

Active Labor Market Programs

Bruno Crépon and Gerard Van den Berg

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Outline

Introduction

What do we know about ALMP?

Equilibrium Effects

Heterogeneity and Targeting

Mechanisms

Introduction

- ▶ 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 program 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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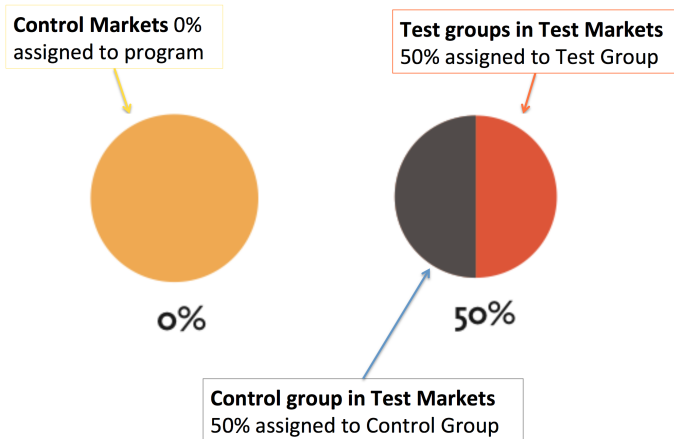
Ideas behind general equilibrium

- ▶ 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

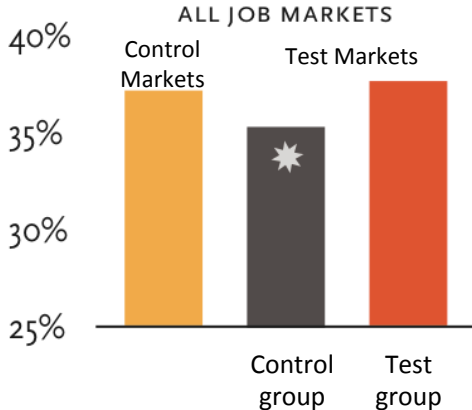
Identification

- ▶ 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 assign 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

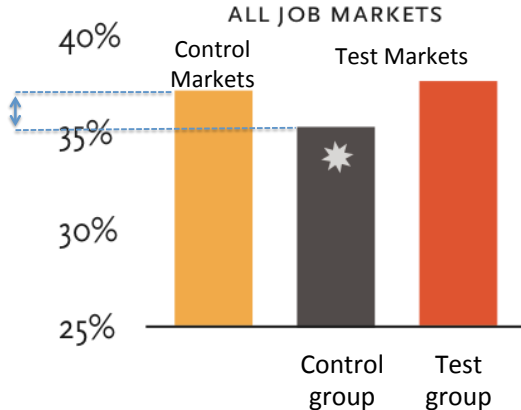
Double randomization experiment design



Employment rate after 8 months

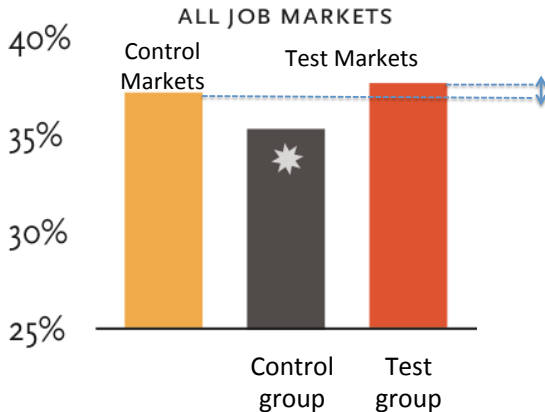


Displacement effect

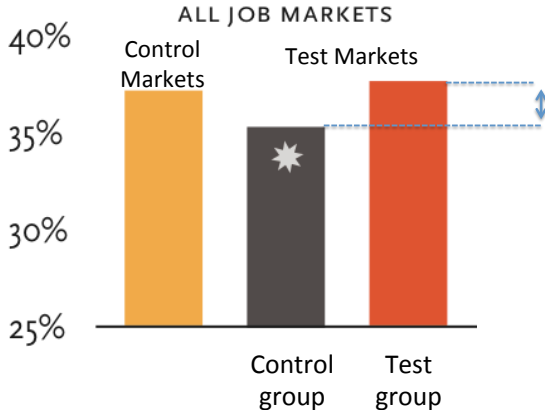


Control group in Test Market perform less than Control Markets

True Program Effect on Participants



Wrong Program Effect on Participants



Measurement ignoring Displacement effects
Would overestimate impact

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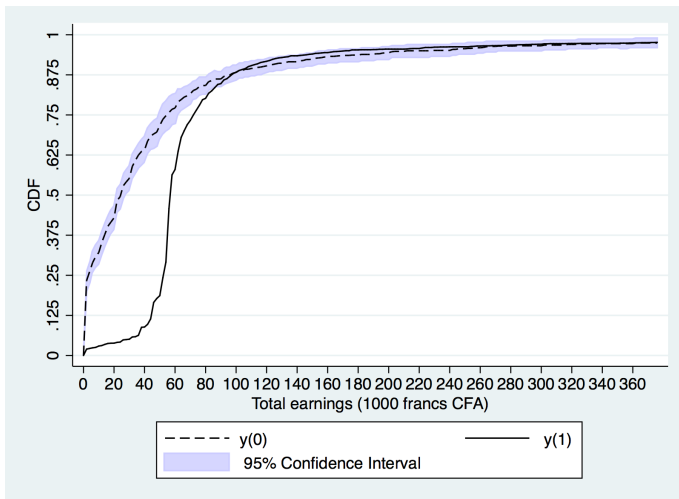
Heterogeneity and Targeting

Mechanisms

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 bound 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 ▶ Workfare
- ▶ 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 workfare 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 a heterogeneous population with productivity as an unobservable characteristic
 - ▶ Require work in a sufficient amount against cash so that high productivity households 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 country, 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 a stipend to access to a job fair 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

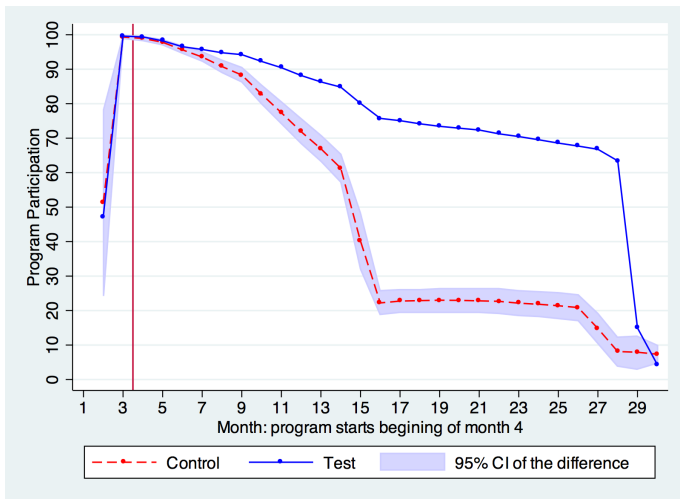
The demand for programs

- ▶ One striking feature reported in many paper 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 ▶ RCA

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 mechanism point to signaling
- ▶ Some jobseekers 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 worker 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 effect 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 Ravallion 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 car 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