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# The Role of Skills from Worklessness to Sustainable Employment with Progression

International Case Studies  
September 2011



# **The role of skills from worklessness to sustainable employment with progression – international case studies**

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**September 2011**



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# 1 Introduction

The four international case studies that make up this report are intended as a companion to the main research report '*The Role of Skills from Worklessness to Sustainable Employment with Progression*'. The small scale case studies seek to provide contextualised international evidence of four OECD countries: Australia, Denmark, Germany and the United States.

## 1.1 Format of the case studies

The case studies were restricted to literature published in 2005 or after (although literature published before this date was permissible, if considered important by the author). Also, review or discussion of literature relating to the role of skills in transitions to low-paid employment was restricted to developments, policy or interventions sponsored or initiated by the Public Employment Service (or similar state-controlled labour market institution), and the public, private or third sector (civil society). The role of formal education was beyond the scope of the review.

Each case study begins with a consideration of certain key features relating to unemployment, namely:

- the current level and duration of unemployment benefits;
- recent changes to the unemployment benefit system;
- unemployment benefit replacement ratios;
- the role of in-work benefits;
- recent transitions from unemployment.

The case studies then address three structured 'questions':

- What are the key trends in and characteristics of low-paid work?
- What have been the key issues and developments in 'employability' policy and practice?
- What are the key issues and developments relating to the nature and scope of progression in work from low-paid jobs?

## 1.2 Selection of the case studies

The countries were selected in collaboration with the UK Commission for Employment and Skills (UK Commission) to reflect a range of similar and contrasting contexts.

Notably:

- Australia (contractor-based employment services; flexible employment legislation);
- Denmark (high social mobility; high skills and skills investment; relatively flexible labour market);
- Germany (contractor-based employment services; rigid occupational structures);
- The United States (contractor-based employment services; workfare; flexible labour market).

The case studies were compiled by four researchers:

- Australia: Alex Nunn, Reader, Faculty of Health and Social Sciences, Leeds Metropolitan University;
- Denmark: Mikkel Mailand, Head of Research, Employment Relations Research Centre (FAOS), University of Copenhagen;
- Germany: Janine Leschke, Labour Market Researcher, European Trade Union Institute (ETUI);
- United States: Tim Bickerstaffe, Senior Researcher, Policy Research Institute, Leeds Metropolitan University.

## **2 Australia**

### **2.1 Level and duration of unemployment benefits**

The main unemployment benefit is New Start Allowance for claimants aged over 21 but under pensionable age. Those under 21 claim Youth Allowance. Payments are funded through general taxation, are indefinite and made on a means-tested basis (taking into account both income and assets). There is no public Unemployment Insurance scheme or additional payments dependent on work history (OECD, 2011, p. 7). Maximum payment levels are set by a variety of criteria including age, family and housing related factors. Supplements are available for other reasons, such as entry to education programmes and participation in workfare schemes (OECD, 2009, pp. 3-10).

### **2.2 Recent changes to the unemployment benefit system**

During 2009 a variety of changes were introduced at the same time as the introduction of Job Services Australia<sup>1</sup>. The changes included new programmes specifically tailored to meet the demands generated by the global recession such as training subsidies to support re-employment efforts. The changes also included greater flexibility to Job Network providers in implementing conditionality related sanctions. New sanctions were introduced in relation to programme participation and providers were allowed to exercise discretion in not automatically applying sanctions for failure to attend engagement interviews (OECD, 2009, pp. 33-36).

### **2.3 Unemployment benefit replacement ratios**

The replacement level of unemployment benefits in Australia is relatively low, compared to other OECD countries but for long spells of unemployment this is less so because of the flat nature of the payment and the lack of a time-limit on claiming (OECD, 2010, p. 127). The tax and benefit system is also highly progressive (Whiteford, 2009a, 2009b).

### **2.4 The role of in-work benefits**

In 2009, the main specific in-work benefit was discontinued but minimum income guarantees are generous at close to 50 per cent of average earnings (Immervol and Pearson, 2009, p. 36) and benefit adjustments allow people on low incomes to continue to claim when they enter work and this is more generous for those who have been unemployed for longer periods of time (OECD, 2009; Immervol and Pearson, 2009).

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<sup>1</sup> Australia effectively privatised the provision of Active Labour Market programmes in the 1990s. The Public Employment Service: Centrelink is responsible for some aspects of the system but the provision of services is contracted to private and voluntary sector providers engaged in what was called 'the Job Network' and has since become 'Job Services Australia'.

## 2.5 Transitions from unemployment

The operation of the benefits system is not widely thought to generate a disincentive to work in Australia, though there are some concerns about benefit withdrawal rates and effective taxation on entering work from unemployment for single parents and two-earner couples, due to the way in which benefit entitlements are individualised (Whiteford, 2009a, 2009b; OECD, 2010). Having said that, while inequality is high the welfare state is highly effective at redistribution. The cause of inequality is mainly the result of differential employment rates and the low income households suffering from low wages among first and second earners, suggesting the policy problem is related to facilitating transitions to employment at a household level. A recent comprehensive review of the tax and transfer system has made significant recommendations such as enhancing job search requirements of unemployed parents so it is an expectation that they seek work once the youngest child is aged six and more even assessment of means in order to access income support (Australian Treasury, 2010; Whiteford, 2010).

## 2.6 Low-paid work in Australia

As in other OECD countries, increased flexibility and deregulation (Briggs and Buchanan, 2000) has coincided with increases in earnings inequality, with strong gains at the top of the distribution and those at the bottom of the earnings hierarchy becoming increasingly dependent on adjustments through the tax system in the form of the Safety Net Adjustment (SNA).<sup>2</sup> The main dimensions of this increased inequality have been increased polarisation at the very top and the bottom of the distribution. High earners received a greater share of overall earnings while low paid workers received less, until the late 1990s when adjustments to the SNA meant that by 2001 they returned to the same share of income as in 1989. These changes in the earnings distribution were at least partly associated with changes in the industrial structure which saw manufacturing jobs contract and jobs in the low(er) paid services sector expand (Briggs *et al.*, 2006).

From the late 1990s to the mid 2000s pay determination at the bottom of the distribution became a significant political debate and the Industrial Relations Commission considered a large amount of evidence on the impacts of its decisions over minimum pay, especially directed at the issue of a 'living wage' by Trade Unions and low pay campaigners (Briggs *et al.*, 2006). After the mid 2000s however, the IRC was replaced by the Fair Pay Commission, which itself was replaced by the Minimum Wage Panel of Fair Work Australia.

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<sup>2</sup> Briggs *et al.* (2006) claim that there has been increased earnings inequality at the top and bottom of the distribution. This does not necessarily contradict the OECD's calculation of the Gini Coefficient due to changes at other points within the income distribution.

The issue of low pay in Australia is often determined as that being between two very clear points in the income distribution. These are what is known as the 'C-10' rate or that determined by the Federal Metal Industry award, which serves as a 'trade' pay benchmark and the Federal Minimum Wage (FMW) previously set by the Fair Pay Commission (FPC) and now by Fair Work Australia (FWA).

Watson provides a very detailed snapshot of the characteristics of the low paid in Australia up to 2007. He shows that in 2005 those in the FMW category were disproportionately young (61 per cent). While this high proportion is affected by students being counted in this bracket, even when students are removed from consideration, those in the FMW category are still disproportionately young and single. Moreover, when students are removed, the proportions of older and married people in the FMW category increase; to more than 40 per cent for married workers. Women are also more likely to be in the FMW pay category, as are those with lower level or no qualifications.

Watson shows that in 2005, more than 60 per cent of those in the FMW category held Year 12 or lower qualifications (roughly equivalent to five GCSEs Grades A - C). Watson also demonstrates the occupational structure of those in the FMW category. They are disproportionately based in the clerical, sales and services occupations and in wholesale/retailing industries. Those in the FMW category are also disproportionately employed on a casual and/or part time basis. Furthermore, whilst almost 30 per cent of the Australian workforce is in a trade union, only around half the number of those in the FMW category have union representation.

A similar picture holds for training. In 2005, almost 59 per cent of the total workforce had accessed training in the previous year, whereas only 30 per cent of those in the FMW category had done so. It is notable how characteristics overlap. For example, casual employees are even less likely to work full-time, be represented by a union (only 12 per cent) or engage in training (22 per cent) (Watson, 2007).

More recent research (Hahn and Wilkins, 2008), conducted as part of the Annual Pay Review process, illuminates these characteristics further. To avoid problems associated with one-off payments to casual workers and to reflect the peculiarities of the institutional context in Australia Hahn and Wilkins argue in favour of a definition of low pay as being less than 120 per cent of the FMW on a weekly *and* hourly basis. This approach estimates that about AUS\$16 per hour<sup>3</sup> and AUS\$614<sup>4</sup> per week were the 'low-pay threshold' in 2006. It is notable that this is somewhat higher than the more widely used (international) definition of low pay as being two-thirds of the median hourly wage.

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<sup>3</sup> Approximately equivalent to £10.66, using Bank of England converter (accessed 22/07/11)

<sup>4</sup> Approximately equivalent to £409.33, using Bank of England converter (accessed 22/07/11)

The authors also consider poverty and define 'being poor' as having less than 60 per cent of median income on an equivalised household basis (similar to the definition used in the DWP's annual Households Below Average Income series).

Hahn and Wilkins' analysis takes issue with the idea that the low paid are as a group poor. They compare poverty and low pay and find that only very small proportions (around seven per cent) of the low paid are living in poverty or are in the 'nearly poor' category, mainly as a result of them being in a household with other income earners. Moving on to look at the characteristics of those who are both poor and in low paid work they suggest that

As an overall generalisation, compared with other members of the community (but especially the non-poor), the low-paid poor can be characterised as relatively young and more likely to be male, indigenous or born in a non-English speaking country, single, and in sole-parent households, and tend to be working for small for-profit businesses in low-skill occupations, with little experience in the current job or occupation (Hahn and Wilkins, 2008, p. 10).

Their analysis of the dynamics of poverty show that the proportion of those defined as poor was relatively stable over the period 2000-2006, but the proportion of those that were nearly poor and experiencing financial stress fell, albeit marginally.

The Australian Confederation of Trade Unions (ACTU) has adopted a different interpretation (ACTU, 2010). They use a range of alternative calculations based on the same data to show that the majority of those with low earnings are also toward the bottom of the equivalised income distribution. The ACTU also suggests that the level of earnings of those at the bottom of the earnings distribution have actually fallen as a ratio of the mean and median earnings over the period 1998-2008, and that the FMW has also fallen relative to the lowest earnings quintile.

Drawing on national education and training survey data, Healy (2010) revealed that the probability of working near the FMW is highest for employees with low educational achievement and limited work experience who hold casual positions in small, private sector firms. In addition to these effects, Healy found that the probability of working below the FMW is increased for apprentices and trainees, part-time workers, disabled workers and non-English speakers. Among employed people, women are significantly more likely than men to work both near and below the FMW.

## **2.7 Evidence relating to transitions between unemployment/inactivity and employment**

Welfare and employment services in Australia are mainly organised at the national level, though the vocational system is partly the responsibility of the territories. Australia is a useful comparison for the UK for two main reasons. First, Australia effectively privatised the provision of Active Labour Market programmes in the 1990s. The Public Employment Service: Centrelink is responsible for some aspects of the system but the provision of services is contracted to private and voluntary sector providers engaged in what was called 'the Job Network' and has since become 'Job Services Australia' (JSA).

Like the UK, the policy emphasis embodied in employment and welfare services in Australia is characterised by a 'work first' approach where the emphasis is on getting unemployed and inactive welfare recipients into the labour market, with the assumption that the quality (e.g. skill, pay, terms and conditions) of the job they enter matters little, because it will act as a stepping stone to more permanent and rewarding labour market engagement (Perkins and Scuttella, 2008).

Despite some favourable evaluations (OECD, 2001; Department of Education Employment and Workplace Relations, 2008) a range of authors (Murray, 2006; Fowkes and Ward, 2007; Perkins and Scuttella, 2008; Finn, 2010) have been critical of the system.

Perkins and Scuttella (2008) examined the framework of services available to support new entrants to the labour market to retain their job and progress. They are generally critical of the work first approach of the Job Network, suggesting that performance measures emphasise immediate labour market outcomes rather than sustainability - and even where sustainability measures are in place they are relatively short-term (e.g. 13-26 weeks). They also suggest that the level of post-job entry support is low and particularly unsuitable for the most disadvantaged jobseekers. For their part, Fowkes and Ward (2007) suggest that there has been insufficient emphasis placed on the quality of job outcomes or incentives to work for the most disadvantaged jobseekers.

Finn (2010) suggests that there were perverse incentives within the system that promoted 'creaming' and 'parking' behaviour among providers keen to achieve positive contracted outcomes; characteristics which have been noticed in other contracted employment services systems (Struyven and Steurs, 2005; Nunn, *et al.*, 2010).

The most recent change to replace the Jobs Network with Job Services Australia has been partly justified on the grounds of providing more substantial and individualised support to the most disadvantaged and to overcome problems with 'creaming' and 'parking'. While it is too early to fully evaluate the new system, which was only introduced

during 2009, some early reports suggest that there is a greater use of training to support the unemployed (Finn, 2010).

**Table 2.1: Australia: Selected Labour Market Indicators (2000-2008)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Employment Rate Total</b>	69.3	69	69.4	70	70.3	71.5	72.2	72.8	73.2
<b>Employment Rate Men</b>	77.1	76.4	76.7	77	77.6	78.5	78.8	79.6	79.6
<b>Employment Rate Women</b>	61.4	61.7	62	63	63	64.6	65.5	66.1	66.7
<b>Unemployment Rate Total</b>	6.3	6.8	6.4	5.9	5.4	5	4.8	4.4	4.2
<b>Unemployment Rate Men</b>	6.5	7.1	6.6	5.9	5.3	4.9	4.7	4.1	3.9
<b>Unemployment Rate Women</b>	6.2	6.5	6.2	6	5.6	5.2	4.9	4.8	4.6
<b>Employment Rate 15-24 yr olds</b>	62.1	61.2	61	61.8	62.2	63.3	63.7	64.1	64.3
<b>Employment Rate 24-54 yr olds</b>	76.3	76.3	76.7	77.3	77.4	78.8	79.2	80	80.3
<b>Employment Rate 54-64 yr olds</b>	46.2	46.8	48.5	50.3	51.7	53.5	55.5	56.6	57.4

Source: OECD

Ziguras and Stricker (2004) examined a range of transitions in the Australian labour market during 2001 and 2002.<sup>5</sup> They show that by far the most common labour market transition is out of unemployment with around 70 per cent of the unemployed in 2001 being in another category a year later. However, 37 per cent of these transitions were out of the labour market altogether and only 32 per cent were into full-time employment. A further 30 per cent of the transitions were into part-time employment. While there were large proportions of transitions from the various inactive categories they used for their study, the most significant of these was out of inactivity while studying into part-time work while continuing to study.

Other significant transitions from inactivity were people with caring responsibilities moving into part-time work. Men were much more likely than women to move in and out of full-time work from/to unemployment or inactivity; the one exception being moving from inactivity related to caring responsibilities into either part-time work or unemployment, potentially reflecting activation measures within the welfare regime.

Transitions into unemployment were lower, reflecting the strong labour market growth witnessed in the early 2000s. Yet, the most frequent origin of those flowing into unemployment were from inactivity, again potentially reflecting activation followed by full-time employment. Transitions from working origins by age group showed the most likely

<sup>5</sup> Ziguras and Stricker's study is among a range of research publications which have adopted a normative preference for using Gunther Schmid's 'Transitional Labour Market' model in both analysis and policy prescriptions (see Connell and Burgess, 2006; Howe, 2007).

destinations for younger workers (aged 15-24) was unemployment or study, for the middle age group (aged 25-44) to caring responsibilities, and the older age-group (aged 45 and over) into either part-time work or complete withdrawal.

Ziguras and Striker also model the most significant predictors of what they term 'exclusion' or spending most of the previous year out of work. The most powerful predictors were an experience of being made involuntarily redundant in the previous decade, low skills (qualifications) and poor health, being a migrant with poor English skills, or having a dependent child below the age of five. Finally they model transitions into unemployment and again find that a previous redundancy and being unemployed in the previous decade far outstrip any other predictors. It is notable that in this case having low skills is a much less powerful explanation for the transition.

Watson (2008b) considered the scarring effect of unemployment in the Australian context, testing the findings from other countries that unemployment has a detrimental impact on future earnings, even in periods of strong economic growth and labour market demand. He found that the experience of unemployment does have a negative effect on wages potential, particularly for men and those experiencing relatively long-term unemployment.

In their study, Perkins and Scutella (2008) produced similar findings suggesting that prior employment status is the most powerful effect on current employment status. So those that were unemployed at T1 are always more likely to be unemployed at T2 relative to other employment statuses.

Elliot and Dockery (2006) examined the prospects of transitions of 'discouraged workers'<sup>6</sup> or the hidden unemployed. They found that discouraged workers in Australia exhibit similar transitions behaviour to the unemployed, rather than facing additional structural barriers, but that they also have a higher reservation wage and generally report a higher level of Subjective Well Being (SWB) than do unemployed Jobseekers.

One particularly important type of transition into employment is that from full-time education. A range of research on Australia suggests that this can be successful, even for young people with relatively low qualifications, but that certain groups face particular problems: such as, 'non-completers', low socio-economic class groups, young people with disabilities and young people with low literacy/numeracy skills. Key interventions include stronger educational provision in the first place as well as careers advice and guidance and follow-up interviews/support (Lamb and Mckenzie, 2001).

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<sup>6</sup> 'Discouraged Workers' refers to non-employed individuals who have given up hope of finding a job.

## 2.8 Evidence relating to employment retention and progression

Australia appears to have larger proportions of job-to-job transitions than many other similar countries. The majority of these transitions have beneficial outcomes for workers, with increases in wages being associated with movements between jobs (Carroll and Poehl, 2007; Wilkins *et al.*, 2009). However, there is some evidence that job movers may have been forced to accept less desirable opportunities over recent years due to the recession (Southwell *et al.*, 2010).

The less positive elements of transitions within the labour market have also been the subject of research in Australia. For example, several authors have identified the problem of 'churning' in the Australian labour market. They suggest that there is a considerable 'low-pay/no-pay' cycle in place. For example, Watson (2008a) found that churning is present even in conditions of economic growth and that this is more prevalent among the low skilled and some migrant communities. While it is widely known that low paid workers are much more likely than high paid workers to become unemployed, Buddelmeyer *et al.* (2009) explored whether this is driven by the prevalence of disadvantaging characteristics (low skills, low aspirations, etc) or is the result of the effects of low pay itself, such as insecurity. They find that for men the main aspect of the relationship between low pay and transitions into employment is related to individual characteristics rather than the nature of low pay itself, though the opposite is true for women.

Casual employment has increased in prominence in the Australian labour market in recent years, accounting for about 27 per cent of workers in 2006. Chalmers and Waddoups (2007) undertook research on transitions from casual to permanent employment and found that in certain circumstances casual employment does not trap people. In fact, more than half of those they studied in casual work were able to make the transition to permanent work. However, around 40 per cent of casual workers in 2001 were not in permanent work five years later. This 'trap' appears to particularly affect mothers, even after their children reach school age. Longer-term relationships with employers tended to be associated with an increased likelihood of a transition to permanent employment.

Perkins and Scutella (2008) investigated the probabilities of different groups being in low paid employment over the course of the HILDA<sup>7</sup> survey. They found that certain social groups, such as low skilled people, lone parents and unemployed people face a greater probability of being in low paid work than do other workers. They also find strong relationships between joblessness and low paid work in relation to transitions in either direction, thus providing further evidence of a low-pay/no-pay cycle.

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<sup>7</sup> Household Income and Labour Dynamics in Australia

However, Buddelmeyer and Wooden (2008) considered the counterfactual involved here. Using cohort data to investigate whether people in casual employment have better prospects for transitions to permanent employment than the unemployed: they found that male workers are on average better off taking casual employment than remaining unemployed but that this does not hold true for women. Moreover, casual workers are more likely to become unemployed than are other workers. Buddelmeyer and Wooden also suggest that the different findings for men and women may actually be related to the more significant scarring effect of unemployment for men.

Southwell *et al.* (2010) undertook qualitative research with employees at the lower end of the labour market in the midst of the recession. They found that the problems associated with imposed flexibility and casual employment have intensified during the recession with the benefits associated with being able to fit working patterns around other responsibilities having diminished notably. They also reported that the experience of casual employment and its relationship to the opportunity for labour market progression is closely related to a range of other factors. These include: position in and construction of the household (i.e. this was less positive where an individual was the main or sole earner or where they have dependent adults or children), low-pay, long-hours or caring responsibilities; all of which impair their capacity to engage in training.

Ziguras and Stricker (2004) also examine transitions within the labour market. While not as voluminous as those from unemployment the most substantial transitions were between part-time work (for reasons of caring or study), part-time work (for 'other reasons') and/or full-time employment. However, it is notable that lower proportions of people working part-time for reasons of caring responsibilities make the transition to full-time work than do people working part-time for 'other reasons'.

This should be expected since many will continue working part-time while their caring responsibilities continue and some of those working part-time for 'other reasons' will most likely be actively searching for full-time employment. With regards to gender, men were more likely than women to flow from part-time to full employment, and women were more likely than men to flow from part-time employment into unemployment.

Finally, Ziguras and Stricker look at preferences of the working population in relation to hours worked. They find that a large number of workers report that they would like to work fewer hours and the survey data they used quantified this.

By multiplying up the answers to these questions Ziguras and Stricker were able to show that the working population would prefer to work fewer hours to the extent that these would provide employment for the entire unemployed stock.

This focus on rebalancing hours and under/over employment (resulting from comparatively long hours for those in employment and part-time workers reporting that they would like longer hours or a full-time job) is a common theme in the literature on the Australian labour market (Argy, 2005; Briggs, *et al.*, 2006; Wilkins, 2007; Nelms and Tsingas, 2010). Southwell *et al.* (2010) recently reported that employees' concerns about under-employment had intensified as a result of reduced working hours during the recession.

## **2.9 Conclusion**

The effectiveness of Australian labour market policy is a matter of some debate and has a great deal of relevance to the UK, given its generally liberal welfare stance, work-first approach and degree of privatisation and performance based contracting in the welfare to work system. While there appears to be some evidence that the Australian employment services system is efficient and produces job-outcomes, there is a great deal of concern about the extent to which it helps unemployed and inactive people who are not 'job-ready', i.e. have significant barriers to employment. Since this is the client group that are mostly likely to require an intervention to help them into work (rather than being responsive to labour market demand). The problems affecting this group and their interaction with the employment services system appears to be the operation of perverse incentives in the contracting system. While there have been clear attempts to tackle these problems, it appears that constant innovations in the incentives system may be needed.

Most papers that report evidence on successful interventions to support employment retention and progression in the Australian context do not rely on Australian data but instead provide secondary summaries of US and UK studies (e.g. Perkins and Scuttella, 2008). Those that do cite specifically Australian research tend to suggest that in supporting disadvantaged (as opposed to job-ready) jobseekers to make the transition from inactivity/unemployment into employment requires a human capital rather than work-first approach in which individuals receive substantive training and are supported to build their ability to overcome health and other barriers (Ziguras and Stricker, 2004).

## 3 Denmark

### 3.1 Level and duration of unemployment benefits

To be entitled to unemployment insurance (arbejdsløshedsdagpenge) the unemployed person must have had at least 52 weeks of work within the last three years and he or she must have been a member of an unemployment insurance fund for at least one year. Unemployment benefits are provided for up to five days per week according to fixed rules. Unemployment benefits can be paid up to a maximum of 90 per cent of the member's previous work income, however, no more than the maximum rate of unemployment benefits of Euro 495<sup>8</sup> per week (approx Euro 2130<sup>9</sup> per month). Unemployment benefits are paid every fourteen days or every fourth to fifth week. A member is entitled to unemployment benefits for a maximum of two years in total within three years. The maximum unemployment benefit period was four years until 2010. To receive unemployment benefits the unemployed person must actively seek work and be willing to take part in various activation measures (borger.dk, 2011a).

Those that are not members of an unemployment insurance fund can apply for social assistance (kontanthjælp). To be eligible, the unemployed must have lived in Denmark for minimum seven out of the last eight years. To receive social assistance, the unemployed person must actively seek work and be willing to take part in various activation measures; the same requirement goes for the partner of the unemployed person in cases where both persons are unemployed.

If an unemployed person is not eligible for social assistance he or she can apply for start-aid (starthjælp), the third tier. De facto, start-aid is mainly targeted at immigrants and descendents of immigrants. The maximum rate of start-aid is for singles with two children or more living at home: who can receive approx. Euro 1295<sup>10</sup> per month (borger.dk 2011b).

### 3.2 Recent changes to the unemployment benefits system

In 2004 the so-called '300 hours rule' was added. This rule requires that both partners in families must have worked for at least 300 hours during the last two years to be eligible for social assistance. In 2009 the number of hours was raised to 450 and it might be changed to a 225 hours rule (within the last year) in the near future (Ministry of Employment, 2011). The rate of social assistance depends of your family status in various ways. The maximum rate (approx. 1780 per month) can be received if there are children in the house (borger.dk). In addition to the 300/450 hours rule, the other 'make-

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<sup>8</sup> Approximately equivalent to £438.05, using Bank of England converter (accessed 22/07/11)

<sup>9</sup> Approximately equivalent to £1,884.96, using Bank of England converter (accessed 22/07/11)

<sup>10</sup> Approximately equivalent to £1,146.02, using Bank of England converter (accessed 22/07/11)

work-pay' measures introduced within the last 10 years include the social assistance ceiling (kontanthjælpsloftet) which constitutes a maximum amount of social assistance benefits for which uninsured unemployed persons are eligible.

### **3.3 Unemployment benefit replacement ratios**

Regarding the benefit replacement ratios, the widespread perception in labour market and welfare research has been that the unemployment benefit (or at least the social insurance part of it) is generous. This has been proposed by use of the golden triangle concept, i.e. the Danish flexicurity model, where generous welfare schemes, flexible rules for hiring and firing together with active labor market policies create the flexicurity equilibrium (see for example Madsen *et al.*, 2005). However, it is only the low income groups who receive the maximum of approx. 90 per cent of previous wages. Most studies point to declining compensation rates for mid-income groups, which now is down to 50 or 60 per cent. The Danish trade union cartel CO-Industri, drawing on figures from OECD Benefit and Wages from 2006, shows that the net compensation rates (post tax) in Denmark is the highest in Europe for low income groups, both for singles (net compensation rate 84 per cent measured as percentage of average income) and for couples with two children (net compensation rate 94 per cent). However, for the mid-income group the rate is 67/77 per cent for single/couples with two children and 47/66 per cent for high income groups, which places Denmark in the middle among the OECD countries (CO-Industri, 2006).

Other Danish studies of the replacement rates have focused on developments across time. The Danish Trade Union Confederation (LO) has published a study (LO, 2006) on the development in the replacement rates for manual workers organized by unions affiliated to LO. If the occupational pensions (which are set by the sector-level collective bargaining rounds and calculated as percentages of the pay) are included, the compensation rates have been reduced by 25 per cent from 1982 to 2004. The decline has been more or less on the same level for the different occupations included in the study. The compensation rate of cleaning personnel has been reduced from 90 to 71 per cent, while brick layers (the group with the lowest compensation rate) has experienced a decline from 70 to 48 per cent. The inclusion of pensions adds to the development, especially in the second half of the period where the scope of the occupational pension increased. However, even without occupational pensions the figures show an average decline of around 20 per cent.

### **3.4 The role of in-work benefits**

In a report examining incentives in the Danish welfare state, Andersen and Pedersen (2008) discuss the earned income tax credit (*ibeskaeftigelsesfradraget*) that was introduced in 2004 in the form of a deduction in taxable income of 2.5 per cent of wage income up to a maximum (€965<sup>11</sup> in 2005). Anderson and Pederson consider that a problem with the earned tax credit is that it gives the maximum deduction to high income groups. Despite this, it has been found that an increase in the earned income tax credit can have a noticeable effect on labour supply (Danish Economic Council, 2004).

### **3.5 Transitions from unemployment**

The relationship between the various forms of unemployment benefits and social assistance and the transition from unemployment/inactivity into low paid work has been addressed in a number of studies. Special attention has been paid to the new third tier of unemployment benefit, the *stat-aid*, and to the social assistance ceiling. The effects have been a matter of great controversy. Independent evaluations range from virtually no positive employment effects in the case of the social assistance ceiling (Graversen and Tinggaard, 2005), through some minor positive employment effects in the case of the start aid (Rosholm and Vejlin, 2007) to substantial increases in employment rate. An example of the latter is a study showing an increase in employment (measured after 16 months residence in Denmark) from 9 per cent in employment before the introduction of start-aid to 16 per cent after the introduction (Huynh *et al.* 2007). A full evaluation of these new 'make work pay' measures should also include the reports on an increase in out-of-work poverty resulting from the introduction of the measures.

### **3.6 Low paid work in Denmark**

As a traditional high-wage, high-productivity country (McLaughlin, 2008) with the most compressed wage-structures in OECD (Finansministeriet, 2009), low-paid work in Denmark is less widespread than in most other European countries. This may account for the fact that a very limited number of studies on the issue can be identified. Certainly, there is very little public debate on the issue; with the exception of low-paid work for migrants from the new EU member states. For similar reasons, there is virtually no debate on the related issue of the Danish working poor (Christensen and Nielsen, 2010).

A comparative survey conducted for Eurostat in 2002 (Marlier and Ponthieux, 2000) found that 7 per cent of Danish employees were low-paid (low-paid defined as people receiving less than 60 per cent of the median hourly wage). That finding placed Denmark as one of the EU countries with the lowest level of low-paid work. A large-scale

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<sup>11</sup> Approximately equivalent to £875.99, using Post Office converter (accessed 03/06/11)

comparative study found that low-paid work has increased in Denmark (using the same definition as above) from 5 per cent in 1998 to 8 per cent in 2002. However, this still placed Denmark as the country in the sample with the lowest share of low-paid employees. The other countries in the study were USA with 25 per cent of low-paid work, the UK with 22 per cent, Germany with 21 percent and the Netherlands with 18 per cent (Solow, 2008).

More recent figures confirm the relatively limited presence of low-paid work in Denmark. In the European Economic and Social Committees study of work and poverty, Denmark fared second-best of all EU countries in 2006, with only 4 per cent of employees at-risk-of poverty after social transfers (European Social and Economic Committee, 2009). The Danish Ministry of Finance found Denmark to be the OECD-country with the lowest differences in income, and (using the 60 per cent of median earnings definition) showed that only Sweden had a smaller share of the population in the low-income group. However, the findings of the Ministry of Finance point to a higher level of low-paid work than Solow's analysis. According to the Ministry, 10 per cent of wage earners in Denmark belonged to the low-income group in 2006 (Finansministeriet, 2009).

The small share of low-paid work in Denmark is all the more noteworthy since Denmark is one of the few countries that have no statutory minimum-wage. Minimum wages are set in the sector collective agreements. In the public sector, sector agreements cover close to 100 percent of the sector's employees. In the private sector, these agreements (which cover around 73 per cent of the employees) have mainly a framework structure, so centrally agreed rates can be further negotiated at the workplace level.

Thus, wage-setting tends to be less decentralized and flexible. With a total coverage of the collective agreements of about 73 per cent, 17 per cent are uncovered by any type of minimum wage, but only a small minority of these is low-paid (DA, 2010).

Low-paid workers in Denmark are concentrated in ISCO-code occupations 'services and sales work': with sub-categories such as personal services (housekeeping, restaurants and personal care), protective services (fire fighters, police officers and prison guards), modelling, retail sales and street services. The low-paid are also found in 'elementary occupations', such as doormen, agricultural workers and transport workers (Westergaard-Nielsen, 2008). A study by the Ministry of Finance (Finansministeriet, 2009) confirmed that young people/students and immigrants are over-represented among the low-paid, but also the self-employed. Part-time employees and seasonal workers are not over-represented among the low-paid employees according to this study, which is surprising. These findings are confirmed by another study which found that 20 per cent of male and 7 per cent of female part-timers were low-paid (definition as above); and for temporary workers, 13 per cent of men and 15 per cent of women were low paid (Gash, 2005).

Looking deeper into who these low-paid workers are, it is noteworthy that while the share of low-paid work among other age groups has not changed to any notable extent up to 2002, the share of employees below the age of 25 performing low-paid work increased from 22 per cent in 1980 to 36 per cent in 2002. In the Russell Sage Foundation's study (Solow, 2008) this is explained with the introduction in the 1980s of the opportunity to enter youth education without the usual prerequisite examination results by demonstrating work experience and through the so-called 'Youth Package', which in 1996 became part of Danish activation policy. The Youth Package required young people to either start an education or take part in activation programs, hereby reducing their reservation rates.

With regards to gender, women are according to this study still over-represented in low-paid employment. 10 per cent of women, but only 6 per cent of men, are low-paid and there are no clear signs that this is changing. Ethnic minorities (most often referred to as 'immigrants' in Danish labour market literature) are also over-represented among low-paid workers. The analysis from the Russell Sage Foundation found that low-paid work has increased from only 2 per cent in 1980 to 9 per cent in 2001 among non-western immigrants, whereas the increase for non-immigrants in Denmark has been from 3 to 5 per cent. Solow (2008) found that one of the reasons for this is that Denmark has received an increase in immigrants since 1980, so they naturally make up a larger share of the work force in 2001 than they did in 1980.

Some research has found no indication that immigrants are over-represented in low-paid work (e.g. Westergaard-Nielsen, 2008). However, another study found an over-representation of non-western migrants and their descendants in the lower levels of the occupational hierarchy.

An important question is if the tendency for low-paid work to be increasing in Denmark has continued after the period that was the focus of the Russell Sage Foundation Study. This seems to be the case. The Ministry of Finance finds that the share has increased from its lowest point in the mid-1990s with figures around 7 per cent up to 10 per cent in 2006. However, contrary to the Russell Sage Foundation study, the Ministry found a decline from 9 to 7 per cent from the mid-1980s to the mid 1990s (Finansministeriet, 2009).

No evidence or literature could be identified that makes or has made any forecasts relating to future low-paid work in Denmark. However, some recent developments should be considered. Denmark was not among the Nordic countries that in the first half of the 2000s received a substantial number of migrant workers from the new EU-member states, but that changed in 2006, where the numbers started to increase rapidly. It is difficult to get exact statistics for the number of these new work migrants, but statistics

from the National Labour Force Survey (which do not include posted workers) show that the number of persons from the new member states increased to 50,000 in 2010. However, while the stock of migrants from the new member states continues to increase, the inflow has shown a steep decline from its peak in 2008 to 2010; largely due to the economic crisis (Andersen, 2011).

A study of Polish migrants (by far the largest group of migrants from the new EU member states in Denmark) living in the Copenhagen region, shows that most of them work in a few occupations: such as domestic service, newspaper delivery and construction (in other regions of the country, manufacturing, transport and forestry/agriculture would most likely have been included on the list). Their average salaries were in 2008 between 95 and 66 per cent of average Danish salaries depending on occupation, indicating that parts of the group of the new migrants are low paid (Hansen and Hansen, 2009). Moreover, it is very likely that the inflow of work migrants from the new EU member states has driven down the average wage in some of the occupations and sectors. Hence, the total effect of the inflow of the new migrants is most likely that share of low-paid work compared to all work has increased since 2006, but statistics relating to this effect are not yet available.

### **3.7 Evidence relating to transitions between unemployment/inactivity and employment**

Providing unemployed people with new skills is one of several aims of the Danish activation policy (which is the term that will be used here instead of employability policy). The most important active measures of the policy are:

- guidance/support of job search activities;
- standard education (where unemployed people participate together with students and/or employed people);
- special courses (where only unemployed people participate);
- firm-based training (short-term and 'light' training often used for immigrants and descendents in combination with language courses);
- wage-subsidy jobs (in the private sector the going rate for the job is paid for 6 months, in the public sector the unemployment benefit is paid).

Other measures of the activation policy are more 'hidden' and do not show up in the statistics. These are for instance various measures to make work pay, minimum-requirements for job search activities and sanctions.

**Table 3.1: Activation policy divided by measures and area, percentage of activated persons, 2009**

	<b>Municipal activation (uninsured unemployed)</b>	<b>State activation (insured unemployed)</b>
<b>Guidance/supporting job search activity</b>	20	10
<b>Standard education</b>	12	30
<b>Special courses</b>	46	12
<b>Firm-based training</b>	16	5
<b>Wage-subsidy jobs</b>	3	43

*Source: National Labour Force Service (Statistics Denmark).*

The extent to which these measures aim to provide the unemployed people with new skills varies. Standard education and wage-subsidy jobs can both be said to have strong skill dimensions. These measures can be counted in to the ‘human capital approach’ to activation (Lødemel and Tricky, 2001) of activation policy. Also the firm-based training has a skill-dimension, although they have been criticized for being too short and showing a lack of sufficient commitment by some employers, who accordingly let the clients watch rather than participate in the work-processes and use the clients as cheap labour without improving their chances of securing a job outcome (Dansk Metal, 2010).

The special courses vary in length, content and aim: some of them have a strong occupational skill-dimension whereas others seem to be more about imparting generic employability skills (Larsen *et al.*, 2001).

Some of the special courses have been criticized for not improving the employability of their beneficiaries; the skill and employability effect of the firm-based training has also been questioned, although not to the same extent. The other measures, guidance/support of job-search activity, make work-pay initiatives, minimum requirements for job-search activities, control and sanctions are more closely related to what Lødemel and Tricky (2001) and others have termed ‘the work first approach’. This approach emphasizes that the shortest way (back) into employment relies on economic incentives and supervision and only requires investment of limited resources in the skills-development of beneficiaries.

During the last 10 to 15 years, the focus of Danish activation policy has shifted towards greater focus on the work-first approach. The key success factor of the policy is now more than previously unilaterally to get the unemployed back into employment and away from dependency on welfare as fast as possible. This development has older roots, but was intensified when the Liberal-Conservative Government took over from a Social Democratic-led government in 2001. However, the low level of unemployment throughout

most of the period has also influenced these developments. Nevertheless, as Table 1 shows, the skill-related activation measures are still making up a sizable share of the total measures included in the statistics. This is especially so for the insured unemployed. And whereas the use of standard education has declined during the last 10-15 year period, wage-subsidy jobs have increased in importance.

As well as political and economic developments, evaluations have also contributed to the declining belief in the value of the skills-related activation measures. Whereas wage-subsidy jobs have been criticized, especially by the trade unions, – for replacing existing employees; however, evaluations show that the employment effect of some of these are positive. Hence, a large number of evaluations (e.g. DØR, 2007; Jespersen *et al.*, 2008; Christensen and Jacobsen, 2009) have shown that the employment effect of wage-subsidy jobs in the private sector is the highest of all the measures, but that the employment effect of job training in the public sector is less positive and according to some of the studies even negative. Standard education also has a tendency to show negative employment effects in the evaluations but there are great variety between types of courses and target groups.

One of the exceptions is the study by Jespersen *et al.* (2006), which concludes that while job training in the private sector shows the most positive short term employment effects, standard education shows the most positive long-term effects (after six years). Since most Danish evaluations are conducted one year after the end of the activation activity, the overall employment effect of education might be more positive than these evaluations indicate.

The reason that some of the measures come up with negative employment effect is that the evaluation does not only include the (positive) qualification and motivational effects of the measures, but also the (negative) retrenchment effect, caused by the fact that job search is substantially reduced during participation in the active measures.

In the Danish academic and media debates on activation policy there has been little attention paid to transitions from activation programmes to low-paid jobs. Debates on, and evaluation of, activation policies are overwhelmingly quantitative in the sense that they have a strong focus on employment rates. Very little attention is paid to wages and working conditions in the jobs that activation beneficiaries move into. The relatively limited extent of low-paid jobs in Denmark, and the comparative high minimum wages, might help to explain this current lack of research.

Summing up, 1) the Danish activation policy has been developed from a human capital approach towards a work-first approach, but 2) activation measures with strong skill components still make up a large share of the measures, especially for insured

unemployed. 3) Evaluations of the skill-related measures show mixed results in terms of employment effects, the outcome depending on specific measures and the target group.

### **3.8 Evidence relating to employment retention and progression**

The Russell Sage Foundation study indicates strong transitions out of low-paid employment. Following a group of low-paid employees, the study concludes that only 30 per cent remained in low-paid employment the following year; 45 per cent had found a job that was paid above the low-paid threshold and; 15 per cent were on one kind of welfare scheme or the other (Westergaard-Nielsen, 2008). The study by the Danish Ministry of Finance confirmed a high mobility out of low-paid occupations. Using only an alternative 50 per cent of median income definition for this part of their analysis, the Ministry finds that between 50 and 60 per cent leave low-paid work within a year. However, the likelihood of leaving low paid work is greater for lone parents and the self-employed than for some of the other groups, such as migrants and their descendants, and students (Finansministeriet, 2009).

The number of other studies that have focused on progression in work out of low-paid jobs in Denmark is limited. Nevertheless, they are able to point to a number of factors that are important with regards to transition. A study by Bolvig (2005) drawing on a sample of 5 per cent of all inhabitants in Denmark between the age of 25 and 65, focused on factors related to both the individual and the firms that influence mobility out of low-paid employment.

Firms with an over-representation of low-paid workers are characterized by: the low average age of the firm itself; firms employing less than 100 employees; being part of private sector or retail specifically (including hotels and restaurants); experiencing low labour turn-over; and having a low number of managerial positions and employees with low levels of education and work experience.

As regards transitions from low wage to higher wage jobs, Bolvig found this to be unaffected by the size of the firm, whereas transitions to higher wages in new firms decreases with the size of the previous firm. Employees in the financial sector also seemed to be more likely to escape low-paid jobs than employees in other sectors, but only if the employee stays in the same firm. In general, the transition out of low-paid jobs was found to increase with some of the same factors as those that are correlated with the presence of low-paid work, namely educational levels in the workforce and an increase the share of managerial employees. Importantly, the proportion of low-paid workers in the firm negatively affected the chance of escaping low paid positions.

One of the few other studies analyzing the transitions out of low-paid jobs in Denmark compares the situation with Germany and USA. The study found mobility patterns that are similar in Denmark and Germany, but to some extent different in the USA. However, the study also showed important variation between Denmark and Germany. As expected, moving from part-time to full-time employment reduces the risk of being low-paid in Denmark, while the longer an individual works in a low-paid job reduces the chance of them progressing from low paid work generally. Only in Denmark, according to the study, does the risk of being low-paid increase when changing status from being married to being single. Having children increases the risk of being low-paid in the USA, but not significantly so in Denmark or Germany (Deding, 2002).

### **3.9 Conclusion**

Low pay in Denmark tends to be a temporary situation for most workers and as a result, debates on low pay in the country are comparatively limited. However, future research will undoubtedly look to the recent modest but nevertheless historically high increase in the amount of low paid work in the Danish labour market.

At present, young people and ethnic minorities are over-represented in low paid work and there is also concern that workers on atypical contracts are also experiencing increased incidences of low pay. Further, the level of an individual's education, the length of time working in low-paying jobs, and the share of low paid workers in a firm, all affect their chances of progressing out of low paid work.

Similarly, relatively little research has been directed at the levels of wages and the working conditions that individuals experience after a successful transition from unemployment into low paid jobs. However, the shift to the 'work first' approach in Danish activation policies has generated some findings that suggest that while short-term training courses can provide positive short-term effects, it is the returns to standard education that carry the better longer-term outcomes.

## 4 Germany

### 4.1 Level and duration of unemployment benefits

In Germany unemployment insurance is obligatory for all employees (manual and white collar workers and trainees). Civil servants, most groups of self-employed and marginal workers (earning less than €400<sup>12</sup> a month) are excluded from unemployment insurance. Since February 2006, it has been possible for certain categories of workers to join the unemployment insurance system on a voluntary basis.<sup>13</sup> The main responsibility for unemployment insurance and active labour market policies lies with the Federal Labour Agency. Regional labour directorates and local labour agencies are responsible for job placement and training.

In 2004, unemployment assistance has been replaced by a minimum flat-rate benefit (*Arbeitslosengeld II*) for all unemployed who are capable of work and who are not – or are no longer – eligible for unemployment insurance (former unemployment assistance recipients and employable social assistance recipients). Unemployment insurance and a large proportion of active labour market policy measures are financed by employer and employee contributions. The contribution is currently 3 per cent of the gross salary (up to the ceiling) and for employees it is paid in equal proportions by employers and employees. Unemployment assistance used to be financed by the federal state; the new basic unemployment benefit is financed by both federal state and local authorities.

Since January 2006, the minimum eligibility requirement for unemployment insurance benefit receipt has been twelve months of contributory employment within two years preceding the onset of unemployment. Due to the fact that months and not days or hours of employment are the basis of the eligibility requirement in Germany, part-time workers who exceed the earnings threshold and thus pay social security contributions have the same chance as full-time employees of qualifying for benefits.

Since 2003, the minimum duration for unemployment insurance benefits has been six months, while the maximum duration is twelve months for unemployed who are younger than 50. The benefit period depends on the contribution record (proportion 2 to 1). The maximum benefit duration is 15 months for unemployed older than 50, 18 months for unemployed older than 55 and 24 months for unemployed older than 58. Despite the fact that there were modifications in favour of older unemployed between the Hartz reforms and today, older unemployed (>45 years) were still better off in terms of the duration of

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<sup>12</sup> Approximately equivalent to £353.98, using Bank of England converter (accessed 22/07/11)

<sup>13</sup> This includes carers who care for family members at least 14 hours per week, self-employed persons working at least 15 hours per week who have paid contributions in the past or who have been unemployed directly before taking up self-employment, persons employed outside the European Union or associated countries. Certain conditions have to be fulfilled, for more specific information see MISSOC, situation on July 2010. The contribution to be paid by the voluntary members was 17.89 Euro (West) and 15.19 Euro (East) per month until 2010, from 2011 onwards it is 38.33 Euro (West) and 33.60 Euro (East).

unemployment insurance benefits before the Hartz reforms. Persons who have exhausted their insurance benefits or who are not eligible for insurance benefits receive a comparatively low flat-rate basic allowance (Arbeitslosengeld II) which is granted indefinitely but subject to means-testing. The rules on the maximum duration for older unemployed have been changed several times since the reforms in 2006.

## **4.2 Recent changes to the unemployment benefits system**

The amount of savings that will progressively increase from year to year is €81.6 billion between 2011 and 2014. The focus of the austerity package is clearly on the expenditure side, for the tax structure is not touched upon. More than one third, €30.3 billion, of all savings will come from cuts in social benefits and, particularly, labour market policies (compare Bundesregierung, 2010b).

By far the largest savings are planned to arise from cuts in the field of passive and active labour market policies. A strong focus in this regard is placed on the basic-benefit recipients who will lose their government subsidy to pension insurance, while the transition allowance that was paid for a limited period to those moving from unemployment insurance to basic allowance will also be abolished. They will also lose their right to the parental allowance of €300<sup>14</sup> Euros a month payable for 12 months. With regard to active labour market policies (ALMPs), those ALMPs that are currently accorded as of right<sup>15</sup> will be converted into measures to be offered at the discretion of the PES officer (Bundesregierung, 2010a; Bundesregierung, 2010b). Another low-income group hit by the austerity measures are those who receive housing allowance; they will no longer receive the heating allowance that had been introduced on 1 January 2009.

## **4.3 Unemployment benefit replacement ratios**

Net replacement rates vary with the family circumstances. People without family obligations receive 60 per cent of former net earnings and those with children receive 67 per cent. Compared to e.g. Denmark earnings ceilings are very high at €5500<sup>16</sup> per month in the old (new) Länder. Whereas in Denmark net replacement rates visibly decrease with growing former earnings (low earnings are rewarded with higher net replacement rates), high ceilings in Germany lead to constant net replacement rates over a large income margin. With the 2005 reforms, unemployment assistance that used to be calculated on the former earnings (with replacement rates of 57 per cent (53 per cent) for unemployed with and without family obligations) has been replaced by a means-tested

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<sup>14</sup> Approximately equivalent to £265.49, using Bank of England converter (accessed 22/07/11)

<sup>15</sup> Of the measures to which the unemployed are currently entitled as of right, those entailing the highest volume of expenditure are rehabilitation measures and subsidies to take up self-employment.

<sup>16</sup> Approximately equivalent to £4,867.26, using Bank of England converter (accessed 22/07/11)

flat-rate basic allowance (Arbeitslosengeld II).<sup>17</sup> In 2011, the flat-rate basic allowance (Arbeitslosengeld II) is 364 €<sup>18</sup> a month for an adult single person. This flat-rate basic allowance is paid to all employable persons in a household and can also be paid to non-employable members of the household.<sup>19</sup> Additionally, rent and heating cost for an 'adequate' apartment are taken over.

#### **4.4 The role of in-work benefits**

In Germany, low wages are to a large degree subsidised by means-tested income support. In August 2008 1.3 million employees received benefits from the basic allowance (ALG II) to supplement their earnings (Dietz et al. 2009). These persons are termed 'Aufstocker' (this can be loosely translated to 'supplementers'). Of those receiving earnings supplements the majority had low wages (other reasons are few working hours or high income requirements due to the household constellation). About 58 per cent of West German and more than three quarters of East German beneficiaries of ALG II with employment had an hourly wage of less than €7.50 whereas the low pay threshold was €9.62 in the West and €7.18 in the East in 2007 (gross per hour). For the most part, workers who receive ALGII benefits on top of their wage work part-time (particularly fewer than 15 hours) but every fifth person works full-time (Bosch et al., 2009). In June 2010, 13.1 per cent of all temporary agency workers (working subject to social security) received benefits from the basic allowance in addition to their earnings; the respective share had been 10.9 in mid-2009 (DGB 2011). In the absence of a national minimum wages<sup>20</sup>, firms that pay very low wages are thus subsidised by the state.

#### **4.5 Transitions from unemployment<sup>21</sup>**

In Germany, the yearly average transition rate from unemployment was 22.6 per cent from May 2009 to April 2010, including both unemployment insurance and basic benefit recipients. In the pre-crisis period (May 2007 to April 2008), the transition rate was slightly lower at 20.2 per cent. Looking at the impact of the crisis on transitions from unemployment, measured on all transitions a slightly smaller share of women and men now enters employment and non-employment, whereas both groups are considerably more likely than before the crisis to enter education or active measures (increase of about 8.5 per cent). For all destinations, the elapsed duration of unemployment at the specific transition decreased, on average, for both men and women (Leschke, 2011).

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<sup>17</sup> Until 1999 people who had been employed subject to social insurance contribution for at least 150 days within the reference period were entitled to income-related means-tested unemployment assistance. From 2000 until the end of 2004 unemployment assistance was granted only to those who had exhausted their unemployment insurance entitlement.

<sup>18</sup> Approximately equivalent to £322.12, using Bank of England converter (accessed 22/07/11)

<sup>19</sup> Partners and children of basic benefit recipients who are older than 65 years or younger than 15 or who have health impediments and thus are non employable can receive the basic allowance.

<sup>20</sup> Some sectors have introduced minimum wages.

<sup>21</sup> This section is taken from Leschke 2011 (forthcoming).

## 4.6 Low paid work in Germany

According to a comparative study of five European countries and the US by Bosch (2009) based on analysis of separate national household surveys, of the European countries, Germany had the highest share of employees (excluding apprentices) below the low-pay threshold (27 per cent), defined as two-thirds of the national median of gross hourly wages. This compares to 8.5 per cent for Denmark, 11.1 per cent for France, 17.6 per cent for the Netherlands, 21.7 per cent for the UK and 25 per cent for the US.

The lack of a statutory minimum wage in the majority of sectors in Germany means that very low wages are relatively common. In 2006, around 6.5 per cent of the German workforce earned less than €5<sup>22</sup> an hour (Bosch, 2009, p. 339). A minimum wage of €7.50<sup>23</sup> gross an hour as was demanded by the trade union confederation and until very recently (since May 2010 €8.50<sup>24</sup>) would affect about 17.3 per cent of workers (Bosch and Kalina, 2010, p. 191).

With regards to the trends in low paid work, Germany has for a long time had comparatively few low-paid workers. Indeed, the share of low-wage work was flat or falling before reunification but (in contrast to the trends in most other European countries) it increased steadily from the mid-1990s, including during the economic 'upswing' between 2004 and 2006 (Bosch, 2009; Bosch and Kalina, 2010).

The Hartz<sup>25</sup> reforms further contributed to increases in low-wage work (increased pressure on long-term unemployed people to take up any job through abolition of earnings related unemployment assistance and introduction of a flat rate basic allowance ALG II), the lifting of former restrictions on temporary agency work, an increase of earnings limit for mini-jobs from €325 to 400<sup>26</sup> and the abolition of the 15 hours rule in mini-jobs.

Over the last two decades there has been a marked increase in inequality of income. While in 1995 the share of employees with low wages (less than 2/3 of median) was 15 per cent, it had increased to 22.2 per cent by 2006. In the same period, the share of employees with high wages (more than 4/3 of median) increased from 21.8 per cent to 26.3 per cent. In absolute figures the number of low-paid workers rose by 2 million from approximately 4.5 million in 1995 to approximately 6.5 million in 2006: a rise of 43 per

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<sup>22</sup> Approximately equivalent to £4.42, using Bank of England converter (accessed 22/07/11)

<sup>23</sup> Approximately equivalent to £6.64, using Bank of England converter (accessed 22/07/11)

<sup>24</sup> Approximately equivalent to £7.52, using Bank of England converter (accessed 22/07/11)

<sup>25</sup> As part of the widespread reforms of active and passive labour market policies, commonly referred to in the literature as 'the Hartz reforms', the provision of public training programmes was changed substantially in 2003: The allocation of training now takes place only after a prognosis by the caseworker on the likelihood of a potential beneficiary re-entering employment; only those with a relatively high chance of re-entering employment should be provided training (the '70 per cent rule'). The Hartz reforms also introduced a training voucher system. Under this system, the case worker still allocates the type of training but the beneficiary is now free to choose the training provider. Both caseworkers and training providers have been particularly critical of the system.

<sup>26</sup> Approximately equivalent to £287.61 to £353.98, using Bank of England converter (accessed 22/07/11)

cent with a larger increase in Western than in Eastern Germany (Bosch and Kalina, 2010). Adjusted for inflation, average wages in the low-wage sectors were lower in 2006 than in 1995, particularly so in the East.

Considering the characteristics of low-paid workers, in 2006 more than two-thirds of low-paid workers were women. Indeed, 30.5 per cent of women and 14.2 per cent of men in dependent employment had low wages. As to education, 45.6 per cent of employees were without a vocational education; but 23.1 per cent of those with a vocational education and 6.1 per cent of employees with a university or technical college degree had low wages. Low pay was most common for workers aged under 25 (56.3 per cent) and least common among employees aged between 45 and 54 (16.5 per cent). Every fifth employee with German nationality and more than one in every three (38.9 per cent) migrants was low paid. As in many other countries, workers in hotels, restaurants and personal services have higher risk of low pay (Bosch, 2009) and the share of low wages decreases with increasing enterprise size (Bosch and Kalina, 2010).

Consideration of contract type (that is, atypical vs. regular), the share of atypical workers (regular part-time workers, mini-jobbers, temporary agency workers and fixed-term contract holders) in the low wage sector increased from 49 per cent in 1995 to 66 per cent in 2006.

At the same time the relative share of low wage full-time workers has also increased from 11 per cent to 14 per cent (Kalina and Weinkopf, 2008, based on German Socio-Economic Panel Study SOEP data, low wage defined as less than two-thirds of the median hourly wage).

According to this analysis, in 2006 23.4 per cent of regular part-time employees were in low-wage jobs whereas 92 per cent of the mini-jobbers were on a low wage; this was also the case for 53 per cent of temporary agency workers and 51.9 per cent of workers with a fixed-term contract (Kalina and Weinkopf, 2008, pp. 455-459). Except for regular part-time workers the majority of atypical workers have low hourly wages and are overrepresented in the low wage sector (Brehmer and Seifert, 2008). Controlling for working time, temporary agency workers earn about half of regular full-time employed in Western Germany and about 40 per cent less than full-time employed in Eastern Germany. At the same time the average earnings (subject to social security) of this group have declined between 1999 and 2006 (DGB, 2011).

To date there have been no forecasts regarding projections of low-paid work over the next 5 to 10 years. It is likely that the trends in the growth of atypical employment (with large shares in low-wage employment) will continue (e.g. temp agency work was back to its pre-crisis level already in June 2010 and a considerable share of the recent

employment growth was due to atypical contracts). Moreover, the current austerity measures are largely targeting the field of social and labour market policies with likely negative impacts on moving out of unemployment and progression in low-paid jobs. Last but not least much will depend on the further developments in terms of the implementation of 'sectoral' minimum wages and e.g. equal pay rules for temporary workers.

Withdrawal from collective agreements, the rise in outsourcing and the dramatic expansion of temp agency work, mini-jobs and posted workers has been the principal factor behind the rise of low-wage work since the mid-1990s (Bosch and Kalina, 2008 cited in Bosch, 2009). Moreover, since the Hartz reforms, there is more pressure on unemployed to take up atypical and/or low-wage employment.

Collective bargaining and/or minimum wages are known to decrease wage inequality. Germany has no national minimum wage, however a number of industries have introduced minimum wages. Minimum wages have been introduced among others in the construction, painting and varnishing trade, roofing, demolition, electrical trade, postal services and specialist cleaning (buildings) via the law on posted workers for about 1.9 million employees.

This also applies to nursing services, security, waste management, continuing education, industrial laundries, and mining specialists which covers about 1.2 million employees (compare Bosch and Kalina, 2010, p. 204). As the minimum wages are put into place through extension of collective bargaining results they differ from one industry to the next (for details for the different industries see tables 12 and 13 in Bosch *et al.*, 2009, pp. 43-44). Discussions with regard to minimum wages for temporary agency workers are ongoing.

#### **4.7 Evidence relating to transitions between unemployment/inactivity and employment**

Institutional training was by far the most important programme both in terms of expenditure and participation in ALMP (Konle-Seidl, 2010). As an outcome of large efforts in improving the usability and availability of process data, Germany has seen a considerable increase in evaluation studies of ALMPs since the late 1990s/early 2000s. However, these evaluation studies on training measures in Germany have often used different data, different research methods and examined different time periods.

They show no consistent results. Positive effects of training seem to occur (if at all) in the longer-run and studies that report medium or long-term positive effects often also find short-term negative effects. For an overview on these studies see IZA DIW 2006, pp. 25-36).

Using administrative data from 2002 Rinne *et al.* (2007) evaluated three training programmes of medium-term duration (6-8 months). The programmes were (1) occupation related (specific skills for an occupation) or general training (e.g. computer skills), (2) practice training in key qualifications ('learning by doing'), and (3) practice firms (simulation of real operations). These three types of programmes made up approximately 85 per cent of public training programmes. Programme one was by far the most important programme with a share of 60 per cent and 70 per cent respectively of all training before and after the Hartz reforms. Rinne *et al.*'s evaluation points to positive impacts on employment probabilities for all programme types and all subgroups (gender, age and education level). Moreover, participants often find more higher-paid jobs than non-participants. These results in part contradict the strategy pursued during the Hartz reforms of allocating training to those considered to have better employment prospects.

The (Hartz) reforms in training also led to a large decline in participation: particularly in regions with high unemployment (e.g. East Germany).

A comparison of the characteristics of participants, before and after the Hartz reforms, shows that the participation of male and young participants has increased substantially whereas those with little education, the disabled and the long-term unemployed are considerably less likely to participate now.

In the official evaluation report (IZA DIW infas (2006) the training sub-programmes were evaluated separately. Overall it was concluded that the reform led to improved employment compared to the period before the reforms for almost all programmes. One explanation for this is the shorter average duration of training measures after the reform that has weakened the lock-in effects.

Employment probabilities for the largest programme ('occupation-related' or 'general' training) have increased by about 5 per cent. However, these positive employment effects were not matched by an increased lower probability of unemployment. Overall, there were small positive effects on earnings but this had already been the case before the reforms (IZA DIW infas, 2006, pp. 115-136).

The evaluation report also included a cost benefit analysis. Due particularly to the lower median duration of measures as a result of the Hartz reforms, improvements with regard to cost-benefits have been evident (pp. 136-144).

For the largest training programme, the costs are much higher than the benefits for participants than for non-participants for the first 12 months (before the Hartz reforms this was true for the first 13 months) when they converge. Following that, the participants perform somewhat better than the non-participants.

Rinne *et al.* (2008) evaluated the 'voucher effect' (i.e. the introduction of the voucher system) and 'stricter selection effect' (i.e. the matching between training programmes and participants by the PES 'caseworker') in respect of the change in composition of participants (both introduced with the Hartz reforms) for the most important public training programme: 'occupation related or general training'. Their study showed that the reforms slightly increased the effectiveness of public training measures which seemed to be almost exclusively based on the voucher effect. The study also revealed better job matches through the use of the voucher. As concerns the stricter selection of beneficiaries, there seems to be no evidence for a positive impact on training outcomes. In contrast the results seem to indicate that the overall reform effect would have been more positive if the composition of participants had remained the same.

Despite the intention of the voucher system to encourage motivation among beneficiaries (more self initiative through the freedom of choosing the provider of training) and the intended improvement of provision that would follow (from more competition between providers seeking to attract beneficiaries with training vouchers), many interviewed case workers pointed out that the free choice of training provider is asking 'too much' of the clients (IZA DIW infas, 2006, pp. 48-62).

Short-term training measures are one of the most frequently used measures for activating employable recipients of the basic allowance, ALG II (usually the longer-term unemployed). This training can take place either in schools or in firms and ranges from a few days (e.g. job application training) to 8 weeks in case of more specific skills training (e.g. IT training), and 12 weeks in case of combinations. Compared with control groups, job application training was considered to be largely effective whereas specific skills training in schools resulted in a 3-4.4 percentage point higher probability of a beneficiary being employed after 28 months.

Specific skills-training in firms was by far the most successful measure, with a 15-21 percentage point higher probability of being in regular employment after 28 months. Results were similar for East and West-German men and women. The results are similar, but with a clear advantage for firm training if 'stable employment' (of at least 12 continuous months) is considered rather than the measure of the probability of taking up employment alone (Kopf and Wolff, 2009).

A further reform relates to the training component which was allowed to be from the onset of unemployment rather than after 6 months. The evaluation concluded that in the post-reform period there was no significant difference between participants and non-participants with regard to the probabilities of them entering new employment or unemployment. However, there were some limitations to this evaluation as it included a relatively short observation period and thus gathered relatively little data.

The preventative measures introduced by the Federal Employment Office have only recently been strengthened. Since 2006 (and on a smaller scale since 2002) the Employment Office has subsidised training for older workers and employees with low education levels – both of these groups being disadvantaged with respect to access to further education (Offerhaus *et al.*, 2010). The 2006 programme: ‘Further education for low qualified and elderly employees in firms’ (WeGebAU) was targeted at employed and unemployed individuals and included wage subsidised and/or the payment of training costs.

The bulk of participants came from the latter group which led to a revision of the programme (the minimum age lowered from 50 to 45 and firms with to 250 employees instead of 100 employees). Moreover, from 2007 onwards the WeGebAU programme has focused exclusively on the further education of employees and the programme has been widely advertised.<sup>27</sup> Participation increased from 29,111 in 2007 to 101,890 in 2009 (however, double counting is possible here as interventions and not participants are counted). Results of the further education supported by this programme were assessed as positive by 85 per cent of the firms participating. However, despite the fact that they were an explicit target group of this measure, small firms were not likely to participate (Lott and Spitznagel, 2010).

Young people have been adversely affected by the recession. Germany has a comparatively high unemployment rate amongst its low-qualified young people. For the lower qualified, school-to-work transitions for the most part take place through the vocational education system.

There are three main streams: the dual apprenticeship system, full-time vocational schools and the so-called ‘transition system’, which consists of vocational and pre-vocational programmes (usually run by the Federal Employment Service). The latter do not appear to be leading to recognised vocational qualifications but at best to an improvement of individual skills allowing some young people to enter dual apprenticeship training (Konle-Seidl, 2010). In 2008, the distribution of new entrants to the three sectors was as follows: about 48 per cent to the dual apprenticeship system, about 18 per cent to education in full-time vocational schools, and about 34 per cent to the transition system.

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<sup>27</sup> €332m was spent on this programme compared to €1262m for retraining unemployed people and about €150m for retraining programmes during short-time work (Konle-Seidl, 2010, pp. 25- 26).

In line with the German dual education system, the various special support programmes for apprenticeships are by far the most important ALMP measures for young people (355,004 participants in October 2010 compared to 518,055 young participants in ALMPs overall). Among the special support programmes for apprenticeships there are several programmes geared to making disadvantaged youth ready to take up a regular apprenticeship (see BA, January 2011, pp. 35-36).

However, Antoni *et al.* (2007) shows that young people with the lowest education level are underrepresented in pre-vocational training measures. Despite the variety of youth measures organised by the public employment system and other organisations, disadvantages such as social background tend to increase in the transition from school to education and work (Autorengruppe Bildungsberichterstattung, 2008).

One of the programmes fostering school-to-work transitions is the 'entry-level qualification' for young people with various barriers to taking up regular training in the dual apprenticeship system. This measure offers an internship of six-to-twelve months in a firm and is supported by a monthly subsidy, as well as support to social insurance coverage of the trainee. The programme shows good evaluation results, in 2005/2006 after completion of the programme 63 per cent of beneficiaries started a regular training or employment contract in the private sector compared to 30 per cent of the control group (BMAS, 2009; Becker *et al.*, 2010; Konle-Seidl, 2010, p. 20) and has been extended to run to 2014.

#### **4.8 Evidence relating to employment retention and progression**

An argument often brought forward with regard to low paid jobs in Germany is that they often act as a stepping stone to higher paid jobs. Bosch (2009) examined national household data sets and revealed that in Germany (as well as in the US, UK and Netherlands) progression from low pay is much lower than in Denmark and France, with a tangible risk of cycling between low pay and no pay.

Similarly, a comparative study based on pooled European Community Household Panel (ECHP), data for 1995-2001 shows that for this period Germany and the UK were the countries with the lowest upward mobility in the EU-15 for low paid workers, both in the short and in the longer-term.

In Germany, low paid employees have only a 30 per cent chance of moving to a better-paid job after one year and the probability remains below 50 per cent even after seven years (European Commission, 2004). As concerns trends over time, for West Germany, Bosch and Kalina (2010) showed that annual income upward mobility has decreased between 1975 and 2005. In the period 2000 to 2005 only 15.4 per cent of low paid

workers moved beyond the low-wage threshold. The probability of upward mobility was considerably higher for men, university graduates and younger people.

Schank *et al.* (2009) (similar English version of this paper by Mosthaf *et al.*, 2010) used linked employer-employee data from the German Federal Employment Agency which enabled them to take account of both individual and firm-level characteristics.

They showed that only one-in-seven full-time employees (around 15 per cent) who earned low wages in 1998 and 1999 was working full-time with earnings above the low-wage threshold in 2005.

By contrast, 36 per cent of low wage earners in 1998 and 1999 were still in full-time low paid work in 2005, 14 per cent changed to part-time or marginal employment, 10 per cent moved to unemployment and the rest to another status not identifiable from the data (e.g. inactivity, self-employment). Using probit models<sup>28</sup> the authors show that male, younger and better qualified low-wage earners had a higher probability of progressing to higher wages.

The size of the firm and levels of qualification in the firm also matter: the bigger the firm and the higher the share of the higher-qualified workers in the firm, the more likely the movement from low to higher wages. Moreover, moving to another firm is also an important instrument for making this upward transition. Grün *et al.* (2011) drew on German and Austrian administrative data referring to male low paid workers which confirmed the above results both at the individual and firm level. They also showed that an important share of inflows into low wage work in Germany (about one-quarter) come from temporary agency workers.

Further education (skills training) has been shown to improve the labour market outcomes of participants in Germany. However, participation by adult employees in further education is lower than the EU27 average (see e.g. Leschke and Watt, 2008).

Moreover there is segregation evident in German skills training, with low educated workers, elderly workers, migrants and atypical workers being less likely to participate (Schiener, 2007; Brehmer and Seifert, 2008; Offerhaus *et al.*, 2010). Low wage workers are over-represented in the above groups and are thus (indirectly) disadvantaged in respect of access to further education.

There is also impact relating to the household context and participation in further education, with married men being more likely and married women less likely to participate. The presence of young children in the household has a negative impact on the further education participation of mothers but not of fathers (Schiener, 2007). To

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<sup>28</sup> A type of analysis.

some extent public employment measures aim to compensate for this segregation by either offering training and education courses themselves, or by creating incentives for firms to offer skills training to particularly disadvantaged groups. Evaluation studies show that firm-level training and subsidies for further education improve the chances of unemployed people (and also of those with high re-activation barriers) to re-enter employment (see above and Bernhard *et al.*, 2008).

Various studies have shown that women are less likely than men to move from low to higher paid jobs (e.g. Schank *et al.*, 2009) and to move from part-time to full-time employment (Leschke, 2007). Household composition and particularly child-care responsibilities play an important role in explaining downward transitions (to unemployment or inactivity) of part-time workers (Bothfeld *et al.*, 2000).

With regards to concerns the 'stepping stone' or segmentation function of temporary employment (an employment form often associated with low wages in Germany), comparative studies show that Denmark and the United Kingdom are usually among the countries with relatively high (short-term) upward mobility, whereas Germany normally takes a hybrid position (Muffels and Luijkx, 2005). A longer-term perspective (over a five-year period) reveals considerable downward transition from temporary employment to unemployment or inactivity in all four countries (European Commission, 2003, p. 133). Moreover, the overall macroeconomic labour market performance (captured by e.g. unemployment) is shown (for the EU) to have an impact on upward transitions from low to high pay and from precarious to more stable jobs (Eurostat, 2004).

IZA DIW infas (2006, pp. 145-213) also evaluated a specific short-time working measure (known as *Transferkurzarbeitergeld*) that included an important training component on top of the job search assistance offered. This short-time working measure can be used in the case of restructuring in order to improve the transfer of a worker to a new firm and thereby avoiding unemployment.

#### **4.8.1 Conclusion**

Germany has a large share of its workers in low paying jobs. There is no national minimum wage but there are some sectoral minimum wages and/or extensive collective bargaining coverage. Most of the data cited above refers to periods prior to the implementation of the Hartz reforms. It is likely that the share of low-wage workers will have further increased in the last couple of years.

Currently, skills training is accessed through public employment offices and 2011 will see decisions taken on a range of existing active labour market policies and programmes. These changes may include a move away from some of the stricter job take up criteria

that expect unemployed people to take up (often low paid and atypical) employment after relatively short periods. This requirement to take up any job regardless of the individual's former qualifications has meant that former employment status no longer protects the individual from low paid jobs; a policy that some regard as Germany's first real shift of policy towards the 'Anglo-Saxon' work first model (Bruttel and Sol, 2006).

Short-term specific skills training undertaken in firms for recipients of the ALG II welfare benefit has shown positive results; although there is some concern that a number of ALMP measures that are currently a right for unemployed people will in future be awarded at the discretion of a PES advisor, which may lead to only those considered most likely to benefit receiving them.

## 5 The United States

### Research note

As Sung *et al.* (2005) point out, the two-tier government arrangement in the United States (US) between the Federal and state governments means that the major responsibility for education and training policy is devolved to the state level. As a result, there is no national qualifications framework and skills policy operates very much at the local level – with differences sometimes evident between county and state policies.

In this respect, following the sections relating to unemployment benefits, the following case study of the US continues by examining the incidence and extent of low paid work in the country as a whole and by occupation. Following this, the remaining sections look at developments in Federal skills policy in relation to transitions from unemployment to low paid work and progression from low-paying jobs. However, it should be noted that any reference to programmes or initiatives are taken from devolved examples that have run in a particular state.

### 5.1 Level and duration of unemployment benefits

For US workers the most important protection they receive if they lose their jobs is provided by unemployment insurance. It is important to note here that whilst unemployment insurance is often associated with the term 'welfare' in Western countries, this is not the case in the United States. Unemployment insurance is intended for 'laid off' workers who have been in regular employment and who have earned consistent wages or salaries for extended periods of time. 'Welfare' was designed for low paid workers with children who have never been in regular employment or who only work intermittently (Midgely, 2008).

Experienced workers who lose their jobs can claim unemployment benefits that replace about half of their lost earnings, up to a maximum weekly benefit amount. In most US states this maximum amount is approximately half the wages earned by an average worker covered by the unemployment insurance system. Benefits are taxed as ordinary income in the income tax system.

However, the US unemployment system only replaces the wages that workers lose when they are laid off. It does not insure workers against the loss of health insurance or other fringe benefits that were provided by their former employers. The loss of fringe benefits is particularly important for workers who depend upon their employers for health insurance. Insurance purchased outside an employer's health plan is so costly that few unemployed workers can afford it (Burtless, 2009).

Moreover, unemployment insurance benefits do not last indefinitely. Under ordinary circumstances, US benefits are restricted to 26 weeks. Laid off workers who fail to find work within six months after being unemployed will run out of benefits before they find employment again. In recent years, between 31 per cent and 43 per cent of workers who claim unemployment benefits have exhausted their eligibility for benefits before finding a job. Perhaps unsurprisingly, the percentage that run out of benefits is higher when the national unemployment rate is high (Burtless, 2009).

In 1997, the Temporary Assistance for Needy Families programme (TANF) abrogated the prerequisite that US citizens have a right to public assistance when experiencing financial need. TANF also imposed new conditionalities on the receipt of benefits. These conditionalities refer primarily to work participation and time limits and give expression to the TANF programmes' 'work first' philosophy. States are required to ensure that a specified proportion of welfare recipients engage in employment or work-related activities. Participation includes: regular employment in the open labour market, subsidised employment, community service (known as workfare), on-the-job training and up to twelve months of vocational training. Teenage mothers who attend school regularly and make satisfactory progress are also considered to have met the work participation requirement (Alber, 2010).

Since the creation of the TANF programme, different interpretations of the Federal statute and different evolving administrative and political practices have tended to reinforce ongoing devolution and the divergence of state policies. Indeed, there has recently been further devolution in some states of TANF from the state to county and down even to city governments. This situation has led some to argue that the TANF programme has effectively evolved into 50 separate state programmes (e.g. Rowe and Gianarelli, 2006). In any event, any examination into medium-term changes in the US benefit system would require separate analysis of different city/county/state arrangements (Midgely, 2008).

## **5.2 Recent changes to the unemployment benefits system**

In 2008, the US Congress established a temporary Extended Unemployment Compensation (EUC) programme. Depending on the unemployment rate at the state level, a laid off worker who is still out of work after the standard 26 weeks of regular benefits can collect EUC benefits for between 20 and 33 additional weeks. This provides an entitlement of both regular and EUC benefits that could range between 46 and 59 weeks. By mid-2009, 33 weeks of EUC benefits were available in 42 of the 50 states, whilst 26 weeks of EUC benefits were available in the other 8 states. In May 2009, Congress authorised EUC benefit payments through to the first five months of 2010 (Burtless, 2009).

### **5.3 Unemployment benefit replacement ratios**

The OECD makes estimates of the generosity of member countries' programmes for replacing earned income after workers lose their jobs. The OECD calculated that in 2007, US workers in single-earner households received a net replacement rate of about 52 per cent to 61 per cent in the case of unemployed workers who earn two-thirds of the average US wage. Workers who earn the average wage typically received net unemployment benefits that replaced between 52 per cent and 56 per cent of their net wage, and workers earning 1.5 times the average wage received a replacement rate between 37 per cent and 39 per cent of their net wage (OECD, 2009). These replacement rates are lower than rates available in most other advanced countries and the gap is particularly wide in the case of unemployed workers who have dependents (Immervoll and Pearson, 2009).

The OECD also calculated the net replacement rate for a married US worker, laid off in 2007, who has a spouse who does not work and two dependent children, and who earned the average national wage before losing their job. OECD ranked 22 rich countries according to the replacement rate the unemployed workers received in 2007 during the first six months of unemployment. For this type of worker the US ranked 19<sup>th</sup> out of 22 countries, although its rank varied depending on the exact wage and family circumstances of the unemployed worker (OECD, 2009).

### **5.4 The role of in-work benefits**

The Earned Income Tax Credit (EITC) is the largest money assistance programme for low paid workers in the US. Targeted at low paid workers, the EITC has focused on achieving two goals: distributing income towards low paid workers, and increasing labour force participation rates. Studies on the EITC have shown that the policy had a positive effect on the labour force participation of single women (e.g. Meyer, 2002), and a small negative effect on the labour supply of low skilled married women (Eissa and Hoynes, 2004).

The EITC provides a refundable cash benefit to low income families in the form of a tax credit. The value of the credit increases as earnings increase but as earnings rise further, it is gradually phased out. The value of the credit is also higher for two-child than one-child households. Households without children are also eligible but only a comparatively small benefit is paid in this case (Leigh, 2010).

A substantial proportion of the 2008 and 2009 Federal macroeconomic stimulus bill, the American Recovery and Reinvestment Act (ARRA) was devoted to providing one-off or short-term income tax reductions to households. Individual tax payers received a rebate of US\$600; married couples received US\$1,200; and taxpayers with dependent children received US\$300 for each child.<sup>29</sup> Social security beneficiaries also received rebates. In total, rebates of approximately equal size were received by most individuals in the bottom 90 per cent of the income distribution.

The largest tax provision, accounting for more than 40 per cent of the tax concessions in the stimulus bill, was the temporary 'making work pay' tax credit. The credit provided workers with a credit equal to 6.2 per cent of their earnings, capped at US\$400 for single taxpayers and US\$800 for a married couple.<sup>30</sup> It was intended that the credit reduce the marginal tax rate on earnings received by individuals in the bottom 90 per cent of the income distribution - thereby stimulating the available supply of labour. This tax credit was scheduled to end at the end of 2010 (Burtless, 2009).

## **5.5 Transitions from unemployment**

The Bureau of Labor Statistics (2011) estimated that there were 13.7 million unemployed people across the US in April 2011. Among the 'major worker groups', the unemployment rate for adult men was 8.8 per cent; for adult women 7.9 per cent; for teenagers 24.9 per cent; and regarding ethnicity, white 8.0 per cent, Black and Afro Caribbean 16.1 per cent and Hispanic 11.8 per cent.

The number of individuals unemployed for less than 5 weeks increased by 242,000 in April. However, the number of long-term unemployed (those jobless for 27 weeks and over) declined by 283,000 to 5.8 million, their share of unemployment accordingly declining to 43.4 per cent.

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<sup>29</sup> Approximately equivalent to a rebate of £368.10; married couples £736.20; and taxpayers with dependent children received £184.05 for each child, using Bank of England converter (accessed 22/07/11)

<sup>30</sup> Approximately equivalent to £245.40 for single tax payers and £490.80 for married couple, using Bank of England converter (accessed 22/07/11)

## 5.6 Low paid work in the United States

Determining the extent of low paid work in the United States depends upon the definition of 'low pay' adopted for the analysis. For example, the US is unique among OECD nations in that the Federal government sets absolute levels of poverty for different sizes of family. The official US poverty threshold varies by family size, number of related children, and, in families of one or two people, whether one of the household members is aged 65 or over. In 2006, the poverty threshold for a family of two adults and two children was US\$20,444<sup>31</sup>.

This threshold is important for debates on low pay in the US because many scholars and commentators determining whether a job is low paid typically use the poverty threshold for a family of four. According to this definition, about one-in-four full-time US workers held jobs in 2006 that paid poverty-level wages (Boushey *et al.*, 2007)<sup>32</sup>.

In his comparative international study on low pay, Bosch (2009) adopted the OECD pay threshold definition but defined it as two-thirds of the national median of gross hourly wages (for men and women). Under this approach he concluded that about 25 per cent (one-in-four) of the US labour force were low paid in 2005.

At whichever of these two points the low pay threshold is set, in terms of job quality, most low paid US jobs rank particularly low. Many US low paid jobs do not offer employment benefits (e.g. health insurance or pensions), tend to display a significant imposed flexibility and provide little opportunity for progression. For example, the National Competition Survey showed that low paid and part-time workers are frequently excluded from non-wage benefits. In 2006, only 76 per cent of employees in the US were entitled to paid holidays and only 57 per cent were entitled to sickness pay. Among employees earning less than US\$15<sup>33</sup> per hour, these percentages were even lower – at 67 per cent and 47 per cent respectively. The figures for part-timers were 37 per cent and 22 per cent respectively (Ackerman, 2006; Boushey *et al.*, 2007).

There is also evidence that US adults in low paid employment experience significant difficulty moving up to higher positions in the labour market (see Osterman, 2008).

One study conducted during the early to mid-1990s found that despite this period of economic growth, only 27 per cent of low paid individuals raised their incomes sufficiently to keep a family of four above the Federal poverty line (Holzer, 2004). More recently, a study using the Panel Survey on Income Dynamics looked at low paid individuals in the

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<sup>31</sup> Approximately equivalent to £12,542.33, using Bank of England converter (accessed 22/07/11)

<sup>32</sup> However, Boushey *et al.* (2007) adopted the OECD pay threshold approach, in this case determining a low-paid job as one that pays less than two-thirds of the median wage for men. The median wage for men in the US in 2006 was US\$16.66 per hour; jobs paying less than two-thirds of the median wage for men paid US\$11.11 or less per hour. Under this measure, some 44 million US workers held low paid jobs in 2006 – almost one-in-three.

<sup>33</sup> Approximately equivalent to £9.20, using Bank of England converter (accessed 22/07/11)

period 1995-2001. Theodos and Bednarzik (2006) found that 6 per cent of those working full-time and 18 per cent of those working part-time in any year had dropped out of the labour market by the next year. Among those who did stay in the labour market, 40 per cent experienced either a decrease or no change in their earnings.

Labour markets in the US have been affected by a range of developments over the past 20 or so years. Employer demand for workers at various skill levels has changed, due to large-scale technological change, workforce reorganizations, and expanding trade. Some firms report that they continue to experience difficulty recruiting and retaining higher skilled workers.

At the same time, some lower-skilled workers are finding it more difficult to maintain regular, stable employment. Also, the institutions that have traditionally protected low paid workers have changed significantly, with growing wage and employment gaps between high and low-skilled workers. The relative wages of lower-skilled workers have declined and inequality in the labour market has grown (Holzer and Smith-Nightingale, 2007).

Both the supply and demand sides of the US labour market are projected to change in significant ways over the next decade. On the supply side, the retirement of the 'baby boomer' generation and continued immigration (combined with the current relatively young immigrant population) will generate major changes in labour market demographics. Saunders (2005) and Toossi (2005) examined Bureau of Labor Statistics (BLS) and Census Bureau data, which estimates:

- The US labour force will grow slowly over the period 2005-2014 (at a rate of 1 per cent per year).
- There will be virtually no net growth in the number of young workers (aged 16-24; aged 25-44) in the period 2005-2014, whilst the number of workers aged 55 and over will grow by over 40 per cent.
- Ethnic minority groups will account for over one-third of the labour force by 2014 and approximately half of the US's population by 2050 – with Hispanics accounting for 15 per cent and 24 per cent respectively.

Significant changes are likely to also affect the demand side. BLS data projects that:

- Manufacturing jobs will continue to decline (by 0.6 per cent per year), jobs in construction and wholesale trade will grow slower than average, and jobs in professional and business, education, and health care services will grow rapidly (by 2.5 per cent per year or more).
- Production jobs will decline (by 0.9 per cent per year) while those in the high-paid professional categories and low-paid service categories will grow most rapidly (at nearly 2 per cent per year).

If a growing demand for skilled labor is not matched by a comparable trend in supply, then labour market inequality will likely continue to grow in the United States. And, while labor markets will respond to these developments with a variety of adjustments (such as further substitution of capital and technology for labor, relative wage adjustments, workers investments in education and skills, and the like), output and productivity growth might be constrained by a relative dearth of skilled workers, at least in some sectors and in some places or periods (Holzer and Smith-Nightingale, 2007, p. xiii).

Pointing to the persuasive emphasis on the current and projected widening of the earnings gap between university and secondary school graduates, Osterman (2008) takes issue with the perception that there is and will be far less room in the US labour market for individuals with less than a four-year university degree.

Osterman highlights the data that shows there is a very large layer of what he terms 'middle-level jobs' that require skills at about the same level of a two-year Associate degree<sup>34</sup>. Indeed, the BLS projections suggest that 28 per cent of all job vacancies in the period 2004-2014 will be for jobs that require post-secondary education but not a degree. This is a larger proportion than that projected for jobs requiring university degrees (Hecker, 2005).

Other projections suggest that there will also be a large number of new jobs available for skilled 'blue collar' work (machine maintenance, technicians, repair jobs, and the like) and that these too will require education in the 'some college' or Associate degree range (Goldberger *et al.*, 2005).

### *US Minimum Wages*

The Federal Minimum Wage in the US was frozen at US\$5.15 per hour between 1997 and 2007. This situation combines with a sharp increase in wage inequality in the US over several decades and, in particular, a decline in real wages at the bottom end of the labour market (Dube and Kaplan, 2010).

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<sup>34</sup> An Associate Degree is an academic degree awarded by a college/university upon completion of a two-year course equivalent to the first two years of a four-year university degree course. It is roughly equivalent to the UK's Foundation Degree and France's *Diplome d'études universitaires générales*.

The Federal Minimum Wage (FMW) was increased from US\$5.15 to US\$7.25 in 2007.<sup>35</sup> However, although there is a FMW, individual states are able to set their own level. In cases where Federal and state law have different minimum wage rates, the higher rate applies. In those states where the state minimum wage is greater than the FMW, the state minimum wage prevails. In 2010, there were four states that had a minimum wage set lower than the FMW.

There were 17 states (and the District of Columbia) with minimum wage rates set higher than the FMW. The remaining 5 states have not established a minimum wage requirement.

Of the 43 states that have a minimum wage requirement, the state of Washington currently has the highest (US\$8.67 per hour)<sup>36</sup>. The states of Georgia and Wyoming have the lowest minimum wage (US\$5.15 per hour)<sup>37</sup>.

There are also 10 states that have minimum wages that are linked to a consumer price index. As a result of this linkage, the minimum wages in these states are normally increased each year – usually on or around January 1<sup>st</sup>. On January 1<sup>st</sup> 2011, there were seven states that increased their respective minimum wages. The three exceptions were Florida, Missouri and Nevada (Department of Labor, 2011).

The US Bureau of Labor Statistics (BLS) produces annual occupational employment and wage estimates based on data collected in a national survey of employers. BLS uses the Standard Occupation Classification system, which categorizes all jobs into 821 detailed occupations and 23 major groupings of detailed occupations.

### *US Low Paid Occupations*

In their study, Boushey *et al.* (2007) defined a low-paid occupation as one in which half or more of the workers earned \$11.11 or less per hour (in 2006) As Table 3 shows, six of the twenty-three major groupings of occupations include at least half of the jobs being low paid. Table 5.1 lists the largest low paid occupations.

All of the occupations listed in employed more than half a million employees in 2005 and the figures reveal that:

- the largest low paid occupation is retail sales, with 4.3 million workers in 2005. In that year, half of these workers earned less than US\$9.20<sup>38</sup> per hour;
- there were 2.1 million jobs for janitors and cleaners in 2005 (not including maids and housekeeping cleaners). The median wage was US\$9.23;

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<sup>35</sup> Approximately equivalent to £3.16 to £4.45, using Bank of England converter (accessed 22/07/11)

<sup>36</sup> Approximately equivalent to £5.30, using Bank of England converter (accessed 22/07/11)

<sup>37</sup> Approximately equivalent to £3.115, using Bank of England converter (accessed 22/07/11)

<sup>38</sup> Approximately equivalent £6.65, using Bank of England converter (accessed 22/07/11)

- ‘Care Providers’ (e.g. child care workers, personal and home care aides, home health aides) also make up a large section of the low paid workforce. Half of the 557,000 workers in these occupations in 2005 earned less than US\$8.20<sup>39</sup> per hour.

**Table 5.1: Low-Wage Occupations with more than 500,000 Employees, 2005**

Occupational Title	Total Employed	10 <sup>th</sup> Percentile Hourly Wage	25 <sup>th</sup> Percentile Hourly Wage	Median Hourly Wage
Retail salespersons	4,344,770	\$6.54	\$7.55	\$9.20
Cashiers	3,481,420	\$5.98	\$6.75	\$7.82
Office clerks, general	2,997,370	\$6.98	\$8.79	\$11.09
Laborers and freight, stock, and material movers, hand	2,363,960	\$6.88	\$7.99	\$9.91
Combined food preparation and serving workers, including fast food	2,298,010	\$5.69	\$6.28	\$7.11
Waiters and waitresses	2,274,770	\$5.64	\$6.18	\$6.83
Janitors and cleaners, except maids and housekeeping cleaners	2,107,360	\$6.50	\$7.56	\$9.32
Stock clerks and order fillers	1,625,430	\$6.82	\$7.84	\$9.66
Nursing aides, orderlies and attendants	1,391,430	\$7.49	\$8.84	\$10.31
Receptionists and information clerks	1,088,400	\$7.31	\$8.81	\$10.65
Security guards	994,220	\$6.99	\$8.16	\$9.98
Landscaping and groundskeeping workers	896,690	\$7.08	\$8.14	\$9.94
Maids and housekeeping cleaners	893,820	\$6.16	\$7.08	\$8.21
Food preparation workers	880,360	\$6.18	\$7.04	\$8.19
Packers and packagers, hand	840,410	\$6.18	\$7.06	\$8.36
Cooks, restaurant	791,450	\$6.82	\$7.91	\$9.54
Home health aides	663,280	\$6.80	\$7.67	\$9.04
Cooks, fast food	631,190	\$5.74	\$6.37	\$7.25
Tellers	599,220	\$7.82	\$9.02	\$10.24
Personal and home care aides	566,680	\$6.00	\$6.96	\$8.34
Child care workers	557,680	\$6.03	\$6.88	\$8.20
Helpers-production workers	528,610	\$6.97	\$7.99	\$9.80
Counter attendants, cafeteria, food concession, and coffee shop	501,390	\$5.90	\$6.58	\$7.60

Source: Analysis of Bureau of Labor Statistics, Occupational Employment Survey, May 2005 by Boushey, H., Fremstad, S., Gragg, R. and Waller, M. (2007) *Understanding Low-Wage Work in the United States*. Center for Economic Policy and Research, Washington. Employment figures exclude self-employed.

<sup>39</sup> Approximately equivalent to £5.03, using Bank of England converter (accessed 22/07/11)

## **5.7 Evidence relating to transitions between unemployment/inactivity and employment**

In the 1990s, two pieces of legislation were signed into law that changed welfare and employment policy in the US considerably. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) established Temporary Assistance for Needy Families (TANF) in 1996 as the main federally-funded programme for benefit assistance for needy families. The fundamental requirement for states under PRWORA is to have most TANF recipients working within two years of first receiving benefits. The Workforce Investment Act (WIA) of 1998 included many of the characteristics of PRWORA. WIA oriented the employment and training system to be customer-focused, with an emphasis on return to work. It created One-Stop Career Centers across the country to provide all employment services under one roof, established individual training accounts to promote customer choice and extended performance measurement to support a system of consumer reports on training providers.

Funds under WIA are allocated to states and governors enjoy much more discretion than they had under prior job training legislation. This represents devolution of the federal role. The specific components of programmes vary across states, and even within states. Importantly, WIA instituted the principle of 'work first'. Subsequently, there has been a reduced emphasis on formal education leading to a university degree. The WIA programme introduced Individual Training Accounts (ITAs) which are essentially vouchers and permit a variety of types of training: class room training, customized training, occupational-skill training, on-the-job training (OJT), incumbent-worker training, and work-plus training.

The largest change in training policy in recent years by the Federal government was in response to the recession. New claims for unemployment insurance (UI) benefits averaged 322,000 per week in the period 2005 – 2007. In the year from October 2008 to October 2009, UI claims averaged 577,000 per week. Notably, in the 12 months from September 2008, young workers experienced increases in unemployment proportionate to those for full-time workers. Yet, as the unemployment rate for young people was already high, these redundancies have had a significant effect. Among full-time workers aged 16 – 19 unemployment rose from 29.6 per cent to 43.3 per cent. Among young people working part-time, unemployment rose from 14.4 to 17.3 per cent (O'Leary and Eberts, 2009).

As a result, occupational skills training was a prominent feature of the Federal macroeconomic stimulus bill, the American Recovery and Reinvestment Act (ARRA) of 2009. ARRA funding more than doubled the Federal support for job training than had been originally planned for the 2009 budget.

In total, ARRA made an additional US\$3 billion available to train and upgrade the skills of displaced or disadvantaged workers. The ARRA funding for job training was channelled through the existing programmes funded and administered by the Department of Labor. Five programmes received most of the ARRA training funds:

- The Dislocated Worker Programme;
- The Adult Programme (for economically disadvantaged adults);
- Trade Adjustment Assistance;
- National Emergency Grants, and;
- Worker Training and Placement in High Growth and Emerging Industries

The first two programmes formed part of the Workforce Investment Act (WIA) that since 1998 has governed most of the Federal workforce programmes. The WIA required states to replace the former Private Industry Councils with employer-led state and local Workforce Investment Boards (WIBs). These Boards were given a remit to secure more effective connections between workforce and economic development. WIBs were also charged with creating the 'one-stop' delivery system in which local agencies operating 18 federally funded programmes were required to participate.<sup>40</sup>

WIBs typically contract with local community colleges, secondary school districts and private companies to provide training. Individual states can also enter into contracts with higher education institutions or other eligible training providers to facilitate the training of beneficiaries for high-demand occupations. Training under WIA takes place in various venues and includes instruction for different levels of skills:

- Occupational Skills Training – refers to training for a particular skill or for a set of skills necessary for a particular occupation. Community colleges and private sector training providers typically provide this type of training in a classroom setting.
- On-the-Job Training (OJT) – takes place in the workplace and provides jobseekers with work experience and skills training. The OJT programme pays the employer half the cost of training.
- Apprenticeship Training – combines education and work experience and results in a transferable qualification recognized by employers nationwide.
- Customized Training – is designed to upgrade the skills of incumbent workers in specific businesses. Firms apply for the grants and, once approved, training is tailored to suit their needs and the services are provided either at the firm or at community college training centres. The employer pays for at least half of the cost of the training.

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<sup>40</sup> For a full account of the WIA, WIBS and outcome-based commissioning of training provision, see Finn (2010)

- The High Growth and Emerging Industries Initiative – provides specific training for workers to enable them to qualify for ‘green’ and renewable-energy jobs and for careers in the health care sector.
- General Remedial Instruction – is also provided to disadvantaged jobseekers who have been unemployed for some time. Job-readiness and adult education and literacy training provide the basic skills that some of these jobseekers lack.
- Entrepreneurial Training – focuses on helping beneficiaries own and manage their own business.

One major area of emphasis under ARRA is in meeting the skill needs of existing and emerging regional employers and high-growth occupations. To this end the DOL works with states and WIBs to integrate assessment and career counselling into their service strategies in order to align training with areas of anticipated economic and job growth. A further emphasis is the strengthening of partnerships between WIBs, employers, economic development agencies and education institutions. The intention is to align education and training at every level (O’Leary and Eberts, 2009).

However, despite the partnership between the DOL and the WIBs in respect of securing better connections between workforce and economic development, and to better align training with areas of anticipated economic and job growth, states enjoy considerable autonomy in relation to how their WIBs operate. Indeed the two-tier governance arrangements in the US, between the Federal and state governments means that the major responsibility for training (and education) policy is devolved to the state level. Subsequently, there is no national qualifications framework and skills policy tends to operate at a very localised level – not even necessarily operating state-wide (Sung *et al.*, 2006).

In a recent paper given to the Annual Conference of Public Policy and Management, Lerman (2010) argues that the US should follow the example of Germany, Switzerland and Austria in expanding non-academic and vocational skills through apprenticeships for young people. Currently, apprenticeships in the US focus primarily on construction and manufacturing occupations, with large-scale programmes in electrics, pipe-fitting, carpentry, shipbuilding, maintenance, machining and welding.

There are also apprenticeships in utilities, auto and truck repair, trucking, the police and fire service, childcare, and long-term care.

The US apprenticeship system is also currently highly decentralized with registered programmes operating under the supervision of the US Labor Department's Office of Apprenticeship (OA) and State Apprenticeship Agencies. As of 2008, about 27,000 registered apprenticeship sponsors were training about 480,000 apprentices.

However, federal support for apprenticeship training is low. Although the President Obama administration recently awarded grants of \$6.5 million to assist national industry and employer associations and labour-management organisations in advancing Registered Apprenticeships, the ongoing budget for the main agency helping to expand and monitor the apprenticeship system across the whole US is about \$28 million. Apprenticeship sponsors generally receive no direct support, although some of their apprentices obtain subsidies through community colleges.

One recent example of how a state can encourage apprenticeships is Apprenticeship Carolina. Operating for about three years in South Carolina shows the potential for expansion at modest cost. Since the state government funded a US\$1 million a year expansion initiative housed at the state's technical college system and annual employer tax credits of US\$1,000 per apprentice per year, has stimulated the registration of an average one new employer-sponsored apprenticeship program per week and more than double the number of apprentices in the state (Lehman, 2010)

## **5.8 Evidence relating to employment retention and progression**

In general, US employers provide little training for workers with a high school qualification or less (Frazis *et al.*, 1998; Appelbaum *et al.*, 2005). American firms do devote considerable resources to training their workforce. Indeed, the American Society for Training and Development (2005) estimated that firms spent 2.5 per cent of their payroll on 'learning expenditures' in 2004, an increase from 1.9 per cent in 1999. However, training in private firms is not focused upon low skilled frontline workers. Individuals with higher levels of education receive disproportionately more training (Lerman, McKernan and Riegg, 2004). According to the National Household Education Survey of 1995, 22 per cent of workers in the bottom quintile of earnings reported receiving employer-supported training, compared with 40 per cent in the top quintile (Ahlstrand *et al.*, 2001).

Moreover, the International Adult Literacy Survey compared the relative participation in occupational training of those with less than a high school degree with those with a university degree and found the ratio lower in the US than in Canada, Germany, Sweden, and the UK (Kletzer and Koch, 2004).

Holzer (2009) has revealed that Federal funding for education and training programmes for adult workers, typically young adults, has declined dramatically since the early 1980s, just as the labour market returns for skills have been increasing. Holzer notes that the decline in Federal funding is due in part to the weak effects on employment and earnings of many earlier programmes but argues that some have produced modest but cost-effective results.

With regards to access to training, Osterman (2008) examined industry distribution of low pay and non-low pay earners in the private sector. In 2006, over a third of low paid workers were concentrated in retail, food and drink, and accommodation – yet few employment and training programmes were aimed at these industries.

Some examples of programmes designed to help workers progress from low paid work include:

#### *The Worker Advancement and Support Programme*

Intended to help individuals in low-paid jobs progress in employment whilst simultaneously meeting labour market demand and employer needs for more skilled workers, the Manpower Demonstration Research Corporation (MDRC) Work Advancement and Support Center (WASC) demonstration tested an approach designed to achieve both these goals by fostering employment retention and career advancement for a broad range of low paid beneficiaries.

WASC combined two main strategies: first, services to help workers keep their jobs or find better ones, and; second, simplified access to programmes intended to provide financial support to low paid workers (e.g. child care subsidies, food stamps, Medicaid, and the Earned Income Tax Credit). In the demonstration's study sites, these combined strategies were housed in 'One-Stop Centers' (created by the WIA) and used primarily to help unemployed people find jobs. The services were provided by newly-integrated teams of retention-advancement staff drawn from the local workforce programmes and work support specialists from welfare agencies.

#### *Access to Quality Green Jobs*

Martinson *et al.* (2010) examined 'green jobs' and the recent claims that they are an important step towards reversing climate change and increasing energy efficiency whilst contributing to economic recovery and creating job opportunities for unemployed individuals.

ARRA made the continued growth of green jobs a priority and over US\$90 billion is currently being invested in direct spending, programmes, loan guarantees, and tax incentives for green industries. Over US\$48 billion is also being invested in job training and education, some of this targeted for green jobs. The intention is to save or create 6.8 million jobs by the end of 2012.

Martinson *et al.* point to the 'green jobs' literature that concludes that, whilst the green economy involves some relatively new industries and occupations, many occupations are similar to those in traditional industries.

For example, manufacturing green-related products demands the standard skills provided by machinists, technicians, and metal workers. Green construction and retro-fitting also requires relatively standard job skills provided by electricians, equipment installers, carpenters, equipment operators, building inspectors, truck drivers, and welders. White and Walsh (2008) concur that whilst some specialized training in new skills and practices may be needed, there are relatively few entirely new occupations in green industries – particularly at the low- and middle-skill levels.

#### *The Career Advancement Portfolio*

In 2006, the Career Advancement Portfolio (CAP) was launched as a collaborative effort to enhance, expand and disseminate proven solutions for advancing low paid individuals to good jobs (Jobs for the Future, 2006). The CAP focused upon providing 'best practice' designs for communities, employers and stakeholders interested in developing effective progression models.

One of the progression models that attracted particular attention was 'Year Up'. Year UP was designed to prepare disadvantaged urban young adults for placements in entry-level jobs in IT and investment operations, whilst simultaneously preparing them for college. The programme targeted recent high school graduates and GED recipients between the ages of 18 and 24 who were either unemployed or trapped in minimum wage, dead-end jobs. Year Up provided beneficiaries with an intensive year of technical, professional and business communications training.

It also provided an apprenticeship experience, college 'credit', and intensive personal and academic support. Year Up's employer partners included large financial services companies, technology firms, hospitals, and state government. State and Local Partnerships to Train Low Paid Workers

## **5.9 Conclusion**

About 25 per cent of the US labour force were low paid in 2005 and US adults in low paid employment experience significant difficulty moving up to higher positions in the labour market. The Workforce Investment Act (WIA) oriented the employment and training system to be customer-focused, with an emphasis on work first. Funds under WIA are allocated to states and they enjoy considerable discretion as to their distribution.

Occupational skills training was a prominent feature of the American Recovery and Reinvestment Act (ARRA), which more than doubled the Federal support for job training than had been planned for the 2009 budget.

Although US firms devote considerable resources to training their workforce, they provide little training for workers with a high school qualification or less. There are many examples of programmes designed to help workers progress from low paid work, however these models of progression display different forms and shades that reflect both Federal and state priorities.

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