

## EUROPEAN SOCIAL FUND AND LABOR MARKET POLICY

*When Austria joined the European Union it became a recipient of moneys from the European Social Fund (ESF). This means that a proportion of Austrian payments to the EU is returned to Austria earmarked for this particular purpose, and that substantially more money is now available nationally for active labor market policies. Nevertheless, requirements to be met by labor market promotion schemes have changed as well.*

The European Social Fund (ESF) is one of the four structural funds set up by the Community with the purpose of responding to the challenges of structural change. The other funds (European Regional Development Fund, European Agricultural Guidance and Guarantee Fund, Financial Instrument of Fisheries Guidance) are designed, on the one hand, to accelerate structural change by promoting tangible and intangible investments and, on the other hand, to cushion its effects by compensatory payments, which is an important factor primarily in agriculture. The ESF focuses on coping with structural change by efforts to develop human resources. Through it, the European Union has a stake in the labor market policies of its member states. The Fund itself pursues no sociopolitical goals of its own, but is a tool to support measures at national level. As the EU handles its financial involvement in the labor market policies of its member states solely through the ESF, it can thus exercise more influence on national strategies through the ESF than within the scope of other Community activities in the field of employment, social and labor market policies.

### IMPROVING INDIVIDUAL EMPLOYABILITY

The ESF supports programs which are designed to improve individual employability. What can be promoted within the scope of such programs are activities to raise self-confidence, develop social and communicative skills and to extend, adapt and upgrade occupational competences and skills. Measures to achieve this involve the qualification, employment and support level. Ultimately, employability should mean lifelong learning, so that individuals can be integrated in the labor process regardless of technological and structural changes.

Hedwig Lutz is economist at WIFO. The author wishes to thank Norbert Geldner for his valuable suggestions and information. The data were processed and analyzed with the assistance of Evelyn Wanderer.

### Goals and activities of the ESF

The ESF has been established with a view to developing and fostering human resources<sup>1</sup>. By investing in people, it aims to combat structural unemployment and to provide labor market support in regions lagging behind. It is the main financial tool through which the EU translates its employment policy goals into action. In the current program planning period (1994-1999) it will spend about one tenth of the European Union's total budget on these goals.

The ESF channels its support into strategic long-term programs ("program planning") which help regions across Europe, particularly the poorer ones, to upgrade and modernize workforce skills and to foster entrepreneurial initiative.

By insisting on the joint-funding principle, the ESF unlocks additional funding at national level designed for labor market measures in the member states.

The ESF's aims are both remedial and preventive: to help prevent future long-term unemployment, the ESF focuses its support on programs which better prepare young people for working life, which help those in employment to adapt or develop their skills to meet the challenges of change in the workplace, or which intervene early to help those who face losing their jobs and who may be at risk of long-term unemployment, to regain work quickly. For the long-term unemployed, the ESF aims at co-ordinated programs which provide a step-by-step path back into work ("pathways to integration").

Underlying all the ESF's work is the principle of ensuring equal access to employment for men and women, the disabled, and disadvantaged minorities at risk of social exclusion.

<sup>1</sup> "What is the ESF?" (European Commission, 1998).

Individual employability can be defined on the basis of three sets of characteristics (Erhel *et al.*, 1996, pp. 279-280):

- objective characteristics not susceptible to influence (age, ethnicity, gender, criminal record or past career),
- objective characteristics which are at least partially susceptible to influence (knowledge, competences, skills, appearance, geographical area), and
- subjective characteristics (motivation, behavior).

Individual employability is to be boosted through an activating and active strategy. A potential disadvantage of the concept is that it neglects possible changes in the labor

market context: a job seeker considered hard to place in one context might have good prospects of finding a job in another context (because of changes in labor market conditions or in the social standards and thus attitudes of prospective employers). Faced with a shortage of labor, an employer might overlook characteristics otherwise deemed undesirable, but a shortage of jobs makes employers raise their requirements.

For this reason, it is important not just to look at individual characteristics but also at the general framework of the labor market and its regulations. It is these which greatly define the extent of the problem as much as the effectiveness of labor market promotion activities.

### THE ROLE OF THE ESF WITHIN THE SETTING OF EU EMPLOYMENT AND LABOR MARKET POLICIES

For this reason, the ESF's approach of improving individual employability is just one of the pillars of the European employment and labor market policy<sup>1</sup>. The European Commission's strategy to boost employment and reduce unemployment is based on three pillars<sup>2</sup>:

1. The *macroeconomic policy mix* consists of a monetary policy driven by the objective of achieving stability, a financial policy fueled by the target of obtaining a balanced budget<sup>3</sup>, and real wage growth rates which are below labor productivity growth rates.
2. *Production potential*: It is seen as necessary to achieve some sustained and substantial increase of the potential output in order to produce any sustained rise in economic growth, promote genuine convergence of the rich and poor regions, add jobs and achieve further growth in productivity and thus real wages. Towards this end, the Commission is putting considerable efforts into pushing up the investment-income ratio. To this end, the need is felt to make investments more profitable (which is the case when increases in real wages are lower than labor productivity growth rates), to streng-

<sup>1</sup> There are only a few areas of social and labor market policies where European regulations are superimposed on national regulations: they include safety and health at work, working conditions, education and hearing of employees, equal opportunities for men and women, assistance in integrating marginalized people in the labor market (to the extent not affecting the provisions of the chapter on general and vocational education and youth in the EC Treaty). Here, the Council decides by qualified majority upon consultation of the European Parliament (Federal Ministry of Labor, Health and Social Affairs, 1997).

<sup>2</sup> See the critical discussion by Schröder (1997).

<sup>3</sup> To act as a counterweight to efforts to raise the investment-income ratio, with regard to which confidence is put into accelerated activities on the part of the private sector of the economy.

then entrepreneurial confidence in the location, to boost R&D and technological development and raise the savings-income ratio (by reducing public deficits).

3. With regard to *structural improvements of the labor market*, the ESF can contribute towards obtaining some of these goals.

A decision by the Essen European Council of 10 December 1994 elucidates the point: The five Guidelines identified in Essen summarize the structural improvements of the labor market to be aimed at, and it is particularly in the last three goals that the ESF can make a major contribution:

- Increasing the employment intensity of growth: Compared to the USA, productivity growth is much greater in Europe so that economic growth needs to be in the range of at least 2 percent in order to keep employment at a stable level. When productivity and thus real wages are substantially boosted, more jobs can be created when the work is shared among more people, i.e., when working hours are reduced. This approach is perceived to be promising when workers show an increasing preference for more leisure time and when the new workers to be employed have qualifications that match requirements at company level (*Schröder, 1997*). Measures consequent from this should strive to match workers' preferences with options to reorganize work. These would include adjustments to legislation in the social field, labor law and social security, schemes to reduce annual working time (educational leave, parental leave, sabbatical) or incentives to reduce weekly working hours (such as the solidarity premium model recently adopted in Austria)<sup>4</sup>.
- Reducing indirect wage costs: Indirect wage costs make work more expensive compared to other production factors and thus distort the decision on which factors are to be deployed. They also affect the respective rates of non-market output of goods and services (household work, care), unrecorded employment and official gainful employment. Indirect wage costs are usually staggered degressively so that their proportion is especially large in low incomes, thus reducing employment opportunities for low-income workers. Indirect wage costs include all those parts of an income from work which are not directly available to the worker. Indirect wage costs are not part of the disposable income and they cannot be negotiated between the collective bargaining

partners, so that labor market flexibility declines with their increase. Nevertheless, we need to ask how real labor costs (regardless of their components) and thus demand for labor would develop if indirect wage costs were to be lowered: these costs serve mainly as a safeguard against social risks. Total labor costs could not be expected to fall if a reduction in indirect wage costs were to translate into cuts of public social welfare provision and workers had to maintain their risk insurance level by raising expenses for self-provision without curtailing their disposable income.

- Improving workers' employment prospects by promoting investment in vocational training: Greater emphasis on vocational training by itself does not directly create jobs (except in the educational sector), yet it is linked to a number of positive effects: workers are more mobile; unemployment from mismatching is avoided; structural change can be better coped with; qualification bottlenecks are prevented, which in turn facilitates the creation of new jobs.
- Improving the efficiency of labor market policy: The key proposal in this respect is to move from passive benefits to an active labor market policy, such as the special integration allowance granted in Austria. When labor demand and supply are mismatched, measures should be taken to improve workers' occupational and geographical mobility.
- Boosting measures to assist those groups particularly affected by unemployment: Here the emphasis is on the long-term unemployed, the young unemployed and on disadvantages suffered by women in the labor market. It is in this field that the ESF sees one of its core responsibilities. Nevertheless, effective measures to combat such disadvantages cannot be limited to labor market promotion policies, but may well encompass the elimination of discriminating legislation governing taxation and social security.

The five strategies emanating from the Essen Council continue to enjoy currency, as can be seen from the employment policy guidelines developed by the European Union and the resultant national action plans for employment. The guidelines are grouped around four pillars: improving employability, boosting the entrepreneurial spirit, ensuring equal opportunities, and promoting labor market flexibility. Activities in the pursuit of these guidelines are designed to contribute to counteracting structural deficiencies which are perceived as crucial factors of the unemployment problem in Europe.

Taken jointly, the measures introduced at European, national and regional level have the appearance of great heterogeneity, especially when we consider that a host of

<sup>4</sup> When employer and employees agree to reduce their weekly working hours and the company hires unemployed persons at least to the volume of work saved by the reduction, employees are paid a premium (unemployment benefits weighed by the scope of reduction of working hours).

variants are implemented in a variety of combinations and that the underlying diagnoses of the root causes of the labor market problems are not explicitly expressed and certainly do not agree<sup>5</sup>. Ultimately, all these activities can be reduced to four types: reduce wage costs, create new employment opportunities, share existing work and provide for workers' qualifications (*Van Trier, 1997*). For Van Trier, the problem of the current labor market situation is distinguishing between the contribution to unemployment made by sheer quantity and that caused by adjustment problems to economic and social change<sup>6</sup>. Both quantitative and qualitative problems are rooted in a number of causes which in turn give rise to a variety of approaches towards solutions<sup>7</sup>.

The high priority awarded by the EU Commission to structural policy issues derives from this difficulty to distinguish between structural and demand-driven unemployment. Considering that labor markets have undergone deep-going transformation processes over the past decades while co-ordination mechanisms at institutional level (and with them the institutional framework itself) still think and act in 1950s categories, we are faced with the need to review institutions and regulations in terms of their effectiveness and efficiency.

## THE PRINCIPLES OF THE ESF

Based on the above background, six principles underpin financial support from the ESF: concentration on objectives and regions; additionality of ESF funds; long-term

<sup>5</sup> The conclusions to be drawn from the plethora of economical theories for any specific labor market policy are outlined by *Snower (1995)*.

<sup>6</sup> For Ronald Schettkat, for example, the point is not structural unemployment (i.e., a mismatch between demand for and supply of qualifications), but rather structured unemployment: low quantitative demand through several cycles has caused a damming-up effect. It is not the "personal" characteristics of the less qualified which are to blame for the high rate of unemployment among these groups, but rather the fierce competition at all levels of the labor market which is caused by lagging demand. The qualification pyramid is topped by a few well-paid and relatively secure jobs; but with more workers offering the requisite qualifications than suitable jobs to fill, these workers compete with less qualified workers for jobs at a lower hierarchical level. The process is promulgated throughout all levels of individual characteristics and qualifications and throughout all job levels, so that those who are least able to "credibly" promote their abilities and skills will be most affected by unemployment (*Foden – Ramos Yuste, 1997, p. 135*).

<sup>7</sup> Depending on the presumptive cause of unemployment, proposals vary for measures to reduce it. When excessive wages are pinpointed as the cause ("classic unemployment"), the result is a recommendation to cut wage costs. When technological progress is identified as the cause of unemployment, recommendations include the reduction of working hours. When unemployment is perceived to result from weak effective demand for goods ("Keynesian" view), the creation of jobs in new occupations and sectors suggests itself.

programming; monitoring and evaluation of implementation and effect; publicity; partnership in planning, implementing, monitoring and evaluation.

## CONCENTRATION ON OBJECTIVES AND REGIONS

The concentration principle is given expression by the ESF's policy to focus funds on six priority objectives:

- objective 1: regions whose development is lagging behind (in Austria: Burgenland);
- objective 2: regions seriously affected by industrial decline (in Austria: parts of Lower Austria, Upper Austria, Styria and Vorarlberg);
- objective 3: unemployed, long-term unemployed, people exposed to exclusion from the labor market, socially disadvantaged, women and young people (in Austria: the entire territory with the exception of Burgenland, an objective-1 region);
- objective 4: employees affected by structural change (all of Austria, except for Burgenland, an objective-1 region);
- objective 5b<sup>8</sup>: rural areas (in Austria: parts of Carinthia, Lower Austria, Upper Austria, Salzburg, Styria, Tyrol and Vorarlberg);
- objective 6: arctic, sparsely populated regions (areas of Sweden and Finland).

Altogether we can distinguish three core areas in terms of structural policy:

- development and adjustment of structurally weak regions (objectives 1 and 2);
- support to and adjustment of rural regions (objectives 5a and 5b);
- labor market promotion (objectives 3 and 4).

Overlapping between objectives is accepted, especially with regard to objective 1. Objective-1 regions typically have high unemployment so that programs running under objectives 3 and 4 will be applicable as well. This policy facilitates concentration on intervening in regions suffering from multiple structural problems that require a comprehensive, harmonized policy mix (*Federal Ministry of Labor, Health and Social Affairs, 1997*).

The ESF invests 47 percent of its funds in human resources in regions lagging behind in their development (objec-

<sup>8</sup> Objective 5a as defined by the Structural Funds focuses on adjusting production, processing and distribution structures in agriculture and forestry. No ESF aid is dispensed under this heading.

*Table 1: Scheduled ESF aid and resultant total aid volume in Austria*

1995-1999

	ESF expenditures ATS 1,000	Total expenditures
Objective 1	433,756	1,044,970
Objective 2	402,770	1,000,088
Objective 3	4,374,230	10,205,602
Objective 4	798,900	2,244,235
Objective 5b	940,408	2,249,863
Total	6,950,064	16,744,758

Source: Federal Ministry of Labor, Health and Social Affairs. Total cost: ESF financing and national financing.

Objective 1), 27 percent in objective-3 goals, 8 percent in areas of industrial decline (objective 2), 5 percent in objective 4, and 2.6 percent in objectives 5b and 6. Some 9 percent is earmarked for Community initiatives that involve innovative and transnational projects. Greece, Ireland and Portugal are objective-1 regions in their entirety. In Spain, Germany and Italy, the greater part of ESF moneys is similarly directed into objective-1 regions (Spain 65 percent, Germany 55 percent, Italy 49 percent). Denmark, Finland, Sweden and Luxembourg have no objective-1 regions.

In Austria, not quite 58 percent of the ESF aid is earmarked for objective 3, i.e., for integrating the hard-to-place in the labor market; programs for rural areas receive some 12 percent; objective 4 (promoting investment in human resources, anticipating labor market trends and improving training structures) gets 11 percent; 5.7 percent is allocated to objective 1 (Burgenland) and 5.3 percent to objective 2 (declining industrial areas).

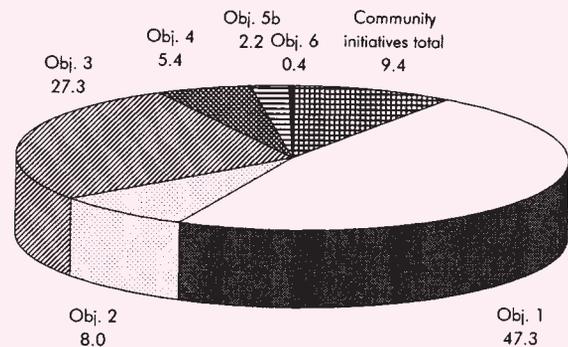
### ADDITIONALITY OF ESF MONEYS

Moneys from the ESF are not intended as substitutes for national moneys. Accordingly, total expenditure by the member states for structural policy programs within all Structural Funds must not drop below the level of the past programming period (1989-1993)<sup>9</sup>. Compliance with this principle is facilitated by the fact that the Community provides only part of the funds required to implement programs ("joint-funding principle") while the rest is supplied by public and private national bodies.

The contribution made by the ESF depends on the severity of the problem and the financial capacity of the member state concerned. Thus, it provides more funding for objective-1 regions than for any other ESF objectives. Funds

<sup>9</sup>In Austria, a common base of approximately ATS 4.2 billion was agreed for objectives 3 and 4. It was derived from average expenditure on active labor market policies in the three years prior to membership (adjusted by non-creditable items).

*Figure 1: ESF expenditures by objectives in 1994-1999*  
As a percentage of scheduled ESF financing



Source: European Commission.

not spent in a given year can be transferred to the next budget year (in contrast to the Austrian Budgetary Act). EU funds are paid in ECU, but aid is given in the national currency. This provides for some uncertainty as to the actual amount of the ESF contribution. When a currency is revalued against the ECU (as was the case with the schilling), fluctuations may lead to gaps in the aid volume. This means that either the volume of aid is reduced across the board or that national bodies compensate for the "lost" ESF share.

### PARTNERSHIP

This principle encompasses endeavors at harmonization between the Commission and its member states, between national, regional and local authorities within member states, and within and between authorities, institutions and social partners. The object is to provide for planning, implementation, financing, control, evaluation and monitoring on a partnership basis.

### PUBLICITY

The Commission attaches great value to having the public and (prospective) recipients of ESF moneys informed of the benefits available from the Community. The minimum requirements to be met with respect to publicity duties are defined in regulations.

### PROGRAM PLANNING

Targets are defined for the Structural Funds, which are to be achieved through a bundle of measures set over several years, and incorporated in programs. Their planning and their evaluation, performed after their termination, serves to monitor whether the targets could be met

through the measures chosen for that purpose (*Federal Ministry of Labor, Health and Social Affairs, 1997, p. 74*). For the Structural Funds, planning at European level starts with the adoption of regulations governing them. Based on the rules set out in the regulations, the member states draw up plans for national, regional and local action for each target and negotiate them with the Commission. The plans are based on an analysis of the situation, focal points for intervention and the envisaged targets, and develop the concrete activities planned. In the next step, targets are quantified (number of persons receiving aid) and financial schedules given that show the full aid volume and scheduled financing mix.

The plans provide a stable contractual framework for the European Commission and each member state. Its targets can be modified during the programming period when external conditions make this advisable. Depending on the scope of the modification, it is either approved by the committee responsible for monitoring and evaluating the program in the member state or agreed between the Commission and the member state.

In Austria, co-ordination for the development of plans for regional targets was the responsibility of the provincial governments; targets were agreed between the Federal Chancellery, the Länder and the Commission. The ESF elements were developed by the Ministry of Labor, Health and Social Affairs and the Public Employment Service under the lead management of the Ministry.

## MONITORING AND EVALUATION

ESF moneys are dispensed on condition that implementation of the plan is constantly monitored. For this purpose, schemes running for several years must produce a report on the previous year's implementory activities not later than six months into the next year (six months after termination of the program in the case of one-year schemes). The reports provide information on the progress of implementation by way of indicators defined in the plan. Quantitative targets refer to funds to be allocated to key schemes and sub-schemes, the financing mix and the number of persons receiving aid.

Special committees are responsible for monitoring and evaluating the programs, and they also decide on modifications to the funding plans. In Austria, 16 monitoring committees have been established<sup>10</sup>. Their members rep-

<sup>10</sup> One monitoring committee each for objectives 1, 3 and 4; two (Austria-wide) committees for objectives 2 and 5b, one committee for each of the four objective-2 regions and one committee for each of the seven objective-5b regions.

resent Austrian government authorities, beneficiaries (bodies responsible for operative implementation, i.e., actual aid payout), the Commission and the social partners. They are chaired by the Federal Chancellery with respect to programs with regional objectives, and by the Ministry of Labor, Health and Social Affairs with regard to the horizontal objectives 3 and 4.

Evaluation of the programs is performed by independent evaluators appointed by the monitoring committees. The Commission requires ex-ante evaluation, interim evaluation (midway through the programming period, i.e., June 1997) and ex-post evaluation.

For Austria, the requirement that labor market policy programs be submitted to in-depth evaluation is a novelty and a major challenge for the evaluation teams as much as for those responsible for the programs. Previously, evaluations of labor market programs had been limited to sample reviews of a few measures. When Austria joined the ESF, it was therefore given an opportunity to develop the requisite culture and know-how for evaluation. The more knowledge is obtained of actual, intended and unintended effects of labor market measures, the better can labor market promotion funds be employed to ensure concentrated effectiveness and efficiency. The decision by the Ministry of Labor, Health and Social Affairs to appoint evaluation teams for objectives 3 and 4 for the entire programming period (up to 2000) has been found to be particularly fruitful<sup>11</sup>.

## ESF BUDGET AND ALLOCATION OF FUNDS

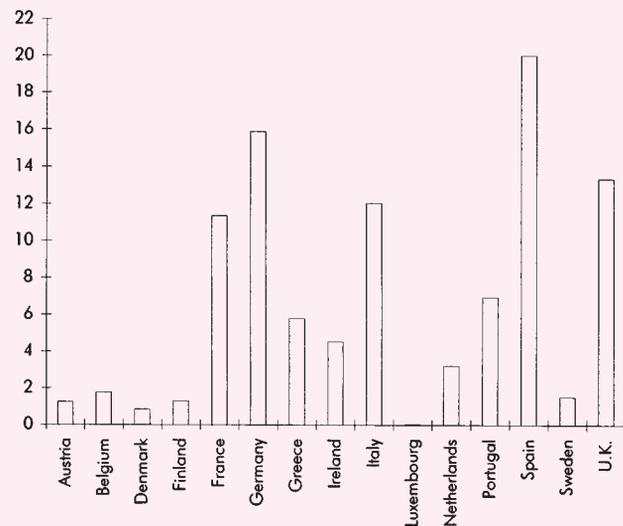
Altogether, the Structural Funds have ECU 156 billion at their disposal in the 1994-1999 programming period, which represents 0.49 percent of the EU's GDP<sup>12</sup>. Of this amount, ECU 46.8 billion (ATS 610 billion) or 30 percent are allocated to the ESF (*Federal Ministry of Labor, Health and Social Affairs, 1997, p. 62*). Mainstream actions take up 90 percent of ESF moneys, 9 percent is allocated to Community initiatives (innovative projects at transnational level), and 1 percent is awarded by the European Commission for studies and innovative pilot projects.

<sup>11</sup> It is still possible to advance termination of the contract, e.g., when the agreed performance is not achieved. The Austrian Regional Planning Institute studied the bodies commissioning as well as those performing interim evaluation (key findings with regard to initial problems of program evaluation in Austria in "Themenschwerpunkt Bilanz der Zwischenevaluierung", Checkpoint EVA Österreichische Koordinierungsstelle für Evaluation von Regionalpolitik und regionalpolitischen Programmen, Post, 1998, (1)).

<sup>12</sup> The Marshall Plan operated after World War II was endowed with the equivalent of about 1 percent of the U.S. GDP.

Figure 2: Allocation of ESF expenditures by member states, 1994-1999

Scheduled percentage of total ESF financing (including Community initiatives)



Source: European Commission.

ESF activities in Austria started in 1995. The amount available from the ESF for Austrian labor market promotion activities between 1995 and 1999 will total ATS 7 billion (plus ATS 650 million for Community initiatives). This sum will move altogether ATS 16.7 billion for labor market promotion (ATS 1.3 billion for Community initiatives). Austria thus receives about 1 percent of the money available to the Structural Funds. The ESF itself obtains 37 percent of the total budget allocated to the Structural Funds.

The amounts scheduled to be allocated to each member state depend on their size, the scope of their labor market problems and the labor market policies pursued by them at national level. Accordingly the relatively largest share (20 percent of all ESF moneys) goes to Spain, followed by Germany (almost 16 percent), the U.K. (13 percent), Italy (12 percent) and France (11 percent). The Austrian share is about equal to that for Finland, but slightly lower (including Community initiatives at about ATS 120 million) than in Sweden, which had faced serious labor market problems in the early 1990s, the time when funds were allocated. In eleven out of 15 member states, ESF support is less than ECU 100 per head (*European Commission, 1998*), with the lowest per-capita value received by Luxembourg at ECU 65. Exceptions are Ireland (over ECU 500), Portugal (about ECU 330), Spain and Greece (about ECU 250 each).

The scheduled ESF moneys constitute upper limits. Actual payout (except for the initial payment) depends on the proof that a specified portion of the scheduled budget has

already been used for the scheduled purpose, and on compliance with the co-financing principle.

## THE EFFECT OF AUSTRIAN MEMBERSHIP IN THE ESF ON ITS LABOR MARKET POLICY

Between 1995 and 1997, a total of ATS 3,821.6 million in ESF moneys was paid out, equal to 55 percent of the funds available for the entire period. In spite of intricate administrative procedures and complex money flows, the utilization rate was over 50 percent for all objectives, with the exception of objective 1.

The Ministry of Labor, Health and Social Affairs acts as the Austrian liaison office for the ESF. Its ultimate beneficiaries are the Public Employment Service (85 percent of the scheduled volume), Department IV of the Federal Ministry of Labor, Health and Social Affairs and the Federal Offices for Social Affairs and the Disabled for disabled persons covered by the Employment of Disabled Persons Act (9 percent), Department III of the Ministry (almost 3 percent), the provincial governments of Burgenland, Carinthia, Tyrol and Vorarlberg for objectives 1 and 5b (2 percent), and the Federal Ministry of Science, Transport and the Arts (1 percent). Other ultimate beneficiaries may yet be included (e.g., the Lower Austrian provincial government or the Viennese Employment Promotion Fund).

ESF activities and its financial support have led to a number of consequences for Austrian labor market policy of which only a few can be highlighted in this paper<sup>13</sup>.

## MORE FUNDS FOR LABOR MARKET PROMOTION

One of the effects of the ESF in Austria was an enlargement of the budget available to the Public Employment Service for labor market promotion: in 1997 the Service spent ATS 6.931 billion or fully 48 percent more on that item than in 1994 (changes between 1994 and 1997: +30 percent when including the "structural billion" in 1994). The steepest increase was recorded from 1996 to 1997 (+24 percent)<sup>14</sup>. Payout of ESF moneys rose from

<sup>13</sup> These would also include planning periods of several years, the need for more co-operation between institutions (especially with regard to the regional objectives) and the monitoring and evaluation tools.

<sup>14</sup> Some 43 percent of the increase in the Public Employment Service budget for labor market promotion in 1997 was due to additional programs for young people. Rises were also recorded by the special integration allowance and objective-4 promotion of the work force. Education and training programs on the other hand were cut in favor of job orientation courses, preparatory courses and active groups. The special integration allowance is financed solely from national means: when hiring long-term unemployed, companies are paid an allowance equal to the unemployment assistance previously drawn by them (+41 percent, which equals the social security contributions otherwise payable by the Public Employment Service).

ATS 596 million in 1995 to ATS 1,727 million in 1997. With this, the ESF contributed fully one quarter of the total Public Employment Service budget for labor market promotion. In view of the additionality principle, this means that almost half the total expenditure can be credited to ESF measures.

Altogether, the Public Employment Service had transferred ATS 3,624.5 billion in ESF funds by 31 December 1997, or about 95 percent of all ESF moneys until then paid out in Austria. The Public Employment Service was thus the quickest among ultimate beneficiaries to make use of ESF programs.

### MORE ORGANIZATIONS ARE NOW RESPONSIBLE FOR LABOR MARKET PROMOTION

Among objective-3 programs, a separate key item is dedicated to the disabled (and receives about 30 percent of scheduled objective-3 funds). As a consequence of its implementation, the Federal Offices for Social Affairs and the Disabled became responsible for aid to unemployed disabled persons ("disabled beneficiaries")<sup>15</sup>. This group of disabled beneficiaries nevertheless makes up just a small part of unemployed disabled persons registered with the Public Employment Service, so that the latter continues to support disabled people with active measures<sup>16</sup>. As the Federal Offices for Social Affairs and the Disabled and their superior authority at the Ministry of Labor, Health and Social Affairs (Department IV) needed to develop the requisite tools and structures, payouts were delayed in the first years. The sector is, however, developing rapidly and scheduled funds are expected to be fully exhausted by 1999.

### WORK FORCE TRAINING AS AN EXPLICIT OBJECTIVE

Objective 4 explicitly put work force training on the agenda of labor market policy. The greater part of objective-4 funds is earmarked for schemes to qualify workers affected by structural change as well as key workers. Schemes also focus on anticipating labor market trends and on improving and developing training systems. Objective-4 programs are handled by the Public Employment

<sup>15</sup> Selected measures of the Office (especially job support) are also available to disabled persons who, while not being disabled beneficiaries under the Employment of Disabled Persons Act, would nevertheless benefit if they were to file an application. This distinction is of great importance for mentally ill persons.

<sup>16</sup> As a consequence, the need arose for co-ordination between the two services, which was regulated in an agreement between the two parties.

Service, which has ATS 800 million in ESF means allocated for 1995-1999. This will move ATS 2.2 billion in total, as work force qualification schemes require that companies contribute one third of the cost. Objective-4 programs are a novel approach towards active labor market policy – incidentally not just in Austria – so that guidelines had to be developed before they could be put in place. Prerequisites for aid were less restrictive in the first phase, which led, i.a., to measures of little intensity (short courses, low project costs). By 1997, however, the development was highly dynamic and by the end of 1997 52 percent of the funds scheduled until 1999 had already been paid out.

### PRESERVING FLEXIBILITY

In spite of the stipulations defined by the Commission and long-term program planning there is sufficient flexibility to respond quickly to changes in framework conditions. The ESF does not restrict the national scope for labor market policy and neither does it counteract the decentralization principle underlying the Public Employment Service<sup>17</sup>. This applies to the regional objectives as much as objectives 3 and 4 which are valid for the whole of Austria. The funds received by the provincial offices of the Service under objective 3 depend on the extent of the problem prevalent in that Federal state and the strategy pursued there (exclusively national financing or co-financing from the ESF) for key projects. The federal office does not exert any influence on concrete activities (except that projects of more than ATS 50 million are reserved to the federal office). When deviations from the program plan are expected they need to be reported and justified to the monitoring committee and Commission, whereupon they are generally approved.

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<sup>17</sup> Nevertheless, a conflict appears to emerge between the legal mandate of the Public Employment Service to find new jobs for its clients as soon as possible, and the ESF's main goal of improving integration opportunities not just in the short run, but also in a longer perspective. Finding new jobs through a given short-term measure may reduce unemployment figures for some time, but whether those affected will be better integrated in the labor market system for any extended period remains open. This is a point that should be clarified by the evaluators.

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### *European Social Fund and Labor Market Policy – Summary*

When Austria joined the European Union it became a recipient of moneys from the European Social Fund (ESF) dedicated to labor market promotion activities. This means that a proportion of Austrian payments to the EU is returned to Austria earmarked for this particular purpose.

The ESF aims to foster structural change actively by promoting human capital. As the European Union handles its financial involvement in the labor market policies of its member states solely through the ESF, it can thus exercise more influence on national strategies through the ESF than within the scope of other Community activities in the field of employment, social and labor market policies.

Altogether, about ATS 7 billion from the ESF are available for spending in Austria in 1995 to 1999. By the end of 1997, 55 percent of scheduled ESF aid had already been expended (Federal Ministry of Labor, Health and Social Affairs). Thanks to the ESF, the means available for active labor market policies have been substantially increased. Between 1994 and 1997, Public Employment Service spending on labor market promotion rose by 48 percent to ATS 6.931 billion (including ESF moneys in 1997).

Nevertheless, the ESF has also changed requirements to be met by labor market promotion measures. Because of the ESF, employees affected by structural change have become a specific target group of labor market policy. Similarly, assistance for the unemployed is no longer the exclusive responsibility of the Public Employment Service: the Federal Offices for Social Affairs and the Disabled have been given co-responsibility for supporting disabled

unemployed who benefit from the Employment of Disabled Persons Act.

In spite of the Commission's stipulations and long-term program planning, there is sufficient flexibility to respond quickly to changing conditions. The ESF does not limit the national scope for labor market policies and neither does it counteract the principle of a decentralized Public Employment Service.

Set against this background, this article looks at the ESF and its place within the labor market and employment strategy pursued by the European Union.

Interventions by the ESF are based on the concept of employability, which is to be boosted by measures to improve qualifications, employment subsidies and the provision of support structures. ESF measures thus are effective when the employed and unemployed have qualifications that do not match the requirements of the jobs on offer. But when demand for labor is inadequate (i.e., a shortage of jobs), other tools are required. The ESF is thus only one of the pillars of a European employment and labor market strategy.

In its employment strategy, the European Commission concentrates chiefly on supply-side tools. In its view, a major cause of the high unemployment rate in Europe is the fact that over the past decades labor markets have been subject to a deep-going process of transformation, while co-ordination mechanisms (and thus the institutional framework) still think in 1950's categories. This view also explains the high priority awarded by the Commission to reviewing the effectiveness and efficiency of institutions and regulations.