

# Active Labor Market Policy in Austria: Practice and Evaluation Results\*

By Helmut Hofer\*\* and Andrea Weber\*\*\*

**Summary:** The importance of active labor market policy (ALMP) has been rising over the last 10 years in Austria, with public expenditures now amounting to about 0.6% of GDP. This paper provides a comprehensive overview of active labor market policies in Austria. We study the development of policy strategies in terms of the offered program mix and public expenditures for labor market policy over time. We also present existing evidence on ALMP effectiveness by discussing the focus and results of the main Austrian evaluation studies.

**Zusammenfassung:** Die Bedeutung der aktiven Arbeitsmarktpolitik hat in Österreich in den letzten 10 Jahren zugenommen. Deren Ausgaben machen aktuell 0,6% des BIP aus. Dieser Beitrag bietet einen kompakten Überblick über diese Maßnahmen. Untersucht werden die Politikstrategien im Hinblick auf die Zusammensetzung der Programme und deren Kosten im Zeitablauf. Die Wirkungen der aktiven Arbeitsmarktpolitik werden anhand der wesentlichen Evaluierungsstudien für Österreich diskutiert.

## 1 Introduction

In the 1990s active labor market policies (ALMP) have been considered as tool to reduce the unemployment in Europe. According to the targets of labor market policies the principle of activation should take priority over benefit provision. Hence, in Austria, like in most European countries, the importance of ALMP has been rising over the last 10 years, with public expenditures now amounting to about 0.6% of GDP. This development can be seen as a policy response to rising unemployment and business cycle fluctuations, as well as a reaction to recommendations from the European Employment Strategy and the OECD job study.

This paper tries to summarize all major facts about active labor market policy in Austria. In the next section we provide an overview of the Austrian labor market and the economic and institutional environment in which active labor market policy operates. In section 3 we give a detailed description of the development of ALMP over time. We present policy strategies expressed in terms of public expenditures for labor market policies, the composition of program types offered and the numbers of course participants. Finally, we address the question of whether ALMP is effective in Austria in section 4, by presenting results

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from recent evaluation studies, applying micro-econometric techniques to uncover causal treatment effects of ALMP.

## 2 The Austrian Labor Market

In international comparison the Austrian labor market situation is favorable, although a gradual deterioration has occurred over the last 25 years. Unemployment is traditionally low in Austria, the unemployment rate amounts to 5.2% in 2005. The employment rate is around 68% and above the EU-15 average. However, the employment rate of older workers is one of the lowest in Europe. The unemployment rate has been continually rising during the 1980s and 1990s, with the only decline occurring during 1998–2001. However, as a consequence of slow economic development and increased labor supply unemployment has risen again during the last years.

According to social insurance register data the average number of individuals in active dependent employment in 2004 was 3,078,544. The average number of individuals registered as unemployed amounted to 243,880. These numbers hide, however, the strong labor turnover in the Austrian economy. In 2004, a total of 1,454,000 jobs were taken up and 1,423,000 employment contracts were terminated (BMWA 2005). The number of individuals unemployed for at least one day was 778,431.

The particular Austrian labor market features can be explained by the institutional environment consisting of the centralized wage bargaining process, early retirement regulations and pension reforms, the apprenticeship education system, the strong component of seasonality, and the unemployment insurance system. The institutional framework sets the stage on which ALMP is designed and operates.

In Austria wages are set by collective agreements stipulated between employer, employee representatives, unions and government officials. It is often argued that this centralized wage bargaining process increases real wage flexibility at the macro level. But at the same time it decreases the single firm's ability to react to idiosyncratic shocks. The consequence are quantity adjustments in the form of relatively high job turnover rates. Stiglbauer et al. (2003) find that yearly job creation and destruction rates in Austria are comparable to the US. Fischer and Pichelmann (1991) show that in Austria about one-third of all unemployment spells per year and almost one-fourth of total unemployment can be ascribed to seasonal fluctuations, similarly to the USA or Canada. Collective agreements fix minimum wages at the industry level, but employers are of course free to negotiate higher wages with individual workers.

Early retirement regulations used to be very generous in Austria, leading to a low average entry age into retirement of 58. This system is often mentioned as one of the reasons for low unemployment rates in Austria, compared to similar European economies. The demographic development, however, threatens the sustainability of this retirement system. The pension reform, implemented in 2003, has the objective to raise the effective retirement age and imposes pension cuts depending on retirement entry age.

A factor reducing primarily youth unemployment in Austria is the apprenticeship system as an alternative way of secondary schooling. Apprentices receive workplace training in a

particular occupation in a firm. In addition, the apprentices attend a part-time vocational school, for one or two days a week. About 40% of a birth cohort complete an apprenticeship in Austria. However, since 1990 the interest of enterprises in apprenticeship training has been declining and a shortage of apprenticeship training positions has occurred. This has triggered massive measures to promote apprenticeship training and to reduce the burden on the enterprises providing apprenticeship places.

A feature which sets Austria apart from its neighboring countries are the high seasonal fluctuations in employment. The variation in aggregate employment over the year is about 5 percentage points from peak to trough. In magnitude this is similar to the fluctuations observed in Canada or Scandinavian countries. Seasonal fluctuations can be explained by the big share the construction and tourism sector have in the economy. Construction and tourism account for one third of the job seekers. Among the institutional features, which promote seasonal employment fluctuations, we note the role of the unemployment insurance system which does not have an element of experience rating, and the relatively mild and industry-specific regulations on hiring and firing for blue collar workers.

The system of unemployment insurance in Austria is almost universal, that is to say compulsory for all except the self-employed. It is articulated in the administration of unemployment benefits (Arbeitslosengeld) and, after these expire, unemployment assistance (Notstandshilfe). In order to qualify for unemployment benefits a worker has to have been employed and insured under the scheme for at least 52 weeks in the past two years. This requirement is lowered to only 26 weeks within the past year for young people below 25 and to 28 weeks for those repeatedly unemployed. The duration of the period of unemployment benefits can be up to 30 weeks, depending on the duration of the employment period preceding the spell of unemployment. The replacement ratio is 55% of net income, which is low by European standards, but becomes substantially higher once family allowances are taken into account. According to OECD figures for 1994, for example, the net replacement ratio for a single-earner household earning two-thirds of the average wage of blue-collar workers was between 58 and 74%, depending on the presence of children (OECD 1997). After unemployment benefits are exhausted, the worker can apply to receive unemployment assistance. The duration of this program is potentially indefinite. The main difference with the previous scheme consists in the fact that unemployment assistance is means tested and therefore depends on the presence and the economic condition of the partner. To give an example of the incidence of means testing Lalive et al. (2006) estimate that in 1990 the unemployment assistance payment was about 70% of the median unemployment benefit check.

### 3 Labor Market Policy in Austria

In Austria labor market policy is implemented by the Public Employment Service (AMS), the legal basis for labor market policy is the Public Employment Service Act (AMSG). Under the Labor Market Promoting Act, the Federal Minister of Economics and Labor (BMWA) has to use all available resources to achieve and maintain full employment and ensure an optimally functioning labor market.<sup>1</sup> Targets of ALMP measures are the elimi-

<sup>1</sup> Information about active labor market policy in Austria can be found at the BMWA web page [www.bmwa.gv.at](http://www.bmwa.gv.at)

nation of obstacles to placement, the reduction of disparities between labor supply and demand via labor market-based training and qualification schemes, and to counteract long-term unemployment. Active measures should improve skills aimed at reducing unemployment, securing employment, helping people take up work, and supplying suitable workers to business and industry.

The share of total expenditures for passive and active labor market policies in GDP has risen from about 1% in the early 1990s to 1.5% in 2004. The share of spending on active labor market policies is about 0.6% of GDP. Figure 1 shows the development of labor market policy expenditures for unemployment insurance, unemployment assistance and ALMP over time. The largest part of these is spent for unemployment insurance. The costs for this system have particularly risen during the late 1980s and early 1990s. Thereafter, they follow the business cycle. The expenditures for active labor market policies show higher growth rates from 1999 onwards, which reflects the increase in the number of program participants during that period.

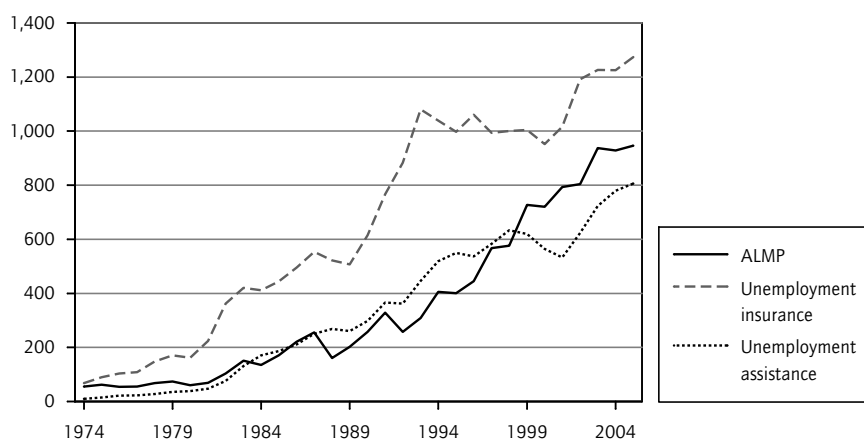
In international comparison Austria's ALMP expenditures approach the non-weighted OECD average. Standardizing the ALMP expenditures to 1% of the unemployment rate places Austria in the upper middle rank of OECD countries (BMWA 2005).

Table 1 shows the structure of ALMP expenditures in Austria in comparison to the EU-15 average. In Austria the focus of ALMP is clearly on training programs for which 65% of all funds were used in 2004. This is one of the top shares in Europe, the EU average amounted to 41%. Austrian spending for employment programs in the public and private sector amounts to about 23% of total expenditures, while within the EU 35% were spent

Figure 1

### Yearly Expenditures for Active and Passive Labor Market Policies

In Euro



Note that we excluded spending on part-time benefits for older workers from ALMP.

Source BMWA.

Table 1

**Structure of ALMP Expenditures Austria and EU-15, 2004**

In %

|  | Austria | EU-15 |
|--|---------|-------|
| Training   | 64.8    | 40.6  |
| Employment programs in the private and public sector | 22.4    | 34.5  |
| Integration of the disabled                          | 11.9    | 18.0  |
| Job rotation and job sharing                         | 0.0     | 0.4   |
| Start-up incentives                                  | 0.9     | 6.6   |

Source: Eurostat (2006).

on this subject. Also with respect to the integration of disabled individuals the share of Austrian spending (12%) is lower than the EU-15 average (18%).

### 3.1 Types of Active Labor Market Policy Programs

Active labor market policy in Austria includes counseling and placement through the public employment offices as well as a range of active labor market programs. ALMP program participants are assigned by the caseworkers in the employment office. Most courses are provided by private contractors. To be eligible for ALMP participation in Austria a person must be unemployed, or face the risk of becoming unemployed. Guidelines instruct the employment office advisors actively to offer training to the unemployed who lack specific skills, and in particular to individuals with placement disadvantages (school drop-outs, long-term unemployed, disabled, women with long work interruptions). More narrow eligibility criteria are, however, not specified. This leaves a great deal of discretion to the case workers. During training participation individuals receive a compensation which amounts to the level of unemployment benefits. The period of UI benefit eligibility is extended by the duration of the program.

Among Austrian ALMP programs a formal distinction is made between training programs, employment subsidies, and support programs. (Support programs are programs to facilitate the start up of an enterprise, or child care for jobseekers with kids.) The main strategy of ALMP in Austria aims at improving individual skills. In 2004 81% of treated individuals were enrolled in a training program, 13% received an employment subsidy, and 20% a support measure (BMWA 2005). Because of repeated program participation or enrollments of one individual in several programs, these numbers do not sum up to 100%.

Training programs can be further classified into formal training, job search assistance, orientation, and integration programs. Formal training programs focus on education and on qualification enhancement of participants. Courses offered are vocational training courses which result in a certified education equivalent to an apprenticeship degree. Other courses train specific skills like languages or computer abilities. Course durations vary from four weeks to one year according to the course type. For the participants training courses are

time intensive and participation may reduce their search effort and attachment to the labor market.

Job search programs aim at the activation of unemployed individuals at an early stage. The programs are not focused on specific target groups but should be available for the majority of the unemployed. Job search programs are designed to increase search effort and search efficiency by motivating and encouraging participants. The programs should lead to immediate transitions into employment either during the course or shortly afterwards. During the course job application practices (writing application letters, behavior in job talks) are trained. Course durations are six to seven weeks, but not full time: three course days during the first week and one day during each of the following weeks. In contrast to formal training programs participation in job search courses is mandatory and noncompliance is subject to benefit sanctions (Scherhammer and Adam 2002). The aim was that every new entrant into unemployment should be enrolled into a course before completing the first four months of unemployment. In practice this entry regulations were, however, difficult to enforce.

Orientation programs prepare unemployed workers for a participation in a formal training course or for taking up a job immediately. During this orientation phase decisions about occupational opportunities and future career plans should be supported.

Integration programs deal with social problems like those arising as a consequence of long-term unemployment. Their aim is a psychological and social stabilization of participants in order to reintegrate them into the labor market. During integration the participant is supposed to work in a sheltered workplace for at least 50% of the course duration.

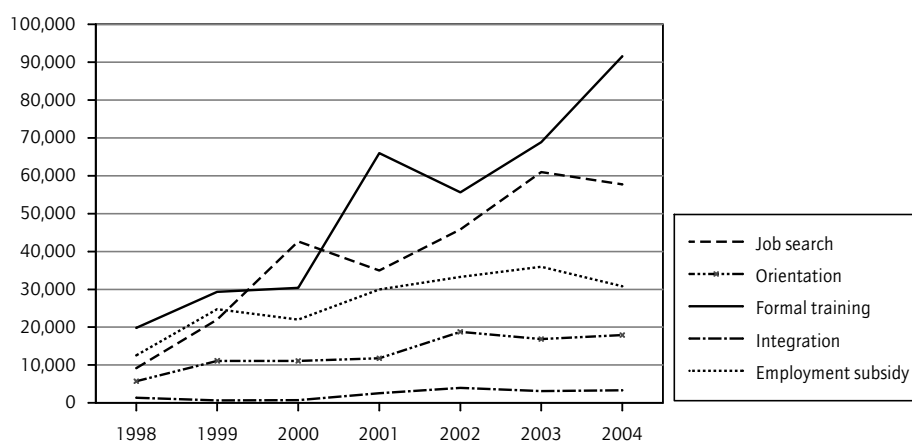
Employment subsidies in Austria can be classified into subsidies to private sector employment and subsidies to socio-economic enterprises (SÖB) and job schemes in the non-profit sector (GBP). Subsidies are granted directly to the employer for hiring an unemployed worker, or for not dismissing a worker from a job that would otherwise be shut down. A special target group for employment subsidies are older workers. SÖB and GBP provide fixed-term employment in non-profit making service enterprises for unemployed individuals with specific obstacles (e. g. long-term unemployed, former drug addicts).

In Austria, a special form of employment – marginal employment – exists, which is not formally associated to ALMP, but can be seen as an employment subsidy paid to the unemployed worker. Marginal employment is defined by a wage below a certain threshold, in 2006 it is 333.16 Euro per month. Employers pay substantially lower social security contributions for marginal jobs. Unemployed workers can keep their full benefit entitlement while marginally employed. This means the unemployed worker receives a wage subsidy equal to the UI benefit in case he takes a marginal job. Above the marginal threshold this system, however, exhibits a huge discontinuity, because the benefit is cut completely.

### 3.2 ALMP Participation

Figure 2 shows the development of participation in employment and training programs over time – training programs broken down into 4 program types. Employment subsidies

Figure 2

**Number of Program Participants by Program Type**

Source: BMWA and own calculations.

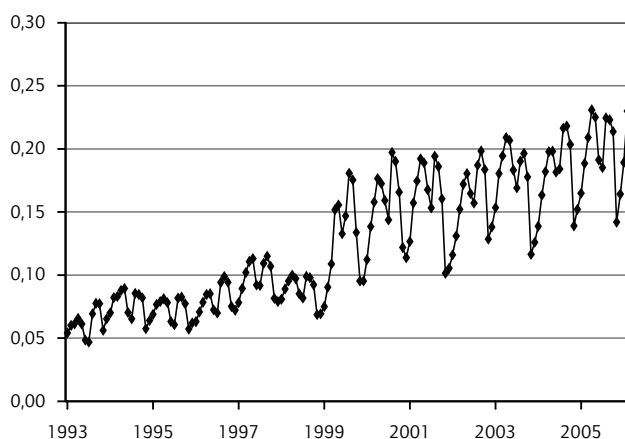
saw a moderate increase in participation over the years 1998 to 2004 from about 15,000 to 30,000 participants. Training programs, on the other hand, were actively expanded as of 1999. First, a major change in the composition of training programs occurred, when job search programs were introduced at a large scale in 1999 and 2000 following the recommendation of the guidelines in the European Employment Strategy. In the following years also participation in the more traditional formal training programs was increased considerably. Orientation and integration programs play only a minor role in terms of participation.

Figure 3 shows the monthly share of training program participants in unemployed. Even this graph displays some seasonality, as fewer programs seem to be run in July and August. We see a sharp increase in the share of program participants from 1999 onwards. This break is a consequence of two factors. First, the development of program participation did not follow the business cycle, while unemployment declined in 2000 and 2001, the number of program participants was still rising. Second, an additional increase in the number of program participants results from the expansion of job search programs from 1999 onwards. Job search programs are relatively cheap compared to formal training.

Splitting up ALMP expenditures by program types, allows a comparison of costs per trainee. Table 2 lists yearly expenditures for course participation in the four types of training programs and for employment subsidies. It should be noted that costs for training programs shown in the table only consist of the course costs paid to the training providers, UI benefits for participants, extra allowances for travel expenses or course materials are not considered. An average training course participation costs about 1,500 Euro per participant. There are huge cost differences by program types. By far the cheapest measures are job search programs, which are only 500 Euro per participant. These courses have shorter durations and are only part time. The cost for a formal training slot is almost 4 times higher. According to the numbers shown, employment subsidies are far more expensive than training measures. Per participant spending on training programs and employment subsi-

Figure 3

**Share of Program Participants in Unemployed, Monthly Values**



Source: AMS and own calculations.

Table 2

**Course Costs per Participant (based on data for 2004)**

|                         | Yearly expenditure in Euro | Number of participants | Average cost per participant |
|-------------------------|----------------------------|------------------------|------------------------------|
| Job research            | 30,491,288                 | 57,756                 | 528                          |
| Formal training         | 193,744,933                | 91,564                 | 2,116                        |
| Orientation             | 20,280,479                 | 17,945                 | 1,130                        |
| Integration             | 10,729,729                 | 3,332                  | 3,220                        |
| Total training programs | 255,246,429                | 170,597                | 1,496                        |
| Employment subsidies    | 171,143,303                | 30,846                 | 5,548                        |

Source: BMWA and own calculations.

dies are not directly comparable, because of different durations of the programs, and the course cost versus subsidy to wage costs components. However, we see that although employment subsidies are a small part of Austrian ALMP in terms of individuals treated, they require a major share of the total spending on ALMP.

**4 Evaluation Studies**

A large part of evaluation studies on Austrian ALMP focus on surveying participants. During this so called “massnahmenbegleitende Evaluierung” program participants are typically asked to give their opinion of the program and its potential use for them. Although these surveys collect detailed subjective information they neglect any economic objective. For example, program participants are not asked questions concerning their wages, or la-



bor market careers. This kind of evaluation study mainly serves the purpose of controlling program providers. But no effort is made to evaluate the effects on the participants.

Further, the Austrian employment office (AMS) engages in the evaluation of single programs for specific target groups, e. g. for single mothers, long term unemployed, or business start up programmes (IBW 2006). The evaluation method used, is usually to compare labor market outcomes for program participants before and after the program. Again this method completely abstracts from any effects of program selection.

The more scientifically rigorous studies, with few exceptions all of them were written in the last few years, are supported by the rich information on program participation and extended individual labor market careers that is available in administrative databases. The most accurate information on ALMP participation can be found in administrative records in the database of the Austrian employment office. This data include individual information on entry and exit dates into a program, a program identifier, and the reason of exit from the program. From 2001 onwards there is also a strict classification of the program type available, whereas for earlier years this information is incomplete. Starting with 2000 the Austrian Public Employment Service introduced a standardised regular follow-up monitoring of ALMP participants using data from the social insurance database (BMWA 2004b). These Data Warehouse monitoring tools, which allow an extremely flexible access to the rich information in the administrative databases, are increasingly used for ALMP evaluation studies by research institutions. As of 2001 the AMS also releases monthly information on the number of program participants by program type, region, sex, and other characteristics. In addition, yearly program expenditures by program type are available. This information makes it possible to calculate, among others, the average program costs per participant.

In an early study Zweimüller and Winter-Ebmer (1996) focus on public training programs in the 1980s. They evaluate the effect of training on job stability in a sample of unemployed who enter employment in 1986. Program participation and a binary indicator for 12 months employment stability are jointly modeled using a bivariate probit model. The results indicate positive treatment effects on employment stability once selection is controlled for.

Winter-Ebmer (2001) evaluates a special training scheme which was offered to workers affected by large-scale downsizing during privatization and restructuring of the national steel firms in the late 1980s. One special feature of these “Steel Foundations” is that they were financed jointly by the unemployment insurance funds and the steel firms themselves. The other feature is that the long-term program was composed of orientation, re-training and a placement assistance elements. The program resulted in considerable wage gains and improved employment prospects for the participants.

In a project funded by the Austrian National Bank Weber and Hofer (2003) evaluate the effects of different types of ALMP measures on the exit rate into employment for individuals entering unemployment in 1999. They use the timing-of-events method which estimates the program effect as a shift in the transition rate from unemployment to jobs at the moment of program entry. They find that the immediate employment effects differ substantially by program type. Job search programs increase the transition rate into jobs con-

siderably. The probability of finding a job within four months is increased by 15% for job search participants. Training programs, on the other hand, have a small but negative effect on transitions into employment. Investigating the dynamics of the treatment effect they find that the negative effect from training programs is due to a lock in period of 60 days. After that training programs have a positive effect on the employment probability. Program effects differ for women and men. Women benefit from participation in all types of programs. There is even a positive overall program effect for women from training programs. These results also indicate that after controlling for all observable information, selection into programs by unobservable characteristics still occurs.

A second study investigates the dependence of the program effect on varying entry times for job-search assistance programs in Austria (Weber and Hofer 2004). The Austrian targeting policy is to admit every unemployed to a job-search program before the fourth month. The program effect is measured by a shift in the transition rate into employment upon program entry, using the timing-of-events method. The main findings are that the program effect is positive and does not vary significantly for program entries during the first year of unemployment, but it drops drastically thereafter.

Weber (2006) studies the mechanism by which unemployed are assigned to ALMP training programs. In particular, the actual assignment through caseworkers at the public employment office is contrasted to different assignment rules like a random assignment, or deterministic rules like assign only individuals at risk of becoming long term unemployed. The outcomes analyzed are expected unemployment durations dependent on participant status, program type, and entry time. Simulations of counterfactual outcomes due to different assignment rules are based on the estimation of a duration model that completely specifies the processes of program entry into various program types and the exit from unemployment into employment. The results show that caseworkers apply different assignment rules for men and for women, mainly based on observable worker characteristics. The assignment to different program types also depends on worker's characteristics. Simulations of unemployment durations under various assignment rules show that for men the caseworker decision leads to the most favorable outcome (e.g. a random assignment to programs would lead to a 10% increase in unemployment durations of participants). For women, there is no clear difference in outcomes depending on the program assignment mechanism.

Boeheim and Weber (2006) analyze the consequences of starting a certain type of low-wage job, "marginal employment", for unemployed workers. Marginal employment is a type of wage subsidy paid to unemployed workers: they do not lose their unemployment benefits if the wage is below a certain threshold, whereas jobs above the threshold lead the full loss of benefit entitlements. The question is whether the unemployed who work in marginal jobs face better labor market outcomes than those who do not work. *A priori* it is not clear if those who work in marginal employment improve their labor market status, e.g. by signaling effort, or worsen it by a reduced job search effort. In the empirical analysis they select unemployed workers and investigate the effect of marginal employment on their labor market outcomes, by means of propensity score matching. The results suggest that selection into marginal employment is "negative", i.e. workers with characteristics we usually associate with low-productivity are more likely to select into such jobs. The unemployed who started to work in marginal employment during their unemployment spell suf-

fer a (causal) penalty for doing so, relative to their peers who do not. The penalty, in terms of less employment, more unemployment, lower wages, lessens over time.

Lutz et al. (2005) estimate the employment effects of active labor market measures, co-financed by the European Structural Funds (ESF) and targeted for long-term unemployed adults and persons at risk to become long-term unemployed. Formal training, job search assistance, vocational orientation, employment in socio-economic enterprises (SÖB) and in non-profit employment projects (GBP) are separately evaluated. The program effect of ESF support is estimated for participants entering in the programs in the year 2000. The study focuses on employment effects, the relevant outcome variable is the number of days employed in the three years after the program start. Nearest neighbor matching based on propensity scores is chosen as evaluation method. The results indicate that there is considerable heterogeneity in the effects between program types. Participation in a formal training program has a small negative employment effect (−9%), active job search seems to have no effect, and orientation programs have a small positive effect (12.5%)<sup>2</sup>. Also heterogeneous effects with respect to gender are found. For females all types of training programs have positive effects, whereas for males, the effects are negative. The strongest employment effects are identified for employment programs. Participation in these measures increases employment by 73.3% (GBP) and by 56.7% (SÖB), respectively. One should note, however, that these effects include times in subsidized employment<sup>3</sup>. According to a cost-benefit analysis the direct program costs exceed the revenues from social security contributions and reductions in expenditures for unemployment insurance in the first three years since start of the program by 4,555 Euro (GBP) and 1,711 Euro (SÖB), respectively.

## 5 Summary

The importance of ALMP has clearly been rising during the last 10 years in Austria, with public expenditures now amounting to about 0.6% of GDP. The most commonly used programs in Austria are formal training programs. Over the last six years the policy focus has shifted from pure educational programs to job search assistance programs. This change in the strategy stresses the incentive component over the training component of active labor market policy by enforcing stricter monitoring of search effort and search efficiency of the unemployed. In the most recent policy discussion the need to increase flexibility in the low wage labor markets and the promotion of employment subsidies for low skilled workers is suggested (Kombilohn).

With the rising importance of ALMP spending in Austria, also the necessity of scientific evaluation studies has been recognized by public authorities. Whereas positive effects of training programs were found in early evaluations during the 1980s, more recent studies find that these programs increase unemployment durations.

Job search assistance programs, on the other hand, seem to help reducing unemployment durations. All studies find heterogeneities of program effect with program types and par-

<sup>2</sup> As the study does not report standard errors no information about the statistical significance of the effects can be given.

<sup>3</sup> For non-subsidized employment no effect appears for GBP, despite an average duration of subsidized employment of 286 days. The effect is slightly negative for SÖB (−6.2%).

ticipants characteristics. The effects are generally more favorable for women than for men. There is some evidence that providing fix-term-employment in the public sectors could in the medium run increase employment of hard-to-place persons.

The existing evaluation studies do by no way provide an exhaustive picture of the effects of Austrian ALMP. Most studies focus on employment effect, and little is known about effects on wages or earnings. Also long term effects like job stability, or long-term employment outcomes have not been addressed. We have seen that training programs play a major role in terms of individuals treated, but with respect to expenditures employment subsidies are also an important category. A more rigorous study of the effects of employment programs in the private sector would be important. Especially, as international studies usually find that these are the most effective ALMP measures (Kluve 2006).

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