH      Straubing, Germany
- Marketing and Sales Department:
- Assistant to Director of Marketing and Sales
  - Planning of several Events
  - Administrative tasks
- Oct/99-Dec/99      Julius Holz GmbH      Munich, Germany
- Production and Storage Department
- Assistant to Head of Storage
  - Several assisting tasks in Production
-

## **LANGUAGES**

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German: Mother tongue  
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## **COMPUTER SKILLS**

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Microsoft Office  
Final Cut Express  
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## **INTERESTS, HOBBIES & FURTHER ACTIVITIES**

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Sports and Interests: Skiing, Snowboarding, Surfing, Golf, Tennis, Football, Music, Travelling

Others: Lacunza ICH San Sebastian, intensive Spanish course, 2006 and 2007  
Constant part-time jobs for Events and Marketing Firms