



Evaluating Active Labor Policy Programs: Economic Analysis and Review

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This paper examines the existing data on Active Labor Policy Programs (ALMP), i.e. publicly funded programs to assist the unemployed. Despite being popularly favored, in-depth research shows there is no conclusive substantiation of their effectiveness or positive cost-benefit analysis.

After an introductory **first chapter**, the **second chapter** details the three different types of active policy programs: job search assistance programs, employment subsidies and training programs.

The **third chapter** describes the active policy programs extant in Israel and compares them with those used in other states around the world.

The **fourth chapter** reviews the literature on ALMP, focusing on its effectiveness, external effects and cost-benefit analyses, and the **fifth chapter** draws conclusions and makes recommendations.

Summary:

Active Labor Policy Programs (ALMP) are programs aimed at assisting individuals looking for a job to find suitable employment or to increase their earning power. These programs currently enjoy great popularity both in Israeli discourse and abroad. At times, this positive attitude translates into a growing demand to increase spending on ALMP. This paper reviews the economic information on these programs that has accumulated around the world, paying special attention to those that were launched together with evaluation studies using randomized controlled trials. The use of this empirical method, considered the most advanced for evaluating ALMP effectiveness, makes it possible to reliably determine causation.

The deep dive into the data reveals that the extremely positive attitude towards ALMP is unwarranted and should be moderated, for three main reasons:

- First, the literature does not yield an unequivocally positive broad picture but quite a heterogeneous one, while the measure of effectiveness is very sensitive to many variables. Beyond that, reliable assessments of its effect are rather modest.
- Secondly, there is insufficient comprehensive data on the possible external effects of ALMP, despite the fact these may very well skew the evaluation of the programs' effectiveness. Most studies compare individuals who participated in ALMP with individuals who did not, without reviewing the programs' effect on the market as a whole or on specific market segments. Also, what we do know about external, non-labor related effects (i.e. health, education, family and crime) is inconclusive. Disregarding these effects can lead to mistaken conclusions about the programs' costs and benefits. Such effects may have decisive weight in the decision whether or not to adopt ALMP, especially when their implementation is planned on a large scale, expected to have significant external effects.
- Finally, the few studies that successfully conducted cost-benefit analysis showed mixed results. The economic research does not yield any clear answer to the question whether - and under which circumstances – the high costs of ALMP paid by the taxpayers are lower or higher than the benefits to society.

Recommendations:

Our findings lead to the conclusion that lacking specific corroborative research regarding the effectiveness of some type of ALMP, we should at the very least **be less enthusiastic about increasing public spending** on it. To be clear, this is not to claim that ALMP does not or cannot have any beneficial effect. Instead, we recommend that before adopting a new program, and before expanding the current one, **a thorough, controlled study should be conducted** to examine the program's effect on its beneficiaries and to assess the costs and benefits to the market. Israel is, in fact, currently running programs of this sort, conducted (or conducted in the past) under academic oversight with controlled trials. However, many others are maintained at high cost, despite never being studied and despite their effectiveness being in doubt. Considering their high cost, it is unclear how their benefit was not thoroughly evaluated. **We must continue to promote research-based policy measures and not be swept away by populist discourse that may cause more harm than good.**

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