Some perspectives on the importance of policy evaluation

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Evaluation of ALMP’s

• Why evaluate ALMP’s?
• How to measure effectiveness?
• Some practical issues
• Unanswered questions
ALMP’s

- Active Labour Market Policies
  - Training for the unemployed;
  - Private sector incentive schemes (wage subsidies, start-up grants,…);
  - Direct employment programmes;
  - Counseling, monitoring, job search assistance, sanctions;
# Public expenditure on ALMP’s

<table>
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<th>Country</th>
<th>% GDP 2008</th>
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Why evaluate ALMP’s?

- Active policies: beneficial effects
- Strong beliefs
- Is this really the case? → Impact evaluation
  - Different programmes in one country
  - All equally effective?
Why evaluate ALMP’s?

• Evidence based policy: given evaluation results, decide to:
  – Continue the programme
  – Expand the programme
  – Restructure or redesign the programme
  – Abolish the programme

• In the end: a matter of accountability
Evaluation

- Process evaluation
  - How is the programme implemented?, Management quality?, Proper design?, Selection processes?,…

- Impact evaluation: effectiveness

- Efficiency: cost effectiveness
  - Two equally effective programmes may have a quite different cost per participant
Impact evaluation

• Effectiveness: a lot of possible outcomes
  – % of participants that find a job, % that leave unemployment, % that find a stable job or stable employment,…,

  – % that find a decent job, effects on health, psychological effects, effects on well-being
Gross versus net effectiveness

- Observed outcome: effect of programme participation + effect of factors outside the programme

- Therefore, if we observe that 6 months after finishing the programme e.g. 60% of the participants do have a job, this can not entirely be attributed to programme participation: even without participating in the programme, some unemployed would have found a job within 6 months
Net effectiveness

• In order to find the proper impact of the programme (the “value added”, or the “net effectiveness”, or the “impact”), we have to correct the observed gross effect:

Net effect = [Gross effect] - [the % of participants that would have found a job even without participating]

• Since participants can not at the same time be non-participants, the red quantity cannot be observed (“counterfactual”) and must be estimated
Estimating counterfactuals

• Non-experimental approaches (including quasi-experiments)
  – Several, more or less sophisticated approaches
  – Basically: compose a comparison group of persons who are comparable to participants, BUT who did not participate
  – Potential weakness: comparability not complete, e.g. due to (self-) selection effects. Example: motivation
Estimating counterfactuals

- **Experimental approaches**
  - Basically: take the group of persons who are willing to participate in a programme, and randomly assign half of them to an experimental group, and half of them to a control group.
  - Experimental group is allowed to participate, control group not.
  - Results of control group serve as counterfactual.
  - Advantage: better guarantee for comparability, factors like e.g. motivation will on average be the same in both groups.
  - Strong resistance in many countries to this approach: “unequal treatment”. However, given the cost of ALMPs and the intrinsic uncertainty as to their effects, this should be reconsidered.
Some practical issues

• Planning helps
  – Plan before the introduction of a new programme
  – However, avoid the evaluation of a brand new programme
  – Radically changing (or abolishing) a programme before the end of the evaluation makes the results somewhat irrelevant
Some potential conflicts

- Time is on our side?
  - Policy makers, evaluation sponsors, programme administrators want immediately evaluation results ↔ evaluator will insist that a thorough evaluation takes time
  
  - Impact evaluation results necessarily will only be available some time after participation

  - The resulting “this is old stuff”-argument is not per se valid
Some other potential conflicts

• Different expectations: “usable information” (e.g. what can be used to fine tune the programme) ↔ whereas evaluators often are (somewhat myopically?) in the first place interested in the validity of their impact estimates

• Make evaluation more useful by uncovering relationship between effectiveness and design aspects
Some other potential conflicts

• Moreover, policy makers etc. only seem to be interested in impact estimates when these are positive, while negative results often are downplayed or outright neglected.

• (apparently?) contradictory conclusions

• Meta-analysis can help
Remaining questions 1

Is net effectiveness related to …

• …specific groups? What does (doesn’t) work for whom and why (not)?
• …combination of several policies? Order?
• …timing of intervention?
• …labour market institutions?
• …intensity or “dose” or duration?
Remaining questions 2

Is net-effectiveness different between …

• …public versus private provider?
• …local versus national programme?
• …favourable and unfavourable business cycle conditions?
• …short run and long run? (locking in?)
• …sample in evaluation study, and future participants? (external validity)
Macro-effects of ALMP’s

• Thus far: effect on participants
• But also:
  – Effect on non-participants? Substitution, displacement, dead weight loss,....;
  – General equilibrium effects
  – Effects on employment, unemployment, productivity, matching effectiveness, ....
• Very important, yet a lot of uncertainty