



Background paper

- **Introduction**

The crisis has had a severe impact on the EU labour market

EU member states have been severely hit by the economic and financial crisis. The crisis caused Europe's gross domestic product (GDP) to fall by no less than 7 percent, the largest downfall since the Great Depression of the 1930s. The economic recession off-set much of the progress made on the employment front. Since the start of the recession about 8.5 million jobs have been lost. Unemployment rose to unprecedented levels. Up to one in ten Europeans of working age are now unemployed.

Although the labour market in the EU seems to be stabilizing after several months of relatively moderate deterioration, unemployment will probably remain high until well into 2011. Moreover, unemployment in the EU risks to become structural. Neither the economic recovery, nor the net employment creation is expected to be strong enough to tackle high unemployment levels and prevent people of becoming long term unemployed. The average duration of unemployment spells is rising in most countries and there is a growing trend of long term unemployment (already amounting to 3,5%/of 40% of all unemployed).

Due to the crisis on the labour market, certain member states have extended the coverage of unemployment benefits and other income replacing benefits in order to avoid poverty. But rising (structural) unemployment also increases the need for policies which support transitions into work rather than (passive) income support.

On the one hand, unemployment figures urge for strong ALMPs...

Here, active labour market policies (ALMPs) can play a role. During the last decades ALMPs have come a long way. While income support and other social protection measures remain important, national and regional labour ministries have gradually realized that ALMPs are indispensable in order to achieve full employment. In most European member states a broad policy framework has been developed with a diverse range of instruments such as job search assistance, training programmes, active restructuring, employment incentives and social economy insertion.

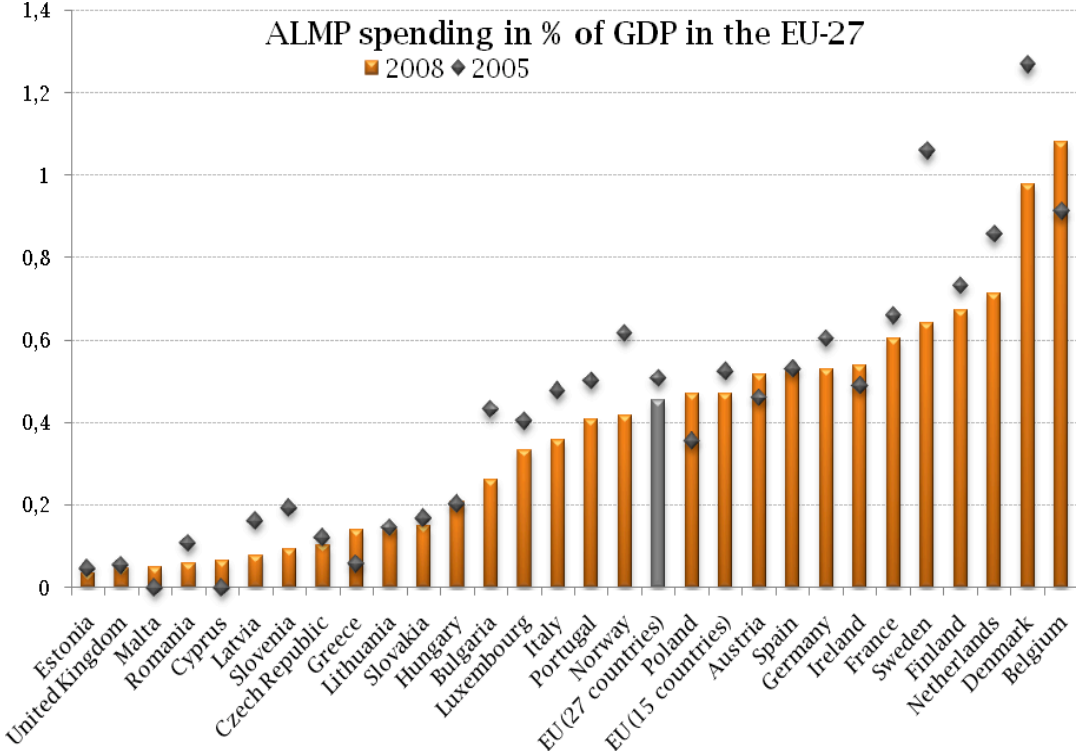
In the current economic situation, ALMPs can help those who become unemployed to find another job before they disconnect from the labour market altogether. They can also prevent people of becoming long term unemployed. Moreover, they enable the reintegration of the long term unemployed as well as people outside of the labour force.

ALMPs also play an important role in bridging the present crisis on the one hand, against the background of a foreseeable period of slower growth (demand) and demographic change (supply) and increasing skill needs on the other hand. Jobseekers today should be prepared for a quick reintegration on the labour market when a future economic revival occurs.

In the long run, ALMPs are key policies in securing transitions caused by technological, environmental and societal changes. They offer new opportunities for skills enhancement, and they contribute to a more productive, competitive and inclusive economy.

Finally, while promoting change and increasing employment, ALMPs are crucial components of employment policies and indispensable to reach the EU headline employment target.

Figure 1: ALMP spending in the EU-27 as a % of GDP (2005, 2008)



Source: Eurostat

On the other hand, budgets are seriously constrained

In the meantime, the budgetary context has worsened in most of the member states. Bailing out the banks and increasing expenditure due to crisis measures and automatic stabilizers, caused the budget deficit of the 27 member states to drop below the Maastricht criteria (maximum 3% of GDP). With some member states reaching even 10% and more. Debt to GDP ratios have also strongly increased, from 59% of GDP in 2007 (EU-27) up to (nearly) 80% at the end of 2010.

The precarious economic recovery, combined with the consequences of the debt crisis, has depleted public finances even more forcing most EU governments towards budgetary consolidation. Several member states have already announced spending reduction (austerity measures) in the field of labour market support, including unemployment benefits and ALMPs.

The economic and budgetary context confronts policy makers with a remarkable paradox. On the one hand, massive investments in ALMPs seem necessary to tackle (still) rising unemployment levels and to promote employment. On the other hand, budgetary constraints seem to undermine the widespread support for ALMPs.

This paradox brings effectiveness to the fore

This paradox, and its consequences for national ALMPs, brings effectiveness to the fore. Harsh financial pre-conditions require pushing for more effective and efficient ALMPs, forcing governments to find ways of *doing more with less*.

A quick glance at the main ALMP figures (figure 1) learns that public expenditure on ALMPs has steadily declined from 2005 onwards, however serious amounts have been spent (differing significantly between member states).

Despite the fact, however, that considerable amounts of money are devoted to ALMPs in several EU-member states already, there is still a lot of uncertainty as to the relative effectiveness (and cost effectiveness) of the various instruments of ALMPs.

The endorsement of the new European Employment strategy within the framework of the Europe 2020 strategy is an excellent time to reflect upon what constitutes effective ALMPs, upon how they contribute to stable employment growth and how they can be identified and shaped in the future.

• Possible ways to move forward

To recapitulate: the key questions that will be examined (and leaning upon the rich insights of existing evaluation practice) during this conference are the following:

- **How can we enhance the (cost-) effectiveness of ALMPs?**
- **How can we shape the most effective ways to move forward?**
- **How can ALMPs contribute to the achievement of the Europe 2020 headline employment target?**

Without claiming to be exhaustive, we argue there are at least three possible ways to move forward, and to make ALMPs more (cost-) effective:

- 1) **Better evaluation of ALMPs**, by recognising the importance of monitoring, benchmarking and evaluating ALMPs within the framework of the new European Employment Strategy (EES)
- 2) **Better targeting of ALMPs**, towards labour market needs and dynamics, while safeguarding capacity for the most vulnerable groups
- 3) **Better implementation of ALMPs**, through flexible and responsible partnerships between public and private providers, companies, local authorities, social partners, ...

These ways to move forward will be further explored during the seminar, although some key considerations regarding the three ‘imperatives’ for ALMPs can already be made.

These ways to move forward will be discussed during the seminar in two plenary sessions, six thematic sessions and a concluding policy debate with European and national decision makers.

1. Towards a better evaluation of ALMPs

In order to have more impact, the new European Employment strategy needs a strong ‘evaluation’ dimension. Both the greater responsibility taken by the member states and the shaping of a governance structure (the Joint Assessment Framework) are calling for a more systematic evaluation of ALMPs, by member states and European institutions.

- **Member states should do more to evaluate the effectiveness of their ALMPs.** When deciding on the composition and the magnitude of the ALMPs basket, we need evidence based policies. ALMP's are granted to have some beneficial effects on the integration of the unemployed into the labour market. However, we know from scientific literature that this belief is not always corroborated by the facts: some programmes indeed have positive effects, but others have no effect at all or even create negative effects. Some run a great risk to provoke dead weight effects. In a period of restraint budgets, spending (sometimes significant) amounts of tax money to run programmes that have no or only negative effects is hard to defend. Therefore, an (impact) evaluation is necessary from a simple accountability perspective. Furthermore, impact evaluations can reveal where possible savings can be made between different active programmes in one country, even

when they all have positive effects on employment. In the methodological background paper (annex 1) and in the framework below some of these issues will be explored.

Accelerating evidence based ALMPs: some advice

- **Evaluation should be regarded as an integrated part of the policy cycle.** Ideally, the evaluation should be planned before the introduction of a new programme: which evaluation design will be used, what kind of data will be necessary and how to make sure that these data will be available, what funding will be necessary, etc. It is a good practice to involve the evaluator in this process. Although ideally the evaluation is planned before the introduction of a new programme, it is not a very good idea to evaluate a new programme in its starting months. On the contrary, it is far better to wait until things have settled down and some routine is installed. In general, radically changing (or abolishing) a programme before the end of its evaluation makes the evaluation results somewhat irrelevant.
 - **From a methodological point of view, the widespread resistance against ‘social experiments’ as a tool for evaluation should be reconsidered.** While a social experiment is no guarantee for the absence of methodological problems, a sound experimental design is generally thought to be superior to a non experimental design (in addition, the experimental results are often far more easy to communicate and to understand). Social experiments can detect the proper impact of the programme (such as the "value added", the "impact", the "net effectiveness"), correcting the observed outcomes ("gross effectiveness"). Considering the intrinsic uncertainty about the effects of an active programme (positive?, negative?, none?), the often heard "unequal treatment"-argument does not necessarily hold : the experimental group is indeed treated differently from the control group, but it is not clear who will benefit most beforehand. If, however, experiments are not acceptable to policy makers, the use of an encouragement design could be a middle course: instead of randomly assigning participation, an encouragement to participate is randomly assigned and nobody is formally excluded from participation.
 - **ALMPs should also be judged on their macro-economic effects.** One should be aware of the fact that even a programme with a clearly positive impact on its participants can be undesirable from a societal point of view. Typically, a programme could not only affect participants, but also non-participants. Amongst the most well-known effects are the displacement effect (e.g. through a wage subsidy some unemployed persons do find a job, but as a result some of the current employees are dismissed), the substitution effect and the deadweight loss effect. Another effect involves the cost of ALMPs: these are typically paid for by the government, which will have to collect taxes to finance this goal. Taxes, and more specifically wage taxation, will most likely have an effect on the supply of, and demand for labour, and will thus have an effect on the employment level. These and other mechanisms mean that ALMP's will have an effect on macro-quantities such as the employment level, the unemployment level, productivity and the matching effectiveness, rather than just an effect on participants. In the end, these macro-economic effects can be considered as the final yardstick to assess whether ALMP's are successful or not.
- **ALMP output and efficiency indicators should be further developed...** ALMPs have always had an important place within the EES, both in the guidelines and in the targets (new start for all young unemployed before the 6th month, new start for all adult unemployed before the 12th month, activation of the long term unemployed). In recent years, other ALMP-related indicators have been developed at the EU-level. However, the delivery, measurement and interpretation of ALMP-related indicators remain somewhat problematic so far. Moreover, the targets are neither very ‘vivid’ nor mobilizing in the European activation debate. They don’t offer opportunities for output assessments either. Therefore, key indicators, such as output and efficiency indicators, should be further developed within the Joint Assessment Framework [JAF].
 - **However, we need a clear shift from these rather imperfect ALMP indicators towards embedded policy evaluation instruments....**

- **Mutual learning in the field of policy evaluation results should be strengthened.** Within the EES, a lot of attention has always gone towards the exchange of good practices. Despite this special attention, exchange of good practices has not always led to a systematic exchange of policy evaluation results. A systematic exchange of policy evaluation results, for ex. in the framework of the Employment Research Dialogue (EERD), is therefore needed. From the perspective of effectiveness, this reinforcement of policy evaluation exchange is even more important than the shaping of (and the follow up of) new ALMP indicators. Either way, this mutual learning system contributes to a better understanding of which individual/national policies work well (and which don't), while taking differing contexts into account.
- **Standardized evaluation tools should be developed.** Apart from scientific effectiveness evaluations, more should be done to monitor and compare progress throughout the policy cycle (in this case, the European semester and the follow-up of national reform programmes). Therefore, standardized and easier-to-use (and easier-to-compare) evaluation tools should be developed, with a clear linkage towards future ALMP-progress in the national reform programmes (NRP's).
- **Meta-analyses should be further explored.** As we already demonstrated for the member states' evaluation approaches, meta-analyses are very useful and they should therefore be exploited and synthesised by both the EC and the OECD. Special attention should go to the link between commonly agreed objectives/targets and the way in which ALMPs have contributed to the achievement of those targets (for ex. within the framework of the mid-term review of national reform programmes).
- **Finally, more should be done to close the existing knowledge gaps in ALMP evaluation research.** Policy makers and researchers should give priority to evaluation research that addresses existing knowledge gaps (as described in the framework below).

Closing the existing knowledge gaps

One should be aware that there are certain serious effectiveness-related problems and issues that remain partly unanswered to this day.

- Is the net effectiveness different for specific groups (age, sex, skill level, ...) ? What does (doesn't) work for whom and why (not)? e.g. An intense classroom training for recent high school drop outs might not be the most fruitful approach;
- Is the net effectiveness related to the combination of several policies? Is e.g. the combination of vocational training and job search training more effective than providing vocational training alone? Is the order of the distinct policies relevant, e.g. first vocational training and then job training, or the other way round?
- Is the net effectiveness related to the timing of intervention: e.g. at the beginning of the unemployment spell or at a later stage?
- Is the net effectiveness related to labour market institutions? Is there e.g. an interaction between the effectiveness of active policies and the characteristics of the unemployment benefit system?
- Is the net effectiveness related to the intensity or "dose" or duration of the programme?
- Is the net-effectiveness different between public and private providers?
- Is the net-effectiveness different depending on whether the programme is local or nationwide?
- Is the net-effectiveness different between favourable and unfavourable business cycle conditions?
- Is there a difference between the short term and the long term effects? Are the effects lasting? Is a locking-in effect (less job search during programme participation) possibly offset by more favourable long term effects?
- What is the external validity of the results? Strictly speaking, the evaluation results apply only to the participants' sample that was used in the evaluation study. Can one be sure that future participants will be comparable, will behave identically, and will face an identical context?

2. Towards better targeting of ALMPs

Existing evaluation practice and lessons learned from the past gave rise to the following key policy considerationsⁱ on the importance of well-targeted ALMPs:

- **Job search assistance (session 1)ⁱⁱ**, including guidance and counseling services, has proven to be the most cost-effective short-term measure for the short-term unemployed, compared to other measures. However, effective job search assistance services should be 'smart' and 'multi-channeling'. This means 'coaching' rather than 'accompanying' jobseekers intensively, especially concerning so-called 'self-reliant'. This also means targeting capacity towards those with the largest distance from the labour market, such as the low-skilled, the elderly, the disabled, unqualified school-leavers, persons with care-related problems, ... Activating these vulnerable groups, however, implies specific activation approaches, taking into account care aspects, skills and orientations. At the same time, ongoing efforts should be made to make career guidance services more proactive, in line with labour market dynamics and ever-emerging employment trends. At the crossroads between 'smart' and 'pro-active' services, qualitative and competency-based matching should be realized by strong public employment services (transition agents).
- **Training programmes (session 5)** are often contested from an effectiveness point of view. This is especially true in the short run, where the opportunity cost for training programmes is considered to be relatively low, often causing serious locking in effects in training programmes. Nevertheless, training investments seem to be highly beneficial for participants in the long run. More positive news from a societal point of view, where training measures are direct investments in future human capital and economic innovation. Moreover, locking in effects (less job search during training period) seem to be less problematic in periods of high unemployment. A key condition is, however, that training programmes should be well-targeted in function of new labour market opportunities (green jobs, white jobs, bottlenecks ...) and should be combined with on the job training or apprenticeships. Certain groups should be given priority access to (vocational) training programmes, like (dismissed) temporary workers, unqualified school leavers ... At the individual level, should training measures (and work experience schemes) be considered as an integral part of an orienting career guidance trajectory?
- **We need a well-targeted restructuring approach (session 2).** Restructuring has become an inevitable part of economic reality. ALMPs should better respond to this reality, coaching the dismissed workers throughout the restructuring process and giving them new career perspectives. Within the framework of employment cells, outplacement providers and public employment services, all should be done to guarantee a successful transition through reorientation. Especially for the elderly, strong and specific A(R)LMPs have to be shaped to prevent them from turning to inactivity. For those and other vulnerable groups, success depends on the presence of accessible services, well aligned on institutional context factors (such as dismissal premiums, legal aspects, division of competences between policy levels) and framed within social dialogue.
- **Employment incentives (session 3)** (such as hiring subsidies, wage cost reductions, ...) tend to vary in effectiveness, risking to substitute non-subsidized individuals and to generate substantial dead weight effects. Nevertheless, if well-targeted at specific groups (such as low wage earners, the long term unemployed, young people, low skilled and older workers), they could have positive effects on hiring and retaining these groups without excessively burdening public finances.

- **Social insertion economy (session 6).** Sometimes, ALMPs seem to have reached their limits with regard to the activation of the most vulnerable groups. Their distance towards the labour market seems to be too large, their physical and psychosocial abilities too insecure to facilitate a successful integration. For those groups, the social insertion economy might reveal significant employment potential. Leaning upon a various range of instruments and working methods (including social and sheltered workshops, insertion companies, local services economy, ..), the social insertion economy is offering tailor-made employment and insertion chances, increasingly taking outflow opportunities (towards the regular economy) into account. The latter makes them more effective in times of budgetary harshness.



Targeting ALMPs for Youth on the move (flagship initiative)



The EU Presidency Trio Spain-Belgium-Hungary together with the European Commission and the European Youth Forum took up the challenge to develop a structured dialogue on youth employment between young people and policy makers, for the period January 2010-June 2011.

In the frame of the Structured Dialogue, the Belgian Presidency of the Council of the EU organised an EU Youth Conference in Leuven from the 2nd to the 4th of October 2010. The conference brought up following recommendations with regard to ALMPs:

Information, guidance and support for young people:

1. Formal education institutions should promote cooperation with the private sector and the employment agencies to ensure that its provision is reflecting current labour market trends.
2. Youth workers and career advisers should have a more important guidance role in informing and supporting young people on labour market issues through the use of non formal education and with the help of new exciting tools, information and support structures.
3. EU and Member States should better target financial resources to ease the access of young people to the labour market, especially for long-term unemployed, first-time job seekers and disadvantaged young people.

Recognition of competences:

4. EU and Member States should promote the formation of national task forces to ensure the recognition at national level of competences gained through non- formal education and mobility experiences.
5. Member States, in collaboration with youth NGO's and others active in the youth field, should develop an information strategy in the formal education system to raise awareness among young people about the benefits of all forms of non-formal education.

Transition from education to the labour market:

6. Member States and educational institutions should ensure that career-oriented training and guidance is integrated at all levels of education in preparation for career search, both for employment and entrepreneurship for all young people.
7. Member States and educational institutions should consult with social partners to ensure curricula which enable youth's self-development and equip them with relevant knowledge and with transferable skills gained *inter alia* through practical experience in various fields.

Combating discrimination:

8. Existing tools should be used and strengthened to promote competence-focused mobility experiences for disadvantaged and unemployed young people through the Lifelong Learning and Youth in Action Programmes and the European Social Fund.

3. Towards a better implementation of ALMPs

ALMPs should not only be reformed in a well-targeted way. They should also be implemented more effectively. In times of tight public budgets, cooperation and capacity should be sought between public and private providers, companies, societal actors, local authorities, ...

- **Designing a perfect ALMP measure is one thing, implementing it is another one.** During the process of designing and implementing ALMP measures, the interest of stakeholders should be taken into account at different times and if possible through dialogue. Intentions and expectations from policy makers and stake holders should be made clear to enhance the effectiveness of the measure.

The dynamic approach implies that partnerships should be developed between all relevant labour market stakeholders, including public and private employment services, social security services, education and training providers and social partners. Public employment services are in a central position to develop these partnerships. These partnerships to implement ALMPs should have substantial efficiency effects, for instance by combining unused capacity in companies for vocational training purposes or by tendering specific trajectories in order to better put in expertise.

- **Special attention should be given to the specific role of local authorities.** Decentralization of active labour market policies might be a possible way to move forward. Nowadays, local authorities are at some extent ALMP drivers, varying significantly across EU-member states. Regarding the impact, decentralization tends to give impetus to local initiatives and dynamics. Some studies also find evidence for a better targeting of outsiders in a municipal project than in others. In any case, local authorities will increasingly become key players in shaping and implementing ALMPs in a flexible, tailor-made way, while not avoiding accountability.

• Conclusions

The current economic-financial crisis has off-set much of the employment progress made in the past leading to a paradox for policy makers. While the crisis urges for more investment in ALMPs by member states, budgetary constraints severely limit their financial margin of manoeuvre...

Despite of the well-known beneficial effects of ALMPs several structural challenges still serve as an obstacle to achieve the goal of full employment on European labour markets. The low participation rates of vulnerable groups and the lack of a culture of education and training are among the most prominent bottlenecks for growth and jobs in many member states.

In order to confront such challenges we argue there are at least **3 ways to move forward**: better evaluating ALMPs, better targeting ALMPs and better implementing ALMPs. Keeping in mind the aforementioned 'paradox' these ways should be fully explored in order to enhance the cost-effectiveness of ALMPs and to overcome structural labour market challenges in the future.

- **Better evaluating of ALMPs:** The new European Employment strategy within the framework of Europe 2020 is certainly triggering for ALMPs evaluation practice. Both the greater responsibility taken by the member states and the shaping of a governance structure are calling for a more systematic evaluation of ALMPs. Member states should do more to evaluate the effectiveness of their ALMP's (as provided in NRP's). At the European level, more should be done to exchange their outcomes. Monitoring, benchmarking and evaluation should be the key vehicles supporting the new EES and its (future) governance structure. Especially in the field of ALMPs, these adjustments emphasize a possible way to move forward towards more effective, efficient and result-oriented ALMPs.
- **Better targeting of ALMPs:** ALMPs should be well-targeted, both towards labour market needs and towards vulnerable (priority) groups. The first imperative relies on the thesis that ALMPs should be pro-active, competency-based and well-equipped to mobilize as much talent as possible towards the labour market. The second emphasizes a smart, tailor-made approach, guaranteeing chances and capacities for the most vulnerable (and avoiding dead weight effects for the so-called self-reliants). Both principles, largely applicable on the broad ranges of ALMP-measures (career guidance, employment incentives, training measures,...) share the objective of enhancing (cost-) effectiveness. Hence, they should be guiding principles by proposing possible cuts in ALMP spending at the short term and even beyond in any possible future ALMP reform on the longer term.
- **Better implementing of ALMPs:** ALMPs should not only be reformed in a well-targeted way. They should also be implemented more effectively. In times of tight public budgets, cooperation and capacities should be sought between public and private providers, companies, societal actors, local authorities, ... These partnerships should encourage flexibility, enhance the correct implementation while not avoiding accountability.

¹ The described considerations are mainly inspired on OECD Employment reports and the joint EMCO-COM paper on the impact and effectiveness of policy measures (appearing soon).

ⁱⁱ These considerations will be explored largely during the Synerjob seminar on the PES's vision for 2020 (Wednesday 1 December 2010).