



Passive and active labor market policies

an artist's impression

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What am I talking about?

- ✦ Effects of introducing incentives on the behavior of workers (and firms)
- ✦ Passive labor market policies:
 - unemployment benefits, unemployment assistance, disability benefits
- ✦ Activating unemployed: benefit sanctions
- ✦ Active labor market policies:
 - training, public employment services, job creation

Why artist's impression?

- ✦ Provide eyeball-tests wherever possible
 - ✦ Passive policies: easy
 - ✦ Active policies: not possible
- ✦ Do not pretend to be exhaustive or complete
 - ✦ Provide examples partly based on my own research

Passive policies

- ✱ Maximum duration of unemployment benefits
- ✱ Unemployment benefits and eligibility criteria: having to search for a job
- ✱ Unemployment assistance: incentives for administrators
- ✱ Disability benefits: introducing incentives for workers and firms

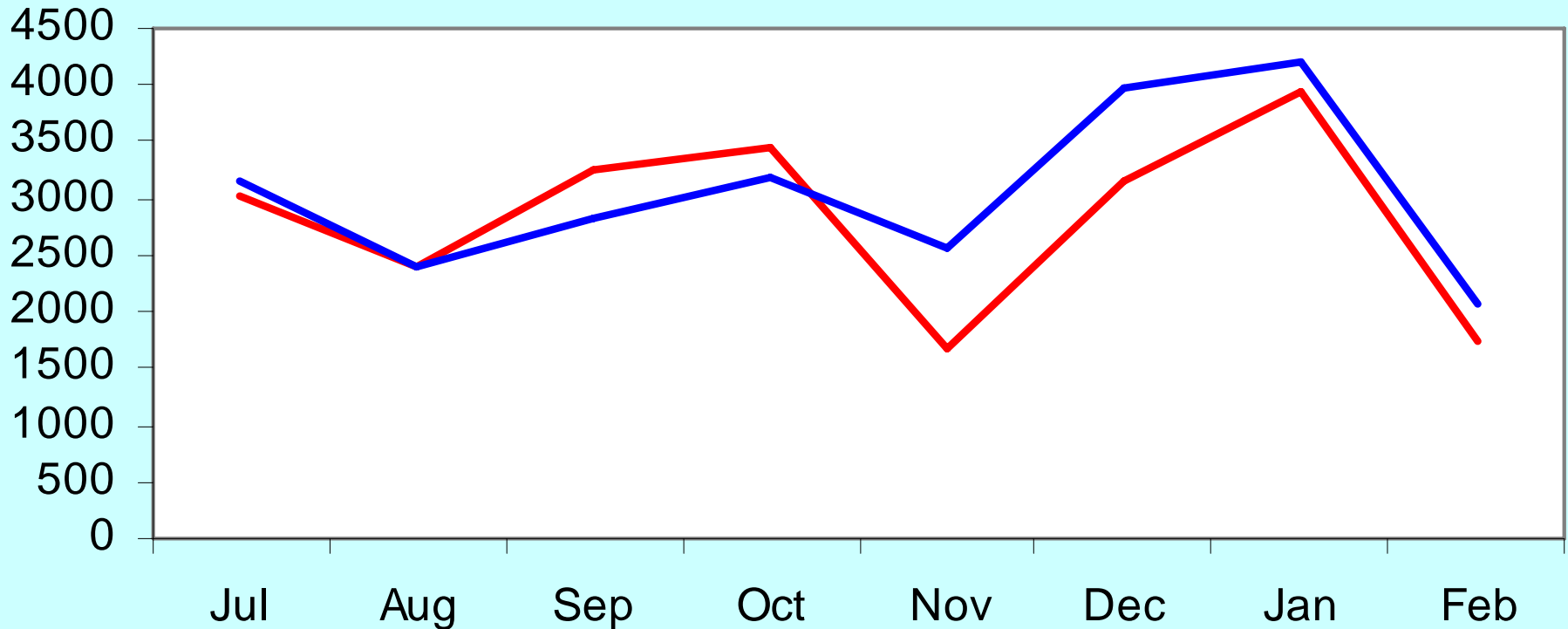
Shortening PBD in Slovenia

- ☀ PBD = dependent on work experience
- ☀ October 1998: Potential benefit duration of UI (earnings-related) benefit reduced differently for different groups
 - ☀ 18 to 9 months
 - ☀ 12 to 6 months
 - ☀ 9 to 6 months
 - ☀ 6 to 3 months
 - ☀ 3 to 3 months

Effects

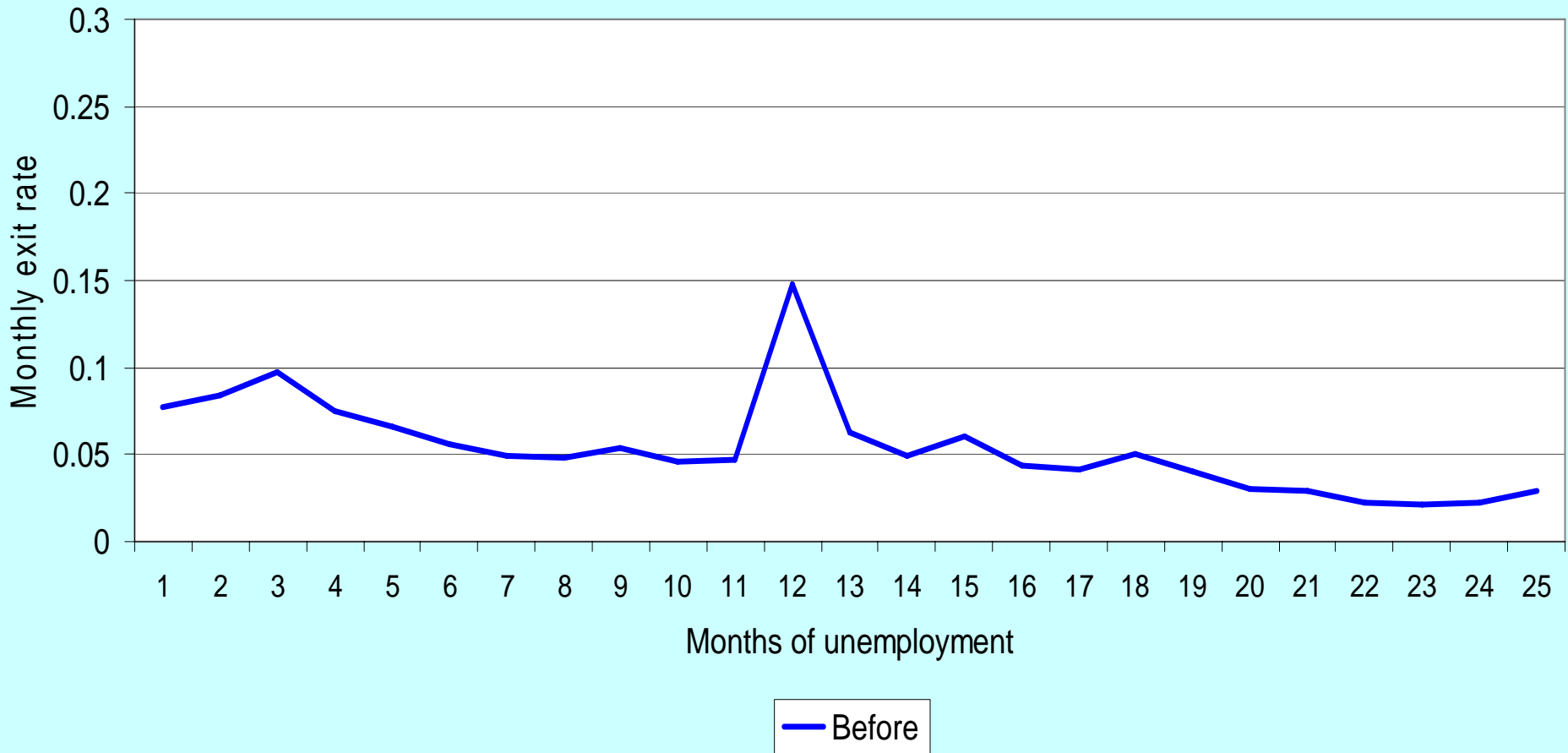
- ✱ Changing inflow into unemployment
- ✱ Spike at the end of the unemployment benefit period
- ✱ Shift in the spike when the PBD is reduced

Monthly inflow into unemployment

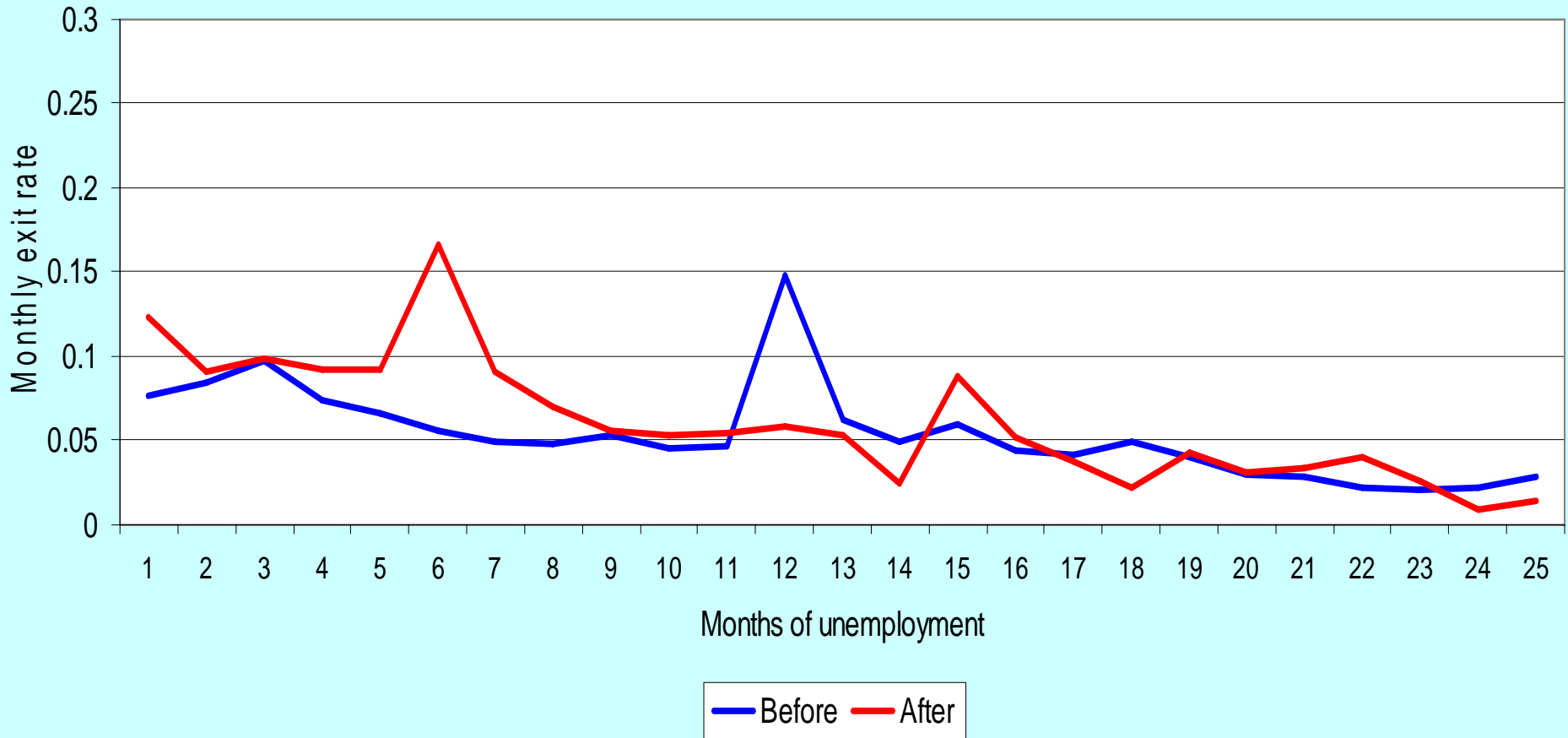


— Actual inflow — Predicted inflow

Unemployment exit rate



Unemployment exit rate



Indication of the overall effect

1 week PBD ↓ 1.3 days unemployment ↓

	PBD (months)		Median duration (months)		
	Before	After	Before	After	Δ
1	3	3	4.2	3.7	-0.4
2	6	3	4.7	3.8	-0.9
3	9	6	6.1	4.5	-1.6
4	12	6	7.4	5.0	-2.5
5	18	9	9.8	5.8	-4.1

Details: Van Ours and Vodopivec (2006)

UI benefits in the NL

☀ Eligibility criteria:

- ☀ Register at the employment office, accept a 'suitable job', actively search for work – but only up to the age of 57.5

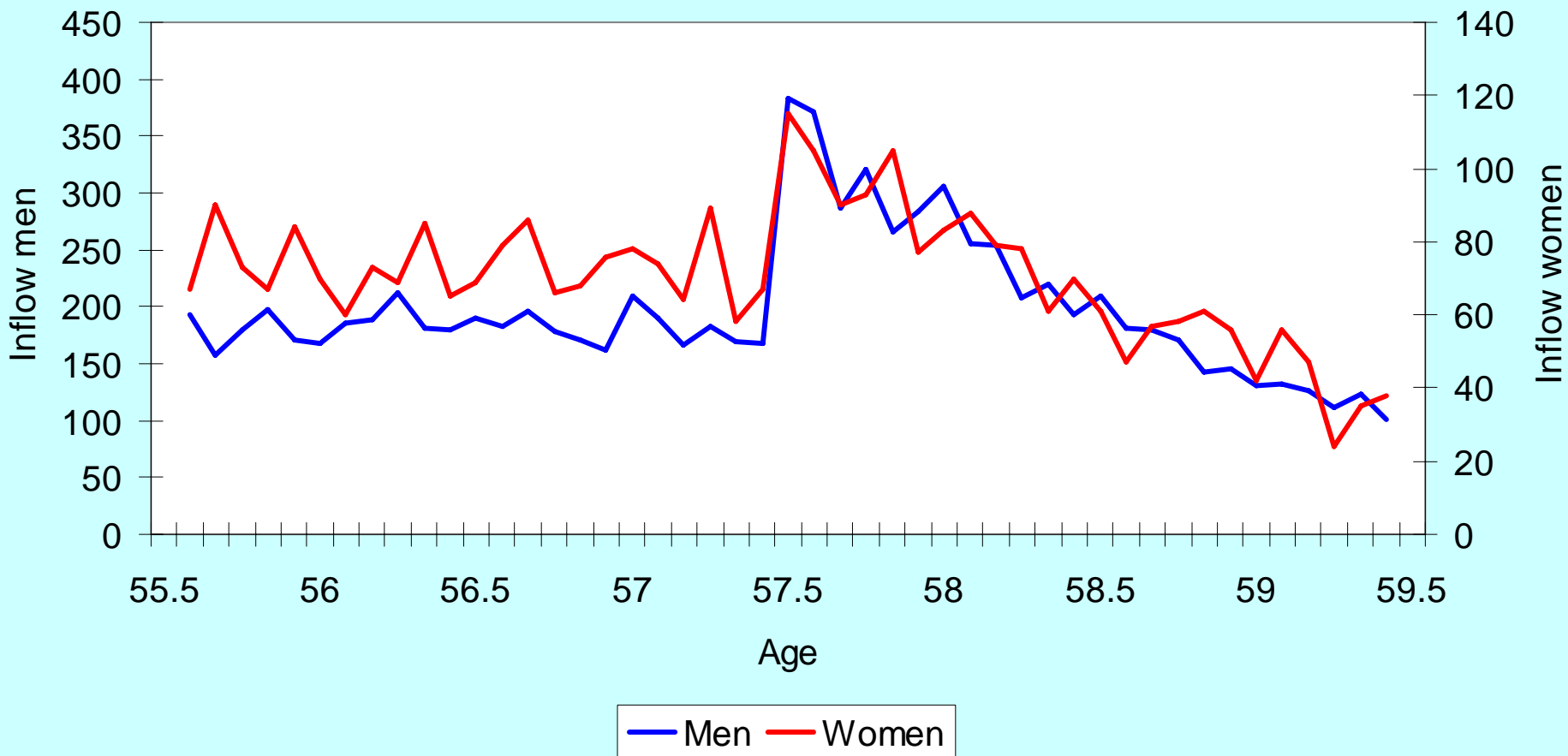
☀ Entitlement:

- ☀ Wage dependent benefits, maximum duration = dependent on previous work experience (largely age related)
- ☀ Age at inflow <57.5 : 6 years; age at inflow ≥ 57.5 : 7.5 years \equiv unemployment benefits up to 65 years, until old-age pensions

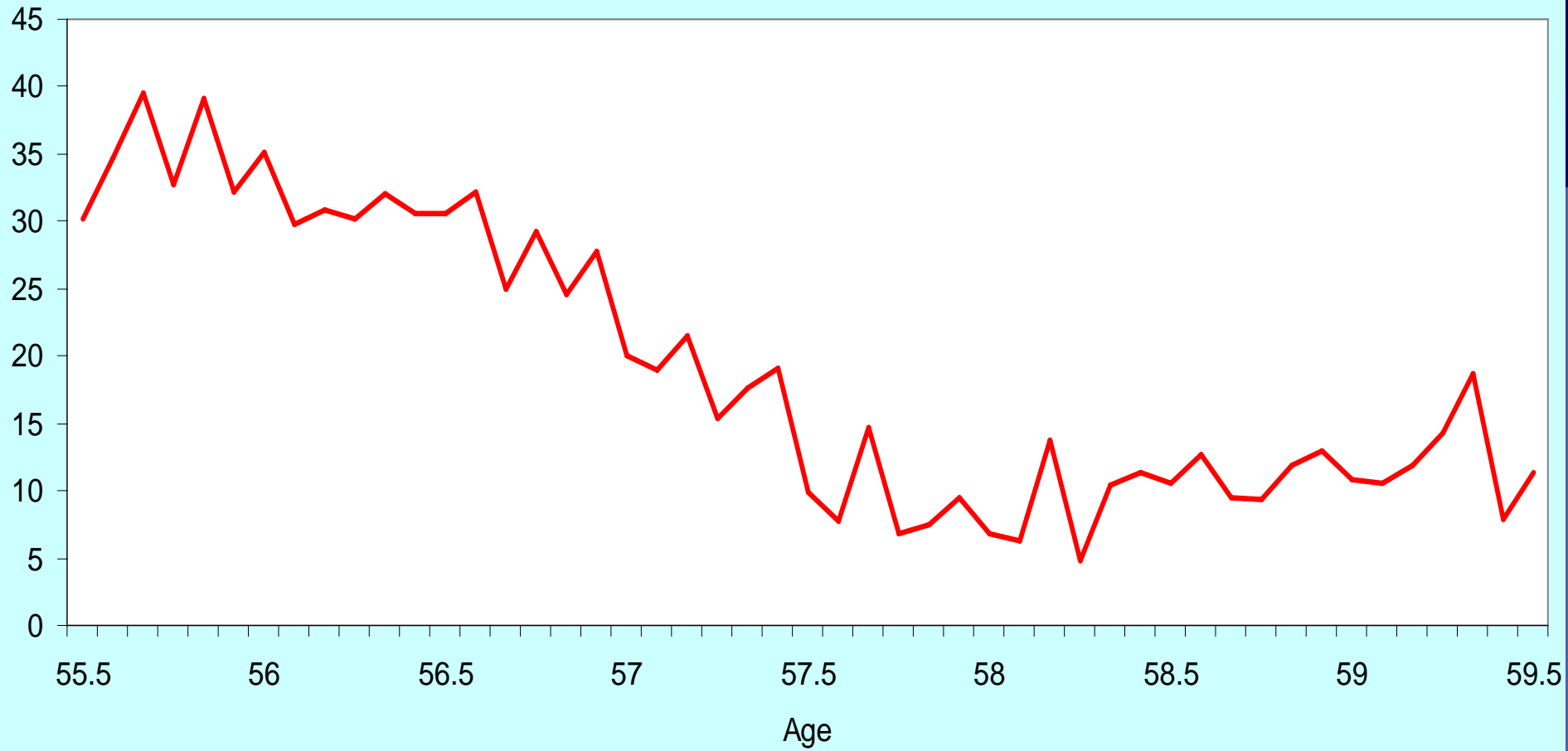
Effects

- ✦ Changing inflow into unemployment: workers “prefer” to become unemployed after age 57.5
- ✦ Reducing outflow from unemployment: workers adjust their search behavior – after age 57.5 and slightly before that

Inflow into unemployment (per age-month)



Probability to find a job within a year



Conclusions

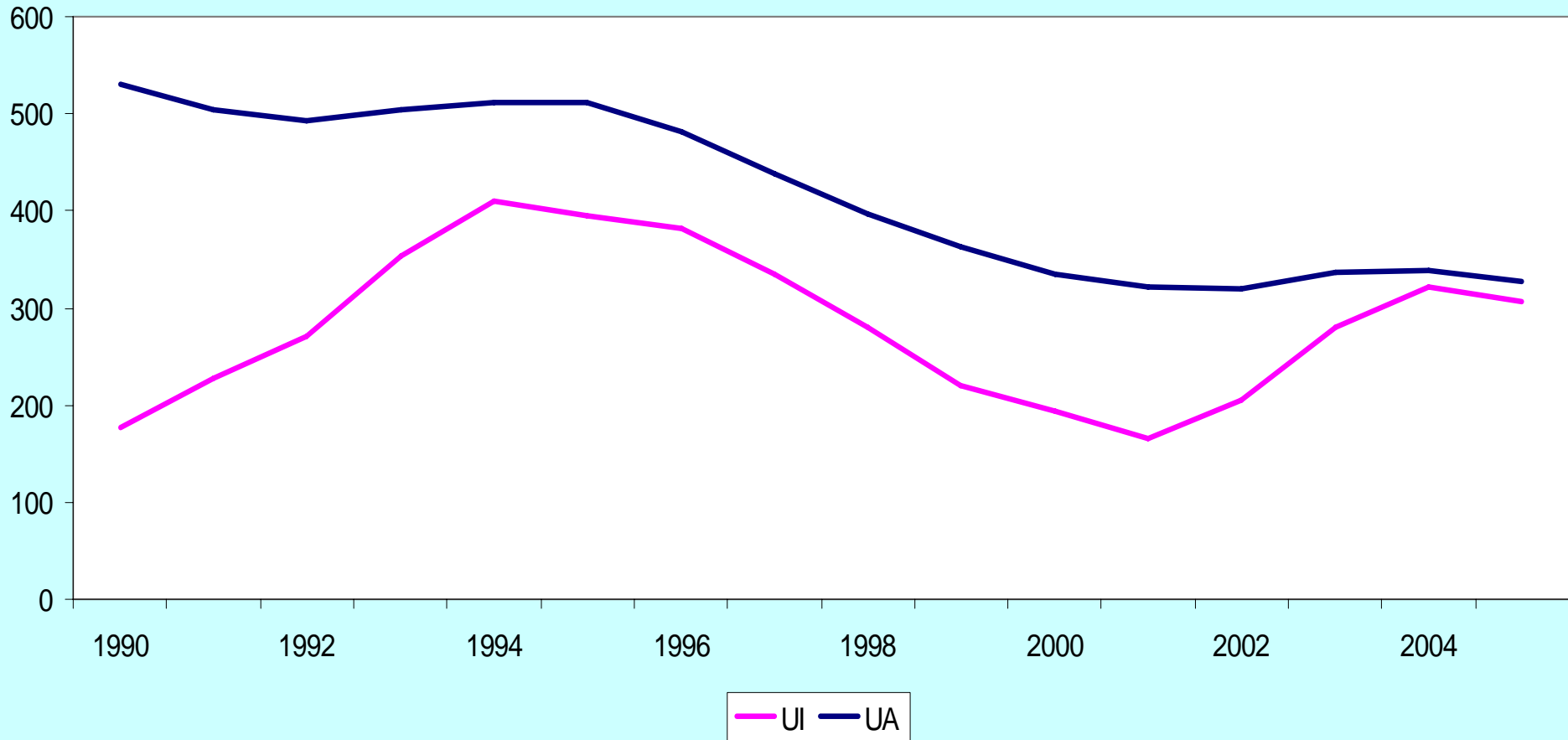
- ★ Large disincentive effect from abolishing search requirement
- ★ Also anticipation effect – decline in search starts already before age 57.5
- ★ Entitlement effect: increase in inflow after age 57.5

● Details: Heyma and Van Ours (2006)

Reorganizing UA in the NL

- ✱ Before 2004: municipalities received 90/75 % of payments on UA benefits from national budget
- ✱ New welfare act in 2004: local authorities financially responsible for UA benefits and activation – fixed budget
- ✱ Tradeoff between investing in ALMP or in PLMP (paying benefits)

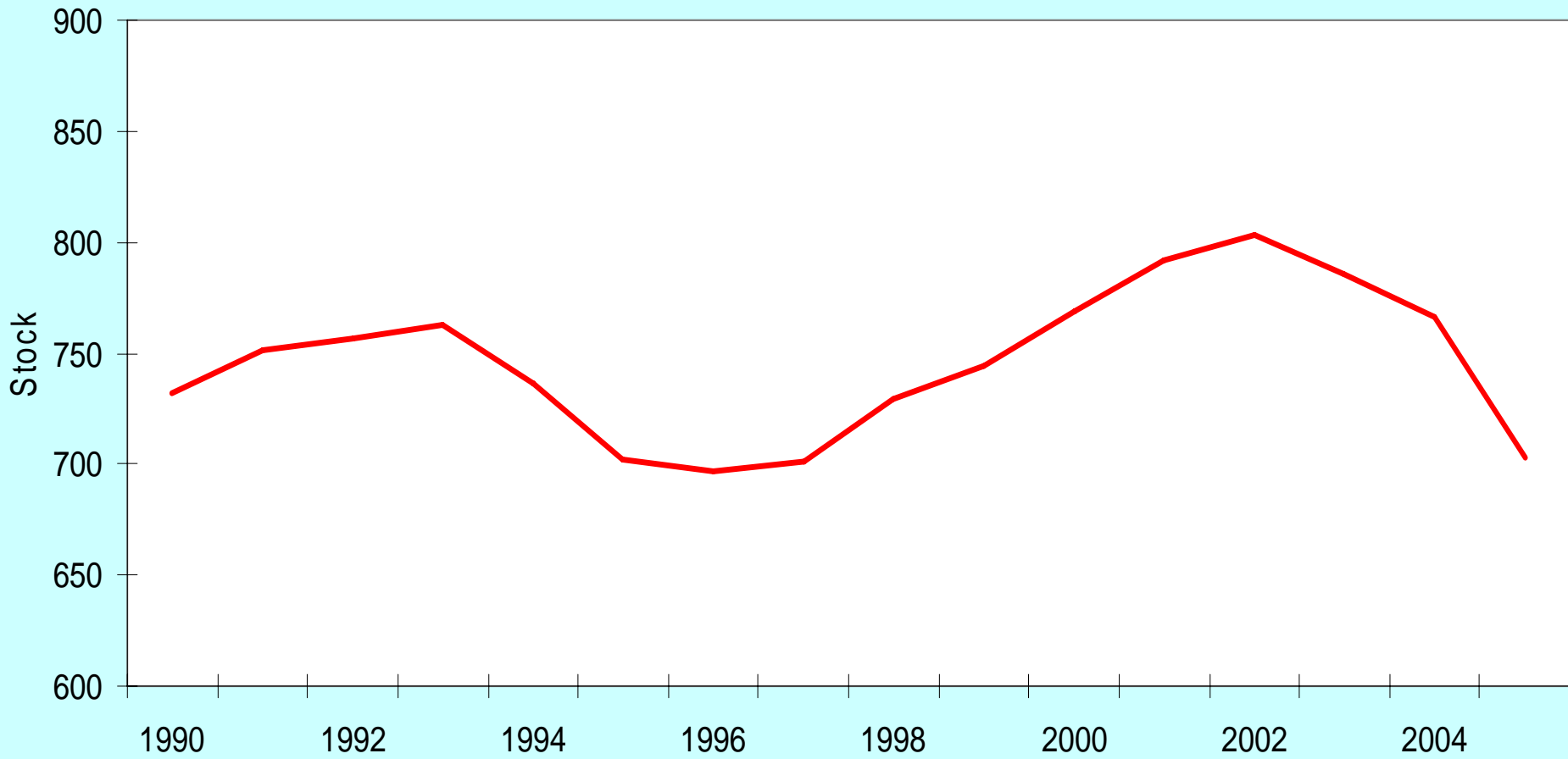
Stocks of benefit recipients (1000)



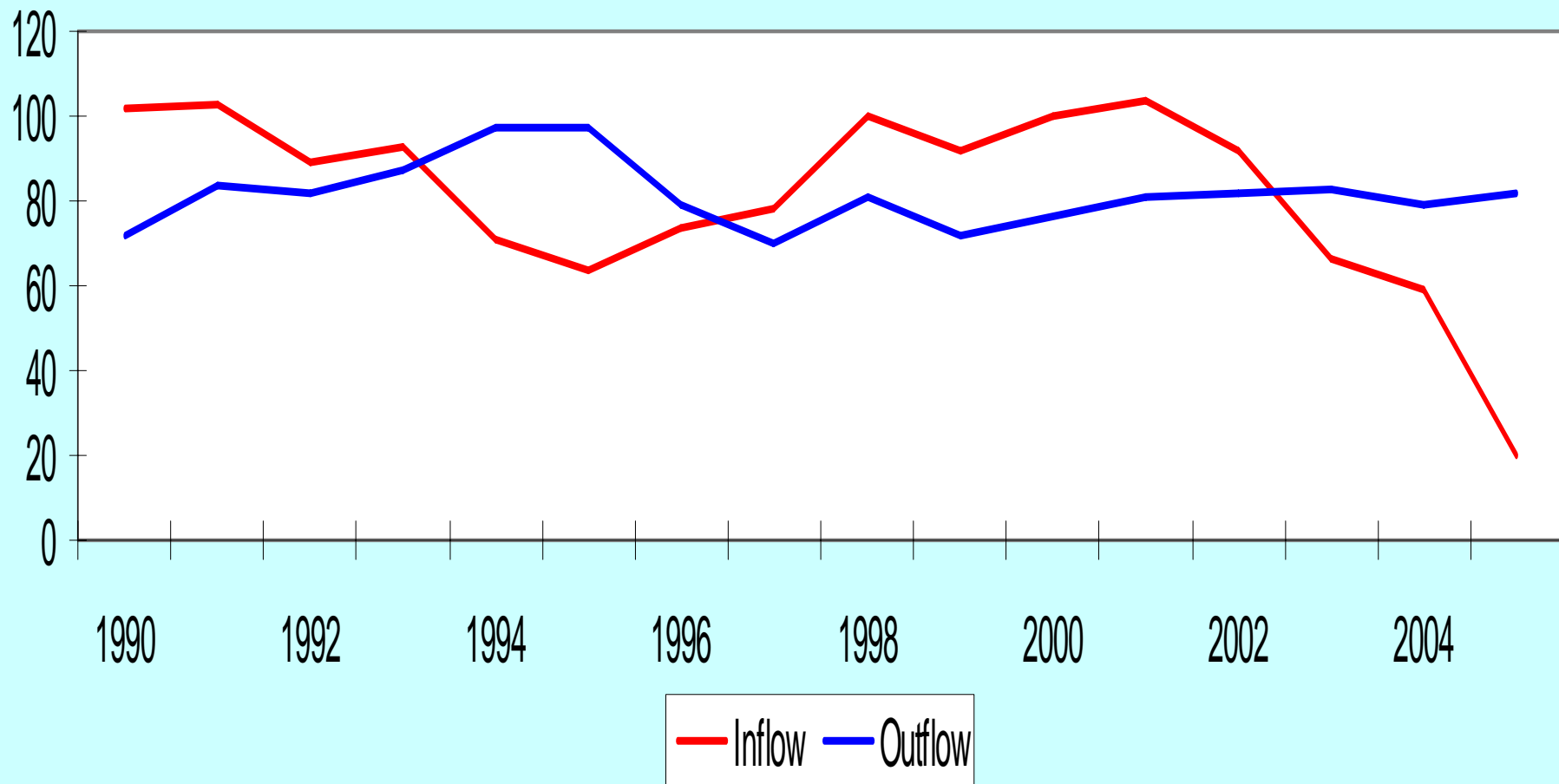
Reorganizing DI in the NL

- ★ 1990s: Disability \neq no suitable jobs available
 - re-examination of disabled workers younger than 45 years; DI-premium experience rated
- ★ 2002: Gatekeeper model extended: more responsibility for employers and workers
- ★ 2006: Law on Work and Income
 - Waiting period of two years
 - Obligations for employers and workers to avoid inflow into disability – reintegration reports

Stocks of disability recipients (1000)



Disability inflow and outflow (1000/year)



Experimental research

- ★ Some local administrative offices: more intensive screening of reintegration reports
 - Standard: screen reports on paper
 - “Treatment”: always contact employer and sick employee – time spent screening 40% higher
- ★ Long-term sickness absenteeism and DI applications both reduced with 5%
- ★ Very much cost efficient
 - Details: De Jong, Lindeboom, Vd Klaauw (2006)

Activating unemployed

- ★ Benefit sanctions: reduce benefits temporary if eligibility requirements are not fulfilled
 - Ex post effect: react to reduction in benefit – being unemployed is more expensive
 - Ex ante effect: avoid benefit sanction by searching harder before sanction is imposed
- ★ Ex post effect: studies in NL and Switzerland: big effect of benefit sanctions – doubling of job finding rate
 - Details: various studies

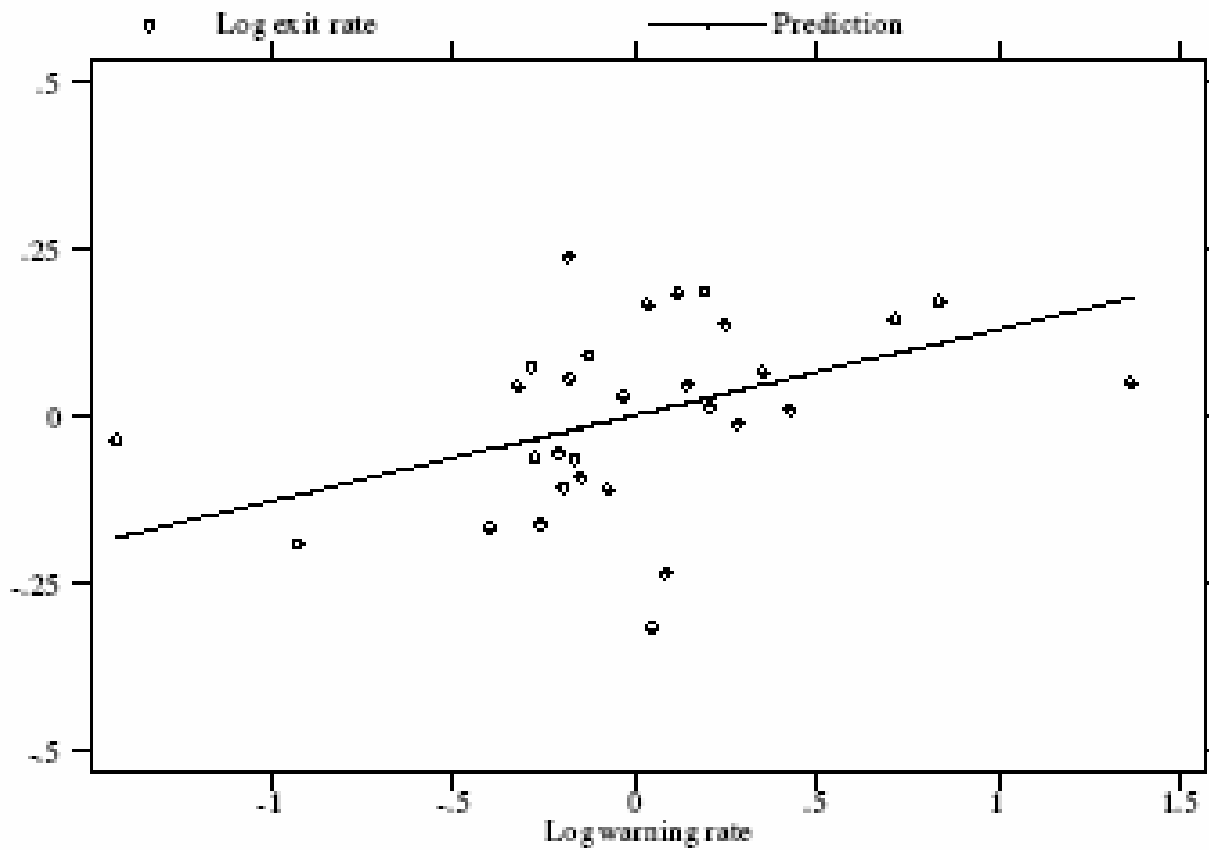


Figure 4. The ex-ante effect
 Effect of Warning Rate on Exit rate of the non-sanctioned



Active labor market policies

- ✦ International comparison of micro studies
- ✦ International comparative study using aggregate data

ALMP – micro studies

- ★ Kluve (2006) – meta analysis
- ★ 95 microeconomic evaluation studies of European ALMP – use outcomes of programs as separate datapoints – 137 datapoints
- ★ “Treatment” effects:
 - ★ Positive: 75
 - ★ Zero: 33
 - ★ Negative: 29

Conclusions

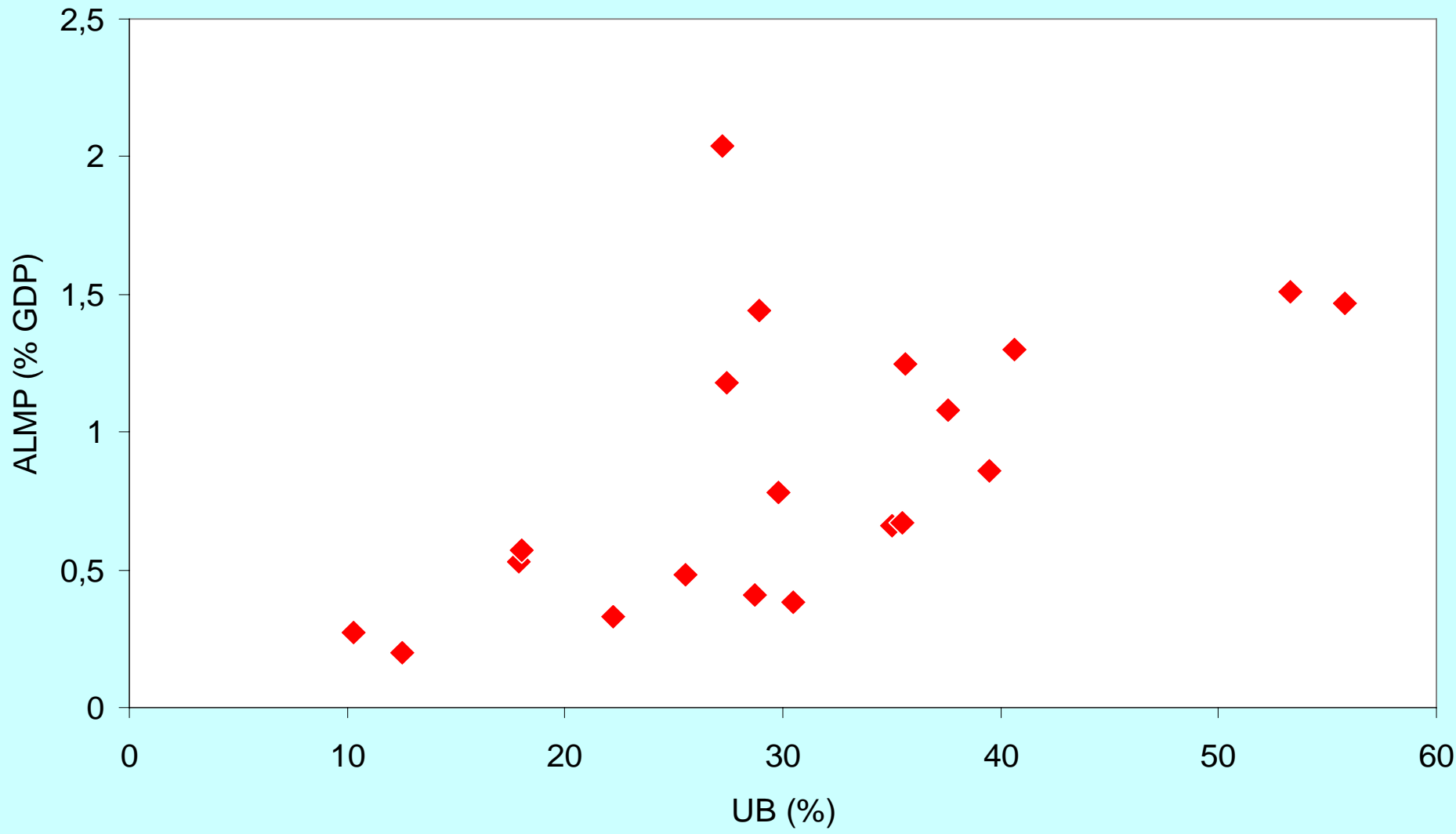
- ✦ Traditional training: modest effects
- ✦ Private sector incentive programs and “services and sanctions” better performance
- ✦ Direct employment in public sector less likely to have impact
- ✦ Enhance job search effectiveness:
 - Job search assistance
 - Counseling and monitoring
 - Appropriate sanctions for non-compliance

ALMP – macro data

- ★ Comparison of ALMP and other labor market institutions
- ★ Cross-section – time series: 20 OECD countries
- ★ Subsidized jobs, public employment services and labor market training
- ★ Other institutions: unemployment benefits, taxes, union density, employment protection legislation, bargaining context

Conclusions

- ✱ Subsidized jobs and PES no effect on unemployment
 - ✱ Training reduces unemployment
 - ✱ Effect of training increases with the level of unemployment benefits
- ✱ Details: Boone and Van Ours (2006), OECD Employment Outlook 2006



Passive and active policies

- ✱ Not independent
- ✱ Complementary: they may reinforce each other – job training may be more effective with monitoring and sanctions
- ✱ Substitutes – money spent on benefits may also be used for training – courses – subsidize temporary work

Lessons from reforms – the artist's impression

1. Introduction (financial) incentives is useful
2. Restructuring cannot be partial: take complementarities and escape routes into account
3. Finding the optimal system = partly trial and error – learning by doing
4. Quick results are not to be expected