



Active Labor Market Policy: Why Less Is More

In Germany, the field of active labor market policy has turned into an impenetrable jungle of various programs and measures. Depending on the definition used, there are now between 60 and 80 different policy instruments, which have cost German taxpayers 15 billion euros in 2006 alone.

Less would definitely be more in this case. But while there is already an abundance of proposals to cut away the thicket, there is still a lack of political courage to actually swing the axe. Caught up in red tape, even the agents who are engaged in counseling jobseekers have trouble keeping track of all the existing programs and regulations. As a result, it is often impossible to provide quality service and select the best solution for each individual participant. Those who suffer most from this unfortunate situation are the unemployed.

But the poor transparency of the available policy toolkit is merely the quantitative dimension of the problem. On the qualitative side, German government agencies have only recently allowed program evaluation, a systematic evaluation through scientific research. Consequently, a reliable cost-benefit assessment is only available for one-third of all expenditures for active labor market policy. The results are alarming: No more than four instruments have stood up to scientific analysis as effective and successful. Among these programs are hiring subsidies for employers, publicly-funded training schemes, placement vouchers and business startup grants. More than two-thirds of active labor market policy expenditures have yet to be critically assessed by independent research. It is not to be expected that this evaluation will yield a more favorable result.

According to the available findings, less than 30 percent of all funds for active labor market policy are invested effectively. In many cases, however, it remains completely unclear whether the vast sums of money poured

into these programs have any positive impact at all on the labor market. Even the measures that receive a favorable assessment are prone to be taken advantage of by those who would have been able to find employment without state assistance.

Policymakers must realize that discontinuing some of the existing programs – even those found to be successful – may yield aggregate welfare gains if it turns out that the public funds are better spent for other purposes.

So what needs to be done? The long overdue strategy of allowing an independent scientific evaluation of labor market programs must be continued and expanded. Without a comprehensive assessment of all existing instruments, the fog that surrounds the plethora of policy programs will not lift. While long-term studies are indispensable to arriving at reliable results, the preliminary assessment is sufficiently clear to warrant a concentration on the four instruments that have proven effective. A market-oriented solution should replace overambitious bureaucratism. If the agents who are involved in implementing the programs are given more room to experiment, detailed regulations to thin out the program jungle will be redundant. This would require, however, that the responsibility for a success-oriented allocation of funds is clearly defined. Under such a system, the most effective programs will automatically prevail. This would best serve the interests of the unemployed.

For a detailed account of this topic, see also IZA Discussion Paper No. 2605:

► <http://ftp.iza.org/dp2605.pdf>



Klaus F. Zimmermann



Institute for the Study of Labor



Editor: Prof. Dr. Klaus F. Zimmermann
Managing Editors: Holger Hinte, Mark Fallak
Address: IZA, P.O. Box 7240, 53072 Bonn, Germany
Phone: +49 (0) 228 - 38 94 222
Fax: +49 (0) 228 - 38 94 180
E-Mail: compact@iza.org
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