

Carrots & Sticks – Do Public Employment Service Policy Mixes Matter for Job Seekers’ Earnings?

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Extended Abstract/Work in Progress

Abstract: Public Employment Service (PES) units often fundamentally shape the treatment of individual job seekers by applying specific strategies (mixes) of labor market policies. Interestingly, not much evidence on this issue can be found. This paper empirically assesses the role of PES policies for the job seekers’ earnings in the 3.5 years after unemployment entry. We use a vast register data base covering the employment, unemployment and ALMP histories of a fourth of the full unemployment inflow from 2000 to 2005 in Switzerland. The Swiss PES enjoy (and use) a big leeway in applying different types of policies in different intensities. Moreover, we exploit (arguably) exogenous variation in the organisation of the PES and therefore in the assignment of PES-specific policy mixes to individuals. This work in progress aims at estimating, in the first step, the PES-specific intended policies by types (“carrots” and “sticks”). I.e., we propose a method to estimate the (unknown) intended policies at time of unemployment entry using actual treatment (non-)realisations later in the spell. In the second step, we relate these estimated intended policies to the mid-run earnings outcomes of the individuals.

Extended Abstract

Active labor market policy is an important tool to fight unemployment and to improve the matching on labor markets. Several OECD countries spend more than one percent of their GDP on active labor market policy. Existing literature has documented the effects of specific policy interventions on participants (see Card, Kluve, Weber 2009 for a survey of that literature). But, interestingly, not much evidence can be found in the literature about the role of Public Employment Service (PES) units as policy makers: PES often follow strategies of preferably applying certain mixes of labor market policies.

This paper discusses the role of such PES policies and their effects on the job seeker's earnings. We distinguish between policies that are likely to be perceived positively by participants ("carrots") and policies that are likely to be perceived as negative ("stick"). We define the first group of policies to cover training and job search assistance, and the second group to cover benefit sanctions and workfare programs. We observe how frequently about 150 PES use these policies and discuss how to reconstruct intended policy from actual (observed) policy. To estimate such intended policies, we use the ideas of the competing risks approach, known from duration analysis.

In a second step, we assess the relation between such PES-specific intended policies and realised earnings in the months 4 to 42 after unemployment. As a source of exogenous variation in the application of intended policies to job seekers we use the fact that the regional organisation of the PES was subject to some change over time. Some PES have been merged or split up, some municipalities have been reassigned to a neighboring PES. We argue that these changes, implemented by the superior administrative level (the Cantons in Switzerland), were driven by motives of organisational efficiency and not by motives related to the economic performance and outcomes of the respective regions. Exploiting this kind of variation, we apply panel data methods to estimate the second step regressions.

We use a very rich base of register data from Switzerland. Switzerland is an especially interesting and fruitful case for analysing the role of PES policies: The PES enjoy a large leeway to forge their specific strategy in implementing the different types of policy ("carrots" and "sticks"). Moreover, the Cantons (the next higher administrative level of the unemployment insurance organisation) do have a big freedom in questions of organisation and implementation as well. As a basic sample, we consider a fourth of the complete inflow into registered (full-time) unemployment in Switzerland in the years 2000 to 2005, up to age 60. The unemployment insurance database provides a vast amount of socio-demographic and benefit-rights-related information. To this base we merged a further UI database that covers the (daily) history of all active labor market policy events (including sanctions). Finally, to construct the outcome and the past employment history (as an important set of controls), we added social security data (monthly precision) which covers (non-)employment and earnings in the six years before and up to 42 months after unemployment entry.

Our methodological approach is most related to Feracci, Jolivet and van den Berg (2010). However, there are several key differences. First, our research question is different: We analyse the *mix* of different types of policies, whereas they focus on one policy (training, in different intensities). So, we are interested in the question how the different relative intensity of applying "carrot"- and "stick"-types of policies may influence the earnings outcome of the job seekers. Which combinations of "carrots" and "sticks" are related to the best earnings outcomes?

So, the second difference to the above-mentioned paper is that we focus on labor earnings rather than the probability of long-term unemployment (as they do). Third, we focus on measuring intended treatment rather than actual treatment (they discuss this issue in some sensitivity analysis). Fourth, our identification strategy is (potentially) stronger as we can rely on (arguably) exogenous variation in the organisation of PES and therefore PES-related policy. Our paper is also related to Rosholm and Svarer (2008) in sharing some similar ideas on the analysis of intended vs. actual treatment. The main differences are (among others) that we focus on earnings rather than unemployment and consider a different research question.

Our analysis complements existing research in several ways. First, we discuss how to measure ALMP policies in a setting where we do not know them (at entry into unemployment) and individuals can leave before being affected. Second, we document the effects of these policies both on participants and non-participants. Third, we document the role of such policies for earnings rather than employment. Fourth, we look at effects on the medium run outcome. Fifth, we consider combinations of policies (rather than only one), so we drop the usual (but often unrealistic) assumption of no direct interaction between different treatments within an unemployment spell.

Note that this is work in progress and we expect to obtain a set of results by this summer.

References

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