

Evaluating the effectiveness of ALMPs— The Meta Perspective

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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"
- In 2003, EU-15 spent 65 Bio. Euros on ALMP

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

This talk

- Basis: Evaluation of individual programs
- How to systematize the evidence → Meta-analysis
- Selected results: overall, by program type

Types of ALMPs

- i. (Labor market) training → human capital accumulation
- ii. Private sector incentive programs → employer and worker behavior
 - a) Wage subsidies
 - b) Self-employment assistance / start-up grants
- iii. Direct employment in public sector → public job creation
- iv. Employment services → Information, job search assistance, "Services and sanctions"
→ job search efficiency

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: many ALMP evaluations, some experiments in US and LAC, mostly non-experimental in Europe → specific program types discussed in the thematic sessions
- How / what can we learn from the many individual program evaluations **overall**?

How to systematize the evidence

Collect evaluations of ALMPs across countries

Conduct narrative review or quantitative assessment of sample of studies → **Meta-analysis**

Systematic collections:

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

How to systematize the evidence

Meta-analysis = Statistical tool for synthesizing research findings across a set 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)

How to systematize the evidence

Meta-Analysis in Kluge (2010) → Collect evaluations of ALMPs from all over Europe following a "protocol":

- a) microeconomic studies assessing treatment effects at the individual level
- b) empirical academic studies controlling for selection into treatment and control groups → counterfactual
- c) studies evaluating particular program (i.e. no pooling)
- d) studies assessing effects relative to non-participation, not relative to other programs

How to systematize the evidence

Resulting sample: 137 program evaluations

For each study: Does the evaluation find a significant positive, negative, or no significant impact of the program on post-program employment? → 75 +, 33 Ø, 29 –

Then analyze if there is a systematic pattern by program type:

- | | |
|--------------------------------------|------|
| 1. Training | (70) |
| 2. Private sector incentive programs | (23) |
| 3. Public sector job creation | (26) |
| 4. Services and Sanctions | (21) |
| 5. Youth programs | (35) |

Other factors that may influence program effectiveness

For each country at the time the particular program was implemented:

Labor market institutions

- Gross replacement rate
- Regulation on dismissal protection
- Regulation on fixed-term contracts
- Regulation on temporary work (OECD indexes)

Economic context

- Unemployment rate
- ALMP expenditure as % of GDP
- GDP growth

Study design (method, sample size)

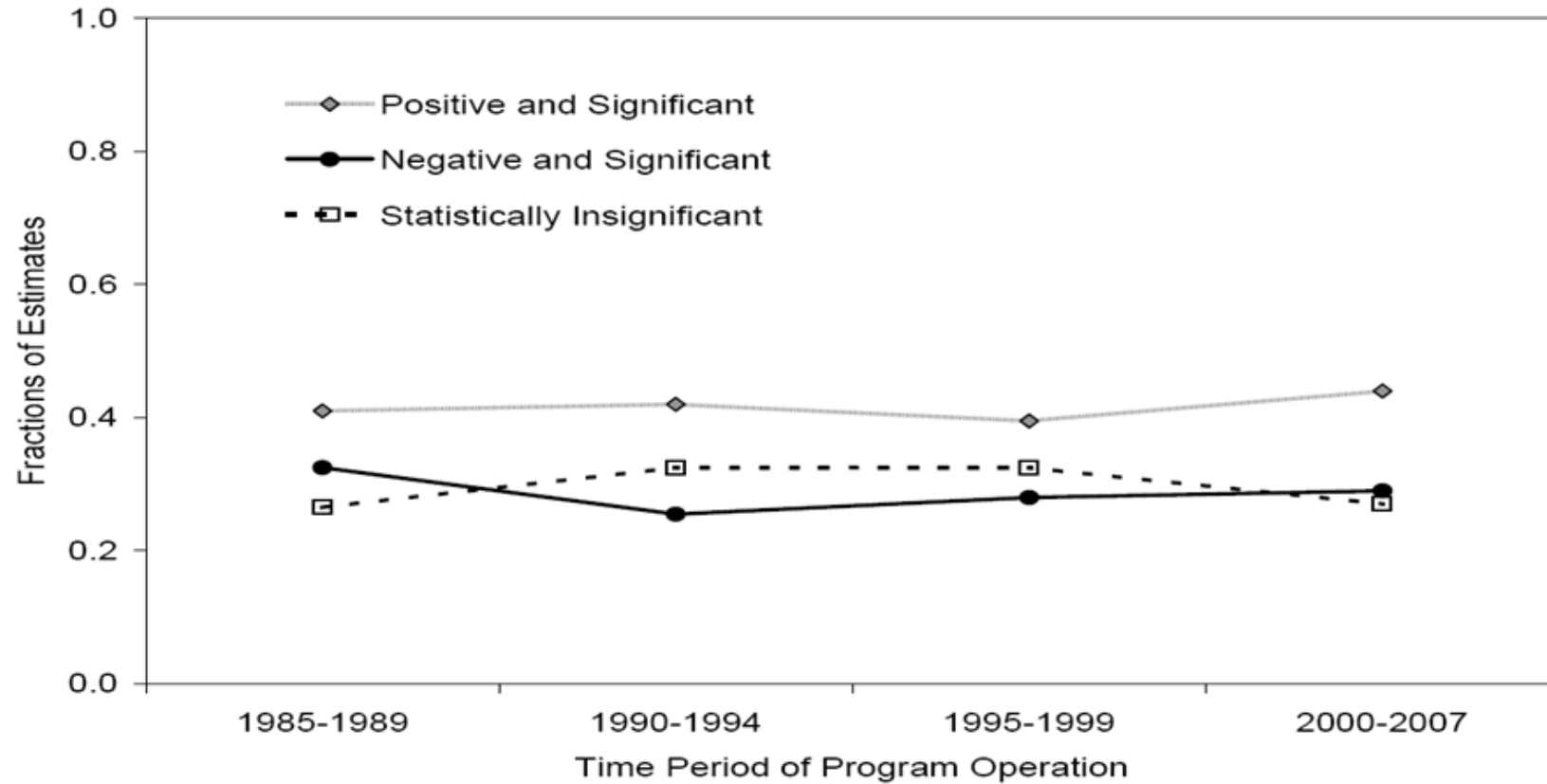
Correlates of ALMP effectiveness

	(1) Negative treatment estimate		(2) Positive treatment estimate	
	Marginal effect	<i>t</i>	Marginal effect	<i>t</i>
(a) Type of program and target group (omitted: training; adults/disabled)				
Direct employment program	0.155	1.92	-0.216	-2.13
Private sector incentive scheme	-0.144	-3.52	0.280	2.91
Services and Sanctions	-0.205	-3.87	0.436	4.63
Young workers	0.140	1.79	-0.202	-1.94
(b) Research design and timing (omitted: OLS/selection/others; studies from the 1970s and 1980s)				
Experiment	0.314	1.32	-0.356	-1.87
Matching	0.061	0.88	-0.095	-0.94
Duration	0.041	0.50	-0.064	-0.52
Study from the 1990s	0.115	1.45	-0.192	-1.50
Study from the 2000s	0.190	1.30	-0.248	-1.61
(c) Institutional context on the labor market				
Index for dismissal protection regulation	0.067	1.77	-0.109	-1.76
Index for fixed-term contracts regulation	-0.023	-0.80	0.037	0.80
Index for temporary work regulation	0.001	0.03	-0.001	-0.03
Gross replacement rate	0.004	1.40	-0.006	-1.41
(d) Macroeconomic environment				
Unemployment rate	-0.022	-2.13	0.035	1.95
ALMP expenditure (% of GDP)	0.060	1.12	-0.097	-1.13
GDP growth	0.009	0.35	-0.015	-0.35

Short vs. Long-Term effectiveness

	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 effectiveness over time



Summary of evaluations: Training

- Mixed results: Modestly positive impact of training programs on post-treatment employment outcomes
- Some recent evaluations point to positive training effects materializing in the long run → indicates importance of human capital acquisition
- Positive training impacts are associated with times of high unemployment, indicating that during the latter training programs may benefit from a participant inflow with relatively good qualifications

Summary of evaluations: incentive schemes

Private sector



- Significantly higher probability of showing positive impacts than training programs
- Indeed, wage subsidies and start-up grants generally show positive effects
- Caveat: not much is known about potential substitution or displacement effects and deadweight loss, though these are likely to play non-negligible role

Summary of evaluations: creation

Public job



- Significantly lower probability of showing positive impacts than training programs
- Indeed, direct job creation in the public sector very rarely has a positive effect on participants' employment probability. Quite the opposite: effects are frequently negative
- Rather robust finding across reviews → many such policies discontinued
- Can be useful as safety net

Summary of evaluations: Sanctions

Services and



- Significantly higher probability of showing positive impacts than training programs
- This type of ALMP seems particularly successful, as apparently many unemployed can be helped back into work with basic job search assistance. Also, sanction elements mobilize the unemployed
- These measures are also likely cost-effective
- Focus is on short-term impact

Summary of evaluations: More results

- Young people seem to be particularly hard to assist: Most youth programs do not show positive effects. Perhaps ALMP is not the right type of policy for this group → Preventive measures
- Generally, longer-term evaluations show more positive results than short-term evaluations
- Current ALMP evaluations show no differential impacts for men and women
- Little systematic relation between contextual factors and program effectiveness. Exceptions → unemployment rate, restrictive dismissal protection legislation

Conclusions / Outlook

- Large number of ALMP evaluations exist, and several systematic reviews identify some persistent patterns in program effectiveness
- Problematic: youth programs, public job creation
- Promising: training in the long-run, job search assistance in the short-run, wage subsidies (?).
- Combination of job search assistance early in the unemployment spell with other targeted program (training, wage subsidy) after few months
- Importance of continuing to evaluate individual policies evident → also contributes to further improve future meta-analyses