

# **A review of ALMP effectiveness**

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Seminar on income support – Workshop III: link to activation

European Commission, Brussels

03 April 2014

## 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?
- Connection with income support schemes?

# Goals for this presentation

- 1) A (very) basic framework for thinking about how programs actually work
- 2) Lessons from the literature (US and Europe)
- 3) Some implications

# **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

ALMPs increasingly cast into “activation” framework -> “rights and duties”

Hybrid: Short-term working arrangements (STWA)

# 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 (socio-affective, non-cognitive skills), 5) Job insertion

### 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:

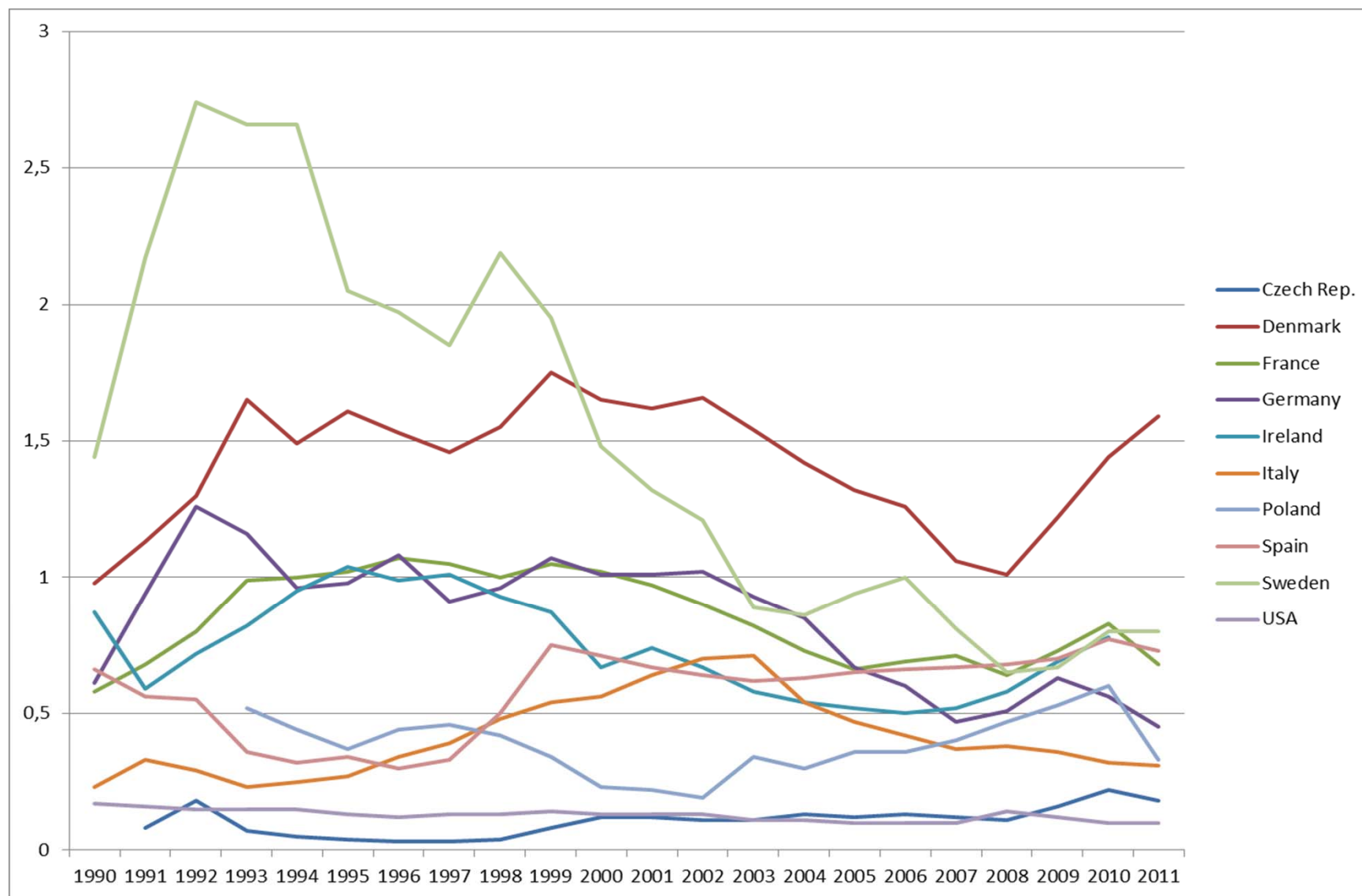
- Only a short run effect (on public employment) unless work changes preferences or future employability
- High risk of displacement effect
- Or: Type of jobs often not close to the labor market

## 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

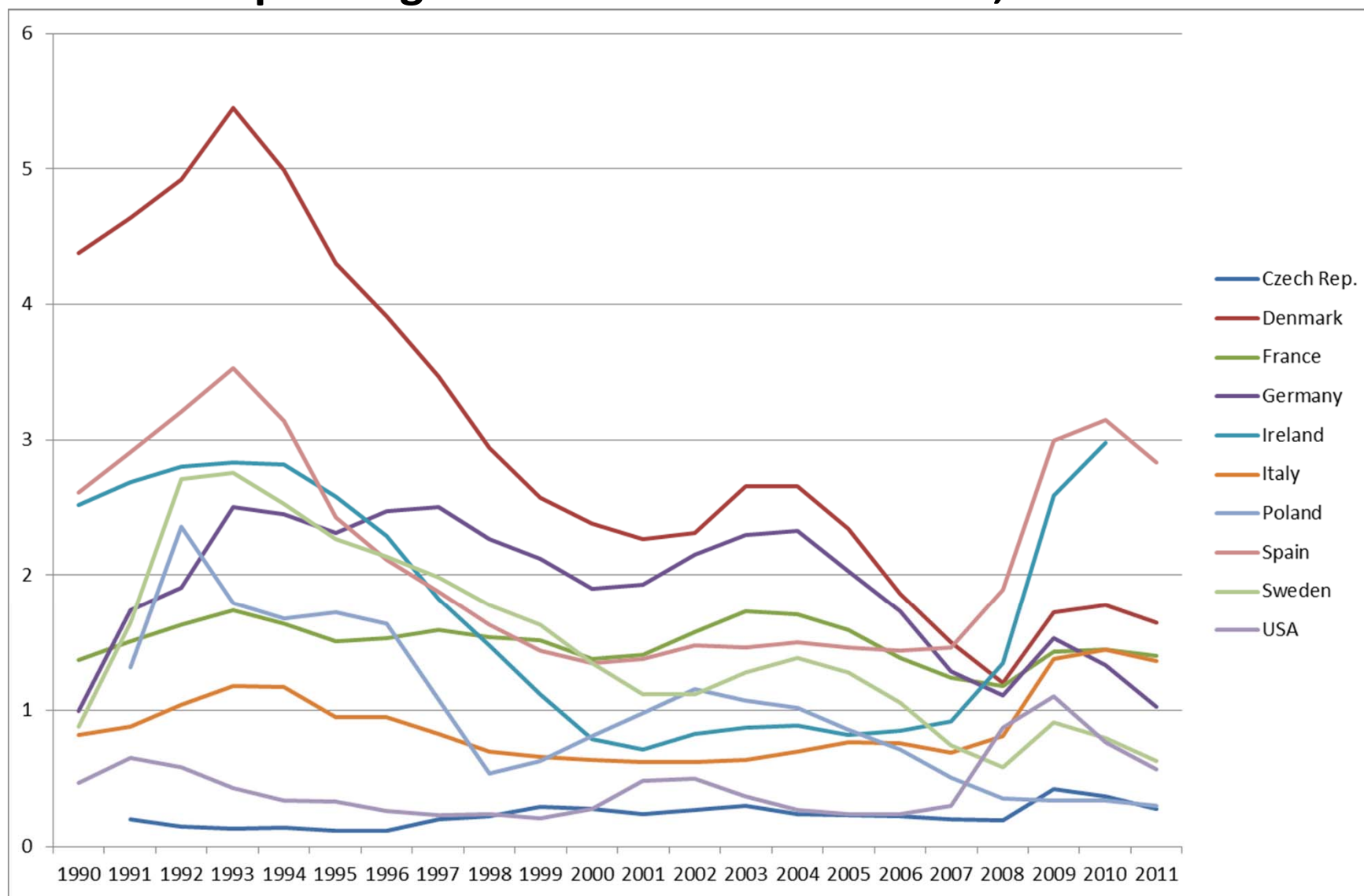
## **2) Lessons from the literature (OECD)**

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



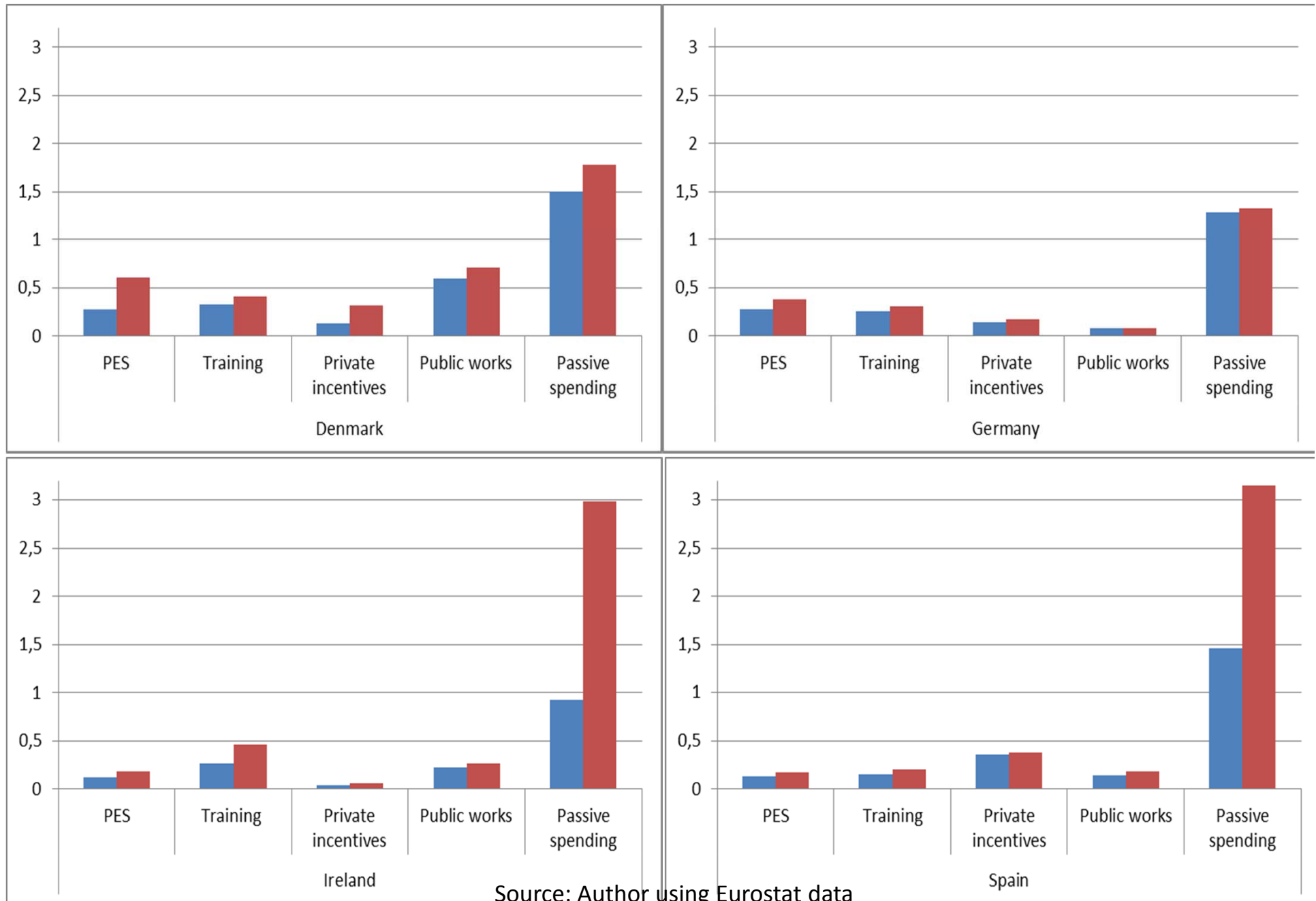
Source: Author using OECD data

## Passive Spending in selected OECD countries, 1990-2011



Source: Author using OECD data

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



Source: Author using Eurostat data

# 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  
-> 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 (Long-run > Short-run)

	Percent of Medium-term Estimates that are:		
	Significantly Positive (1)	Insignificant (2)	Significantly Negative (3)
<u>Short-term Impact Estimate:</u>			
a. Significantly Positive (N=30)	90.0	10.0	0.0
b. Insignificant (N=28)	28.6	71.4	0.0
c. Significantly Negative (N=36)	30.6	41.7	27.8



# ALMP for youths

—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: Entry barriers generated by restrictive regulations (EPL, minimum wages) hamper program effectiveness

## ALMP and the 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
- Implications: Expand ALMP during recession, in particular programs with large “lock-in” effects -> opportunity costs due to lost job search time smaller during downturn

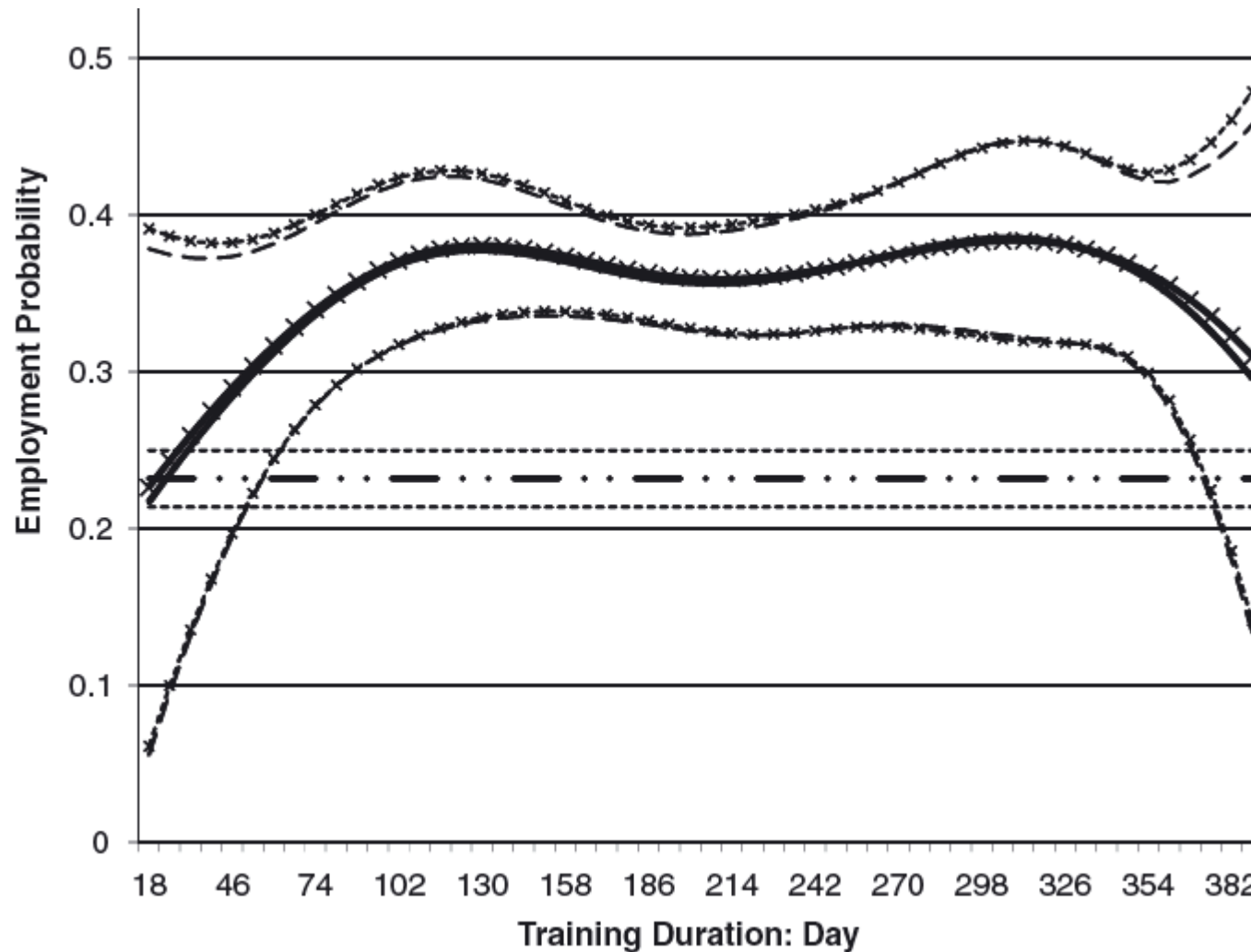
## ALMP and income support schemes

- Increasing interaction between active and passive policies as part of “activation” strategies -> sanctions, mandatory program participation
- Important design element -> however, little systematic evidence to data
- “Threat effects” -> increased exit rates close to compulsory participation; also at: exhaustion of benefits

## More results

- In general: No differential effects for men and women
- Comprehensive programs work
- Even for youths: Job Corps US, New Deal UK
- Knowledge gap: Optimal program design
  - > combination of components?
  - > program duration?

# Program design: Optimal length of training



Source: Kluve, Schneider, Uhlendorff, Zhao (2012)

### **3) Some implications**

## Key lessons to take into account

- Programs that foster human capital -> long-run implications!
- Comprehensive package of services (this might be expensive, though)
- Programs that are oriented to labor demand and linked to real workplaces
- Public employment? Perhaps as a safety net
- Consider interaction with Unemployment Insurance system -> balance of “carrots and sticks”; and with restrictive labor market institutions
- Expectations that correspond to the (limited) potential
- Keep broadening the evidence base by evaluating each ALMP!

Thank you.

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