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Active Labor Market Programs: Policy Issues for East Asia

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POLICY ISSUES FOR EAST ASIA**

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ACTIVE LABOR MARKET PROGRAMS: POLICY ISSUES FOR EAST ASIA¹

1. Introduction

Over the past 40 years, “active” labor market programs (ALMPs) have emerged as an important employment policy tool, particularly in developed countries. This policy envelope includes a wide range of activities, intended to increase the quality of labor supply (e.g., retraining); to increase labor demand (e.g., direct job creation); or to improve the matching of workers and jobs (e.g., job search assistance). The objective of these measures is primarily economic -- to increase the probability that the unemployed will find jobs or that the underemployed will increase their productivity and earnings.² However, more recently the case for active labor market policies has also emphasized the potential social benefits in the form of the inclusion and participation that comes from productive employment.

The debate around these labor market policies is often formulated in terms of the relative value of “active” versus “passive” measures in combating unemployment and its effects. So-called passive programs, such as unemployment insurance or social transfers, mitigate the financial needs of the unemployed but they are not designed to improve their employability in any fundamental sense. On the other hand, active programs are meant to directly increase the access of unemployed workers.

As the disincentives and dependencies inherent in passive programs have received more emphasis, ALMPs have become an attractive option for labor policy-makers. This is best illustrated by the now familiar “safety net” and “trampoline” metaphors for contrasting the passive and active approaches. Not only are trampolines more politically attractive but ALMPs also have a theoretical rationale in models of the labor market that incorporate asymmetric information and market failures associated with investments in human capital. It also makes sense at a conceptual level that these programs (specifically retraining) would have heightened importance as technological change increases both skill requirements and the pace of obsolescence. However, as the experience of the past 15 years or so has demonstrated, actually implementing an active labor market policy poses many challenges.

The immediate question is whether these programs do any good. Evaluations of their impacts are mixed, with many programs assessed to have little or no impact on the employability or earnings of participants. Even where policy-makers judge the evidence more favorably, or where they feel compelled to introduce ALMPs for political reasons, they must confront a host of complex design and implementation issues in order to maximize the probability for success.

¹ We would like to thank participants at the seminar on “Labor markets in the East Asian Crisis: Applied Analysis and Policy Workshop” held in Tokyo in October 1998 for their comments and suggestions. We would also like to thank our discussant at this conference, Yoshio Higuchi for his suggestions. The views expressed here are solely those of the authors and should not be attributed to the World Bank or the countries they represent.

² Objectives can focus on the needs of employers as well, for example, to ensure a supply of appropriate workers. This may assume priority in times of rapid expansion when vacant jobs rather than unemployed workers are the predominant form of labor market imbalance. In fact, this was at least partly the case in the 1960s when active labor market programs were first introduced on a significant scale.

These include decisions about the complementarity of public and private roles, optimal resource allocation, targeting, delivery, monitoring, evaluation, and feedback. Effective and efficient active labor market programs, then, require considerable capacity and, not surprisingly, most of what is known about ALMPs is based on experience in developed countries. Clearly, however, the role and nature of active programming will vary at different stages of development. And, as the experience in OECD countries has shown, culture and institutions matter a great deal as well.

The purpose of this paper is to review the international experience with active labor market policies and to discuss their applicability to the East Asian countries. While ALMPs have been implemented to varying degrees in the region, they cannot be considered an important policy instrument in any. However, they will require careful consideration from policy-makers as these economies respond to the crisis and to the longer-term requirements of development.

In the next section, we provide an overview of active labor market programs and review some key issues to be considered in their design. Section 3 begins with a discussion of the techniques used to evaluate ALMPs and then summarizes the evidence on the impacts of ALMPs, identifying the key variables associated with successful outcomes. Section 4 covers the experience with active programs in East Asian countries. Finally, in section 5, we discuss the applicability of ALMPs to these countries and the key considerations involved in developing greater capacity in this area.

2. Active Labor Market Programs: An Overview

This section includes three parts: first, a brief discussion of considerations involved in developing an overall ALMP strategy; second, a description of the main types of programs and policy issues to be considered in their design; and third, a profile of the recent experience with active labor market programs, focusing on expenditures in OECD countries.

Active labor market programs, including job creation (public works, self-employment support, and wage subsidies), training, and employment services can affect labor demand, labor supply, and the functioning of the labor market in matching the two.³ The overall objective of these interventions is to increase employment and incomes. They can serve equity objectives, as well, most obviously when programs are targeted at vulnerable groups.

ALMPs can increase employment and incomes in various ways. They can play a stabilization role in the sense of governments directly providing temporary jobs through public works or by shifting labor supply or demand curves outward by offering training or wage subsidies. Training, mobility incentives, and other employment services can reduce structural imbalances by improving the match between workers and jobs. By decreasing the number of vacancies at a given level of unemployment, ALMPs can also increase employment by reducing both upward wage pressures and labor bottlenecks. Employment and income effects of active programs can also be transmitted through attendant increases in skills and productivity. Even where net employment effects may not be significant for some active labor market programs, they can

³ For an extensive categorization of active labor market programs, see OECD (1993), Annex 2.B.

increase the attachment of the long-term unemployed to the labor force and decrease their dependence on unemployment benefits. By assisting the most disadvantaged workers, ALMPs can break down potentially negative consequences associated with “outsider” phenomena.

There are many ways, then, in which active labor market programs can positively affect employment and incomes. However, their potential benefits may be dissipated or eliminated because of substitution, deadweight, and displacement effects. We will address these in section 3 when evidence on the impacts of ALMPs is reviewed.

2.1 Public Policy Issues

Policymakers must address various issues in designing and implementing ALMPs. These include the overall strategy and more specific issues relating to program design.

The overall strategy for active labor market programs involves identifying clear objectives; the composition of programs within the ALMP envelope; targeting priorities; and decisions about the relationship between active and passive policies.

As we have noted, active programs can serve various objectives and policymakers need to be clear about which are the important ones. The orientation of an ALMP strategy can be to moderate cyclical downturns, reduce structural imbalances or otherwise improve the functioning of the labor market, increase productivity, support disadvantaged or at-risk workers, support at-risk employers or industries, or some combination of the above. Each of these objectives calls for different types of ALMPs and different client populations. Table 2.1 provides an illustration of how policies might differ depending on objectives.

Table 2.1: Tailoring Programs to Objectives

Objective	Program orientation	Targeting orientation
Moderate cyclical downturns	<ul style="list-style-type: none"> • Direct job creation (e.g., public works) • Wage subsidies • Training (subsidies or grants to workers or employers) • Self-employment support 	<ul style="list-style-type: none"> • Vulnerable groups (with least resiliency) • Hard-hit regions and industries
Reduce structural imbalances	<ul style="list-style-type: none"> • Employment services (e.g., information, search assistance, mobility assistance) • Training • Wage subsidies 	<ul style="list-style-type: none"> • Proximate regions, industries, or occupations
Improve general labor market functioning	<ul style="list-style-type: none"> • Employment services • Training (e.g., apprenticeship, school to work transition) 	<ul style="list-style-type: none"> • All
Enhance skills and productivity	<ul style="list-style-type: none"> • Training and retraining (including in-service, apprenticeship) 	<ul style="list-style-type: none"> • At risk or disadvantaged worker categories (especially for retraining)
Support disadvantaged or at-risk workers	<ul style="list-style-type: none"> • Employment services (counseling, job search assistance) • Training (e.g., grants, subsidies) • Wage subsidies 	<ul style="list-style-type: none"> • At-risk or disadvantaged worker categories

Another important strategic issue concerns the relationship between active and passive policies. As a general rule, countries with active programs do have unemployment insurance or some other form of passive support. For the most part, coordination between the two has been partial at best. A few countries including Austria, Germany, Japan, Norway, and Spain do have integrated systems. Others, such as Canada, are increasingly moving towards integration by coordinating active program options with unemployment insurance. This trend seems likely to continue. In the first place, attempting to reintegrate unemployed workers into the labor market is more politically attractive than simply providing income support or insurance. Second, integrated systems may have positive economic outcomes. In the United Kingdom after a period of low levels of intervention, the public employment service began interviewing the unemployment insurance claimants and found that even minimal contact reduced the number of benefits claimed (OECD, 1994). Furthermore, coordinating benefits distribution with job search assistance can save on administrative costs.

2.2 Types of Active Labor Market Programs

This section discusses the various active labor market programs in greater detail and raises some issues that policymakers should consider when designing and implementing these programs. These issues are summarized in Table 2.2.

2.2.1 Employment services

Employment services serve brokerage functions, matching jobs with job seekers. This assistance comprises many different types of activities: for example, initial interviews at employment offices, in-depth counseling during the unemployment spell, job clubs, etc. In Hungary and Poland in the mid-1990s, for example, workers had access to job referrals, job counseling, skills assessment, job search training, resume preparation and job clubs (O’Leary, 1998a,b). In New Zealand they were assisted through a job screening interview, workshops, follow-up interviews and personal case management (New Zealand Department of Labour, 1995). In Australia, services offered include resume writing and interviewing techniques.

Job-search assistance services are relatively inexpensive and by providing job seekers with better information on jobs, they can also help in shortening unemployment spells. On the negative side, these interventions usually have “deadweight losses” in that individuals who find jobs through these services are generally more qualified than most job-seekers and many likely would have found jobs even in the absence of these services.

Some Key Issues with Employment Services

(i) *Public/private sector complementarity.* Increasingly, public and private services coexist in many countries. Public employment services (PES) are often justified on the grounds that they are especially beneficial to the disadvantaged, including the poor, and the long-term unemployed (Fretwell and Goldberg, 1994). Private (fee-charging) agencies typically provide labor exchange services to more favored segments of the labor force, such as the employed, skilled, and white-collar workers. However, in some countries, private agencies are banned or restricted and public employment service operate under near-monopoly conditions. While governments often need to

provide these services to certain segments of the population, public employment offices should not be viewed as substitutes for private agencies. Private agencies can enhance the operation of the labor market especially where governments ensure they operate to quality standards.

(ii) *Integrated service provision.* Another issue to consider is the integration of employment services with the other ALMPs, as well as passive programs. Close coordination can be beneficial to the extent that the unemployed acquire the skills and knowledge necessary to fill available job vacancies. This has to be balanced against the administrative requirements such integration entails.

(iii) *Monitoring and evaluation.* As with all ALMPs, it is crucial to monitor and evaluate the impact of this intervention. Various methods are used to enhance the effectiveness of public employment services in many OECD countries. In some countries, administrative data (i.e. number of registered job vacancies, etc.) are used to set targets to measure the effectiveness of the employment service, and budgets are allocated accordingly. For example, in Sweden and Finland, funds allocated to the PES are disbursed to the regional and local levels based on meeting their performance targets (OECD, 1997).

2.2.2 Labor Market Training

This includes training where there is some form of public support. That support can come in the form of direct provision of training (e.g, through public training institutes), financial support for trainees (e.g., funding training costs and/or subsidizing trainees), or providing “infrastructure” services (e.g., labor market information, licensing, monitoring and credential services). Most countries focus on three types of training programs: (1) Retraining aimed at the long term-unemployed (e.g., unemployed for more than 12 months); 2) Retraining displaced workers, especially those displaced *en masse* as a result of enterprise/industrial restructuring; and (3) Training programs aimed at young people, often with special attention to school drop-outs.

While these types of training programs can lead to increases in productivity and employability, they have a number of limitations. First, they are relatively costly. Second, as we will see in the next section, they often have little impact when the economy is not performing well and job opportunities are limited. Finally, training programs can also result in deadweight loss – i.e., participants who benefit most may have more skills to begin with and may have found jobs even without training.

Some Key Issues with Labor Market Training

(i) *The role of the government.* Governments have a range of potential roles: direct provision, regulation, providing information and standards, and financing. Many governments are moving away from the role of direct provider and focusing more on addressing market failures in information and financing, while leaving more of the delivery to private providers. This may be a way for governments to foster the development of a relevant and cost-effective training system.

(ii) *Role of private providers.* In order to encourage private delivery, governments must create a set of enabling conditions including: (i) ensuring that laws governing private provision are clear

and do not discriminate against private providers; (ii) avoid excessive public provision which can crowd out private supply; and (iii) let employment growth lead the demand for training. Countries where such requirements have been met (e.g. Indonesia, Australia) have seen the growth of a vibrant and competitive private sector for training while the public sector has focused on providing services to the more vulnerable groups (Gill, Fluitman, and Dar, 2000).

(iii) Linking training with the labor market. Strong linkages between the training system and the labor market require the government to examine its own internal structures and operations. The solution in some countries where training reform has been successful has involved developing strong institutional links with employers and making training institutions more flexible. In Chile, for example, vocational training institutes are governed by representatives of employers, workers, and the government and this tripartism has strengthened accountability while offering the institutes the necessary autonomy to respond to needs of employers.

2.2.3 Job Creation

These programs are intended to support the creation of new jobs or the maintenance of existing ones. Three general types of programs fall under this category. First, there are subsidies to encourage employers to hire new workers or to keep employees who might otherwise have been laid off for business reasons. These can take the form of direct wage subsidies (for either the employer or worker) or social security payment offsets. These types of subsidies are always targeted to a particular category of worker or employer. The second category involves direct job creation in the public or non-profit sector through public works or related programs. Typically, government funds used for these programs cover compensation costs to hire previously unemployed workers, usually on a temporary basis. Third, support is sometimes offered to unemployed workers to start their own enterprises. This can involve offering micro-financing for start-up or operating costs, allowing unemployment benefits to continue where claimants start their own business, offering grants, or providing business support services.

Wage/employment subsidies (WES)

These programs have been used for the long-term unemployed, those coming from severely disadvantaged areas (e.g. sectors with high unemployment), and special groups of workers (e.g., youth). Subsidies have been instituted under varying economic conditions, though most often during slack periods. These programs often have a social objective in the sense of encouraging employment and, thus, the social inclusion of disadvantaged individuals. Detractors argue, however, that it is difficult to design subsidies that actually meet the goal of creating jobs in a cost-efficient manner. They are often associated with deadweight losses. They also can have unintended effects such as subsidized workers replacing unsubsidized ones or employers hiring subsidized workers and laying them off once the subsidy period ends. Obviously, good design and monitoring can reduce these negative impacts.

Some Key Issues with Wage/Employment Subsidies

(i) Duration and level of subsidies. Wage subsidy programs are most often payments to firms in the form of a wage offset in order to induce them to hire program participants. The level and

duration of these subsidies varies significantly between programs and countries. For example, under the U.S. Targeted Job Tax Credit, firms are paid 50% of the individual's wages for a period of up to two years while the U.K. job subsidy program provides up to 100% of wages for a period of six months. While it is not possible to generalize about the optimal duration and amount of the subsidy, careful monitoring and evaluation of the impact of the programs will allow policymakers to arrive at more informed decisions.

(ii) *Minimization of deadweight and substitution effects.* As mentioned above, these programs are likely to be associated with high deadweight and substitution losses. Careful targeting of the beneficiaries is necessary in order to minimize these effects (e.g., individuals could be hired to work in firms/industries in which there is excess demand). It is also important to monitor employer behavior to minimize program abuse.

Public works and direct public employment creation

Some governments attempt to alleviate unemployment by creating jobs and hiring the unemployed directly. In other arrangements, the government contracts with non-profit organizations or private businesses to provide jobs. Most programs target the displaced and the long-term unemployed (i.e., the hardest to place) and, in some cases, youth as a way to introduce them to labor market.

The idea behind these programs is generally to help disadvantaged and long-term unemployed groups to regain contact with the labor market, thereby minimizing the probability of stigmatization, skills obsolescence, and marginalization. They can also lead to the production of public goods and develop basic infrastructure; indeed, in many cases, this, rather than job creation, is the main objective of public works.⁴ Another advantage is that these programs can be self-targeting on those most in need. Finally, policy-makers must recognize that in some countries there can be a stigma attached to public works jobs which may decrease the market employability of participants over the long run.

Some Key Issues with Public Works

(i) *Targeting of programs.* When the objective is to reduce poverty, targeting can be best achieved by setting the appropriate wage. As a rule of thumb, the wage offered should be no higher than the prevailing market wage for unskilled manual labor in the area in which the scheme is introduced. This enables the program to be effectively self-targeted for the most disadvantaged. Conversely, if wages are set too high, public works jobs may be filled by less disadvantaged workers and end up crowding out jobs in the private sector. Restrictions on eligibility should be avoided; the fact that one wants work at low wages should ideally be the only requirement for eligibility. When demand for jobs exceeds the budget, the projects should be targeted to poor areas as indicated by a credible "poverty map" and should try to assure that the assets created are of maximum value to poor people in those areas. However, flexibility should be allowed in future budget allocations across areas to reflect differences in demand for the scheme (Ravallion, 1998).

⁴ Only public works designed specifically to alleviate unemployment and poverty and not those routinely planned to construct infrastructure are considered as ALMPs in this paper.

(ii) *Management*. Tendering public employment activities through private contractors or non-profit organizations has also been shown to enhance the effectiveness of public job creation schemes. For example, an evaluation of public works programs in Hungary shows that those which were operated by private contractors tended to be the most cost-effective (Fretwell, Benus, and O’Leary, 1999). Another lesson from past experience is that programs need not be managed at national levels; decentralization often increases administrative efficiency and facilitates appropriate targeting.

Micro-Enterprise Development Assistance/Self-Employment Creation Measures

Technical assistance, credit, and other support can contribute to the creation and promotion of small-scale new businesses and self-employment. In countries with embryonic financial infrastructure, private banks are often unable to conduct comprehensive risk assessments required to offer credit to unemployed workers who want to create their own business. Public programs to support small business loans can contribute to the removal of this distortion arising from credit rationing.

In general, micro-enterprise development assistance (MEDA) programs have been offered both on a universal basis or to a particular group. For example, such assistance has been offered to the newly unemployed (such as in Massachusetts, U.S., in the early 1990s), to the long-term unemployed (such as in Denmark in the 1980s), and to displaced workers (e.g., in Hungary and Poland in the 1990s). Similarly, they have been available under varied economic conditions.

Program conditions also vary. Participants may receive assistance to set up their businesses as a lump-sum payment or periodic allowances. Often there is “screening” whereby potential beneficiaries undergo a rigorous assessment which evaluates their likelihood of success (for example, in Germany); however, in other countries, such as the U.S., screening has been more cursory (Wilson and Adams, 1994). In most cases participants may also receive business advisory services and counseling.

Few among the unemployed – usually less than five percent – typically take up opportunities for self-employment (Wilson and Adams, 1994). One explanation for this may be that individuals are generally risk averse and, given a choice, will opt for unemployment benefits. Finally, policy-makers must consider potential displacement effects of these programs whereby small businesses who do not get assistance are disadvantaged relative to those that do.

Some Key Issues with MEDA programs

(i) *Appropriate level of support*. The experience of successful micro-credit schemes, e.g., Bangladesh’s Grameen Bank,⁵ shows that good micro-enterprise credit programs have several common characteristics. They offer small initial amounts of credit, with subsequent loans

⁵ Grameen Bank has over two million members, 94 percent of whom are women. Over time, it has demonstrated its ability to operate with resources from the market, relying less on subsidized funds. It has recorded loan recovery rates above 90 percent consistently and has had a positive impact on poverty reduction.

contingent on a good repayment record. They charge market interest rates and use group lending with community guarantees rather than formal collateral and they have flexible repayment schedules. Micro enterprise credit programs start on a very small scale and grow gradually, which allows for some “learning by doing” on the part of the agency and the community. This also ensures that supervision and training activities can keep pace with the lending activities.

(ii) *Targeting/screening of participants.* Screening can be especially important for MEDA and self-employment support programs. Instruments should include information sessions, detailed application forms, interviews, pre-entry business advisory services, training, and development of business plans. These can sharply reduce deadweight loss and greatly enhance the success of the project.

2.3 Expenditures on Active Programs in OECD Countries

The OECD has collected statistics on expenditures by member countries on active labor market programs since the mid-1980s. These expenditures have also been compared with those on passive programs such as unemployment insurance in order to assess the relative importance of the two types of labor market policies over time and across countries.

Figure 2.1 illustrates trends over time in spending on ALMPs by showing average national expenditures throughout the OECD region as a percentage of national GDP between 1985 and 1998. The relative spending level increased early in the 1990s and has continued at that new and higher level through the decade. This increase likely reflects both an increasing relative preference on the part of governments for active programming and the higher unemployment in most countries in the 1990s compared to the 1980s. Analysis by the OECD (1993) confirms that spending on active programs increases when unemployment rises. In 1990, for example, a one percent increase in the unemployment rate was associated with a 0.6 percent increase in expenditures on ALMPs as a percentage of GDP.

A second point emerging from the OECD expenditure data is that countries generally see active and passive programming as complements rather than substitutes. Where spending is relatively high in the former area, it is also likely to be relatively high in the latter. In 1990, the correlation coefficient between national spending on active and passive programs was .60 (OECD, 1993). After diverging in the early nineties when income support jumped to accommodate workers laid off in the recession, the strong correlation resumed in 1993, with spending on active programs slightly increasing relative to passive (Figure 2.2). Nonetheless, spending on passive programs remains roughly 50 percent greater on passive than on active programs in the OECD region.

Finally, there are major differences across OECD countries in terms of the level and composition of spending on ALMPs. Table 2.3 highlights these differences for a subset of countries using the latest expenditure data available.

Figure 2.1

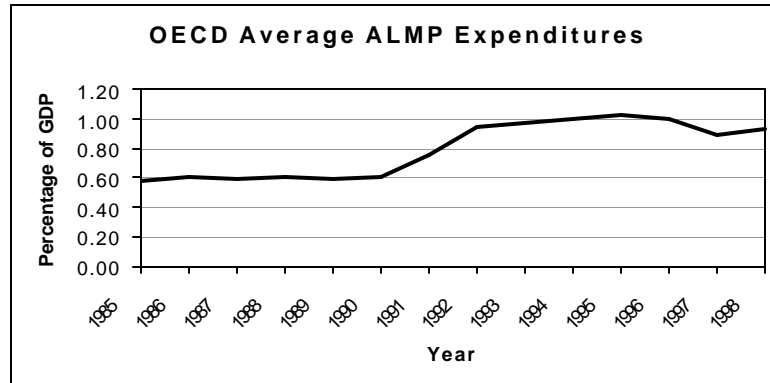


Figure 2.2

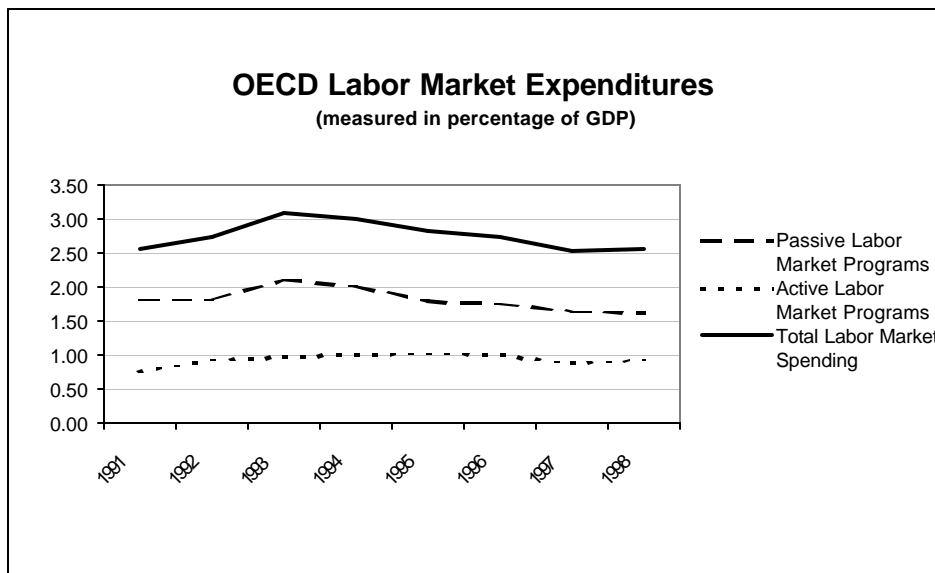


Table 2.2 Active and Passive Labor Market Programs: Some Key Features

Program	Description and Objective	Possible Pros	Possible Cons	Some Key Issues
1. Job search assistance/ Employment Services	The main objective of employment services is brokerage – matching jobs with job seekers. Job-search assistance comprises many different types of services; for example, initial interviews at employment offices, in-depth counseling during the unemployment spell, job clubs etc.	<ol style="list-style-type: none"> 1. Helps reduce the length of unemployment. 2. Reasonably inexpensive. 3. Used to pre-screen participants who may get assistance from other ALMPs. 	<ol style="list-style-type: none"> 1. Crowding out of private services. 2. Deadweight loss 3. Benefits only a fraction of job-seekers. 	<ol style="list-style-type: none"> 1. What is the role of private job search agencies vis a vis public agencies? 2. Should employment services provide integrated services 3. How can monitoring and evaluation improve effectiveness
2. Training and Retraining	Aims at helping new entrants to the labor force and redeployed workers (either the long-term unemployed or those laid off <i>en masse</i>) to accumulate skills that will enable them to compete for jobs.	<ol style="list-style-type: none"> 1. Increase in productivity and enhancement of skills unemployed individuals. 2. When well-targeted may benefit some groups (e.g. the disadvantaged, women). 	<ol style="list-style-type: none"> 1. Usually programs are poorly targeted, resulting in deadweight loss 2. Do poorly when the economy is not growing (i.e. when there are few jobs) 3. One of the most costly ALMPs instituted the most. 	<ol style="list-style-type: none"> 1. What is the role of the government and the private sector? 2. How can linkages with the labor market be improved 3. How cost-effective are these programs?
3. Wage Subsidies	Generally aimed at the long-term unemployed and youth, these are designed to subsidize employer's cost of hiring unemployed individuals. The government pays part of the salary for a period of time following which firms may decide to hire the individual and pay the entire salary.	<ol style="list-style-type: none"> 1. May lead to permanent employment by helping individuals develop some work-related skills. 2. Helps individuals maintain contact with the labor market. 	<ol style="list-style-type: none"> 1. Deadweight loss 2. A worker taken by a firm in a subsidized job is substituted for an unsubsidized worker who would have otherwise been hired. The net employment effect can be zero. 3. Employers may view workers as cheap labor and lay them off once the subsidy period ends. 	<ol style="list-style-type: none"> 1. What should the duration of these subsidies be? 2. What is the ideal level of subsidy provided?

Table 2.2 (cont.) Active and Passive Labor Market Programs: Some Key Features

Program	Description and Objective	Possible Pros	Possible Cons	Some Key Issues
4. Micro-enterprise Development	Creating and promoting small-scale new businesses and providing self-employment through technical assistance, credit and other support. They are often aimed at countering “market failures,” not in the labor market but in the capital or land markets.	1. Assist in creating entrepreneurial spirit.	1. High deadweight loss. 2. Small businesses who do not get this assistance may be displaced. 3. Low take-up rate among the unemployed	1. What kind of support - e.g. financial/technical - should be provided to those starting up an enterprise? 2. How can targeting of participants be improved to minimize deadweight loss. 3. What is the impact of these programs - what is the proportion of unemployed that take advantage of these benefits, the proportion of businesses that survive and how many additional jobs are created?
5. Public Works and Public Service Employment	Publicly funded low-wage employment to address poverty and nutrition objectives and create temporary employment - these programs are mainly income-generating schemes rather than autonomous employment generation	1. May assist disadvantaged groups to regain labor market contact. 2. Leads to production of public goods and develops infrastructure. 3. Self-targeting, if wages are set effectively.	1. Crowding out of private sector jobs, especially if targeting is ineffective. 2. Stigma attached to them may not increase individual’s employability.	1. What should be the wages on the job? 2. What should the proportion of wages in the total program cost be? 3. Are these programs effective in generating employment and higher wages for program participants, and are they cost-effective? 4. Should private or public contractors be hired to implement the projects?

Table 2.3: Expenditures on Labor Market Programs (Selected OECD Countries)

Labor Market Program	Australia {1997/8}	Denmark {1998}	France {1997}	Germany {1998}	Japan {1997-98}	Italy {1996}	Spain {1998}	Sweden {1998}	U. S. {1997-98}
Public Employment Services & Administration	0.21	0.14	0.16	0.23	0.03	0.04	0.07	0.30	0.06
Labor Market Training	0.07	1.07	0.35	0.34	0.03	0.01	0.21	0.48	0.04
a. Training unemployed adults and those at risk	0.06	0.73	0.31	0.35	0.03	-	0.10	0.47	0.04
b. Training employed adults	-	0.34	0.04	-	-	0.01	0.11	0.01	-
Youth Measures	0.06	0.08	0.26	0.07	-	0.42	0.07	0.03	0.03
a. Measures for unemployed & disadvantaged youth	-	0.08	0.07	0.06	-	0.04	0.07	0.03	0.03
b. Apprenticeship and related forms of general youth training	0.05	-	0.19	0.01	-	0.38	-	-	-
Subsidized Employment	0.13	0.30	0.52	0.39	0.02	0.61	0.35	0.58	0.01
a. Subsidies to employment in the private sector	0.04	0.03	0.32	0.03	0.02	0.56	0.24	0.15	-
b. Support of unemployed persons starting enterprises	0.02	0.04	-	0.03	-	-	0.03	0.09	-
c. Direct job creation (public or non-profit)	0.07	0.23	0.20	0.32	-	0.04	0.07	0.35	0.01
Measures for the Disabled	0.06	0.30	0.08	0.25	-	-	0.02	0.62	0.04
a. Vocational rehabilitation	0.02	0.30	0.02	0.10	-	-	-	0.04	0.04
b. Work for the disabled	0.04	-	0.06	0.15	-	-	0.02	0.58	-
Unemployment Compensation	1.17	1.86	4.50	2.29	0.43	0.68	1.64	1.91	0.25
Early retirement for labor market reasons	-	1.88	0.35	-	-	0.20	-	-	-
TOTAL	1.69	5.63	3.22	3.56	0.52	1.96	2.36	3.93	0.43
Active Measures	0.52	1.89	1.37	1.27	0.09	1.08	0.72	2.01	0.18
Passive Measures	1.17	3.74	1.85	2.29	0.43	0.88	1.64	1.91	0.25

3. Evaluating the Impacts of ALMPs⁶

In spite of the large public expenditures on active labor market programs, rigorous evaluations of their impacts have been limited. However, policy-makers are increasingly realizing the importance of good evaluation in improving program design. They want to know what programs accomplish, what they cost, and how they should be designed to be cost-effective. As we shall see in the second part of this section, there is now a growing body of evaluative evidence. First, however, we briefly discuss the techniques used in performing these evaluations.

3.1 Impact Evaluation Techniques

Techniques for evaluating the effectiveness of programs can be either scientific and non-scientific. Scientific evaluations are of two types: experimental and quasi-experimental. Experimental evaluations require selection of both "treatment" and "control" groups -- those who receive the assistance and those who do not -- prior to the intervention. Quasi-experimental studies select these groups after the intervention.

Non-scientific techniques do not use control groups in evaluating the impact of interventions, relying instead on statistics compiled by program administrators. Since there is no "counterfactual" (i.e., what would have happened in the absence of the program), these evaluations are of little use in determining impacts (i.e., whether participants have benefited). However, non-scientific evaluations can provide some information on deadweight loss, as well as substitution and displacement effects. (Box 3.1 lists some commonly used terms in the impact evaluation literature).

3.1.1 Experimental (classically designed) Evaluations

If large samples are randomly assigned to treatment and control groups, observable and unobservable characteristics of the two groups should not differ on average, and so any difference in outcomes can be attributed to program participation. The main appeal of experiments, then, lies in the simplicity of interpreting results. The program impact is the simple difference between the means of the samples of program participants and control group members on the outcome of interest. Although experiments have many virtues, there are pitfalls as well: they require careful planning and design in advance of the experiment; there can be failure to assign randomly (e.g., because of nepotism, excluding high risk groups to achieve better results); behavior can be affected by participation (e.g., "Hawthorne effect"); they typically incur high costs; and they can raise ethical questions if some people are excluded from the intervention.

3.1.2 Quasi-Experimental Techniques

In these techniques, the treatment and control groups are selected *after* the intervention. To isolate the effect of the program, econometric techniques correct for the differences in characteristics between the two groups. The main appeal lies in relatively low costs and that evaluations can be done at any time after the intervention. The main drawbacks are that these

⁶ This section is based on Dar and Tzannatos (1999) and Dar and Gill (1998).

techniques can be statistically complex and may not fully account for all differences in the two sub-samples. Techniques for adjusting for differences in observable attributes (e.g., sex, education, region) of the groups are relatively straightforward though subject to specification errors. Correcting for unobservable characteristics (e.g., motivation) requires a complex procedure that can yield different results depending upon specification. These quasi-experimental evaluations are of three types: regression-adjusted for observables, selectivity-corrected, and matched pairs:

Box 3.1: Some Commonly Used Terms in the Impact Evaluation Literature

Some commonly used terms in program evaluations:

- **Deadweight Loss:** Program outcomes are not different from what would have happened in the absence of the program. For example, wage subsidies place a worker in a firm which would have hired the worker in the absence of the subsidy.
- **Substitution Effect:** A worker hired in a subsidized job is substituted for an unsubsidized worker who would otherwise have been hired. The net employment effect is thus zero.
- **Displacement Effect:** This usually refers to displacement in the product market. A firm with subsidized workers increases output, but displaces/reduces output among firms who do not have subsidized workers. This can also occur in helping individuals start up enterprises.
- **Treatment and Control Group:** Program beneficiaries are the “treatment” group. In a scientific evaluation, their outcomes are compared with a “control” group of individuals who did not participate in this program. The treatment and control groups could be assigned at random ex-ante (before the program) or chosen ex-post.
- **Selection Bias:** Program outcomes are influenced by unobservable factors not controlled for in an evaluation that affect who participates in the program (e.g. individual ability, willingness to work). Bias can also arise as a by-product of the selection process where individuals most likely to succeed are selected into programs (“creaming”).
- **Randomization Bias:** Also known as the “Hawthorne effect”, this refers to bias in random-assignment experiments whereby individual behavior may be affected because of participating in the experiment itself, either in the treatment or the control group.

Regression-adjusted for observables

This technique assesses the impact of participation in a program when the observable characteristics (e.g. sex, age, education) of the participant and comparison groups differ. It is appropriate for calculating program impact estimates when the difference between the participant and comparison samples can be explained by observable characteristics.

Regression-adjusted for observed and unobservable variables (selectivity-corrected)

When selection into programs is not random, and participation in a program is due to both observable and unobservable characteristics, program impacts computed using the technique above are likely to be biased. The concern is that even if participants and non-participants have similar

observable characteristics, there are some unobservable characteristics (e.g. innate ability) which would cause non-participants to have different responses to the program if they had participated. The most common technique to address this issue is the Heckman selectivity method to try to control for these unobservables.

Matched pairs

As observable characteristics of the individuals chosen in the control and treatment groups are bound to be different, these groups are likely to have different success rates in finding employment, even in the absence of active labor market programs. To control for these spurious differences, synthetic control groups are constructed using a matched pairs approach. The synthetic control group, a subset of the entire control group, is composed of individuals whose observable characteristics most closely match those of the treatment group.

3.2 An Interpretation of Evaluation Results

We now turn to the evidence on program impacts. It should be noted here that while we have included some results based on evaluations in developing countries, this evidence mainly focuses on the experiences of OECD countries. Here we merely review the main conclusions emerging from the literature. Table 3.1 provides a summary. For a more detailed review, see Dar and Tzannatos (1999).

Table 3.1: Overview of ALMP Evaluation Results

Program	Appear to Help	Comments
1 Job-search assistance/ Emp. Services (19 evaluations)	Adult unemployed generally when economic conditions are improving; women may benefit more.	Relatively more cost-effective than other labor market interventions (e.g. training) – mainly due to the lower cost, youth do not benefit usually. Difficulty lies in deciding who needs help in order to minimize deadweight loss.
2. Training of long-term unemployed (28 evaluations)	Women and other disadvantaged groups.	No more effective than job-search assistance in increasing re-employment probabilities and post-intervention earnings and are 2-4 times more costly.
3. Retraining in the case of mass layoffs (12 evaluations)	Little positive impact – mainly when economy is doing better.	No more effective than job-search assistance and significantly more expensive. Rate of return on these programs usually negative.
4. Training for youth (7 evaluations)	No positive impact.	Employment/earnings prospects not improved as a result of going through the training. Taking costs into account - the real rate of return of these programs is negative.
5. Employment/Wage subsidies (22 evaluations)	Long-term unemployed in providing an entry into the labor force.	High deadweight and substitution effects. Impact analysis shows treatment group does not do well as compared to control. Sometimes used by firms as a permanent subsidy program.
6 Public Works Programs (17 evaluations)	Severely disadvantaged groups in providing temporary employment and a safety net.	Long-term employment prospects not helped: program participants are less likely to be employed in a normal job and earn less than do individuals in the control group. Not cost-effective if objective is to get people into gainful employment.
7. Micro-enterprise Development Programs (15 evaluations)	Relatively older groups, the more educated.	Very low take-up rate among unemployed. Significant failure rate of small businesses. High deadweight and displacement effects. High costs – cost-benefit analysis rarely conducted but sometime show costs to UI budget higher than for control group.

An important caveat with these evaluations concerns their summary nature. That is, the underlying studies treat the programs themselves as “black boxes” in the sense that issues relating to program design and implementation, staffing, and intensity and quality of services provided have not been evaluated. These are obviously important factors that will have an impact on the likelihood of the success of a program.

3.2.1 Job Search Assistance/Employment Services

Expenditures on these programs range anywhere from five percent of active labor market program budgets (in Denmark) to over 70 percent (in the Czech Republic). On average, OECD countries spend about a quarter of their active labor market program budgets on employment services including job search assistance (JSA). It should be noted that these expenditures include the costs of financing job search assistance programs as well as administration costs associated with operating the unemployment benefit system and ALMPs.

Of the 19 evaluations we examined, all except one are scientific. Six of the scientific evaluations are experimental and 12 are quasi-experimental. The evaluations suggest that JSA is in some sense one of the most successful active labor market programs: in the general case, it costs little to provide and the program is not any less effective than alternative and more expensive ALMPs. However, much depends on whether the economy is growing and on the availability of public funds (which can be scarce during a recession).

More specifically, while some evaluations yield negative results, most indicate positive results. Less successful programs are generally associated with periods of recessions and rising unemployment rates. For example, job search assistance to those laid off *en masse* in Canada in the late 1980s did not raise their probability of employment or earnings (as compared to a control group) at a time when unemployment was rising. In fact, participants who had been part of mass layoffs spent a significantly greater amount of time searching for jobs than their counterparts who did not use this service (Fay, 1996). On the other hand, the effectiveness of job search assistance seems to increase when economic conditions improve and when new jobs are being generated. During the decline in unemployment rates in the Netherlands in the late 1980s, program participants were more likely to be employed than those in the control group (OECD, 1993). Evaluations in Hungary and Poland also show similar results (O’ Leary, 1998a, b).

Studies which examine both cost and effectiveness data generally conclude that job search assistance is one of the most-cost effective of the active interventions. For example, Leigh (1995) finds that JSA measures cost two to four times less than training and retraining, but appear equally effective in terms of impacts. This, of course, does not mean that JSA is a substitute for training; it is possible, for example, that those who use it are more “employment-ready” than individuals who get training. However, it does mean that if job search assistance and training programs cater to roughly the same clientele, policymakers may prefer the less expensive option.

Overall, then, the evidence suggests that job search assistance can have some positive effects and is usually cost-effective (relative to other ALMPs). There does seem to be a positive correlation between the likelihood of success of JSA and local labor market conditions. Finally,

job search assistance -- like other interventions -- does not seem to help all types of workers equally; for example, these programs have had little impact on youth.

3.2.2 Training Programs

Training (and re-training) programs generally account for a significant share of expenditures on ALMPs, ranging between 40% to 60% in most countries and over 75% in Denmark (in the early 1990s). Spending on training can reach many different groups, and in our summary below, we concentrate on training (i) for the long-term unemployed; (ii) for those laid off *en masse*; and (iii) programs geared towards youth.

Training Programs for the Long-Term Unemployed

We reviewed 28 studies - six experimental, 18 quasi-experimental, and four non-scientific. A few of these studies are longitudinal, so it is also possible to study the long term impact of the programs. Scientific evaluations suggest that these programs can have a positive impact but this is not always the case. As noted above, in most cases, training programs are generally no more effective than job search assistance in increasing either reemployment probabilities or post-intervention earnings.

The success of programs for the long-term unemployed tends to be heavily dependent on the business cycle: programs have performed better when they were instituted at times when the economy was expanding. A good example of this is Hungary where training outcomes seem to have improved over time as the economy started to grow (O' Leary (1995, 1998a)). In general, programs seem to be more effective for women (Puhani, 1998; Friedlander et. al., 1997; Goss, Gilroy and Associates, 1989). Longitudinal studies indicate mixed results; while in some cases the positive effects dissipated within a year or two after program completion, in a couple of cases the impacts persisted. For example, in Sweden, labor market training provided to the unemployed raised their earnings in the short-term but the long-term impact (over two years) was somewhat negative (Meager and Evans, 1998). Conversely, long-term unemployed provided training as part of the New Jersey Reemployment Demonstration project in the mid 1980s were earning more than the control group 2.5 years after program completion (Anderson, Corson and Decker, 1991).

Costs, when known, vary substantially. In *most* cases the costs are found to be so high compared to the benefits of the program that, even if the effects persisted for 10 years, the social return of the program could remain negative (especially for males) (Friedlander et. al., 1997).⁷ The U.S. JTPA program appears to be a rare exception: both male and female participants were doing significantly better than the control group and the training program was relatively inexpensive. However, in spite of the positive results, evaluators caution that the aggregate effects of JTPA are likely to be modest, both on the target population and on the labor force as a whole.

One of the major implications emerging from the analysis is that training should not be seen as a panacea for reintegrating the long-term unemployed back into jobs. This is especially

⁷ The social return is based on a comparison of measurable economic costs and benefits and does not take into account possible externalities associated with the reintegration of the long-term unemployed into the labor force or of reducing high levels of unemployment in specific regions.

the case when demand is slack. When economic conditions are better, these programs are somewhat more effective. Evaluations also show that tightly targeted on-the-job training programs, usually aimed at women and other disadvantaged groups, often offer the best returns. Rigorous cost-benefit analyses are seldom carried out but the limited evidence that does exist shows that these programs are not usually cost-effective.

Retraining Programs for Those Laid off En-Masse

We summarize the results of 12 studies, five quasi-experimental, six non-scientific, and one which used a variety of techniques. The studies relate to retraining programs for workers displaced through mass layoffs as a result of major enterprise restructuring or plant closures. Unfortunately, none of the evaluations was longitudinal, so they do not provide insights into the longer-term effects of these programs.

Scientific, quasi-experimental evaluations find that though some retraining programs *may* result in some modest increase in reemployment probabilities, this result is often statistically insignificant (Corson, Long and Maynard, 1985). The results for post-program earnings are more discouraging: wage effects on participants (compared to control group workers) are rarely positive and in most cases are negative (OECD, 1991).

Evaluations seldom report the full costs of retraining but, when known, direct costs (usually measured as total recurrent program costs) vary between \$3,500 and \$25,000 per participant (Dar and Gill, 1998). As noted earlier, given the finding that retraining and JSA have roughly similar impact, this implies that JSA can be more cost-effective in assisting displaced workers than retraining. Some researchers have gone as far as claiming that there is no evidence of any incremental effect above that of job search assistance for these retraining programs (Corson, Long and Maynard, 1985). As before, it needs to be stressed that these programs may be serving different groups of the unemployed and hence may not be direct substitutes for one another.

OECD country experience with retraining programs for workers displaced *en masse* may be useful in designing assistance programs in transition countries and other economies that experience large-scale labor redundancies. The evidence on the lack of effectiveness and cost-effectiveness of these programs suggests that they should not be the principal source of support to assist individuals to move to gainful employment. If these programs are to be used, they should be small scale and targeted towards those subgroups that can benefit the most from them.

Training Programs for Youth

We have examined seven evaluations: five experimental and two quasi-experimental. These evaluations are mostly discouraging, even though the programs examined here were often introduced in periods of relatively stable youth unemployment. They show that training rarely has an effect on earnings or employment probabilities of program beneficiaries (Fay, 1996). A more mixed, and more promising, picture arises from the evaluation of the Canadian Job Entry Program. Though a quasi-experimental evaluation of the program showed that youth who only undertook classroom training did no better, those who undertook enterprise training did significantly better than the control group (OECD, 1993). This positive effect was attributed to participants staying on

with the training firms. Cost-benefit analysis of several of the youth training programs suggests that the social rates of return to these programs are typically negative in the short as well as the long-run (Friedlander et. al., 1997). The evidence suggests that it is very difficult to correct what appears to be a failure of the education system during the previous years of the youth's life with some kind of training which is usually short in duration.

3.2.3 Wage/Employment Subsidies (WES)

We examine 22 evaluations -- six of which were experimental, eight quasi-experimental, seven non-scientific and one was of various types. WES programs are among the least funded active labor market programs in OECD countries. They attract less than 10 percent of expenditure on active labor market programs and in both the U.S. and the U.K., funding for this program is negligible.

Evaluations tend to agree that WES programs have high deadweight loss and substitution effects. In the extreme case of Ireland's wage subsidy program, these losses combined totaled over 95% – alternatively, the net incrementality of the program was a meager four percent (OECD, 1993). Evaluations of similar programs in Australia, Holland and the U.K. also indicate high deadweight and/or substitution effects (Table 3.2).

Table 3.2: Effectiveness of Wage Subsidy Programs

Country	Deadweight and Substitution Effects (%)	Additionality (%)
Australia in mid 1980s (Jobstart Program)	Deadweight=65%	35%
Belgium in the early 1990s (Recruitment Subsidy)	Deadweight=53% Substitution=36%	11%
England 1986-1990 (Training Grant)	Deadweight=69%	31%
England late 1980s (Workstart I)	Deadweight=45% Substitution=30%	25%
England mid 1970s (Employment Subsidy)	Deadweight=70%	30%
England early 1980s	Deadweight=63% Substitution=10%	27%
Germany in mid 1970s (Wage Subsidy)	Deadweight=75%	25%
Ireland in the 1980's (Employment Incentive Scheme)	Deadweight= 70% Substitution=21%	5-10%
Netherlands during early 1980s (Vermeend-Moor Act)	Deadweight=25% Substitution=50%	25%
Netherlands during late 1980s (JOB scheme)	Substitution =80%.	20%
U.S. in mid 1980s (Targeted Job Tax Credit)	Deadweight=70% Substitution=10%	20%

Note: Additionality is the employment effect after accounting for deadweight, displacement and substitution effects.

Equally disappointing are evaluations which compared wages and employment outcomes of participants with those of a control group. For example, a longitudinal study of the U.S. Targeted Job Tax Credit program found that earnings of participants were significantly higher than those of individuals in the control group in the first year. However, this effect declined in the second year and disappeared after that (OECD, 1993). Similarly, evaluation results for Hungary show that participants were significantly less likely to be employed and earned less (though not significantly so) than those in the control group (O' Leary, 1998a).

However, a few exceptions do exist. For example, evaluations of the U.S. Job Training Partnership Act program, where employers were provided subsidies to hire workers in conjunction with on-the-job training, found that single mothers who were AFDC recipients benefited significantly, and males also benefited to some extent (Bloom, 1994). In Australia, even though the deadweight loss was around 30%, programs had a significant positive impact on post-program employment – participants were 15% more likely to be employed than the control group (Webster, 1998).

In summary, evidence indicates that WES programs are not likely to be very effective because of substantial deadweight and substitution effects. Wage and employment outcomes of participants are also generally no better than that for a control group. While very few studies carried out a direct cost-benefit analysis, the high deadweight losses and substitution effects strongly suggest that WES are unlikely to have positive social returns in the way measured by economists, though they may contribute to some reduction in social exclusion among older workers and single mothers.

3.2.4 Public Works Programs/Public Service Employment

Public works programs are one of the most heavily funded ALMPs in OECD countries. We summarize the results of 17 evaluations of public works programs, 13 of which are quasi-experimental and four non-scientific. The evaluations point to some general conclusions.

First, non-experimental evaluations show some desirable short-run effects in the form of employment increases and unemployment declines. Second, some scientific evaluations suggest very high displacement effects which can reach 100 percent, as they did in Sweden (Skedinger, 1995). Third, participants tend to have a smaller probability of being employed in a non-assisted job after participation in the program, and are likely to earn less than their counterparts in the control group. Finally, these programs do not seem to have a significant impact on reducing long-term unemployment and whatever small short-run impacts may exist tend to diminish over time (Webster, 1998).

These conclusions are to a large extent predictable. Unlike other ALMPs, public works mainly provide current benefits and are only temporary escape routes from unemployment. Irrespective of their merits, an economist's first impression is that public works can be generally expensive (Table 3.3) and are not an effective instrument if the objective is to get people into long-term gainful employment.

Table 3.3: Annual Cost of Job Creation in Public Works

	Egypt	Honduras	Nicaragua	Madagascar	Bolivia	Senegal	Ghana
Cost/job (US\$)	1401	2120	2580	786	2700	5445	2122
Cost/job (PPP)	7212	9759	14302	3620	9388	12100	10610
Per capita GDP (US\$)	790	600	380	230	800	600	390
Ratio (1/3)	1.77	3.53	6.79	3.42	3.38	9.08	5.44

Source: Adapted from Subbarao (1997); World Bank (1997)

However, public works can be a short-run anti-poverty intervention. For this reason, some developing countries have used them extensively in periods of hardship. Some recent work being conducted at the ILO (Keddean, 1998) suggests that programs of labor intensive infrastructure construction, if carefully targeted and properly designed and implemented, can not only provide a valuable safety net, but also can contribute to further economic recovery and development. Increased involvement of local communities and private sector participation in design and implementation can lead to improved outcomes. Clearly, issues of design and implementation of public works programs need to be studied in greater detail.

3.2.5 Micro-Enterprise Development/Self-Employment Schemes

We have summarized the results of 15 evaluations of programs aimed at helping unemployed individuals start up their own businesses: two of the evaluations are experimental, seven are quasi-experimental, five are non-scientific, and one evaluation is of various types. These programs come under a variety of names such as micro-enterprise schemes or self-employment schemes but below we generically refer to them as “micro-enterprise development assistance” (MEDA).

There is general agreement that MEDA programs have high deadweight loss. Estimates of these losses vary from about 30 % in the self-employment experiments in Massachusetts and Washington State in the late 1980s and early 1990s (Fay, 1996) to over 50 % in Canada’s self-employment assistance program in 1992-93 (Graves and Gauthier, 1995) and Denmark’s enterprise startup grant in the late 1980s (Balakrishnan, 1998).

Table 3.4: Failure Rates of MEDA Businesses

Program	Failure Rate of Businesses
Australia (New Enterprise Initiative, late 1980s)	58% failed in first year and 71% in two years.
Canada (Self-Employment Assistance Program, early 1990s)	20% failed within first year
Denmark (Enterprise Allowance Schemes, late 1980s)	60% failed within first 12 months
France (Micro-Enterprise Development, early 1980s)	50% failed within 4.5 years.
Hungary (MEDA, mid-1990s)	20% failed within first 15 months.
Netherlands in the early 1990’s	50% failed within four years.
Poland (MEDA, mid 1990s)	15% failed within first two years.
U.S. in Washington (Self-Employment Experiment, 1990)	37% failed within the first 15 months

Evaluations show that businesses are short-lived; typically one-third to one-half of MEDA-created businesses close down in the first year of their operation (Table 3.4).⁸ Evidence

⁸ We do not have data on failure rate of small businesses who did not take part in MEDA programs. However, anecdotal evidence seems to suggest that usually these rates are similar to those of that of MEDA businesses. Thus, while MEDA created

seems to show that businesses assisted through mentoring and business counseling are more likely to succeed, and even though a majority of businesses may close, these individuals are likely to move to employment in another industry rather than into unemployment.

Thus, while there are high deadweight losses and high rates of business failures, MEDA participants seem to fare reasonably well in terms of employment outcomes as compared to a control group. Scientific evaluations show that participants are more likely to be employed than individuals in the control group. However, this does not necessarily translate into higher earnings. For example, in the Washington self-employment experiment, while participants are more likely to have been employed than the control group, they earn significantly less (Fay, 1996). In Hungary and the Czech Republic, participants were more likely to be employed compared to individuals in the control group, but earned \$30/month less. In the case of Poland, on the other hand, participants were 25 percent more likely to be employed than the control group and earned significantly more. In the Hungarian and Polish programs, women and older workers generally had better outcomes than individuals in other sub-groups (Fretwell, Benus and O'Leary, 1999).

Even in cases of businesses that survive, there is only a small multiplier effect. Most surviving businesses create, on average, half an additional job. In Hungary, each surviving enterprise created 0.3 additional jobs, in France, 0.5, and in Australia, during a period of declining unemployment, 0.7 jobs (OECD, 1993; Wilson and Adams, 1994).

The cost-benefit issue has rarely been addressed. Where available, data indicate that the cost of starting up a small business varies from \$4,500 (in France) to \$13,000-\$14,000 (in Canada and Denmark). The Canadian evaluation concludes that the long-term cost-effectiveness of these programs is uncertain, while preliminary analysis from Poland and Hungary indicates a loss to the unemployment insurance system with both the average duration and level of unemployment benefits paid to participants being greater than those paid to individuals in the control group. However, it would be premature to draw any conclusions on the cost-effectiveness of these programs on the basis of so little evidence.

Overall, evaluations suggest that these programs work for only a small subset of the unemployed population and are associated with high deadweight and displacement effects rendering the net effects of these programs quite low. The business failure rates are quite high in most cases (though businesses assisted through mentoring and business counseling are more likely to succeed). As in the case of training, assistance targeted at particular groups -- in this case women and older individuals -- seems to have a greater likelihood of success.

4. East Asian Experience with ALMPs

A strong tradition of active labor market programs does not exist in East Asia. The one exception has been the fairly widespread use of public works to create work or earning opportunities on a short-term basis. Other instruments like retraining and employment services, however, have not been used on any significant scale to integrate unemployed workers into the

businesses do no worse in terms of survival rates than businesses which did not benefit from the program, they do not appear to do any better.

labor force. In part this has reflected the region's development stage and prevailing ideologies regarding the role of public policy. It also reflects the low unemployment rates in most countries prior to 1997.

The potential application of ALMPs in the region has changed with the crisis. The increases in unemployment, the difficulties facing many laid-off workers in reestablishing employment and earnings, and the obstacles facing young people trying to enter the labor force have all underscored the need for policy-makers to consider new options. At the same time that the crisis has increased the need for ALMPs, however, fiscal pressures have restricted the capacity of governments to spend in this area.

Nonetheless, even with these constraints, governments in all countries have been pushed to assess how they could use active labor market interventions to help alleviate the unemployment problems. This is particularly important since unemployment insurance only exists in Korea. As this section demonstrates, there have been some interesting and promising innovations in the use of information technology, in financing retraining, and in supporting job creation in small firms, to offer just a few examples.⁹ But many problems must be confronted if ALMPs are to make an important contribution in the region, not only in response to the crisis but in the development of a long-run labor policy framework.

This section is organized to provide an overview of the regional experience with employment services, training, and job creation. The text highlights some important themes that have emerged in the region; examples are offered from the papers for illustrative purposes but there is no attempt to be exhaustive. Tables 4.1 to 4.3 summarize the country activities in each of these areas.¹⁰

4.1 Employment Services

All countries within the region have public employment services (PES) responsible for gathering information on job seekers and vacancies and providing access to services that will match the two. These services are delivered through a network of employment bureaus in each country. The Philippines has an extensive network of public employment service offices (1,825 across the country) which has been buttressed by new offices opened up since the crisis. While PES offices seem quite numerous in the other countries (for example, Korea has about 120, Malaysia about 40, and Thailand has 85), in fact their size, population, and topography make it very difficult to provide complete geographical coverage.

Another constraint stems from what the PES can offer in terms of services to help the unemployed. In most western countries, the importance of the public employment service is driven first and foremost by its role in delivering unemployment insurance benefits (and validating job availability and other criteria). Another important PES role involves its point-of-access to labor market programs like retraining and job search assistance. A third relates to its role in disseminating labor market information to workers, employers, and service providers. In

⁹ It must be mentioned here that the programs that have been put in place during the crisis have not been rigorously evaluated.

¹⁰ The material used for this section is drawn from the country reports prepared for the World Bank/ILO/JMOL-JIL project.

the East Asian countries, unemployment insurance does not exist (except in Korea). The active labor market programs that unemployed workers might access through the PES are less substantial than in the west. Finally, the availability of labor market information that can be applied to decision-making is limited (and where it does exist, it is inadequately utilized).

On the positive side, though, policy makers can take advantage of what has been learned about effective employment services in the developed nations. The importance of service coordination and integration and the complementarity of public and private service delivery are two examples of such lessons. The effective use of technology is another.

Ultimately, the value of PES as an element of active labor market policy depends on how well it is integrated with other aspects of labor policy (active and passive). Korea, the Philippines, and (perhaps) Indonesia are moving in the direction of transforming traditional employment offices into “one-stop” or “single-wicket” centers where job seekers can access unemployment benefits (in the case of Korea), job search assistance, and/or placement in vocational training. Throughout the region, committees, task forces, and coordinating bodies have been established either under government or tripartite auspices to examine how service integration and coordination can improve labor adjustment.

All countries also allow private companies to provide employment services alongside the public system, although in some cases (e.g., Indonesia), there are concerns about whether government regulation is optimal in an efficiency sense. Currently the private service providers are facing difficulties because of depressed business conditions (e.g., Malaysia) while the public systems are being forced to handle rapidly increasing loads. In Korea, for example, the number of job seekers using the PES increased almost ten-fold from 1997 to 1998.

The use of information technology, and its apparent effectiveness, varies throughout the region. In Malaysia and Korea, employment offices in different areas are able to share information about job seekers and vacancies via networks and the internet. In Malaysia, the Employment Service Automatic Reporting System assists the Manpower Department in matching the skills, characteristics, and aspirations of job seekers with the requirements of job vacancies. In Korea, the government has recently launched an electronic labor exchange system, “Work-Net,” which provides information on job vacancies, vocational training, career guidance, employment policies, employment insurance and labor market statistics. In the Philippines, the public can access job vacancy and job applicant information in selected government offices and via the internet through “Phil-Jobnet,” an electronic information system.

However, computer, training, and networking deficiencies constrain IT effectiveness and its impact on information systems in much of the region. The Philippines network, for example, has registered only 1,500 vacancies and 6,000 workers in its first year of operation. In Indonesia, computerized data in district employment service offices is not networked between regions. And because many staff do not have appropriate training or experience, much of the data collection and analysis on job vacancies and job seekers continues to be done manually.

Another important element of employment services involves counseling and placement services. However, there seems to be limited activity in this area. Korea has stepped up its

placement and counseling services by rapidly increasing the number of counselors in the PES. In Thailand and the Philippines, the employment departments have been holding job fairs to bring prospective employers face to face with job seekers. Counseling is also provided at the job fairs and in educational institutions and other outreach venues.

A final point concerns the evaluation of the effectiveness of employment services in the region. Placement rates are the most commonly used indicator. This indicator has not been favorable since the crisis. In Korea, for example, where a survey on unemployment and welfare needs found that only 5.8% of the unemployed succeeded in finding jobs through the public employment services. Clearly, if unemployed workers in Korea find jobs, other means are more important than the PES. Information from Thailand suggests various reasons for the difficulties registered workers have finding jobs through the PES in that country. These include a mismatch between their qualifications and job requirements, a mismatch between their expectations and available jobs, and the use by employers of non-PSE channels to find workers.

4.2 Labor Market Training

The overall profile of training had been increasing in East Asia as the region has moved along a long-run development path towards higher-skill activities. All countries now have national, and somewhat complex, systems of vocational training. For the most part, these systems are heavily public in nature. In each country, the training system is the responsibility of the national government.

Not surprisingly, the crisis has changed the context for training. On the one hand, the increased unemployment has created pressure to step up training activities to reintegrate laid-off workers into the job market and to provide social relief. In Korea, for example, vocational training programs for the unemployed were provided to eight times as many people in 1998 as in 1997. In Thailand, the Department of Employment has launched a special program to retrain workers laid off due to the financial crisis; over 27,000 unemployed workers have attended the three-month training courses. On the other hand, vocational training and education in Indonesia has had to decrease because of the worsening fiscal situation.

Attention to training systems in the wake of the crisis has revealed a number of important challenges that need to be addressed over the longer run if the countries in the region are going to improve job training. Some of these are common across East Asia. These include the need for better coordination and a stronger demand-side orientation in the training offered.

There is a limited amount of coordination between different arms of government responsible for various components of vocational education and training. For example, the Philippines country report highlighted problems associated with overlapping vocational educational and training activities among three government agencies. In Thailand, as well, three government departments have principal responsibility for key aspects of vocational education and training. A recent report in Indonesia identified 19 different departments that have established and regulate 815 vocational training programs.

Another common issue involves making vocational training more responsive to labor demand. This is a problem in all of the countries. The need to generate more high-technology training, for example, has come up throughout the region. There are some initiatives in this area. For example, the Malaysian government has recently established three centers for high-technology skills training and has negotiated bilateral agreements with France and Germany for additional facilities in coming years. Countries are also making attempts to increase the role of the private sector in training.

Private training institutions represent a vehicle for getting the private sector involved in training. The Philippines and Thailand report increasing prominence of private providers but, as we have already pointed out, public institutions predominate in the region. Even in the Philippines where the private trainers are probably the most important, the sector is facing constraints in terms of access to credit and competition from highly subsidized public institutions. A more neutral policy environment, or even one that encourages the growth of private providers, is likely to lead to a more efficient and responsive training sector.¹¹ However, as we have noted earlier, this may require some standards and accreditation arrangements.

It should be noted that there are a number of innovations being introduced regarding the financing of training. While there is no guarantee that all of these will be useful, it is important for policy-makers to try new ideas in this area given the well-known financial market imperfections in the human capital market. In Korea, the Employment Insurance System (EIS) provides financial incentives for both employers and employees. Employers can apply from a special EIS fund to implement various education and training activities, including offering paid educational/training leave. A pilot program for training vouchers was launched in 1998 in Korea with the objective of providing more choice in the training system. A voucher-style scholarship program has also been introduced in the Philippines through the government-sponsored Private Education Student Finance Assistance programs. In Malaysia, the Human Resources Development Council (HRDC) encourages the retraining and skill upgrading of current employees and levies on HRDC-registered firms form a fund to be accessed for training.

One final area to discuss concerns the training of young people. There has been interest through the region in German-style “dual education systems” which integrate vocational and technical education with work experience. In 1994, the Indonesian government introduced a dual system and currently, all public training institutes designated for the program and a higher-than-expected number of small and medium enterprises are participating. An apprenticeship program modeled on the German system is now being tested in the Philippines where during a 30-36 month period, trainees spend 70 per cent of their working in the firm and 30 per cent at a training center for the duration of the 30- 36 month program. Trainees are paid three-fourths of the minimum wage, but retain only 30 per cent of their wages after paying the training centers.¹² While dual systems have strong features, they have been criticized for a lack of flexibility and

¹¹ Assessments in the region have identified problems with the quality and efficiency of public institutions. In Malaysia, for example, low salaries have led to shortages of qualified instructors. A World Bank evaluation of public training institutions in Indonesia found low levels of efficiency and capacity utilization.

¹² Another apprenticeship initiative in the Philippines allows firms to pay considerably below-market wages to apprentices who are to receive on-the-job training for up to six months. Because the law does not require firms to establish a specific training program but does allow exemptions on the minimum wage law, a recent review by the government suggests that firms use the law as a means of exploiting workers.

typically there have been take-up problems on the part of firms in some countries that have tried to introduce them.

4.3 Job Creation Activities

Traditionally, job creation has been the major active labor market policy in all of the East Asian countries. This has tended to take the form of public works which typically have been motivated more by social relief than employment development goals. Two other activities fall under the rubric of “job creation” programs and are discussed in this section. The first is employment subsidies offered to firms to encourage new hiring or the maintenance of existing jobs. These subsidies have been used in Malaysia and Korea. A final job creation category includes initiatives to support the self-employed and small and medium-sized businesses (SMEs). These initiatives, which typically provide financing assistance, have been used to varying degrees in all countries.

4.3.1 Public Works

All governments in East Asia have implemented substantial public works programs as a social safety net provision in the wake of the 1997 financial crisis. While common in all five countries at some point in their economic development, the extraordinary growth of the mid-90’s had substantially reduced the need for these programs – either for providing infrastructure or jobs. In Indonesia, for example, *Padat Karya*, that is, labor-intensive job creation programs, had officially ended in 1994, only to be resurrected in 1997 following extreme drought conditions, the economic crisis, and political turmoil

There are various design flaws that can limit the effectiveness of public works programs and these have been issues in East Asian countries. A common concern stems from the fact that these programs often have multiple objectives that may not really be complementary. Coordination can also be a problem, with numerous departments and levels of government typically carrying out public works with little sense of an overall strategy.

The risk of these pitfalls has become pronounced in the context of the crisis as many programs have been rapidly introduced or ramped up. In Korea, the Philippines, and Indonesia, public works programs have struggled to reach their target populations – mainly as a result of setting wages too high. Other design flaws noted in the Indonesian country report were the low wage bill as a percentage of total project costs and the absence of women in most public works projects. The Philippines report identified a number of challenges including the need for improved monitoring and better mapping of expenditures onto areas where poverty needs are most pressing.

The rush to respond to the crisis before backsliding on recent gains in economic, social, and human development, created numerous problems in policy coordination and follow-through on public works projects. The Thai government, for example, hurried to design and implement new public works projects by soliciting input from various ministries. The resulting menagerie of programs included a number that had previously been dismissed or rated as low priority, but were implemented anyway rather than up-scaling existing high-priority public works projects.

Indonesia's large generation of Padat Karya programs implemented in 1998 suffered from a lack of conceptual clarity about objectives and beneficiaries due in part to inadequate labor market information. As elsewhere, there were numerous problems of overlap and lack of coordination among implementing agencies and a virtual absence of program monitoring.

4.3.2 Wage/employment Subsidies (WES)

Providing incentives to employers to maintain current employment or create new jobs has not been a major policy tool among East Asian governments, with the notable exceptions of Malaysia, where it has been the primary labor market strategy, and Korea, which implemented subsidies in the immediate aftermath of the crisis. The Philippines has two small wage subsidy programs targeted to young people.

In Malaysia, the government has launched efforts to encourage the private sector to choose pay cuts, temporary layoffs, flexible work hours, and part time employment rather than retrenchment of workers. Initial evaluations of government incentives have reported success in preventing unemployment. Employers seem to be choosing to cut pay rather than asking for voluntary retrenchment or actually retrenching workers.

In Korea, employment stabilization programs immediately following the crisis included government subsidies to firms that agreed to maintain their current workforce by choosing any of the following measures: temporary shutdown, reduced working hours, in-firm training, paid leave for employees, dispatching workers to weaker affiliates, or switching to a new line of business while retaining at least 60% of its employees. The employment effects of this program appear positive. In a survey of 533 firms receiving government support, managers estimated that they would have had to layoff 22.3% more workers in the absence of subsidies.

4.3.3 Support for the Self-employed and SMEs (MEDA)

Many programs have been developed in the region to support the self-employed and small and medium-size enterprises. These include a variety of technical services and, most prominently, financing assistance. A number of the programs described below are not immediately driven by labor market concerns but have been conceived within the industrial policy envelope. Nevertheless, since they are now viewed by the governments as instruments for encouraging employment, we have included them here.

Financing can be an obstacle for micro and small enterprises and governments everywhere have responded by introducing programs designed to increase access to credit and in some cases to improve the terms of financing available. During the crisis, declines in product demand, increases in production costs, and a credit squeeze have all exacerbated the financing issue thus creating demand for further government intervention to protect SMEs and their employees. Most of the programs existed prior to the crisis, but have been provided additional funding.

In the Philippines, SMEs have had access to credit through government programs for many years. According to a World Bank evaluation, participating firms have had better performance on many dimensions than other small firms. However, the magnitude of this job-creation effect

and its effectiveness as a poverty-reduction tool was relatively minor. Different government departments support self-employment initiatives. The Self-Employment Assistance livelihood program offers various services including credit and social services delivered at the community level and targeted to poverty reduction goals.

In Malaysia, various schemes are available to entrepreneurs and are expected to assist about 12,000 traders and small businesses to set up or expand. In Indonesia, there are at least 24 micro and SME credit programs currently operating. Some target special groups such as farmers or transmigrants, or subsidize credit for cooperatives (typically groups of SMEs with some common interests). These latter programs have come under criticism for allowing cooperatives to profit at the government's expense by borrowing cheap loans and investing the money at higher interest rates. A recent assessment of credit programs for SMEs in Indonesia (Wieland, 1998) recommended that the best government intervention in support of SMEs would be to create a more conducive environment for the efficient operation and development of the commercial financial institutions serving them.

Various technical assistance programs are also available in these countries. For example, the Korean government is developing "business incubators" to assist entrepreneurs with management training, technological capacity, and office space. The Malaysian government is providing opportunities for self-employment not only through financing assistance but through basic business training to unemployed graduates, supporting franchise development and various farming extension services. Indonesia provides technical assistance through different channels. For example, prior to the crisis, the government had established the Small and Medium Industries Development Corporation (SMIDEC) to assist SMIs in the following areas: industrial linkage, technology development, technology acquisition, market development, enterprise development, financial support, and skill development and upgrading.

Table 4.1: Employment Services

	Services offered	Public/Private	Labor Market Information	Crisis-Specific Intervention
Korea	<ul style="list-style-type: none"> * Registration and administration of unemployment benefits * Job search assistance, vacancy tracking, and placement * Career guidance and counseling 	<ul style="list-style-type: none"> * Recent easing of restrictions on private agencies 	<ul style="list-style-type: none"> * New internet-based career guidance and job search system called “Work-Net” * Instituting new “Worker Profiling System” * Major revisions in occupational classification 	<ul style="list-style-type: none"> * Increased number of PES agencies * Implemented one-stop “Employment Security Centers”
Indonesia	<ul style="list-style-type: none"> * Job search assistance, vacancy tracking, and placement * Voluntary registration of unemployed workers 	<ul style="list-style-type: none"> * Private agencies are strictly regulated 	<ul style="list-style-type: none"> * Limited computer literacy of administrative clerks * Inter-agency overlap & communication problems 	
Malaysia	<ul style="list-style-type: none"> * Job search assistance, vacancy tracking, and placement * Career guidance and counseling * Monitor labor mobility 	<ul style="list-style-type: none"> * Private agencies must be licensed through PES office and other agencies if international 	<ul style="list-style-type: none"> * Computer-based Employment Service Automatic Reporting System 	<ul style="list-style-type: none"> * Retrenched Workers Replacement Task Force tracks and monitors placements
Philippines	<ul style="list-style-type: none"> * Register unemployed, maintain national registry of skills. * Referral for job placement – locally and overseas. * Career guidance, job fairs, and placement in other ALMP’s 	<ul style="list-style-type: none"> * Innovative example: Private radio station airs job openings and takes calls from seekers and employers * Private recruitment agencies are supervised by government. Growing sector; successful in placement, especially overseas. 	<ul style="list-style-type: none"> * Long term project under GATT Adjustment Program: <i>Systematization of Labor Market Information and Employment Counseling</i>. * <i>Phil-Jobnet</i> launched in Nov. 1998 to match job seekers with employers 	<ul style="list-style-type: none"> * 146 new Public Employment Service Offices (PESO) established in 1998 * PESO Act of 1999 will establish national facilitation network in every province and key city.
Thailand	<ul style="list-style-type: none"> * Job search assistance, vacancy tracking, and placement * Job fairs and counseling 	<ul style="list-style-type: none"> * Private agencies are monitored and supervised under Ministry of Labor and Social Welfare 	<ul style="list-style-type: none"> * Very little coordinated or comprehensive effort to collect LMI 	<ul style="list-style-type: none"> * No significant new initiatives

Table 4.2: Labor Market Training

	Vocational Education System	Public/Private	Training Innovations	Crisis-Specific Intervention
KOREA	<ul style="list-style-type: none"> * National training system since 1967 * Ministries of Labor and Education share responsibility for TVET * 3.3 million have attended training courses since 1967 	<ul style="list-style-type: none"> * Of approx. 500 vocational training institutes, 237 are in-plant centers and 178 run by non-profit organizations and private firms 	<ul style="list-style-type: none"> * Pilot program of training vouchers launched in 1998 promotes choice and competition 	<ul style="list-style-type: none"> * Training programs for the unemployed increase eight-fold from 1997 to 1998
Indonesia	<ul style="list-style-type: none"> * 19 different government departments run 815 vocational training programs * Ministry of Manpower oversees 156 public training institutions 	<ul style="list-style-type: none"> * Capacity of private training centers is estimated to be more than that of the public * Private training provision is heavily regulated and not coordinated with public training 	<ul style="list-style-type: none"> * 1994 implemented German-modeled “dual education system” operating in 11,000 SME’s. 	<ul style="list-style-type: none"> * Public vocational education somewhat threatened by fiscal constraints of crisis
Malaysia	<ul style="list-style-type: none"> * The Ministry of Human Resources oversees vocational training policies which are administered through the National Vocational Training Council, (public training) and the Human Resource Development Council (private sector training). 	<ul style="list-style-type: none"> * Government promotes private training, but little coordination between public and private * Many agencies lack accreditation * Dearth of public instructors due to low pay 	<ul style="list-style-type: none"> * Human Resource Development Council administers fund from levies on firms to promote skill upgrading in conjunction with business plans and needs of the economy 	
Philippines	<ul style="list-style-type: none"> * The Technical Education and Skill Development Authority (TESDA) oversees TVET since 1994 * TVET smaller than in other East Asian countries 	<ul style="list-style-type: none"> * 723 public and 1,383 private vocational technical centers * Private institutions server 80% of those in vocational training 	<ul style="list-style-type: none"> * Government awards scholarships to students to attend the private training institution of their choice. * Dual training system being tested 	<ul style="list-style-type: none"> * Expansion of scholarship program and shift toward private provision of services
Thailand	<ul style="list-style-type: none"> * Department of Vocational Education (Ministry of Education) oversees 413 training centers * Department of Skill Department (Ministry of Labor and Social Welfare) trains new entrants and current employees 	<ul style="list-style-type: none"> * Vocational Training Promotion Act of 1994 relaxed restrictions on private agencies * Companies allowed to deduct training expenses from their taxes * Private sector training is small but increasing 	<ul style="list-style-type: none"> * Plan to improve training institutions hired 2,155 new college graduates to (a) set up national database on training needs by province; (b) assist staff in training and supervising; (c) execute “In-School Job Creation” dual training project for students. 	<ul style="list-style-type: none"> * New 3-month training courses to laid off workers has trained 27,000 since July 1998 * Donor-financed projects include training for entrepreneurs, rubber-tappers, electronics repair, tailoring, etc.

Table 4.3: Job Creation Activities

	Public Works	Employment Subsidies	Self-Employment and SME Support
KOREA	<ul style="list-style-type: none"> * Major focus of post-crisis ALMP's. In 1998, 400,000 people participated in public works programs. * Internship programs for high school and college graduates will create 10,000 and 57,000 jobs, respectively. 	<ul style="list-style-type: none"> * Subsidies were offered to firms maintaining employment by reducing work hours, offering paid leave, training employees, temporarily shutting down, or dispatching workers to weaker affiliates. 	<ul style="list-style-type: none"> * Post-crisis support provided by new Korea Venture & Investment Fund Cooperative, a public fund of 100 billion won * "Business Incubators" offer management training, technological capacity and office space
Indonesia	<ul style="list-style-type: none"> * A 4-month, RP 42 billion-program targeted retrenched construction and manufacturing workers in December 1997, * Massive public works program with 16 sub-programs launched in April 1998 covered all provinces and targeted various groups; suffered from lack of coordination and clarity of objectives 		<ul style="list-style-type: none"> * Government requires percentage of commercial lending to small borrowers and offers subsidized credit to cooperatives * At least 24 government micro and SME credit programs target various groups such as farmers, transmigrants, and women.
Malaysia	<ul style="list-style-type: none"> * Public works programs to build infrastructure, agricultural development projects, and rural development projects are part of ongoing government policies. 	<ul style="list-style-type: none"> * Primary labor market strategy; encouraged employers to use pay cuts, temporary layoffs, flexible work hours, and part time work rather than retrenchment 	<ul style="list-style-type: none"> * Small and Medium Industries Development Corporation assists with industrial linkage, technology development and acquisition, enterprise development, financial support, and skill upgrading
Philippines	<ul style="list-style-type: none"> * Public works projects in transportation, agriculture, environment, communications, and housing departments are implemented with multiple objectives. Job creation often only incidental; no real targeting of most in need. 	<ul style="list-style-type: none"> * Wage subsidy program for students working during school vacations targeted children of displaced workers after crisis. 	<ul style="list-style-type: none"> * Over 100 "livelihood" programs administered by government. World Bank assessment found low repayment rates and poor targeting of poorest. * Multiple credit and guarantee facilities for SME's. Ongoing efforts to rationalize these programs
Thailand	<ul style="list-style-type: none"> * Primary labor market policy response to crisis. Ministry of Interior projects planned for 1999 estimate creation of 788,799 jobs. * Donor-financed projects plan for provision of additional 11 million person-months. 		

5. Conclusion

What can policy-makers in East Asia conclude from our review of active labor market programs? As a starting point, the OECD experience discussed in section 2 has illustrated the range of programs undertaken in the developed countries as well as the sorts of issues that are involved in this area of public policy. While there are various types of interventions addressing different policy objectives, our review of the evaluation evidence in section 3 certainly sends out cautionary signals. Ultimately ALMPs are judged by their performance in improving the employability and earnings of workers and the evaluations indicate that the investments made often have little or no impact on these outcomes.

However, in putting forward this evaluation evidence, we are not arguing that policy-makers in countries without major ALMP investments should avoid this area in the future. First, active labor market programs can serve social objectives, as well as economic. Researchers have not addressed the question of these social impacts, which may be more positive. Second, workforce development, the social and economic integration of marginalized and at-risk groups, and the situation of unemployed workers are central concerns for policy-makers and ALMPs are obvious instruments to address these. Third, the disappointing performance of these programs in the aggregate masks the fact that some program designs do seem to lead to positive outcomes for some types of workers. Moreover, in the 1990s, policy makers in some countries have utilized novel and promising approaches to ALMPs including, for example, new roles for the private sector and innovative tripartite arrangements. The challenge is to learn from existing experiences and innovations and to direct future programming along lines that appear to work.

But the evaluation evidence does suggest that policy-makers should be realistic about what ALMPs can do and that investments in this area should be made carefully and modestly. As policy-makers in the East Asian countries look down the road, we recommend that they carefully consider the following issues relating to the formulation of an active labor market policy:

Priority setting. As we have noted, active labor market programs can have various policy objectives including reducing unemployment in cyclical downturns, correcting structural imbalances, improving labor market functioning, and assisting disadvantaged groups of workers. In designing an overall strategy, it is important to identify which of these are the priority objectives since it is the objectives that should determine program choices and program design. Regardless of the specific objectives, one immediate and high priority should be to develop a strong employment service since this is the first link in the ALMP chain.

The roles of the public and private sectors. This is a key consideration both in developing an overall strategy and in designing and implementing programs. At one time, governments in the OECD region developed and delivered virtually all ALMPs but, increasingly, governments have reconsidered the respective roles of the public and private (and non-profit) sectors. In many countries, possibilities have opened up for the other sectors to play important roles, at least in the delivery of services. This can lead to more diverse, innovative, and cost-efficient services and to programs that are more closely oriented to labor demand. However, even where the scope for private sector involvement is considerable, governments retain the central role. They must be responsible for the overall system, ensuring that it remains focused on public priorities. They must also address distributional issues (e.g., adequate service for all types of workers) and

provide critical public goods. They also must be the catalyst for harnessing private sector involvement in retraining and other aspects of active labor market policy.¹³

Promoting partnerships and dialogue. The identification of priorities for active labor market policy and program choices can benefit from ongoing dialogue between government, business, labor, and other relevant organizations (e.g., service providers). Where this dialogue is conducted effectively, policy-makers can maintain a close connection with the needs of the labor market and can maximize support for ALMPs. The dialogue needs to be carried out both at the level where priorities are set (e.g., nationally) and where programs are delivered (e.g., locally). Governments typically must be the leaders and catalysts for ensuring this process.

“Infrastructure” for the labor market. Infrastructure services are critical if ALMPs are to be a useful policy instrument. By “infrastructure,” we mean labor market information, a viable and complete network of employment service offices, and certification and accreditation systems. These services are the cornerstones of an effective system: They inform the program choices that should be made. They provide the bridge between the labor market, service deliverers, workers, and employers. And they are necessary for ensuring quality throughout the system. As largely public goods, these are inevitably the responsibility of governments. In countries where the development of an active labor market policy is at an early stage, these infrastructure services should be the first priority.

Coordination within government. In many countries, ALMPs are complicated by the fact that many government agencies are involved and that coordination among them is insufficient. Generally, this appears to apply to the East Asian countries. There are two problems associated with this coordination issue. First, multiple departments often are responsible for various aspects of active labor market programming and mechanisms are not in place to ensure that they are working together in an efficient manner which often leads to a duplication of effort. Second, priority-setting and programming in the ALMP area are often not sufficiently coordinated with overall economic planning. Both of these problems need to be addressed through intra-government coordination to ensure the relevance and efficiency of active labor market programming.

Policy and administrative/operational capacity. Designing and implementing ALMPs requires considerable capacity within government. In many ways, this is a more complicated area than passive income support programming. Capacity needs do differ significantly by program. For example, public works can be relatively straightforward to design and implement; as a consequence, these are often the major active labor market interventions in many developing countries. On the other hand, employment services require a network of facilities with extensive geographic coverage, the resources (technological and know-how) to generate and disseminate accurate and timely labor market information, skilled counselors, and reliable connections with the employer and educational communities. Training programs also require labor market information plus training and occupational standards, monitoring and evaluation capabilities, and capacity (increasingly in the private or non-profit sectors) to deliver good programs. Governments must recognize that capacity building is a slow but essential process.

¹³ For discussions of these aspects of government roles, see ILO (1998) and Betcherman, McMullen, and Davidman (1998).

Financing ALMPs. The starting question here concerns the balance of public and private financing. Clearly, the rationale for public spending is strong: market failures exist with respect to human capital investments and there is a public good element to ALMPs. However, there are also private gains afforded to employers and employees as a result of training and other interventions and governments need to think about how this can be reflected in financing. They should consider the applicability of innovative financing arrangements (e.g., income-contingent loans) that address market imperfections but reflect the private-return aspect of ALMPs. In terms of public financing, the essential choice for policy-makers is to draw from general revenues or to finance ALMPs through earmarked funds based on employer and (perhaps) employee contributions. There are important considerations attached to each relating to fungibility, assumptions about responsibility for labor programs, funding integrity, and incentives for formal employment creation. OECD countries have used a full range of funding arrangements which offers useful experience for countries in East Asia.

Monitoring and evaluation. This is a key part of capacity and deserves special mention. In spite of the large public expenditures on ALMPs in OECD countries, rigorous evaluations of these programs have been relatively uncommon. In an effort to improve the targeting and efficiency of social programs, sound impact evaluation techniques should be used to evaluate active labor market programs. A good evaluation compares labor market outcomes for individuals who have gone through a particular program with those of a control group of their peers, and also utilizes data on program costs to attempt to answer questions such as: what are the impact estimates of the program on the individual; are the impacts large enough to yield net social gains; and is this the best outcome that could have been achieved for the money spent.

There are clearly many considerations involved in developing a strong active labor market policy. And the experience of the OECD countries, plus the resources required, suggest that East Asian countries should move slowly to build on what already exists. Nevertheless, over the long run, building ALMP capacity will be important as formal labor markets grow and as a skilled workforce becomes more important. Nations now need to think about priorities, the role of government, and a range of issues related to how ALMPs should be carried out. Given its foundation role, “infrastructure” needs to get immediate attention. And as the East Asian countries continue to develop, ALMPs will need to become part of the policy “tool-kit.”

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