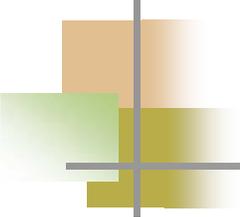


Active Labor Market Programs: What Have We Learned?

David Card, UC Berkeley

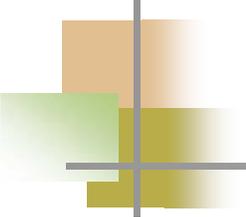


Introduction

Current labor market challenges:

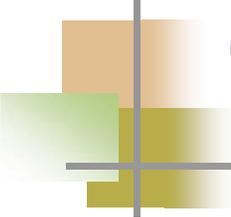
- continuing high unemployment
- low employment rates / earnings of displaced workers, even years later
- growing class of “disadvantaged” with low participation and wages

ALMP's have been proposed (and used in many countries) to address all three!



Some key policy questions

1. What types of programs work better?
 - counseling/search assistance
 - training (classroom/on-the-job)
 - subsidized employment (public/private)
2. Short run versus long run effects?
3. Do ALMP's work better for some groups? In some places or times?
4. Do the programs harm non-participants?



Goals for this talk

1. A (very) basic framework for thinking about how programs actually work, how this relates to program effectiveness, heterogeneity, and displacement
2. A few general lessons from the literature (US and Europe)
3. New issues and directions



A framework

ALMP's are an alternative to "passive" programs like UI/RMI and welfare

Basic goals:

- raise participant employment/earnings
- lower government cost

Other possible goals:

- raise (hold constant?) participant welfare;
raise social welfare?

How do ALMP's work?

1. job search assistance (JSA)

- raise search effort/efficiency of search
- nudge procrastinators
- make program participation "unpleasant"

Implications

- only a short run effect **unless** getting a job changes preferences or future employability (job ladder effect)
- risk of displacement effect (esp. in low-demand market)

How do ALMP's work?

2. training

- raise human capital (HC)
- change preferences

Implications

- training takes time → negative effects in SR
- LR effect: expect max. 10% return(?)
- negative impact if training obsolete/useless
- limited displacement effect

How do ALMP's work?

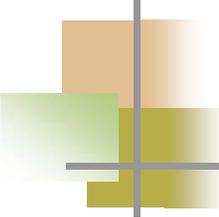
3. direct employment

- range: "hole digging" to subsidized internship
- limited HC accumulation, culturization

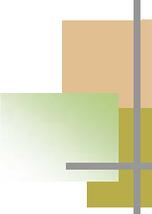
Implications

- only a short run effect unless work changes preferences or future employability
- **highest risk** of displacement effect
- negative impact if alternatives are better

Alternative Programs - Summary



	JSA	Training	Direct Employ
Gov't cost	low	medium/ high	high
SR Effect	positive	negative	positive
LR Effect (best case)	small positive	positive (10%)	small positive
LR Effect (worst case)	small negative	negative	negative
Displacement	medium	low	high



General lessons from the literature

Methodology: US literature is “fixated” on methodology.

Why?

- voluntary programs (wide eligibility)
- extreme selection bias
- few exogenous determinants of participation

BUT: most ALMP's in Europe are mandatory

- much less selection bias, better data
- participation **imposed** by program rules



General lessons from the literature

Substance: **On average:**

- job search and related programs have positive SR effects for participants
- direct employment programs have “worst” SR and LR effects
- training programs have negative short run effects and positive LR effects

But: few stunning successes. 10% return is plausible for a “good” program

Summary of Program Impacts from the Literature

	Percent of Estimates that are:		
	Significantly Positive (1)	Insignificant (2)	Significantly Negative (3)
<u>Short-term Impact Estimate (~12 months):</u>			
a. JSA Programs (N=24)	62.5	29.2	8.3
b. Training Programs (N=77)	33.8	36.4	29.9
c. Direct Empl. Programs (N=56)	33.9	26.8	39.3
<u>Medium-term Impact Estimate (~24 months):</u>			
a. JSA Programs (N=7)	57.1	42.9	0.0
b. Training Programs (N=57)	56.1	42.1	1.8
c. Direct Empl. Programs (N=25)	40.0	28.0	32.0

Relationship Between Short-term and Medium-term Impacts of ALM **Training** Programs

	Percent of Medium-term Estimates that are:		
	Significantly Positive (1)	Insignificant (2)	Significantly Negative (3)
<u>Short-term Impact Estimate:</u>			
a. Significantly Positive (N=15)	86.8	13.3	0.0
b. Insignificant (N=19)	36.8	63.2	0.0
c. Significantly Negative (N=19)	42.1	52.6	5.3

Note: sample includes studies that report short-term and medium-term impact estimates for same program and same participant group.

Recent lessons from US

1. "Individual Choice" in Training

Workforce Investment Act (WIA)

- counseling/search assistance first
- then training with individual training account (ITA)
- eligibility based on participant/counselor decisions; wide variation in implementation
- recent experimental evaluation of ITA: 3 levels of choice/control
- "structured choice" (more oversight) better



Recent lessons from US

2. Self Employment

Project GATE – encouraging business startup

- random assignment of aid for UI claimants to start a business
- small positive impact on business start-up, BUT *negative* effect on total earnings and *positive* effect on government cost (UI)

Recent lessons from US

3. Disadvantaged youth are hard

- Job Corps – intensive/expensive (\$16,000 per person), but limited evidence of LR effects
 - positive 2-year impacts from survey data
 - negligible 4-year impacts from admin data

Recent lessons from US

4. Passive reforms can work

Financial Incentives (FI's) may be "best alternative" to ALMP's (e.g., re-employment bonuses vs. JSA; in-work benefits)

- growing evidence that FI's can raise employment/earnings (e.g., EITC, SSP,...)
- Can FI's also reduce government cost?
- Concern: FI's may make a support program more attractive ("entry effects")



What's Next? – Innovations in Europe

- public vs private provision of services (Bennmarker et al, 2009; Krug&Stephan, 2011; Behaghel et al, 2012)
- displacement effects: Crépon et al, 2012
- do caseworkers matter? Lagerström, 2011
- sanctions/monitoring.....