

# **What is the impact of active labor market policies? An international review**

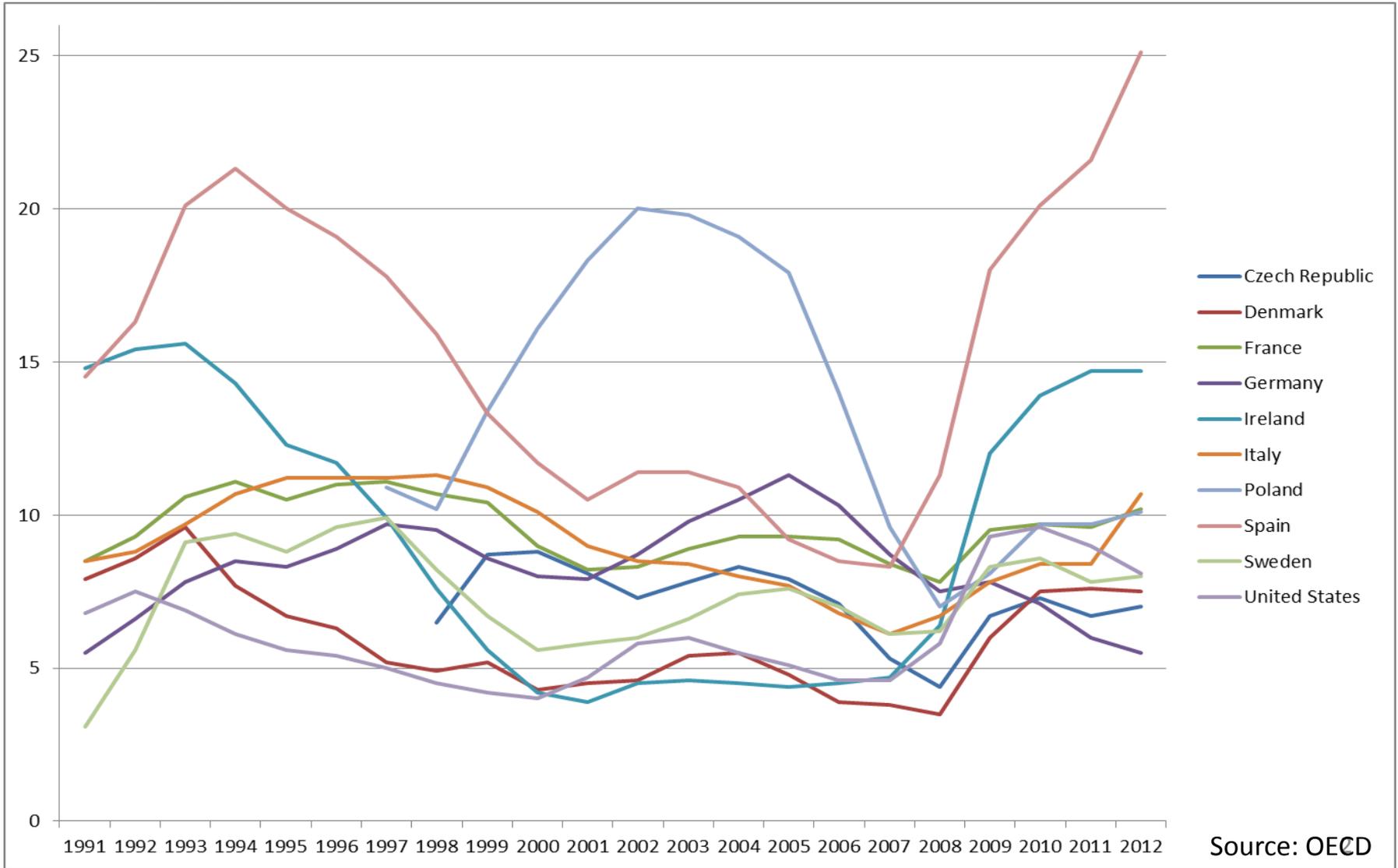
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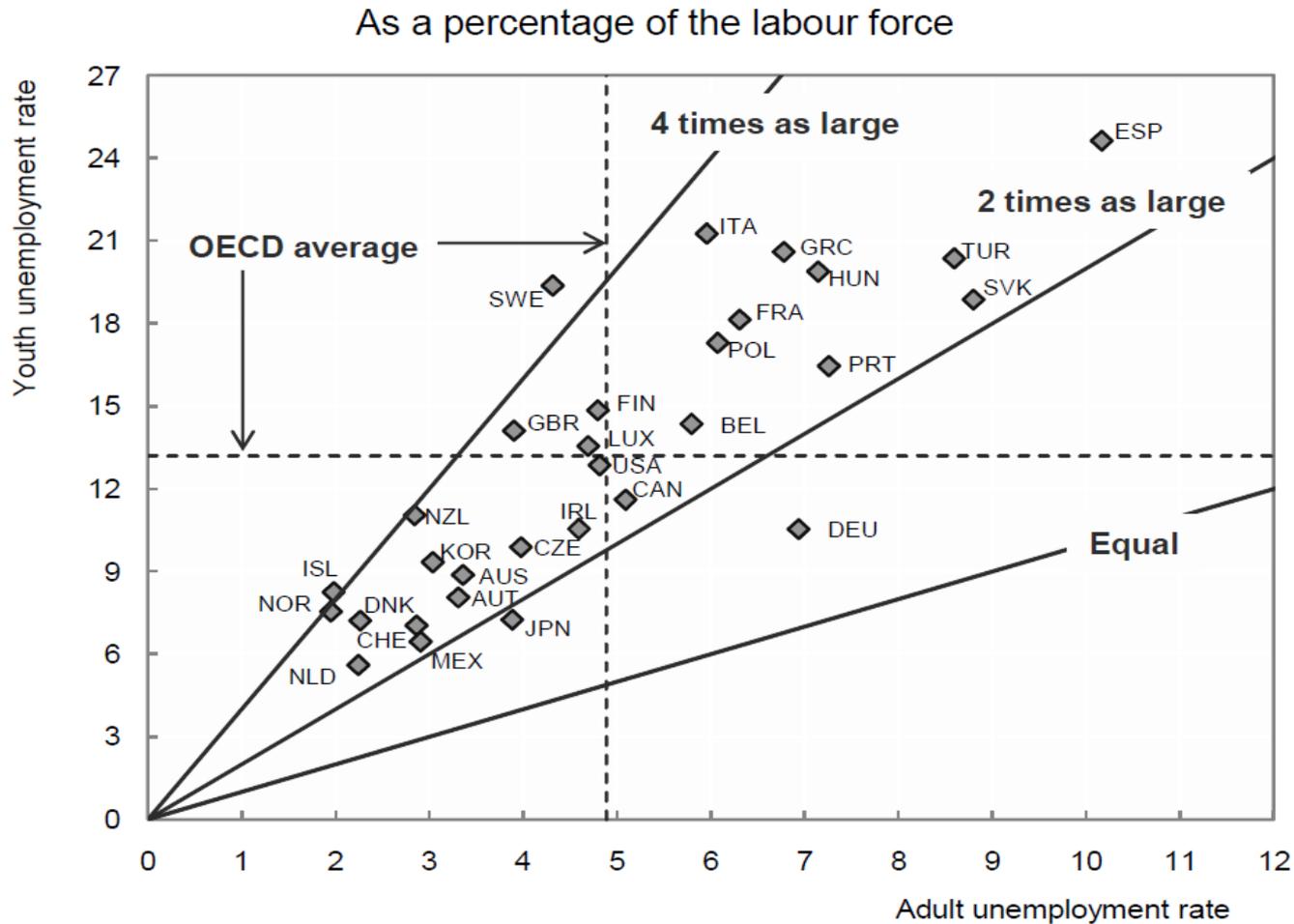
ivàlua Barcelona

09 December 2014

# Unemployment rates in selected OECD countries, 1999-2012



# Youth and adult unemployment pre-crisis: 2008



# Starting point

- **(Youth) Unemployment** one of the most challenging economic / social problems in developed and developing countries
- → Policymakers struggle to find effective programs that help jobless find jobs and increase workers' productivity and labor income
- **Job training** and other **active labor market programs (ALMPs)** have been promoted as a remedy for cyclical and structural unemployment

# Starting point

Early **U.S.** experience: MDTA (1960s), CETA (1970s), JTPA (1980s-1990s)

**European** experience:

- Scandinavia 1970s forward, in particular Sweden
- Germany 1990s forward
- Denmark "flexicurity", UK "New Deal", etc
- 1994 OECD Jobs Study -> ALMP
- EU: "European Employment Strategy"
- 2006 OECD Restated Jobs Strategy -> Activation

[**Latin America:** Job training, increasing since the mid-1980s]

# Some key policy questions

- What do we know about which type of “active” program works?
- Short run vs. long run effects?
- Do ALMPs work better for some groups? In some places or times?
- Do the programs harm non-participants?

# Goals for this talk

- 1) A (very) basic framework for thinking about how programs actually work, how this relates to program effectiveness, heterogeneity, and displacement
- 2) ALMP usage and evaluations of single programs
- 3) Lessons from the literature -> meta-analysis
- 4) Some conclusions and outlook

# 1) A (very) basic framework

# Types of active programs

- i. **Job Search Assistance** -> job search efficiency
- ii. **(Labor market) Training** -> human capital accumulation, “classic”
- iii. **Private sector employment incentives** -> employer/worker behavior
  - a) Wage subsidies, b) Self-employment assistance / start-up grants
- iv. **Public sector employment** -> direct job creation

Specific target groups: Youths, disabled

Hybrid: Short-term working arrangements (STWA)

# Basics

ALMPs are a complement (alternative?) to “passive” programs like Unemployment Insurance (UI) and welfare

Basic goals:

- Raise participants’ employment / earnings

Other possible goals:

- Increase job creation
- Improve matching supply + demand on the labor market
- Lower government cost
- Raise participant (social) welfare?

# How do ALMPs work?

## -> Job search assistance (JSA)

- Purpose: Raise search effort / efficiency of search + job match
- Components: Job search training, Counseling, Monitoring, + Sanctions
- Nudge procrastinators

### Implications:

- Only a short run effect **unless** getting a job changes preferences or future employability (job ladder effect)
- Risk of displacement effect (esp. in low-demand market)
- May have important role in addressing information failures in rapidly changing environment

# How do ALMPs work?

## -> Training and Re-training

- Purpose: Raise human capital (HC)
- Attenuate skills mismatch
- Training components: 1) Classroom vocational / technical training, 2) work practice (on-the-job training), 3) Basic skills training (math, language), 4) life skills training (non-cognitive skills)

### Implications:

- Training takes time -> negative effects in short-run
- But positive (and large?) long-run effect
- Negative effect if training obsolete / useless
- Limited displacement effect

# How do ALMPs work?

## -> Private sector employment incentives

- Purpose: improve job matching process; increase labor demand
- Limited human capital accumulation through work practice
- Culturization

### Implications:

- Only a short run effect unless work changes preferences or future employability
- High risk of displacement effect
- May play an important role as a version of STWA in recession?

# How do ALMPs work?

## -> Public sector employment

- Purpose: Prevent human capital deterioration; increase labor demand (?)
- Safety net (of last resort)

### Implications:

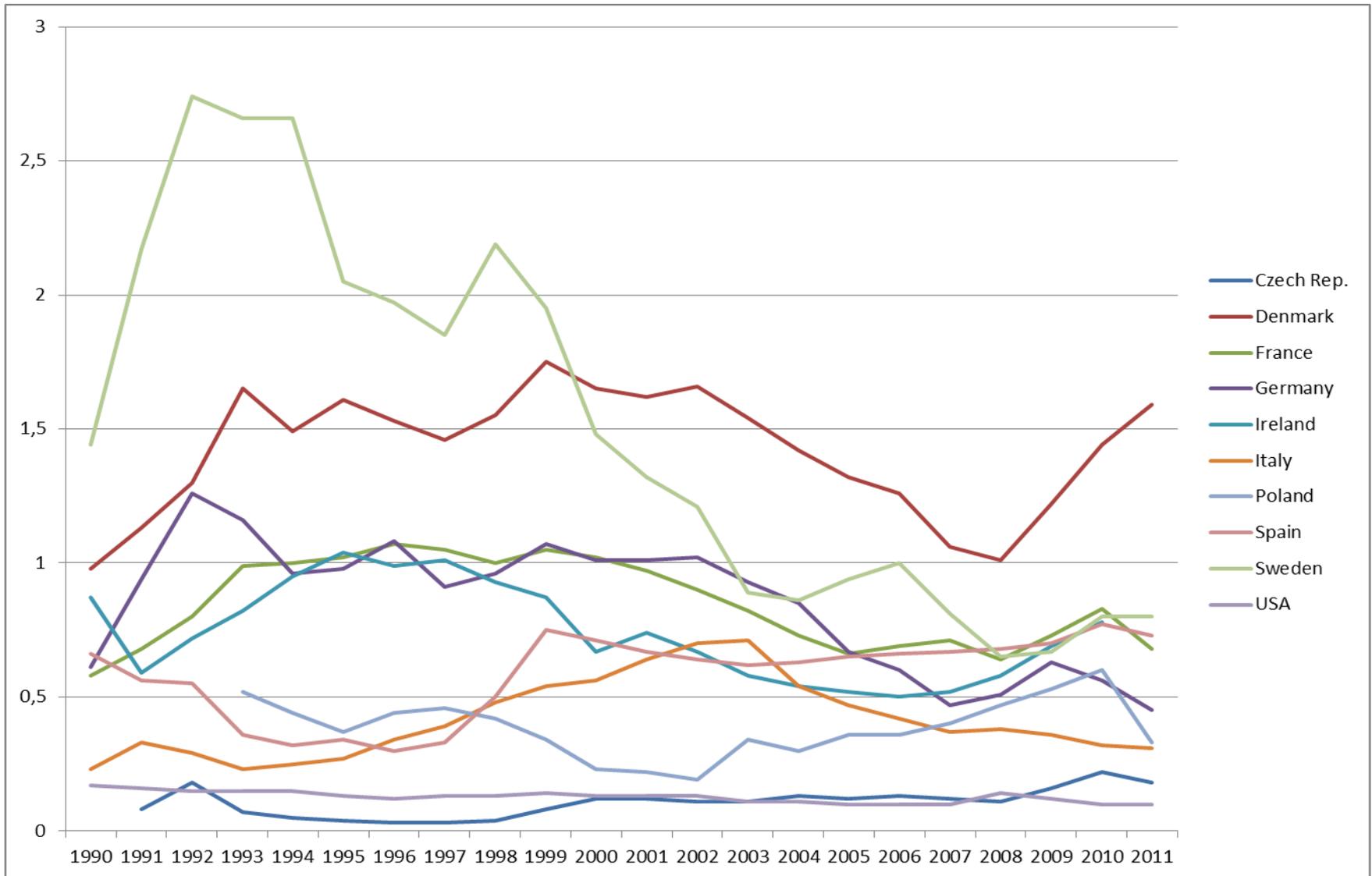
- Only a short run effect (on public employment) unless work changes preferences or future employability
- High risk of displacement effect
- Or: Type of jobs often not close to the labor market

## Alternative programs – summary

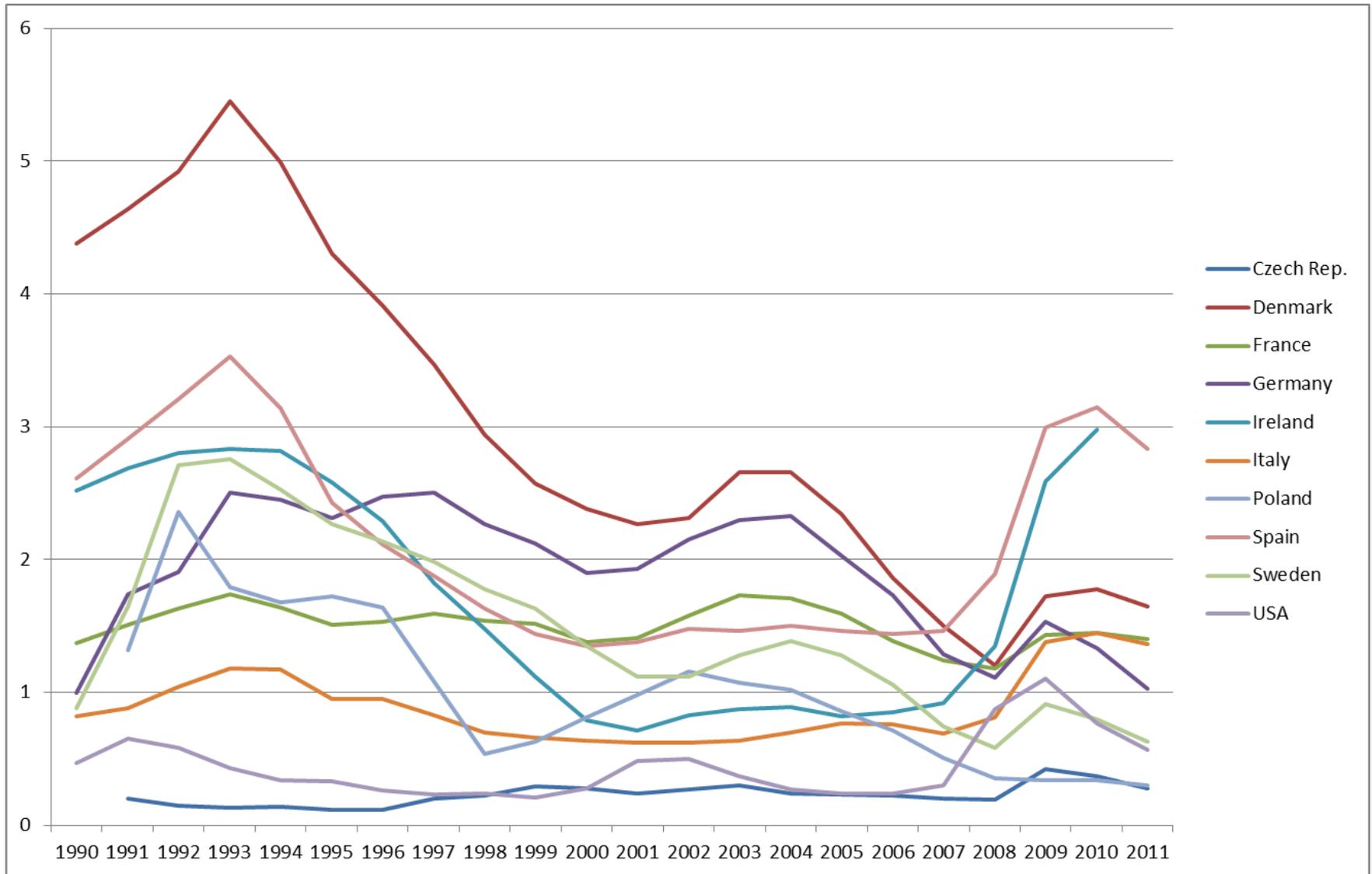
	JSA	Training	Private sector incentives	Public employment
Government cost	Low	Medium / high	high	high
Short-run effect	Positive	Negative	Positive	(Positive)
Long-run effect (best case)	Small positive	(Large) Positive	Small positive	Zero
Long-run effect (worst case)	Small negative	Small negative	Negative	Large negative
Displacement	Medium	Low	High	High
Business cycle	Any time; expand in recession	Any time; expand in recession	Any time	Recession

## **2) ALMP usage and evaluations of single programs**

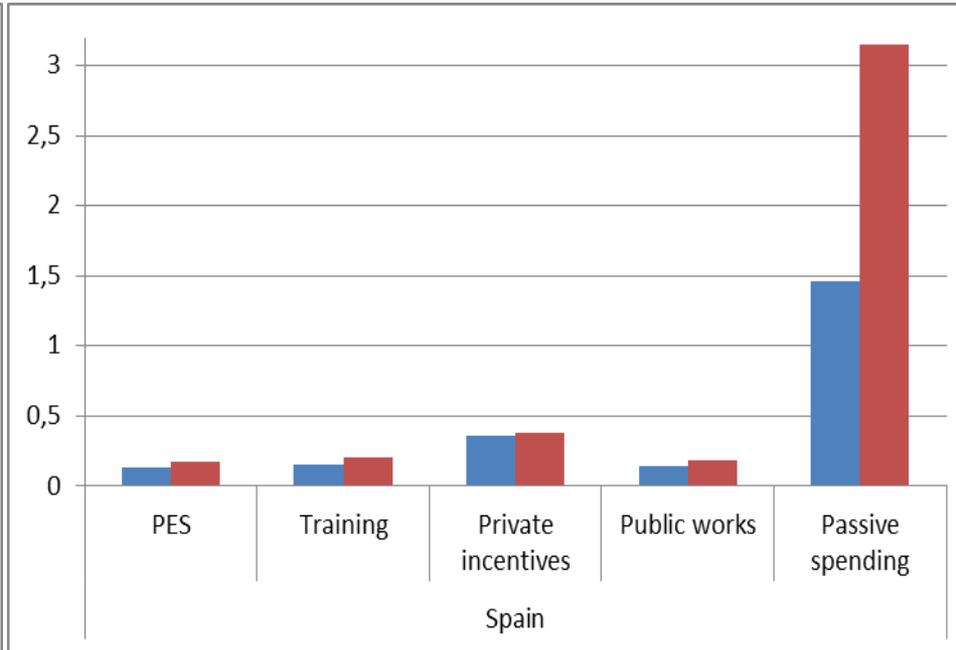
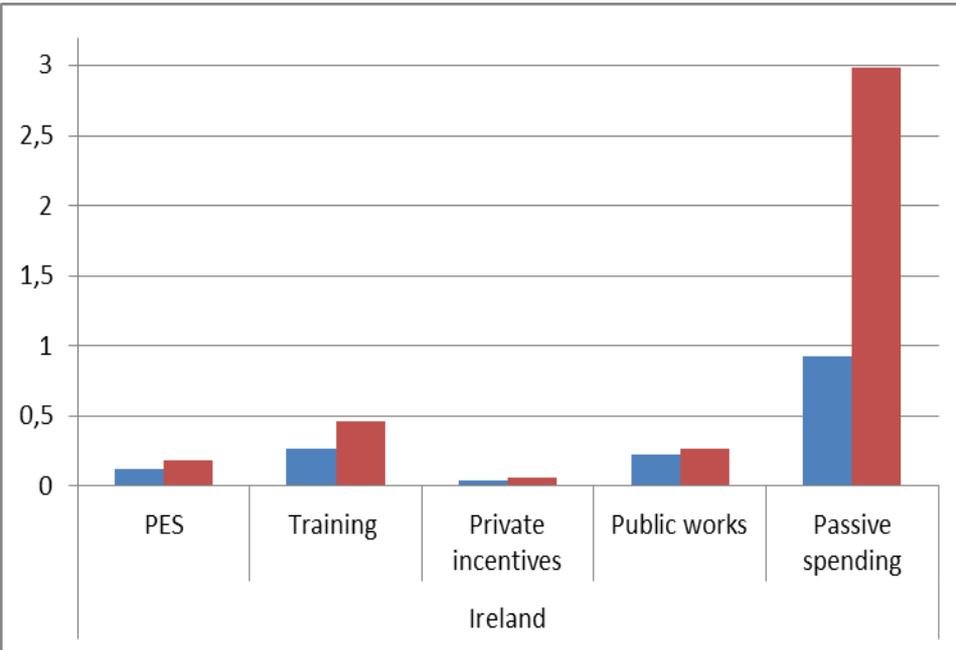
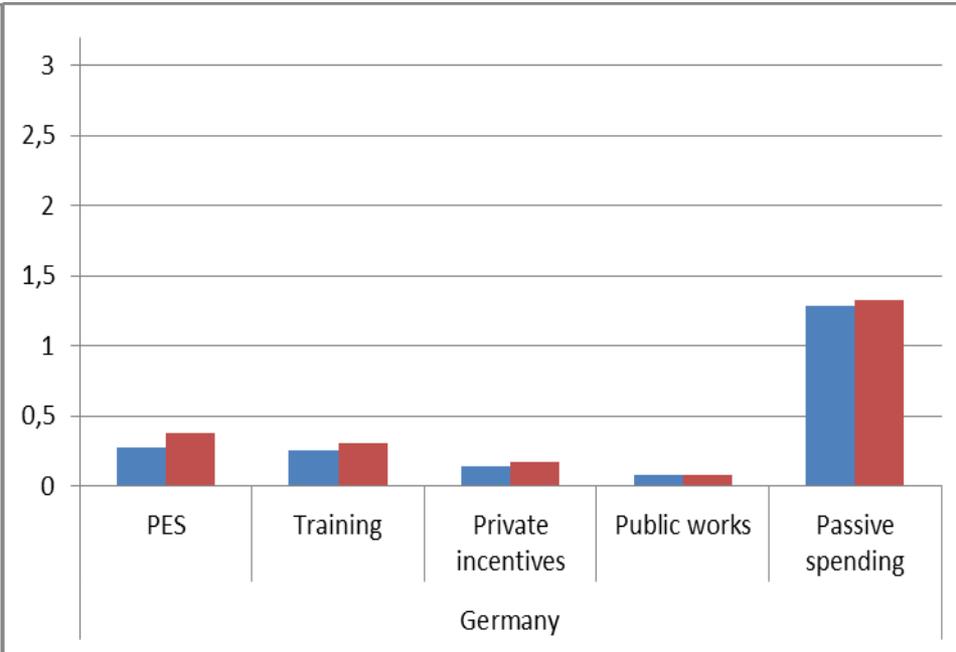
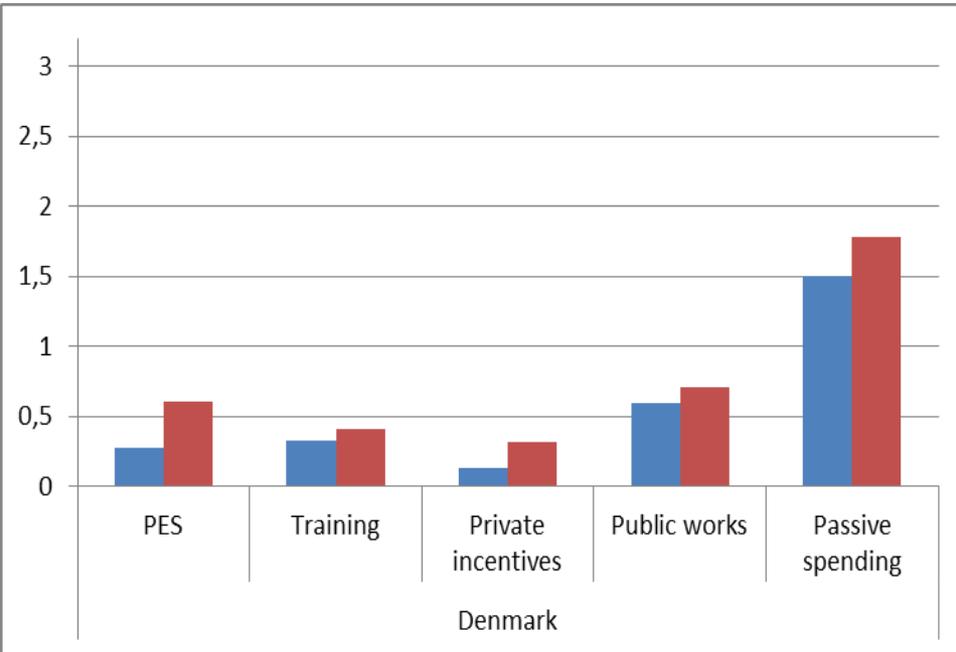
# Spending on ALMP in selected OECD countries, 1990-2011



# Passive Spending in selected OECD countries, 1990-2011



# Active/passive spending in DK, DE, IE, ES: 2007 vs. 2010



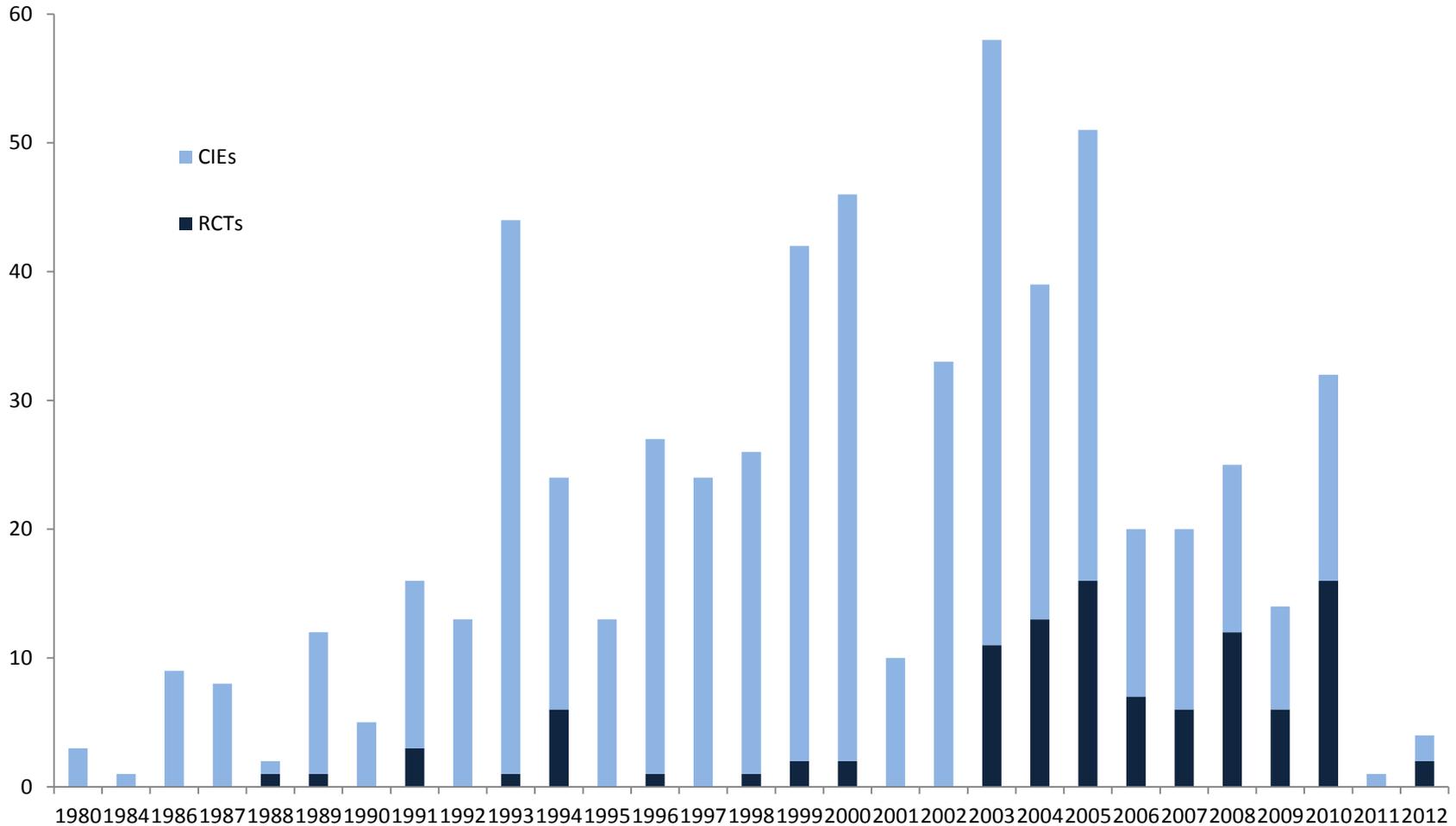
# Assessing effects of individual programs

- From the beginning, the effectiveness of training programs has been controversial
- Mid-1970s: earliest "serious" evaluations in the U.S. (→ Orley Ashenfelter 1976, 1978)
- identified the "selection problem" in evaluating ALMPs: participant selection driven by combination of self-selection, program rules, and incentives of program operators
- how would trainees perform in the absence of training?  
(→ counterfactual)

# Where we stand: ALMP evaluations

- Methodological debate → Need for experimental evidence (RCTs) vs. advances in quasi-experimental and non-experimental methods: Matching, duration, exogenous variation, etc
- Increasing availability and quality of data (interest and commitment by policy makers) -> ivàlua
- Status Quo: **large body of evidence** → many ALMP evaluations, some experiments in US and LAC, mostly non-experimental in Europe
- In sum: A growing database of precise impact estimates of diverse programs

# Number of ALMP Evaluations by year, 1980-2012



Source: Card / Kluge / Weber – 2014 data

### **3) General lessons from the literature -> meta-analysis**

# Systematizing the evidence

Collect evaluations of ALMPs across countries

Narrative review: Martin (2000), Martin and Grubb (2001),  
OECD Employment Outlook

Quantitative assessment: Card et al. (2010), Europe: Kluve (2010),  
US: Greenberg et al. (2003), Bloom et al. (2003)  
World Bank ALMP: Betcherman et al. (2004)  
World Bank: Youth Employment Inventory (2007)  
(Heckman et al. 1999, Kluve and Schmidt 2002)

Meta-analysis = Statistical tool to synthesize research findings across a sample of individual studies that all analyze the same or a similar question, in the same or a comparable way

# A new sample of ALMP evaluations

- Joint work with David Card (UC Berkeley) and Andrea Weber (University of Mannheim)
- Data set of 201 evaluation studies comprising:
  - 407 short-term impact estimates ( $\leq 12$  months post-treatment)
  - 298 medium-term impact estimates (12-24 months)
  - 141 long-term impact estimates ( $> 24$  months)
- Extract information on: program type, duration, methods, target group, etc.
- Trinomial outcome: significantly positive, significantly negative, insignificant
- Effect sizes extractable for about 40% of the estimates

# Summary of program impacts

	Percent of estimates that are		
	negative significant	insignificant	positive significant
<u>Short-term impact estimate:</u>			
Training (N=194)	20.6	44.3	35.1
JSA (N=67)	4.5	41.8	53.7
Private incentive (N=47)	23.4	38.3	38.3
Public employment (N=42)	40.5	28.6	31.0
<u>Medium-term impact estimate:</u>			
Training (N=162)	3.1	41.4	55.6
JSA (N=39)	0.0	35.9	64.1
Private incentive (N=35)	11.4	25.7	62.9
Public employment (N=24)	37.5	33.3	29.2
<u>Long-term impact estimate:</u>			
Training (N=55)	0.0	34.6	65.5
JSA (N=20)	0.0	55.0	45.0
Private incentive (N=20)	5.0	5.0	90.0
Public employment (N=11)	18.2	54.6	27.3

# Effectiveness: Strong pattern by program type

- **Training** on average modestly effective, but: Long-run effects positive!
- **Private sector incentive programs** (wage subsidies) effective in short-run and longer run -> but: displacement?
- **Public sector direct employment** programs are not effective and often decrease participants' job finding chances
- **Job Search Assistance** programs frequently show positive effects (Short-run); they also tend to be cost-effective

## Impacts increase with time after the program (Medium-run > Short-run)

	Percent of medium-term estimates that are		
	negative significant	insignificant	positive significant
<u>Short-term impact estimate:</u>			
negative significant (N=32)	6.3	46.9	46.9
insignificant (N=52)	1.9	63.5	34.6
positive significant (N=38)	0.0	15.8	84.2

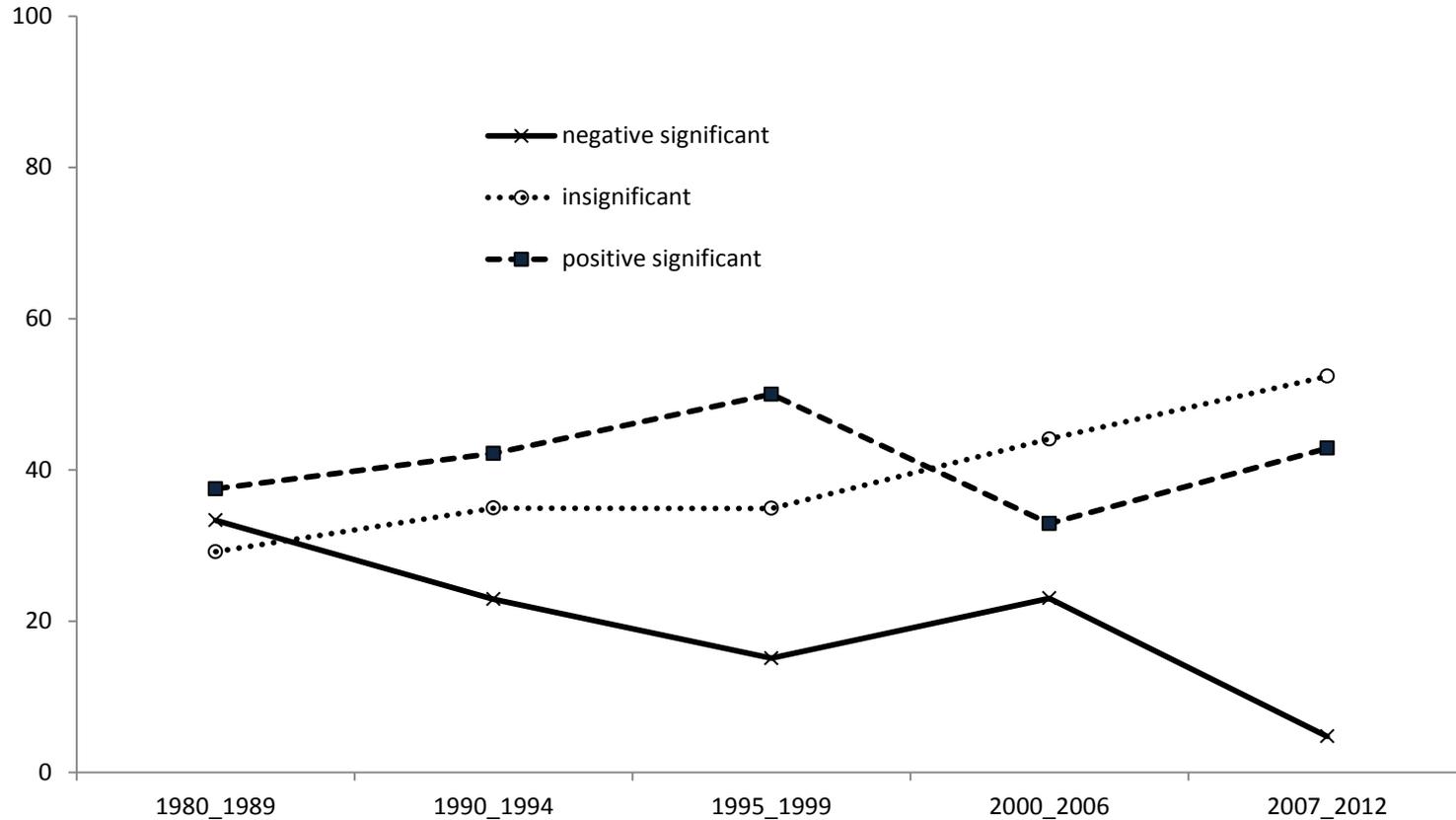
Note: sample includes TRAINING studies that report short-term and medium-term impact estimates for same program and same participant group.

## Impacts increase with time after the program (Long-run > Short-run)

	Percent of long-term estimates that are		
	negative significant	insignificant	positive significant
<u>Short-term impact estimate:</u>			
negative significant (N=32)	0.0	53.3	46.7
insignificant (N=52)	0.0	61.5	38.5
positive significant (N=38)	0.0	14.3	85.7

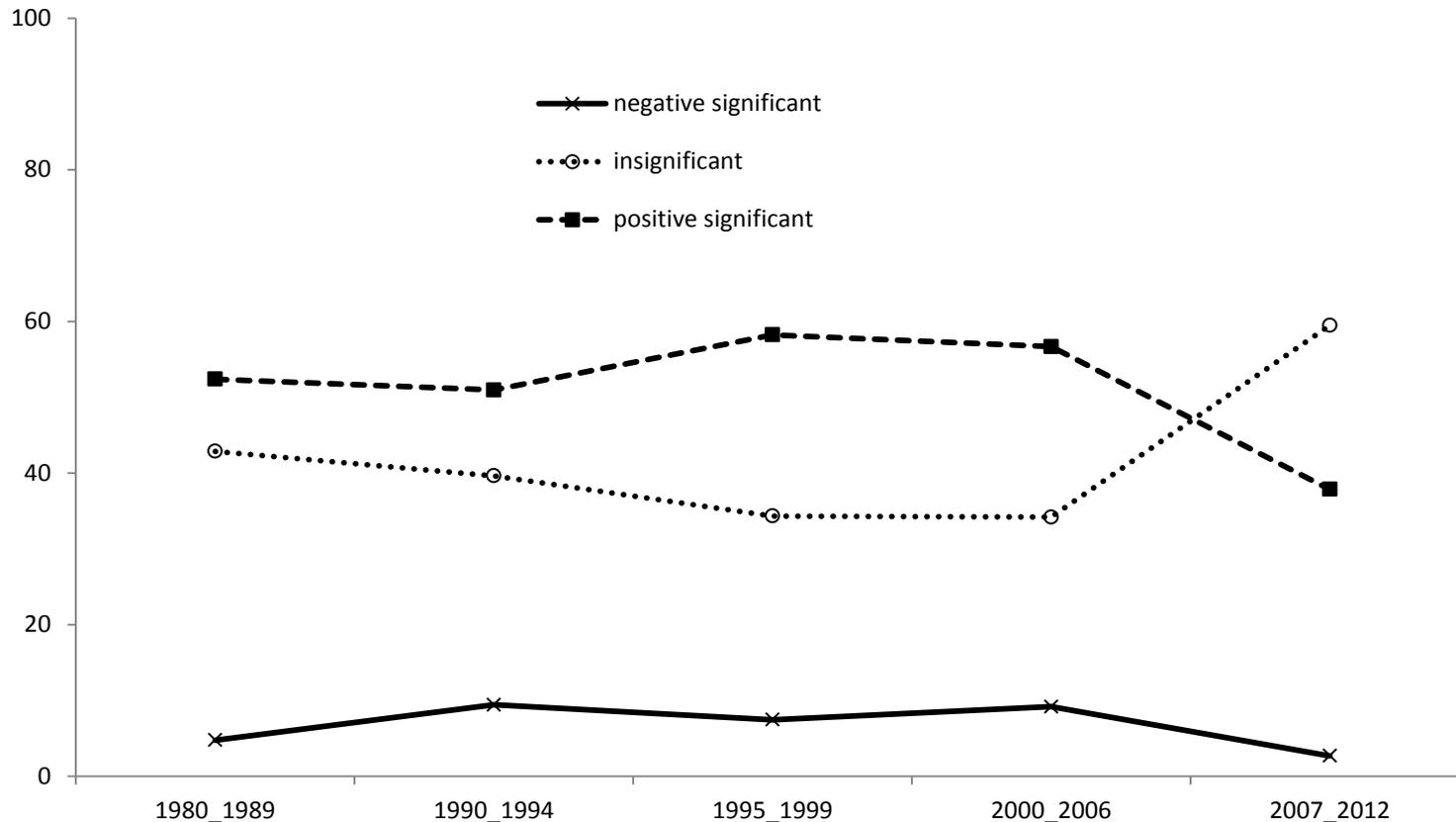
Note: sample includes TRAINING studies that report short-term and medium-term impact estimates for same program and same participant group.

# ALMP effectiveness over time: short term



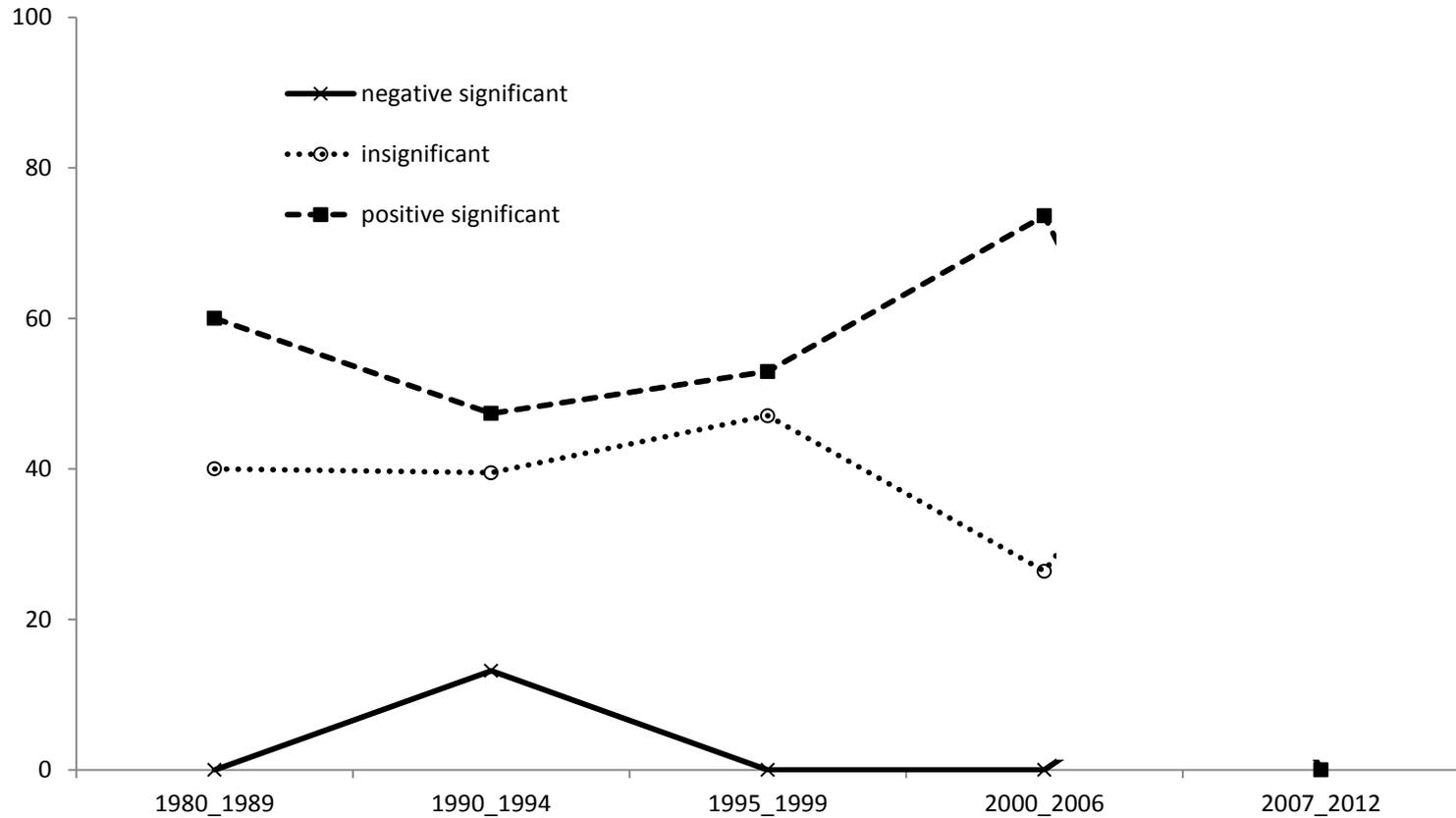
Note: Fractions of estimates by time period of program operation. N=407.

# ALMP effectiveness over time: medium term



Note: Fractions of estimates by time period of program operation. N=298.

# ALMP effectiveness over time: long term



Note: Fractions of estimates by time period of program operation. N=141.

# ALMP and target groups

- In general: no differential effects for men and women
- Youth programs systematically less effective in OECD

Two main interpretations / implications:

- Points to preventive intervention -> education policies earlier in the lifecycle
- The importance of labor market institutions: there is evidence that two-tier labor markets generated by restrictive regulations (EPL, minimum wages) hamper program effectiveness especially for youths

# ALMP and contextual factors

Labor market institutions:

- Difficult to identify empirically; in general no strong correlation, except EPL
- German experience (“Hartz reforms”) indicates that fundamental changes in institutional framework and administrative implementation can improve policy effectiveness

Business cycle:

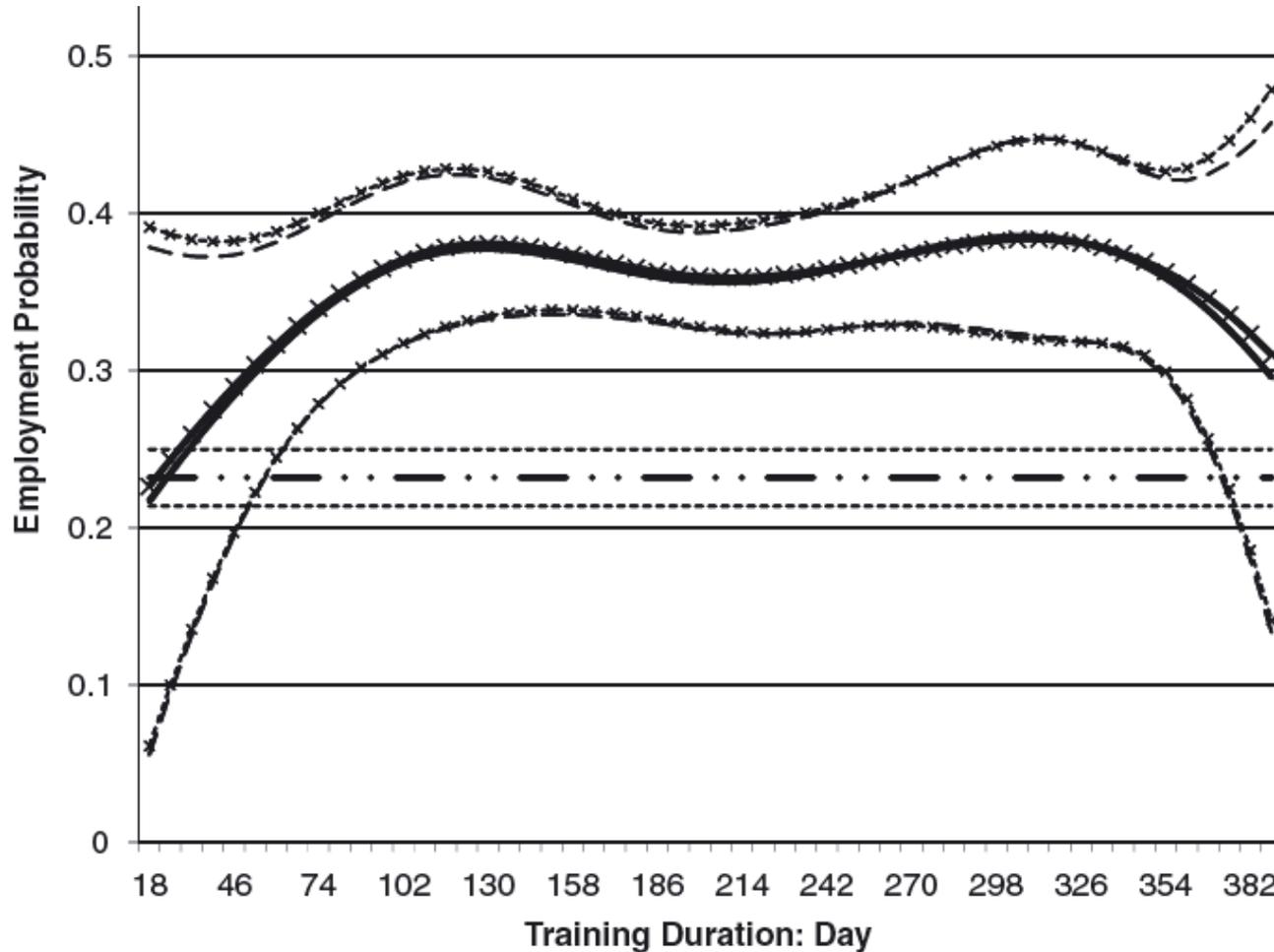
- Little evidence to date; studies indicate positive correlation between unemployment rate and ALMP effectiveness
- Pool of unemployed during recession: relatively high-skilled; larger, allowing for better matches
- -> Expand ALMP during recession -> programs with large “lock-in” effects -> opportunity costs due to lost job search time smaller during downturn

## **4) Some conclusions and outlook**

# Knowledge gaps

- Relative effectiveness of training components / optimal combination: 1) Classroom training, 2) Work practice, 3) Basic skills, 4) Life skills
- In general: precise composition of comprehensive interventions?
- Public vs. private provision of services (e.g. Behaghel et al. 2012, Hirshleifer et al. 2014)
- Displacement effects -> Crépon et al. (2013), Martins et al. (2014)
- Program duration

# Program design: Optimal length of training?



Source: Kluge, Schneider, Uhlenborff, Zhao (2012)

## At first glance ...

... there seem to be quite a bit of bad news:

- Often programs don't work, and if they do, effects may be small
- youth programs are particularly ineffective – but youth unemployment is a key challenge
- add to this: “scarring” effects of prolonged unemployment, even for the high-skilled
- and: lifecycle repercussions of entering the labor market during a recession

# But there is hope

- Long-run implications of human capital accumulation!
- Job Search Assistance is typically (cost-) effective, and plays an important role in the job-match process
- Comprehensive programs work, even for youths (these are often expensive, though)
- Programs that are oriented to labor demand and linked to real workplaces
- Careful targeting
- Interaction with Unemployment Insurance system; and with labor market institutions

# Broaden the evidence base!

- The evidence we have comes from a sizeable number of program evaluations worldwide (increasingly RCTs)
- An enormous learning potential lies in the programs that are being implemented and evaluated
- This effort needs to be continued and fostered -> i.e. built-in whenever programs are designed and implemented
- > More systematic knowledge on training contents, effectiveness, and relating to country contexts
- > ever increasing potential to inform and blend into public policy

Thank you.

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