



International
Labour
Organization

Indirect (negative) effects of Active Labour Market Policies (ALMPs)

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Content

1. Type of indirect (negative) effects
2. What is the evidence by effect size and category of ALMPs ?

Indirect effects of ALMPs/1

Deadweight loss

The resources invested in the programme benefit individuals that would have been hired also in its absence. For example a training scheme targeting young graduates benefit youth that would have been hired also without the training.

Displacement

The employment generated by the intervention might displace regular employment. For example, firms hire subsidized workers instead of unsubsidized ones, or when the subsidy expires, the formerly subsidized worker is dismissed.

Indirect effects of ALMPs/2

Substitution

It occurs when a programme provide incentives to employers to substitute one type of workers for another to do the same jobs due to a change in the respective labour-costs. For example, subsidies for teenagers might create an incentive for firms to substitute young adult workers with teenagers.

Creaming

Only unemployed with higher employment probabilities (better education, motivation etc.) are selected to participate to the programme.

Indirect effects of ALMPs/3

Locking-in

During participation, individuals lower their job-search efforts and therefore have a lower probability of finding a job compared to unemployed who are not in ALMPs. It also includes the effect on search behaviour due to the prospect of participating to a programme.

For example a young unemployed participating to a training programme, does not search as actively for a job compared to someone who is not attending any programme.

Indirect effects of ALMPs/4

Carousel

Cycling between periods of open unemployment and participation in active labour market programmes. For example a young unemployed attends a training programme, does not find a job and s/he is enrolled in a work experience programme and so on.

Churning

It refers to the granting of incentives to unemployed who have little interest in a job and only participate in order to gain entitlements for another round of unemployment/social benefits.

Indirect effects of ALMPs/5

Stigmatization

If the measure is too tightly targeted at very disadvantaged unemployed, they may be stigmatized. The stigmatizing effect signals low productivity to employers and prevents them from hiring workers participating the programme.

3For example a hiring subsidy targeting homeless youth has a low take up by employers, because the targeting signal the hard-to-employ character of the beneficiaries.

Negative effects by type of ALMP/1

Incentives for retaining employment (including work sharing to support labour demand during crisis). As they are nearly-universal, they carry large deadweight and substitution (from 40 to 90%). For example, in Sweden wage subsidies had a deadweight of 60%, while in Turkey the deadweight of regional subsidies ranged from 27 to 78%.

Incentives for creating employment: hiring subsidies are more cost-effective than wage subsidies (due to short duration and targeting). Deadweight is around 20-30% (when the subsidy is targeted to LTU). Displacement effects range from 20% (Ireland) to 60% (Sweden). When the employer is required to reimburse the subsidy in case of dismissal, churning and deadweight are lower (20-30%). Longer-term positive effects are recorded when the hiring subsidy has a skills development component.

Negative effects by type of ALMP/2

Incentives for human capital enhancement. There is no evidence of displacement effects, but the cost of training programmes often lead to creaming (and therefore deadweight). Locking-in effects are also thought to be important, especially for longer duration training programmes, but there is little evidence on the magnitude.

Labour market matching: Displacement effects are thought to exist, but to be small compared to other interventions. Deadweight may also occur (if the services benefit those who would find a job also without assistance), but are rarely measured. Creaming is especially significant if caseworkers need to deliver good reemployment rates.

Based on the case assigned to your group:

1. List the likely negative effect that the measure may bring about; and
2. Propose what can be done to minimize these indirect effects in terms of design and/or implementation modalities.

How to minimize indirect effects/1

Effect	Approaches
Deadweight loss	Targeting rules (for example, the programme targets only those unemployed with the lowest exit rates out of unemployment).
Creaming	Targeting rules, specifying the individual characteristics of beneficiaries
Displacement	▪ Targeting rules; ▪ Only additional/new jobs are subsidized (hiring subsidies create lower negative effects compared to generalized wage subsidies); ▪ Employers are obliged to retain subsidized workers for a period that is longer than the duration of the subsidy. In case of firing, the employer has to return the whole amount of the subsidy.

How to minimize indirect effects/2

Effect	Approaches
Substitution	Targeting rules and accurate matching
Locking-in	• This effect can be weakened by compulsory participation without additional pay on top of benefits or at a minimum wage, since workers might be able to earn more in regular employment; • Monitoring of job-seeking behaviour and job search assistance during participation; • Avoid targeting workers who recently became unemployed and thereby still have high employment probabilities.
Carousel	• Monitoring of individual's performance during programme and follow-up at programme's end. • Mentoring during programme participation.

How to minimize indirect effects/3

Effect	Approaches
Churning	• Targeting rules; • Individualized counselling and motivation training; • Job search monitoring and sanctioning;
Stigmatization	• Targeting rules, including different duration and compensation levels for employers • Monitoring of programme take-up by employers.

QUESTIONS?



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