Active Labor Market Programs

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Outline

Introduction

What do we know about ALMP?

Equilibrium Effects

Heterogeneity and Targeting

Mechanisms
Many contributions devoted to ALMP

Very good review also, (Heckman et al. 1999, Martin et al., 2001, Carcillo et al., 2006, Card et al. 2010, 2015)

In our paper we try to do two things

- We want first to review existing results
  - We do that using the lenses of the predictions of a simple unified framework
  - The overall picture is rather grim for ALMP and performance seems to be quite below expectations

- We also want to look at several specific dimensions
  - **Equilibrium effects**: perceived as an additional threat for program efficiency
  - **Heterogeneity**: on the opposite if it exists, should allow to assign more efficiently job seekers to programs
  - **Mechanisms**: a way to design more efficient policies
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How we think about ALMP?

- We have views about how ALMP should work
- This can be summarized in a simple unified model of job search behavior
  - For example, a job search program is supposed
    - To increase the arrival rate of job offer
    - To increase the reservation wage
    - And in most cases to increase the exit rate of unemployment
  - It is also supposed to increase the cumulated value of earnings
- It would be the same for other ALMP programs like productivity enhancing measures
- There are predictions about a mechanism and several important final outcome variables
What have we learned from ALMP evaluations

First: programs of a same type are very heterogenous

▶ Both in the scope and intensity of services
  ▶ For example job search programs can be just one meeting but can also be a 6 month long program with weekly meeting
  ▶ Job search: counseling and/or monitoring

▶ They also include a lot of conditions and steps
  ▶ See for example employer subsidy voucher programs
    ▶ Job seekers have to give potential employer a voucher who will then has to claim for the subsidy at a given place
  ▶ See for example the Self Sufficiency Program in Canada
    ▶ A 1 year phase requesting finding a job to qualify for the second phase giving participants have access to job subsidy
What have we learned from ALMP evaluations

- We have not been able to use all outcome variables that would make sense
  - Most of the time we have analyzed employment status
  - This is useful but it implies that we have not been able to learn about mechanism
  - Nor have we been able to learn about impacts on various types of earnings
- Besides this lack of meaningful variable results have been rather disappointing
  - Impacts are usually quite limited when not zero or negative
    - Job search programs seem to work quite well on employment but what about earnings and job quality?
    - Job subsidy usually has an impact while in the program but impacts quickly fade out
    - Training has been quite disappointing, especially when evaluated using RCTs
  - This is far below expectations of policy makers
Cost benefit analysis

- Surprisingly there are very few cost benefit analysis

- This would be however quite useful as, given results on employment, we are in a grey area
  - Are these programs a good deal for jobseekers, governments, societies?

- Large demonstration projects in North America have been able to gather the data necessary for cost benefit analysis
  - Programs do not always pass the test
  - Especially from the Unemployment Insurance point of view: gains in UB do not always cover the cost of programs – especially costly programs like productivity enhancing programs

- To sum up: there is no clear evidence that there is a strong link with employment and we do not clearly know financial implications for individuals, governments, and society
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Ideas behind general equilibrium

- The idea that programs can have general equilibrium has been around for long
  - There might be several channel but the main one is displacement effect
  - Helping some jobseekers to go back to employment can crowd out others from job
- How wrong are we ignoring these displacement effect?
- One idea to get an order of magnitude is to plug estimated results of an impact evaluation into a model accounting for equilibria
- One emblematic paper is Lise et al. 2005
  - Show that general equilibrium effect on the SSP is strong enough to reverse the cost benefit results of Michalopoulos et al. 2005
Identifying displacement effect requires comparing non participants in labor markets with and without the program.

No reason however for markets to be chosen at random (Forslund and Krueger, 1997).

Crepon et al. 2013 implemented in France a double randomization design:
- Small labor market where first randomly chosen to develop or not the program.
- Then eligibles were randomly assigned to the program.

We considered 350 small labor markets and randomly assigned them to have either 0%, or just a share of eligibles to be randomly assigned to the program.
- The hope was also to be able to study scaling-up effects.
Double randomization experiment design

- **Control Markets**: 0% assigned to program
- **Test groups in Test Markets**: 50% assigned to Test Group
- **Control group in Test Markets**: 50% assigned to Control Group
Employment rate after 8 months

ALL JOB MARKETS

<table>
<thead>
<tr>
<th></th>
<th>Control Markets</th>
<th>Test Markets</th>
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<tbody>
<tr>
<td>Control group</td>
<td>40%</td>
<td>35%</td>
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<tr>
<td>Test group</td>
<td></td>
<td>30%</td>
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<td>25%</td>
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Control group in Test Market perform less than Control Markets
True Program Effect on Participants

**Graph Description:**

- **Y-axis:** Percentage from 25% to 40%
- **X-axis:** Control group and Test group
- **Legend:**
  - Control Markets
  - Test Markets

The graph shows the comparison between Control Markets and Test Markets across different percentage ranges.
Wrong Program Effect on Participants

ALL JOB MARKETS

Control Markets

Test Markets

Control group

Test group

Measurement ignoring Displacement effects
Would overestimate impact
Outline

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Heterogeneity

- Heterogeneity of impacts is a key dimension of program evaluation.
- There are different ways to provide evidence about heterogeneity; the conclusion is that there is probably a great deal of heterogeneity.
- Heckman et al. 1997 propose to bounds on the variance bound the correlation between potential outcomes.
  - They show without relying on the identification of a precise source of heterogeneity that it is potentially large.
- In some instances there might be direct evidence that impact is heterogeneous.
- There is however a large amount of evidence about heterogeneity related to observable characteristics.
  - Michalopoulos 2004, showed that there is a strong variability in welfare to work programs.
  - Bergemann and Van den Berg 2008 also documented gender heterogeneity in program impact.
  - Also reported within many papers.
Income distribution for treated and control units in a work fare program
Targeting

- Different ways to think about consequences of heterogeneity
- Adapt program content
  - Friedlander 1988, showed that impacts of welfare-to-work program were the largest outside the core target. This led to a change in program content
- Target programs
  - When heterogeneity is observable: assigned individuals to the program predicted as the most beneficial for them
  - A lot of work done following Manski 2004.
- We have no precise idea of the size of the gains associated with optimal targeting in the context of ALMP
  - Some results showing that caseworkers assignments are suboptimal (Frölich et al. (2003) and Lechner and Smith (2007))
Targeting on observables: gains can be large

- One interesting related paper is by Bhattacharya and Dupas (2012)
- Totally different setting: mosquito net to fight malaria
- The treatment is receiving a subsidy for the purchase of the mosquito net
- The outcome variable is having a mosquito net hanging above bed (a mix of purchase and use)
- They show that the impact of treatment is heterogeneous (mainly depend on income and number of children)
- The new dimension in their framework is that there is a budget constraint: they consider the case where there is subsidies for only 50% of the population
- When only households for which the impact is the largest are assigned the subsidy, the usage rate can be increased by 17% compared to a random allocation
Targeting: self targeting

- There might be individuals enrolled in the program that have nothing to do in the program
- Programs are “contracts”: changing the contract can lead to a change in the composition of those who decide to enter
  - can be used so that only those for which the program has a sufficient impact enroll
- Idea in Besley and Coates 1992 for workfare program vs welfare programs
  - There is an heterogenous population with productivity as an unobservable characteristics
  - Require work in a sufficient amount against cash so that high productivity household self-select out of the program
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Can we improve ALMP

- We have learned several things that leave the door open to improve ALMP
- Sometimes we have been able to identify actions that work
  - One example is information about labor market opportunities especially in developing countries
- Sometimes we have been able to identify that the supposed mechanisms are not the ones at work
  - Demand for programs is surprisingly low
  - Stepping stone vs signaling
  - Employer subsidy and the demand for labor
Information about labor market opportunities

- Some papers have looked at targeted interventions: e.g. information provided to job seekers
- This is actually one area in which several promising results have been obtained
- Lot of these results have also been obtained in developing countries, so for a case where there is almost zero information available
  - Jensen, 2012 (India) show that providing information about jobs availability (as well as offer for placement services) had a large impact on both jobs and aspirations
  - Dammert et al. 2013 (Peru) find that providing information about available vacancies using SMS increases access to employment
  - Beam 2014 (Philippines) shows that providing stipend to access to a job fait had a significant impact on jobs
  - Franklin 2015 (Ethiopia) shows that subsidizing transportation to a place in inner city where job boards are located also increased employment
The demand for programs

▶ One striking feature reported in many papers is that the demand is actually quite weak.

▶ First evidence comes from reviews (Heckman et al. 2000) reporting usually low take-up for program participation.

▶ The most direct evidence comes from Blake et al. 2003.
  ▶ Shows in a tie-breaking experiment that job seekers assigned to mandatory programs hurried to take a job.

▶ Why is it the case?

▶ Most implicit models we have in mind to think about programs assume jobseekers want to participate.

▶ There is apparently something wrong.
The demand for programs

- Individual self-select out of programs but are they right?
- Many reasons to question the way job-seekers decide to participate
- Spinnewijn 2015 shows that there is an overestimation of exit rate and an underestimation of impact of search effort
- More generally the perceived value of participation might be biased downward
- Time preferences might also lead job-seekers to procrastinate and postpone investments in search or human capital
  - Della Vigna Paserman 2005 shows that impatient job-seekers have a less effective search and a lower exit rate from unemployment
- The question is how to design interventions that sustain the demand from job-seekers
  - Some results show that financial incentives matter but on average we know little
Potential outcomes distribution for income in a work fare program
Individuals respond to incentives

- Most programs are actually quite complicated. They have lots of conditions and provides incentives to individuals.
- Actually these incentives can play a strong role. Can be as large as the core general idea of the program.
- Card and Hyslop 2005 is an example.
  - They study the SSP: it has two distinct phases.
    - The second phase is the phase of the “main idea”: receive some cash transfer if working.
    - But also a “qualification phase”: welfare recipients have to find a job within the year to be eligible for the second phase.
- The program had a large impact on welfare participation rates, although quickly fading out over time.
- Half the reduction at its peak was due to the qualification phase and so just half was due to the “main idea” of the program.
Productivity vs Signaling

- Job placement services as well as subsidized jobs rely on the so-called "stepping stone" principle.
- Job seekers receive an opportunity to increase their productivity thanks to a work experience.
- On the other hand, some alternative mechanisms point to signaling.
- Some job seekers are unable to send a signal about their skills and have hard-time entering the market.
- A subsidized work experience would help them signaling their skills or give their employers the opportunity to recognize their skills.
- Pallais 2014 run an experiment supporting the idea that it is more a matter of information about skills than productivity gains.
Value of signal: inefficient hiring

- She invited workers registered at an online marketplace to apply for a job
- She then randomly assigned some of these workers to be hired
- She measured the performance of each worker, rate it, and for half the hired workers provide detailed information about the performance
- Results show
  1. Being hired once improves further performances on the labor market
  2. When information on skills is revealed, performances improve even more on the average

- One important conclusion is that the market generates too little information on workers – Much hiring that would be profitable for the community does not take place
- Giving a person their first experience reveals information that brings one closer to the optimum
Stepping stone effects

- The SSP paper as well as the “Inefficient hiring” paper reach a common conclusion
- Also shared with other paper
  - Autor et al. 2010, on temp agencies and placement in direct employment
- The stepping stone effect does not seem to work well:
  - There is no productivity gains that participant get thanks to the program
- The inefficient hiring paper seems to tell in addition that its more the ability to signal skills that matters
- There might be large implications of these results: after all a subsidized work experience produces this information about skills but it is then lost
Monitoring vs counseling

- Programs come as a mix of assistance and monitoring. What works however?
- Two papers bring on this issue
- Ashenfleter et al. 2005 design a devoted experiment
  - Two systems increasing supervision were tested: checking the conditions for eligibility and reinforcing the surveillance of the search
  - None of the two interventions had an impact
- Van der Klaauw and Van den Ber 2006
  - Model showing that monitoring and counseling have different impact in search when there are various channels of work
  - Show that for job seekers with high search skills monitoring would be inefficient
  - Results from a RCT in the Netherlands and show that results are consistent with prediction
  - Notice that again the model predict heterogeneity in impacts
Surprising effects: job subsidies

- Some surprising effects have also been obtained showing that we do not fully understand all the underlying mechanisms.

- Two papers report a same finding for employer subsidy voucher programs:
  - Galasso Ravaillon 2004, in Argentina
  - Levinsohn et al. (2014) in South Africa

- The reported result is that actually the voucher program had an impact on employment:
  - Treated have a larger employment rate than control
  - However almost no firm claim for the voucher

- Many potential interpretations:
  - Increase in job supply drives the main impact: individuals anticipate they have increased chances to get a job
  - Firms care about the voucher just in case things turn wrong
Conclusion

- A rather grim outlook for active labor market policies
  - Just few positive results obtained and only in employment: almost no impact on income
  - Large difference compared to policy makers expectations
    - In France the unemployment benefit agency was ready to pay €4000 for a reinforced counseling scheme in the hope they will save money on UB
  - No cost-benefits evaluations: not clear that these programs are not an expense rather than a gain
  - Only few evaluation of impact on other outcomes like health, family or criminality

- The threat of the possible existence of equilibrium effects reducing the impact of programs seems quite real
  - Several recent studies show that effects for beneficiaries are often achieved to the detriment of non beneficiaries
Conclusion

- One hope is that results are quite heterogeneous: it is not true that for everybody results are so small
  - Some improvement can be obtained working out the assignment of job-seekers to programs
- There is room for improvement of our understanding of underlying mechanisms
  - In many instances our views on mechanisms behind ALMP are challenged by evidence
- Designing active labor market policies achieving their goal of unemployment reduction and increase in income remains a challenge.
  - This will requires going through the identification of behaviors of unemployed people, firms, and these producing and offering active labor market policy services
  - There might be large gains from minor changes in policies