

How to minimize lock-in effects of programs for unemployed workers

Appropriate timing and targeting of activation programs for the unemployed can help improve their cost-effectiveness

Keywords: skills-training programs, program evaluation, lock-in effects

ELEVATOR PITCH

Activation programs, such as job search assistance, training, or work experience programs for unemployed workers, typically initially produce negative employment effects. These so-called “lock-in effects” occur because participants spend less time and effort on job search activities than non-participants. Lock-in effects need to be offset by sufficiently large post-participation employment or earnings for the programs to be cost-effective. They represent key indirect costs that are often more important than direct program costs. The right timing and targeting of these programs can improve their cost-effectiveness by reducing lock-in effects.

KEY FINDINGS

Pros

- ⊕ Activation programs can improve the employment prospects and earnings of participants.
- ⊕ Higher expected post-program effects make participation more desirable.
- ⊕ The human capital investment associated with a program increases with program duration.
- ⊕ The earlier in the unemployment spell the program takes place the earlier possible positive employment effects can occur.

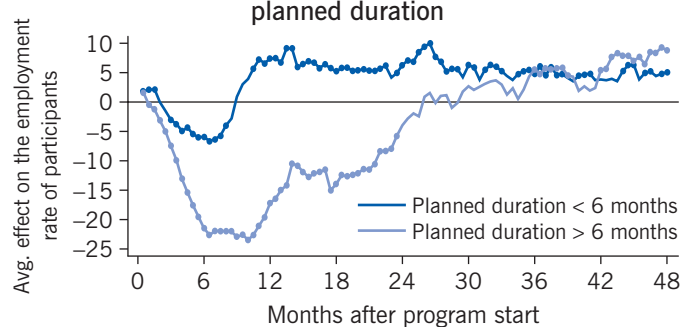
Cons

- ⊖ Activation programs divert time and effort away from job search.
- ⊖ As the expected post-program effects increase, it becomes more attractive to complete the program than to search for a job, which increases the magnitude of lock-in effects.
- ⊖ Incentives to engage in an intense job search decrease with the length of the program, especially during its early stages.
- ⊖ Starting programs early in the unemployment spell makes it more likely that participants will forego good employment chances.

AUTHOR'S MAIN MESSAGE

Lock-in effects have a significant impact on the cost-effectiveness of activation programs, and are currently underestimated by policymakers. Better timing and targeting of these policies can potentially considerably reduce lock-in effects. Case workers should seek good employment chances at the beginning of jobseekers’ unemployment before assigning them to programs. Jobseekers with poor employment prospects in the absence of programs should be prioritized. Sequences of short programs should be applied, where each unit is interrupted by a spell of active job searching, rather than uninterrupted long programs.

Employment effects of training programs vary by their planned duration



Note: Circles = statistically significant at the 10% level.

Source: Author's own calculations based on German administrative data using the propensity score radius matching estimator proposed in [1].