

Are active labour market policies effective in activating and integrating low-skilled individuals? An international comparison

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Literature review – theoretical view

- ❑ **ALMPs: Governments' programmes that intervene in the labour market to help people find work.**
- ❑ **Scope: Reduce labour market imbalances and address rigidities and distortions.**
 - **Facilitate the matching process between demand and supply for labour.**
 - **Maintain the level of effective labour supply.**
 - **Boost productivity.**

(Layard and Nickel, 1986; Pissarides, 1990; Layard et al. 1991; Calmfors and Skendinger, 1995; Bellmann and Jackman, 1996)

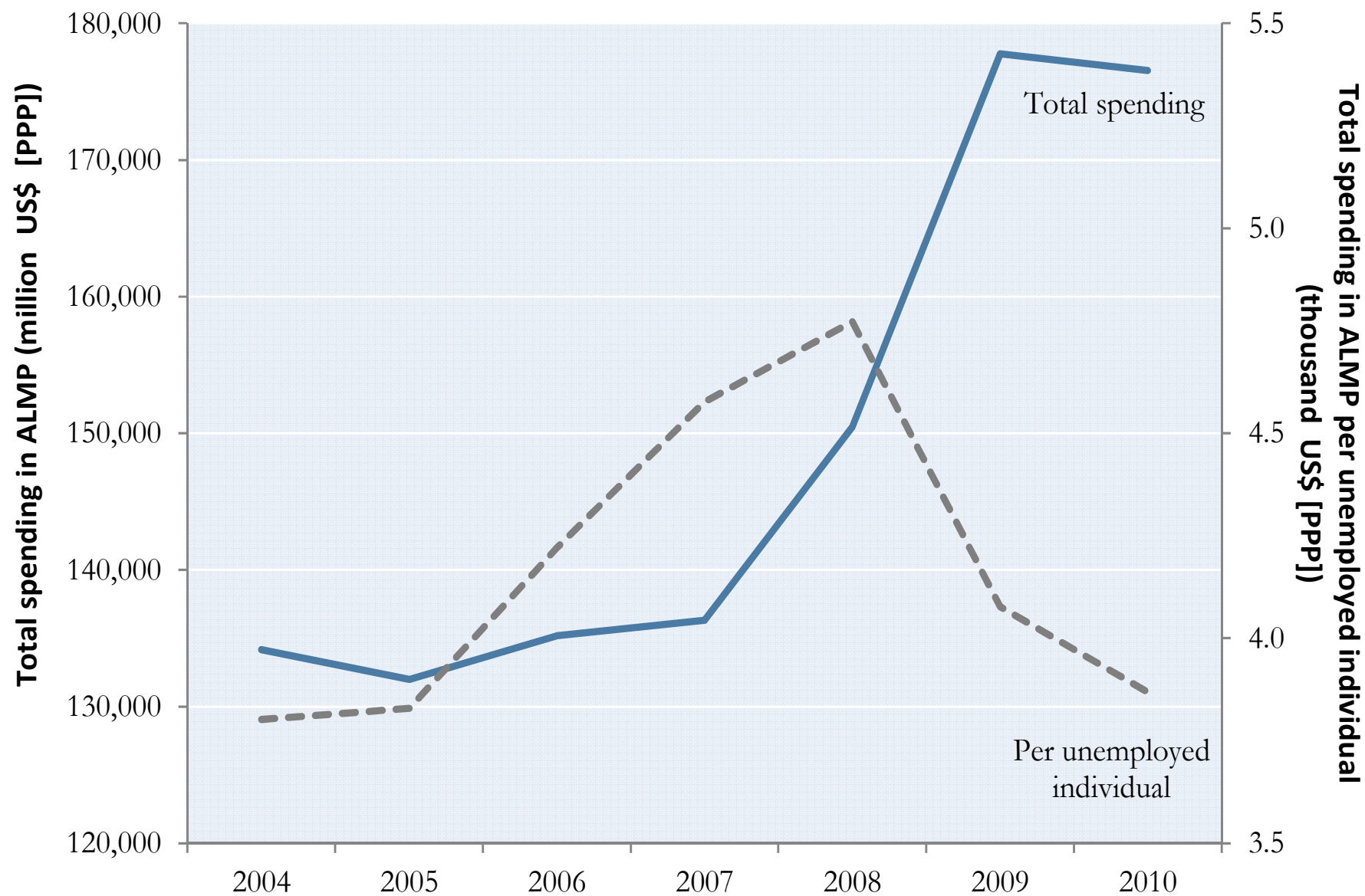
Literature review – empirical view

- ❑ Empirically, results are mixed.
- ❑ Most of what we know is based on micro-econometric evaluations and the flow-model approach (de Koning, Calmfors, Schmid, etc.)
- ❑ Macroeconomic approaches are scarce (Layard and Nickell and OECD).
- ❑ So, little is known about the overall effects of ALMPs – whether the overall benefits outweigh the costs.

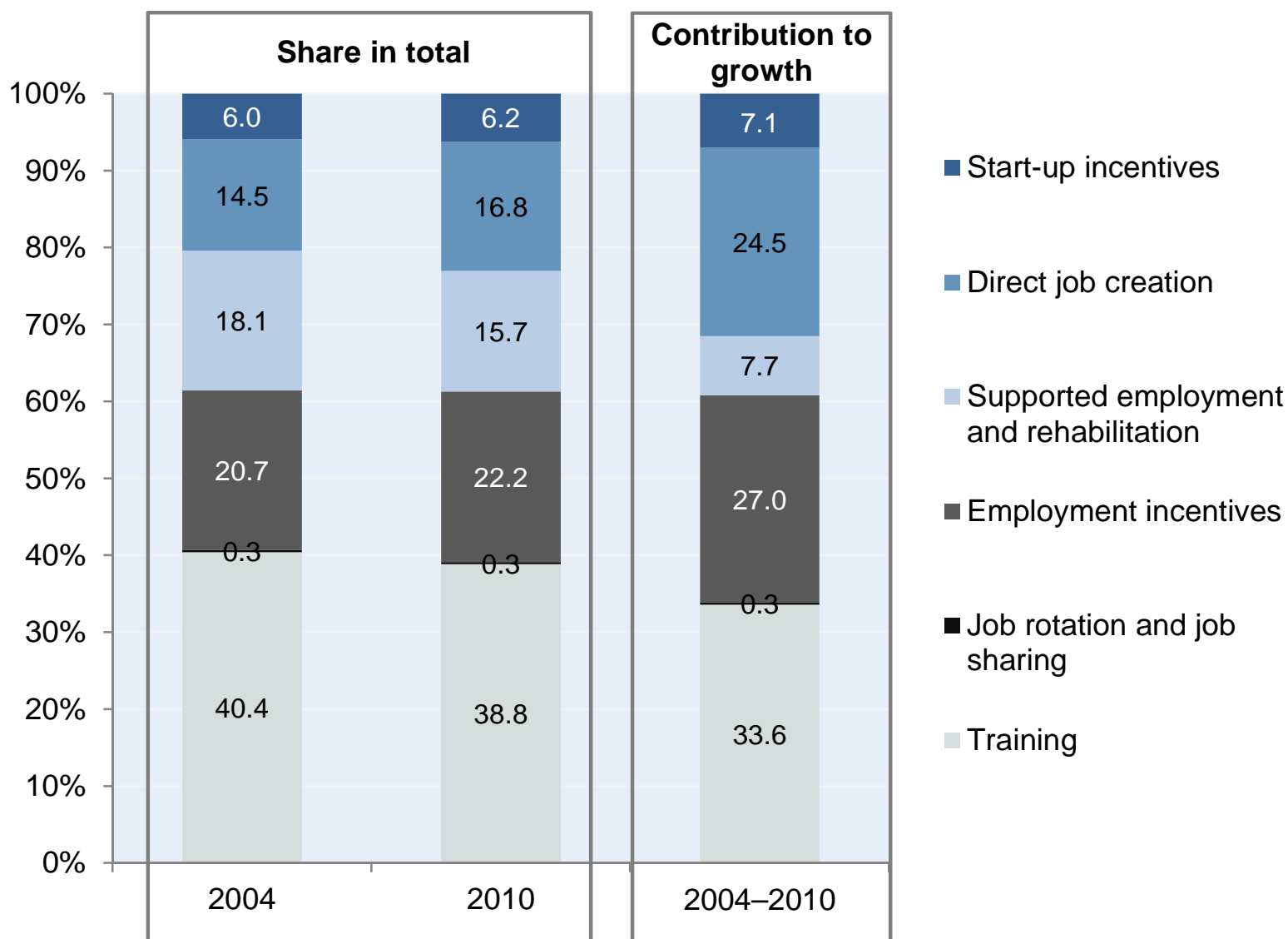
How this work adds to the literature?

- 1.- Renewed and updated effort to study the overall effects of ALMPs.
- 2.- It focuses on low-skilled individuals, which have been among the least researched marginalized groups in this area.
- 3.- Sheds light on the role of implementation in shaping the potential effect of ALMPs.

Evolution of total expenditure on ALMPs



Share of expenditure by type of ALMP policy



Database and variables

$$LM = f(ALMP, IMPL, DC, STRUC, INST)$$

- ❑ The sample includes information for 31/27 advanced economies with annual information for the period 1985–2010.
- ❑ Labour Market: 7 indicators of the labour market for the overall and low-skilled populations.
 - Unemployment, employment and participation rates (overall and low-skilled populations)
 - Share of low-skilled unemployed individuals as a percentage of total unemployment.

Database and variables (cont.)

❑ ALMP:

- CLUSTER: Training, employment incentives, supported employment, direct job creation.
- Job rotation and job sharing
- Start-up incentives

❑ Implementation variables:

- Allocation of resources to public administration
- Continuity in the implementation
- Timing of programmes.

❑ Interaction terms:

- Cluster*PES allocation
- Cluster*timing and Cycle*timing
- Cluster*continuity

❑ Controls:

- GDP growth, structure of the labour market, institutional arrangements and pure controls.

Findings: Effect of ALMPs

- ❑ ALMP seem to matter on the aggregate level but not all policies show significant impacts.
- ❑ Training, employment incentives, supported employment and direct job creation measures show the most favourable overall results.
- ❑ Job-rotation and job-sharing policies show no impact.
- ❑ Start-up incentives seem to have an unemployment reducing effect.

	UNR	UNR LSK	EMP RATE	EMP RATE LSK	LFPR	LFPR LSK	Share of LSK UN
Policy Cluster	-2.02***	-2.97***	1.17***	1.85***	0.34***	1.36*	-1.99**
Job rotation and job sharing	NS	NS	NS	NS	NS	NS	NS
Start-up incentives	-2.32***	-3.86**	1.9**	NS	NS	NS	NS

To put those numbers in perspective:

❑ Cost for one fewer unemployed:

Country with:	Unr = 10% (e.g. France, US)	Unr = 20% (e.g. Spain)
Policy cluster-type measures	US\$25,000 (PPP)	US\$50,000 (PPP)
Start-up incentives	US\$3,300 (PPP)	US\$6,500 (PPP)

❑ Just for comparison:

Expenditure in:	France (2010)	Spain (2010)
Labour compensation per employee	US\$47,500 (PPP)	US\$40,000 (PPP)
Cost for society of benefit system per unemployed	US\$12,800 (PPP)	US\$18,000 (PPP)
Cost for the government of unemployment assistance	US\$7,300 (PPP)	US\$7,700 (PPP)

Findings: Effect of implementation

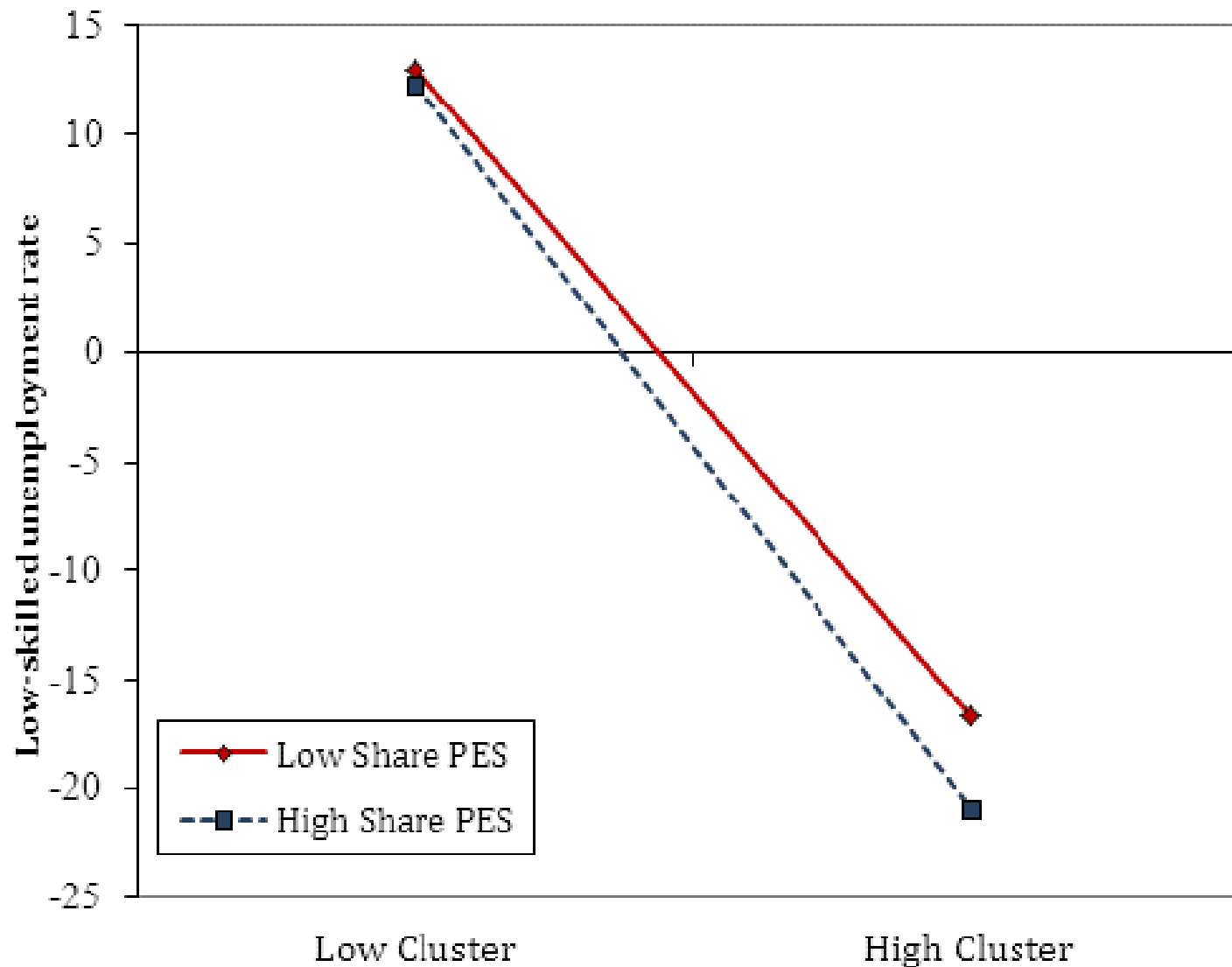
- ❑ The most effective and favourable implementation aspect seems to be the allocation of resources to PES.
- ❑ A disruption of policy continuity seems to be detrimental for all labour market variables.
- ❑ Finally, timing seems to affect the labour market but in an ambivalent way.

	UNR	UNR LSK	EMP RATE	EMP RATE LSK	LFPR	LFPR LSK	Share of LSK UN
Cluster * PES allocation	NS	-1.09*	NS	1.83**		1.74**	NS
Cluster * Timing	1.72***	2.68***	-0.79**	-1.64**		-1.35**	NS
PES allocation	-4.1***	NS	4.1***	NS	3.54**	NS	NS
Continuity in implementation	NS	-0.16**	0.19***	0.18**	0.11***	0.16**	NS
Correct timing of policies	-2.93***	-3.63**	-4.25***	-4.05*	-3.75***	NS	-16.2**
Cycle * Timing	NS	(-)**	(+)**	NS			
Observations	452	336	364	352	336	326	306

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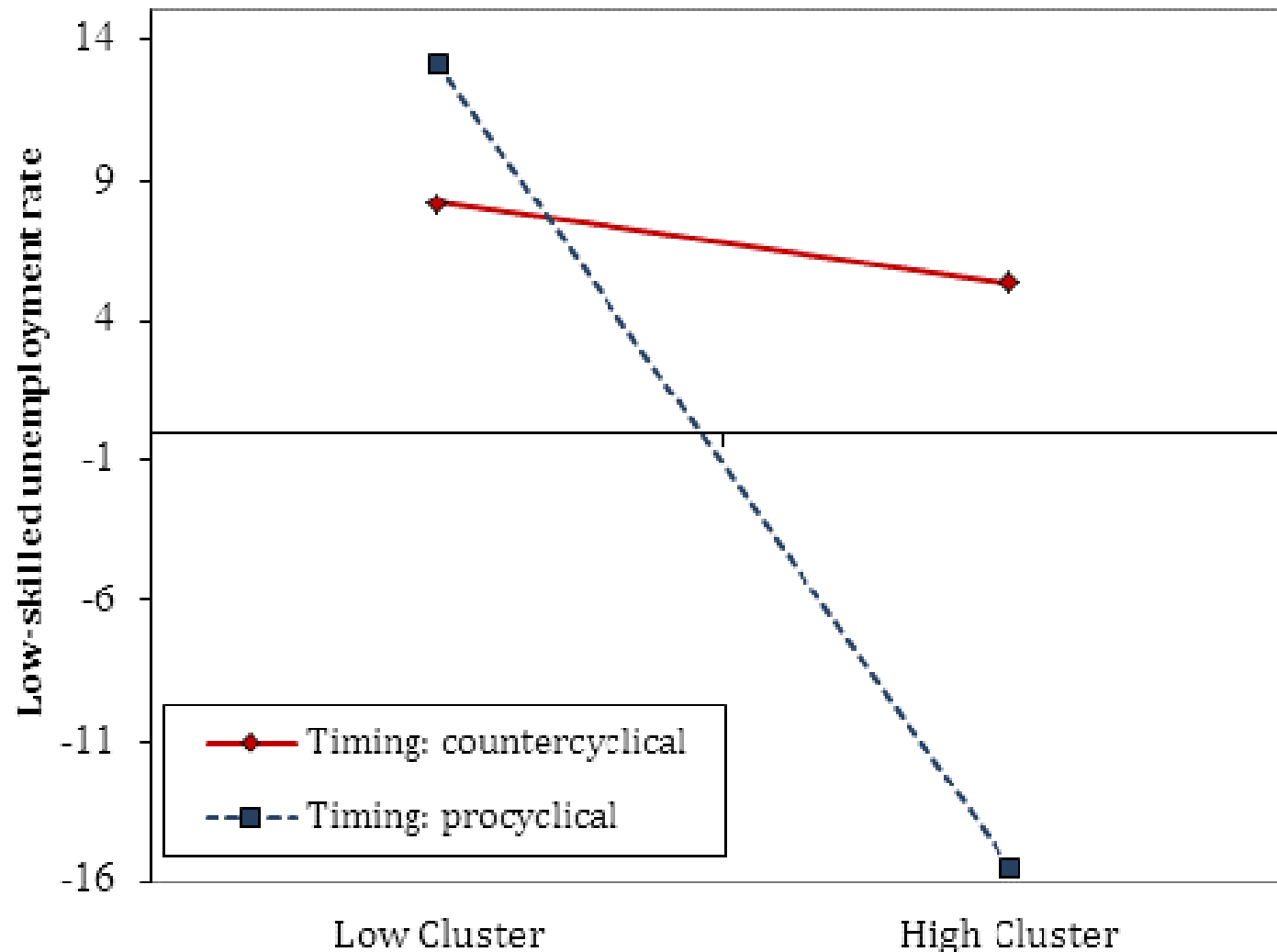
Graphic interpretation of interaction effects

Moderating the effect of PES allocation on the relationship between the policy cluster and the low-skilled unemployment rate



Graphic interpretation of interaction effects

Moderating the effect of timing on the relationship between the policy cluster and the low-skilled unemployment rate



CONCLUSIONS: Sensitivity analysis

- ❑ Use of different samples:
 - overall population and low-skilled;
 - exclusion of key countries (Denmark, Netherlands and Sweden);
 - only EU countries.
- ❑ Changing the window of time: Only last decade.
- ❑ Reduced estimations: policy vs. implementation variables.
- ❑ Standard tests: for non-stationarity, heteroskedasticity, serial correlation, variance analysis.
- ❑ Different specifications: OLS vs. FE/RE vs. FGLS(AR1)

CONCLUSIONS: Sensitivity analysis

- ❑ Endogeneity: IV approach through a 2 stages least squares (2SLS) estimator.

Instrumented variables:

- Policy variables: **policy cluster and job rotation and job sharing**
- Implementation-related variables: **continuity and timing.**

Two sets of instruments in the analysis:

- Governability-related indicators: **2 variables of the colour of the party; reform; change in governability patterns.**
- Macroeconomic and structural variables: **deficit or debt; inflation; population with tertiary education; expenditure in PLMP.**
- Other exogenous variables of the model