

# Active Labor Market Programs: What Have We Learned?

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## Introduction

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### **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

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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

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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

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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)

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- 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

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- 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

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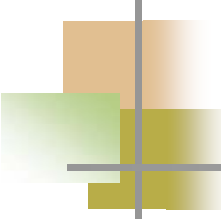
- range: "hole digging" to subsidized internship
- limited HC accumulation, culturization

### 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

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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

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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

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	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

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#### 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

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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

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- 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

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**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

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- 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.....