

# Active labour policies

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# Active labour policies

- We focus on active labour policies.
- These are policies that helps unemployed worker to find a job.
- They help individuals at finding a *better* job and at finding it *more quickly*.
- Usually, we refer to these policies as **Active Labour Market Policies (ALMPs)**

# Active Labour Market Programs

- "Active Labour Market Programs" are all forms of intervention brought forth from institutions (national, local or overnational) aimed at enhancing employment and the labour market participation.
- Main forms of ALMPs are
  - (Public) employment services.
  - Training
  - Subsidized employment
  - Direct public employment programs
  - (Support for new entrepreneurship)

# Active Labour Market Programs

- **Employment services**

Public institutions, usually through Employment Center, offers direct help in the job search on where and how look for an employment. This should reduce search costs and enhance its efficacy. Moreover employment centers can act as an intermediary passing job offers to suitable workers.

It is possible that employment services are carried out by private institutions.

- **Training**

Public institutions and employment centers provide training to unemployed workers through training courses of promoting on-the-job training programs. This should provide unemployed workers with skills particularly useful in the labour market enhancing thus their employability.

# Active Labour Market Programs

- **Subsized employment**

Public institutions provide (monetary) incentives to firms that hire workers. It is possible that the incentives are aimed toward specific category of workers that appear to have some disadvantage.

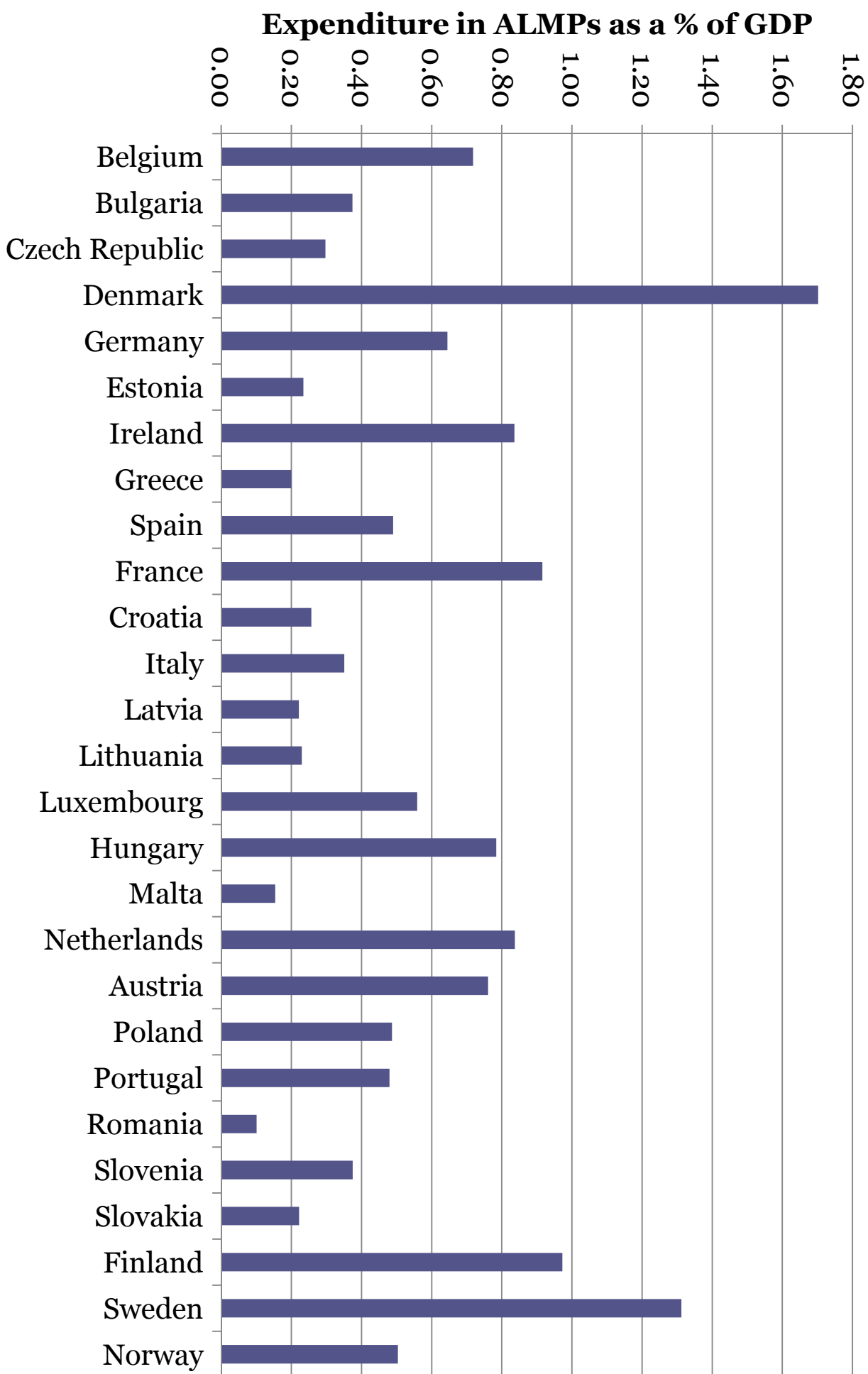
- **Direct public employment programs**

Public institutions directly hire workers creating ad hoc positions. These positions should be temporary and the aim is to provide direct working experience to workers that can then exploit such experience obtaining a job somewhere else.

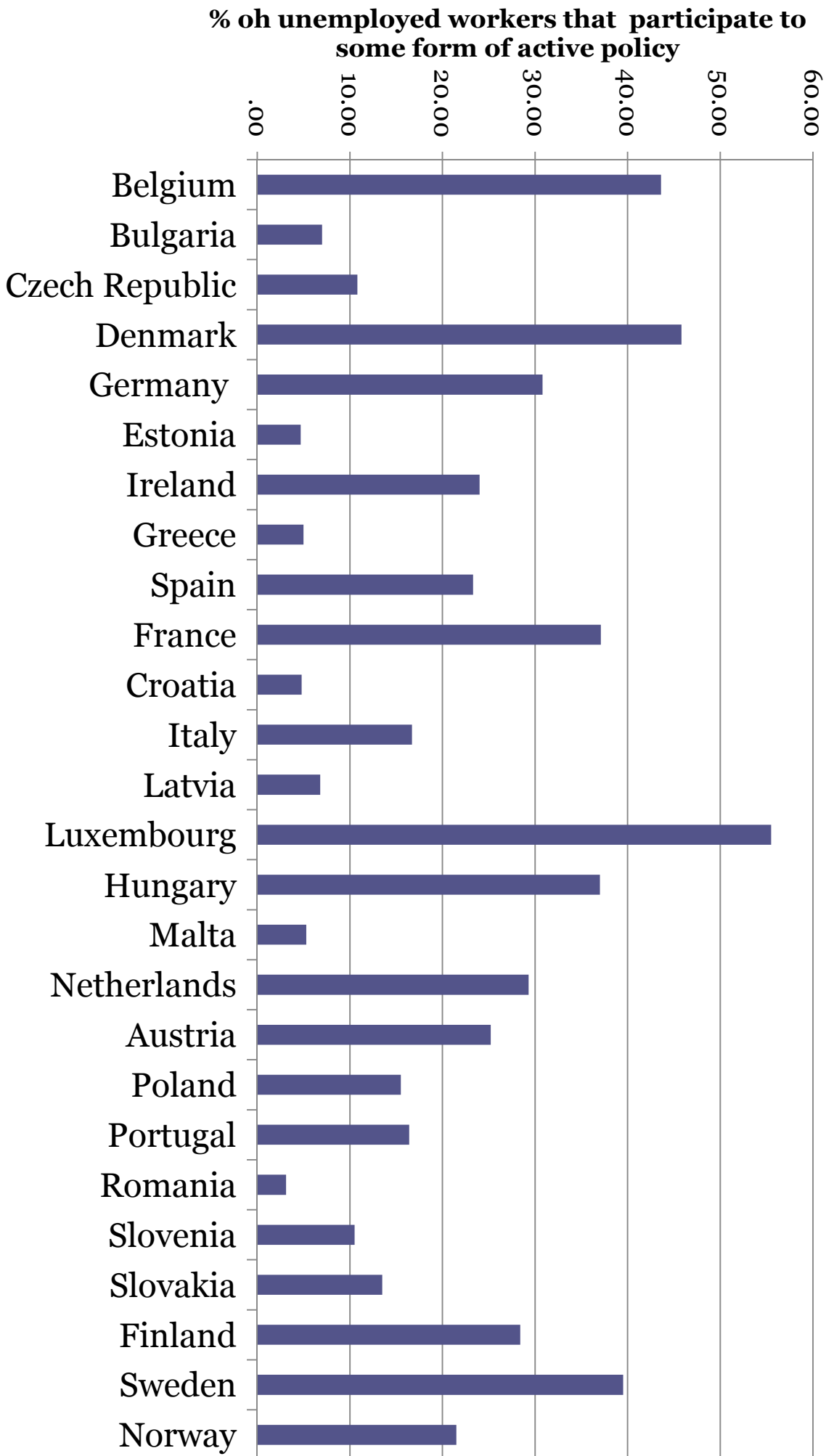
- **Support for new entrepreneurship**

Public institutions offer to new entrepreneurs some facilitations in building up the new firm's activities. These may consist in granting better credit conditions, fiscal discounts or some support and counseling in the business activity (for example providing legal or accounting services)

# ALMPs expenditure - 2013

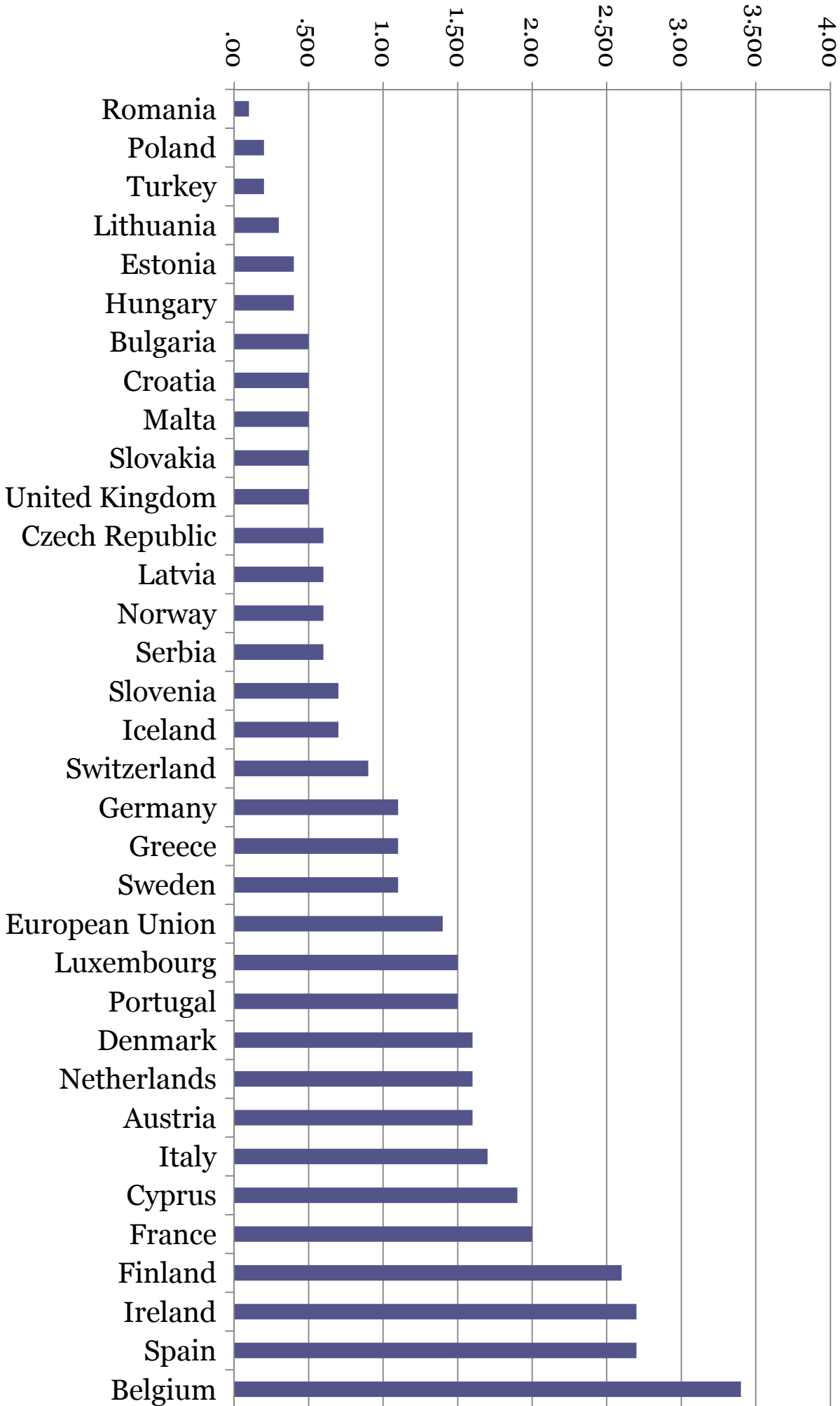


# ALMPS diffusion - 2013



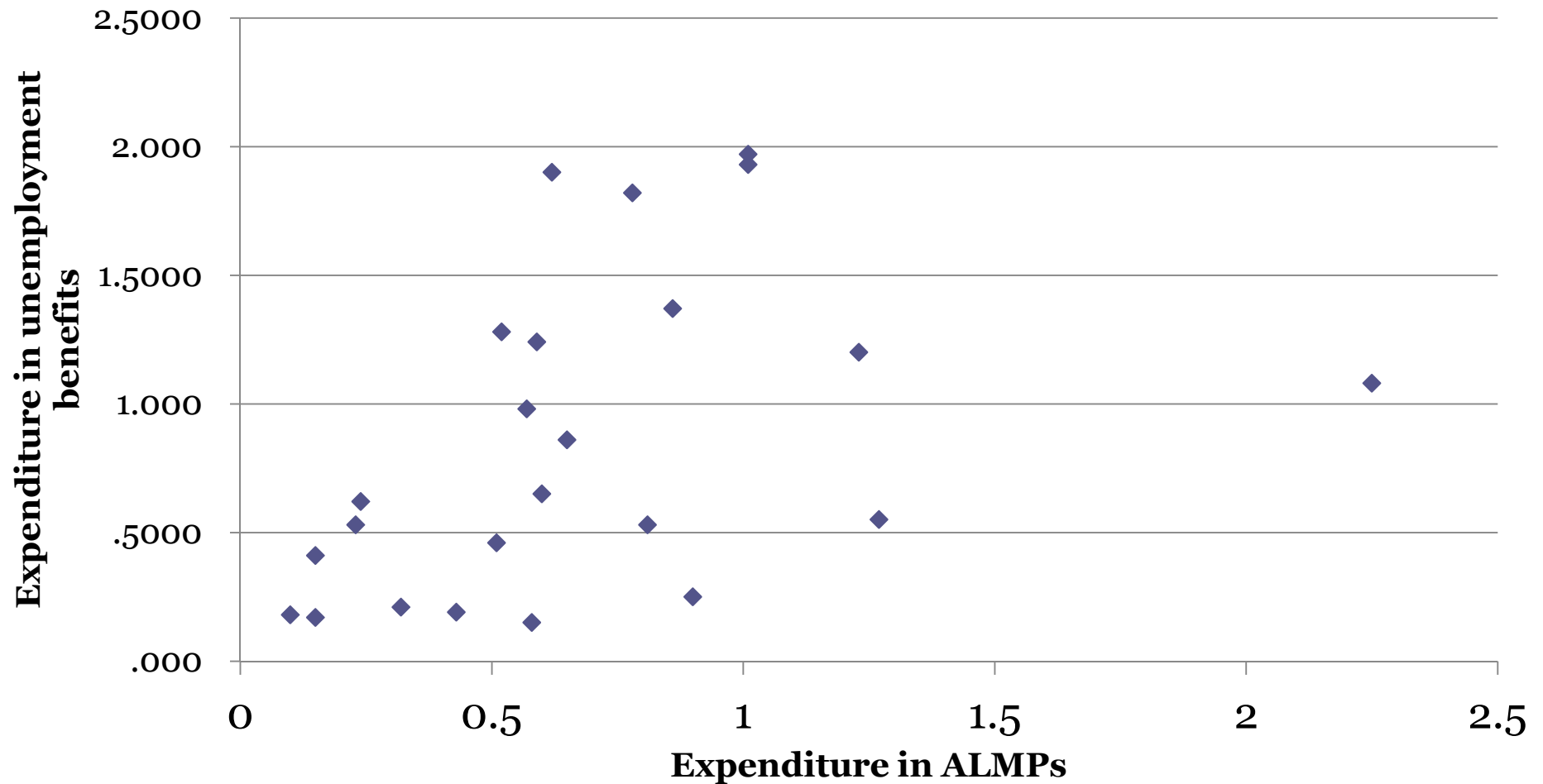
# Expenditure for unemployment compensation - 2015

Expenditure for unemployment compensation as % of GDP





# Active versus Passive expenditure - 2015



# Theoretical effects of active policies - I

- Using previous job search model we know that:

- Beveridge Curve 
$$v = \left(\frac{\gamma}{K}\right)^{\frac{1}{1-\beta}} \frac{(1-u)^{\frac{1}{1-\beta}}}{u}$$

$K$  is inversely related to the degree of frictions in the market: active policies reduces the frictions and  $K$  becomes larger. **The curve shift down.**

- The free entry condition is 
$$\frac{A - b - C}{C} = \frac{2r + 2\gamma}{K} \theta^\beta + \theta$$

Active policies increase  $K$ : the right side becomes smaller and  **$\theta$  increases** to restore equilibrium.

## Theoretical effects of active policies - I

- Consider the standard job search model.
- Job matching depends on the matching function:

$$M = F(U, V) = KU^\beta V^{1-\beta}$$

- $K$  is a parameter measuring the technology of matching: high  $K$  implies more matches.
- In the presence of both unemployment and vacancies matches fail to happen because of friction in the market (information, geography and skill mismatch).
- The more relevant are these frictions, the larger is  $K$ .
- **Better active policies** reduce the frictions, make matching technology better:  **$K$  goes down.**

# Theoretical effects of active policies

- Better Active policies increases  $K$ : the  $BC$  shifts down and  $\theta$  goes down. Equilibrium unemployment goes down.

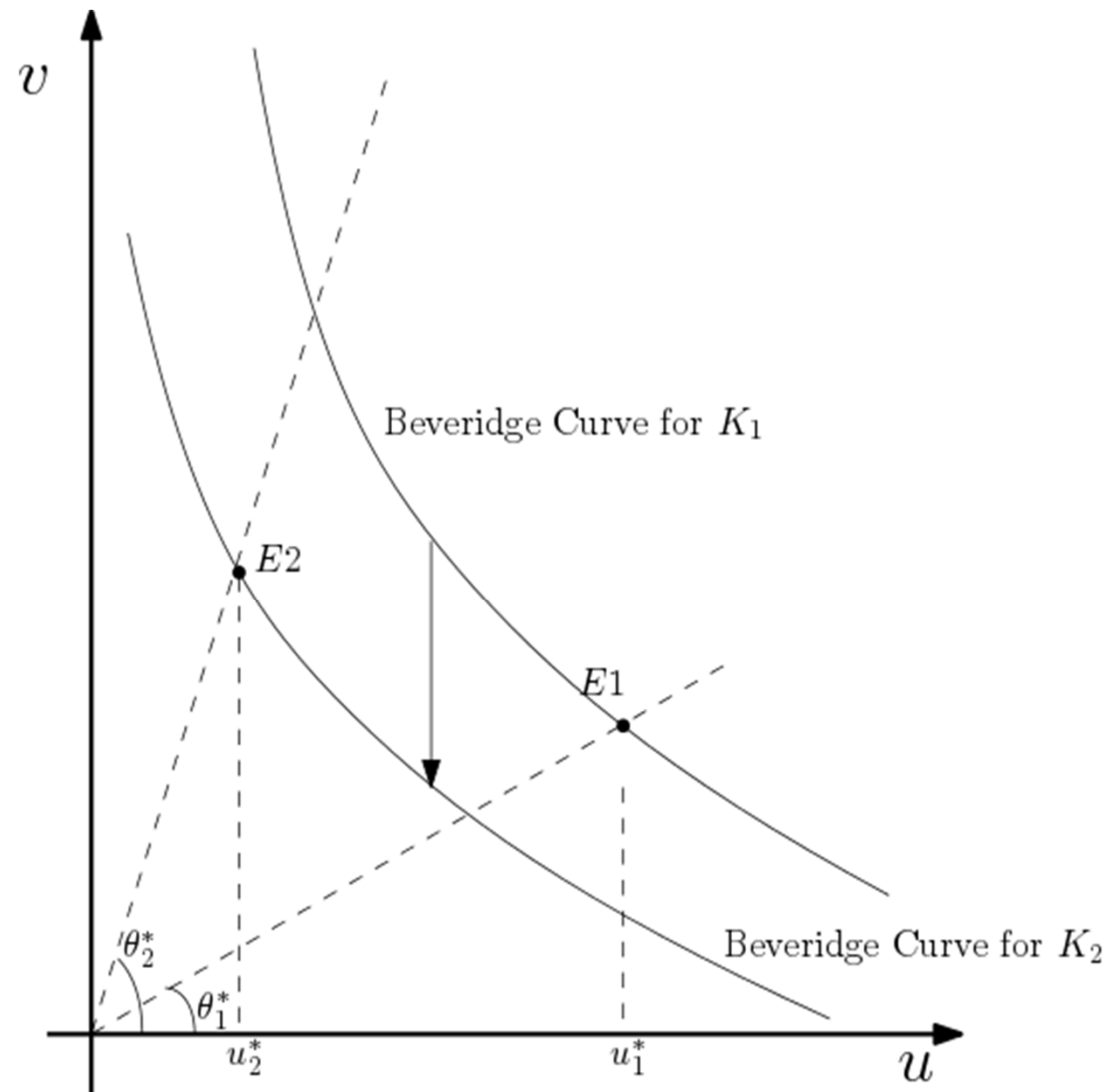


Figure 1: The effect of active policies

# Assessing the effects of policies

- Implementing active labour policies is costly and, therefore, it is important to understand if they are effective.
- Theoretically we have seen that they should reduce unemployment rate and unemployment duration.
- However, in reality, they may fail in obtaining these results or their cost could be too large when compared to their costs.

## Assessing the effects of policies on individuals

- In principle, we could observe their effect on unemployed workers to see whether they were effective.
- If individuals that are participating to active programs displays higher re-employment probability and lower unemployment duration the policy appear to be effective. However, that effectiveness may be hiding something else.

# Indirect (negative) effects

- Displacement effect: a job is created instead of another job.
- Substitution effect: a worker finds a job in place of another worker.
- Moreover, short and long run effects should be considered (for example, in the long run, training should be more effective than job counseling).

# Pro and cons of measures

- See also Kluve

Effect	Job search counseling	Training	Employment incentives	Temporary public employment
<b>Displacement</b>	Unlikely	Unlikely	<b>Possible</b>	<b>Likely</b>
<b>Substitution</b>	<b>Possible</b>	<b>Questionable</b>	Possible if based on categories	Unlikely
<b>Short run</b>	Likely positive	<b>Unlikely</b>	Likely positive	Likely positive
<b>Long run</b>	<b>Questionable</b>	Likely positive	<b>Not likely</b>	<b>Questionable</b>



# Empirical evidence

- There two large meta-analysis that try to assess the impact of ALMPs:
- Some results:
  - There is more persistence than expected: what is effective in short-run has some mild effect in the long run even than when this was not strictly expected. E.g. Counseling and incentive to employment have effects in the medium/long term.
  - Temporary public jobs do not perform well

# Further readings

- Kluge, J. (2010), “The effectiveness of European active labor market programs”, *Labour Economics*, Vol. 17 No. 6.
- Card, D., Kluge, J. and Weber, A. (2010), “Active labour market policy evaluations: a meta-analysis”, *Economic Journal*, Vol. 120 No. 548.