

IZA DP No. 9966

Evaluating Labour Market Policy

Werner Eichhorst
Regina Konle-Seidl

May 2016

Evaluating Labour Market Policy

Werner Eichhorst

IZA

Regina Konle-Seidl

IAB

Discussion Paper No. 9966

May 2016

IZA

P.O. Box 7240
53072 Bonn
Germany

Phone: +49-228-3894-0

Fax: +49-228-3894-180

E-mail: iza@iza.org

Any opinions expressed here are those of the author(s) and not those of IZA. Research published in this series may include views on policy, but the institute itself takes no institutional policy positions. The IZA research network is committed to the IZA Guiding Principles of Research Integrity.

The Institute for the Study of Labor (IZA) in Bonn is a local and virtual international research center and a place of communication between science, politics and business. IZA is an independent nonprofit organization supported by Deutsche Post Foundation. The center is associated with the University of Bonn and offers a stimulating research environment through its international network, workshops and conferences, data service, project support, research visits and doctoral program. IZA engages in (i) original and internationally competitive research in all fields of labor economics, (ii) development of policy concepts, and (iii) dissemination of research results and concepts to the interested public.

IZA Discussion Papers often represent preliminary work and are circulated to encourage discussion. Citation of such a paper should account for its provisional character. A revised version may be available directly from the author.

ABSTRACT

Evaluating Labour Market Policy

Labour market institutions are deemed to have a great influence on the level and structure of employment. This holds for regulation on employment protection, minimum wages or tax/benefit systems as well as active labour market policies. This is why policy makers implement labour market reforms in order to stimulate job creation. The hope linked to labour market reforms is a sustainable reduction of structural and cyclical unemployment. This chapter reviews major approaches and findings on the evaluation of the impact of different labour market institutions but pays particular attention to active labour market policies that play an important role in the portfolio of economic policy makers in many OECD countries for several decades. Rigorous evaluation in this field has grown rapidly since the early 2000s. Describing concrete evaluation studies we focus on the important role of good data, methodological problems and discuss the impact on participants as well as possible effects on non-participants. We further describe how to investigate whether a programme also achieved positive net effects at a macroeconomic level. Finally, we have a closer look on policy implications and interactions with other institutional features.

JEL Classification: J08, J65, J68

Keywords: active labour market policies, evaluation, labour market institutions, employment protection

Corresponding author:

Werner Eichhorst
IZA
P.O. Box 7240
53072 Bonn
Germany
E-mail: Eichhorst@iza.org

Introduction

Labour market institutions are deemed to have a great influence on the level and structure of employment, i.e. the number and the type and quality of jobs available. This holds for institutional features such as the regulation of employment protection (e.g. dismissal protection, fixed-term contracts), minimum wages, the tax/benefit system as well as active labour market policies (ALMP). This is why policy makers implement labour market reforms in order to stimulate job creation. The hope linked to labour market reforms is a sustainable reduction of structural and cyclical unemployment. This chapter reviews major approaches and findings on the evaluation of the impact of different labour market institutions but pays particular attention to active labour market policies that play an important role in the portfolio of economic policy makers in many OECD countries for several decades. Most notably, in the aftermath of the Great Recession there is renewed interest in the potential for active labour market policies (ALMP's) to help ease a wide range of labour market problems, including youth unemployment and persistent joblessness among displaced adults. But do active labour market policy interventions deliver? Rigorous evaluation in this field has grown rapidly since the early 2000s so that we can now rely on a huge body of evidence across countries, programmes, subgroups of participants and time horizons. Describing concrete evaluation studies we focus on the important role of good data, methodological problems and discuss the impact on participants as well as possible effects on non-participants. We further describe how to investigate whether a programme also achieved positive net effects at a macroeconomic level. Finally, we have a closer look on policy implications and interactions with other institutional features.

1. Labour market institutions and labour market reforms

Since about two decades labour market institutions have received increasing attention as means to explain long-lasting differences in the employment performance between developed countries, most notably persistence divergence in employment and unemployment rates. Institutions are seen as mechanisms that influence the speed and scope of adjustment to economic shocks, with institutions translating economic fluctuations into employment responses via more or less flexibility of wages (see Eichhorst, Feil and Braun 2008). Influential studies such as Layard, Nickell and Jackman (1991), Nickell (1997), Blanchard and Wolfers (2000), and, most important, the OECD Jobs Study (1994) have aimed at establishing links between employment and unemployment rates and structures and institutional arrangements. Core institutions addressed include the wage setting system as regards bargaining coverage and centralization, the generosity of unemployment benefits, spending on active labour market policies, the taxes and contributions raised on labour and, last but not least, the regulation of the labour market via employment protection. The general argument made was that overly protective labour market institutions distort the functioning of price and wage setting mechanisms, thereby leading to higher unemployment and a delayed adaptation after economic shocks. While generous unemployment benefits and high union density were argued to be associated with higher unemployment, the role of active labour market policy spending and bargaining coordination were identified as factors contributing positively to a decline in unemployment. The effect of employment protection was perceived as more ambiguous. Despite the strong influence of these contributions on the broader discourse about labour market institutions and reforms, also promoted via the first version of the OECD Jobs Strategy, the evidence presented received some criticism, in particular referring as regards the robustness of some findings (see, e.g. Baccaro and Rei 2007).

Since these early studies on institutions and employment performance, improved indicators representing country-level institutions have been developed which allow for a more fine-grained picture of national institutional arrangements. In addition, more countries and years could be included in later studies, thereby mitigating the problem of a very limited number of observations. Furthermore, in response to the notable difference in employment performance observed and analysed over the 1990s, most labour markets in Europe underwent major reforms over the last decades, mostly intended to stimulate additional job creation and limit benefit dependency. Typical reform elements are increased wage flexibility facilitated by declining and more decentralized bargaining, a partial change of employment protection legislation in countries with relatively strict dismissal protection leading to more deregulated segment of so-called non-standard types of employment such as fixed-term contracts and temporary agency work and stronger efforts to make benefit receipt formally and in practice more conditional upon participation in active labour market measures and effective job search efforts (see the section below). Of course, both academics and policy makers have developed a strong interest in evaluating the specific and combined impacts of such reforms on labour market performance.

With respect to this a highly influential and comprehensive assessment of employment performance related to institutional determinants was presented by Bassanini and Duval in 2006 in the context of the reassessment of the OECD Jobs Strategy. They use new indicators,

different lengths of time series and alternative specifications for their reassessment of the role of policies and institutions in explaining employment and unemployment patterns in developed countries. Their work also takes up the criticism of lacking robustness in estimations. Their checks include different choices of the estimation samples, alternative model specifications and estimation techniques. Regarding their regressions on the institutional determinants of unemployment in a panel of 21 OECD countries over the years from 1982 to 2003, they find a positive effect of generous unemployment benefits, a large tax wedge and strict product market regulation on unemployment while bargaining centralization or coordination tends to lower unemployment. This basically mirrors the findings of earlier studies. These factors also influence the specific employment rates of particular groups that tend to exhibit a lower employment level if not supported by suitable institutions. Bassanini and Duval also stress the particular importance of interactions between institutions (and reforms) in explaining employment performance. With respect to the core set of labour market institution, they use the a set of institutional indicators, many of them developed by the OECD, that can now be considered a widely used standard, including the unemployment benefit replacement rates for different types of workers, the labour tax wedge (and marginal tax rates for specific groups), the OECD summary indicator for employment protection legislation, an aggregate indicator on collective bargaining and public expenditures on active labour market policies.

Despite these achievements, however, still a large extent to abstraction from specific sub-national variations is required in order to allow for cross-country comparisons. Over the last year empirical investigations focused for example on the role employment protection outside national legislation, i.e. de facto enforcement of dismissal protection by court rulings, specific provisions laid down in collective bargaining and particular exemptions (Venn 2009), thereby complementing the information from the widely used OECD employment protection legislation indicator. Still comprehensive country coverage and time series data continue to rely on the legislative information only. The same holds for most recent attempts at measuring formal national availability criteria as a way to link unemployment benefit generosity to the implementation of activation policies that cannot easily be identified via spending on active labour market policies (see Venn 2012 and Langenbucher 2015).

Furthermore, complementing these broad comparative studies a large bulk of literature has emerged around particular areas of institutional elements. This can probably best be illustrated by the example of employment protection legislation. The deregulation of employment protection focusing on a more liberal access to fixed-term contracts has changed the functioning of labour markets as different types of contracts have become available to both employers and employees or job-seekers. The empirical question that has attracted most attention both, by policy makers and by researchers is to what extent the deregulation of temporary employment has created additional opportunities to enter the labour market and to move to permanent positions after an initial fixed-term contract compared to a situation without or with more restrictive temporary employment options. Advocates of fixed-term employment opportunities tend to stress the need to flexibilize the labour market in order to facilitate the creation of additional jobs as well as the stepping-stone character of these jobs particularly for young people and other labour market entrants. In contrast, critics would argue that fixed-term contracts run the risk of protracted sequences of precarious employment without a realistic chance of promotion, but putting pressure on the quality of

jobs even in other segments of the labour market (for a review of the evidence see Eichhorst 2014).¹

The effects of employment protection regulation and its reforms can be analysed in a multivariate manner at the macro level, using indicators such as the (youth) unemployment or employment rate or the share of fixed-term contracts in different country and/or at different points in time as dependent variables and (changes of) employment regulation as the main explanatory factor. In fact, this has typically been done in the studies discussed above. However, this approach does not allow for empirical conclusions regarding the consequences of employment protection regulation or re-regulation on individual labour market careers. To achieve that, the labour market status of individuals needs to be observed over a certain period of time. Hence, longitudinal datasets are required – or at least cross-sectional data that provide reliable retrospective information. Taking into account individual characteristics and contextual variables as well as information on the institutional constellation, most notable regarding the regulation of dismissal protection and access to different form of temporary employment allows for the analysis of the consequences of being in a fixed-term contract at a certain point in time. Empirical studies can either compare most similar individuals passing through fixed-term contracts with those not in a temporary job or analyse individual labour market trajectories before and after a reform of employment protection.

Taking a classical study as an example, Blanchard and Landier (2002) make a clear point that the introduction of fixed-term contracts in a highly regulated labour market such as the French one can have ambiguous results in practice despite being aimed at reducing notoriously high youth unemployment. Using French survey and panel data from 1983 to 2000, they can show that the labour market for young labour market entrants was particularly affected. The share of fixed-term contracts increased heavily whereas young people were less employed on a permanent basis, while unemployment remained rather constant over time. The transition from unemployment to employment became easier in the 1980s, but in the 1990s the situation was more difficult for young people so there was no clear effect on youth unemployment. In both periods permanent hirings decreased, rates of transition from fixed-term to permanent contracts fell and more young people remained in temporary jobs. The 1990 were also characterized by a longer transition period from fixed-term to permanent employment, albeit still a bit shorter than compared to the transition from unemployment to permanent jobs, and a growing wage gap between fixed-term and permanent jobs, pointing at the unintended development of a segment of low-productivity jobs.

Complementary to this study, Berton, Devicienti and Pacelli 2011 use employer-employee panel data. The authors can show that in Italy the type of temporary contract actually determines the stepping stone potential. They find that temporary jobs can improve the chance of transition to permanent jobs compared to being or staying unemployed, however, in the Italian context transition periods are rather long and exhibit repeated temporary employment spells. Training contracts appear as more conducive to a successful transition whereas freelance jobs and heavily subsidised fixed-term contracts offer little opportunities.

¹ The subsequent section is partly based on this paper.

Quite in contrast to this, Boockmann and Hagen see a good chance of promotion to permanent employment in Germany. In their 2008 paper, these two authors stress the role of fixed-term contracts as a screening instrument that acts as an extended probationary period. Using statistical matching, they can even show that job entries based on initial fixed-term employment are more stable than comparable entries via permanent contracts. In this context, fixed-term contracts have no negative impact on subsequent job stability, but rather they facilitate good matches between workers and jobs. According to McGinnity, Mertens and Gundert (2005) both high-skilled people and low-skilled labour market entrants pass more frequently through a phase of fixed-term employment in Germany compared to vocational trainees. Furthermore, they can show that after five years unemployment rates of initial fixed-term workers and those on an open-ended contract converge. Hence, in the German case there is less evidence of a lasting negative effect of fixed-term contracts as entry jobs on later careers. The trapping hypothesis seems to matter less in Germany in comparison with the screening mechanism.

To better understand cross-country differences, comparative studies have been used to study the crucial role of a whole range of labour market institutions and production regimes on the importance and the potential stepping stone effect of fixed-term contracts. Gash (2008), for example, uses the European Community Household Panel study to analyse the differences in transition rates from fixed-term to permanent employment in France, West Germany, Denmark and the United Kingdom between 1995 and 2001. She finds the highest transition probabilities in Germany and the UK, followed by Denmark and France. These differences can be attributed to the institutional environment, which is not only constituted by employment protection legislation but also by vocational training and economic production regimes. The presence of a coordinated vocational training scheme can in fact explain why fixed-term workers face better permanent job perspectives in Germany, where these jobs often work as probation periods, by contrast to the severe segmentation of the labour market to the detriment of fixed-term workers in France, where the mobility to permanent jobs is difficult and unemployment spells are frequent, particularly concerning short-term publicly subsidised fixed-term jobs. In a similar type of study, Scherer (2004) analyses the consequences of labour market entry via low prestige jobs and fixed-term employment on later careers in Germany, Britain and Italy. Focussing on fixed-term jobs and short-term employment no disadvantageous effects of initial temporary employment on subsequent occupational positions are found, pointing at the role of these jobs as entry portals into the labour market. Finally, D'Addio and Rosholm (2005), in their pooled analysis for a sample of European countries using the European Community Household Panel show that job stability by way of a permanent job after a fixed-term contract depends on a number of individual and context variables. Among others, non-employment before taking up a fixed-term contract, low skills, elementary occupation and age, working in a small firm as well as public sector employment are negatively correlated with a successful transition to a permanent job.

As a response the Great Recession in 2008/09 many countries heavily affected by the crisis have started to reform employment protection again, sometimes going even further with the de-regulation of temporary employment, more prominently, however, also starting to liberalize dismissal protection and raising the requirements for temporary employment, thereby narrowing the regulatory gap between open-ended and fixed-term contracts to some extent. Examples for moves in this direction are to be found in Portugal, Spain and Italy (ILO 2015). Yet, evidence on a changed hiring behavior of employers under the new employment

protection regime is very limited so far. In fact, the shares of hirings on permanent contracts in all hirings which can be calculated using data from the European Labour Force Survey does not show a clear reaction to changes in the employment protection indicators developed by the OECD. This may have to do with the fact that economic conditions are still somewhat fragile in many countries affected severely by the crisis and that reforms have only been adopted very recently in some countries so that they would need some additional time and a certain increase in labour demand to have a significant impact (see Eichhorst, Marx and Wehner 2016 for an interim assessment).

2. Evaluation of active labour market policies

According to the international classification of EUROSTAT², labour market policy (LMP) can be described as public interventions in the labour market aimed at reaching its efficient functioning and correcting disequilibria and which can be distinguished from other general employment policy interventions in that they act selectively to favour particular groups in the labour market. Interventions are divided into *measures, services and supports*. *Services* and *measures* are characterised as active labour market policy (ALMP) and financially supports as passive labour market policy. *Services* refer to labour market interventions where the main activity of participants is job-search related and *measures* refer to activities which constitute a full-time or significant part-time activity of participants during a significant period of time with the aim is to improve the vocational qualifications of participants, or the intervention provides incentives to take-up or to provide employment (including self-employment).

Active labour market policies (ALMPs) play an important role in the portfolio of economic policy makers in many OECD countries for several decades. ALMPs are seen as a means of combating cyclical and structural unemployment and promoting employment. In the aftermath of the Great Recession there is renewed interest in the potential for active labour market policies to help ease a wide range of labour market problems, including youth unemployment and persistent joblessness among displaced adults. In many countries, governments spend substantial amounts on measures of active labour market policy for unemployed workers with the aim of increasing their chances and speed of finding a job. The expenditures for ALMPs like job search assistance, training, wage subsidies and public employment may go above 1% of GDP in some countries. But do active labour market policy interventions deliver?

Credible evidence on the causal impacts of individual ALMPs has become available in Europe only since the early 2000s. In contrast, in the US, the evaluation of ALMPs has been developed already since since the 1980s. The obligation to evaluate large-scale public programs is enshrined in law. In European countries, a general catch-up development in terms of evaluation research can be observed in the last two decades. Considerable methodological progress has been made and data availability and quality has improved substantially. The “pursuit of evidence” might be more or less pronounced among policy makers across EU countries but evidence based ALMP making is nowadays a recognized claim in the political

² <http://ec.europa.eu/eurostat/documents/3859598/5935673/KS-GQ-13-002-EN.PDF/bc4d9da7-b375-4eb3-97c7-766ebf7b4aa0?version=1.0>

landscape of several EU countries like Germany, Switzerland, Denmark, France, Sweden and the UK. In some countries including Denmark, Germany, Sweden and France, randomized field experiments to evaluate different ALMPs have been implemented and active labour market policy in these countries is already a learning policy field with extremely high dynamics and designed in an intensive discourse between policy, practice and science. An excellent example of how evidence-based policy should be implemented is Denmark where not only single ALMPs but also treatment sequences based on relatively high case numbers are tested experimentally before the programme is introduced across the whole country. Ideally, evaluation researchers are already involved in the pilot design.

Within a relatively short period of time the number of impact evaluations has exploded, holding out the prospect of being able to learn from past studies what types of programmes work best, in what circumstances, and for whom. The standard empirical evaluations of labour market policy consider the direct effects (“treatment effects”) of single programmes on their participants in terms of outcome variables like unemployment duration, re-employment rate or earnings after unemployment. They try to answer the key counterfactual question: “What would have happened to a programme participant if he or she had not participated in the programme?” The methods used in evaluating individual ALMPs are very sophisticated, ranging from experimental studies using random assignment to a variety of non-experimental methods using e.g. difference in difference analysis or propensity score matching to construct adequate comparison groups by so-called “statistical twins”. Like in any evaluation the fundamental problem is to find a suitable comparison group to determine the actual (net) effect of the measure. Avoiding the problem of selectivity of observed and unobserved characteristics (e. g. participants have a higher motivation compared to non-participants) is the big advantage in experimental studies because random assignment enables direct comparison between actual participants and actual non-participants. Additionally, non-econometric, qualitative methods are used to analyze the implementation process. They are also used when qualitative targets are set, or when existing data sets do not allow applying econometric methods.

Microeconomic evidence provides information on what works

An ideal ALMP evaluation process involves three steps: (1) based on clearly defined success criteria it should be analyzed whether the participation in a measure is causal for improving the situation of the participating Individuals (2) Then, the question arises whether the individual success justifies the cost for the measure (3) Finally, it has to be examined whether the measure has also achieved net positive effects on the aggregate level.

Available evidence shows that what works depends very much on jobseeker’s profile and on type of measured outcome, i.e. short-term re-employment vs. long-term job stability effects. A recent meta-analysis by Card et al. (2015) of impact estimates from over 200 econometric evaluations from around the world show that on average ALMPs have relatively small effects. The average short run impacts on employment are close to zero³ but become more positive

³ Card et al. (2015) classify programmes into broad types: Training programs including classroom and on-the-job training; job search assistance programmes, private subsidy programmes; sanction/threat programmes and subsidized public sector job programmes. They estimate the effect size, i.e. the impact on the probability of employment on the programme group programme group, divided by the standard deviation of employment in the comparison group of about 0.04 (standard deviation units) and not significantly different from zero in the short run.

2-3 years after completion of the programme. The overall assessment of the evidence shows that the effectiveness and the time profile of impacts depends very much on the type of programme. Whereas activating “work first” style job search assistance and sanction/threat programmes⁴ tend to have larger short term effects, human capital style training and private sector employment subsidies programmes have small short term impacts but have larger gains in the medium or longer run. Public sector employment programmes have negligible, or even negative programme impacts at all time horizons.

Interestingly, active labour market programs are more likely to show positive impacts in a recession. The metza analysis by Card et al. (2015) find suggestive evidence that human capital programmes like long-term job training measures or private employment subsidies are particularly effective in a recessionary climate. The interpretation of this result suggests on the one hand, that the larger pool of (long-term) unemployed in a recession allows for a better match between participants and programmes. On the other hand, the opportunity costs of missing job search efforts during programme participation, the so-called “lock-in” effects, are lower in a recession.

Most evaluation studies also find systematic heterogeneity across participant groups, with larger impacts for females and participants who enter from long term unemployment but lower impacts for younger people below the age of 25 and older workers. For young people with relatively low skills and little labour market experience labour market institutions like strict employment protection legislation or a high minimum wage constitute barriers to enter the labour market which might adversely affect the success of ALMPs. There is, however, no clear picture on the relationship between the effectiveness of ALMP and labour market institutions like employment protection or minimum wages as it is empirically difficult to analyse such relationships. The empirical identification of casual links is hardly possible as regulations change only slowly over time. But Kluve (2013) for example highlights that it’s reasonable to assume that a high employment protection might correlate with lower ALMP effectiveness.

The Impact of ALMPs on aggregate unemployment and employment

Active labour-market policy not only affects the labour-market success of participants. Due to indirect effects (substitution, displacement and deadweight effects) they might also affect the job perspectives of non-participants. Hence, even if ALMP programmes have a positive effect for the participants, this does not mean that ALMP improves the labour-market situation as a whole. Compared to the large body of micro-econometric evaluation studies the number of aggregate impact studies taking indirect effects of ALMPs into account is rather small. In the case of aggregate impact analysis, the counterfactual question is: “What would have happened to a macroeconomic outcome variable if the intensity and mix of ALMP had been different?” There are only few experimental studies testing for indirect effects as the application of an experimental framework is usually limited to rather small number of

The average medium run effect size, by comparison, is 0.12 while the average longer run effect size is 0.19 and both are highly significant.

⁴ If participation in long-term programmes is made compulsory this may have a “motivation” or threat effect encouraging people to find work before programme participation starts.

participants or to a particular group among the job-seekers. One of the larger programmes based on an experimental design is an assistance programme for young college-educated job-seekers in France which was evaluated by Crépon et al. (2013). To control for different programme intensity across regions, the authors randomly draw the proportion of job-seekers to be assigned to the programme for each regional labour market. Afterwards, they randomly assign the eligible job seekers to the programme according to these proportions. As the results show, the labour-market outcomes of the non-treated differ with regard to the programme intensity in a region. This provides evidence of indirect effects of the programme. Displacement effects have also been found in a large scale experimental Danish programme on intensive counselling and job search assistance. While the group of participants improved their employment probability it decreased in the control group (Gautier et al. 2012).

Non-experimental approaches to examine the aggregate effects of ALMPs usually use the variation in ALMP across cross sectional units and time to identify the aggregate effect of ALMP by means of a regression model. Several studies exist which focus on a cross section of different countries. This approach typically relies upon cross-country econometric analysis based essentially on large panel data sets as described above in the chapter on labour market institutions. The hypothesis being tested in this literature is that effective ALMPs can reduce the structural unemployment rate. However, this approach has the disadvantage that programmes and labour-market institutions are very heterogeneous between countries, which makes generalized conclusions on the role of ALMPs rather difficult.

A more promising approach appears to be to use the regional variation in ALMP in a particular country to construct the counterfactual situation. These studies examine whether ALMP affects the matching rate as the matching efficiency is often regarded as the primary contribution of ALMP in reducing the number of unemployed and increasing the number of employees. The results from empirical studies that follow a regional approach are rather mixed. The aggregate impact of ALMP on the matching process differs both by programme type as well as between countries. Further, numerous of these studies fail to find a significant effect of ALMPs. ALMP improves the regional matching process when using an approach which differentiates the programme participants between those currently participating and former programme participants to account for differences in their search effectiveness (“lock-in effect”). Wapler et al. (2014) find for Germany that a higher share of former programme participants leads to an increase of the regional matches. However, this effect varies largely between different types of programmes. Positive effects occur for long-term vocational training and wage subsidies as well as for in-firm training measures. The results also show that the effect of the different programme types depends to some extent on the regional labour-market situation.

From active to activating labour market policies

In standard empirical ALMP evaluations only direct effects of single programmes on their participants are considered. However, single ALMP evaluations might fail to capture important aspects of real-world labour market policy. These are essentially policy strategies defined by

policymakers and public employment service (PES) authorities as well as ALMPs implemented by caseworkers with discretionary powers.

Since the late 1990s/early 2000s the framework for delivering ALMPs has changed in many countries. ALMPs are embedded since then in an activation framework favouring a combination of supportive and demanding policies (Eichhorst et al., 2008). In the context of activating labour market policies benefit receipt has been made conditional upon job search activities and/or participation in ALMP scheme. The concept of “activation” has evolved over time in the light of both, the theoretical understanding of the interactions between benefit systems, labour market institutions and active labour market policies and detailed reviews of different countries’ experiences⁵. Activation regimes differ greatly in their scope and intensity across EU countries, reflecting their different starting points, histories, institutional settings and cultures. But they all involve different combinations of job-search monitoring, benefit conditionality and referral to ALMPs. However, findings from different countries show consistently, that ALMP in an activating framework works best for those benefit recipients who are relatively job-ready. How best to extend activation approaches to benefit recipients of working age who are not as close to the labour market as the typical recipient of UI benefits (e.g. chronic unemployed, recipients of long-term sickness/disability benefits) is an open question.

A country’s “activation regime” might in general affect the effectiveness of single ALMPs, at least indirectly. Arni et al. (2015) advocate to evaluating the effectiveness of labour market policy as *a system* to get a consistent picture on the effects within national unemployment insurance and welfare systems as several labour market policy programmes run at once following national or even regional or local policy strategies. They propose to take into account a “regime effect” which acts over and beyond single treatments. Regime effects can be operationalized, for example, by how intensively implementers (caseworker or PES agencies) are applying different levels of strictness and punitive policies (sanctioning) or different frequencies of supportive policy types (assistance and guidance). Using Swiss data, the authors demonstrate that considering regime effects can change the assessment of the total effect of certain types of policies on individual labour market outcomes.

Evaluation example: Do lower caseloads improve the effectiveness of ALMPs?

Why is it that some caseworkers seem to be more effective than others? One explanation might be that it depends on a case worker’s allocation and referral practices to ALMPs (Lagerström 2011). Another potentially important factor for differences is the caseload, i.e. the ratio of caseworkers to unemployed clients as it dictates how much time and effort a caseworker can devote to each client. More intensive services should improve the employability of the unemployed individuals, diminish and overcome their integration deficits, place them into regular jobs, and stabilize the newly established employment relationships. The question whether lower caseloads improve the effectiveness of ALMPs was tested in a

⁵ The general trend towards activation has been one of the major issues in welfare and labour market reforms in Europe and the US in the last two decades. In the 1990s and early 2000s, the OECD and the European Commission encouraged member countries to implement *effective* activation strategies for the unemployed, arguing that the evidence showed that they would help cut unemployment and boost employment (Martin, 2014).

large-scale pilot project of Germany's employment offices. The ratio of caseworkers to unemployment insurance benefit recipients was set to 1:40 in 14 pilot offices, while it was about 1:100 in the non-participating offices. To evaluate the pilot project qualitative and quantitative methods were used.

The quantitative impact study of the pilot by Hainmüller et al. (2016) is based on a quasi-experimental approach. To generate a situation the close as possible to an experimental design to identify causal effects of the model project, quasi-experimental control groups are constructed via matching methods where both, each participating PES office and each unemployed in the pilot offices were matched with an non-participating PES office or unemployed ideally similar in all important characteristics. To isolate the causal effects of the caseload decrease on several outcomes, a combination of matching and difference-in-differences estimators was applied. Three outcome variables were used to measure the effect of lowering the caseload on the local unemployment rate, the duration of local unemployment, and the local re-employment rate respectively. To measure the outcomes on these indicators administrative data for each employment office have been used. The evaluators also conducted various robustness checks to corroborate the main findings, including placebo tests for differential trends in the pre-program period. Moreover, two intermediate outcomes were considered (sanction rates and number of new vacancies registered) to shed light on the potential causal mechanisms through which caseload affects outcomes. It's to assume that the approaches caseworkers use, i.e. the mix of supportive (counselling) and punitive (monitoring and sanctions) elements, to activate their clients matter for the return to work. Finally, an analysis of the cost effectiveness of the pilot program was conducted.

The pilot project led to more proactive behaviour in participating offices and thus to an improvement in the performance of participating local employment offices. Lowering of caseloads resulted in a decrease in individual unemployment spells by 10 days. The mechanisms through which the observed effects were brought about was analysed In a qualitative analysis (Hofmann et al., 2012). Based on semi-structured interviews with caseworkers and managers the qualitative analysis looked at the dominant use of the additional capacities. Three dominant orientations were identified. In the first group, the focus was on job-seekers by enforcing both, promoting (counselling) and demanding (sanctioning) activities. Compared to the control group, pilot offices imposed more sanctions on clients with low search efforts. In the second group they registered more new vacancies and in the third group of agencies, the focus was on optimizing internal organizational processes. A cost benefit analysis showed that the costs of hiring additional case workers were offset by benefit savings after ten months.

To test if intensified services also work for the hard-to-place unemployed a randomized field experiment was designed to obtain deeper insights into the effectiveness of public compared to private provision of intensive placement services. The experiment was conducted in two German labour-market agencies during the years 2009 and 2010. The regular caseworkers were instructed to randomly assign individuals profiled as hard to place into two groups. After randomization, the control group was transferred to a private placement agency (the default

procedure), whereas the treatment group was immediately sent to a special internal team within the particular agency. The random assignment was based on a computer program that was developed by the PES for evaluation purposes. An important aspect of the experiment was a low caseload (1:40) in the newly introduced teams and case workers got more discretion in how to provide services and in how to allocate their time to different tasks more flexibility and discretion by case worker. For the use of active labour-market measures, the teams were provided with a fixed budget of around €600 per unemployed person. Both groups received intensive placement services for a period of approximately eight months. The internal teams provided individual counselling and also in-house training and they also helped the unemployed cope with problems not directly related to the labour market, such as family-related, financial, and health problems.

For the evaluation, the results from the randomization computer programme were stored in a central database and matched with administrative information on periods of registered job searches, registered unemployment, participation in labour-market programmes, employment features, cut-off periods from benefits and features of the contracted out programme from process-generated research data files. The effectiveness of the counselling and placement services were measured by three main outcome variables that capture different aspects of successful placements: Registered unemployment during the 18 months after assignment, regular employment during the 18 months after assignment and not being registered as unemployed or employed, which in most cases is a result of withdrawal from job quality was measured by accumulated earnings during the 18 months after the assignment.

The experiment resulted in fewer days in unemployment and (to a lesser degree) more days in regular employment for unemployed individuals assigned to in-house services. In the short run, internal services were thus more effective in reducing unemployment than an assignment to private services. By the end of our observation period, the differences in the shares of those in unemployment and employment more or less vanished. Thus, the (additional) effect of internal intensive services was not sustainable in the medium run. Only approximately one-third of the difference in days spent in unemployment resulted from additional days of employment, and daily wages were (insignificantly) lower for those assigned to the internal teams. This implies that the in-house teams were more successful in encouraging individuals to deregister from unemployment (at least in the short run) or to take up lower-paid jobs. The evaluation focused on direct effects of the experiment; indirect effects were not considered. Indirect effects might occur, for instance, through a “crowding out” of unemployed individuals who were not hard to place. A basic fiscal cost-benefit analysis was conducted by comparing the estimated costs of intensive placement services, unemployment benefit expenditures, and estimated contributions to unemployment insurance during our observation period of 1.5 years. The analysis found an advantage of in-house services of approximately €560 and €310 per capita for Agencies 1 and 2, respectively (Krug and Stephan 2016).

The outcomes of the two experimental pilots led to a new service offer INGA (In-house intensified service delivery) in all German PES agencies. The new provision of intensified services (caseload 1:65) for unemployed with “complex profiles” seems to be efficient. The additional costs for more caseworkers are regularly fully compensated by benefit savings due to shorter unemployment spells compared to unemployed with similar characteristics in a reference group receiving regular PES services.

Conclusion

Over the last two or three decades, both macro and micro studies have greatly improved our understanding of labour market institutions. Methodological developments and the supply of better data have contributed to this. At the same time, empirical evidence has also influenced the design of labour market reforms themselves, not least in the area of active labour market policies and activation. We have learned a lot about the interdependence of policies and the crucial role of interactions that need to be observed when trying to influence the functioning of labour markets. While the broader institutional setup of labour markets, comprising wage setting, the tax-benefit system, employment protection or training regimes plays an important role with respect to employment and unemployment rates, well-designed active labour market policies can also make a positive difference. However, short run effects of ALMP measures are rather low and active labour market policy can only contribute little to reduce structural unemployment.

References

- Arni, P., Lalive, R., and G. J. van den Berg (2015): Treatment versus regime effects of Carrots and Sticks. IZA Discussion Paper 9457. Bonn.
- Baccaro, L. and D. Rei (2007): Institutional Determinants of Unemployment in OECD Countries: Does the Deregulatory View Hold Water? *International Organization*, Vol. 61 / Issue 03, July 2007, 527-569.
- Bassanini, A. and R. Duval (2006): Employment Patterns in OECD Countries: Reassessing the Role of Policies and Institutions. OECD Social, Employment and Migration Working Paper 35. Paris.
- Berton, F., F. Devicienti and L. Pacelli (2011): Are temporary jobs a port of entry into permanent employment? Evidence from matched employer-employee. *International Journal of Manpower*, 32(8), 879-899, November.
- Blanchard, O. and A. Landier (2002): The Perverse Effects of Partial Labour Market Reform: Fixed-Term Contracts in France. *The Economic Journal* 112, 214-244.
- Blanchard, O. and J. Wolfers (2000): The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence. *Economic Journal*, Vol. 110 (March 2000): 1-33.
- Boockmann, B. and T. Hagen (2008): Fixed-term contracts as sorting mechanisms: Evidence from job durations in West Germany. *Labour Economics* 15, 984-1005.
- Card, D., Kluge, J. and A. Weber (2015): What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations. IZA Discussion Paper 9236. Bonn.
- Crepón, B., Duflo, E., Gurgand, M., Rathelot, R. and P. Zamora (2013): Do Labor Market Policies have Displacement Effects? Evidence from a Clustered Randomized Experiment", *Quarterly Journal of Economics*, 128(2).
- D'Addio, A.C. and M. Rosholm (2005): Exits from temporary jobs in Europe: A competing risks analysis. *Labour Economics*, 12 (4), 449 – 468.
- Eichhorst, W. (2014): Fixed-term contracts. IZA World of Labor.
- Eichhorst, W., Feil, M.T. and C. Braun (2008): What have we learned? Assessing labor market institutions and indicators. IZA Discussion Paper 2208. Bonn.
- Eichhorst, W., Marx, P. and C. Wehner (2016): Towards more Flexicure Labor Markets? IZA Discussion Paper 9863. Bonn.
- Eichhorst, W., Kaufmann, O., Konle-Seidl, R. and H.-J. Reinhard (2008): Bringing the Jobless into Work? An Introduction to Activation Policies. In: Eichhorst/Kaufmann/Konle-Seidl (ed.): *Bringing the Jobless into Work? Experiences with Activation Schemes in Europe and the US*. Springer, Berlin and Heidelberg.
- Gash, V. (2008): „Bridge or Trap? Temporary workers' transition to unemployment and to the standard employment contract". *European Sociological Review* 24(5), 651-668.
- Gautier, P., Mueller, P., van der Klaauw, B., Rosholm, M. and M. Svarer. (2012): Estimating Equilibrium Effects of Job Search Assistance, IZA Discussion Paper 6748. Bonn.

- Hainmueller, J., Hofmann, B., Krug, G. and K. Wolf (2016): Do lower caseloads improve the effectiveness of active labor market policies? New evidence from German employment offices. In: *The Scandinavian Journal of Economics*, online first.
- Hofmann, B. / Krug, G. / Sowa, F. / Theuer, S., Wolf, K. (2012): Wirkung und Wirkmechanismen zusätzlicher Vermittlungsfachkräfte auf die Arbeitslosigkeitsdauer – Analysen auf Basis eines Modellprojektes, *Zeitschrift für Evaluation*, 11, 7 – 38.
- ILO (2015): *Inventory of Labour Market Policy Measures in the EU 2008-13. The Crisis and Beyond. Synthesis Report.*
- Kluge, J. (2013): *Aktive Arbeitsmarktpolitik: Maßnahmen, Zielsetzungen, Wirkungen. Expertise für den Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Lage Arbeitspapier 07/2013.*
- Krug, G. and G. Stephan (2016): Private and public placement services for hard-to-place unemployed. Results from a randomized field experiment. In: *ILR Review*, Vol. 69, No. 2, S. 471-500.
- Langenbucher, K. (2015): How demanding are eligibility criteria for unemployment benefits, quantitative indicators for OECD and EU countries, *OECD Social, Employment and Migration Working Paper 166*. Paris.
- Layard, R., Nickell, S. and R. Jackman (1991): *Unemployment. Macroeconomic Performance and the Labour Market*. Oxford University Press.
- Martin, J.P. (2014): *Activation and Active Labour Market Policies in OECD Countries: Stylized Facts and Evidence on their Effectiveness*. IZA Policy paper 84. Bonn.
- McGinnity, F., A. Mertens and S. Gundert (2005): A bad start? Fixed-term contracts and the transition from education to work in West Germany. *European Sociological Review* 21(4), 359-374.
- Nickell, S. (1997): Unemployment and Labor Market Rigidities: Europe versus North America. *The Journal of Economic Perspectives*, Vol. 11, No. 3, (Summer, 1997), 55-74.
- OECD (1994): *The OECD Jobs Study*. Paris.
- Scherer, S. (2004): "Stepping-stones or traps? The consequences of labour market entry positions on future careers in West Germany, Great Britain and Italy". *Work, Employment and Society* 18(2), 369-394.
- Venn, D. (2012): *Eligibility Criteria for Unemployment Benefits: Quantitative Indicators for OECD and EU Countries*. OECD Social, Employment and Migration Working Paper 131. Paris.
- Venn, D. (2009): *Legislation, collective bargaining and enforcement: Updating the OECD employment protection indicators*. OECD Social, Employment and Migration Working Paper 89. Paris.
- Wapler, R., Daniel, W. and K. Wolf (2014): *Active labour-market policies in Germany: Do regional labour markets benefit?* (IAB-Discussion Paper, 28/2014), Nuremberg.