

Effectiveness and Efficiency of Active Labor Market Policies

1

by Regina Konle-Seidl

Introduction

Active labor market policies play an important role in the portfolio of economic policymakers in many European countries. ALMPs are a means of combating cyclical and structural unemployment and promoting employment. In the aftermath of the Great Recession there is renewed interest in the potential for active labor market policies to help ease a wide range of labor market problems, including youth unemployment and joblessness among displaced adults. In many countries, governments spend substantial amounts on ALMPs for unemployed workers with the aim of increasing their chances and speed of finding a job. The expenditures for ALMPs like job search assistance, training, wage subsidies, and public employment go above one percent of GDP in countries like Denmark and Sweden. They are usually higher for measures than for services, the UK being an exception (Figure 1).

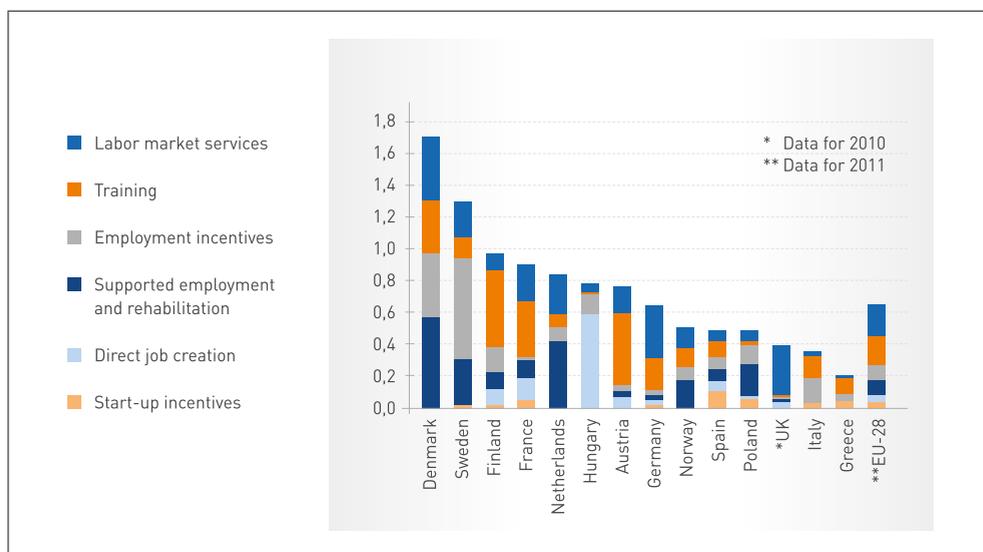


Figure 1: 2013 ALMP expenditure by type of program (in % of GDP) in selected EU countries

(Source: Eurostat LMP database)

ALMPs act selectively to favor particular groups in the labor market. Three main target groups are recognized: unemployed, employed at risk, and inactive. The primary target groups in most countries are people who are registered as unemployed by Public Employment Services or who are currently employed but at risk of involuntary job loss due to difficult economic circumstances. People currently considered inactive but interested in entering the labor market (e.g., women re-entering work after a family break) are also treated as an important ALMP target group.

In international classifications like the Eurostat Labor Market Policy database, ALMP interventions are divided into *services and measures*. ‘Services’ refers to labor market interventions, typically including job search courses, vocational guidance, counselling, and monitoring by public or contracted private employment services to assist the unemployed in their job search and job placement for the purpose of improving the match between jobseekers and firms. ‘Measures’ refers to activities that constitute a full-time or significant part-time activity of participants during a significant period with the aim to improve the vocational qualifications of participants, or to interventions that provide incentives to take up or to provide employment (including self-employment). Most measures are aimed at activating the unemployed, helping people move from

involuntary inactivity into employment, or maintaining the jobs of persons threatened by unemployment.

Evaluation of ALMP interventions

In European countries, a general catch-up development in terms of evaluation research can be observed in the last two decades. Credible and more robust evidence on the causal impacts of individual ALMPs has become available since the early 2000s. In contrast, in the US an evaluation culture has already been developing since the 1980s. The legal obligation to evaluate large-scale US public programs implies that outcomes are tracked, program impacts estimated and less effective programs are replaced with more effective ones. In Europe, considerable methodological progress has been made and data availability and quality has improved substantially, e.g., through integrated administrative datasets and/or combined administrative and survey data. Yet within a relatively short period, the number of impact evaluations has exploded in (some) European countries, offering the prospect of being able to learn from past studies what types of programs work best, in what circumstances, and for whom.

Apart from better data availability, the commitment and political will to evidence-based policymaking as well as introducing legal and program requirements for evaluations have been important in developing an evaluation culture in some, but not all, European countries. Outcome measurement and impact evaluation play an increasingly important role in designing labor market policy in Germany, Switzerland, Denmark, France, Sweden, the Netherlands, and the UK. Evidence-based ALMP-making is now a recognized claim in the political landscape of these countries. In recent years, large-scale randomized controlled-field experiments – considered to be the golden standard in ALMP evaluation – have been conducted in, e.g., France, Germany, and Denmark. Policymakers can increasingly rely on results from experimental studies. Hence, labor market policy in these countries is already a learning policy field with extremely high dynamics, designed in an intensive discourse between policy, practice, and science.

The quantitative measurement of outcomes and program impacts is a relatively technical activity, as compared to the historical tradition of PES activity and management

concerns. In most countries, the PES is responsible for the implementation of active labor market policies. Impact evaluation using internal and external methodological expertise can be a driving force in PES management and its results, often accounting directly for much of the substantive spending on ALMPs.

Impact evaluations should be distinguished from monitoring. Monitoring is an instrument to administer an ALMP program through regular and systematically conducted observation and documentation of statistical indicators over time. The main purpose of monitoring is to support the PES management responsible for ALMPs, to improve the implementation of a program, and to ensure its good performance. But monitoring is not able to explain why a particular result has occurred or failed to occur in a program. Although monitoring gives a first impression of a program's success or failure, it does not provide any explanations for it. Monitoring only informs about gross effects like the percentage of program participants who found a regular job after participation. However, the employment status after participation cannot be exclusively attributed to the program. Participants might have also found a regular job without it. To deal with the questions of cause and effect that are crucial to policy decisions, evaluations are required. Impact evaluation goes that extra step further. It aims to determine whether a program is successful or not by defining certain criteria and assessing whether these were met.

An ideal ALMP evaluation process involves three steps:

- 1.** Analyzing, based on clearly defined success criteria, whether participation in a measure is causal for improving the situation of the participating individuals
- 2.** Examining whether the measure has also achieved net positive effects on the aggregate level (employment and unemployment rates)
- 3.** Finally, determining whether the individual success justifies the cost of the measure (efficiency)

Microeconomic evidence provides information on what works

The standard empirical evaluations of labor market policy consider the direct effects (“treatment effects”) of single programs on their participants in terms of outcome variables like unemployment duration, re-employment rate, or earnings after

unemployment. They try to answer the key counterfactual question: “What would have happened to a program participant if he or she had not participated in the program?” The methods used to evaluate individual ALMPs are very sophisticated, ranging from experimental studies using random assignment to a variety of quasi-experimental methods using, e.g., difference-in-difference analysis or propensity score matching to construct adequate comparison groups by so-called “statistical twins”. Quasi-experimental strategies rely on a non-randomly chosen group of non-participants as control group. Avoiding the problem of selectivity of unobserved characteristics (e.g., participants are more highly motivated than non-participants) is the big advantage of experimental studies, because random assignment enables direct comparison between actual participants and actual non-participants. Additionally, non-econometric qualitative methods are used to analyze the implementation process. They are also used when qualitative targets (e.g., social inclusion) are set, or when existing data sets do not allow for the application of econometric methods.

Like in any evaluation, the fundamental problem is to find a suitable comparison group to determine the actual (net) effect of the measure. Statistical twins are similar in terms of important observable characteristics (e.g., age, sex, unemployment and employment history, type of benefit received). Therefore, it is possible to estimate, based on their later employment status, how the chances of the ALMP participants would have developed without support. The individual causal effect for participants results, then, from the difference between its observed participation results and the estimated counterfactual non-participation results.

So do ALMP interventions deliver? Available evidence shows that what works depends very much on the type of program, but also on the time horizon (short-term vs. long-term effects) and the type of measured outcome (e.g., short-term re-employment vs. long-term job stability effects) and on jobseekers’ profiles (job-ready unemployed vs. disadvantaged unemployed). Recent meta-studies provide some general insights on the effectiveness of ALMPs. The meta-analysis by Card et al. (2015) includes impact estimates from over 200 econometric evaluations from around the world. The result shows that on average, ALMPs have relatively small effects. The average short-run impacts on employment are close to zero but become more positive two to three years

after completion of the program. Among a rough classification of programs, activating 'work first'-style job search assistance and sanction/threat programs tend to have larger short-term effects. Human capital-style training programs and private sector employment subsidies have small short-term impacts but larger gains in the medium or longer run. Public sector employment programs have negligible or even negative program impacts at all time horizons. The authors also find systematic heterogeneity across participant groups, with larger impacts for females and participants who enter from long-term unemployment but lower impacts for disadvantaged and young people.

The main findings apply roughly for all country groups (Germanic, Nordic, Anglo-Saxon, non-OECD countries, Latin American and Caribbean countries) considered in the meta-analysis. OECD country studies show, furthermore, that applying ALMPs in an activating framework, characterized by making benefit receipt conditional upon job search activities and/or program participation, works best for unemployment insurance (UI) recipients who are relatively job-ready, but is less effective for benefit recipients facing health restrictions and other employment barriers (Martin, 2014).

Even though meta-studies provide some important conclusions, a country-specific survey on evaluation studies is an important addition to the literature. It allows making statements for a specific institutional and socio-economic background. In particular, it helps to determine whether changes in ALMPs and the related institutional framework are important candidates for explaining changes in the effectiveness of programs. The meta-analysis by Card et al. (2015) shows, for example, that job creation programs have negligible or even negative program impacts. However, studies of Germany before and after the Hartz reforms show different results for programs that create subsidized jobs for the more disadvantaged unemployed. After the reforms, new schemes were introduced that more strongly targeted people with severe placement impediments. Before the reforms, detrimental average treatment effects on the regular employment rate of job creation participants dominated the available results. After the reforms, positive effects are found for a number of different schemes, indicating that careful targeting and implementation is essential if employment programs are to improve, not worsen, labor market prospects of participants (Wolff and Stephan, 2013).

Another important lesson learned from German evaluation studies of subsidized employment was that job creation schemes might be particularly harmful for young unemployed persons. Therefore, the requirement to quickly place young UB II recipients into new work opportunity schemes (so-called One-Euro-Jobs) if they could not be immediately placed into regular jobs or training was abolished in April 2012 (Wolff and Stephan, 2013).

The operational use of evaluation results

Most evaluation studies provide results on the aggregate level. PES and other agencies implementing ALMP measures and services might, however, be interested to have information on the effectiveness of available labor market programs at a local agency level, differentiated with respect to the feature of the measure as well as of the supported persons. The operational use of evaluation results integrated in the IT landscape of employment services is, however, rare. A comprehensive system for operational purposes was developed in the German PES (BA) between 2005 and 2007. The internal evaluation tool TrEffeR (“Treatment Effects and Prediction”) continuously examines how participation in the measures administered by the BA impacts on the chances of finding work. Via the data warehouse, TrEffeR provides information systematically and twice yearly on the effectiveness of all available labor market programs, which are reported at a local agency level, differentiated with respect to gender, year and month of program start, and duration of the labor market program.

This timely information can provide useful insights on the effective implementation of the measures and be used for further action planning. The TrEffeR database contains the “biographical data” of the BA, which comprises individualized customer information on unemployment, participation in measures, benefit receipt, and employment. Like in every quasi-experimental evaluation study, the analysis is based on a control group (“statistical twins”). Comparing the later employment status of participants (treatment group) and non-participants (control group) makes it possible to estimate how labor market opportunities would have developed without participation. The micro dataset built for TrEffeR can also be used to gain an overall impression of the effect of labor market policy instruments. Figure 2 shows the impact of different instruments for the first year after start of the program at the national level.

Program	Duration of program	Net effects in % points
1 year after program start 2011 (2012)		
Retraining (specific professional skills provision)	Up to 3 months 3 to 6 months	16 (16) 10 (9)
Short training measures and placement services (private providers)	Up to 3 months 3 to 6 months	5 (4) -3 (-1)
Firm internal training and placement services	Up to 6 weeks	17 (18)
Hiring subsidies	Up to 3 months 3 to 6 months	29 (32) 33 (40)

Figure 2: Estimated net effects of different German ALMP programs

(Source: Büttner et al. (2015).)

Macroeconomic evidence of the impact of ALMPs on employment and unemployment rates

A more complete assessment of ALMP effectiveness (and efficiency) requires an investigation of general equilibrium effects. Active labor market policy not only affects the labor market success of participants. ALMPs might also affect the job perspectives of non-participants due to indirect or unintended effects such as substitution, displacement, and deadweight. Deadweight loss occurs when subsidized workers are hired who would have been recruited even without the subsidy. Displacement effects occur when subsidies targeted at the long-term unemployed lead employers to hire them instead of other unemployed persons. Substitution effects prevail if some of those taking up subsidized jobs will merely replace other workers within the same firm. Hence, even if ALMP programs have a positive effect for the participants, this does not mean that these programs improve the labor market situation as a whole.

Compared to the large body of micro-econometric evaluation studies, the number of aggregate impact studies taking indirect effects of ALMPs into account is rather small. In the case of aggregate impact analysis, the counterfactual question is: "What would have happened to a macroeconomic outcome variable (aggregate employment or unemployment) if the intensity and mix of ALMPs had been different?" The results

from non-experimental studies that follow a regional matching approach are rather mixed. There are only few experimental studies testing for indirect effects. One of the larger programs based on an experimental design is a job placement assistance program for young college-educated jobseekers in France evaluated by Crépon et al. (2013). The evaluation results show that the labor market outcomes of the non-treated differ depending on the program intensity in a region. This provides evidence of displacement effects. In the end, the program seems to have had very little net benefits, although unemployed youths who were assigned to the program were significantly more likely to have found a stable job than those who were not.

From a policy perspective, however, indirect or equilibrium effects may not be considered that important if the intention of targeted subsidy or other schemes is to “shuffle the queue” of jobseekers.

Efficiency of ALMPs

Policymakers who must decide on implementing, extending, changing, or abolishing specific ALMP programs normally try to translate the gains of a program into monetary terms or to carry out a cost-benefit analysis (CBA). A CBA is the most comprehensive design of putting value on impacts and value those against the cost of obtaining them. In the past, however, evaluation studies were accompanied very rarely by rigorous cost-benefit analyses. Yet reduced public spending in recent years requires PES and other ALMP implementation agencies to “do more for less”, i.e., to deliver ALMPs with increased levels of cost-effectiveness (efficiency).

The costs and benefits of ALMPs are measured as the changes from what would have occurred if the person had not been enrolled in the program. The benefits include, e.g., the impacts on the earnings of ALMP participants. The largest share of the cost of unemployment is usually induced by the potential loss of revenue and not by the public intervention (direct program costs). An ALMP’s cost-benefit analysis should therefore include, at least, the gains for the target group and the impacts on public revenues and expenditures. The net benefit of a program consists of the algebraic sum of all the program’s benefits and costs. These benefits are assessed from the point of view of the participant, that of non-participants, and that of society as a whole (i.e.,

participants and non-participants). However, impacts like reduced criminal activity or psychological benefits of increased employment as well as indirect effects on non-participants (i.e., displacement effects) are usually difficult to quantify.

The following example provides a CBA of a large-scale pilot project hiring additional caseworkers. The pilot was implemented to answer the question whether lower caseloads improve the effectiveness and efficiency of ALMPs. Additional caseworkers were hired in 14 of 779 local employment offices in Germany. The evaluation of the pilot by Hainmüller et al. (2016) shows a sizable decrease in the unemployment rate and the cumulated unemployment duration, and an increase in the reemployment rate for the twelve-month period after the start of the pilot. Moreover, the pilot had no negative regional spill-overs (displacement effects) on the outcomes for neighboring offices. To assess the cost-effectiveness of the measure, UI (unemployment insurance) expenditures between pilot and control offices were compared. To calculate the absolute costs, the evaluators added the additional salary costs of the newly hired caseworkers to the UI benefit expenditures, while in the control offices only the UI benefit expenditures were used. The net effect was estimated by regressing the monthly costs on the treatment indicator and a variety of control variables. The authors found that the costs in the pilot offices were higher than in the control offices, as expected, but only for the first eight months. From the ninth month onwards, the effect turned negative, which means that the initial cost increase from the additional caseworkers is offset by the savings gained from increased effectiveness. These results suggest that more resources for labor market services can pay off. Increasing the number of caseworkers can be cost-efficient in the long run, implying an average cost reduction of around 5 percent over the baseline of 2.99 million euro of average costs of UI benefit expenditures in the pilot offices in the pre-pilot year. The cost-benefit calculation would have been even more beneficial if the likely increase in UI contribution payments associated with a higher reintegration rate of jobseekers into regular employment had been taken into account.

Conclusion

Over the past three decades, European countries have invested large amounts of public funds in labor market programs for unemployed people. These programs, collectively known as ALMPs, aim to bring jobless people back into employment through a broad

range of interventions such as training courses, wage subsidies, and employment programs in the public or non-profit sector. Evaluation studies have added a lot of new insights into what works and what does not work to facilitate the transition from unemployment to (unsubsidized) work.

The overall evidence points to the conclusion that ALMPs are an important element of labor market policies but the results suggest that ALMPs can only contribute moderately to the reduction of structural unemployment. Numerous individual assessment studies suggest that in general two sorts of interventions are rather effective: counselling and job assistance programs and training, and private sector employment subsidies programs indicating larger gains in the medium or longer run. It has also become evident that ALMPs need to be selective, as individual targeting is a key success factor. As similar programs operating under particular institutional framework conditions develop different effects, implementation conditions and practices are important. This applies not only to financial and personnel resources but also to the managerial capacity of the agencies (local/regional PES) delivering services as well as the flexible and individual use of instruments by caseworkers.

One big gap in evaluation research is the perception employers have of these policies. Little is known about how employers consider participation in ALMPs when assessing an applicant. Yet their perspective is essential, as it is ultimately employers who decide who gets a job and who does not.

Dr. Regina Konle-Seidl was awarded a Master in Economics by the University of Erlangen-Nuremberg in 1983 and afterwards employed at the university from 1984 until 1987. She undertook postgraduate studies in International Economics at the Universidad de la República Montevideo, Uruguay, from 1997 to 1999. From 1990 to 1994, she worked at the German Institute for Employment Research, where she has been employed as a Senior Research Fellow since 2000. Her research focuses on international comparison of labor market institutions and reforms, activating labor market policies, and governance of employment services.

The new world of work is characterized by globalized employment, a mobile yet vulnerable workforce, and the challenges of demography and rising income inequality. Technological changes in both the demand for and supply of skills have a cross-cutting influence on how labor markets develop. In this book, different stakeholders from international organizations in the private and public sector discuss which role Public Employment Services and Workforce Development Agencies ought to play in the labor market today and in the future, why cooperation is crucial, and what kind of support digital services and software can provide for a more effective and efficient delivery.

Managing Workforce Potential – A 20/20 Vision on the Future of Employment Services seeks to inspire decision-makers in and around the labor market to reflect on governance, services, and partnerships to better cater to the new world of work.

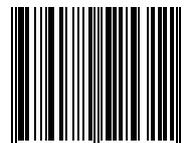
Why this book?

As a world leader in Public Employment software solutions, WCC believes in sharing knowledge. It is our vision that combining what we know and sharing this with the world leads to maximum value across the board. This is why we take initiatives to both exchange and expand expertise. For example, we started the PEPTalk webinar series, which provides a platform for Public Employment Services to share their knowledge about best practices and their vision on the labor market. This book is another example; with its publication, we aim to contribute to an all-round clearer vision on the developments in public employment.

*The term **20/20 vision** is used to express normal sharpness of vision. It means you can see clearly at 20 feet what should normally be seen at that distance.*



ISBN 978 90 8252 531 1



9 789082 525311