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ILO FUTURE OF WORK
RESEARCH PAPER SERIES

Finding proactive features in labour market policies: A reflection based on the evidence



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First published 2018

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ISBN 978-92-2-031131-8 (print)

ISBN 978-92-2-131132-5 (web pdf)

International Labour Office – Geneva: ILO, 2018

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Printing and Distribution Branch (PRODOC) of the ILO.

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Code: DTP-SCR-REP

Finding proactive features in labour market policies: A reflection based on the evidence

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* This article has been prepared on behalf of the Research Department of the International Labour Organization. I gratefully acknowledge the insightful comments from Hannah Johnston, Verónica Escudero and Martin Ostermeier, and the anonymous reviewers. I take responsibility for any remaining errors and for the opinions included in the text. Contact: malo@usal.es.

Abstract

Proactive labour market policies consist of active labour market measures or other interventions that are implemented preemptively, with the aim of protecting people against a wide range of labour market problems and economic shocks. Proactive policies will be important in facing the challenges of the future of work. The discussion is based on a review of effective active labour market policies (ALMPs) including training, public works, direct job creation, employment incentives and job counselling and other labour market services; specifically, it examines how ALMPs and their integration with income support programmes can be used in a proactive manner. Throughout the paper, differences between developed and developing and emerging countries are considered. The paper suggests that policy implementation is crucial for a proactive approach, which can permit the use of complementary policies and programmes with proactive and reactive features that support activation of the labour force. It argues that social dialogue may enhance the role of implementation variables, especially tripartite social dialogue at an aggregate level. A combination of policies in the context of social protection floors for developing countries and activation strategies for developed countries can also help in the transition to an effective proactive approach.

Preface

In August 2017, the Director-General of the International Labour Organization convened an independent Global Commission on the Future of Work. The Commission will produce an independent report on how to achieve a future of work that provides decent and sustainable work opportunities for all. This report will be submitted to the centenary session of the International Labour Conference in 2019.

The Future of Work Research Paper Series aims to support the work of the Commission by publishing in-depth, original studies on specific topics of interest to the Commission, ranging from explorations of artificial intelligence and the platform economy to lifelong learning and universal social protection. Each paper provides a critical analysis of current and future developments and raises important questions about how to ensure a future of inclusive development with decent work at its heart.

In a future of work facing significant challenges of labour-saving technologies, climate adaptation policies, offshoring and reshoring, among others, there is growing interest in the role of labour market policy to support workers through such transitions and avoid the “scarring effects” of unemployment. This paper, by Miguel Malo, provides a very useful state-of-the-art review of research investigating the effectiveness of active labour market policy (ALMP). It condenses a wealth of highly technical (largely microeconomic) empirical analysis to draw out the key points of impact, both positive and negative.

The paper separates out the design and impact of ALMP for developed and developing/emerging countries, reflecting the different institutional context, resources and policy design observed. Malo highlights many of the differences and intricacies of empirical results, including that: training programmes seem to have a different impact in developed versus developing countries; programmes targeting young people seem less effective than all-age programmes, while the same is not true of programmes that target women; and job effects in the short and long term need to be balanced against equity effects (e.g. reducing disadvantage among the long-term unemployed or specific groups of people).

Two further aspects of Malo’s review are very relevant to our future of work discussions. The first is the need to understand the degree of “institutional complementarity” (to use the vocabulary of the Varieties of Capitalism school of thought). The effects of active labour market policies need to be analysed alongside interactions with so-called “passive” labour market policies, including income protection and child-care provision, for example, among other features of social protection and family support policy. Such interactions are likely to differ across countries, with the implication that there is unlikely to be a uniform effect of a given ALMP.

The second aspect is that good design and implementation depend on social dialogue (adequately resourced and representative) and a steady political commitment to funding ALMP. These are not easy policy instruments to get right and further research sensitive to economic and institutional context is essential in charting responses to future challenges in the world of work.

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1. Introduction

The great recession created a huge dislocation of many national labour markets. In addition, the adjustment policies implemented across the globe during the recession had an asymmetric time distribution of costs and benefits: almost all costs were in the short term and almost all benefits were expected in the long term (ILO, 2013; Islam and Verik, 2011). Conventional policy responses have been implemented across the world, with and without social dialogue (Rychly, 2009), to address the problems of both new and long-term unemployed workers, as well as others seeking work from outside the labour market (e.g. Bonoli, 2010; Cazes, Heuer and Verick, 2011; McKenzie, 2017; Auer, Efendioglu and Leschke, 2008).

As rapid responses to these problems, various labour market policies were implemented reactively as a short-term answer to longer-term existing problems, sometimes even structural ones. Some of these policies, so-called “passive” labour market policies, sought to lessen the financial burden on workers who had been laid off, through the provision of unemployment benefits, cash transfers and other types of income support. These were accompanied by complementary “active” labour market policies (ALMPs), named for their objective to activate the labour force towards reemployment. However, due to the implementation of these policies in response to economic shocks, most policy implementation was reactive.

This paper seeks to identify how labour market policies can become proactive. Here we will consider that a labour market policy has proactive features when this measure or intervention is not necessarily designed to react to a specific problem at a given moment in the short term, but to potentially pre-empt a wide range of problems or imbalances caused by economic shocks or other sources of unexpected changes. “Proactivity” is thus a matter of degree, and we will review different types of labour market policies in an attempt to determine whether they are more or less proactive.

The current reflection will mainly rest on the analysis of ALMPs; however, passive policies are also included in the analysis. The reason for this broad-based approach is that passive and active policies can be complementary measures, for example in developing and emerging countries where ALMPs must include income support because of the absence of a general unemployment benefits system. In the case of developed countries, we will review activation strategies, which combine income support policies with ALMPs aiming at a faster return to work or improving access to the labour market. The paper also reviews how ALMPs can contribute to the development of social protection floors, and can serve as a crucial element to protect workers against unexpected risks during their working life. Overall, the paper takes a broad approach to examining combinations of policies and the aggregate impacts of labour market policies, with particular attention to ALMPs. Ultimately, policy implementation is found to be a key issue that has an impact on the efficacy of specific ALMPs and their aggregate impacts, and on the effects of the integrated approach between ALMPs and income support policies (Schmid, 1996; Escudero, 2018). The review of the available evidence leads us to consider that implementation remains a very important channel to imprint a proactive feature on labour market policies.

Although the focus of this paper is on proactive implementation of ALMPs and though we consider that more of them are needed to confront the challenges of the future of work, policies with reactive characteristics are also required. In fact, proactive and reactive features are complementary for a balanced design of labour market policies, as in the case of active and passive labour market policies.

This paper is structured as follows. It begins by presenting the basic tenets of ALMPs and a review of their use (Section 2). Although the evidence examined comprises mainly impact evaluations, the review also includes evidence on the impact of ALMPs on aggregate labour market outcomes such as national unemployment and employment rates, and identifies features of these policies that are proactive. This is followed by a section that examines implementation of the policies previously discussed, with particular attention paid to the proactive features emerging from the previous review (Section 3). A conclusion section closes the paper (Section 4).

2. Critical review of current active labour market policies

2.1. International experiences

Given the wide range of labour market policies, those reviewed in this article have been selected based on their prominent position in the impact evaluation literature. Descriptive studies and narrative reviews are used in a complementary manner to discuss policy use and effect. However, this article's wide use of impact evaluations does not mean that efficiency is the only motivation for implementing labour market policies, including ALMPs. In particular, there are deep equity reasons to implement ALMPs, such as the support they can afford to more disadvantaged workers by increasing opportunity and addressing structural barriers such as discrimination (Auer, Efendioglu and Leschke, 2008) or by contributing to poverty reduction or alleviation, as they may also include income transfers. Indeed, equity is a key element in ALMP design and implementation, and eligible beneficiaries must enjoy the same participation opportunities if ALMPs are to be effective at improving equity (ILO, 2016).

Basic concepts

Traditionally, labour market policies are categorized as either passive or active. The first group comprises policies that focus on income maintenance when workers are out of employment, while the second group refers to policies aimed at increasing or improving the employment opportunities of unemployed or inactive persons to get or return to a job.¹

This classification, as outlined by the OECD (see, for example, Annex 2.b in OCED, 1993), defines active policies as including labour market services,² labour market training,

¹ Note that the terms "active" and "passive" bear no positive or negative assessment about the effectiveness or desirability of each type of policy. They simply refer to policies with different functions, as described in the text.

² Labour market services refer to all interventions related to intermediation between jobseekers and employers, counselling and job-search assistance, provided by a public office or by a private organization. We will use the term "public employment service" for the government institutions. Usually, these public institutions manage both active and passive policies. This terminology follows the ILO Employment Service Convention, 1948 (No. 48). See, for example, ILO (2016). In this paper we distinguish the institution (public employment service) from the corresponding active measures (labour market intermediation, counselling, etc.).

employment incentives, sheltered and supported employment and rehabilitation, direct job creation and start-up incentives. Passive policies, on the other hand, are comprised of unemployment insurance and benefits, redundancy and bankruptcy compensation, and early retirement. The main features of this classification are a clear distinction between each type of policy, and assuming implicitly that ALMPs may focus on some activation activities while passive policies will provide simultaneous income support; however, this definition was created within an advanced economy context, thus requiring some modification with reference to developing and emerging countries.

There are two main differences regarding developing and emerging countries that motivate the use of a specific classification of ALMPs (ILO, 2016; Auer, Efendioglu and Leschke, 2008). First, different characteristics of national and regional labour markets exist within developing countries, including higher informality, lower unemployment and higher participation. Secondly, a lower – and many times weaker – administrative capacity limits the scope of existing programmes (for example, a lack of unemployment benefits) and programme implementation (Vodopivec, 2013). As a result, in developing and emerging countries ALMPs have a wider scope which often includes income support and other anti-poverty measures, and there is a general tendency to merge different interventions and objectives (ILO, 2016).

Having these nuances in mind about focus, scope and configuration, the ILO (2016) – taking into account findings from Auer, Efendioglu and Leschke (2008) – proposes the following classification for the main types of ALMPs in developing and emerging countries (see table 1 for a brief comparison of the ILO and OECD definitions):

(i) Training: Training programmes provide workers with opportunities to acquire or improve on their skill portfolios. In the context of developing and emerging countries, training programmes may be accompanied by other active measures (i.e. public works) and may include some type of income support.

(ii) Public works: These programmes try to compensate for shortcomings in job creation in the private sector by providing employment opportunities on public works projects. Sometimes, they are part of public–private collaborations. While in developed countries these types of programmes are decreasing in importance and focus on special cases (long-term unemployed in remote areas, for example), in developing and emerging countries they are closely related to poverty alleviation, frequently providing social and income protection during economic downturns, and they have been gaining importance during the last two decades.

(iii) Employment subsidies: An employment subsidy is an incentive to hiring or maintaining jobs by reducing labour costs. The objective of these programmes is the same in all countries, although in developing and emerging countries they are also linked to other programmes, and aimed at hiring participants from conditional cash transfer programmes targeted to specific groups with poor labour market outcomes (underemployment, informality, etc.), and include money transfers subject to specific conditions for the beneficiaries, such as school attendance by their children, healthy habits, etc.

(iv) Self-employment and micro-enterprise creation: These policies seek to provide the necessary supports to start an economic activity, either as self-employed or through the development of new business opportunities. The target group of these policies is wider in developing and emerging countries where the policies comprise employment promotion in formal and informal economies, and are often combined with business training, cash transfers or microcredits.

(v) Labour market services: Labour market services refer to all interventions aimed to connect jobseekers and employers, through a range of activities such as counselling, labour market intermediation and job-search assistance. These services can be provided by the Public Employment Service of the country, by a private organization or as part of other ALMPs. In developing and emerging countries, the role of public employment services providing these services is more limited than in developed countries, and with some peculiarities related to the economic context, for example including the promotion of transitions from informal to formal employment. The limitations of public employment services in these countries also affect the possibility of linking ALMPs with passive policies – where they still exist – as in the case of the OECD countries.

Table 1. ALMPs: Developing and emerging countries compared to developed countries, ILO and OECD classifications

Type of intervention	Developing and emerging countries (ILO 2016 classification)	Developed countries (OECD classification)
Training	The most common type of intervention and usually accompanied by other interventions.	The most important type of intervention in terms of expenditure. Often, training targets specific groups.
Public works	These interventions are part of poverty alleviation and community development measures. They also provide social protection or income support against negative economic shocks. They are also combined with other interventions, sometimes providing assistance beyond the end of the programme.	Since the 1990s, their importance is rather low, although they help to keep workers active in slow recovery periods.
Employment subsidies	They focus on groups of workers with deep problems in labour market integration and are less used during economic recessions. They are often conceived with a view to incentivizing employers to hire beneficiaries of anti-poverty programmes.	They mostly target vulnerable groups and are often intensified during periods of slack demand.
Self-employment and micro-enterprise creation	These are very important interventions promoting employment creation in both the formal and informal economy. They are targeted to wide groups of workers. Sometimes, they are combined with poverty alleviation programmes and other interventions.	They are usually targeted to young and higher-skilled individuals.
Labour market services	Because of limitations to the public resources allocated to labour market services, their role is limited. Part of the effort rests on improving the efficiency of labour market services provided, rather than creating new institutional frameworks or combining active with passive policies.	The public employment service and labour market services provided are crucial for an effective provision of ALMPs. They are provided directly by the public sector or in partnership with private actors. Sometimes, they are combined with other ALMPs, but also with income support policies such as unemployment benefits.

Source: ILO, 2016.

Effectiveness of ALMPs in developed countries

Impact evaluations of ALMPs have been conducted in a variety of countries. While comparing these results is not an easy task, there are a few meta-analyses on the impact of ALMPs more generally (Card, Kluve and Weber, 2010, 2017; Eurofound, 2017; Hardoy et al., 2018; Kluve, 2010; Kluve et al., 2016; Vooren et al., 2018). These reviews provide a general quantitative systematic review and a synthesis of the effectiveness of many ALMPs. In reviewing the effectiveness of ALMPs in developed countries, we discuss the main findings from these meta-analyses and provide details on specific programmes when further clarification is of benefit.

The main conclusions of these meta-analyses are:³

- In general, the short-term impact of ALMPs is close to zero; however, the impact becomes positive between two and three years after completion of the programme, with different time horizons by type of programme. There are larger average gains for programmes that emphasize human capital accumulation (Card, Kluve and Weber, 2017).
- ALMPs are more likely to show positive impacts in a recession (Kluve, 2010; Card, Kluve and Weber, 2017). This anti-cyclical effect is much smaller than the effect of the programme type on programme effectiveness (Kluve, 2010).⁴
- On average, training programmes have modest impacts (Kluve, 2010). However, although in the short term they are often completely or almost ineffective, they have clear positive impacts in the medium term (Card, Kluve and Weber, 2010). In fact, Vooren et al. (2018) find positive effects of training programmes from six to 36 months after programme start, but with the same increasing pattern with time.
- Job-search assistance programmes⁵ yield relatively favourable short-term programme impacts (Card, Kluve and Weber, 2010; Vooren et al., 2018), whereas subsidized public sector employment programmes are less effective (Card, Kluve and Weber, 2010). Wage subsidies and job-search assistance can be effective in increasing participants' employment probability (Kluve, 2010). According to Card, Kluve and Weber (2017) these effects are mainly in the short term, but Vooren et al. (2018), analysing the size of these impacts, find that they are also positive in the long term (until 36 months after finishing the programme). Vooren et al. (2018) also show that wage subsidies and public sector employment programmes have negative short-term impacts, but these impacts gradually turn positive in the long term.

³ Almost all these conclusions were obtained considering only whether the impact was positive or not. In the revised meta-analyses, there are few comparisons based on the impact size of the active measures, because of the heterogeneity of the original studies and the different labour market outcomes considered in each study. The exception is Vooren et al. (2018) who collect standardized effect size estimates and correct by publication bias.

⁴ Kluve (2010) also discusses the effect of what he calls "institutional context" on effectiveness. This author considers the following variables as institutional context at country level: index for dismissal protection regulation; index for fixed-term contract regulation; index for temporary work regulation; and the gross replacement rate. The rationale is proxying the influence of legal regulation on the willingness of employers to hire beneficiaries of active policies (through the above three indicators), and the willingness of beneficiaries to take jobs (through the gross replacement rate). Therefore, these variables do not capture the institutional framework of the national labour markets where the programmes are implemented, but only a very specific aspect of national labour regulation.

⁵ This job-search assistance refers to special programmes beyond the usual job-search assistance linked to receiving unemployment benefits in most developed countries (Card, Kluve and Weber, 2010). What is considered as usual is not exactly the same in each country, but job-search assistance always refers to special services beyond the national standard level for beneficiaries of unemployment benefits. In Vooren et al. (2018) this type of programme is called "enhanced services" to denote the special emphasis on additional measures such as regular encounters with caseworkers. On the other hand, job-search assistance includes not only programmes based on special activities such as improving capacities of job-seekers, or teaching how to search for a job, but also programmes based on sanctions and threats for a non-intensive search. However, none of these meta-analyses provide a disaggregation of their results considering exclusively the effects of programmes only based on sanctions and threats. Therefore, this evidence is not linked to the debate on the activation of policies, revised below in section 2.2.

- Employment subsidies have mainly short-term impacts but reveal little impact in the medium and long terms. This marks a notable difference from the impacts of training programmes. Employment subsidies are clearly more effective when targeting a specific group of workers than when there is no targeted group (Eurofound, 2017). Nevertheless, when a non-targeted programme of employment subsidies is implemented through caseworkers, firms using this type of ALMP outperform other firms in terms of employment and in other performance dimensions such as firm size, wage sum, profits, value added and per-worker productivity (Lombardi, Skans and Vikstrom, 2018). These effects persist until five years after the programme ends. Therefore, the intervention of labour market services in the implementation of employment subsidies may be beneficial both for workers and for firms. Finally, while targeting workers changes the effectiveness of this policy, targeting different types of firms does not affect the effectiveness of employment subsidies (Eurofound, 2017).
- In the literature, self-employment and start-up programmes are often grouped with employment subsidies. Therefore, specific results for these interventions are not provided. Literature that does analyse the particular impacts of self-employed and start-up programmes is highly focused on the unemployed. Baumgartner and Caliendo (2008), for example, find that two German programmes were effective for the unemployed for a stable return into employment until five years after the completion of the programme, and one of them is efficient – it saves more in income support than the cost of the programme. Caliendo and Künn (2011), meanwhile, analyse the heterogeneity of the same two programmes and find that start-up subsidies for the unemployed tend to be most effective for disadvantaged groups in the labour market. A similar result is obtained for an evaluation in the United States, but with a self-employment training programme: the intervention helped unemployed participants to remain self-employed five years after programme entry, but it was not effective for participants who were not unemployed (Michaelides and Benus, 2012).
- Direct job creation in the public sector is generally less effective in terms of increasing the probabilities of employment compared to other types of ALMPs (Kluve, 2010; Card, Kluve and Weber, 2010). Considering different time horizons, these programmes also tend to have much smaller or even negative average impacts in the short, medium and long term (Card, Kluve and Weber, 2017). However, there is also evidence that these programmes may have positive net social benefits, as in the case of Denmark (Jespersen, Munch and Skipper, 2008). In addition, these programmes may also be implemented not because of their effectiveness, but for equity reasons as, in developed countries, they usually address the most disadvantaged groups of unemployed people (Auer, Efendioglu and Leschke, 2018).
- There is systematic heterogeneity by gender, with larger impacts for specific programmes for that target women compared to mixed programmes (Card, Kluve and Weber, 2017; Bergemann and van den Berg, 2008).⁶ In mixed programmes, the impacts are more favourable for women in economies with a lower female labour force participation, especially in the case of training programmes (Bergemann and van den Berg, 2008).
- Programmes that target young people specifically typically have lower impacts than mixed age programmes (Card, Kluve and Weber, 2010, 2017). There is also a non-negligible number of specific youth programmes with no effects or non-significant effects (Kluve et al., 2016). Among those that are effective, Hardoy et al. (2018) find

⁶ Card, Kluve and Weber (2010) do not find systematic differences by gender in their meta-analysis, but they explicitly recognize that this is an anomaly with respect to the rest of the literature.

that training programmes and wage subsidies generally have more positive results than other measures such as work practice and employment in the public sector, which is in line with the results for ALMPs for all age groups revised above. However, programmes that integrate multiple interventions and add complementary services to the main intervention tend to do better. Following Kluve et al. (2016), the interpretation is that the success of youth employment programmes rests on their ability to respond to multiple needs facing a heterogeneous group of beneficiaries, and successful youth employment programmes will need to be able to offer a comprehensive set of interventions. These characteristics are prominent in the package of policies known as Youth Guarantee and implemented across the European Union, as explained in box 1.

- The impact of ALMPs on older workers (typically those over 45) is not well delineated, as this category often includes all workers over the age of 25. Until recently older workers were often targeted for early retirement programmes or long-term unemployment subsidies rather than for reintegration into the labour market using ALMPs (Boockmann and Brändle, 2015). In fact, Huttunen, Pirttilä and Uusitalo (2013) find that a Finnish wage subsidy programme targeting low-wage older workers made part-time early retirement arrangements costlier to employers. The programme increased working hours of these

Box 1. Youth Guarantee: A package of active labour market policies

The Youth Guarantee (YG) is a policy agreed by the European Union in 2013 to fight youth unemployment, mainly based on improving the transition from school to work (Andor and Veselý, 2018). The objective of the YG is to “ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within a period of four months of becoming unemployed or leaving formal education” (Council Recommendation of 22 April 2013 on establishing a Youth Guarantee, 2013/C 120/1).

Therefore, the YG is not a new type of measure, but a set of coordinated ALMPs requiring a deep coordination of the educational system and employment services. How to decide what measure is the best for unemployed young people requires specialized caseworkers at the public employment offices, and a high level of coordination with training course organization by different actors, including the public educational system. The experiences of the Nordic countries are the benchmark for the YG, mainly the cases of Finland and Sweden (Mascherini, 2012).

Escudero and López Mourelo (2017) review the scarce literature on the effectiveness of YG, based on impact evaluations. The available impact evaluations attend to specific parts of the YG, such as training in Latvia, where no significant impacts were found (Bratti et al., 2018). Hämäläinen, Hämäläinen and Tuomala (2018) evaluate the effects of the YG reform introduced in Finland in 2005. They found small positive impacts – a 2 percentage point increase in the activation ratio and an increase in employment of 7 days per year. However, these positive impacts were concentrated among unemployed young persons who already had a vocational secondary education, while there was no effect for those who were unskilled, with only compulsory schooling.

When it comes to implementation, Escudero and López Mourelo (2017) find that while most countries have established clear eligibility criteria and appropriate institutional frameworks, and are providing a comprehensive package of measures, many of them are still facing challenges when meeting the objectives of early intervention and effective enforcement mechanisms. As Andor and Veselý (2018) remark, the YG is an ambitious change in how governments conceive youth employment policies, and revamping and coordinating existing interventions will take time. Especially, several European countries will need to build up administrative capacity to manage a YG programme, which requires additional resources. In fact, resource allocations have not been sufficient to match the recommendations (Escudero and López Mourelo, 2017). Eichorst and Rinne (2017) remark that the actual implementation of the YG in European countries with higher unemployment rates is far from the initial expectations, and this depends not only on enough funding but also on effective implementation of the different interventions included in the YG.

workers, mainly making some former part-time workers work full time. Nevertheless, the wage subsidy was not effective in increasing the total employment of low-wage older workers. On the other hand, Boockmann and Brändle (2015) have evaluated a German programme for workers aged 50 and older including coaching, counselling and casework. The programme had positive effects, increasing employment of these workers, especially men. Other evaluations of job counselling for older workers also show positive effects on the job-finding rate of this group (Bollens, 2011).

Effectiveness of ALMPs in developing and emerging countries

The literature on the effectiveness of ALMPs in developing and emerging countries often provides different results from those for developed countries (Betcherman, Olivás and Dar, 2004; Escudero et al., 2017; McKenzie, 2017):

- A key ALMP in developing and emerging countries is investment in public works (McKenzie, 2017; Auer, Efendioglu and Leschke, 2008), though these initiatives are usually regarded as poverty alleviation programmes. McKenzie (2017) argues that direct job creation policies through public works programmes are effective because these interventions focus on the private sector, helping firms to overcome obstacles for innovating, growing and creating more jobs.
- The effectiveness of training programmes is relatively small compared to developed economies (McKenzie, 2017).⁷ However, effects might be economically more significant as labour markets often offer fewer possibilities, and programmes focus on groups who are harder to assist (ILO, 2016). Escudero et al. (2017) find for Latin America and the Caribbean countries that training programmes are only slightly more successful than other programme types. Quite different from the results for ALMPs worldwide reviewed above, the impact estimates from training programmes in a developing country context do not increase over time. The reason for this difference is not clear, but probably the human capital component may not be sufficient to generate sustained impacts. Training programmes with a short duration (four months or less) are significantly less likely to produce positive impact estimates, as well as training programmes with more than one component – i.e. single-component training interventions are more likely to show positive labour market impacts (Escudero et al., 2017).
- ALMPs in these countries seem to be working particularly well during an upswing, suggesting that these policies will be more effective in helping individuals to obtain a job when the labour market is already expanding. This is the opposite of the results obtained by Card, Kluve and Weber (2017) using a worldwide sample of evaluations, where there is a counter-cyclical pattern of programme effects.⁸
- The relative importance of interventions targeted at micro-entrepreneurs and small and medium firms is also a distinctive feature in developing and emerging countries. Usually, these programmes focus on income stabilization and poverty reduction and are sometimes composed of different elements, including subsidies, business training or financial facilities. In general, the results show that the impacts on employment

⁷ McKenzie (2017) calculates that in developing countries, a typical intervention increased employment rates by 2 percentage points. However, usually these impacts are not statistically significant, i.e. the estimations of the impact could be zero with a non-negligible probability. In any case, this limitation could be related to the small sample sizes frequently used in evaluation studies in developing countries.

⁸ Unfortunately, there is not enough information in the above references to elucidate whether the pro-cyclical pattern is a regional peculiarity or a typical feature of active policies in developing and emerging countries.

are relatively small (Grimm and Paffhausen, 2015). However, interventions focused on promoting self-employment (new businesses) are more successful than those aiming to increase employment in existing firms. The impact of financial interventions is weaker than the effects of entrepreneurship training or business development services. This is in line with the trend of replacing “simple” microcredit programmes based only on funding new or expanding small businesses by programmes adding entrepreneurship training jointly with funding. In this line, Cho and Honorati (2014) also find that combined packages of finance and training are more effective for promoting labour market activity than separately providing either training or finance. This is especially interesting, because in the studies analysed by Cho and Honorati (2014) the packages of finance and training often targeted vulnerable groups.

- According to McKenzie (2017), programmes helping workers in intersectoral and geographical mobility are promising, although they are complex and need experienced providers. Successful examples include assistance with learning about job opportunities in a different location, such as recruiting for business process outsourcing in Indian rural villages (Jensen, 2012), or subsidizing transport for a wider job search of young Ethiopians in different parts of Addis Ababa (Abebe et al., 2016).⁹
- Because of the extension of informal employment, work quality is an important dimension in ALMPs in developing and emerging countries. Escudero et al. (2017) find that ALMPs in these countries are particularly effective in increasing the probability of having a formal job, compared to other labour market outcomes. Considering job quality, training is the most important type of programme to obtain a job in the formal sector.
- Focusing on young people, there are better results for youth compared to prime-age workers (Escudero et al., 2017). Programmes for young people are more likely to have a positive impact in middle- and low-income countries, and they are especially helpful for the most vulnerable population groups – low-skilled, low-income young people, suggesting that targeting low-income young populations in middle- and low-income countries has more positive effects than in high-income countries (Kluve et al., 2016).
- As regards gender differences, females are more likely to benefit from ALMPs than males (Escudero et al., 2017), as was the case for developed countries.

To sum up, the effectiveness of ALMPs in developing and emerging countries is linked to implementation details, combination in packages with other ALMPs or with income support policies. The combination of policies is related to an explicit poverty alleviation objective and to the development of social protection floors, as we will see in section 2.2.

Aggregate effects

The above impact evaluations are helpful to understand the individual-level impacts of ALMPs; however, the aforementioned analyses do not reflect the impacts of ALMPs on aggregate variables such as total unemployment for the region or the country where the programme was implemented. For example, training courses may improve the employment prospects of beneficiaries but can displace workers with lower levels of human capital who did not participate in the programmes. This can result in no overall

⁹ The programme evaluated by Abebe et al. (2016) included an alternative intervention consisting of training on how to make effective job applications. Both interventions improved the quality of the jobs (more stable and formal) obtained by these young workers. The analysis showed that the first intervention helped to overcome barriers to access to more and better vacancies by jobseekers, and the second intervention helped young job applicants to better signal their skills to potential employers using certification of skills that are hard to observe directly by employers, such as cognitive ability.

change in the unemployment rate. On the other hand, when it comes to employment subsidies, the subsidized jobs might have been created without the intervention. Or the formal programme can lead to displacement of some workers by those whose labour has been targeted by the employment subsidy. These effects, termed deadweight and displacement, are aggregate effects not necessarily captured by impact evaluations (Heckman and Smith, 1996).

Understanding the overall impacts, including displacement effects, is important for grasping the overall efficacy of ALMPs. Some studies have been designed to capture this type of effect in local labour markets, showing that displacement may exist, leading to very small net effects of ALMPs, as shown by Crépon et al. (2013) for a programme for jobseekers in France. It has also been found that displacement effects may be related to implementation characteristics of policies. Lombardi, Skans and Vikstrom (2017), for example, use Swedish data to show that the intervention of the public employment offices in subsidy allocation can have a positive impact on net employment in subsidized firms, but this does not happen when all firms have access to employment subsidies.

While deadweight can be considered a net social loss, displacement is different. A policy targeting a very disadvantaged group may increase the labour market participation of the group of beneficiaries instead of other workers who might have been hired. The aggregate net effect would be zero in terms of employment, but disadvantaged workers would be better off. Therefore, a labour market policy creating a displacement effect may be defensible for equity reasons, which is not the case for deadweight losses.

Aggregate impact analysis provides a sort of “macro” evaluation of the impact of ALMPs on different labour market outcomes (including the unemployment rate, the proportion of long-term unemployment, and the outflow rate from unemployment to employment) which takes into account indirect effects such as displacement (Bellman and Jackman, 1996; Koning, 2001). There are two main strands in this aggregate literature. The first one analyses the macroeconomic effects of labour market institutions and reforms of which ALMPs are one component among others (e.g. Scarpetta, 1996; Murtin and de Serres, 2014; Blanchard and Wolfers, 2000), while the second focuses on the aggregate effects of ALMPs specifically, from a macro perspective.

When it comes to the macroeconomic effects of labour market institutions generally, the research has found that ALMPs decrease the unemployment rate, but have a relatively small aggregate impact (Scarpetta, 1996). Results are similar when focusing on the aggregate unemployment outflow rate. In other words, ALMPs increase the outflow from unemployment, improving job creation.¹⁰ Even when considering the interaction of policies and economic shocks, an increase in ALMP spending leads to a decrease in the unemployment rate when there is a negative shock (Blanchard and Wolfers, 2000). Therefore, these aggregate results are consistent with those obtained in the impact evaluations of programmes reviewed in previous sections.

The second strand focuses specifically on the aggregate effects of ALMPs and, in some cases, even disaggregating the analysis by type of ALMP (e.g. OECD, 1993; Koning and Mosley, 2001; Estevão, 2007; Baker et al., 2005; Bassanini and Duval, 2006; Escudero, 2018). In general, this literature remarks the complementarity between

¹⁰ Murtin and de Serres (2014) estimate the impact of policy variables on labour market tightness measured as the ratio of job vacancies to unemployment. The interpretation is the following: as a larger ALMP spending increases this ratio, there will be more vacancies for the same level of unemployed people or, alternatively, for the same level of vacancies there will be fewer unemployed jobseekers.

ALMPs, unemployment insurance and related welfare benefit systems (Martin, 2015).¹¹ The complementary role of ALMPs is stressed by Estevão (2007). His results show that ALMPs raise employment through labour market adjustments,¹² but at the same time do not substitute for other labour market policies.¹³ Focusing on specific policies, some aggregate evaluations show that countries spending much more in employment subsidies do not improve aggregate transitions into employment because of displacement and deadweight effects (Arranz, Garcia Serrano and Hernanz, 2013).¹⁴

Interestingly, the research finds that aggregate labour market outcomes are also impacted by variations in how ALMPs are implemented. Using a database from 31 advanced economies for the period 1985–2010, Escudero (2018) finds that ALMPs have non-negligible effects on aggregate labour market outcomes and confirms that these effects arise mainly through the implementation features of these policies. Her analysis shows that allocating more resources to programme administration has positive effects, and the same happens with the continuity of public spending in active measures – i.e. fluctuations in public budget exceeding the business cycle swings. This is consistent with the reviewed results from impact evaluations of specific programmes, where implementation was also revealed as a key variable to obtain positive impacts, and potentially linked to proactive features of different ALMPs.

In terms of specific collectives, Escudero (2018) shows that start-up incentives and measures for vulnerable groups are more effective than other ALMPs in reducing unemployment and increasing employment. In addition, they are also more beneficial for low-skilled workers. Probably, this is related to the “double dividend” of these policies whereby subsidized firms not only create additional jobs – particularly for low-skilled workers – but also contribute to positive effects via start-up incentives (Caliendo and Künn, 2014).

Finally, a key issue about policy implementation at an aggregate level is how to coordinate all interventions, balancing the different objectives of labour market policies. In this vein, social dialogue is the way to improve specific and aggregate effectiveness of labour market policies and to balance measures affecting different groups of workers. More specifically, tripartite and bipartite social dialogue may find a balance between ALMPs and other measures to enhance proactive features but maintain reactive features when needed by some groups of workers – as shown in the case on short-time work and ALMPs for disadvantaged groups described in box 2.

11 Martin (2015) provides a narrative review of the bulk of these macroeconomic evaluations, jointly with the results of impact evaluations of specific programmes focusing on OECD countries.

12 In other words, a higher ALMP expenditure is associated with a larger adjustment in wages for the same level of unemployment.

13 In particular, a huge increase in ALMP expenditure to replace other policies would probably be linked to an increase in taxes, with potentially negative effects on labour supply (Estevão, 2007).

14 Arranz, Garcia Serrano and Hernanz (2013) present an aggregate impact analysis of ALMPs in Spain, where employment subsidies were widely used from 1997 to 2006. They also find positive, but small, effects of training on different aggregate labour market outcomes.

Box 2. Balancing policies: Social dialogue, short-time work and ALMPs

The great recession led many governments to intensify their appeal to social partners to negotiate or participate in joint consultations. In general, when governments turn to the social partners at the early stage of the crisis, the policies implemented are more likely to be in line with the needs of all participants in the labour market. According to Rychly (2009), the recent crisis has led to a more proactive approach towards social dialogue and collective bargaining even in less dialogue-oriented countries, not only in Europe but also in Asia and Latin America. However, in other countries the first attempts to manage the employment impacts of the great recession through social dialogue were unfruitful. For example, Spain was one of the first countries where the social partners discussed anti-crisis measures (as early as the summer of 2008), but only one-off agreements were made – when reached – and tripartite social dialogue remains weak (ILO, 2014). Comprehensive legally binding tripartite or bipartite agreements were reached only in Japan, the Republic of Korea and South Africa as an answer to the great recession across the world (Rychly, 2011).

The importance of bipartite social dialogue during the great recession is exemplified by the German model. The use of short-time work schemes to preserve jobs in Germany has been an example for many other countries, where governments decided, in line with the claims of the social partners, to improve the conditions of workers affected by shorter working hours and thus lower wages (Rychly, 2009). In the German case, the Government extended short-time working allowances very generously (Bosch, 2011). According to Knuth (2014) short-time work accounted for about one third of the absorption of the economic shock.

As short-time work usually includes workers' compensation – for example, via partial unemployment benefits – or training, this measure may be considered as a policy for incumbent workers with proactive features (these features are discussed in more detail in the following section). In any case, short-time work seems to be more useful for temporary negative shocks or as a first step toward a permanent adjustment in a less traumatic way, but with no clear aggregate effects on the labour market in the long term (Cahuc and Carcillo, 2011). In this vein, international evidence (Hijzen and Martin, 2013) supports the theory that short-time work helped to preserve a significant number of jobs during the great recession, but that its continued use during the recovery may have affected the content of jobs during that time. Therefore, although a significant gross positive impact on the number of jobs in most – developed – countries analysed was shown, the net effect on aggregate employment of short-time work schemes was negligible or even negative. Through case studies of developed countries, Thelen (2014) shows that countries more tied to short-time work spend less on ALMPs, and the converse. She interprets short-time work as support for “insiders”, while active policies would be mainly support for the “outsiders” of the labour market – i.e. precarious workers. Following this interpretation, a continuous support for short-time work would move the adjustment towards precarious workers, hence the negligible impact of short-time work on aggregate employment in the long term.

ALMPs target vulnerable groups of workers, and these workers are traditionally not covered by social dialogue (Vaughan-Whitehead, 2011), unlike other measures such as short-time work. It is important to note that when social dialogue – especially tripartite social dialogue – deals with ALMPs it is possible to reach a balance between protection for incumbent workers and greater opportunities for disadvantaged workers, with consequent positive impacts on aggregate employment in the long term.

2.2. Combinations of policies: Activation strategies and social protection floors

Activation strategies in developed economies

In the 1990s, the term “activation strategies” was frequently used in developed countries to underscore a combination of income support policies – mainly unemployment insurance and assistance – with different ALMPs, including different degrees of conditionality on job-search intensity (Martin, 2015; Immervoll and Scarpetta, 2012). The general objective was to speed up the transition from non-employment into jobs. International organizations, such as the OECD and the European Commission, promoted activation as a key issue to improve the management and outcomes of labour market policies.¹⁵

This strategy of activation soon spread across the European Union and other advanced economies. Weishaupt (2011) analyses this trajectory as a convergence in welfare interventions at international level with two main institutional regime types: the Nordic model, with high levels of activation and economic activity, and state-led child-care provision; and the Anglophone model, based on “making work pay”, focusing on individual responsibility, and more market mechanisms.¹⁶ Of course, these are “pure” or “ideal” types, and they have evolved over time. For example, the Nordic model has become more concerned with cost containment and effectiveness of programmes. Meanwhile, the Anglophone model – at least in some countries such as Ireland – has included elements of the service-centred Nordic model. Moreover, the development of the Lisbon strategy in the European Union has led continental European countries to different combinations of the two models (Weishaupt, 2011), increasing their reliance on market forces (as in the Anglophone model) with a more interventionist role for the State (as in the Nordic model).

Although activation strategies in developed countries vary, there are number of core elements that are shared. In terms of labour market policies, all countries that have implemented activation strategies include early interventions, individually-tailored case management, and benefits conditionality. Additionally, when it comes to employment protection, countries have an enlarged scope of labour market services provided by the public employment office, including the work-first principle (or acquiring skills through working), an expansion of state-led child-care provision, and incentives for work (“making work pay”). Finally, activation strategies in a developed country context include: management by objectives, independent review and/or focus on quality management, fusion of employment and welfare agencies, introduction of quasi-markets, and customer orientation (Weishaupt, 2011).

This activation paradigm has resulted in distinct advantages. According to the OECD (2013), the general lessons of the activation strategies from a review of a handful of countries include the following:¹⁷

¹⁵ See OECD (2013) and Martin (2015) for a review of how the activation strategies for labour market policies became dominant in the OECD countries since the 1990s.

¹⁶ The reasoning of Weishaupt (2011) is based on the three worlds of welfare state proposed by Esping-Andersen (1990): Anglophone, Continental, and Nordic models. The Continental model falls between the other two.

¹⁷ The countries reviewed in OECD (2013) were Australia, Finland, Ireland, Japan, Norway, Switzerland and the United Kingdom.

- A well-developed system of unemployment income support can benefit from an employment-focused activation system through job-search assistance, reducing barriers to employment and training programmes, and backed up when necessary by different types of sanctions¹⁸ or mandatory referrals. Nevertheless, there is no unique unemployment benefits design or combination of passive and active measures for an effective activation. With national variations, an individual action plan is widely used. These individual plans are designed in collaboration with specialized counsellors and include different interventions considering the labour market problems and the local economy context for each individual.
- Reforms to activate beneficiaries of unemployment insurance and assistance require care and may take time to increase the employment rates of beneficiary groups.
- Institutional reforms are a critical component of activation strategies. The main features of these reforms are organizational mergers and labour market services that combine employment assistance with benefit administration – for example, the merging of the public employment service and the benefit agency in the United Kingdom.¹⁹
- Management improvements increase the effectiveness of public and private employment services. These improvements were guided not only by establishing targets for the performance of public and private employment services but by adapting these targets to local conditions and to the employability of jobseekers, as in Austria and Switzerland (OECD, 2013).

In some countries, activation strategies have been implemented by combining labour market services and training using market-based mechanisms. The case of the programme Workforce Investment Act in the United States is a prominent example of a shift of initiatives – here, at the state level – towards a business-oriented, demand-driven system (King and Barnow, 2009). Probably, the key in this intervention is a sort of voucher – the so-called Individual Training Accounts – which allowed participants to select their own training provider and occupational programme. The evidence on the effectiveness of these vouchers is mixed, showing that disadvantaged workers frequently overreached in selecting programmes (Barnow, 2009), although they are popular among participants and generally accepted as a useful feature of the programme because local boards can put some limits on the choice of participants, providing strong guidance (King and Barrow, 2009).²⁰

A key issue of the debate on activation has been how effective the strategy is in times of crisis. Martin (2015) reviews what happened in the OECD countries with activation strategies during the great recession, suggesting that in countries that had implemented successful activation strategies before the crisis, unemployment rose less than in other countries. However, this author also remarks that during the recession the European Nordic countries provide some evidence for a change in focus from a “work-first” to a “train-first” approach. This would be coherent with the results on an anti-cyclical pattern in the effectiveness of training programmes in developed countries (see section 2.1).

¹⁸ The review by Meyer (1995) of different unmonitored US job-search programmes found that there was consistently an increase in unemployment duration (around three weeks more). However, job-search monitoring does not always improve job finding, especially when monitoring is very intensive. Klepinger, Johnson and Joesch (2002) evaluated the impact of different job-search requirements in a US programme, and found that variations of the programme with the strongest requirements decreased the duration of insured unemployment but did not increase job finding. There is also empirical evidence that although monitoring and sanctions can accelerate the return to work, they may also decrease the quality of accepted jobs (Armi, Lalive and Van Ours, 2013).

¹⁹ According to the OECD (2013), this merger in the United Kingdom improved the employment outcomes of jobseekers and was cost-effective.

²⁰ For a full description of the characteristics of this programme, see Barnow (2009).

From a wider perspective, empirical evidence also shows that activation strategies increase the likelihood of benefit recipients moving from unemployment into employment in recession years (Michaelides and Mueser, 2017; Martins and Costa, 2014), although more research is needed.

Social protection floors in developing and emerging countries

Since the 1990s there has been increasing interest in implementing anti-poverty policies in low- and middle-income countries, while at the same time finding ways to combat dependency on public income support schemes (Almeida et al., 2011). These goals have helped to shape an approach that combines ALMPs and income support programmes in developing and emerging countries. At the same time, there is an increasing trend in linking income support with a “promotion” function that requires those receiving benefits from social assistance to also participate in education, health and nutrition services, with the goal of improving earnings and opportunities through programmes promoting higher employability (Robalino, Walker and Rawlings, 2012). In other words, the ambition of social protection in developing countries is not restricted to compensating those in poverty for their lack of income, but rather aimed at providing populations with the tools to achieve more sustainable sources of livelihood for the purpose of broader development (Barrientos and Hulme, 2009; Barrientos, 2011).²¹ The objective of reducing poverty is only one of the objectives of social protection: beyond providing basic income security, social protection must contribute to increase opportunities of households to access better and higher quality forms of sustainable income generation. The combination of “traditional” or “simple” ALMPs with elements related to income support, small business promotion, or investment has created new policies adapted to the reality of developing and emerging countries.

In different degrees, all these policies are concerned about incentive compatibility and anti-poverty strategies – they focus not only on employment or earnings but mainly on development. Almeida et al. (2011) suggest that there are two different kinds of policies: interventions to improve access to jobs and earnings opportunities, which are complementary to employment-related support services when targeting groups facing multiple barriers to work; and graduation policies with a poverty exit ambition and targeting beneficiaries of social assistance programmes.²²

Some policies, such as conditional cash transfers, may be considered as being between each of these categories. These policies consist of an income transfer to targeted households conditional on some requisites, for example children’s school attendance, improving health conditions of the household, etc. A common concern in the design of these income transfers has been the impact on labour force participation. There are different evaluations showing that these programmes do not appear to discourage beneficiaries from participating in the labour market (Almeida et al., 2011) and even

²¹ In this context, the ILO adopted in 2012 the Recommendation concerning national floors of social protection, No. 202. In this Recommendation, a social protection floor is defined as a combination of income and health security provided through cash transfers and transfers in kind including in the form of access to essential social services (Cichon, 2014). The ILO strategy promoting social protection floors includes support at country level, contribution to global strategies, policies and debates on social protection floors, and work in knowledge management and sharing experiences (ILO, 2017).

²² At first sight, the development of social protection shares with the activation strategies the combination of policies and, sometimes, conditionality. However, there is a key difference: while social protection floors in developing and emerging countries have an explicit anti-poverty objective, activation strategies in developed countries are policies to fight unemployment but they are not part of anti-poverty policies of these countries. For a discussion on the activation and graduation policy terminology, see Almeida et al. (2011).

that in some cases the programmes create incentives for participants to work or look for work (ILO, 2010). Box 3 develops the issue of the impact of conditional transfers and graduation policies on labour market outcomes.

Box 3. The impact of conditional cash transfers and graduation policies on labour market outcomes

Conditional transfers and graduation policies are development policies implemented around the world. The design of both types of policy combine income transfers with other measures. In the case of conditional transfers, income is conditioned on eliminating child labour through school assistance, for example, or conditioned on healthy practices. Although both policies target households in severe poverty, graduation policies (which have a poverty exit ambition) target the poorest members of villages providing income jointly with training, coaching, health information, etc. For this reason, graduation policies are also known as “ultrapoor” policies. They often include specific direct funding to improve the family small business. In other cases, there are also occasional transfers to finance basic goods for household consumption. The objective is always to uplift the low initial endowment base of the household so that it can gain access to other economic and social resources (Halder and Mosley, 2004).

Usually, these policies are evaluated in terms of their impacts on different dimensions of well-being such as consumption, health or empowerment, but also on economic outcomes such as savings, business profits, investment or employment. Kabeer and Waddington (2015) present a meta-analysis of conditional transfers using 46 studies analysing different household impacts in developing countries. As regards the effects on household adult labour supply, they find mixed evidence. The overall impact is an increase of 3 percentage points in the labour participation of household adults, but this effect ranges from an adverse effect of 5 percentage points to a growth of 12 percentage points in the labour participation of adults. This suggests that income transfer has an income effect, but, in general, it is not necessarily enough for a significant increase in labour participation. For the effects on child labour, the evidence strongly suggests a decrease in child labour through increasing school attendance.

Banerjee et al. (2015) evaluate the impact of a multifaceted graduation programme for the very poor in six developing countries. Therefore, their results are a meta-analysis of these programmes, but based on much more homogeneous programme characteristics than usual. They test the impacts on different social and economic outcomes of poor households. Concerning labour outcomes, they find overall positive impacts on total time spent working, with a positive impact on more time working in a micro-enterprise and a negative impact on time spent in paid labour, but neither effect is statistically significant.

There are many evaluations showing that these types of policies, designed as packages of various ALMPs or ALMPs provided jointly with income support, are, in general, effective. Hashemi and Rosenberg (2006) find that a public works programme in Bangladesh increased self-employment among beneficiaries of social protection programmes. Macours, Schady and Vakis (2012) analyse Nicaragua’s “Atención a Crisis” programme and suggest that the integrated approach of the programme promotes reskilling and adaptation to a changing employment situation. Martínez, Puentes and Ruiz-Tagle (2018) find that a Chilean conditional cash transfer programme (“Chile Solidario”) has long-lasting employment effects, increasing labour market participation and earnings.

3. Identifying proactive features: The key role of implementation

ALMPs have had different roles over time. They began in the 1950s in Sweden as a supplementary set of macroeconomic policies for sustaining a non-inflationary growth, and evolved into a mechanism to help manage labour market flows (Weishaupt, 2011). The joint implementation of ALMPs and income support programmes that has developed since the 1990s has also altered the divide between passive and active policies, showing that they can be complementary and interrelated (Auer, Efendioglu and Leschke, 2008).

Over the great recession, ALMPs were used as a reaction against the huge and fast increase in unemployment, especially in the European Union. In many EU countries, ALMPs were one of the most popular areas of intervention (ILO, 2015). In addition, as Auer, Efendioglu and Leschke (2008) remark, most countries with high levels of global economic integration utilize ALMPs to mitigate the negative employment effects of globalization and technological change.

ALMPs are well suited to proactive implementation, and can be used to help anticipate a wide menu of labour market changes and challenges that may affect workers' welfare and the economy more broadly. In fact, implementation seems to be a key channel for enhancing proactive characteristics in labour market policies in developing and emerging countries as well as developed economies.

The central role of implementation

From a macroeconomic perspective, key implementation characteristics that increase the effectiveness of ALMPs include the allocation of additional resources to programme administration, and a continuity of public spending in active measures that increases during recessions but does not fade away during times of growth (Escudero, 2018). At this aggregate level, implementation may be improved through social dialogue, especially tripartite social dialogue (Rychly, 2009, 2011). As some authors have remarked, bipartite social dialogue mainly attends to interventions for incumbent workers. ALMPs, on the other hand, are typically directed towards individuals who are less likely to be covered by bipartite negotiation (Thelen, 2014; Vaughan-Whitehead, 2011) as they are also aimed at inactive persons. For this reason, tripartite social dialogue, which includes employer and worker representation as well as government participation, may be better suited for input and development of macro-oriented labour market policies. However, the specific role of the social partners in the implementation of ALMPs and how it affects their effectiveness and the emergence of proactive and reactive features remains an open topic. As far as we know, there is a short and relatively recent literature for developed countries on the direct engagement of employers in ALMPs. This research shows that there is room for more extensive involvement from employers (see box 4), but that further research is needed to assess to what extent employer involvement will be either proactive or reactive.

Box 4. The engagement of employers in ALMPs: The Danish case

Research focusing on the engagement of employers with ALMPs is rather scarce. Bredgaard (2017) is one exception, analysing empirically the case of Denmark.

This author proposes a typology of four types of employers, distinguishing positive and negative preferences from participation and non-participation in ALMPs. These four types are: the committed employer, the sceptical employer, the passive employer and the dismissive employer. The committed employer has a positive attitude towards ALMPs and participates in them, while the dismissive employer has a negative attitude and does not participate. The other two types are intermediate cases: the sceptical employer has a negative attitude but participates, and the passive employer has a positive attitude but does not participate in these policies.

Bredgaard's survey of Danish employers based on these concepts shows that most employers are dismissive (46%) or passive (35%) with respect to ALMPs, and that only a minority can be considered as sceptical (8%) or committed employers (11%). As passive employers are not enrolled in ALMPs, but have a positive attitude, Bredgaard considers that they may be able to be convinced of the usefulness of these policies – for example, he suggests improving their collaboration with the local job centres – and there is wide room for enrolment of employers in ALMPs.

According to Bredgaard, a deeper and more systematic knowledge about why and how employers engage in ALMPs would improve the effectiveness of these programmes.

The implementation of a combined set of policies – different types of ALMPs or ALMPs with income support policies – has shown an important potential to enhance the proactive nature of different labour market policies. These combinations may act in a proactive manner by helping to strengthen social protection floors. In developed countries these combinations include, for example, individualized plans combining income support (passive policies) and labour market integration activities – training, job-search activities and monitoring, etc. The package of policies known as Youth Guarantee (see box 1) is also a promising way to enhance proactive features for young people, as they improve their labour market integration with different interventions addressing not only the short-term problems of young unemployed but also trying to remove long-term drawbacks such as lack of enough formal training.

In developing and emerging countries the combined approach, implementing ALMPs jointly with income support and basic services such as education and health, is aimed to target specifically the poorest households. Graduation policies are a prominent example. They aim to address short-term problems such as low incomes, but have also a wider anti-poverty perspective adding other interventions to overcome poverty traps. More specifically, we detect proactive features in policies combining self-employment or small business promotion and management training in graduation policies. This type of policy not only strengthens the economic fabric of local economies, but also provides incentives for self-sustaining earnings which may in turn reduce poverty. The evidence for Latin America and the Caribbean (Escudero et al., 2017) also shows that ALMPs in these countries have the potential to increase access to formal employment, which we consider an important proactive characteristic because an increase in formal employment improves resilience to diverse negative economic shocks.

Proactive features in specific policies

Considering specific programmes, we have also shown that implementation characteristics are important and that, in addition, each type of programme presents proactive or reactive features. We present here a summary for each type of ALMP following the order of table 1.

(i) Training

Training programmes share reactive and proactive characteristics. Training courses may be clearly reactive when they are intended to provide specific skills to fill vacancies in the local economy. Proactive features may be associated with increasing general rather than job-specific human capital, as general human capital can be applied to many different jobs. It may also be reflected in the proactive retraining of workers in response to anticipated changes in labour market needs. Therefore, the main emphasis in providing this training would be on the government (as a policy) and not on the firms.²³ The analysis of the US case using market-based mechanisms with training vouchers to cover needs of local firms – linked to increases in specific human capital – shows mixed results (Barnow, 2009). Their usually positive evaluation is mostly linked to the engagement of caseworkers and counsellors – which, again, highlights the role of implementation and the need for a combination of policies to develop proactive features.

The predominant role of proactive features is clear when assessing training interventions in developed countries. For example, evaluations show that the effectiveness of training is rather low in the short term, but clearly positive in the medium and long terms (Card, Kluge and Weber, 2010, 2017; Vooren et al., 2018). This feature links training with building capacities to adapt to labour market challenges beyond the short term and the specific problems of local labour markets. On the other hand, in these countries the impact of training programmes is larger during crisis and smaller in good times, thereby indicating the reactive efficacy of these measures as well. However, the evidence also shows that this counter-cyclical pattern is not so large compared to the always positive effects of training compared to other types of ALMPs. Therefore, in developed countries the reactive feature derived from the anti-cyclical pattern may be less important compared to the effects associated with their proactive features.

For developing and emerging countries – at least based on the available evidence for Latin America and the Caribbean – the impact of training programmes is pro-cyclical (larger in expansions and smaller during crisis). At first sight, this pro-cyclical pattern is rather proactive. Then, are training programmes clearly proactive in developing and emerging countries? We have to remark that, at the same time, the review shows that impacts of training are shorter-lived in developing and emerging countries, probably because their funding is insufficient for a long and in-depth implementation (Auer, Efendioglu and Leschke, 2008). This lack of long-term effects limits the proactive features of training in emerging and developing countries but could probably be overcome through adequate and sustained funding.

23 This follows the traditional rule of how to fund general and specific human capital (Becker, 1964), although this general rule has been qualified in recent years. Acemoglu and Pischke (1998) have explained that firms are more likely to be interested in funding general human capital in imperfect labour markets where wages are compressed. Lazear (2008) has shown that even in the case of general skills, their combination in a job is rather specific, and wage profiles and the split of human capital costs depend on thickness of the market. Gathman and Schönberg (2010) show that skills are more portable (more "general") than usually assumed, as workers move to occupations with similar task requirements.

(ii) Public works and direct job creation

In developed countries, public works and direct job creation programmes are rather limited and restricted to very specific groups of disadvantaged workers. Often, they have neither positive nor negative effects, and when they have a positive impact, such effect is the smallest relative to other ALMPs (Kluve, 2010; Card, Kluve and Weber, 2010, 2017). The main rationale for these programmes in developed countries is not effectiveness but equity, such as providing a sheltered and partial labour market integration to people otherwise excluded from the labour market. In these terms, they are more reactive than proactive, but this distinction does not seem as relevant in this case as equity reasons are probably much more important than efficiency.

Public works and direct job creation may hold greater promise for proactive implementation in the case of developing and emerging countries, where these programmes have a wider presence and play a greater role of providing income support for specific groups and/or in case of bad economic conditions (Auer, Efendioglu and Leschke, 2008). Specifically in a developing and emerging country context, these types of ALMPs can be implemented as one component of a broader social protection floor strategy. They achieve this by combining income support and other interventions, such as training, to improve labour market integration of beneficiaries and with an objective of alleviating poverty. In these terms and combined with other policies within a social protection floor strategy, these policies may be considered as proactive, because they provide income and social protection against different situations and, at the same time, may improve labour market integration in the medium and long term.

(iii) Employment subsidies

Employment subsidies are more a developed-country type of ALMP, probably given their relatively costly implementation. Their effectiveness is mainly restricted to the short term and is clear only when targeting specific disadvantaged groups. For these reasons, this type of ALMP has strongly reactive features.

However, reactive features of employment subsidies have been very useful in achieving short-term results for some groups of workers who face long-term labour market integration obstacles, such as older unemployed workers (Boockmann and Brändle, 2015). The reviewed evidence for developed countries shows that employment subsidies for older workers may be effective, especially when combined with counselling and other labour market services to attend their potential health and social problems. On the other hand, there is also evidence showing that employment incentives may overcome displacement effects, if subsidies are implemented through caseworkers. Again, we appreciate that implementation characteristics are crucial to enhancing the effectiveness of policies and their proactive or reactive features, which could be achieved by the joint implementation of employment subsidies with caseworkers.

Finally, the analysis of this policy clearly shows a key issue mentioned in the introduction: reactive features may be crucial for some groups of workers and, therefore, they are also needed in a balanced design of labour market policies.²⁴

²⁴ When it comes to the possibility of proactively implementing employment subsidies, there may be room for their consideration in industry transformation, by helping to draw unemployed workers into a sector where future need and growth has proactively been identified. While no research is available thus far to support possible use to this effect, it may be helpful to consider the economic and policy implications of using employment subsidies more proactively as we enter a future where labour market transitions increase.

(iv) Self-employment and micro-enterprise creation

ALMPs that promote self-employment and micro-enterprise creation have strong proactive features, and there is strong empirical evidence demonstrating their effectiveness in both developed and developing economies. In developed countries they have long-lasting effects, especially for disadvantaged groups of previously unemployed workers (Baumgartner and Caliendo, 2008; Caliendo and Künn, 2011).

In the case of developing and emerging countries, evaluations reviewed in previous sections show that these interventions are effective when combined with some type of management training – as in graduation policies. Note that providing training for small entrepreneurs increases their human capital and they become more resilient to future changes in the economic context – i.e. they will tackle difficult managerial problems better. In addition, these combinations also have an anti-poverty objective as part of the strategy of enhancing social protection floors. Therefore, funding for start-ups and improving current small businesses – explicitly including self-employed workers – have proactive features in developing and emerging countries.

(v) Labour market services

Labour market services can play a crucial role in improving the overall implementation of ALMPs, as well as in providing important tools to help workers better navigate labour markets. They are therefore identified as having prime importance in transitioning toward a more proactive policy approach to labour markets. In developed countries, there is a key role for caseworkers, for example, in some employment incentives programmes where the intervention of these workers avoided the displacement effects which are typical of employment incentives that are not sufficiently targeted (Lombardi, Skans and Vikstrom, 2018). In fact, the role of caseworkers in these programmes was to provide support in hiring and, indirectly, to create a kind of targeting. Therefore, the added value of labour market intermediation in employment incentive policies is in making them targeted. In addition, labour market services are key elements in activation strategies. Enhanced job-search assistance, for example, is one of the policies increasing the probability of return to work when linked to income support policies. Probably, simple public or private labour market intermediation may be considered as reactive – i.e. placing non-employed people into available vacancies as quickly as possible. However, in combination with other measures it provides more effective and stable labour market integration, which is clearly a proactive feature.

Another aspect shown in the review of the empirical evidence for developing countries was that some policies needed well-trained staff – as in the case of job applications training and transport subsidies to improve job-matching quality for jobseekers. To sustain the quality of the staff required to correctly implement these policies, middle- and low-income countries must develop effective labour market services. Because of the usual limitations on public funding, long-term public–private partnerships may be considered. A permanent organization to provide labour market services would be helpful in developing such services with proactive characteristics in developing and emerging countries.

4. Conclusions

Finding and implementing successful responses to the great recession has for many years been of major concern to policy-makers. Once the recovery spread around the globe, there were new challenges for labour market policies. The increased emphasis on ALMPs arose as one solution to meet these challenges, but also as a way of responding to longer-term trends such as globalization, technological change or environmental degradation. ALMPs also have the potential to address unexpected future change. In this context, this paper has reviewed the different types of ALMPs, as well as various combinations of policies – such as social protection floors and activation strategies – with a view to discerning whether they are potentially useful in protecting workers, while pre-empting a wide range of problems caused by economic shocks. We have called this feature proactivity. This is in contrast to reactive characteristics, which would relate to interventions addressing a specific problem in the short term. Both types of features are useful in the design of a balanced portfolio of labour market policies, but proactive features are likely to be closer to the debates about the future of work. Moreover, understanding the distinction between proactive and reactive characteristics of labour market policies may add a useful tool to improve the design of these policies.

The paper argues that implementation appears to be crucial in enhancing the proactivity of labour market policies. From an aggregate perspective, we have identified in the empirical evidence two key implementation variables (Escudero, 2018): adequate funding for the administrative management of ALMPs, and continuity of public spending on these policies. These two dimensions of implementation increase the positive impact of ALMPs, but also have proactive features as they allow these policies – and their effects – to be sustainable over time. Considering the whole economy, tripartite social dialogue seems an ideal instrument to find avenues to enhance the positive effects of these implementation variables and proactive features. As Rychly (2009) remarks, the great recession has led to a more proactive approach towards social dialogue, even in countries with less dialogue-oriented public administrations. Therefore, the current recovery period would be the appropriate time to use tripartite social dialogue with this objective.

In addition, implementation appears also to be key in enhancing the proactivity of more comprehensive policy approaches, such as those comprising a combination of policies. In developing and emerging countries, the combination of policies has been a distinctive characteristic of the development of social protection floors since the 1990s. The ILO Social Protection Floors Recommendation, 2012 (No. 202) is an important part of this “quiet revolution” in social protection in developing and emerging countries (Barrientos and Hulme, 2009). These policies provide income support as an anti-poverty measure, but also with a view to broadening the labour market opportunities of individuals through the joint implementation of ALMPs. Impact evaluations show that these joint approaches have generally positive results not only in terms of improving employment and earnings, but also in terms of providing effective access to basic services such as health or child education. Their proactive features are based on this joint implementation, because it is this articulation of income support and ALMPs that improves the perspectives of beneficiaries in the medium and long term.

In the case of developed countries, the combination of policies has been shaped by the activation strategies mainly promoted by the OECD and the European Commission. Activation strategies have linked passive policies with different ALMPs. As such, this

joint approach provides income support, but also greater opportunities for job access and reskilling, among others. In other cases, they are also linked to training interventions through market-based mechanisms (King and Barnow, 2009). In addition, the evidence shows that these types of combined policies have larger impacts when caseworkers intervene, which emphasizes the importance of labour market services for a successful implementation of labour market policies. In fact, the main lesson from the activation strategies is that the articulation of income support (passive) policies with ALMPs may improve their medium- and long-term results, as in the case of employment incentives when they are intermediated by caseworkers (Lombardi, Skans and Vikstrom, 2018).

The review of the evidence on the effectiveness of specific ALMPs has provided a more detailed characterization of proactive and reactive features for each type of programme. It is interesting that the proactive and reactive characteristics of each type of ALMP varies between developed and developing and emerging countries. While training has a clearer proactive feature for developed countries, this is not the case for developing and emerging countries, mainly because in the latter countries the impacts of training are short-lived – as shown by the evidence from Latin America and the Caribbean (Escudero et al., 2017). Public works and direct job creation policies present proactive features for all groups of countries, although they seem more meaningful for developing and emerging countries as they are relevant for a greater share of the population. The proactive feature is also clearer in developing and emerging countries given their explicit anti-poverty objective of sustaining people's incomes. Employment subsidies present reactive features, as their effects are mainly short-lived, when they exist at all. This reactive characteristic is especially suitable for low-wage older workers, for whom this policy seems especially effective (Boockman and Brändle 2015; Huttunen et al 2013). Self-employment and start-up programmes present clear proactive features. While these policies improve and sustain earnings for the unemployed in all countries, in developing and emerging countries they also collaborate to improve the earnings of informal workers and their transition to formal employment. In addition, in emerging and developing countries these policies are sometimes included in the development of social protection floors. Finally, labour market services have proactive features, especially when they are implemented jointly with other policies in developed countries. In developing and emerging countries, the evidence is along the same lines, but as these policies must rest on skilled caseworkers and counsellors, they are costly and not easy to implement without additional and sustained financial support.

Finally, increasing resources to ALMPs would help to develop a balanced set of policies with proactive and reactive features, especially in developing and emerging countries and in the case of training. In this vein, Auer, Efendioglu and Leschke (2008) propose to encourage donors to embrace the goals of ALMPs and align their funds for this purpose. This is already a reality for graduation policies, for example, but stable funding beyond isolated initiatives is necessary, especially in low-income countries. In this vein, it is important to highlight again that funding stability during the business cycle increases the aggregate effectiveness of ALMPs (Escudero, 2018) and is a key proactive feature of ALMPs from an aggregate perspective. In fact, the lack of adequate and sustained funding may even slow down the interesting evolution of social protection floors as a combination of policies with an explicit anti-poverty objective, and with proactive features at the same time.

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