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What works and for whom: A review of OECD countries' experiences with active labour market policies

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Summary

■ This paper first reviews trends since 1985 in public spending on labour market programmes, both active and passive. The second section reviews the main findings from recent evaluations of active labour market programmes. At first sight, evaluation findings are not very encouraging, although there are some success stories. Counselling and job-search appear to be particularly cost-effective active measures if they are combined with increased monitoring of job seekers and enforcement of work tests; significant impacts are often estimated for self-employment programmes which are appropriate for only a limited proportion of the unemployed, and hiring subsidies which suffer increasingly from dead-weight and substitution effects as they are expanded. At the same time, an evaluation focus on the post-programme impacts of active measures tells only part of the story. The third section of the paper first examines interactions between active and passive policies, including issues of benefit replacement rates and benefit eligibility conditions. It describes regular "interventions" in unemployment spells by the public employment service (PES) and the motivation effects which may arise when referrals to labour market programmes are made, citing some recent evidence on the effectiveness of these "activation" measures. The importance of good management of the PES is highlighted, with a discussion of some recent attempts at improving its efficiency through the introduction of performance measurement and quasi-competitive mechanisms. The paper concludes that, although active labour market policies are not a magic bullet, significant impacts on aggregate labour market outcomes can arise when appropriate strategies are adopted.■

JEL Classification: J68.
Keywords: Active and passive labour market policies, evaluations, unemployment insurance, interventions in unemployment spells.

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High and persistent unemployment has been a major blot on the economic and social record of most OECD countries since the early 1970s: the OECD average standardised unemployment rate rose from an estimated three per cent in 1973 to a peak of eight per cent in 1993 before falling back to 6.4 per cent in 2000. In response to growing political concerns about the seemingly inexorable rise in unemployment, various policy blueprints were developed in the 1990s to improve labour market performance on a durable basis. Prime examples include the OECD Jobs Strategy launched in 1994 and the EU Employment Guidelines which were launched in 1997 following the Amsterdam summit.

These policy blueprints assign an important role to active labour market policies. But this emphasis begs the obvious question: what is the potential contribution which active labour market policies can make as part of a strategy to combat high and persistent unemployment? In order to answer this question, it is vital to know *what works* among active policies and *for whom*. The OECD Secretariat has been working intensively on these questions in recent years and this paper summarises the main results of our work to date.[1]

The structure of the paper is as follows. Section 1 provides some factual background on public spending on labour market policies in OECD countries over the period 1985-2000. The bulk of the paper summarises the main results of on-going OECD research into the

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[1] This work is presented in OECD (1996a, 2001a).

effectiveness of active labour market policies. This review mainly exploits two sources: (i) the recent literature on the evaluation of active labour market programme (Section 2); and (ii) in-depth country reviews and analytical studies which the OECD has conducted over the past decade on the interactions between active and passive labour market policies and the role of the public employment service (Section 3). The final section draws some conclusions.

1. Recent trends in public spending on labour market programmes

Public spending on labour market programmes absorbs significant shares of national resources in many OECD countries. For analytical and policy purposes, the OECD splits this spending into so-called "active" and "passive" measures. The former comprise a wide range of policies aimed at improving the access of the unemployed to the labour market and jobs, job-related skills and the functioning of the labour market while the latter relate to spending on income transfers, namely unemployment benefits and early retirement pensions (see Box 1).

Box 1. The OECD data base on labour market programmes

Public expenditure on labour market programmes in the OECD data base is defined to include all public outlays, or outlay equivalents for relevant purposes, both public sector consumption and transfers to individuals and enterprises. No distinction is made between central, local government and quasi-public sources of finance, such as social insurance funded by compulsory contributions. The emphasis is on labour market programmes, as opposed to general employment or macroeconomic policies, and so the data base includes only expenditure *targeted on particular labour market groups*. For example, reductions of taxes and social security contributions are included only when they are made in respect of particular labour market groups. Payroll-tax reductions for lower-paid workers are considered general employment policies and are not included.

The data base covers five main categories of "active labour market programmes" (ALMPs) as follows:

- *Public employment services and administration* includes the activities of job placement, counselling and vocational guidance, administering

unemployment benefits, and referring job-seekers to available slots on labour market programmes.

- *Labour market training* is divided into two categories: (a) spending on vocational and remedial training for unemployed adults; and (b) training for employed adults for labour market reasons.
- *Youth measures* cover only special programmes for youth in transition from school to work. They do not cover young people's participation in programmes which are open to adults as well. They include: (a) training and employment programmes targeted to the young unemployed; and (b) apprenticeship training, which is mainly for school leavers, not the unemployed.
- *Subsidised employment* covers targeted measures to provide employment for the unemployed and other priority groups (excluding youth and the disabled). It is divided into three categories: (a) hiring subsidies, i.e. subsidies paid to private-sector employers to encourage them to hire unemployed workers; (b) assistance to unemployed persons who wish to start their own business; and (c) direct job creation for the unemployed in the public or non-profit sectors.
- *Measures for the disabled* include only special programmes for the disabled. The two categories are: (a) vocational rehabilitation training and related measures to make the disabled more employable; and (b) sheltered work programmes which directly employ disabled people.

While the data base mainly provides annual time-series on public spending on all these separate labour market programmes from 1985 onwards, it also includes data on the numbers who participate on the programmes. Participation is generally measured in terms of the *inflows* into the programmes.

The data base also includes two categories of "passive" spending on labour market programmes:

- *Unemployment benefits* which cover all cash benefits paid to the unemployed, e.g. unemployment insurance and assistance;
- *Early retirement pensions paid for labour market reasons* (disability benefits are excluded).

While the data base is very useful for comparing trends in public spending on labour market programmes across OECD countries,

some caveats about its coverage should be noted. First, it only covers public spending on labour market policies. For example, private-sector spending on apprenticeship and training which is very substantial in countries such as Austria, Denmark, Germany and Switzerland, is not included, nor is training organised along industrial lines and financed by special payroll taxes. Second, since one of the criteria behind the selection of programmes for inclusion in the data base is that they be targeted, the data exclude general tax exemptions, work-time reduction measures, etc. Third, spending on labour market policies by sub-national levels of government is not always fully captured in the data. Finally, the data on participant numbers relate to annual inflows to slots on various labour market programmes. They do not tell us anything about the average length of time which a participant spends on the programme nor do they provide any information on repeat spells on programmes.

The OECD is co-operating with Eurostat in an effort to extend the range of information available on public spending on ALMPs and participants on programmes, and to improve its comparability. For further details, see Eurostat (2001).

The OECD has been collecting comparable data on public spending on labour market measures since 1985. Table 1 shows that the typical OECD country spent just over two per cent of its GDP on active and passive labour market measures in 2000. There is also a wide variation across countries in the share of public spending on labour market measures, ranging in 2000 from a low of under 0.5 per cent of GDP in Mexico and the US to a high of 4.5 per cent in Denmark. As expected, Sweden figures consistently over time in the group of countries with above-average spending.

Passive spending typically accounts for one half to two thirds of total spending. In 2000, the average OECD country spent 0.8 per cent of GDP on active measures, up slightly on the level of 1985 but down compared with the spending effort in 1993. Denmark, Ireland and the Netherlands made the largest active spending efforts in 2000, at over 1.5 per cent of GDP, with Belgium, France and Sweden close behind. The lowest active spending efforts were in Mexico, the US and the Czech Republic which only spent 0.2 per cent or less.

1.1. Labour market spending and the cycle

The fact that both total labour market spending and active spending peaked as a per cent of OECD GDP, on average, in 1993, the year which also saw the highest OECD average unemployment rate over the period 1985-2000, is no coincidence. Figure 1 plots the relationship between active and passive spending and the unemployment rate for both the OECD area (Panel A) and the Nordic countries (Panel B).

This shows that both passive and active spending are positively correlated with the unemployment rate. However, the slope of the passive line is greater than that of the active line. This is not surprising. Unemployment benefits are entitlements which tend to fluctuate closely with movements in unemployment. Active policies are more discretionary and typically take some time to design and implement on the ground.

There is evidence of a downward shift in the relationship between passive spending and the unemployment rate during the period of the recent economic upswing in the OECD area. This is particularly noticeable in the Nordic countries and it may reflect a shift in the policy stance towards greater "activation" and a tightening of the eligibility rules for benefit receipt in this period (see Section 3).

Table 1. Spending on labour market programmes, 1985-2000

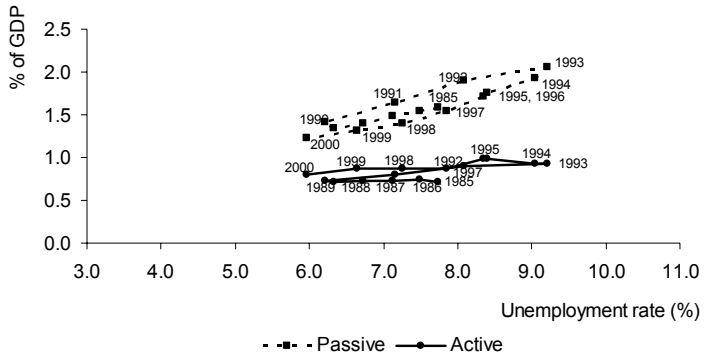
	Total spending (as % of GDP)				Active spending (as % of GDP)				Active spending (as % of total spending on LMPs)			
	1985	1989	1993	2000	1985	1989	1993	2000	1985	1989	1993	2000
Canada	2.49	2.07	2.60	1.46	.64	.51	.66	.45	25.9	24.5	25.3	30.6
Mexico	..	.01	.01	.04	..	.01	.01	.04	..	100.0	100.0	100.0
US	.79	.62	.79	.38	.25	.23	.21	.15	32.1	36.8	26.1	39.1
North America[a,b]	**1.64**	**1.34**	**1.70**	**.92**	**.45**	**.37**	**.43**	**.30**	**29.0**	**30.6**	**25.7**	**34.9**
Japan	.50	.39	.38	.86	.17	.16	.09	.31	33.9	41.1	22.8	35.8
Korea	..	..	.06	.55	..	..	.06	.46	..	..	100.0	83.5
Asia[b]	**..**	**..**	**.22**	**.70**	**..**	**..**	**.07**	**.38**	**…**	**…**	**61.4**	**59.6**
Denmark	5.38	5.49	7.08	4.51	1.14	1.13	1.74	1.54	21.2	20.6	24.6	34.3
Finland	2.22	2.11	6.57	3.30	.90	.97	1.69	1.08	40.7	46.0	25.8	32.8
Norway	1.09	1.83	2.64	1.16	.61	.81	1.15	.77	55.7	44.0	43.7	66.8
Sweden	3.00	2.22	5.67	2.72	2.12	1.57	2.94	1.38	70.8	70.9	51.8	50.9
Nordic countries[b]	**2.92**	**2.91**	**5.49**	**2.92**	**1.19**	**1.12**	**1.88**	**1.20**	**47.1**	**45.4**	**36.5**	**46.2**
Greece	.52	.79	.71	.83	.17	.38	.30	.36	32.7	47.5	43.0	43.1
Italy	..	..	2.51	..	..	..	1.36	..	..	..	54.2	…
Portugal	.69	.71	1.73	1.66	.33	.48	.83	.82	47.3	66.9	48.2	49.1
Spain	3.10	2.98	3.80	2.22	.33	.85	.50	.88	10.7	28.5	13.0	39.5
Southern Europe[a,b]	**1.44**	**1.49**	**2.08**	**1.57**	**.28**	**.57**	**.54**	**.68**	**30.2**	**47.7**	**34.7**	**43.9**
Czech Republic	..	..	.30	.52	..	..	.16	.22	..	..	54.3	42.9
Hungary	..	..	2.76	.87	..	..	.65	.39	..	..	23.6	45.3
Poland	..	..	2.45	2.25	..	..	.58	.54	..	..	23.7	24.0
Above countries[b]	**..**	**..**	**1.84**	**1.21**	**..**	**..**	**.47**	**.39**	**..**	**..**	**33.9**	**37.4**
Austria	1.20	1.20	1.73	1.56	.27	.27	.32	.49	22.6	22.6	18.5	31.4
Belgium	4.68	3.91	4.24	3.67	1.31	1.26	1.24	1.26	28.0	32.2	29.2	34.3
France	3.03	2.60	3.32	3.20	.66	.73	1.25	1.33	21.9	28.2	37.6	41.4
Germany	2.22	2.26	4.10	3.13	.80	1.03	1.58	1.23	36.1	45.6	38.6	39.5
Ireland	4.85	4.01	4.24	3.22	1.46	1.36	1.43	1.53	30.2	33.9	33.7	47.5
Luxembourg	1.41	.90	.83	.89	.50	.28	.18	.26	35.3	31.1	21.4	29.6

Netherlands	4.61	3.87	4.30	3.65	1.25	1.31	1.51	1.57	27.2	34.0	35.0	43.1
Switzerland	.46	.34	1.99	1.05	.19	.21	.38	.47	42.0	62.0	19.1	45.4
UK	2.92	1.56	2.18	.81	.77	.68	.58	.32	26.2	43.9	26.4	4.1
Central and Western Europe[b]	**2.89**	**2.30**	**2.85**	**2.25**	**.80**	**.76**	**.86**	**.90**	**29.2**	**36.0**	**27.6**	**39.1**
OECD Europe[a,b]	**2.59**	**2.30**	**3.45**	**2.35**	**.80**	**.83**	**1.10**	**.96**	**34.3**	**41.1**	**31.8**	**41.8**
Australia	1.67	1.04	2.51	1.40	.41	.24	.71	.45	24.7	23.3	28.4	31.9
New Zealand	1.54	2.66	2.45	2.00	.90	.93	.80	.52	58.6	35.0	32.8	26.1
Oceania[b]	**1.60**	**1.85**	**2.48**	**1.70**	**.66**	**.59**	**.76**	**.48**	**41.6**	**29.1**	**3.6**	**29.0**
EU[a,b]	**2.89**	**2.49**	**3.57**	**2.48**	**.86**	**.87**	**1.12**	**.99**	**31.9**	**38.9**	**31.4**	**39.8**
OECD[a,b]	**2.31**	**2.06**	**2.99**	**2.03**	**.72**	**.72**	**.93**	**.80**	**34.4**	**38.6**	**30.3**	**39.6**

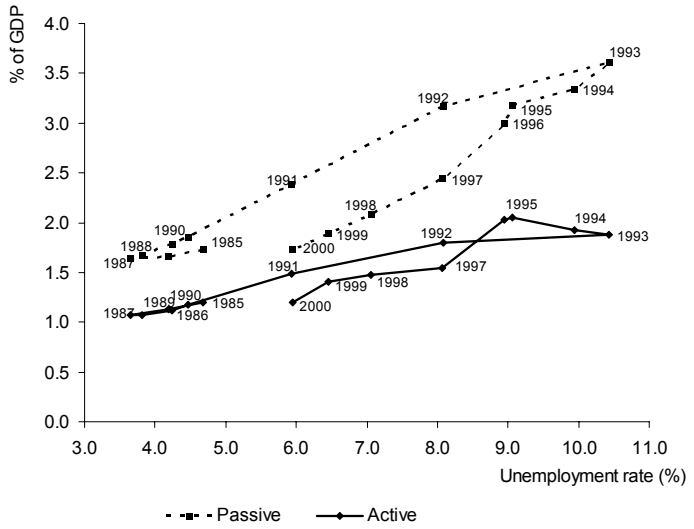
Notes: [a] The averages are calculated including only those countries for which data are available for all of the years shown, and some missing data have been estimated by the Secretariat. [b] Unweighted averages. ..Data not available
Source: OECD data base on Labour Market Programmes.

Figure 1. Active/passive spending and unemployment rates, 1985-2000

OECD average



Nordic Countries



Note: The charts have been drawn on the same scale to facilitate comparisons. Not all OECD countries are included in the figures and regions shown, and some missing data have been estimated by the Secretariat.
Source: OECD data base on Labour Market Programmes.

1.2. Has there been a shift from passive to active measures?

In recent years, it has been a common theme in political debate on remedies to tackle the unemployment problem that Governments should shift the balance of public spending on labour market policies towards active labour market measures. Expansion and enhancement of the effectiveness of active labour market policies is one of the ten policy guidelines of the OECD Jobs Strategy, and the same principle is included in the EU Employment Guidelines.

Have countries managed to switch resources into active measures in line with this policy guideline? Table 1 reveals a small increase in spending on active programmes over time: the OECD (EU) average active spending effort rose from 0.7 (almost 0.9) per cent of GDP in 1985 to 0.8 (1.0) per cent in 2000. But the active share in spending has moved mainly in line with the cycle, dropping to a trough in the recession year of 1993 and only recently regaining the 1989 peak level.

One possible reason for the limited success in switching resources into active measures over the past decade, despite the strong political rhetoric in favour of such a switch, may be related to doubts about the effectiveness of much of this spending. As the next section makes clear, the track record of many active programmes is patchy in terms of achieving their stated objectives. This has led many policymakers to be wary of authorising large spending increases on new or existing programmes.[1]

2. What works and for whom

This section highlights a number of findings from the vast and growing literature on evaluating the effects of individual active measures. There are already several good surveys of this literature, most notably by Heckman et al. (1999). Because of this, our review does not go into exhaustive detail on the individual evaluations. Instead, it seeks to highlight what works and what does not and for whom among the unemployed. It also seeks to highlight some key features in the design

[1] When the national evaluation of the Job Training Partnership Act (JTPA) revealed that it had failed to provide earnings gains to disadvantaged youths, the US Congress eliminated almost all JTPA funding. However, the political process is not necessarily symmetric in the sense of rewarding successful active measures. Denny et al. (2000) highlight the fact that a number of successful active labour market policies in Ireland were either eliminated or run down in scale in the second half of the 1990s whereas some unsuccessful programmes were expanded.

of the programmes themselves or the characteristics of the target group which appear to be particularly relevant for success or failure of the programme in question.

2.1. The literature on evaluation of individual programmes

There is a large literature which seeks to evaluate the outcomes of individual programmes. These evaluations can be divided into two main types. The first type seeks to measure the impact of programme participation on individuals' employment and earnings after they have left the programme, judging the outcomes against the experiences of a benchmark or control group of similar individuals who did not participate in the programme. This type of evaluation makes sense for those active programmes which attempt to make participants more productive and competitive in the open labour market, e.g. training and job-search assistance.

The second type of evaluation attempts to measure the *net* effects of programmes on aggregate employment and unemployment by estimating "dead-weight", "substitution" and "displacement" effects. These evaluations are mostly relevant for subsidised employment programmes. To the extent that subsidised employment programmes have the explicit objective of increasing the number of jobs in the economy at large, evaluations must determine whether the subsidised jobs would have been created anyway in the absence of the subsidy (so-called dead-weight effects). They also seek to quantify whether improved employment prospects for the target group come at the expense of worsened employment prospects for other workers (so-called substitution effects). If dead-weight and substitution effects are evaluated only for firms which use the subsidy, losses of unsubsidised jobs elsewhere in the economy (so-called displacement effects) need to be accounted for separately in order to estimate the net employment effect.

2.2. Caveats to bear in mind when assessing the literature on programme evaluation

Before summarising the main findings from the recent evaluation literature, it is important to stress some caveats concerning the reliability and generality of the conclusions that can be drawn from this literature.

First, much of the evaluation literature relates to the US and Canada where there is a long-standing tradition of evaluating labour market programmes. Indeed, in both countries, there is effectively a mandatory requirement on the public authorities to evaluate their programmes. Few European countries have carried out rigorous evaluations until recently. Happily, this is changing, as tight fiscal constraints make it imperative to get better value for public spending on active labour market policies. As a result, some European countries (we would single out Belgium, Germany, Ireland, the Nordic countries, Switzerland and the UK in this regard) and Australia are beginning to undertake rigorous evaluations of their labour market programmes.[2] However, in other countries, the most common method of "evaluation" still consists of simply monitoring the labour market status and earnings of participants for a brief period following their spell on a programme. While this sort of exercise provides useful information, it cannot answer the vital question of whether the programme in question "worked" or not for participants.

Second, the evaluator's task is greatly complicated by the fact that there is almost never a *stable* set of active programmes to evaluate. Countries are continuously chopping and changing the mix of programmes. This leads in practice to increasing overlap and a proliferation of programmes which are costly to administer.[3] Such programme "innovation" complicates the task of the evaluator greatly.

Third, there is very little evidence on the *long-run* effects of active programmes. The vast majority of rigorous evaluations only provide evidence on short-run outcomes, covering at best one to two years after the person has participated in the programme.[4] This may well be

[2] There is, however, one noticeable difference between the North American and European/Australian evaluations. Many of the former are based on experimental methods whereas all but a few of the European/Australian evaluations are based on quasi-experimental methods.

[3] OECD (1999b) points out that in 1995 there were 163 federal employment and training programmes for adults and out-of-school youths in the US, administered by 15 federal agencies, compared with 125 programmes in 1991. These totals did not include the very large number of similar programmes at state level.

[4] The relative employment rate of a treatment group usually declines during programme participation and starts to increase after completion of the programme. As a result, a programme impact may be negative but on a improving trend at the end of an observation period of one or two years—a pattern found in some Swiss evaluations by Gerfin and Lechner (2001). Grubb (1995, 1999) and Stanley et al. (1998) review some U.S. evaluations that follow individuals for even longer periods,

too short a period for a full assessment of the private and social returns to public investment in many active measures.

Fourth, "outcomes", in the evaluation literature, are invariably expressed in terms of programme impacts on future earnings and/or reemployment prospects of participants, and this stress is reflected in this paper.[5] There is little evidence available on potential social benefits which could flow from programme participation such as reduced crime, less drug abuse or better health.

Fifth, there is an issue about the *scale* of programmes, even for those which appear to work. Many programmes, which have been evaluated rigorously, tend to be small-scale programmes—sometimes called "demonstration" or "pilot" programmes. Even if such programmes "work" in terms of producing statistically significant outcomes for participants, it is unclear from the existing literature how cost-effective they would be if they were greatly extended in terms of scale of participation or geographic coverage. There is also the related problem of significant heterogeneity in outcomes across different geographic locations or sites even if, on average, the demonstration appears to work.

Sixth, many evaluations are undertaken by public sector agencies. While there are good reasons for this, it does give rise to concerns about independence of findings. Therefore, where evaluations are undertaken by public sector agencies, it is important to check whether there has been any *external* validation of the evaluation results in question.

Seventh, while the evaluation literature tells us quite a lot about *what* works and for *which groups*, it is not very instructive in answering other equally important and related questions, such as why do certain programmes work for some groups and not for others (see below), and in what circumstances?

up to six years after their participation on a programme. Grubb (1999) argues that these studies show that any benefits from programme participation tend to evaporate after four or five years. A similar finding is reported in Hotz et al. (2000).

[5] Estimates of programme impact can vary with the definition of the treatment group, which may be all individuals referred to the programme, all individuals who started, or all individuals who completed (excluding drop-outs).

Finally, the existing literature on programme evaluation makes only a partial contribution to an assessment of the effectiveness of active labour market policies as a whole. This is because:

- The evaluation literature typically focuses on specific programmes. Regular job-search assistance, registration and matching of unemployed workers with vacancies, and monitoring of eligibility for unemployment benefit are all important active measures which are usually ignored in the evaluation literature.
- In many countries, during a prolonged spell of unemployment, workers face a general obligation to participate in programmes. For example, Mutual Obligation in Australia requires the young unemployed to participate in one or more of 15 different activities and programmes. The motivational impact of such obligations is typically not captured in evaluations of individual programmes.
- It is not clear how we should draw inferences about the aggregate effects of active programmes from the body of micro-economic evidence concerning the effectiveness of individual programmes.

Some evidence concerning these different forms of active labour market policies and channels for their possible impacts is discussed in Section 3 below.

2.3. Findings from the evaluation literature

The OECD keeps the evaluation literature under continuous review: for recent surveys, see OECD (1993c), Fay (1996) and Martin (2000). What do these reviews tell us about what works and what does not and for whom? Table 2 summarises the main lessons.[6]

[6] Special employment measures for the disabled are not covered here since the OECD has not reviewed the recent evaluation literature in this field. Measures for the disabled accounted, on average, for 17 per cent of total public spending on ALMPs in 2000 (see Figure 2 below).

Table 2. Lessons from the evaluation literature

Programme	Appears to help	Appears not to help	General observations on effectiveness
Formal classroom training	Women re-entrants	Prime-age men and older workers with low initial education	Important that courses have strong labour market relevance, or signal "high" quality to employers. Should lead to a qualification that is recognised and valued by employers. Keep programmes relatively small in scale.
On-the-job training	Women re-entrants; single mothers	Prime-age men (?)	Must directly meet labour market needs. Hence, need to establish strong links with local employers, but this increases the risk of displacement.
Job-search assistance (job clubs, individual counselling, etc.) Of which: re-employment bonuses	Most unemployed but in particular, women and sole parents Most adult unemployed		Must be combined with increased monitoring of the job-search behaviour of the unemployed and enforcement of work tests. Requires careful monitoring and controls on both recipients and their former employers.
Special youth measures (training, employment subsidies, direct job creation measures)		Disadvantaged youths	Effective programmes need to combine an appropriate and integrated mix of education, occupational skills, work-based learning and supportive services to young people and their families. *Early* and *sustained* interventions are likely to be most effective. Need to deal with inappropriate attitudes to work on the part of youths. Adult mentors can help.
Subsidies to employment Of which: Aid to unemployed starting enterprises	Long-term unemployed; women re-entrants Men (below 40, relatively better educated)		Requires careful targeting and adequate controls to maximise net employment gains, but there is a trade-off with employer take-up. Only works for a small subset of the population.
Direct job creation		Most adult and youth unemployed	Typically provides few long-run benefits and principle of additionality usually implies low marginal-product jobs.

Source: The above table draws heavily on the evaluation results presented in Denny et al. (2000), DOL (1995), Carling and Richardson (2001), Fay (1996), Friedlander et al. (1997), Grubb (1995, 1999), Heckman et al. (1999), HRDC (1997), Larsson (2000), Lerman (1997), OECD (1993c) and Stanley et al. (1998).

2.3.1. Public training programmes

Training programmes tend to be among the most expensive active measures. Hence, it is not surprising that training usually accounts for the largest share of spending on active measures: on average, OECD countries devoted 23 per cent of their total public spending on active measures to training programmes in 2000, a fraction that has not varied greatly over the past 15 years (see Figure 2). But evaluations of public training programmes in OECD countries suggest a mixed track record. Some programmes in Canada, Ireland, Sweden and the US have yielded low or even negative rates of return for participants when the estimated programme effects on earnings or employment are compared with the cost of achieving those effects.[7]

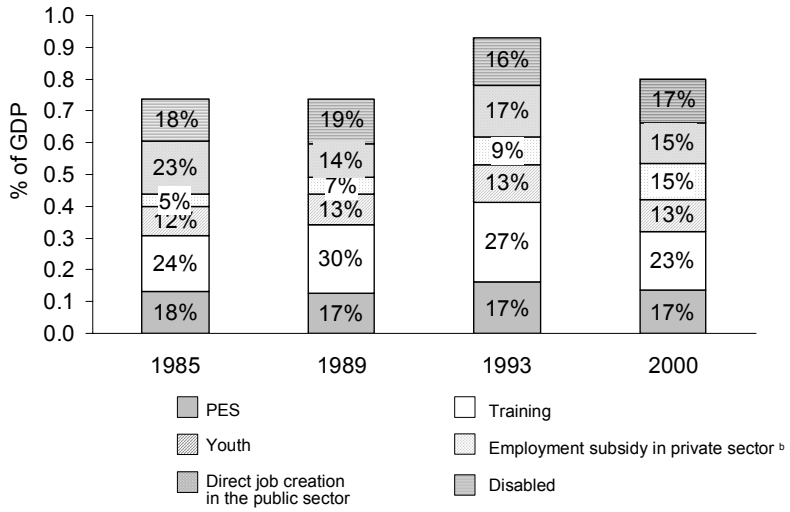
However, the picture is not completely black: some public training programmes do work. Recent comprehensive reviews of public training programmes for disadvantaged groups in the US by Friedlander et al. (1997), Heckman et al. (1999) and Stanley et al. (1998) highlight quite a number of successful programmes in terms of earnings gains and positive rates of return for participants. It is noticeable from these surveys that the most consistently positive results were recorded for adult women. The findings were less optimistic with regard to adult men: some programmes gave positive results, others not (hence, the question mark in Table 2). The most dismal picture emerged with respect to out-of-school youths: almost no training programme worked for them. Two further findings are noteworthy. First, most of the gains took the form of improved employment opportunities rather than higher hourly earnings. Second, even for those groups for whom participation in the programmes yielded a positive rate of return, the estimated annual earnings gains were typically not large enough to lift most families out of poverty.

As noted above, the available evaluation literature can tell us whether training programmes work for particular disadvantaged groups or not. However, it does not provide satisfactory answers as to why they appear to work for some target groups (e.g. adult women) and not for others. Until we have answers to this question, it is going

[7] See Forslund and Krueger (1994) and Carling and Richardson (2001) for a review of the Swedish evaluation evidence on training programmes; Friedlander et al. (1997), Heckman et al. (1999), Stanley et al. (1998) and Grubb (1995) for reviews of the US literature; Park et al. (1996) for a review of some Canadian programmes and Denny et al. (2000) for a review of some Irish programmes.

to be extremely difficult to design cost-effective public training programmes.

Figure 2. Composition of active spending in the OECD area, 1985-2000[a]



Notes: [a] Unweighted averages. [b] Includes support to the unemployed for starting an enterprise.
Source: OECD database on Labour Market Programmes.

Such evidence as exists highlights four crucial features in the design of public training programmes in order to enhance their effectiveness: (i) the need for tight targeting on participants; (ii) the need to keep the programmes relatively small in scale; (iii) the need for the programme to result in a qualification or certificate that is recognised and valued by the market; and (iv) the need to have a strong on-the-job component in the programme, and hence to establish strong links with local employers. At the same time, training programmes which foster strong links with local employers are likely to encourage displacement.[8]

[8] Friedlander et al. (1997) point out that there is no evidence in the rigorous evaluation literature quantifying the size of displacement associated with training programmes for disadvantaged groups.

2.3.2. Job-search assistance

Unfortunately, it is not possible in the OECD data base at the moment to separate out spending on job-search assistance from the administrative costs of running the public employment service (PES): in 2000, the average OECD country devoted 17 per cent of active spending to PES administration, a proportion which has been very stable over the period 1985-2000. Job-search assistance comprises many different types of services, for example initial interviews at the PES offices, in-depth counselling at some stage during an unemployment spell, re-employment bonuses, job clubs, etc. Such services may also be combined with increased monitoring and enforcement of the job-search requirements for receipt of unemployment benefits.

Job-search assistance is usually the least costly active labour market programme. The good news is that evaluations of social experiments from several countries (Canada, Sweden, the UK and the US) show positive outcomes for this form of active measure.[9] One experimental study for the Netherlands (Van den Berg and Van der Klaauw, 2001) found no significant impact: according to the authors' theoretical job-search model, this lack of impact arose because monitoring only served to induce a shift from informal to formal job search, leading to no net increase in job-search activity. However it seems that investment in active placement efforts and raising the motivation of the unemployed, as well as taking steps to encourage and monitor their job-search behaviour, usually pay dividends in terms of getting the unemployed back into work faster.[10] While the optimal combination of additional job-placement services and increased monitoring of job seekers and enforcement of work tests is unclear, the evidence suggests that both are required to produce benefits to unemployment insurance claimants and society.

One particularly interesting form of job-search assistance is re-employment bonuses, i.e. cash payments to unemployment insurance recipients who find a job quickly and keep it for a specified length of time. Such a scheme exists in Japan and Korea and has been experimented with in several US States. The US evaluations show that the

[9] See Meyer (1995) for a review of the US evidence; HRDC (1997) for a review of the Canadian evidence: Dolton and O'Niell (1996) for U.K. evidence; the Swedish evidence is summarised in Björklund and Régner (1996).

[10] However, Canadian evidence, summarised in HRDC (1997), suggests that any earnings gains from job-search assistance are likely to be transitory.

bonus payments did reduce the average duration of unemployment benefit receipt significantly. Hence, this form of incentive to the unemployed to find a job quickly is worthy of consideration as part of an arsenal of job-search assistance measures. However, such bonuses can give rise to negative effects too. Their existence may have an effect on the size of the group claiming the bonus. In particular, they may induce workers with a high probability of finding a new job quickly to arrange with their employers to be laid off so as to collect the bonus. In order to minimise such abuse, Japan has several safeguards in place, monitoring the behaviour of both the bonus claimant and his or her former employer.

2.3.3. Special youth measures

On average, OECD countries devoted 13 per cent of spending on active policies to special youth measures in 2000, a proportion that has varied little over the period since 1985. One of the most disappointing conclusions from the evaluation literature is that almost all evaluations show that special measures are not effective for disadvantaged youths. This holds not only for public training programmes (see above), but also for targeted wage subsidy measures and direct public sector job creation schemes which have been particularly popular in many European countries. For example, after reviewing the extensive U.S. literature, Heckman et al. (1999) conclude:

> "... we believe that neither the experimental or non-experimental literatures provide much evidence that employment and training programs improve US youths' labor market prospects" (p.2068).

A few pages later, having surveyed the European evaluations on youth measures, they draw the equally depressing conclusion that there is:

> "... no consistent indication whether these interventions are more or less effective for youth, nor whether more disadvantaged youth benefit more or less from these programs" (p. 2078).

It is also worth adding that a recent review of two major youth labour market programmes in Sweden by Larsson (2000) comes to similar negative conclusions about their effectiveness.

Among the large number of negative evaluation results, there are a few hopeful signs. Job Corps in the US did yield statistically signifi-

cant earnings gains for disadvantaged youths. However, it had to rely on savings from reduced criminal activity among the target group to produce a net social benefit, given that it is a high-cost programme.[11] In addition, within national demonstrations such as JOBSTART in the US, it is possible to identify specific sites where the programme appeared to work for disadvantaged youths. One such example of a site that appeared to deliver large gains is the Center for Employment Training (CET) in San José, California; it was the only one of the 13 JOBSTART sites which delivered statistically significant earnings gains for youths. However, we do not know precisely what factors distinguished the CET site from the other sites or how feasible it would be to replicate their positive results elsewhere.

Some recent European studies also claim to have identified some successful programmes. For example, Denny et al. (2000) highlight the fact that what they call "market-oriented programmes" (essentially employer wage subsidies) produced positive results for youth in Ireland. Van Reenan (2001) suggests that the U. K. New Deal for Young People (launched in January 1998) resulted in a significant increase in outflows to employment among young males, with most of this effect coming from the employer wage subsidy and enhanced job search. AM (2000) also provides suggestive evidence that recent youth measures have contributed to the steep fall in Danish youth unemployment in the second half of the 1990s.

It is not clear, unfortunately, whether these few success stories can be explained by differences in the degree of disadvantage among the young people in the different schemes. It does seem clear, however, that many European programmes typically deal with a much less disadvantaged group of youths than many of the U.S programmes surveyed by Heckman et al. (1999). But then one is faced with the difficulty that this does not seem to explain the negative findings for Swedish youth measures reported by Larsson (2000).

Faced with this poor track record of special youth measures, what can policy makers do given the strong political pressures in favour of helping the young unemployed? The literature does provide a little guidance. Grubb (1999) has reviewed the evidence on the few suc-

[11] The evaluation results supporting this positive assessment of Job Corps were based on non-experimental methods and were done almost 20 years ago. A rigorous nation-wide evaluation of Job Corps is now underway to try to settle the issue of whether it works or not.

cessful education and training programmes for disadvantaged youths in the US and distilled from it the following five precepts for success:

- effective programmes have a close link to the local labour market and target jobs with relatively high earnings, strong employment growth and good opportunities for advancement;
- they contain an appropriate mix of academic education, occupational skills and on-the-job training, ideally in an integrated manner;
- they provide youths with pathways to further education so that they can continue to develop their skills and competencies;
- they provide a range of supporting services, tailored to the needs of the young people and their families; and
- they monitor their results and use this information to improve the quality of the programme.

In addition to these precepts, the evidence from Canadian and US evaluations suggests that the biggest pay-offs for disadvantaged youths come from *early* and *sustained* interventions. This involves not only intensive efforts to boost their performance in primary and secondary schooling and reduce drop-out rates, it also reaches back to early childhood including the pre-school period. The limited empirical evidence that is available suggests that early childhood interventions of high quality can have lasting effects on the employment and earnings prospects of disadvantaged children, especially if they are sustained over time and not limited to one-shot interventions.[12] It is also important to target support not only at the youngsters themselves but also at their families and local communities. It cannot be overemphasised that if young people leave the schooling system without qualifications and a good grounding in the 3Rs, it is well-nigh impossible for labour market programmes to overcome these handicaps later on.

Finally, several authors, e.g. Lerman (1997), highlight the importance of poor attitudes towards work among disadvantaged youths as a major factor in explaining the dismal record of special youth measures. It is not easy for many programmes to influence attitudes in ways that improve the jobs and earnings prospects of disadvantaged youths. But mentoring programmes, by providing for both on-going

[12] See Currie (2001) and Heckman and Lochner (2000) for good reviews of the effects of early childhood education programmes.

contacts with an adult over an extended period of time and a way of monitoring the behaviour of the young people themselves, can help overcome negative attitudes to work.

2.3.4. Subsidies to private-sector employment

Employment subsidies (including those to unemployed persons starting enterprises) accounted for almost 15 per cent of total spending on active measures in the typical OECD country in 2000, compared with just over five per cent in 1985. Subsidies to private-sector jobs may have a number of objectives other than creating additional jobs. They may seek to enhance effective labour supply by helping individuals to keep in contact with the world of work, thereby maintaining their motivation and skills.[13] For equity reasons they may also be intended to provide the long-term unemployed with jobs, even if this happens largely at the expense of the short-term unemployed. These other goals of wage-subsidy schemes may still be important even if the *net* employment gains of these programmes are very small or zero.

The impact of hiring subsidies paid to private employers can be estimated by equating the subsidy period with programme participation and assessing participant outcomes in terms of later entry to unsubsidised employment, possibly with the same employer. In several OECD countries, evaluations have found that these programmes have a greater impact than public training programmes or direct job creation measures.[14]

At the same time, most evaluations which focus on firm behaviour show that subsidies to private-sector employment have both large dead-weight and substitution effects. As a result, most such schemes yield small net employment gains, particularly in the short term when aggregate demand and vacancies are fixed. For instance, evaluations of wage subsidies in Australia, Belgium, Ireland and the Netherlands have suggested combined dead-weight and substitution effects amounting to around 90 per cent, implying that for every 100 jobs subsidised by these schemes only ten were net gains in employment.

[13] See Richardson (1998) for evidence, using a panel of Australian youths, that participation in subsidised jobs improved their employability.

[14] See Stromback and Dockery (2000) and DEWRSB (2001b) for a comparative evaluation of the Jobstart hiring subsidy in Australia; O'Leary (1998) for the Intervention Works programme in Poland; Carling and Richardson (2001) for subsidised employment in Sweden; and Gerfin and Lechner (2001) for hiring subsidies, paid to workers who accept a low-paid job, in Switzerland.

The evaluation evidence also suggests it may be possible to raise the size of net employment gains associated with private-sector wage subsidies to 20-30 per cent or more via tight targeting of the measures to particular groups among the unemployed and close monitoring of employer behaviour in order to curb abuses. However, there is a difficult trade-off for policy-makers here: the evidence also suggests that the more controls are multiplied in order to curb abuse and maximise the net employment gains from wage subsidies, the less willing are firms to participate in such programmes and employer take-up drops off sharply, defeating the ultimate goal of the exercise. In addition, the more tightly the programme is tied to characteristics of "disadvantage", the greater the risk of so-called "stigma" which may discourage the unemployed from availing of such schemes or convey a negative signal to potential employers concerning the expected productivity and motivation of the individual job-seeker in question.

One specific form of wage subsidy that appears to be successful for a small group of unemployed individuals is aid to starting a small business—such aid accounted for just over two per cent of total active spending in 2000. Controlled experiments in the US suggest that such schemes result in employment gains for men, primarily between the ages of 30 and 40, who have relatively high levels of education. Evidence from less rigorous evaluations of such schemes in other countries such as Australia, Ireland, Norway and the UK tends to confirm longer-term survivability, but only for some of the enterprises started up in this manner.

2.3.5. Direct job creation in the public sector

Spending on direct public sector job creation accounts for relatively similar amounts to public spending on subsidies to private-sector jobs in many countries: on average, the typical OECD country devoted over 15 per cent of its spending on active measures to public-sector job creation measures in 2000.

There is a long history of countries investing significant resources in this particular active measure. As a result, there are many evaluations of this measure covering a wide range of countries. The vast bulk of these studies converge in terms of a conclusion on outcomes: this measure has been of little success in helping unemployed people get permanent jobs in the open labour market. As a result, there has been a marked trend away from this type of intervention: it accounted for almost 23 per cent of average OECD spending on active meas-

ures in 1985 and 17.4 per cent in 1993. This is an encouraging trend since it suggests that policy-makers are not impervious to the messages from the evaluation literature on what works and for whom.

However, OECD countries continue to spend large amounts on such programmes and the policy debate about the utility of this intervention is still alive. Temporary employment programmes in the public sector can be used as a work test for unemployment benefit claimants and as a means of helping the most disadvantaged unemployed maintain contact with the labour market, particularly in a recession when aggregate demand is depressed and vacancies are scarce. But since most jobs provided through direct job creation schemes typically have a low marginal product, they should be short in duration and not become a disguised form of heavily subsidised permanent employment.

2.3.6. Assessment

In sum, our review of the evaluation literature highlights the following six principles which should guide the selection of active policies in order to maximise their effectiveness:

First, rely as much as possible on in-depth counselling, job-finding incentives (e.g. re-employment bonuses) and job-search assistance programmes. But it is vital to ensure that such measures are combined with increased monitoring of the job-search activity of the unemployed and enforcement of the work test.

Second, keep public training programmes small in scale and well targeted to the specific needs of both job seekers and local employers. Build in as much on-the-job content to training programmes as possible.

Third, early interventions, reaching back to pre-school, can pay dividends for disadvantaged youths, but they must be sustained. This should include steps to reduce early school-leaving targeted on at-risk students combined with policies to ensure that they leave the schooling system equipped with basic skills and competencies that are recognised and valued by employers. It is also important to improve poor attitudes to work on the part of such young people and adult mentors can help in this regard.

Fourth, subsidies to private-sector employment can yield significant net employment gains and help to maintain workers' attachment to the labour force. However, employment subsidies should be of short duration, targeted and closely monitored.

Fifth, use subsidised business start-ups for the minority among the unemployed who have entrepreneurial skills and the motivation to survive in a competitive environment.

Finally, minimise the use of direct job creation schemes in the public sector. Where such measures are used, they should be of short duration and targeted to the most disadvantaged.

3. Interactions between active and passive policies

OECD research also suggests that it is vital to focus on the interactions between active and passive labour market policies if one seeks to enhance the effectiveness of active labour market policies. This research draws heavily on reviews of the public employment service (PES) and labour market policies in 18 OECD countries (Australia, Austria, Belgium, Denmark, Finland, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Norway, Spain, Sweden, Switzerland, the UK and the US).[15]

Why is this an important topic? Unemployment and related welfare benefits provide income support to the unemployed while they are searching for jobs. It is well-known that such benefits can have significant effects on work incentives for the unemployed and on the wage-setting behaviour of workers and employers. Active labour market policies aim to help the unemployed get back into work and raise their future earnings prospects by providing them with a range of employment services. But they also provide income support to the unemployed while they participate in an active programme and, as will be seen below, such participation can affect future entitlements to unemployment benefits, thereby influencing the behaviour of labour market actors (Calmfors, 1994). For these reasons, it is important to pay attention to the interactions between active measures and unemployment benefit systems.

3.1. Net replacement rates in OECD countries

An obvious starting point to analysing these interactions is the relative generosity of income support to the unemployed via unemployment benefits or the compensation paid while they participate on an active programme. Unfortunately, we do not have data on the latter, only on

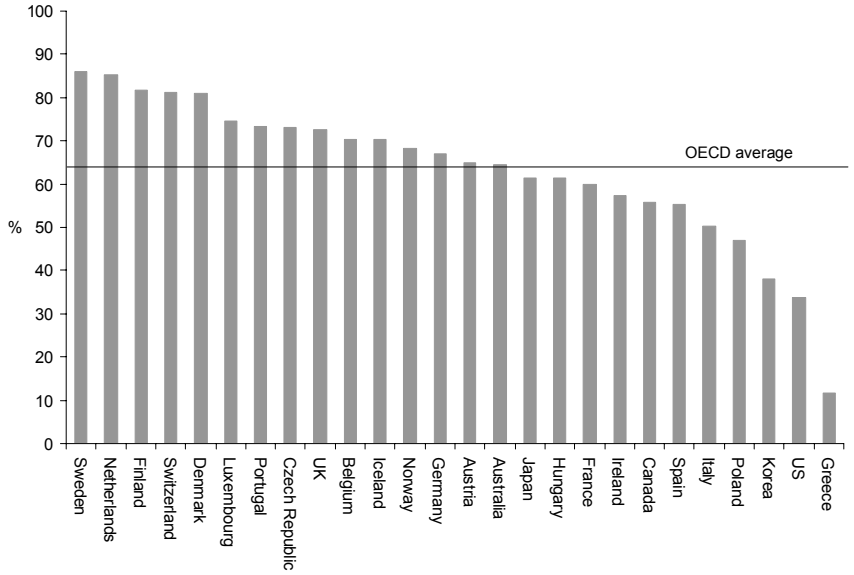
[15] See OECD (1993a, 1993b, 1996b, 1996c, 1996d, 1997, 1998, 1999b, 2001a, 2001b).

the former. But it is likely that both forms of income support are highly correlated. Indeed, it seems to be the case in many countries that participants on some active measures are paid unemployment benefits, sometimes with a small top-up. Hence, trends in the generosity of unemployment benefit systems are likely to be mirrored closely in the average compensation paid to programme participants.

The standard indicator of the generosity of an unemployment benefit system is the so-called "replacement rate", i.e. the proportion of expected income from work which is replaced by unemployment and related welfare benefits. The OECD has devoted much effort in recent years to developing measures of *net* (i.e. after-tax) replacement rates for the purposes of international comparisons.

Figure 3 presents 1997 data on the OECD summary measure of *net* replacement rates. The measure includes unemployment insurance and related welfare benefits (e.g. social assistance, family benefits, housing benefits, employment-conditional benefits and lone-parent benefits). The summary measure is an average (unweighted) of separate net replacement rates covering four different household types and two alternative earnings possibilities; the calculations also incorporate the changing time profile of unemployment insurance (UI) and social assistance (SA) benefits over a 5-year duration of an unemployment spell. These data show that net replacement rates in excess of 70 per cent are quite common in many OECD countries once social assistance benefits, housing benefits and the effect of the tax system are taken into account. While we do not have time-series data on net replacement rates, the available evidence, summarised in Martin (2000), suggests that they have tended to drift upwards in many OECD countries over the past three decades.

Figure 3. The OECD summary measure of net replacement rates, 1997[a,b] (percentage of expected earnings in work)



Notes: [a] Countries are ranked from left to right in descending order of the summary measure. [b] The OECD summary measure has been constructed as the average of net replacement rates, over 60 months, for i) four family types: Single, married couple, couple with two children and lone parent with two children. ii) Two earnings levels: Average production worker (APW) and 2/3 of APW level.

For all countries except France, we assume that unemployment benefits stay at the initial level for the legal duration, as set out in OECD (1999a, Table 2.2). After this period, the person would have SA benefits. Net replacement rates in Table 3.2 (for UI) and 3.5 (for SA) in OECD (1999a) have been weighted accordingly.

Figures for France have been obtained by running the programme of the OECD tax-benefit models.

The information applies to a 40-year worker with 22 years of employment record, previously earning an APW salary or 2/3 of this level. Children are considered to have three and six years of age and not to be in child care. We assume that the spouse is not working and does not have unemployment benefits. Housing costs are assumed to be 20 per cent of gross APW earnings.

Source: OECD data base on taxation and benefit entitlements.

In sum, net replacement rates, whether provided through unemployment and related welfare benefit systems or active programmes, are sufficiently large to have potentially significant effects on work

incentives and on wage-setting behaviour. This, in turn, has led to attempts in recent years to curb the so-called "unemployment trap".

3.2. Benefit administration and activation measures

3.2.1. Benefit eligibility

The most direct step to curb the unemployment trap is to cut replacement rates. However, given the political difficulties in reducing benefit entitlements, the preferred approach to curbing the unemployment trap in the majority of OECD countries has been to make only marginal cuts in the generosity of benefit entitlements, but to tighten up on eligibility conditions for receipt of benefits and to develop "activation" strategies for the unemployed.

Important eligibility criteria in relation to jobseeker behaviour include the obligation to accept suitable work and referrals to available slots on ALMPs, requirements to undertake and report acts of independent job search, and requirements to co-operate with the PES. Benefit eligibility criteria are enforced in several ways: the PES may stop benefit just for the current payment period (e.g. when the person failed to sign on or attend an interview at the employment office), stop or reduce benefit for a defined period into the future (e.g. when a sanction is imposed for refusal of a suitable job), or determine that a person is not eligible or is no longer eligible for benefit at all (e.g. when the person is found to be unavailable for work due to study or care for a sick relative).

Benefit legislation is often fairly strict, in principle. For example, several OECD countries have a requirement on even well-qualified unemployed people to accept most legal jobs available from the first day of unemployment, even though systematic application of this requirement could be counter-productive. Changes to make legislation more operationally relevant—for example, defining in more detail under what circumstances unemployed people must accept jobs with relatively unfavourable conditions—may facilitate implementation and be more effective than changes which only increase the formal strictness of legislation.

Situations where enterprises find it difficult to fill certain vacancies even though the jobs are suitable for unemployed people within commuting distance, or where people fail to participate on ALMPs after referral or soon drop out, are often not followed up systematically. A general policy commitment to ensuring the effective *implemen-*

tation of benefit eligibility criteria—which may need high-level political support—is important.

3.2.2. Interventions in the unemployment spell

As a general principle, benefit eligibility criteria require unemployed people to participate in actions which will improve their chances of re-entering work. This means that there should be no clear distinction between measures which aim to achieve re-entry to work and those which enforce benefit eligibility criteria. Hence, the PES function of implementing benefit eligibility criteria needs to be closely associated with the function of placement.

Although self-motivated unemployed individuals can search effectively, applying for jobs, requesting counselling and applying for relevant training and related opportunities on their own initiative, obligations to participate in assistance measures are needed if motivation is weakened by benefit disincentives or for those unemployed people who, without assistance, use ineffective job-search strategies. Examples of such obligations on unemployed people include: to report their independent job-search efforts; attend intensive interviews; apply for vacant jobs proposed by the employment counsellor; negotiate an individual action plan; and participate in labour market programmes. Because eligibility requirements are involved, these interventions tend typically to be implemented directly by PES staff.

An OECD questionnaire in 1999 (OECD, 2001a) attempted to document the extent to which these "intervention" strategies are used in different countries. According to the findings, only six OECD countries require unemployed people to report their job-search initiatives regularly, as part of basic claim continuation procedures (typically fortnightly or monthly). Nine others review job search less systematically, often as one topic within general intensive interviews. Employment counsellors conduct intensive interviews with unemployed people for the equivalent of roughly 30 minutes every two months in four or five OECD countries, but only once a year or less often, in some others. Direct referrals of unemployed people to vacant jobs, according to incomplete Secretariat estimates, average about three to six per person unemployed per year in Austria, Norway, Sweden and Switzerland, one to two per year in five more OECD countries, and less than one per year in five others. In each case, the higher frequency of interventions could plausibly have a

fairly large impact on the duration of unemployment spells—see Box 2 for some evidence which points in this direction.

Box 2. The impact of regular interventions in the unemployment spell

The 1994 Maryland Unemployment Insurance Work Search Demonstration in the US (Benus et al., 1997) provided evidence on the impact of job-search requirements. A treatment which increased the number of employer contacts required from two to four per week reduced the average duration of UI payments by 0.7 weeks. Informing claimants that reported contacts would be verified with the employer reduced average duration by 0.9 weeks, and dropping the requirement for reporting of contacts (although claimants were still told that they must search for work) increased average duration by 0.4 weeks. Summing these experimental impacts suggests that a strict reporting requirement can reduce average UI duration by about two weeks (17 per cent) compared with the alternative of no requirement.

The British Restart experiment of 1989 provided evidence for a large impact from intensive interviews with the unemployed.[16] After 1989, the Employment Service conducted a number of experiments with the introduction of further interviews at selected local offices. In 1996, new benefit legislation, the Jobseekers' Allowance, defined jobseekers' obligations more clearly, and introduced "active signing" which involves a fortnightly interview of a few minutes' duration with all jobseekers. In comparable before-and-after surveys of the unemployed, conducted in 1995 and 1997, the proportion of the unemployed sample that left benefit for work prior to the first interview (about three months after sampling) had increased by about 40 per cent (McKay et al., 1999).

For the Netherlands, Gorter and Kalb (1996) describe an experiment conducted in 1990. Employment counsellors interviewed all the participants in the experiment to talk about progress in finding a job, and the treatment consisted of spending more time on these interviews. This additional interview time was used to provide additional referrals to vacant jobs, as well as general job-search assistance and in some cases advice about alternatives such as training, but the total

[16] Dolton and O'Niell (1996, 1997) emphasise that Restart interviews provided advice about a range of services and options and led to a higher rate of entry not only into jobs but also into training, full-time education and other job-search assistance. This helps to account for the finding of a substantial long-run impact.

cost of the treatment was equivalent to only about half a day's unemployment benefit. In an evaluation of the outcomes over a one-year period, this treatment increased the number of job applications by a statistically significant 31 per cent, although this increased the final rate of entry to work by only 11 per cent, which was not statistically significant. Many other studies of job-search assistance, cited in Section 2, relate to special programmes such as job clubs and job-search training workshops of several days' duration, rather than to regular employment counselling.

There are few evaluations of the impact of referring unemployed workers to vacant jobs, as compared with leaving jobseekers to access vacancies on a self-service basis. In Australia, 52 per cent of participants who had been allocated to the top-performing providers of the Job Search Training programme reported being sent to a job interview or speaking to an employer about a job, compared with 21 per cent of job seekers from the bottom-performing providers, resulting in a full-time job for 32 per cent and 17 per cent of participants, respectively (DEWRSB, 2001a). An evaluation of Swiss employment offices found that those which achieved the best outcomes used referrals in a targeted way, with attention to hard-to-place jobseekers, and had a below-average rate of "referral errors", i.e. a lower rejection rate for job applications (OECD, 2001a).

If the flow of vacancies is high and unemployment is relatively low, a strategy of referring jobseekers to vacant jobs may be sufficient to "activate" the unemployed and prevent long-term dependency on benefits. This may have been a factor in the maintenance of low unemployment rates in many OECD countries through to the 1960s, and in countries such as Sweden and Switzerland into the 1980s. Later, with the emergence of much higher rates of unemployment accompanied by sharp cyclical falls in job vacancies, the introduction of additional forms of intervention such as interviews and job-search monitoring became essential if the overall intensity of PES interventions in the unemployment spell was to be maintained. In most countries, a number of years passed before such a strategy was developed.

Participation in labour market programmes, other than job-search programmes, is generally accompanied by a fall in job search, leading to a decline in the rate of entry into market work as compared to comparable non-participants—the so-called "retention" effect. Continuing with some interventions in the unemployment spell—such as

job-search monitoring and referral to job vacancies—during participation in ALMPs can partially offset this retention effect. Its aggregate impact can be reduced by not making referrals to ALMPs in the early months of unemployment when rates of job-finding for non-participants remain high.

3.2.3. Action plans and referrals to labour market programmes

If unemployed people expect to be able to enter labour market programmes on a *voluntary* basis, expected utility in unemployment is increased and incentives to search for, and immediately take up, a market job are reduced. This will be particularly true if programme participation generates new entitlements to unemployment benefits. This is a potentially serious issue in many countries. For example, the benefit-renewal function of programme participation is clearly important for a significant proportion of programme participants in Sweden.[17] In other countries, when programme participation is voluntary, policy-makers have sometimes had to offer training allowances or wages for participants that are more generous than unemployment benefits, with a risk that programme participation is preferred to regular employment.

By contrast, when participation in labour market programmes is *compulsory*, jobseeker utility is lowered. In job-creation programmes, the wage or benefit paid, divided by the number of hours worked, is generally close to the minimum wage, and individuals who can earn more than this have a clear incentive to take unsubsidised work alternatives, if available. But some individuals, who are unable to find work at more than the minimum wage, may still prefer programme participation to market work because of greater predictability of the former's status.

Market work outcomes resulting from a participation requirement will be maximised when the unemployed are warned of it in advance (this again implies that the participation obligation should not be applied very early in an unemployment spell) and given additional assistance with the search for market work. This is a reason for associating the management of referrals to ALMPs closely with the regular placement function of the PES.

[17] Individuals entering a programme in their 14th month of unemployment (the month coinciding with benefit exhaustion in Sweden) have consistently among the worst outcomes in terms of employment, studies or de-registration (Sianesi, 2001).

Individual action plans are now often drawn up prior to offers which are made, following EU guidelines, to young people after six months unemployment and to adult workers after 12 months unemployment. The mix of counselling, job-search monitoring, referrals to vacancies, and individual assessment and compulsory referral to a labour market programme varies greatly. In some cases, large impacts from such action plans have been reported.[18]

Several studies indicate that compulsory referral of jobseekers to a specific programme can have a "motivation" or "pre-programme" impact on rates of entry to employment before the start of participation in the programme which exceeds the post-programme impact on participants.[19] In Australia, about 10 per cent of individuals referred to Job Search Training leave unemployment before commencement as a result. Hazard rates off unemployment, between the time of referral and the time of entry to the programme (perhaps six weeks later), are estimated to increase by about 60 per cent (DEWRSB, 2001b). The Maryland experiments cited in Box 2 found that referrals to a four-day job-search training workshop (usually in the third to fifth week of the benefit claim) had an impact, largely through a 28 per cent increase in the hazard rate out of UI in the two weeks preceding the date of the scheduled workshop. In Kentucky experiments, about 75 per cent of the impact of referrals to employment and training services, in terms of reducing the duration of benefit receipt, was found to result from a sharp increase in early exits from UI, which coincided with claimants finding out about their mandatory programme obligations rather than with the actual receipt of employment and training services (Black et al., 1999).

[18] In Ireland, 78 per cent of unemployment beneficiaries aged under 25 who were referred to the National Employment Action Plan after six months in unemployment left unemployment benefit (figures to end-December 1999). About 30 per cent were placed in jobs or training by the PES and many of the others left even before being interviewed (Barrett et al., 2001). In the case of adults unemployed for 12 months aged 45-54, 36 per cent left the register. The Irish action plan probably had a relatively large impact because of a relative absence of interventions at earlier stages in the unemployment spell.

[19] The pre-programme spike in hazard rates in a sample of individuals who have been *referred* to a programme on a *compulsory* basis contrasts with the pre-programme fall in employment rates (the "Ashenfelter dip", documented in Heckman et al., 1999, pp.1893-1897) which is observed (retrospectively) in samples of individuals who have *started* a programme on a *voluntary* basis.

Several studies indicate that general programme participation obligations, in which the jobseeker has to choose from a menu of activities and programmes, have a considerable impact.[20] In Australia's Mutual Obligation programme, as from mid-1998 young people upon reaching six months in unemployment, if not already referred to a specific programme or eligible for a specialist programme such as literacy training, must relocate to an area with better job opportunities, or enter part-time work (minimum eight hours a week), voluntary work, or education and training. If they do none of these, they are referred to Work for the Dole, a job creation programme (12 to 15 hours per week for six months). Results from tracking of hazard rates for 23 and 24-year-olds, who were subject to the obligation in financial year 1998/99, and 25 and 26-year-olds, who were not, indicate that hazard rates off benefit increased by 50 to 60 per cent between about the 23rd and 34th week of unemployment. This reduced the proportion of the cohort that entered long-term unemployment by about 20 to 25 per cent (Richardson, 2000; OECD, 2001b).

In Denmark, as from 1996 young people have been obliged to enter a measure after 26 weeks of unemployment. Increases in the hazard rate of young people into ordinary employment or education at the time this obligation was introduced peaked, at 50 per cent, in the 24th to 28th week of unemployment. Danish adults in 1997 faced an obligation to participate in programmes after three years' unemployment. In 1998, this obligation came in after two years. In this case the hazard rates to employment or ordinary education of 30 to 49-year-olds increased, by 50 to 65 per cent for people with unemployment durations of one and half to three years (AM, 2000). In Switzerland, unemployment benefits for adults are conditional on participation in a programme after the 7th month of unemployment. Lalive et al. (2000) estimate that the impact of this obligation, which is not implemented rigidly, starts to come in one month before the formal deadline. As from one month after the deadline, the hazard to a job is increased by 31 per cent for males and 19 per cent for females.

[20] Most studies identify only part of the impact of programme participation obligations on hazard rates. A general and longstanding requirement for participation, such as exists in Sweden, may have a large impact, but since no observations from a clearly counterfactual situation are available it is difficult to see how the impact can be estimated reliably.

3.2.4. The overall impact of activation measures

Job-search reporting and regular interviews with the unemployed each seem to have impacts of the order of 15 to 30 per cent on hazard rates out of unemployment, implying an equal proportional reduction in mean unemployment durations. Additional strategies of intervention in the unemployment spell by the PES, such as active matching to job vacancies and other measures to monitor benefit eligibility, may have similar impacts, although no precise evidence is available to confirm this. Assuming that impacts partially cumulate across different measures, a full programme of PES interventions in the unemployment spell might increase hazard rates by 30 to 50 per cent or more through the unemployment spell. Where programme participation requirements apply, they appear to have a further impact on hazard rates.[21] By contrast, most evaluation findings suggest that the long-term impacts of training and job creation programmes on the employment rates of their participants average around 10 percentage points. Even in those countries where close to 100 per cent of the long-term unemployed will participate in such programmes the aggregate of these post-programme impacts is likely to be small compared with that of a programme of regular interventions in the unemployment spell *and* programme participation requirements. Thus, statistical evaluations which only consider the post-programme impact of long-term training and employment programmes are not necessarily focusing on the most effective components of active labour market policy.

Given the evidence that activation measures can have a significant impact on the exit rate from unemployment to jobs, it seems reasonable to conclude that OECD countries would be well-advised to use them. However, this decision does need to pay heed to some unresolved issues and potential undesired side-effects:

How sustainable are the impacts arising from activation strategies, such as PES interventions in the unemployment spell and programme participation obligations? Much research has focused on short-run impacts on hazard rates off unemployment benefit or into jobs whereas policy-makers are interested in the sustainability of such impacts. Richardson (2000) found no increase in subsequent rates of return to unemployment for

[21] In Australia, young unemployed people are expected to report from two to four job applications per week in the first six months of unemployment, but their hazard rates nevertheless increase when Mutual Obligation requirements apply.

the group of Australian unemployed that had left as a result of Mutual Obligation requirements. In the UK, although the New Deal for Young People has sharply reduced unemployment for its target group, unemployment for 18 to 25 year olds at durations below six months has fallen less than unemployment in general, suggesting that "churning" is a significant problem (EEC, 2001). On the other hand, Dolton and O'Niell (1997) found that the impact of the six-month Restart interview was sustained over the following five years for males.

How does the impact of activation strategies vary between labour market groups? Findings reported in two major studies of the impact of activation measures (AM, 2000; McKay et al., 1999) suggest that proportional impacts on hazard rates do not vary systematically with the level of labour market disadvantage.[22] This implies, in the absence of other factors limiting the duration of unemployment spells, that a measure which halves mean unemployment duration for a relatively employable group will also halve mean unemployment duration for a relatively disadvantaged group and is equally cost-effective in both cases. A programme participation obligation may be cost-effective when applied to more-employable jobseekers because relatively few of them actually enter the costly programmes. Some studies have also found considerable differences in the impact of activation measures between men and women: this may reflect a greater tendency for women to respond by exiting the labour force (Dolton and O'Niell, 1997; Lalive d'Epinay and Zweimüller, 2000).

How do activation strategies affect re-employment earnings? In the Maryland UI job-search experiments, the relaxed treatment where the requirement of reporting job-search contacts each week was dropped led to an increase of about three per cent in average UI duration but also an increase of about four per cent in annual earnings. In the UK evaluation of the Jobseekers' Allowance, mean re-employment earnings (at constant prices) among those who rapidly re-entered work fell by 21 per cent for males and three per cent for females, between the pre-implementation and post-implementation surveys. There was a large fall in the proportion of re-entrants in the highest pay band. These findings suggest that potentially high-paid workers are relatively well

[22] Black et al. (1999) report some evidence for an inverse-U relationship, where profiling services have their greatest impact for individuals with intermediate levels of employability, but little impact for those who are initially either highly employable or highly disadvantaged.

able to respond to pressure to re-enter work more quickly, but at the cost of accepting lower pay.

These issues imply that activation strategies are not a panacea. Research and attention to detail, to maximise positive impacts and minimise negative ones, remain very important.

3.3. Improving the performance of the Public Employment Service

3.3.1. Performance measurement

As unemployment remains high and many employers continue to fill their vacancies without recourse to the PES, the PES has often been seen as an inefficient public bureaucracy. This has led to suggestions of involving private employment agencies in the placement of the unemployed or bringing market forces or quasi-market mechanisms into the PES. A precondition for this is the development of comparative performance indicators or appropriate payment mechanisms.

Performance indicators are quite widely used nowadays within the PES, for two main reasons: to raise administrative efficiency, and to allow the decentralisation of PES management to the regional and local levels while maintaining basic policy and financing functions at the central level. Examples of quantitative performance indicators and targets include: the number or market share of vacancies notified, the speed with which vacancies are filled, the speed with which new benefit claims are processed, the share of groups with specific employment handicaps in total placements, the number of visits of PES staff to local employers, and the post-programme employment rate of ALMP participants. Additional qualitative targets may also be used, with assessment on a judgmental basis.

Placements by the PES, i.e. the flow of jobseekers into registered vacancies, are often regarded as the most important indicator of performance. However, it is not easy to record PES placements in an objective way. Figures for the Netherlands, for instance, show that the number of placements recorded by the PES is about three times the number of workers who declare they have found a job thanks to the PES (Dercksen and de Koning, 1996). Also, it can be difficult to measure placements achieved through self-service, since clients' use of the facilities is often not registered. Some countries use data on new hires (e.g. from social security records) for tracking placements. In any case, when employment offices provide general job-search

monitoring and assistance, there is a good case for looking at all entries to work or exits from dependency on any benefit, rather than placements directly assisted by the PES.[23]

Even if measurement difficulties are overcome, total PES placements (measured relative to another aggregate, e.g. total hirings or total unemployment) are not by themselves a fully adequate indicator of performance. They need to be complemented by indicators of both placements of disadvantaged target groups and the duration of placements. At the local level, the use of regression techniques to adjust gross data for differences in jobseeker characteristics and local labour market conditions is essential.

3.3.2. Quasi-competitive mechanisms

The Australian experience

Australia's Job Network, introduced in May 1998, currently has more than 200 organisations providing placement services from more than 2000 sites. Incentives and competition within the system are created partly by payment mechanisms and partly by performance assessments, which are used in allocating business in response to competitive tenders. The system is not competitive in the sense that providers leave the market because they are losing money, and other providers are free to enter wherever they see a profitable business opportunity. But it is competitive in the sense that multiple providers operate in the same local labour markets, particularly in large urban areas. It is also a unique experiment among OECD countries—see OECD (2001b) for a detailed description of Job Network and a preliminary evaluation.

The Job Network provides two services, Job Matching and Intensive Assistance, which carry out the traditional core functions of a public placement service. Job Matching providers are paid a fee for each placement of an unemployed jobseeker into a job that involves at least 15 hours of paid employment, with certain safeguards and additional payments for placements of long-term unemployed people that last at least 13 weeks. Jobseekers who are assessed as disadvantaged are, in addition, referred to Intensive Assistance services for about a year. Depending on the assessed level of disadvantage, refer-

[23] Exits from unemployment benefit alone are not a good measure of PES performance, since such an exit can be achieved by transferring a person from unemployment benefit to disability or early retirement benefits, with increased cost to the public purse and less chance that the person will re-enter work.

ral to Intensive Assistance can occur at initial registration, after a year unemployed, or later. Intensive Assistance providers are paid a fee when an individual action plan has been negotiated and signed with the jobseeker, and another fee for placements into paid jobs that last 13 weeks, which is increased if the job lasts 26 weeks. In the second tender period, starting in 2001, the administration has also monitored the services which are provided to jobseekers on a continuous basis, and it may in principle apply sanctions to Intensive Assistance providers or disqualify them from future business if these services fall short of contractual commitments.

Since the introduction of Job Network, the market share of placements by employment service providers, as a percentage of all hirings in the economy, has been maintained. The long-term share in beneficiary unemployment continued to increase until early 2000, but has fallen quite significantly through 2001. It is difficult to know how far these relatively stable aggregate outcomes should be attributed to the introduction of Job Network because other significant changes, including a sharp cut in total spending on ALMPs (concentrated on training and employment programmes for the long-term unemployed) and generally buoyant labour demand and falling unemployment, occurred over the same period.

In some respects, Intensive Assistance providers do not have important resources that would be needed to achieve a large impact via the placement function:

- Intensive Assistance is not integrated with the functions of benefit administration and referral to labour market programmes. Regular job-search monitoring, done by the benefit agency Centrelink, is dropped when jobseekers enter Intensive Assistance. In cases of jobseeker failure to report, Intensive Assistance providers must engage lengthy procedures before referring the case to the benefit agency. Intensive Assistance providers can, in principle, purchase training or other employment services for their clients, but Centrelink implements Mutual Obligation and, in practice, makes most referrals to labour market programmes.
- Although fees are paid for successful placements, the fee differential between placement and non-placement outcomes is often much smaller than the difference in unemployment benefit payments between these two cases. Training or activation measures can therefore generate net social benefit and budgetary savings, yet be unprofitable for service providers.

These issues may be inherently difficult to tackle. Some Job Network providers do not want to have more than minimal involvement in benefit administration. The government may wish to retain control over the functions of benefit administration and referrals to programmes, and it may be reluctant to set up payment systems with the structure and strong financial incentives that theoretical analysis suggests would be needed.[24]

Despite these problems, Australian experience demonstrates that quasi-competitive mechanisms in providing employment services for the unemployed, with payments being made to providers for placements and even multiple providers operating in the same local labour markets, face no major operational problems. Also, the placement rates achieved by different Intensive Assistance providers, even in a given locality, have varied widely and in second tender round decisions of early 2000, the process of eliminating poorly-performing providers—which included Employment National, the successor organisation to the Commonwealth Employment Service—was projected to raise the average placement performance of Intensive Assistance provides by nearly 25 per cent.

The Dutch and Swiss experiences

The Netherlands and Switzerland are two other countries which now have quasi-competitive mechanisms in the management of the PES. In the Netherlands, benefit agencies receive block grants which they must spend on purchasing reintegration services for disadvantaged unemployed. Although benefit agencies have freedom to contract with different providers, mechanisms explicitly evaluating providers' performance against national or local benchmarks are at an early stage of development. Also, most of the cost of benefit payments made by municipalities is reimbursed to them by central government, so their incentives to reduce local unemployment may not be entirely unambiguous.

Switzerland has recently implemented a sophisticated system which measures the placement performance of local employment offices in terms of the average duration of job search for completed un-

[24] Annex A in OECD (2001b) considers a theoretically optimal payment structure for employment service providers and how Intensive Assistance payments differ from this.

employment spells, the proportion of spells which finish in benefit exhaustion, and the proportion of de-registrations which are followed by a re-registration, with regression adjustments for the characteristics of the jobseeker population and the local labour market (see OECD, 2001a, for further details and references). Cantons are responsible for the management of local employment offices, but the federal government pays the costs of administering employment services subject to a bonus/malus system which reflects the performance of the local employment offices managed by each canton. Cantons and other local authorities also bear the cost of any assistance benefits that are paid to benefit exhaustees. This system provides relatively clear incentives for local employment office management, and incentives for cantons to replace management in cases of persistent poor performance. Since also the functions of placement, benefit eligibility decisions (when related to placement work), and referral of jobseekers to programmes are integrated within local offices, a large impact on registered unemployment is possible, and unemployment has actually fallen to low levels.

In general, it seems that quasi-competitive mechanisms can provide efficiency gains, as compared with rigid bureaucratic organisations which lack clear measures of performance and effective mechanisms for replacing the management of inefficient employment offices. However, a well-managed public service may be able to capture many of the potential benefits.

4. Conclusions

At first sight, evaluation findings on the impact of many active labour market programmes in terms of raising the future employment and earnings prospects of participants are not terribly encouraging, especially for disadvantaged youths. But there are some success stories: job-search assistance, wage subsidies in the private sector, and labour market training do work for some target groups, even if the impacts are not large.

At the same time, limits to the coverage of most of the evaluation literature, which has mainly studied the post-programme impacts of one-off programmes, are becoming clearer. Regular interventions in the unemployment spell, such as job-search monitoring, intensive interviews, and referrals to vacant jobs, have only occasionally and partly at the margin (e.g. via the impact of *additional* job-search assis-

tance) been evaluated experimentally. However, large impacts have been found in some evaluations of particular interventions and it is plausible that an effective set of policies of this kind could have a substantial impact. Recently-introduced "activation" strategies, under which many of the unemployed after a specific duration of their unemployment spell are encouraged to intensify job search, with a later obligation to participate in various programmes, have shown evidence of a large pre-programme "motivation" impact on jobseekers. Using a concept of active labour market policy which incorporates these additional perspectives, larger impacts on transitions to employment appear to be envisagable for people receiving unemployment benefits.

The PES plays a key role in implementing strategies of intervention in unemployment in most OECD countries and there have been many attempts in recent years to enhance its effectiveness. Performance indicators have promise as general management tools and are in any case vital for any strategy of decentralisation of the PES or introduction of quasi-market mechanisms. These tools have become more sophisticated in recent years. Indeed, they have developed to the point where quasi-market mechanisms within the PES or even competitive subcontracting of most or all employment service functions are realistic options. Future evaluations of active labour market policies need to look at a range of such strategies, and the efficiency of different governance structures for the PES, so that OECD countries can learn from each other's experiences.

Active labour market policies are not a magic bullet on their own to solve the unemployment problem. Activation policies which combine high-quality assistance with finding work with pressure on unemployed people to accept it can be effective, but more rapid returns to work sometimes come at the cost of accepting lower re-employment earnings. Active policies can be, and have been, temporarily overwhelmed by increases in the numbers of unemployed that are caused by distinct microeconomic or macroeconomic shocks. Aggregate demand matters too.

At the same time, fears that active labour market policies have little aggregate impact, because the estimated microeconomic impacts on target groups come only at the cost of displacing other workers, seem to us misplaced. Only in the short run is total employment fixed (if one person takes a vacancy, another cannot), so that displacement is complete. Over the medium run of a few years, aggregate employment plausibly does adjust to changes in *effective* labour supply,

through both direct mechanisms (when vacancies attract many high-quality applications, employers create more vacancies) and indirect mechanisms (unemployment reduces wage pressures, making business more profitable in an open economy or allowing non-inflationary expansion of aggregate demand in a closed economy). This suggests that insofar as active labour market policies increase effective labour supply, their displacement effects fade away over the medium term. Significant positive externalities can also arise as initial successes in reducing unemployment make it possible to devote more resources to assisting each person remaining unemployed, resulting in a further fall in unemployment. Declines in equilibrium (or structural) unemployment rates achieved by many OECD countries in the 1990s—thanks to a combination of macroeconomic and microeconomic reforms, including greater attention to the interactions between passive and active labour market policies—give some reasons for optimism.

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