

Active labour market policies: What works?

**Workshop organized by Bruegel
(Brussels) and the Ministry for
Finance (Malta)**

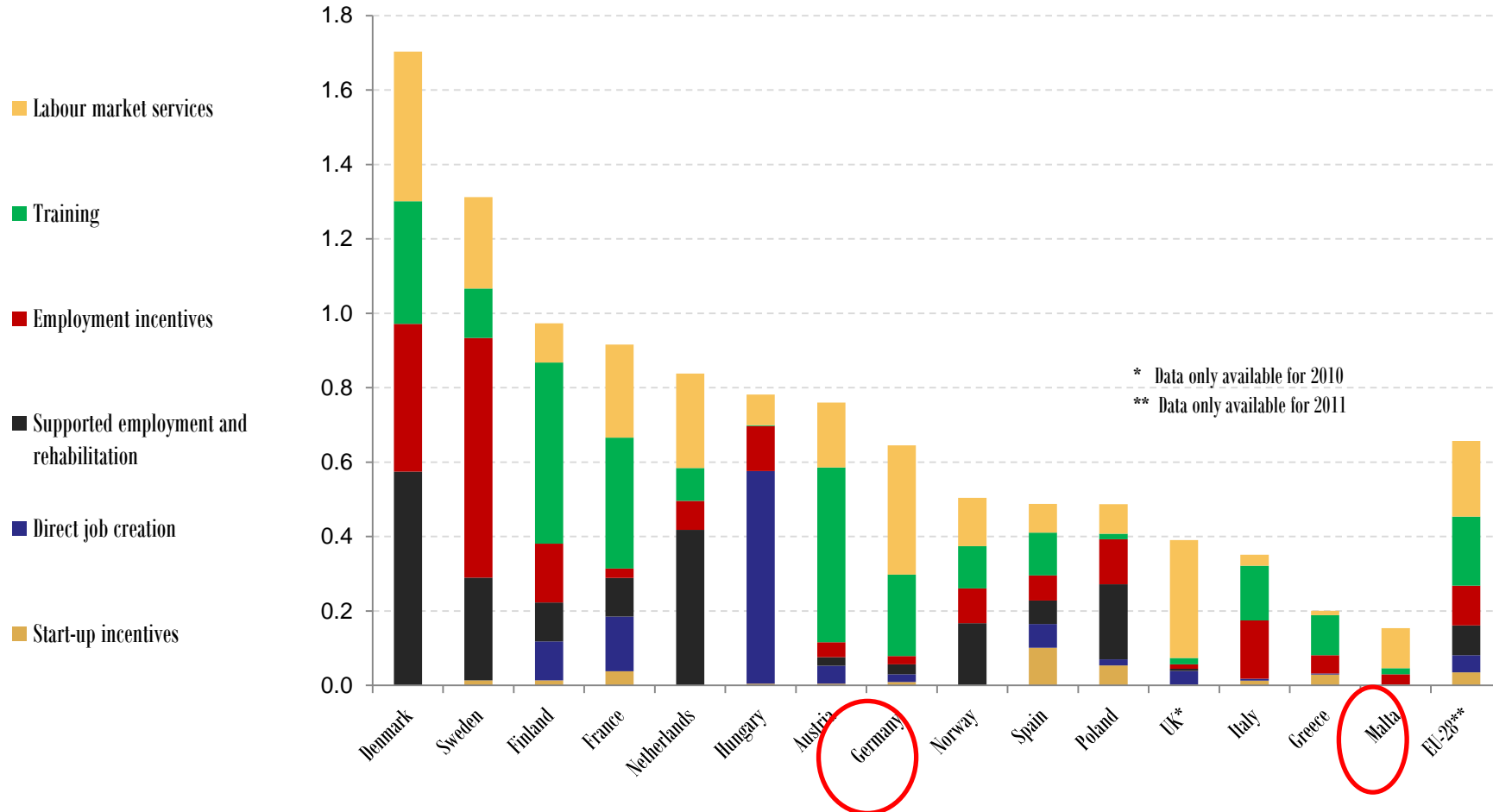
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(IAB)**

Expenditures for active labour market interventions

2013, in % of GDP



Source: Eurostat, LMP-database; <http://ec.europa.eu/eurostat/web/labour-market/labour-market-policy/database>

- **In increasing the employability and in bringing jobless people back to work**
- **Especially for**
 - youth
 - displaced workers
 - long-term unemployed
 - older unemployed workers
 - migrants
 - **hard-to-place** (e.g. low-skilled, unemployed on long-term social welfare benefits)

- **ALMPs have on average relatively small effects**
 - Impacts on employment close to zero the short run; more positive in the medium (1-2 y) and longer run (2+)
- **Effectiveness and time profile depend very much on the type of programme**
 - Work first style job search assistance and sanction/threat programmes have larger short term effects
 - Human capital style training and private sector employment subsidies programmes have larger gains in the medium or longer run
 - Public sector employment programmes have negligible, or even negative programme impacts at all time horizons
- **Systematic differences across participant groups**
 - Larger impacts for females and participants who enter from long term unemployment
 - Lower impacts for younger people below the age of 25 and older workers
- **Positive impacts in recessions**


What type of programmes works?

- Mandatory meetings with a counsellor at the jobcenter during the first six months of unemployment
 - More frequent meetings with a caseworker (case management) have a positive impact on reemployment and on job quality (Petersen, 2012; Behaghel et. al. 2009).
 - Effects are nevertheless lower for hard to place unemployed

	Counselling and Job Placement Services	Training	Direct job creation
Public expenditures	Medium	Medium / High	High
Short term effect	Positive	Negative	Negative
Long term effect (most favourable study)	Slightly positive	Positive (10%)	Slightly positive
Long term effect (less favourable study)	Slightly negative	Slightly negative	Negative
Displacement effects	Medium	Low	High

- **Despite general activation framework (ALMP+ conditionality + mutual obligations)**
- **Substantial cross country differences in terms of**
 - Early intervention vs. wait and see strategies
 - Profiling procedures/ customer differentiation
 - Caseloads (staff-client ratios)
 - Qualification of staff
 - **Referral mechanisms to ALMPs (customized approach vs. broad eligibility rules)**
 - **Rule based:** Dependent on type of benefit claim or age (e.g. UK, DK)
 - **Customized:** Selective, based on client's profile and caseworker's decision (e.g. DE, AT, CH, SWE)

- **Highest level of ALMP spending in Europe (1,7% of GDP)**
- **Mandatory activation concerning the timing and content of activation**
- **Despite “threat effects” generally disappointing results on effects and costs of ALMP**
 - Inefficient and “meaningsless” measures (*Koch Commission*)
- ALMP reform implemented in 2015 (for the insured):
 - Mandatory activation measures were removed
 - Stronger focus on flexible, personalized assistance
 - New focus is result of experiments (RCTs) since 2005 testing changes in “contact and activation regime”
 - Fortnightly interviews with caseworker most cost-effective intervention
 - Reduced UE duration by 3 weeks; net benefits of ~ 2000€ per UE spell
 - After 2 years: Female participants 4 weeks and male participants 6 weeks more employed
 - Less effective for long-term unemployed and sick-listed people

- **Training and public work schemes widely used after reunification**
 - Evaluation results were rather disappointing
 - Decrease in ALMP spending
- **Changes in the institutional framework (2003-2005)**
 - Activation principle: enabling and demanding interventions
 - PES reform (performance management, structured work processes etc.)
 - Reshuffling of programs and strategic re-orientation of ALMPs, i.e. more discretion and flexibility for caseworkers
- **Effectiveness of ALMPs generally increased** (*Regular impact assessment*)
 - More personalized services; results of pilot projects on lower caseloads and intensified  services
 - Implementation of INGA (special teams for “complex” profiles; caseload:1:65) in all employment agencies
 - INGA teams are cost-effective: additional caseworkers are fully compensated by benefit savings

DE: Regular impact assessment of measures

Estimated effects of program participation in unsubsidized employment

Program	Duration of program	Share in employment in per cent	effects in % points	Number of participants in thousands
1 year after program start 2011 (2012)				
Retraining (specific professional skills provision)	Up to 3 months	65 (64)	16 (16)	60 (54)
	3 to 6 months	57 (56)	10 (9)	28 (28)
Short training measures and placement services (private providers)	Up to 3 months	51 (51)	5 (4)	169 (137)
	3 to 6 months	36 (38)	-3 (-1)	20 (11)
Firm internal training and placement services	to 6 weeks	71 (70)	17 (18)	185 (173)
Hiring subsidies	Up to 3 months	80 (79)	29 (32)	33 (27)
	3 to 6 months	81 (84)	33 (40)	16 (16)

Source: **TrEffeR** (IAB-Brief Report 8/2015)

- Firm-related measures have distinctly more positive effects but potentially accompanied by free-rider or crowding-out effects
- Measures conducted by private providers have comparatively little effects

- **Specifying design features**
 - ***Hiring subsidies***
 - DE: reimbursement requirement have an important effect on stabilizing employment
 - Proposal: using subsidies for youth to create incentives for firms to support certified apprenticeship (ES)
- **Careful targeting essential**
 - ***Public sector and non-profit sector employment programmes***
 - Avoid public job creation for young and job ready unemployed
 - Targeting to hard-to-place can yield positive results for some groups
- **Shifting resources from measures to services can pay off**

- Intensive services aimed at “hard-to-place” are cost-effective when provided in-house

	Agency 1 (East)			Agency 2 (West)		
	Contracted out	In-house	Δ	Contracted out	In-house	Δ
Entries 4/2009 to 2/2010						
A) Costs of intensive services*	477	1113	-636	528	1457	-929
B) Fixed budget expenditures		149	-149		123	-123
C) Unemployment benefits	6228	5017	1211	8261	7324	937
Unemployment insurance	67	84	-17	79	79	1
D) contributions						
A + B + C – D = Fiscal costs for PES	6638	6194	443	8710	8826	-116
Entries 9/2009 to 2/2010						
A) Costs of intensive services*	544	944	-400	532	1047	-515
B) Fixed budget expenditures		149	-149		123	-123
C) Unemployment benefits	6613	5232	1381	8388	7436	952
Unemployment insurance	78	103	-25	98	99	-1
D) contributions						
A + B + C – D = Fiscal costs for PES	7079	6221	858	8822	8508	314

*) Computed from monthly factual caseloads for internal services and from contract structures and labor market results for contracted-out services

- **In this context caseworkers attitudes and working strategies decisive**
 - Impact on job finding probabilities: successful case workers are tough not nice (Behncke et al. 2010)
 - Impose more sanctions but have also better contacts to local firms (Hainmüller et al. 2011)
 - Systematic support instruments increase their effectiveness (Lechner and Smith 2005)
 - Quality of counselling services and degree of professionalization?

- Numerous individual assessment studies suggests that in general two sorts of interventions are rather effective
 - Firm related measures (hiring subsidies, firm internal training) have distinctly more positive effects
 - Personalized assistance; intensive services (cost-)effective for more vulnerable groups like youth or hard-to-place
- Successful measures operate under particular institutional framework conditions and may develop different effects if they are transferred to another context
- Long-term impact and potential deadweight and displacement effects have to be explored to ensure public resources are used efficiently and effectively

Back up

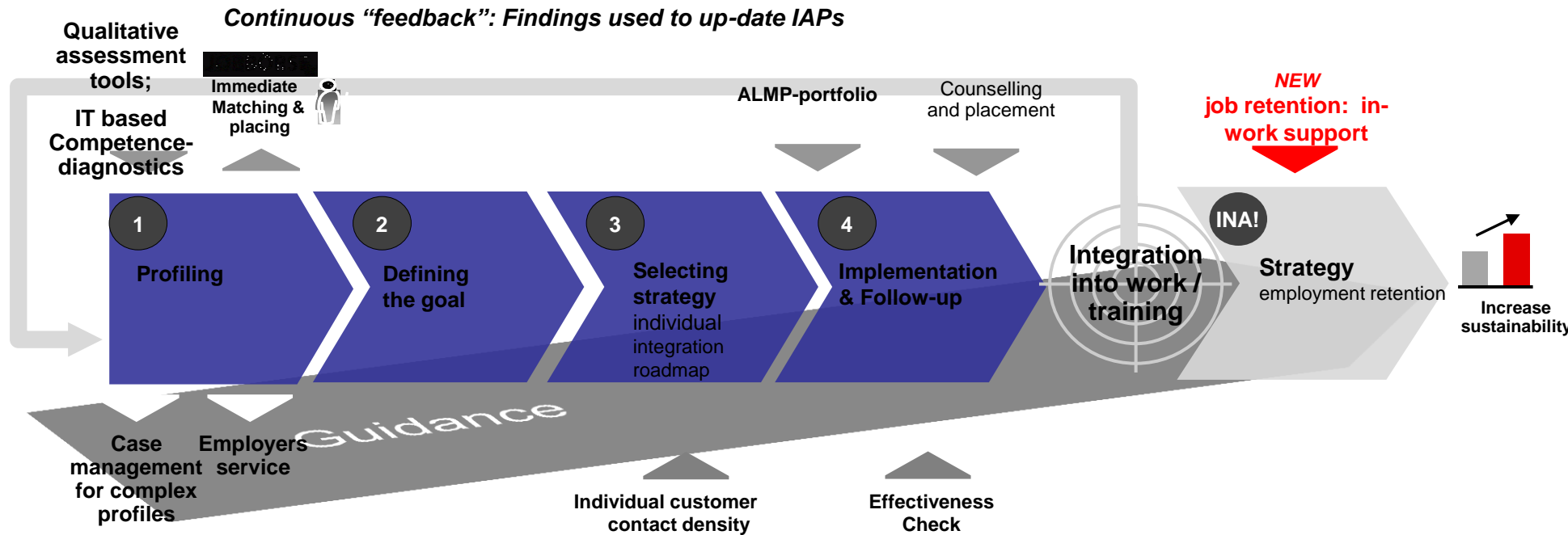
Results of comprehensive program evaluation in German

(for program entries up to 2005)

Programme	Impact*	Unintended effects/restrictions	UB II welfare recipients	UI Unemployment insurance recipients
Measures to improve re-integration chances				
Contracting out	0		✓	✓
Placement voucher	+	Deadweight		✓
Job search assistance	+		✓	✓
Work trials	++	Deadweight	✓	✓
Vocational training	+	Time-lagged impact	✓	✓
Measures to promote employment				
Hiring subsidies	++	Deadweight	✓	✓
Start-up subsidies	++	Deadweight	✓	✓
Direct job creation				
Traditional job creation scheme (ABM)	0	Substitution/displacement	✓	✓
Community service jobs	+	Substitution/displacement	✓	

* Impact on employment: no impact (0), positive weak (+), positive strong (++), negative (-)

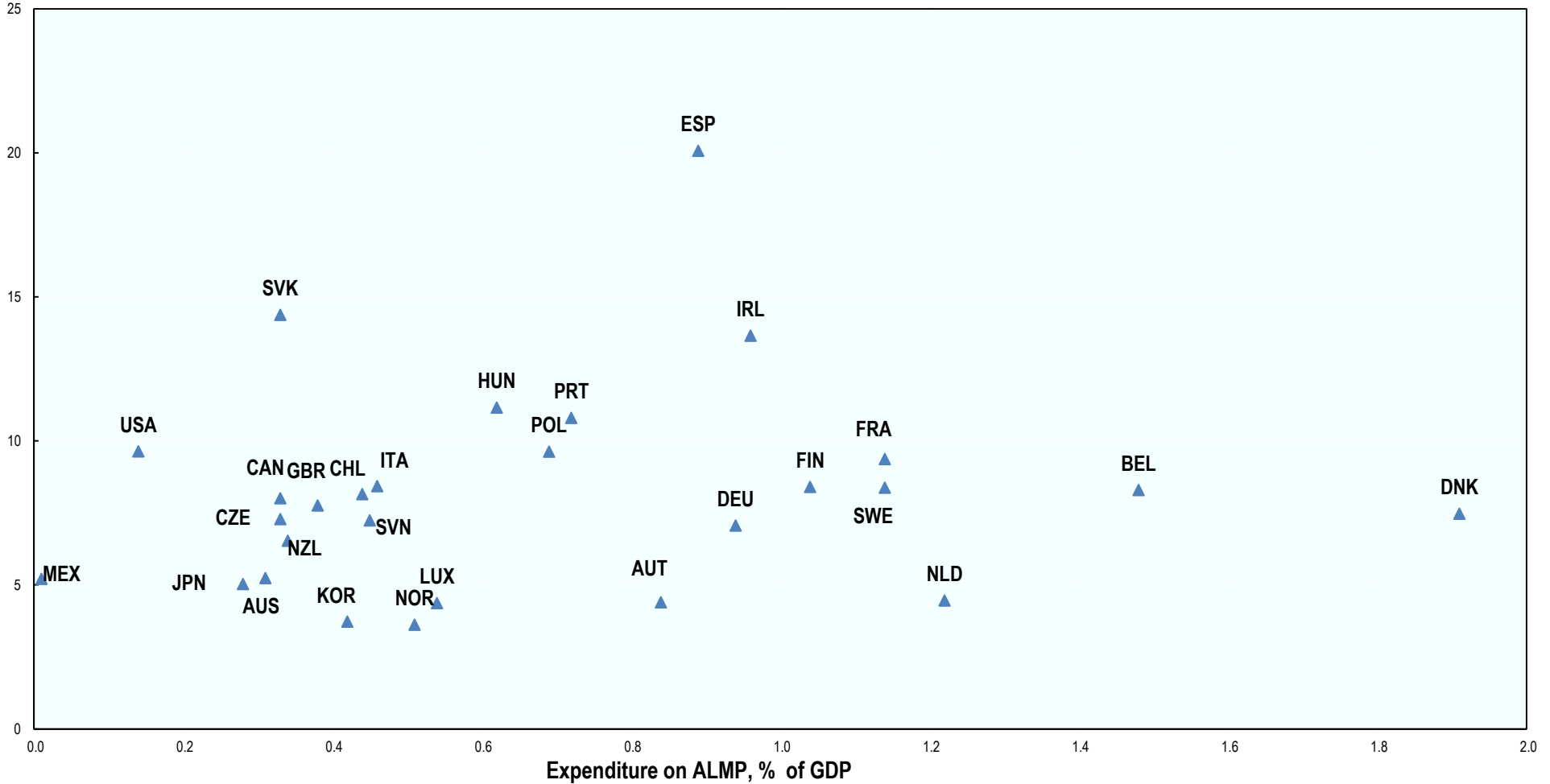
4-Phase-Model helps to structure the integration process



- Large-scale pilot project of Germany's employment offices
- Ratio of caseworkers to unemployed clients : caseload 1:40 instead of 1:100
- Lowering of caseloads resulted in a decrease in individual unemployment spells by 10 days (*Hainmueller et al. 2016*):
- How do caseworkers use the additional capacities?
 - Imposed more sanctions on clients with low search efforts
 - Registered more vacancies
 - Optimized organizational processes
 - Costs of hiring additional case workers were offset by benefit savings after ten months
- From evaluation to implementation: Results of caseload project + RCT project on intensified services for hard-to-place unemployed (*Krug/Stephan, 2016*)
 - Implementation of INGA (special teams 1:65) in all employment agencies
 - INGA teams are cost-effective: additional caseworkers are fully compensated by benefit savings

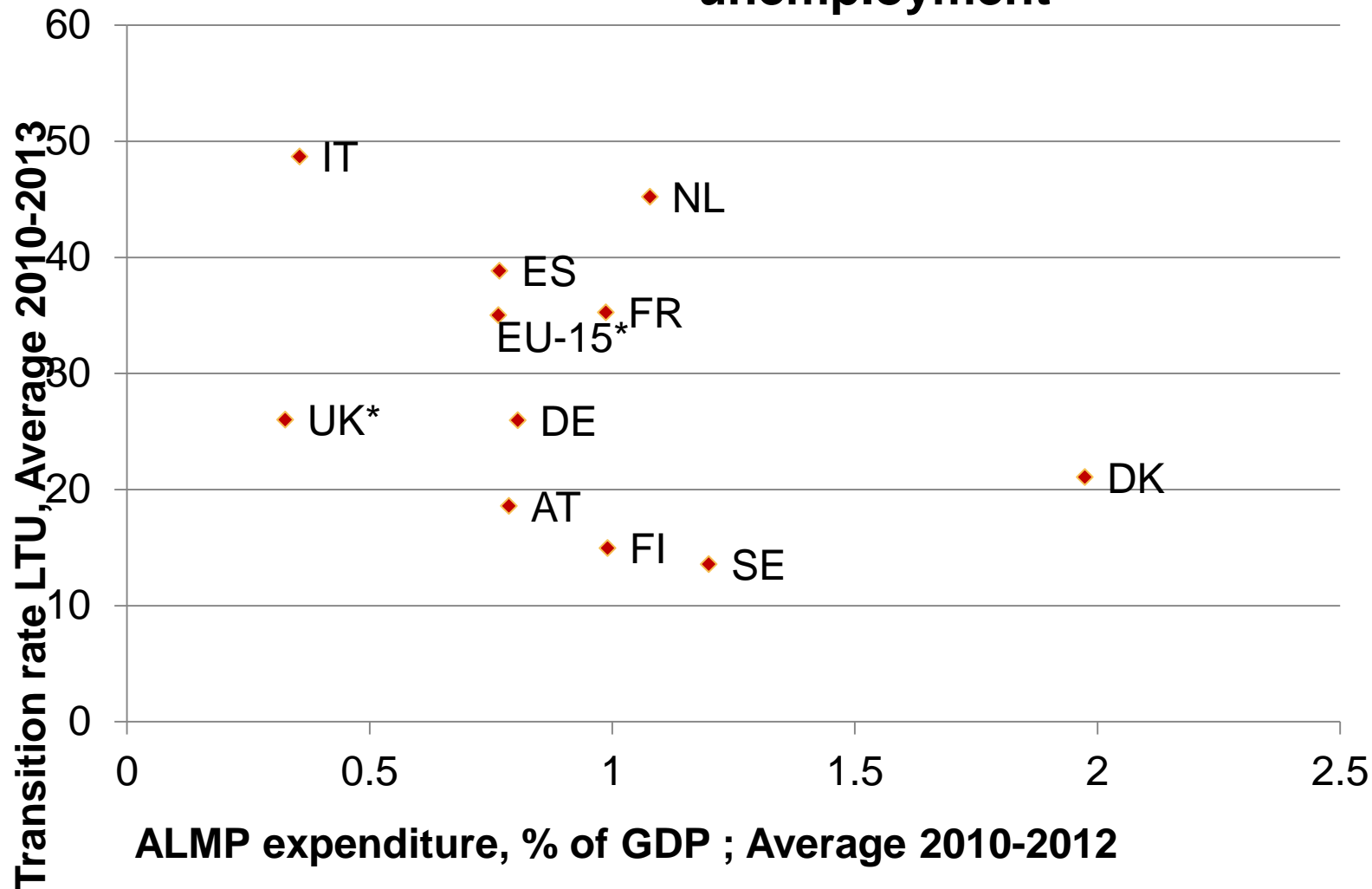
No clear correlation between expenditure on ALMP and unemployment rate

Unemployment rate, % of the labour force



Source: OECD

ALMP expenditure and transition rate to long-term unemployment



* Average 2010-2011