

# How Active Should Our Active Labor Market Policies Be in a Globalizing World?

*Policy Research Talk*

**David McKenzie, *DECFP***

February 7, 2017

# The Ripped from the Headlines Viewpoint

# South Africa's unemployment crisis: Begging for jobs

Share

By Nomsa Maseko  
BBC News, Johannesburg

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Young men holding placards market themselves as gardeners and builders in the busy streets of Johannesburg.

Painters, plumbers, ...

## Middle East and North Africa jobs crisis 'may import terror into Europe'

- Social unrest caused by the mass unemployed in the region is also likely to tip more countries into civil war
- This could lead to a new wave of refugees fleeing to Europe, report said
- Urgent action is needed to encourage private enterprise, provide more vocational education and improve women's rights

By TOM KELLY FOR THE DAILY MAIL

PUBLISHED: 19:13 EST, 26 May 2016 | UPDATED: 19:13 EST, 26 May 2016

# “A Jobs Crisis”

# Demographic Pressures Mean its going to get even worse in some regions

Africa, Economy & Trade, Headlines, Labour, Population, Poverty & SDGs, Regional Categories | Opinion

## Why Kenya Must Create a Million New Jobs Annually

By Ambassador Victor Ronneberg and Siddharth Chatterjee

Despite an increase in education and social development in the area, only four in ten people aged 15 to 65 have jobs.

And five million more people are due to join the workforce every year until 2030, all fighting for a dwindling supply of jobs.

THE SILVER BULLET

**Africa has the world's fastest-growing labor force but needs jobs growth to catch up**

BUSINESS NEWS | Sun May 4, 2014 | 5:08pm EDT

### Business looks to Modi to defuse India's jobs time bomb

Asia's third-largest economy needs 12 million new jobs every year to absorb a growing workforce and urban migrants - a task made harder by the longest spell of growth below 5 percent since the 1980s.

Over the next two decades, the Middle East and North Africa (MENA) region faces an unprecedented challenge. In 2000, the labor forces of the region totaled some 104 million workers, a figure expected to reach 146 million by 2010 and 185 million by 2020. Given this expansion, the economies of the region will need to create some 80 million new jobs in the next two decades. With unemployment now at about 15 percent, the more ambitious goal of absorbing unemployed workers in addition to the new entrants implies the need to create close to 100 million jobs by 2020, a doubling of the current level of employment in the first two decades of the 21st century.

# “Technology is going to make it harder”

[Technology](#)

## Foxconn replaces '60,000 factory workers with robots'

By Jane Wakefield  
Technology reporter

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**Mail &  
Guardian  
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## Robots could eat all of Ethiopia's jobs; South Africa, Nigeria and Angola not safe either

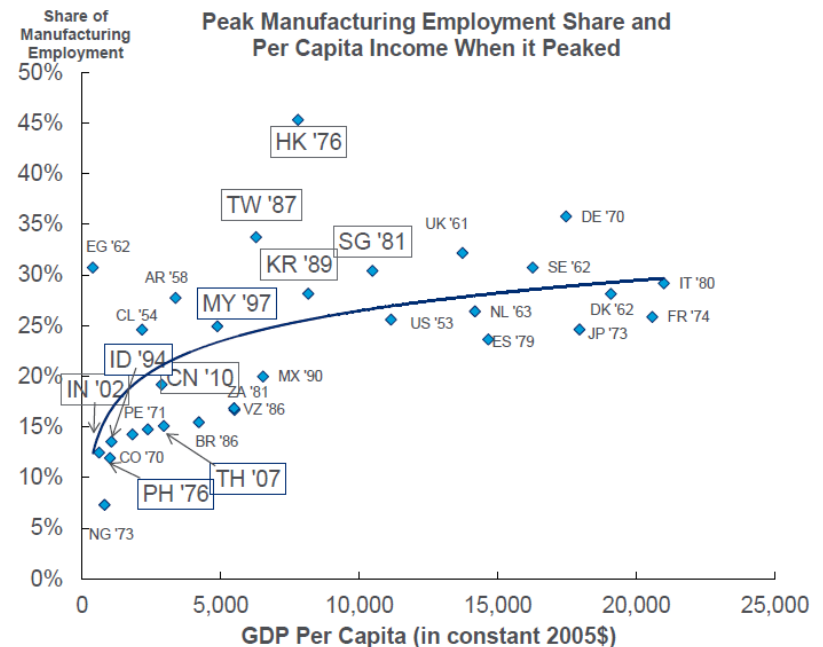
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# Types of jobs at most risk of being automated are often the ones developing countries specialize in

- Routine, well-structured tasks, elementary occupations
  - Call-centers, outsourced manufacturing, transcribing, etc.
  - Not just bottom of distribution but “hollowing out” of middle – legal clerks, radiologists, etc.
- Premature de-industrialization

Figure 1. Peak Manufacturing Employment Share and GDP per Capita When It Peaked



Source: GGDC-10 Sector database, World Bank Development Indicators, Citi Research

# Continued skepticism and backlash against trade



HOME > NEWS > BUSINESS & ECONOMY > Free trade benefits elude Nigeria as firms can't compete

## Free trade benefits elude Nigeria as firms can't compete

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# Are ALMPs the solution?

- Traditional Active Labor Market Programs as a Response, and the Evidence
  - Vocational Training
  - Wage Subsidies
  - Search and Matching Assistance
- What do policymakers and economists expect, and what does revealed preference show?
- What types of alternative policies show promise?



# Traditional Active Labor Market Programs as a Response

# Vocational Training

- Two key reasons for surge in interest:
  - Idea that skill shortages are constraining growth in many developing countries; that structural changes leading to skill mismatches (ILO, 2012)
  - Global economic recession – training programs the most common type of ALMP implemented (McKenzie and Robalino, 2010)
- Empirical Case: Experimental Work with ISKUR in Turkey
  - Training the main ALMP used for the unemployed
  - Oversubscription for the courses they offer, so we randomized access
  - Typical course 3 months in length, costs ~US\$1,600 to provide
  - Sample of 5,902 applicants randomly selected into treatment and control for 130 separate courses (mix of public and private providers)
    - Treatment group of 3,001, Control Group of 2,901
  - Hirschleifer et al., *Economic Journal*, 2016.

# What happened?

Survey results: Impact on working +2% [-0.5, +4.4]

+2 p.p. increase in formal employment, +5.8% increase in monthly income.

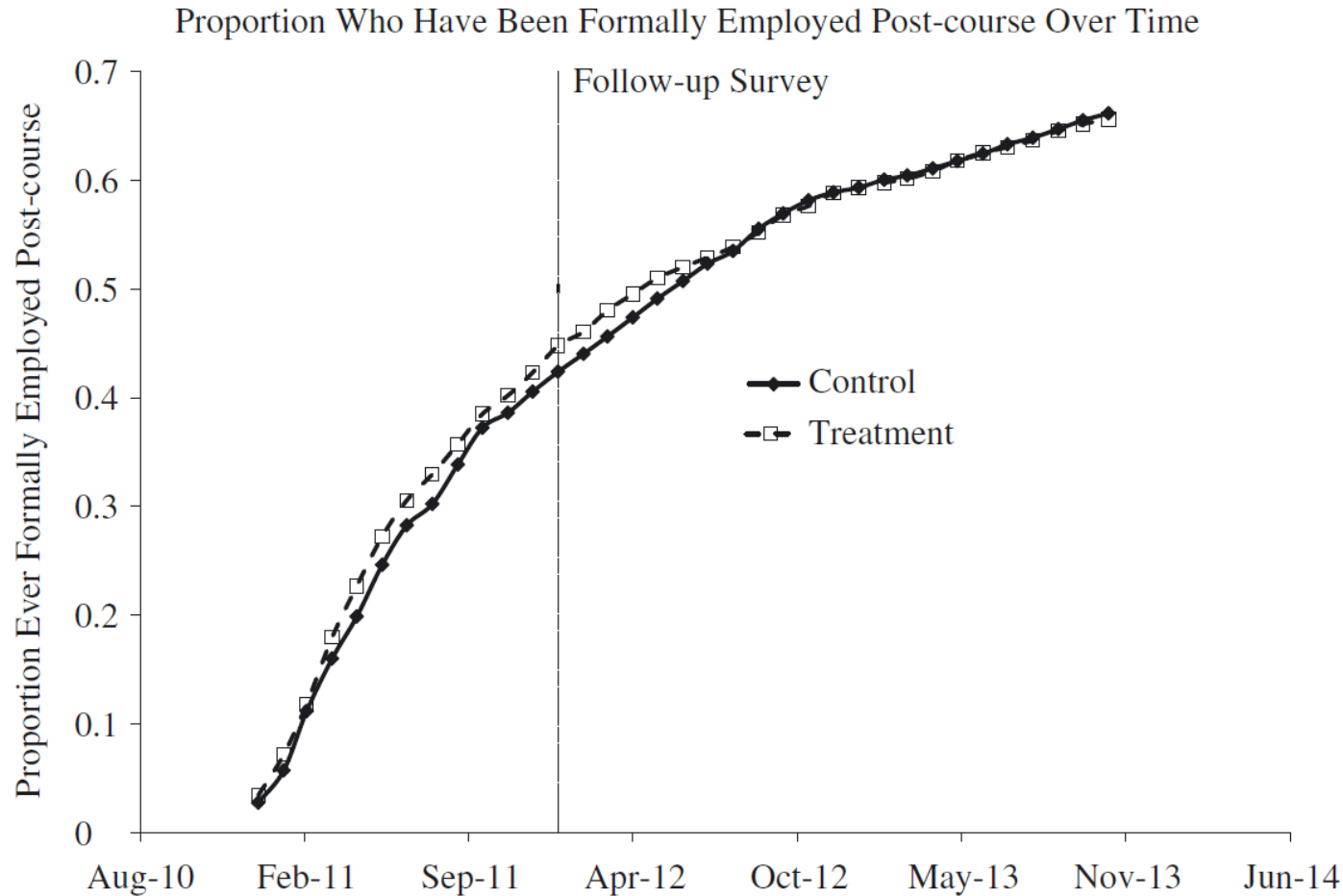


Fig. 1. *Trajectory of Formal Employment Impact*

# Other evidence

- Blattman and Ralston (2015)

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## Dear governments and aid agencies: Please stop hurting poor people with your skills training programs

Here is an incredible number: From 2002 to 2012 the World Bank and its client governments invested [\\$9 billion dollars across 93 skills training programs](#) for the poor and unemployed. In lay terms, that is a hundred freaking million dollars per program.

Unfortunately, these skills probably did very little to create jobs or reduce poverty.

Virtually every program evaluation tells us the same thing: training only sometimes has a positive impact. Almost never for men. And the programs are so expensive—often \$1000 or \$2000 per person—that it's hard to find one that passes a simple cost-benefit test.

- Attanasio et al. (2015) - 10-year follow-up in Colombia - finds 4 p.p. increase in likelihood of formal employment, higher formal income
  - Consistent with some return to education
  - But don't know if just crowds out informal employment/income

# Wage Subsidies

- Rationale:
  - short-term subsidies may have long-term effects by raising the productivity of youth through work (Bell et al., 1999)
  - May provide youth with the crucial experience needed to find other jobs
  - Might give youth confidence to approach employers (Galasso et al, 2004).
  - may encourage employers to take a chance on hiring inexperienced, untested workers (World Bank, 2006).
  - frictions involved in identifying, hiring, and firing workers in an environment where firm owners are unsure of worker types (Mortensen and Pissarides, 1994)

# Wage Subsidies Case 1: Jordan

- Experiment with almost entire cohort of female public community college graduates in Jordan
- Treatment group 600, control of 750
- Graduate given a job voucher they could take to firm when looking for work
- Voucher would pay the firm 150 JD (\$225) per month for up to 6 months if they hired worker (= minimum wage)
- Groh et al. (2016, *Review of Economics and Statistics*)

الأردن الآن فرص عمل لخريجات الكليات الجامعية المتوسطة



### قسمة العمل

عزيزتي الخريجة:  
الرقم التعريفي:

تهانينا لقد تم اختيارك للحصول على قسيمة العمل الخاصة بأحد مكونات برنامج الاردن الآن.

يتمد البنك الدولي، بالتعاون مع اللجنة الوطنية الأردنية لشؤون المرأة ووزارة التخطيط والتعاون الدولي وجامعة البلقاء التطبيقية وغرفتي الصناعة والتجارة، برنامجاً ريادياً لزيادة فرص العمل لخريجات الكليات الجامعية المتوسطة في الأردن.

مع ارتفاع نسبة البطالة بين الشباب الأردني، يركز المشروع على طالبات الكليات الجامعية المتوسطة اللاتي انهين دراستهن مؤخراً ويبدأن البحث عن عمل. يعتبر الافتقار إلى مهارات العمل، بشكل خاص، من أهم العقبات التي تحول دون حصول خريجي الكليات الجامعية المتوسطة على فرص عمل. تعتبر هذه الرسالة بمثابة قسيمة العمل، يؤكد برنامج الأردن الآن بموجبها بأنه سيكون ملزماً قانونياً بتسديد مبلغ وقدره 150 ديناراً أردنياً شهرياً بدل راتب لفي شركة مسجلة قانونياً تستخدمك بدوام كامل ولدة تصل إلى

6 أشهر، عليك قراءة الشروط والتعليمات بالنشره المرهقه الخاصه بقسيمة العمل التي تشرح آليات عمل القسيمة.

الرقم التعريفي أدناه ضروري ويمكنك من الاستعادة من المزاياء المختلفة للبرنامج ومن التواصل مع إدارة البرنامج شركة الدجاني للإستشارات. الرجاء قراءة النشرة المرفقة بعناية والتي تبين لك الألية التي يتوجب عليك اتباعها. إذا وافقت على المشاركة والالتزام يرجى ارسال نموذج الإقرار بأنك قد قرأت النشرة وانك توافقين على شروط المشاركة. يمكنك أيضاً أن تفعلي وأن تسلمي هذا النموذج إلينا خلال هذه الجلسة الخاصه بتتقديم معلومات عن البرنامج.

**تبدأ صلاحية هذه القسيمة في 2010/10/10 وتنتهي في 2011/8/31**

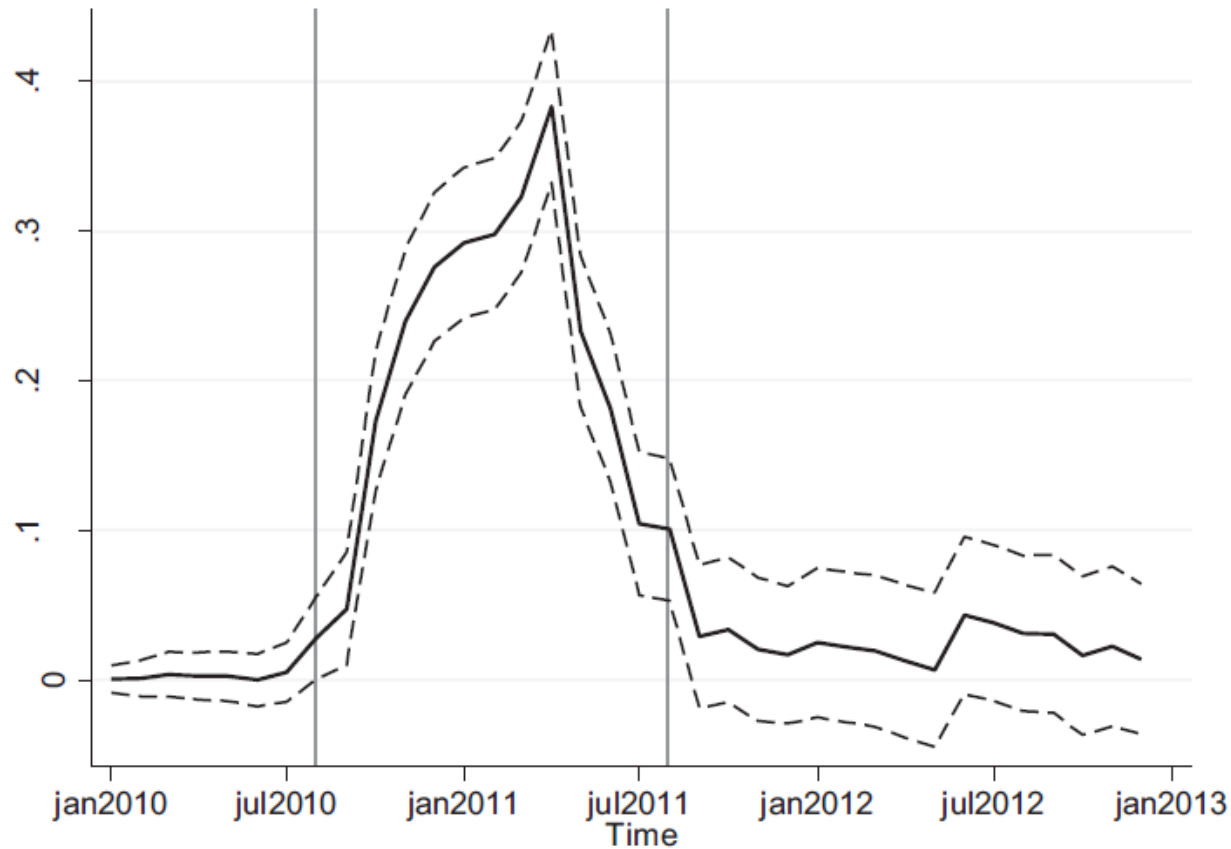
**حظاً سعيداً!**

إدارة البرنامج : شركة الدجاني للإستشارات الإدارية والإقتصادية  
هاتف: 5665484 (06)  
فاكس: 5602939 (06)  
البريد الإلكتروني: Jordan.now@dajaniconsulting.co

  
Management & Economic Consultants

# What happened?

FIGURE 1.—TREATMENT EFFECT ON EMPLOYMENT, BY MONTH



Month-by-month treatment effects on employment, with 95% confidence intervals indicated by the dashed lines. The two vertical lines indicate the period between which the vouchers were announced and the last possible date for voucher use.

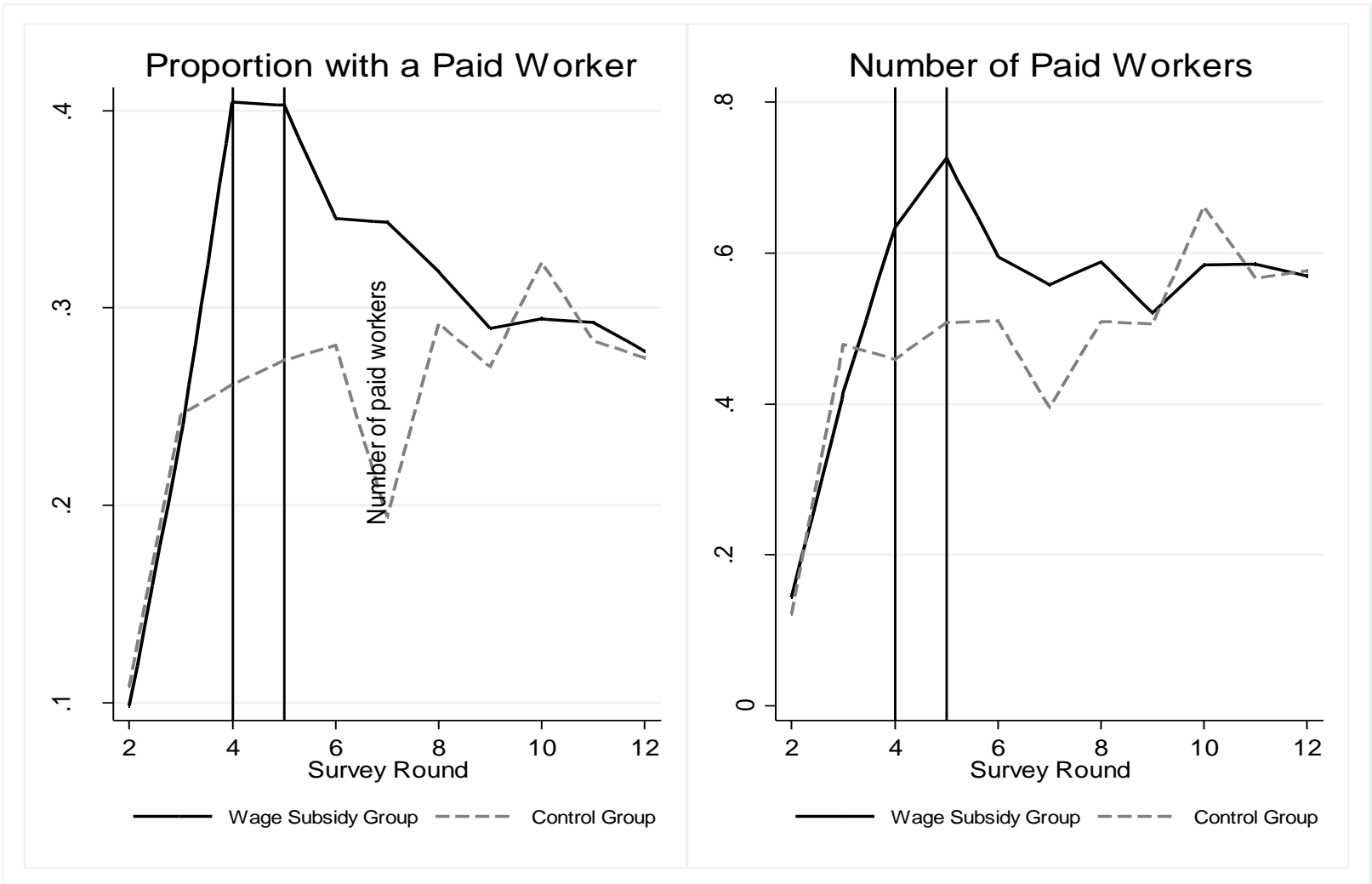
# Wage Subsidies Case 2: Sri Lanka

- Conduct an RCT with microenterprises in Sri Lanka, in which treated firms given temporary wage subsidy (8 months) – subsidy equal to about half the wage of unskilled worker (4000 LKR/month)
- 266 Treated, 250 control
- Track firms using 12 surveys over 2008-2014 period, to measure impact and dynamics
- De Mel et al. (2016, WP)





# What happened?



## Other evidence

- Canada: gave subsidies for full-time work to welfare recipients (not to their employers) did find positive short-term impacts on employment, but a year and a half after the subsidy had ended, the effect had completely faded (Card & Hyslop, 2005).
- Galasso, Ravallion, and Salvia (2004) in Argentina: found that wage vouchers given to the unemployed led to a 6 percentage point increase in wage employment 18 months later, although this impact largely occurred in informal and temporary jobs and very few vouchers were redeemed.
- South Africa presents a similar picture, with only 30 out of 2,000 vouchers redeemed (Levinsohn et al., 2013).

# Wage subsidies as short-term fix

- Note the wage subsidies did boost employment in the short-run (the law of demand works, when price of labor falls, firms hire more of it)
- This might be enough in helping firms deal with temporary shock such as financial crisis
- Bruhn (2016)
  - Looks at Mexican program which subsidized employment in certain industries during global financial crisis
  - Difference-in-difference shows eligible industries employment levels were back at pre-crisis levels in 2011, while in ineligible industries employment levels were still not back at pre-crisis levels in 2013
- Difficulty is always in knowing whether shock is temporary or structural...

# Wage subsidies case 3: Yemen

- RCT in Yemen that provides firms with 50% subsidy towards cost of hiring intern for 6 months, and matchmaking service to link youth looking for jobs with firms
- Short-term impact on higher employment (+42%), higher income (+73%) while internship in progress
- Short-term follow-up survey shows some employment impact remained 2-3 months after internship, but then civil war broke out and can't say anything since
- McKenzie et al. (2016, IZA JOLD)

# Search and Matching Assistance

- **Rationale:**
- In theory provides explanation for why unemployment persists in equilibrium – costly search frictions make it difficult for jobless workers to match with firms with vacancies
- Hypothesize that these search frictions may be larger when education systems less able to signal competence and achievement; also more severe for youth who lack experience that can signal quality.
  - *Enchufes/Wasta* often used to fill positions
- *Implication:* improving matching technology can potentially reduce unemployment directly (filling existing vacancies) & indirectly (lowering hiring costs so firms create more vacancies).

# Empirical case: Jordan

- Developed and test a labor market matching service in Amman, Jordan
  - Aims to reduce these matching frictions
  - Gives unemployed applicants series of tests to evaluate mental ability, technical ability, English fluency, soft skills and personality type
  - Then uses this to match workers with firms
- Sample of 1567 university and community college graduates looking for work (both males and females)
- Groh et al. (2015, *IZA JOLE*)



# What happened to these matches?

- 1142 initial matches
  - 82 candidates couldn't be contacted
  - 319 not interested (28%)
  - 627 firm not interested (55%)
- 114 interviews
  - 60 no job offer made
  - 30 job candidate refused job offer (55% of job offers received)
  - 24 hired
    - 15 quit within first month
    - 9 jobs that continued past first month
      - Cost per job matched ~US\$20,000! (39-45 months of income).

# Other work on search/matching

- Some evidence that can be helpful when connecting workers to different job markets, but can be difficult:
  - Jensen (2012) finds that providing information about jobs in the business process outsourcing sector and interview skills to young women in India increases their employment.
  - Franklin (2014) finds transport subsidies that enable workers in Ethiopia to travel to an area where new jobs are posted has positive effects on the employment of those receiving the subsidies.
  - In contrast, Beam (2014) finds no impact of information and job fairs on getting Filipino workers into overseas jobs.
  - Beam, McKenzie and Yang (EDCC, 2016) – unilateral facilitation had no impact on ability of Filipinos to find jobs abroad.
- Also general concern is whether creating new jobs or just changing who gets them...



# Not just developing country phenomena

- Crepon and Van Den Berg (Annual Review of Economics, 2016)

The general outlook for ALMPs is rather grim. On the whole, evaluations have not shown these programs to be particularly effective. With regard to the difficulties of entering the job market, and considering the amount of effort that has gone into improving the process, the few positive results obtained in terms of employment seem meager indeed. In addition, many recent assessments have been unable to implement cost-benefit evaluations. Not only do the ALMPs seem less effective than might have been expected, but we do not really know if these programs are in fact an expense rather than a gain. Also, our knowledge about how ALMPs impact other outcomes such as health, family, or criminality is very spotty.

The possible existence of equilibrium effects on the efficiency of the programs seems quite real. Several recent studies show that improvements for beneficiaries are often achieved to the detriment of nonbeneficiaries. One might be tempted to conclude that ALMPs are mitigating inequalities in the labor market rather than providing an overall solution to the problem of unemployment.

What policymakers and economists expect, and what revealed preference shows

# Policymakers (and economists) often think these programs will be a lot more successful than they are

- In a series of projects, I've elicited expectations from policymakers, participants, and researchers about what impacts they expect programs to show.
- **Example 1: Turkey Vocational Training**
  - ISKUR staff expected program to increase likelihood of employment by 24 p.p.; participants expected it to increase by 32 p.p.
  - Program was oversubscribed – participants think it will work (or get other benefits from participating).
  - Recall actual impact +2p.p. and even that disappeared
- **Example 2: Jordan wage subsidies**
  - Policymakers: median expected impact at first survey after program ended was 5 to 10 p.p.
  - Researchers: expect 10 p.p. increase in employment from subsidy
  - Recall actual impact +3p.p. and not significant.

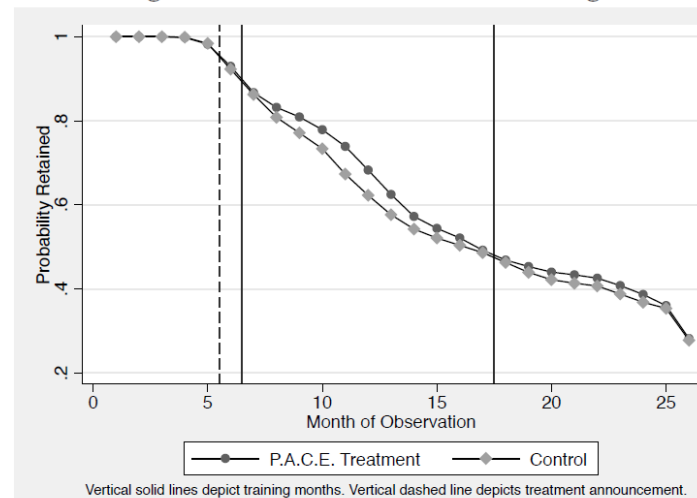
Policymakers (and economists) often think these programs will be a lot more successful than they are

- Indeed, I myself was more optimistic about many of these projects initially than results ultimately showed
  - Lots of reasons for us to think markets might not work well
  - Huge prevalence of these types of programs – they must be doing something good, right?
  - Hubris? We can step in and do something that no one in the market has already stepped in to do?

# Some revealed preference/reality around those formal sector manufacturing jobs policymakers would like more of

- Blattman and Dercon (2016) – randomize Ethiopians seeking factory jobs into these jobs
  - Almost a third of people offered a job quit the study firm in the first month, and 77% had quit within the year. People generally quit the industrial sector altogether, rather than simply switch firms. They frequently quit before they had found alternative work.
  - firms reported that they found the high levels of turnover inconvenient, but were generally able to fill the positions with other low-skill workers since, given the style of production, these workers required virtually no training
- Adhvaryu et al. (2016) – experiment with female garment workers in Bengaluru, India

Figure 2A: Raw Retention (Sewing)



# Evidence suggests firms can often fill positions pretty quickly

- Jordan wage subsidy project:
  - Did a version of JOLTS survey, tracking job openings and how quickly firms filled them
    - High-level of churn, many firms always on the look out for workers
    - Fill 88% of job postings within 4 weeks
- Sri Lanka wage subsidy project:
  - median owner said it would take seven days to locate an employee if s/he wanted to hire one; the mean search period was 14 days

# How should we view urban labor markets?

- Rosenzweig (Handbook of Development Economics, 1988)

An informed reader will see that most of the features of the low-income-country urban environments described also characterize urban areas of high-income countries. And the issues of the impact of governmental labor market interventions and trade unions and the determinants and consequences of job search strategies, which appear to be particularly pertinent to such settings, form an important part of the core of modern labor economics. Few distinct analytical models specifically targeted in any meaningful way to problems of low-income country urban labor markets have emerged in the literature.

What types of alternative policies show promise?



# Non-ALMP Approaches

- Improving regulations and clarity around regulations

e.g. Bertrand and Crepon (2016) – teaching South African firms that labor laws not as bad as they think & provided legal support to deal with it => more employment

- Private-sector development efforts to increase supply of jobs
  - Also not easy, but some successes

# Dealing with sectoral mismatches

- People trapped in the wrong occupations as trade and technology change demands
- **Sectoral training**, one specific type of training program that focuses on training workers for jobs in particular industries and which typically develops and implements training programs in partnership with employers
- Not a lot of developing country evidence on this
- U.S. evidence suggests some positive impacts for disadvantaged workers

Hendra et al. (2016) – RCT in U.S. shows 14% income gain after two years, but also that programs complex to run and need experienced providers.

# Dealing with spatial mismatches

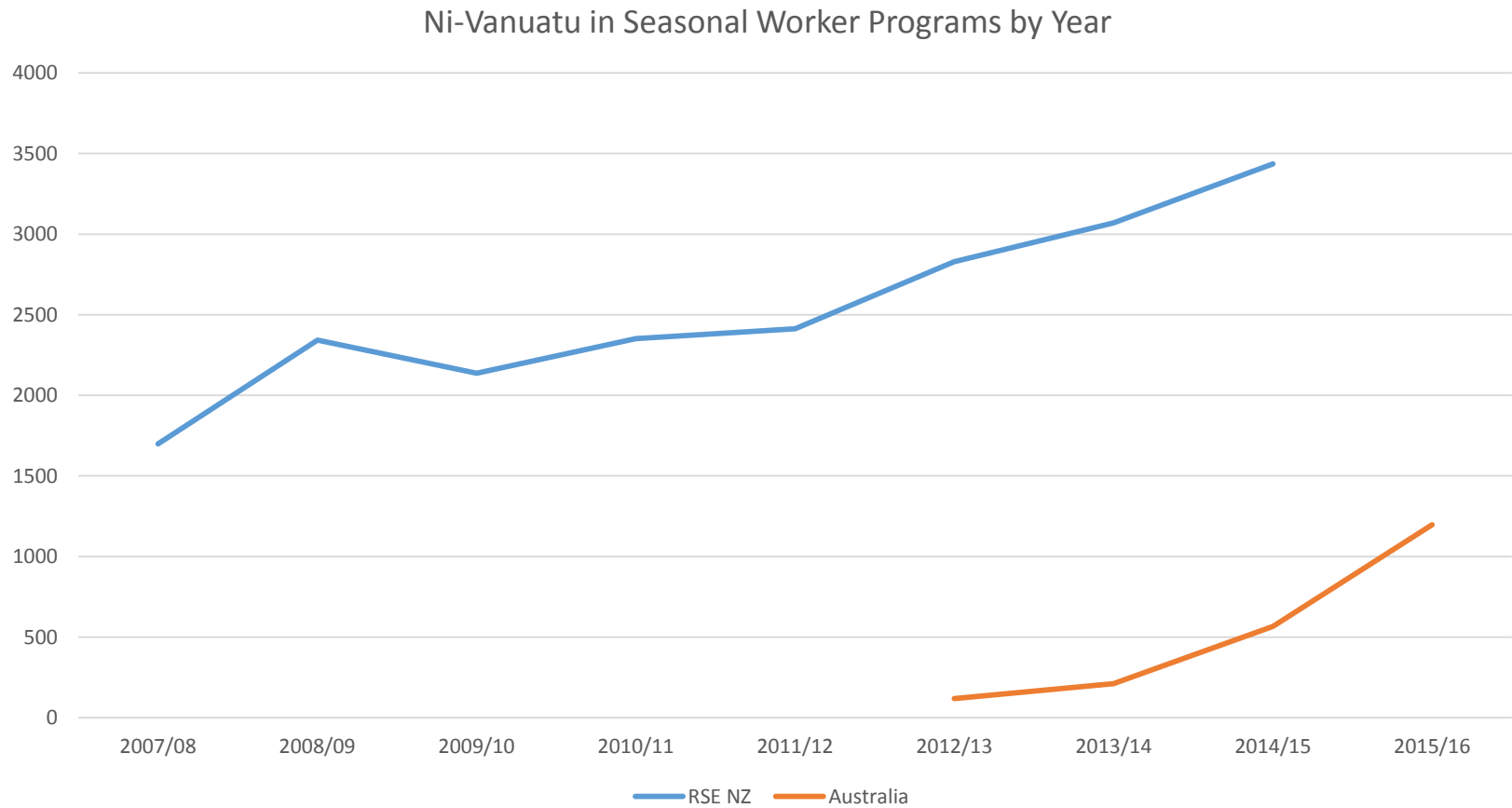
- Often people don't move enough to find jobs, get locked into places with few job options.
- Some of the more promising matching/search facilitation have provided transport subsidies or job information about jobs in different destinations
- More ambitiously – directly try to encourage more migration to places where the jobs are
- E.g. 1: Bangladesh work by Bryan et al.
  - \$8 bus ticket to get people to move to urban areas during hungry season
  - Scale-up study now trying to understand whether this displaces urban workers

# A successful World Bank effort here

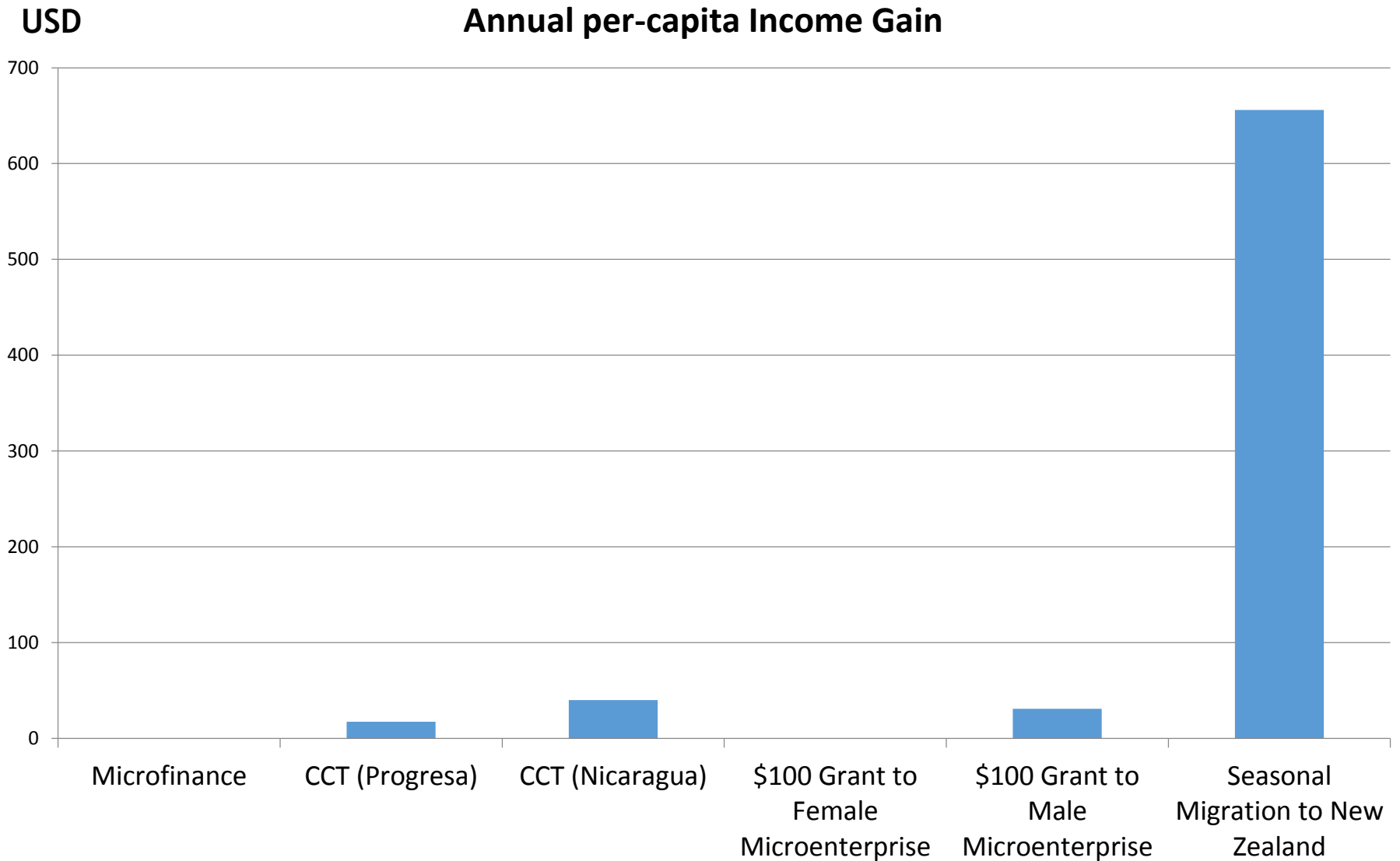
- Vanuatu and the New Zealand RSE program
- Vanuatu (population 215,000) had very little International migration (<1.5% abroad), <1,000 Ni-Van in NZ.
- Imagine a farmer in NZ who wants a worker *what are the chances they would go and recruit In Vanuatu?*
- Imagine a worker in Vanuatu *what are the Chances they can find the job opening in NZ?*
- Facilitation of 50 workers under existing Program as demonstration effect (Luthria and Malaulau, 2013)



# From 50 to 5000...



# Migration is the best development intervention we know of



**Gibson and McKenzie (2014, ReStat)**

# Need to know a lot more about targeting

- Average impacts of many of these interventions very low, but doesn't mean they can't work for some subgroups

# Conclusions

- Many traditional ALMPs don't work as well as we think they do
  - Vocational training, wage subsidies, matching assistance
- Key reason is that (urban) labor markets actually work better than we think they might in many cases
  - Firms fill jobs pretty quickly
  - Workers quit a lot, suggesting jobs not particularly valuable/scarce
- Scope for ALMPs in crisis situations, or recovery from fragility/war
- Need better targeting of these programs
- Longer-term trends – key issue is how to deal with people being in the wrong place (or wrong occupation) – and overcoming stickiness in these.