Introduction

Most OECD countries have been plagued by high and persistent unemployment since the early 1970s. During the last decade there has been a growing interest in active labour market policies (ALMP) as a means of fighting this unacceptable situation. This is easy to understand in view of the disillusionment with more aggregate policies. The traditional demand stimulation has been discredited because it faces the risk of increasing inflation with only small effects on employment. Furthermore supply-side structural reforms aimed to remove various labour market rigidities are difficult to implement or appear to produce results rather slowly. As Calmfors (1994) notes, ALMP are regarded by many as the deus ex machina that will solve the unemployment problem by providing a more efficient outcome on the labour market. As they also equip individuals with higher skills and therefore lower their risk of poverty they are capable of meeting efficiency and equity goals at the same time (OECD, 1991).

Alongside with the general tendency to deregulate markets and to promote work incentives, it has become a common theme in the political debate, that governments should shift the balance of public spending on labour market policies away from passive income support towards more active measures designed to get the unemployed back into work. Whereas the goal of passive labour market policies (PLMP) is mainly to bridge the income shortage caused by unemployment, ALMP are intended to fight the structural problems of the labour market and to enhance the re-employment probability of (long-term) unemployed, respectively to avoid people drifting off into this group.[1] Especially Anglo-Saxon policy makers favour the idea of tying the right of welfare to the duty of work; welfare then becomes 'workfare' (Card, 2000). Hence, it is no wonder that it has become standard for international bodies

[1] The OECD (1993) provides some standardised categories and sub-categories for labour market policies. The main categories for PLMP are unemployment compensation and early retirements. ALMP include public employment services and administration, labour market training, youth measures, subsidised employment and measures for the disabled.

like the OECD (1994) or the European Commission (2000) to recommend an expansion of ALMP. Table 1 compares the spending on ALMP and PLMP for some selected European countries in 1985 and 2002, showing the growing importance of ALMP. Whereas in 1985 only 0.88% of the gross domestic product (GDP) have been dedicated to active measures, the share rose to 1.01% in 2002. The spending for PLMP dropped from 2.00% to 1.43% in that time period. However, only Italy, Sweden and the Netherlands spent more money an ALMP than on PLMP in 2002. One obvious reason for the limited success in switching resources into active measures is the rising trend of unemployment in many countries. As unemployment benefits are entitlement programmes, i.e. rising unemployment automatically increases public spending on passive income support, most of the active labour market programmes are discretionary in nature and therefore easier disposable in a situation of tight budgets (Martin, 1998).

Table 1: Spending on Active and Passive Labour Market Policies for Selected European Countries

	Spending on (as a percentage of GDP)			
	ALMP		PLMP	
	1985[1]	2002[2]	1985[1]	2002[2]
Austria	0.27	0.53	0.93	1.24
Belgium	1.31	1.25	3.37	2.40
Denmark	1.12	1.58	3.82	3.04
Finland	0.90	1.01	1.31	2.06
France	0.66	1.25	2.37	1.81
Germany	0.80	1.18	1.42	2.13
Greece	0.17	0.46	0.35	0.47
Ireland	1.52	1.14	3.52	0.70
Italy	–	0.57	1.33	0.63
Netherlands	1.16	1.85	3.49	1.72
Portugal	0.35	0.61	0.35	0.90
Spain	0.33	0.87	2.81	1.55
Sweden	2.10	1.40	0.87	1.05
United Kingdom	0.75	0.37	2.12	0.37
Average	0.88	1.01	2.00	1.43

– No information available.
[1] Data for Denmark and Portugal from 1986.
[2] Data for Denmark from 2000, for Greece from 1998, for Ireland from 2001, for Portugal from 2000.

Source: OECD Employment Outlook, various issues.

Table 1 also makes clear, that active labour market policies absorb significant shares of national resources, which are than unavailable for alternative programmes or private expenditure. Germany is no exception and spent over