RWI

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The effectiveness of active labor market programs

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OECD / University of Maryland conference on

"Labor activation in times of high unemployment"

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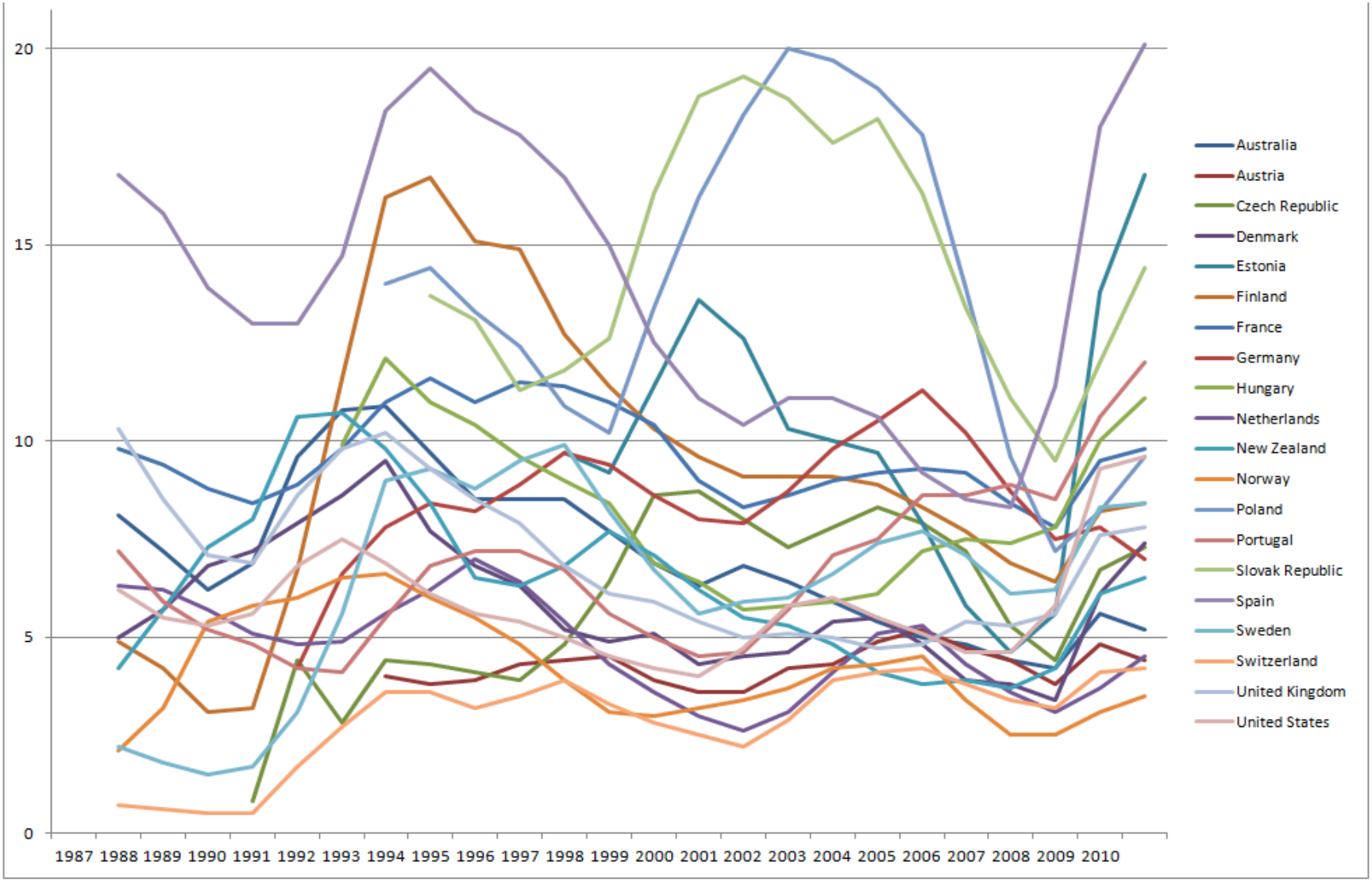
Unemployment in OECD countries, 1987-2010



Starting point

- **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

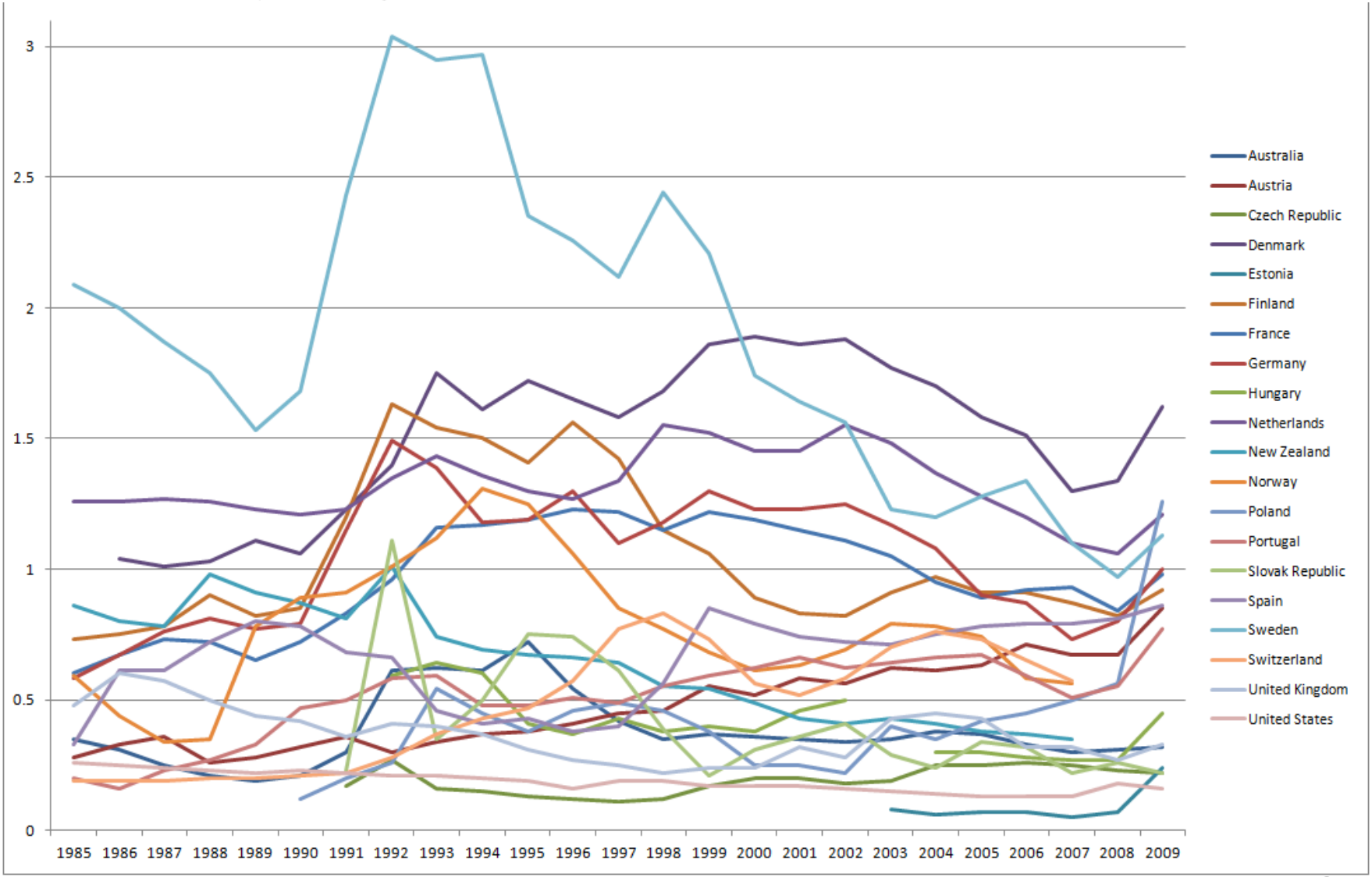
Early **U.S.** experience: MDTA (1960s), CETA (1970s), JTPA (1980s-1990s)

European experience:

- Scandinavia 1970s forward, in particular Sweden
- Germany 1990s forward
- Denmark "flexicurity", UK "New Deal", etc
- EU: "European Employment Strategy"
- ALMP spending -> Graph

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

Spending on ALMP in OECD countries, 1985-2009



Types of active programs

i. (Labor market) training

ii. Private sector incentive programs

iii. Public sector employment

iv. Job Search Assistance / “Services and sanctions”

Specific target groups: Youths, disabled

This talk

→ The knowledge on ALMP effectiveness

i) How do we know?

— Evaluations of particular programs

— Systematizing the evidence → Meta-analysis

ii) What do we know?

i) How do we know?

Effectiveness 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)

Effectiveness of individual programs

- Methodological discussion → Need for experimental evidence (RCTs) vs. non-experimental methods: Matching, duration
- Increasing availability and quality of data (interest and commitment by policy makers)
- Status Quo: **large body of evidence** → many ALMP evaluations, some experiments in US and LAC, mostly non-experimental in Europe

→ How / what can we learn from the many individual program evaluations **overall**?

Systematizing the evidence

Collect evaluations of ALMPs across countries

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

Quantitative assessment →

Meta-analysis : Europe: Kluve (2010),
New sample worldwide: Card et al. (2010),
U.S.: Greenberg et al. (2003),
World Bank ALMP: Betcherman et al. (2004),
World Bank: Youth Employment Inventory (2007)
(Heckman et al. 1999, Kluve and Schmidt 2002)

Systematizing the evidence

- **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.
- Complements evidence from individual program evaluations.
- Origin in health care sciences -> The Cochrane Collaboration -> typically aggregating identical RCTs
- Social sciences -> The Campbell Collaboration -> aggregate evidence and investigate role of contextual factors
- On other topics in (labor) economics: Minimum wages (Card and Krueger 1995), Returns to education (Ashenfelter et al. 2000)

Sample of ALMP evaluations

- Card et al. (2010) → Survey among IZA and NBER researchers
- Focus on microeconometric evaluations of programs post-1995

- Extract information on: program type, duration, methods, target group
- Trinomial outcome: significantly positive, significantly negative, insignificant

- short-term (<=12 months post-treatment) and medium-term (<=24 months)
- N=187 and N=98, respectively

Meta-analysis

Correlate effectiveness with:

- Program characteristics
- Sample characteristics
- Labor market institutions
- Cycle indicators
  -> Lechner and Wunsch (2009) and initial evidence in Kluve (2010) suggest positive correlation of ALMP effectiveness and unemployment rate

Table 1. Summary statistics

	Mean / Fraction	SD	Min	Max
Cycle indicators				
GDP growth	2.68	1.39	-1.63	5.67
Unemployment rate	7.42	2.82	2.06	14.9
Labor market institutions				
ALMP spending	1.10	0.60	0.18	3
EPL index	2.13	0.86	0.2	3.7
Replacement rate	32.43	13.68	5.9	63.7
Program indicators				
Training	0.40			
Job Search Assistance	0.12			
Private sector employment	0.15			
Youth program	0.14			
Short program	0.21			
Long program	0.18			
Main countries				
Denmark	0.13			
Germany	0.23			
Austria	0.07			
France	0.07			
Sweden	0.10			
N=187				

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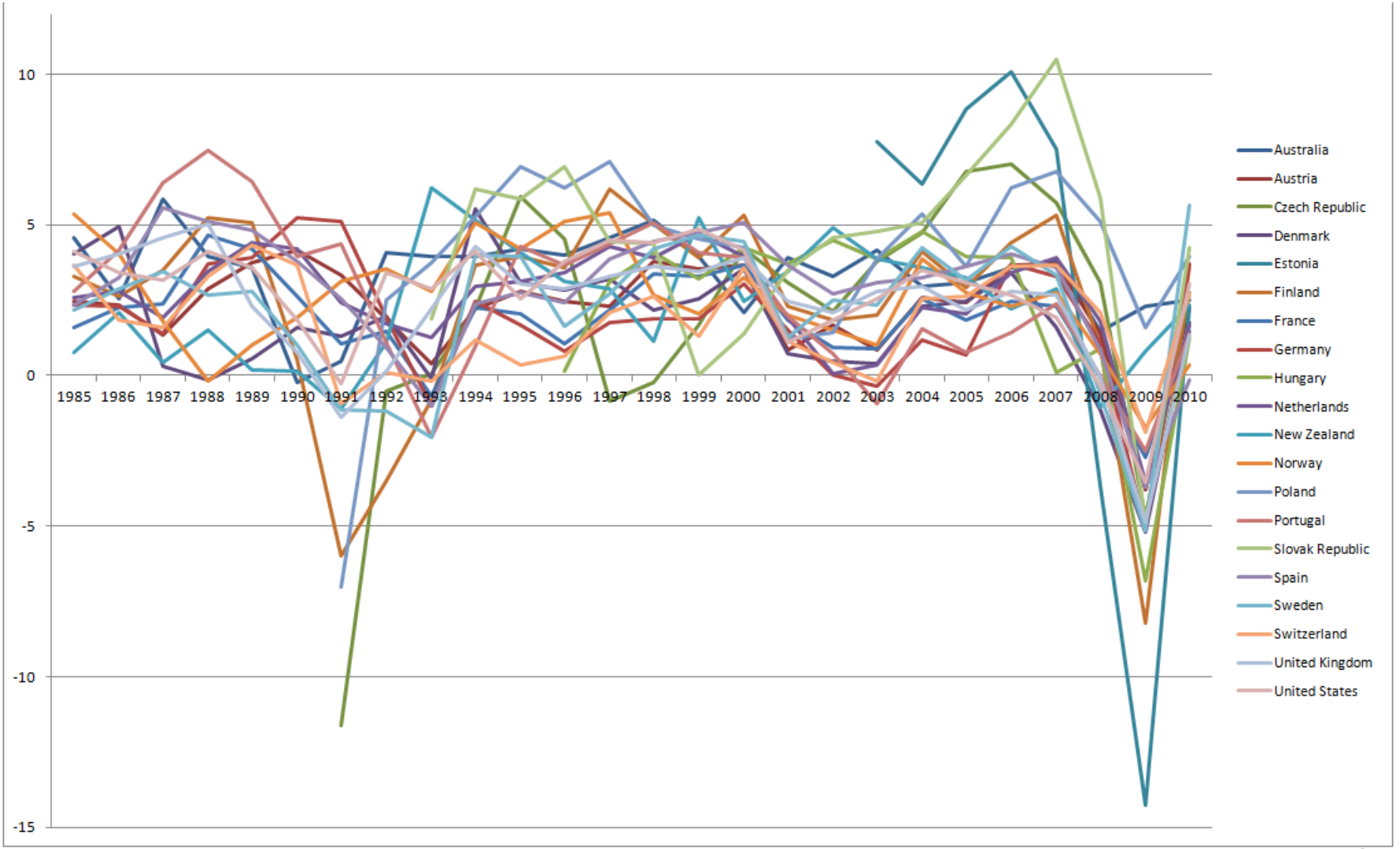
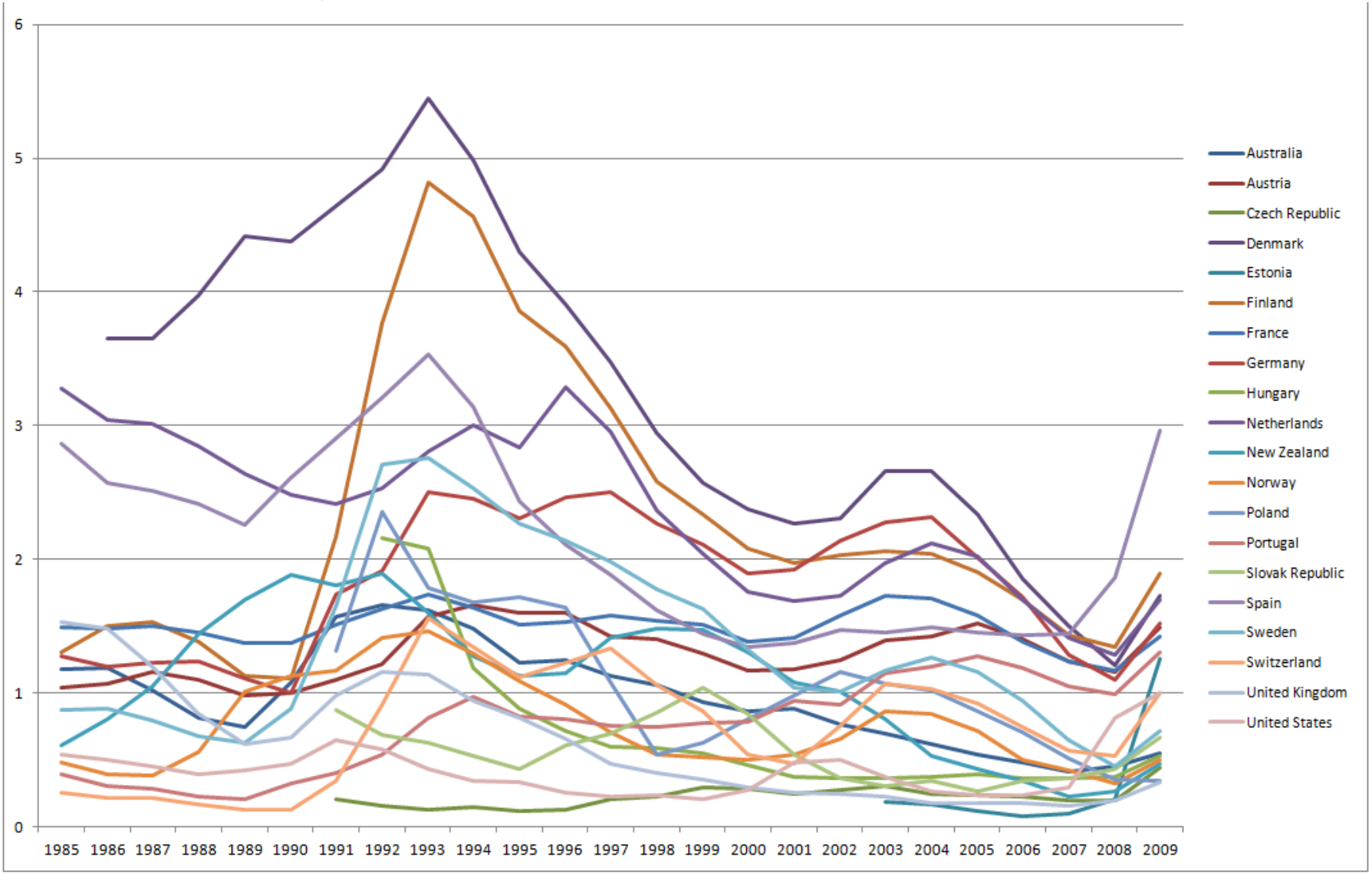
Annual GDP growth rates in OECD countries, 1985-2010



Spending on passive measures OECD countries, 1985-2010



ii) What do we know?

Main results (i)

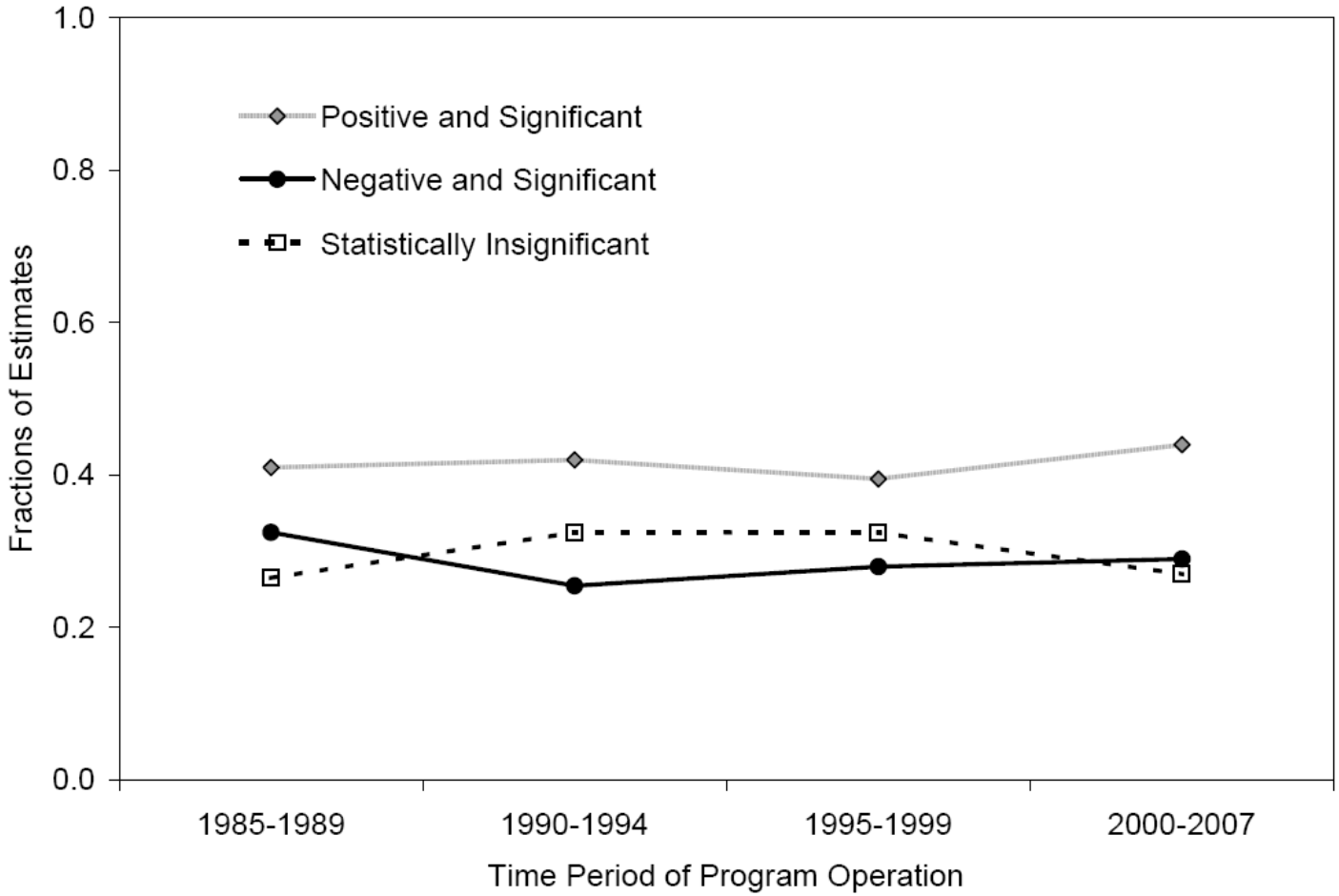
Program type:

- Training on average modestly effective
- Private sector incentive schemes typically effective -> but: general equilibrium effects?
- Public sector employment programs are not effective and often decrease participants' job finding chances
- Job Search Assistance programs frequently show positive effects

Impacts tend to increase with time after the program

	Percent of Medium-term Estimates that are:		
	Significantly Positive (1)	Insignificant (2)	Significantly Negative (3)
Short-term Impact Estimate:			
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 effectiveness over time



Results (ii)

- Little systematic correlation of ALMP impact estimates with cycle indicators
- Labor market institutions seem to play no role
- More pronounced program type pattern identified in recent research:
  -> Job Search Assistance in the short run;
  -> Training programs in the long run
- Youth programs systematically less effective -> bad news, because youths tend to suffer more in crisis: higher unemployment rates; excess cyclical volatility

Thank you.

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