

What Can Active Labour Market Policies Do?

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RENEWAL SERIES
PAPER 1

November 2011



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The ESRI acknowledges the financial support of the FBD Trust for the *Renewal Series*. FBD Trust is a philanthropic trust established by FBD Holdings plc.

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Acknowledgements

We would like to thank the editors, the anonymous reviewers and the participants in an internal ESRI seminar for their comments on an earlier draft of this paper. We would also like to thank Regina Moore and Corona Joyce of the ESRI for their work in preparing the manuscript for publication.

What Can Active Labour Market Policies Do?

Abstract

Ireland faces a crisis of mass unemployment. More than 14 per cent of the labour force is unemployed, and long-term unemployment is growing rapidly. Active labour market policies (ALMPs) - consisting of a range of assistance, training and employment programmes to support the unemployed back to work - have been held out as an essential part of the policy response to unemployment. This paper examines a wide range of national and international research on the effectiveness of ALMPs to ask: i) what do ALMPs do for the unemployed?, ii) are some programmes more effective than others? iii) what can we expect ALMPs to achieve in a recession? The paper shows that while research on the impact of active labour market programmes is far from conclusive and faces a number of difficult methodological challenges, it does provide a basis on which to identify the types of programmes that have been found to enhance the employment prospects of their unemployed clients.

1. INTRODUCTION

Ireland again faces a crisis of mass unemployment. Between the middle of 2007 and the beginning of 2011, total employment in Ireland fell by over 345,000, or 16 per cent. Unemployment increased from less than 5 to over 14 per cent. In mid 2011, the Quarterly National Household Survey (QNHS) showed that over 300,000 individuals were unemployed and actively looking for work. In August 2011, there were almost 470,000 on the Live Register, including both unemployed and part-time under-employed recipients of Jobseekers Benefits or Allowance. Active labour market policies (ALMPs) consisting of a range of assistance, training and employment programmes to support the unemployed back to work have been held out as an essential part of the policy response to unemployment (see, for example, OECD, 2007). This paper examines the national and international evidence on the effectiveness of ALMPs to ask: i) what do ALMPs do for the unemployed? ii) are some programmes more effective than others?, iii) what can we expect ALMPs to achieve in a recession?

We begin by providing some background to ALMPs. This is followed by an outline of the key instruments used by Public Employment Services (PESs) to activate the unemployed, and also the main active labour market programmes utilized. Evidence on the effectiveness of various ALMPs is then presented. Finally, drawing on two meta-analysis studies, we highlight the ALMPs that have been found to be the most effective in reintegrating the unemployed back into employment.

2. BACKGROUND: ACTIVE LABOUR MARKET POLICIES AND ACTIVATION STRATEGIES

In most European countries there has been some shift in emphasis and resource allocation from passive to active measures. Passive measures provide income support to unemployed people. In Ireland this mainly includes insurance-based Jobseekers Benefit and assistance-based Jobseekers Allowance. Active measures, such as the range of job placement, assistance and employment services, training programmes, employment subsidies and direct employment provision, are intended to assist the unemployed back to work. Increased emphasis on activation was initially advocated by the OECD in its 1994 *Jobs Strategy*, adopted by the European Commission in its *European Employment Strategy* in 1997, and reiterated by the OECD in its revised *Jobs Strategy* in 2007. In practice, there has been limited adoption of the activation agenda and just a few countries have substantially increased their spending on active measures, relative to passive measures. This can be seen in Table 1, which gives the share of public spending on active and passive measures as a percentage of GDP. Since the principle was

first instigated in the mid-1990s, Sweden is the only country that has consistently spent a higher proportion of public expenditure on active measures. The United Kingdom has done likewise since 2001 and New Zealand since 2006. Ireland spent more on active than passive measures in only 2000 and 2001. Higher levels of unemployment have been put forward as a reason for the limited transfer of public resources into active measures in many countries, since spending on passive income support will automatically increase during periods of high unemployment. However, even during periods of low unemployment in the last decade, public spending on passive measures was greater than on active measures in most countries.

In Ireland unemployment averaged around 4.5 per cent between 2004 and 2008 but spending on passive income support was higher than that on active measures. The share of spending on active measures as a proportion of total unemployment-related public spending actually declined during this period, from 42.6 per cent to 40.5 per cent. Perhaps this goes some way to explaining the persistence of unemployment in Ireland over this period of rapid economic growth, labour shortages and the successful absorption of large numbers of migrant workers into the Irish labour market. Given the buoyant macroeconomic conditions apparent during the middle of the last decade, the level of unemployment could arguably have been reduced below the 4.5 per cent mark¹. The provision of income support is essential during an economic downturn; however, in most countries the emphasis appears not to shift in the direction of active measures during periods of low unemployment. Obviously unemployment rates within any particular country will depend on both activation measures and a range of other macroeconomic factors.

The issue of replacement rates², the standard indicator of the generosity of an unemployment benefit system, came to the fore at the time that the 1994 OECD *Jobs Strategy* was being devised. The evidence at the time suggested that replacement rates were sufficiently large to act as a disincentive to work for many welfare recipients, thus leading to the creation of unemployment traps (Martin, 2000). In light of this, the adoption of the *OECD Jobs Strategy* led a number of countries to examine whether active labour market policies could be used more effectively to both curb the unemployment trap and reduce high levels of unemployment. This examination in turn either led to the introduction of, or increased emphasis on, 'activation' strategies in many countries (e.g.

¹ Within any economy a certain level of frictional unemployment will always exist as individuals move between jobs, so the lowest achievable level of unemployment is unclear.

² The replacement rate is the proportion of expected income from work which is replaced by unemployment and related welfare benefits (Martin, 2000).

Australia, Denmark, France, Germany, Netherlands, Sweden, Switzerland, UK, and USA), which had the objective of encouraging jobseekers to be more active in their efforts to find work and/or to improve their employability (OECD, 2007)³. Activation strategies apply the principle of ‘mutual obligation’, which means that benefit recipients are expected to engage in job search and/or education, training or employment programmes in exchange for receiving benefit payments and efficient employment services. In applying this principle, PESs aim to monitor benefit recipients’ compliance with eligibility conditions and to implement, where necessary, temporary sanctions or benefit exclusions (OECD, 2007), thus linking activation measures with the replacement rate.

Table 1: Public Expenditure on Passive and Active Labour Market Programmes as a Percentage of GDP

	1990		1995		2000		2005		2007	
	Active	Passive	Active	Passive	Active	Passive	Active	Passive	Active	Passive
EU-15:										
Ireland	1.06	2.55	1.35	2.61	0.81	0.80	0.64	0.83	0.64	0.91
Austria	0.32	1.00	0.38	1.60	0.52	1.17	0.63	1.51	0.68	1.25
Belgium	1.09	2.56	1.21	2.73	1.22	2.11	1.19	2.33	1.30	2.00
Denmark	1.06	4.38	1.72	4.30	1.89	2.38	1.58	2.34	1.31	1.50
Finland	0.84	1.11	1.42	3.87	0.89	2.08	0.89	1.90	0.86	1.43
France	0.72	1.37	1.19	1.51	1.19	1.38	0.89	1.58	0.92	1.24
Germany	0.79	1.00	1.19	2.31	1.23	1.89	0.88	2.34	0.77	1.63
Greece	0.19	0.40	0.40	0.38	-	0.39	-	0.40	-	-
Italy	-	0.82	-	0.95	-	0.62	0.57	0.81	0.46	0.71
Luxembourg	0.20	0.52	0.14	0.68	-	0.43	0.50	0.65	0.48	0.54
Netherlands	1.27	2.43	1.36	2.80	1.47	1.75	1.30	2.01	1.09	1.39
Portugal	0.48	0.33	0.50	0.86	0.63	0.82	0.69	1.32	0.53	1.09
Spain	0.78	2.61	0.43	2.43	0.79	1.35	0.78	1.45	0.80	1.45
Sweden	1.68	0.88	2.35	2.27	1.75	1.34	1.29	1.17	1.12	0.66
United Kingdom	0.58	0.68	0.43	0.83	0.25	0.31	0.44	0.19	0.32	0.16
OECD	-	-	-	-	0.69	0.93	0.62	0.96	0.56	0.75
Australia	0.22	1.12	0.74	1.26	0.37	0.88	0.38	0.56	0.32	0.42
New Zealand	0.88	1.90	0.68	1.14	0.49	1.33	0.39	0.43	0.34	0.23

Note: - Data not available.

Source: OECD Online Database on Public Expenditure and Participant Stocks on LMP (see <http://stats.oecd.org/Index.aspx>)

The increased role of activation/mutual obligation strategies has been one of the main labour market policy reforms in the OECD in the last decade⁴. If such

³ Activation strategies are increasingly being applied to non-employment benefit recipients, such as lone-parent and disability beneficiaries. See Carcillo and Grubb (2006) for more details.

⁴ See Eichhorst and Konle-Seidl (2008) for a good overview of the evolution and development of activation strategies across various OECD countries.

strategies are designed appropriately then they can result in jobseekers having a better chance of finding employment, along with reducing the disincentive effect of high and long-lasting unemployment benefits. Research by the OECD (2003, 2007) indicates that better labour market outcomes, particularly in terms of reducing benefit dependence, have been achieved in those countries that have implemented an effective activation/mutual obligations scheme.

3. INSTRUMENTS USED TO ACTIVATE THE UNEMPLOYED

The primary objective of activation strategies is to encourage jobseekers to be more active in their efforts to find work and/or increase their employability. The key components of such a strategy are as follows (OECD, 2007)⁵:

- i. Registration for placement and assessment of work availability as preconditions for benefit payment;
- ii. Regular and intense interventions in the unemployment spell by the PES;
- iii. Explicit regulations regarding job search requirements;
- iv. Direct referrals to vacant jobs;
- v. Referrals to ALMPs (including education, training and employment programmes), with compulsory participation for some jobseekers.

In most countries, registration with the placement service and assessment of work availability are preconditions for benefit payment. The combination of activation and income support is intended to emphasize the importance of the focus on 'work' as opposed to 'benefit' when contact with the PES commences. There are a few countries, Ireland included, where registration for benefit precedes that for placement. The rationale for such a system is not clear, with the time lag to registration leading to a number of potential matches of jobseekers to suitable jobs being missed when benefit is already being paid (OECD, 2007), thus implying an inefficient use of public resources. However, the Irish system is currently undergoing a major structural reform, including the integration of the benefit and placement functions within the newly established National Employment and Entitlements Service (Department of Social Protection, 2011).

Interventions in the unemployment spell refer to compulsory scheduled contacts between the jobseeker and the PES. These include: (i) the initial registration

⁵ Voluntary interviews and collective information sessions are also used by some countries to activate the unemployed.

interview for placement and benefit, (ii) detailed registration interview⁶, (iii) regular intensive interviews to report and monitor job search activities and work availability, referrals to vacant jobs, feedback on job application outcomes, discussion of individual action plans and referrals to ALMPs. An individual action plan is an agreement signed by both the jobseeker and the PES officer. Typically such a plan: (i) describes the jobseeker's situation, (ii) outlines the actions to be undertaken by the jobseeker, in terms of job search activities and/or active labour market programme participation, and (iii) the duties of the employment service in facilitating the jobseeker to find a job and/or to increase their employability.

A number of countries now have explicit regulations relating to job search requirements and stipulate that jobseekers regularly report and document their job search actions. The frequency of reporting and number of job search activities to be undertaken varies by country and also jobseeker type.

A direct referral to a vacant job is when the PES offers a specific vacancy to a jobseeker. This activation measure can occur at the initial interview⁷ and/or at subsequent intensive interviews. The main benefit of a direct job referral is that it can speed up the matching process and, thus, reduce benefit payment along with the risk of prolonged unemployment. A critical feature of this measure is the provision of feedback on the application outcome, from both the jobseeker and employer.

Referrals to ALMPs are also an important feature of an activation strategy. The types of ALMPs that are employed by PESs, which are discussed in more detail in Section IV, vary substantially across countries, and countries are continuously modifying their programmes, or introducing new ones; with the result that there is rarely a stable set of ALMPs to evaluate (Martin, 2000).

The revised OECD *Jobs Strategy* recommended that effective ALMPs should be compulsory after a certain period of unemployment (OECD, 2007). Research

⁶ Full registration interviews are conducted in those countries that only collect basic information at the initial placement interview. This interview is needed to obtain more detailed information on the benefit claimant (e.g. education qualifications, work history, etc.) so that the person can be referred to an appropriate vacant job or to an active labour market programme. Such interviews are also used to explain the full range of services provided by the PES, the rights and duties of the benefit claimant, application of a profiling instrument (if in existence) and to establish an individual action plan. In some countries, these latter tasks are carried out at the initial registration interview.

⁷ If work availability is evaluated at the initial placement interview as a pre-condition for benefit entitlement then the PES can intervene immediately with job offers.

indicates that participation in such programmes can speed up the re-employment process. It has also been found that referral to ALMPs with the threat of benefit sanctions for non-participation can lead to increases in the number of individuals going from benefit to work around the formal deadline for programme entry. This 'motivation' or 'threat' effect, whereby individuals cease claiming benefits and re-enter the labour market in order to avoid the obligation of programme participation, can have a positive impact on re-employment rates (see Black *et al.* 2003; Rosholm and Svarer, 2004; Geerdsen, 2006; Geerdsen and Holm, 2007; and Graversen and van Ours, 2006). Most countries do not require jobseekers to continue with their job search obligations when participating in an ALMP. However, the OECD (2007) recommends that some time should be set aside for individuals participating in publicly subsidised employment schemes to continue their job search, as take up of market-sector jobs is viewed as being of greater benefit to the jobseeker⁸.

In implementing activation strategies, the PES can impose temporary sanctions or benefit exclusions on jobseekers that do not comply with job-search requirements and activation measures. Several studies have found that the imposition of a sanction has a positive effect on re-employment rates (OECD, 2007). Boone and Van Ours (2006) and Boone *et al.* (2007) have developed theoretical models that illustrate that from a welfare point of view it is more optimal to introduce monitoring and sanctions into a welfare payment system.

In most countries, activation policies are implemented by the country's PES. However, some countries⁹ contract private providers to implement their policies, either in full or in conjunction with the PES. The evaluation results on the effectiveness of such out-sourcing mechanisms are mixed, largely due to the implementation of such mechanisms as opposed to the quality of the services offered by private providers in general¹⁰.

Poorly controlled access to non-employment income-maintenance schemes, such as disability, lone-parent and early retirement, can undermine the impact of activation measures for unemployment benefit recipients, as some of the long-term unemployed enter benefit schemes that facilitate economic inactivity. This

⁸ The OECD suggests that jobseekers undertaking training courses that are expected to deliver a certificate on completion should be exempt from job-search actions.

⁹ For example, Australia, Germany, Netherlands and United Kingdom.

¹⁰ See Tergeist and Grubb (2006) for further information on the use of quasi-market mechanisms in the provision of employment services.

suggests the need for non-employment benefit gate-keeping (Tergeist and Grubb, 2006).

4. ACTIVE LABOUR MARKET PROGRAMMES

The main ALMPs to assist jobseekers to reintegrate into the labour market are as follows¹¹:

- i. Job search assistance, monitoring and sanctions;
- ii. Training programmes;
- iii. Public-sector job creation programmes;
- iv. Private-sector incentive schemes (e.g. wage subsidies and/or start-up grants)¹².

Job Search Assistance (JSA) and sanctions include a variety of measures that aim to increase the effectiveness of job search. Examples of such measures include: counselling, monitoring, job search courses, vocational guidance, establishment of individual action plans, direct referrals to vacant jobs and the imposition of sanctions when jobseekers do not comply with the job search activities that are required for receipt of unemployment benefits. JSA tends to be the least costly ALMP (Martin, 2000; Kluge, 2006). Furthermore, compared to other ALMPs, JSA rates well in evaluation studies. However, the evidence suggests that JSA needs to be combined with increased monitoring of jobseekers.

The key objective of training programmes is to enhance jobseekers' human capital and, thus, their employment prospects. Training programmes vary according to jobseeker type. For example, some jobseekers require basic job search training or other general skills (e.g. basic computer skills), while others undertake more intensive and specific training to either enhance their employability or to secure better quality jobs (e.g. advanced computer programmes). Training tends to account for the largest share of spending on active measures (Martin, 2000). However, evaluations of the performance of public training programmes, which are discussed in more detail below, are mixed¹³. According to Martin (2000), the design of public training programmes is

¹¹ Programmes are often targeted at specific groups, e.g. young workers (25 years of age and younger), disabled, lone-parents, immigrants, etc. See Aakvik *et al.*, (2005) and Kirby and Riley (2004) for disability and lone-parent programme evaluations, while some of the literature that has evaluated youth programmes is discussed below.

¹² A strict classification of an ALMP into one of these four categories is not always feasible as some countries have schemes that contain elements of two or more of these programmes.

¹³ The 'lock-in effect' is one of the reasons for the poor performance of some training programmes, which is when job entry rates decline due to a decline in job search efforts when participating in a training programme.

critical to their effectiveness. Specifically, such programmes need to be tightly targeted at participants, relatively small in scale and establish strong links with local employers through the inclusion of an on-the-job component in the programme.

Job search assistance and training mainly seek to influence the supply side of the labour market, while direct job creation in the public sector and incentives to create jobs in the private sector seek to influence the demand side. Public-sector job creation programmes focus on the creation of public jobs that produce public goods and services. The main objective of this type of programme is to keep the unemployed jobseeker in contact with the labour market and, thus, to prevent the erosion of their human capital while unemployed. However, such jobs are often not close to the regular labour market (Kluve, 2006).

The aim of private sector incentive programmes is to create incentives that alter employer and/or worker behaviour regarding private sector employment. For example, wage subsidies in the private sector are intended to encourage employers to either create new jobs or to maintain existing positions. Such subsidies, which can be given directly to the employer or employee, tend to be for a fixed period of time and are often targeted at more disadvantaged individuals. Start-up incentives, which are provided to unemployed individuals that want to establish their own business, are another type of private sector incentive programme.

5. EVIDENCE ON THE EFFECTIVENESS OF ACTIVE LABOUR MARKET PROGRAMMES

There is a substantial body of research seeking to evaluate the effectiveness of ALMPs. This work, which goes back to the mid-1970s¹⁴, aims to assess the impact of programme participation on an individual's employment, unemployment and/or earnings after he/she has left the programme relative to a benchmark group of similar individuals that did not participate (Martin, 2000)¹⁵. The research presented in this paper is, for the most part, evaluations of ALMPs that were implemented in various European countries in the 1990s and 2000s, and which

¹⁴ Researchers in the US began conducting evaluation studies around this time, whereas European researchers started much later.

¹⁵ Some macro-econometric studies have also been conducted on the effectiveness of active labour market programmes. See OECD (2006b), Kluve, Card, Fertig *et al.* (2005) and Martin (2000) for some discussion on the results that have been found in this literature.

focus on employment and/or unemployment outcomes¹⁶. An overview of the studies is presented in Table A1 in the Appendix.

Job Search Assistance, Monitoring and Sanctions

A number of studies have found that JSA measures (e.g. interviews, counselling, etc.), including monitoring of job search behaviour and the threat and/or imposition of sanctions for non-compliance, can be effective in increasing the transition from unemployment to work. Some studies have shown that JSA measures on their own can have positive employment effects. For example, Crépon, Dejemeppe and Gurgand (2011) evaluated four French JSA schemes and found that each programme increased the transition to employment and also reduced unemployment recurrence, with the job search support programme having the strongest effect overall. Other researchers, such as Cockx and Dejemeppe (2007) using Belgian data, have shown that the threat of monitoring job search activities in isolation from JSA measures (e.g. counselling) can improve unemployed workers probability of employment, and increasingly so as benefit claimants approach the time at which monitoring takes place. The positive threat effect discovered by Cockx and Dejemeppe (2007) specifically related to highly educated workers, suggesting the threat of increased monitoring may be less effective for more disadvantaged workers. There is also some concern that the threat of increased monitoring may result in workers accepting lower quality jobs, although, Cockx and Dejemeppe (2007) argue that this outcome can be countered by appropriate scheduling of JSA interviews and the provision of effective counselling.

Positive results have also been found for the imposition of sanctions for non-compliance with job search requirements. A study by van den Berg *et al.* (2004) in the Netherlands found that sanctions substantially increased the individual transition rate from welfare to work (see also Abbring, van den Berg and van Ours, 2005). Lalive *et al.* (2005) found that both sanction warning and enforcement had a positive effect on the exit rate from unemployment in Switzerland¹⁷. A number of other evaluations have found that JSA measures coupled with increased monitoring of job search behaviour and sanctions have been successful in getting unemployed individuals back to work¹⁸. Examples of

¹⁶ See Heckman, Lalonde and Smith (1999) and Kluge and Schmidt (2002) for earlier systematic reviews on the effectiveness of active labour market programmes in both Europe and the US. See also Martin (2000), Martin and Grubb (2001), OECD (2005) and OECD (2006b) for a review of the effectiveness of various OECD country programmes.

¹⁷ Lalive *et al.* (2005) concluded that their results were evidence of a strong ex-ante effect of a strict sanction policy.

¹⁸ Examples of US studies that have derived this result include Katz and Meyer (1990), Meyer (1990) and Meyer (1995). Centeno, Centeno and Novo (2004) analysed the effectiveness of a Portuguese mandatory JSA program for long-term

this include Müller and Steiner (2008) for Germany, Svarer (2007) for Denmark, Dolton and O’Neill (1996) for the UK¹⁹ and Sianesi (2008) for Sweden²⁰.

While there is some debate in the literature over the optimal combination of assistance, monitoring and the threat and/or enforcement of sanctions, it would appear that, by and large, a combination of all components are needed to produce benefits for both unemployed workers and society at large (Martin, 2000; OECD, 2005 and 2006b; and Kluge, 2006).

Job Search Assistance in Ireland

Evaluations of job search assistance and monitoring in Ireland have been quite limited, and have mainly centred on the National Employment Action Plan (NEAP). The NEAP requires those who have been unemployed for a period of three months to be referred by the Department of Social Protection (DSP) to FÁS, Ireland’s national employment and training authority, for interview, which in turn can initiate further assistance with job search, guidance, counselling, referral to employment or, in some cases, training or other ALMPs. Early evaluations of the NEAP were positive but hampered by the absence of adequate data to support rigorous econometric analysis (O’Connell, 2002a; Indecon, 2005). Grubb *et al.* (2009) argued that the separation of income support and employment placement services undermined the potential for activation, as did the virtual absence of sanctions and the under-resourcing of activation services. A recent evaluation of the NEAP as it operated between 2006 and 2008 (McGuinness, O’Connell, Kelly and Walsh, 2011), found that there were problems of access to NEAP programmes with the result that not all those who should have participated in an activation measure did so. A substantial group of jobseekers, about 25 per cent, who were eligible for assistance under the NEAP were not identified and referred. Another group, over 25 per cent, were not eligible for NEAP referral because they had received some form of assistance in a previous unemployment spell. This practice of excluding those who went through the NEAP process during a previous period of unemployment would appear to run counter to the underlying rationale of activation policies: to assist those most likely to encounter difficulties in finding work. The evaluation also showed that those who participated in the NEAP activation interview were less likely to become employed: comparing the outcomes of those who were referred for a FÁS interview under the NEAP,

unemployed workers, which included sanctions for non-compliance, on post-programme unemployment durations and found that the program had a positive but small effect, with the impact being larger for females.

¹⁹ The Dolton and O’Neill (1996) results come from an assessment of the ‘Restart’ programme.

²⁰ Sianesi (2008) evaluated six Swedish ALMPs and found that each had a negative short-term impact on their participants’ employment probability relative to unemployed individuals that had JSA type assistance. Apart from wage subsidies, the same results on the other ALMPs held in the long-run as well.

including both those who attended and those who did not attend the interview, with a control group of those who were not referred, it was found that the NEAP was associated with a *negative* impact, with the chances of entering employment being about 17 per cent lower for those who went through the interview process. This suggests that the interview element of the NEAP was an ineffective route to employment.

Training Programmes

The findings from the empirical literature on the effectiveness of training programmes are mixed. Some studies have found positive effects of participation in training programmes on employment/unemployment. For example, Cockx (2003) found that classroom training programmes in Belgium increased the transition rate from unemployment. Richardson and van den Berg (2006) also found that vocational training in Sweden had a positive impact on exits to work, although this effect only held for the first few weeks after course completion. Rosholm and Skipper (2009), on the other hand, found that Danish classroom training programmes increased participants' unemployment rates in the period immediately after the training ended - a result the authors attributed to a 'lock-in effect', since the negative effect disappeared over time. However, they also found that in the long run training actually increased the time that programme participants spent in employment²¹. The lock-in effect, which is when job search declines during (or immediately after) participation in a training course, may be one of the main reasons for the poor performance of some training programmes that have been evaluated over a short time horizon. In analysing public-sponsored training programmes in France, Crépon *et al.* (2011) also estimated a negative effect on the exit rate from unemployment but a positive impact on the duration of subsequent employment spells. For Germany, Fitzenberger, Osikominu and Paul (2010) found that training had positive employment effects in the medium and long-term, as did Lechner, Miquel and Wunsch (2011), Lechner, Miquel and Wunsch (2007), Lechner and Wunsch (2009), and Fitzenberger, Osikominu and Völter (2006)²². However, earlier evaluations of German training programmes (e.g. Lechner, 2000; and Hujer and Wellner, 2000) found no significant effects.

²¹ Other Danish studies have found insignificant or negative employment effects for their labour market training programmes: see Rosholm and Skipper (2009) for more details.

²² Lechner *et al.* (2011), Lechner, *et al.* (2007), Lechner and Wunsch, (2009) and Fitzenberger *et al.* (2006) all identified negative employment effects in the short-run, which each study attributed to a lock-in effect. Lechner and Wunsch (2009) also found that the negative lock-in effects that they identified were smaller in times of higher unemployment and the positive long-run effects were larger.

Results from evaluations of the impact of the duration of training have also been mixed. In France, Crépon *et al.* (2011) found that longer training spells led to longer unemployment spells but also to longer employment spells. Fitzenberger *et al.* (2010) found a similar result for Germany. Kluve, Schneider, Uhlendorff and Zhao (2007), again for Germany, found positive employment effects for training programs with durations of up to three months, but programs longer than this did not add any additional benefits (see also Biewen, Fitzenberger, Osikominu and Waller, 2007). Hujer, Thomsen and Zeiss (2006), on the other hand, found no impact for short-term vocational training programmes, while medium (six month) and long (twelve month) programs had negative employment effects. Thus, the research on the impact of the duration of training programme duration remains inconclusive.

A series of papers on Germany's experience with training provide useful evidence regarding the differential impact of different types of training programmes. Biewen *et al.* (2007), in their analysis of the impact of short-term training programs, found that 'practical' courses performed better than 'classroom' training. Lechner *et al.* (2011), looking at the impact of three programs in former West Germany, found that 'retraining', for up to 2 years for a different professional qualification, had the biggest employment impact seven years after program start, followed by short-duration (about five months) and long-duration (9 to 12 months) training to provide additional qualifications in a current profession. Yet, when lock-in effects were taken into consideration, 'short training' to upgrade skills in the current occupation outperformed the other two programs. They found no sustainable positive effects for training in 'practice firms' that simulate working in a specific occupation. In another evaluation, Lechner *et al.* (2007) investigated the impact of the same three programs in former East Germany and found that, on average, all three programs displayed negative employment effects in the short-run and positive effects in the long-run. However, the positive long-run effects identified for the three programs applied to females only, as the 'long training' program had a negative employment effect for males and the 'retraining' program an insignificant effect²³. In East Germany, Fitzenberger and Völter (2007) found that training in specific professional skills and techniques (SBST) to enhance qualifications in a current occupation produced positive medium (1-3 years) and long-run (4-6 years) employment effects, although there were strong negative lock-in effects for the first two years. However, neither practice firms nor retraining for a different occupation showed consistent positive employment effects, in contrast to the positive effects found

²³ Lechner *et al.* (2007) attributed the male results to inappropriate long-term courses by the Public Employment Service (PES), which largely consisted of training in construction which was experiencing a boom at the time of training but by the time the participants had completed their courses the sector was in recession.

for these two programmes by Lechner *et al.* (2011). Fitzenberger, Osikominu and Völter (2006) conducted a similar analysis for West Germany and derived slightly different results. Specifically, after initial lock-in effects in the short-run, all three programs exhibited positive employment effects in the medium and long-term. As in East Germany, SPST performed better than the other two programs. Arellano (2010) examined a variety of training courses in Spain and found that 'medium-level' programmes, including occupational training for unskilled workers, and specialist training for skilled workers, reduced the length of unemployment spells, with stronger effects for females.

The results from studies comparing the effectiveness of training programmes against other types of ALMPs are also mixed. For example, Kluve, Lehmann and Schmidt (1999) found a statistically significant positive effect of training programmes on participants' employment rates in Poland, while both public employment and wage subsidies had a negative effect. Van Ours (2001) also found that training had a positive effect on the job placement rate of unemployed workers in the Slovak Republic. So did public-sector subsidised jobs, but private-sector wage subsidies had a negative effect. Van Ours attributed the positive training result to reverse causality: unemployed workers only entered the training programme because they were promised a job. Fitzenberger, Orlyanskaya, Osikominu and Waller (2008) found that both skills training and a short-term programme focussing on job-search assistance and monitoring in Germany had positive employment effects, but the effect of training was stronger. Neubäumer (2010) found that both vocational training and wage subsidies in Germany had a positive employment impact in both the short-term (after an initial lock-in period) and the medium term, although wage subsidies had a stronger impact than vocational training. Jespersen, Munch and Skipper (2008) found no significant effect from classroom training on participants' employment in Denmark, while wage subsidies had a positive impact²⁴. Using Swedish data, Sianesi (2008) found that unemployed individuals that participated in a training programme subsequently displayed lower employment rates, along with higher benefit dependency. Wage subsidies, on the other hand, increased employment prospects in the long-term. Overall, Sianesi (2008) concluded that ALMPs that resemble regular employment perform better. An earlier study of Swedish ALMPs by Carling and Richardson (2004) derived similar results: subsidised work experience and training provided by firms had better outcomes than classroom vocational training. Negative or insignificant training effects have also been identified for Switzerland (Lalive, van Ours and Zweimüller, 2008; and

²⁴ Furthermore, in a cost-benefit analysis of the large-scale system of ALMPs in Denmark, Jespersen *et al.* (2008) found that classroom training led to a deficit.

Gerfin and Lechner, 2002) and various other European countries (see Kluve, 2006).

Training in Ireland

Compared to many other OECD countries, there is a shortage of rigorous evidence on the impact of training in Ireland. O'Connell (2002b) and O'Connell and McGinnity (1997) argued that in relation to both supply- and demand- side measures, programmes with strong linkages to the labour market are more likely to enhance the employment prospects of their participants. In relation to training programmes delivered during the 1990s, they found that training in specific skills was more likely to increase participants' subsequent probability of employment. This is consistent with the findings from Sweden by Sianesi (2008) and Carling and Richardson (2004) discussed above. Conniffe, Gash and O'Connell (2000) focussed on young unemployed individuals and found that general training had no significant effect on this group's probability of gaining employment. McGuinness, O'Connell and Kelly (2011) found that, on average, training did increase the probability of exiting unemployment in the 2006-2008 period. Their analysis also shows that the type of training matters: job-search training and high-level specific skills training are most likely to increase the probability of their participants exiting from unemployment. There was no consistent evidence to suggest that low-level skills training significantly increase employment prospects. In general shorter duration training programmes were found to be more effective, with the exception of high-level skills training where there appears to be a pay-off to more extended training durations. They also call attention to the fact that a minority of participants took part in the more effective training programs and that over two-thirds of all training days delivered during the eighteen month period considered were in less effective training programmes.

Public Sector Job Creation Programmes

Direct employment schemes in the public sector are usually targeted at disadvantaged individuals and provide subsidised work usually in the social economy, with the aim of maintaining contact with the labour market and familiarity with work habits as well as reducing loss of skills during a spell of unemployment. Where such programmes are well organised, they can generate socially useful goods and services. However, the evidence from the evaluation literature indicates that direct job creation in the public sector has not, for the most part, been successful in assisting unemployed individuals to secure permanent jobs in the ordinary labour market. In evaluating active labour market programmes in Poland, Kluve, Lehmann and Schmidt (1999) found that public work had negative employment effects for its participants, a result the authors mainly attributed to 'benefit churning' as opposed to stigmatisation from

programme participation²⁵. Sianesi (2008) also found that public relief work in Sweden lowered participants' future employment rates²⁶. Gerfin and Lechner (2002) and Lalive *et al.* (2008) derived a similar result for Switzerland, as did Jespersen *et al.* (2008) for Denmark. In examining the Slovak Republic's ALMPs, van Ours (2001) found that unemployed individuals that had participated in a public sector job programme were more likely to find a job and less likely to lose the job than those that had not. However, he attributed these two results to signalling rather than to the impact of the job programme per se²⁷. Overall, the evidence suggests that direct job creation in the public sector has not been successful in improving the labour market prospects of unemployed workers (see also Martin 2000; Kluge and Schmidt, 2002; OECD, 2005; and OECD, 2006).

Direct Employment Schemes in Ireland

The evidence for Ireland on direct employment schemes is consistent with the pessimistic international findings. Most of the research has focussed on Community Employment (CE), the largest such direct employment scheme and, indeed, the single largest active labour market programme implemented in Ireland over the last decade and a half. Evaluations comparing CE participants with control groups of non-participants found that participation in CE was not associated with increased post-programme employment chances (O'Connell and McGinnity, 1997; O'Connell, 2002b). While CE has not been the subject of a rigorous evaluation in recent years, an analysis of the factors associated with long-term unemployment in the 2006-2008 period found that previous participation in a CE scheme was associated with an increased risk of long-term unemployment, even when a range of personal characteristics and labour market experience was taken into account (O'Connell, McGuinness, Kelly and Walsh, 2009).

Private Sector Incentive Schemes

Private-sector incentive schemes consist of both wage subsidies to private sector employers and start-up grants for self employment. While a few studies have obtained negative or insignificant employment effects for private subsidised employment programmes, such as Kluge *et al.* (1999) for Poland²⁸ and van Ours

²⁵ In Poland, participation in an ALMP entitles benefit recipients to a further 12 months of benefit payment.

²⁶ Carling and Richardson (2004) came to a similar conclusion in an earlier study using Swedish data.

²⁷ According to van Ours (2001), by accepting a position on a public sector job programme unemployed workers are signalling to potential employers that they have a positive attitude towards work.

²⁸ Kluge *et al.* (1999) found that Poland's subsidised employment programme had a large negative impact on the employment rate of males and no impact on females. The authors attributed the male result to interactions between the programme and the unemployment compensation system in Poland.

(2001) for the Slovak Republic, positive results from such schemes have been found in most countries. For example, Jespersen *et al.* (2008) found that wage subsidies in Denmark had substantial positive employment and earnings effects. Even when the costs of providing this ALMP were accounted for, the programme still came out with a surplus (see also Rosholm and Svarer, 2004). Both Lalive *et al.* (2008) and Gerfin and Lechner (2002) derived positive employment results for temporary wage subsidies in Switzerland. In analysing Sweden's ALMPs, Sianesi (2008) found that, after an initial lock-in effect, job subsidies increased participants' employment prospects in the long-term and reduced unemployment benefit dependency (see also Carling and Richardson, 2004). As with Sianesi (2008), Jaenichen and Stephan (2009) found that after an initial lock-in effect wage subsidies in Germany had a positive impact on the employment prospects of hard-to-place workers, with the impact being stronger for female workers and smaller for those that had participated in a short-term training measure prior to receipt of the wage subsidy. In another German study, Boockmann *et al.* (2007) found that the availability of hiring subsidies for older workers only had a positive employment effect in respect of females in East Germany, leading them to conclude that, in most cases, wage subsidies in Germany do not change firms' hiring behaviour and suffer from high deadweight. In general, the findings in relation to wage subsidies are encouraging. However, one needs to bear in mind that most studies do not account for the potential deadweight and displacement effects associated with such schemes²⁹.

Private Sector Incentives in Ireland

Research on the effectiveness of incentives to support employment in the private sector in Ireland is also limited and quite dated. Breen and Halpin (1989) found that subsidies to support self-employment targeted at the long-term unemployed in the 1980s had positive effects on their subsequent employment chances. O'Connell (2002b) and O'Connell and McGinnity (1997) showed that wage subsidies to support employment experience in private sector firms were more likely to enhance post-programme employment prospects, compared with a comparison group of non-participants and controlling for other relevant personal characteristics and labour market experience. A number of internship programmes have recently been initiated in Ireland (e.g. JobBridge), but it is too early to evaluate their impact.

²⁹ The net effect of any policy intervention targeting employment levels will be total employment growth less deadweight and displacement. Deadweight refers to any change in the key outcome variable, for example, employment growth in the context of a wage subsidy that would have occurred even if the wage subsidy was absent. Displacement refers to the extent to which the employment growth in subsidised firms occurs at the expense of lower growth in non-subsidised firms.

Youth Measures

Many young people have short spells of unemployment during their transition from school-to-work. However, some get trapped in unemployment and risk becoming long-term unemployed (OECD, 2009a)³⁰. The severity of the current global recession has increased the danger of this outcome among young adults, particularly disadvantaged youth that left school early without basic education (Scarpetta, Sonnet and Manfredi, 2010). In general, young people are somewhat more vulnerable to unemployment during an economic downturn due to their concentration in temporary jobs and cyclically-sensitive industries (OECD, 2009b)³¹. Thus, a key priority of governments at present should be the introduction of measures to minimise the impact of the recession on young people and, in particular, policies to prevent them from falling into long-term unemployment. The objective of youth measures is often not only to enhance young unemployed individuals' employment prospects but also to encourage re-entry to education. The greater exposure to unemployment and to the risk of long-term unemployment may be why there has been a particular research focus on the impact of ALMPs among young people, although results are mixed, as is the case in respect of adult programmes.

Hardoy (2005) found that a youth employment programme in Norway, which consisted of both wage subsidies and a public sector job creation scheme, had a positive impact on young female participants' subsequent employment probabilities, but no such effect among males. However, Hardoy did not find a positive effect for any of the other youth active labour market programmes that she examined, which included training and vocational programmes. In fact, the vocational programmes were found to reduce the full-time employment of the targeted age group (16-19 years).

Brodaty, Crépon and Fougère (2002) analysed the employment impact of a variety of French ALMPs for young unemployed individuals for two different time points, 1986-1988 and 1995-1998. In the earlier time period they found positive effects for workplace training among short-term unemployed young people, and for training and integration programmes to promote self confidence and motivation among the long-term unemployed. However, these positive effects

³⁰ <http://www.oecd.org/dataoecd/54/62/43765276.pdf>

³¹ <http://www.oecd.org/dataoecd/54/50/43766254.pdf>

were not maintained into the later period, notwithstanding the similarity of macro-economic conditions in the two periods considered³².

Hämäläinen and Ollikainen (2004) examined the effectiveness of Finnish youth active labour market programmes and found that training programmes and employment schemes in both the public and private sectors improved the employment prospects of programme participants. However, they also found that Finland's largest youth programme, "Youth Practical Training", had no significant effect on participants' future labour market prospects.

Jensen, Rosholm and Svarer (2003) analysed the impact of the Danish "Youth Unemployment Programme" designed to increase the employment prospects of low-educated unemployed youth and to encourage their return to education. They found a strong positive impact on the transition rate from unemployment to school but its impact on the transition to employment was weak.

Larsson (2002) evaluated the effectiveness of training and subsidized employment programmes for young people in Sweden. In the short-run, both programmes were found to have a negative impact on participants' employment prospects and earnings, while neither programme had any effect in the long run. Larsson also found that training had a negative impact on participants' return to regular education, while subsidised employment had no impact, leading to the conclusion that the wage subsidy was "less harmful" than training.

Dorsett (2006) examined the relative effectiveness of the options offered under Britain's New Deal for Young People (NDYP) on young males' likelihood of exiting unemployment: the NDYP is Britain's mandatory youth active labour market programme. Of the various measures examined, which included JSA³³, wage subsidies, education/training programme, work placement in a voluntary sector and work placement in a government organisation, wage subsidies was found to be the most effective tool for assisting young males to exit unemployment. This was followed by the JSA component of the NDYP. Similar results for the New Deal measures have been found by Blundell, Costa Dias, Meghir and van Reenen (2004) and van Reenen (2003). Lissenburgh (2004) also found that the New Deal

³² In a survey of studies that evaluated the effects of active labour market programmes on youth employment in France, Fougère *et al.* (2000) found that only training programs with a large training content (e.g. apprenticeships) had a positive impact on young peoples' post-training employment probabilities.

³³ Measured by an extended stay on Gateway: Gateway, which is the first stage of the New Deal programme, is a period of intensive job search assistance with a case worker.

wage subsidy and JSA options were the most effective measures for assisting unemployed youths in Scotland.

In summary, the results are, by and large, supportive of wage subsidies, although, the potential deadweight and displacement effects associated with wage subsidies are not accounted for in the evaluations of youth programme evaluations, as is also the case in the evaluation of adult programmes. Mandatory participation and/or the imposition of sanctions for non-compliance seem to be common in countries where youth measures have proven to be successful (e.g. Denmark and the United Kingdom).

6. WHAT WORKS?

It is difficult to identify what one country can learn from other countries' experiences with ALMPs, particularly in terms of identifying what programmes have been found to work. This is due to variations in economic and institutional settings across countries, along with specific programme characteristics (e.g. type, scale³⁴, target group, etc.), methodological issues in conducting the evaluations³⁵ (e.g., data used, methodology employed, outcome measured, use of selection controls, etc.) and the time period over which programmes are assessed³⁶. In their recent surveys of the evaluation literature, both Kluve (2006) and Card, Kluve and Weber (2010) use a meta-analytical framework³⁷ to overcome these cross-country comparison problems and draw conclusions on what countries can learn from each other on ALMP effectiveness.

The two meta-analysis studies, each of which is based on more than 100 evaluations, took account of: (i) programme type, (ii) methodology, (iii) institutional context, (iv) the economic background in the country at the time the particular programme was in operation, (v) the country the programme relates to and (vi) the decade in which the programme was run, to identify the effectiveness

³⁴ Many programmes that have been evaluated tend to be small scale or trial programmes; thus, while such programmes might produce positive outcomes, the positive results might not hold if the programme was extended in terms of participant numbers or geographic coverage (Martin, 2000).

³⁵ See Heckman *et al.* (1999), Blundell and Costa Dias (2000) and Kluve and Schmidt (2002) for a discussion of the methodological issues that arise in evaluating active labour market programmes (see also Heckman, Ichimura and Todd, 1998). Imbens and Wooldridge (2008) provide a survey of the most recent methodological advances in evaluating active labour market programmes (see also Cahuc and Le Barbanchon, 2010).

³⁶ The majority of evaluations focus on short-term outcomes (e.g. one to two years after the person has participated in a programme); consequently, a programme that is found to be effective in the short-run might not necessarily have long-term benefits, and vice-versa.

³⁷ A meta-analysis is a statistical procedure that combines the results from different studies that address the same scientific question (e.g. ALMP effectiveness) in order to obtain a quantitative estimate of the overall effect of a particular intervention (e.g. ALMP participation) on a defined outcome (e.g. re-entry to the labour market).

of various ALMPs³⁸. In particular, the two studies assessed the effectiveness of: (i) JSA and sanctions, (ii) training programmes, (iii) public sector job creation programmes and (iv) private sector incentive schemes, in terms of whether each programme had a positive, negative or insignificant treatment effect on post-programme employment rates.

In terms of the results, overall both Kluve (2006) and Card *et al.* (2010) found that once the *type* of ALMP is taken account of, e.g. JSA, training, etc., there is little systematic relationship between programme effectiveness and the other contextual factors. Kluve (2006) showed that relative to training programmes, JSA combined with sanctions, and private sector incentive schemes, had higher probabilities of positive treatment effects, while the opposite was the case for direct employment schemes in the public sector. Card *et al.* (2010) found similar results. However, Card *et al.* (2010) assessed both the short-term and long-term effectiveness of ALMPs and found that JSA had more favourable short-term impacts, whereas training programmes produced better outcomes in the medium-term. Public sector job creation programmes, on the other hand, had negative outcomes in both the short and medium runs. Card *et al.* (2010) also concluded that ALMPs do not have differential effects on males and females.

The main policy implication that follows from Kluve (2006) and Card *et al.* (2010) is that programme type is what matters most for ALMP effectiveness. Training generally leads to a modest improvement in employment chances, while JSA and private sector employment incentives tend to show more favourable outcomes. However, public job creation schemes have generally been found to be less effective. Other contextual factors tend to be less important.

7. CONCLUSION

International research on the impact of active labour market programmes is far from conclusive and faces a number of difficult methodological challenges, although it does suggest a number of tentative conclusions that can serve to guide policy. Rigorous Irish research is limited to a small number of studies and much of it relates to earlier historical periods characterised by different macro-economic conditions to those prevailing today. Nevertheless, both sets of research indicate that the type of active labour market programme is important - some programmes work better than others - and help to identify the types of

³⁸ Card *et al.* (2010) also took account of the heterogeneity of programme participants (e.g. gender, age, disadvantaged, etc.) in their meta-analysis.

programmes that are more likely to enhance the employment prospects of unemployed participants. The principal conclusions of the research are as follows:

- Job Search Assistance, including counselling, job-placement, monitoring and the development of action plans, as well as training in job search techniques, tend to be effective, fast, and relatively inexpensive. Effective job search and monitoring should be the corner-stone of all services to unemployed people and serve as the gateway to employment and training opportunities, irrespective of prevailing labour market conditions. Activation is essential to maintain connection with the labour market, even during a recession. Such activation tends to be more effective when combined with regular monitoring of job search assistance and sanctions for non-compliance.
- Training tends to increase employment prospects, but it is important that training be strongly linked to skill demands in the labour market. Even in a slack labour market, training remains important to enable job seekers to compete for the limited opportunities that do exist and to maintain and development human capital to enable them to participate in any upturn in the economy and labour market. To ensure that training reflects labour demand, it is crucial that the skill requirements of employers are effectively communicated to training providers on an ongoing basis, for example, through the development of sectoral skills councils. Such councils, which should include employers, training providers and government, could inform both the overall composition and content of skills training.
- Market links are also vital in supply side measures. This is why incentives to increase demand among private sector employers, or at least to real jobs in the public sector, can increase employment probabilities of participants. In effect, such incentivised work experience is equivalent to training: both types of active labour market programme increase participants' human capital. Lack of market linkages is also why public sector job creation in the social economy does not enhance the employment prospects of participants, in Ireland as elsewhere, notwithstanding the useful social output of many such schemes.
- While the evidence on the impact of youth measures is mixed, there are encouraging results in respect of wage subsidies. In general ALMPS for young people tend to be more effective when implemented in a context of compulsory engagement with the PES.

A number of important institutional reforms have been initiated in the very recent period in Ireland and are currently being implemented. These include: i) the integration of activation and income support functions within the Department of Social Protection; ii) the development of a case management system with stronger emphasis on activation; iii) the introduction of sanctions for

non-compliance with job-search and engagement with employment and training opportunities; iv) the development of a profiling system to allow targeting of scarce resources on those who need and can benefit from activation; and v) the abolition of FÁS, its replacement with the new further education and training authority, SOLAS, and the assumption of responsibility for all labour market training and education by the Department of Education and Skills. These are important reforms and represent a welcome shift to a more active labour market policy response to unemployment. The integration of income support with activation is welcome and is in line with best practice in many other European countries. However, it is as yet unclear how the provision of training is to be organised between DSP, SOLAS and the education and training providers. The core principle governing that relationship between activation and training provision should be that the transition needs to be seamless, based on the needs of both unemployed individuals and current and future employers.

An active labour market policy regime is based on effective programmes. Ireland invests substantial resources in ALMPs. In the context of mass unemployment and the fiscal crisis of the State, it is essential that this investment achieves the best value for money: we need to identify and allocate spending to those ALMPs that do most to enhance the employment prospects of those who participate in them.

While this review of the evidence provides some clarity on the kinds of ALMPs that work, the scale of the Irish crisis is daunting. There is a very substantial structural component to the Irish unemployment problem arising from the collapse of the construction sector. A very large number of unemployed individuals possess skills that are no longer in demand and are unlikely to be so for the foreseeable future. This leaves policy makers with a two-fold challenge. Firstly, it is necessary to identify the areas for which former construction workers can be retrained. There has been little debate on this point. Research is needed that identifies expanding areas of the economy, particularly those to which the skills of former construction workers can be readily transferred. Secondly, given the budget constraint, which rules out the provision of training for all, careful and informed consideration needs to be given as to how to allocate limited public resources in a manner that balances effectiveness and equity.

APPENDIX

Table A1 is available to download at <http://www.esri.ie/pubs/EC001App.pdf>

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The ESRI acknowledges the
financial support of FBD Trust
for the *Renewal Series*

