

Economic Evaluation

Lec 12: CBAs of Employment & Training Programs

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 - Tuesday, 14:30-16:00 @ α 4035B

Reading list

- **BGVW ch.12** (Second part)

Why a close look at E&T programs

- Traditional topic in **labor economics**
 - **History of program evaluation literature** (LaLonde, 1986)
 - **Applied microeconometrics**
- Many CBAs in the past, **controversial**
- \implies Development of a **specific framework**
 - Consistent with general case, but standardized
 - **Many problems**, still better than the alternatives

Stylized framework

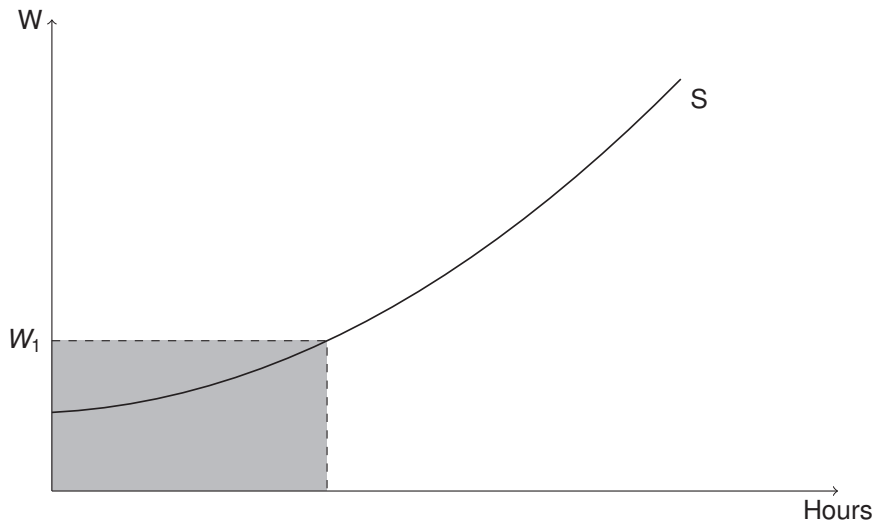
	Society	Participants	Non-part.
Output produced by the participant			
In-program output	+	0	+
Gross earnings	+	+	0
Fringe benefits	+	+	0
Participant work-related expenditures			
Tax payments	0	-	+
Child care, transport	-	-	0
Use of transfer programs by participation			
Welfare payments	0	-	+
Other transfer payments	0	-	+
Program operating costs	+	0	+
Use of support programs by participants			
Support services	-	0	-
Allowances	0	+	-
Program operating costs	-	0	-

More on the stylized framework

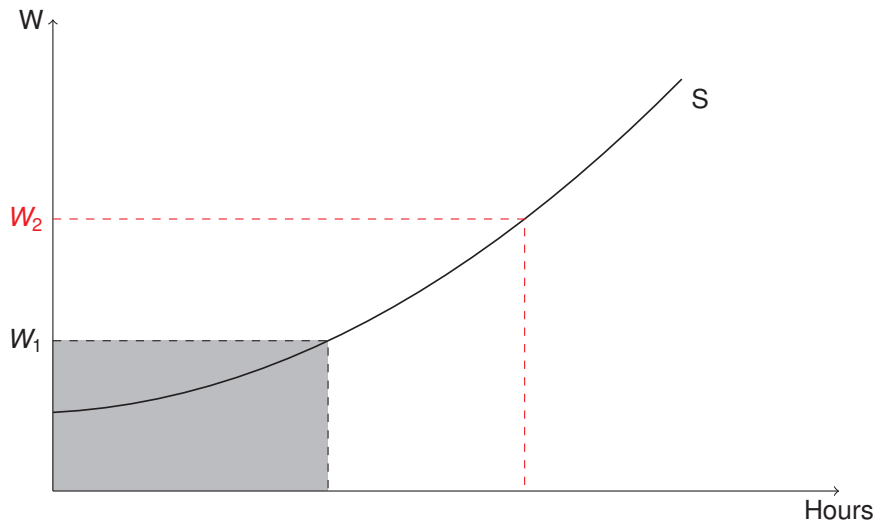
- **Incremental effects**
- **Consistent with general CBA:**
 - A dollar is a dollar: both participants' and non-participants' side considered
- **Program evaluation:** focuses on first category
- **Intangible benefits:** self-esteem, forgone leisure
 - Typically non taken into account
 - Some productivity measures approximate their effects

- 1 **Participant's benefits** measured as Δ in income
 - Appropriate measure would be Δ in welfare
 - **Q: is difference important?**
 - **Depends on mechanisms of E&T program**

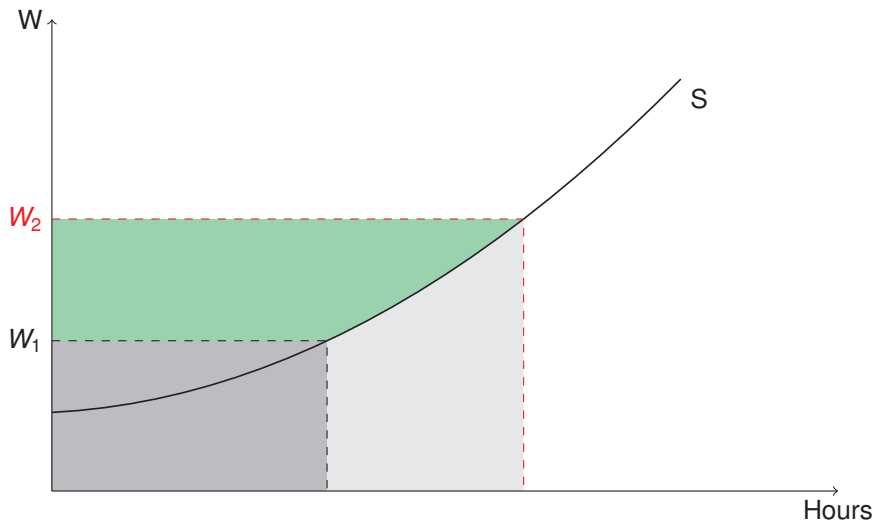
If program increases wage (training)



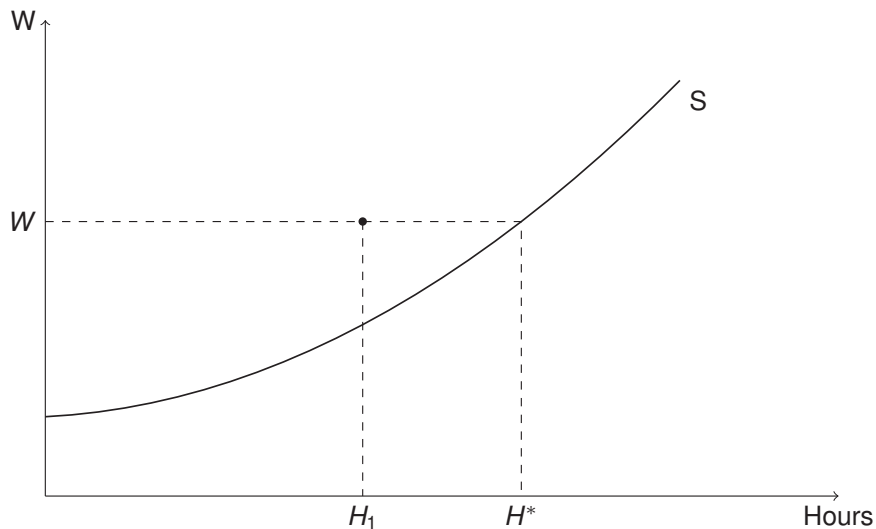
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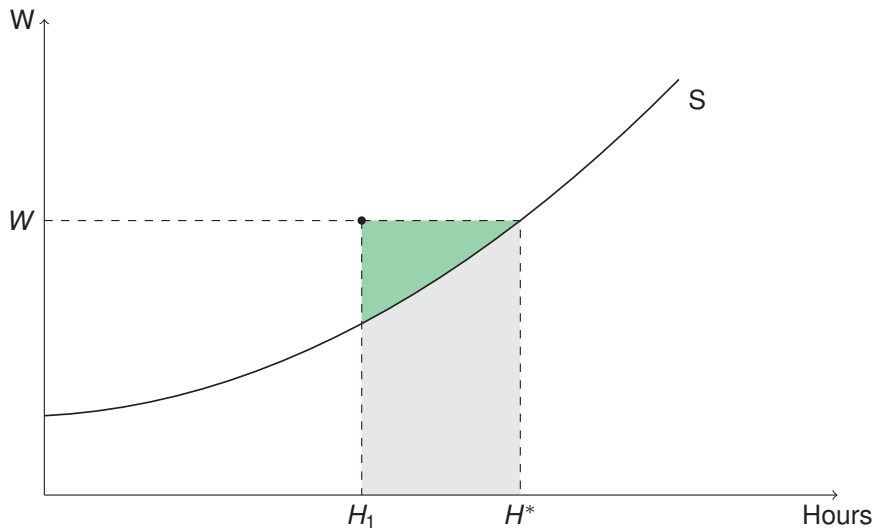
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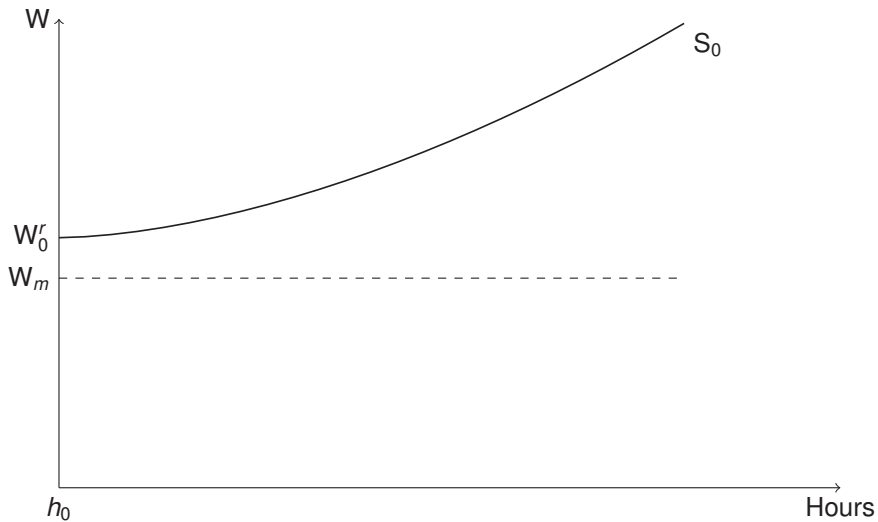
If program gets you to equilibrium (job search)



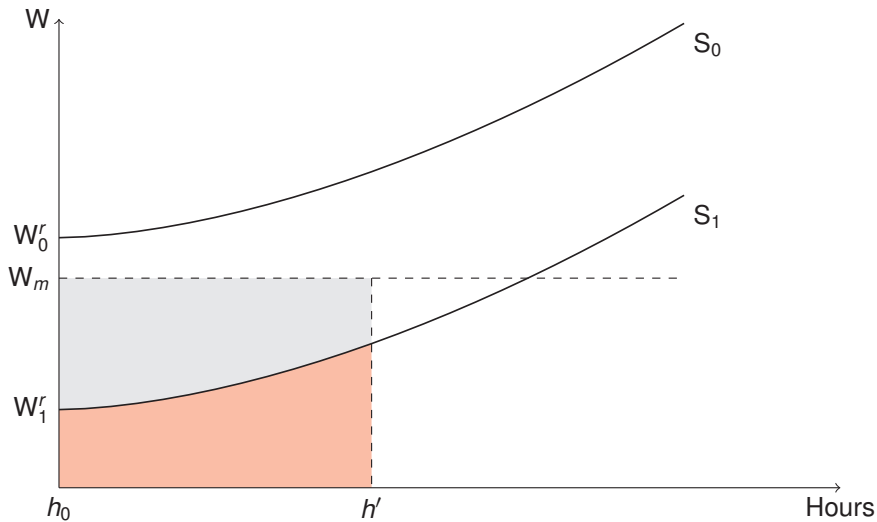
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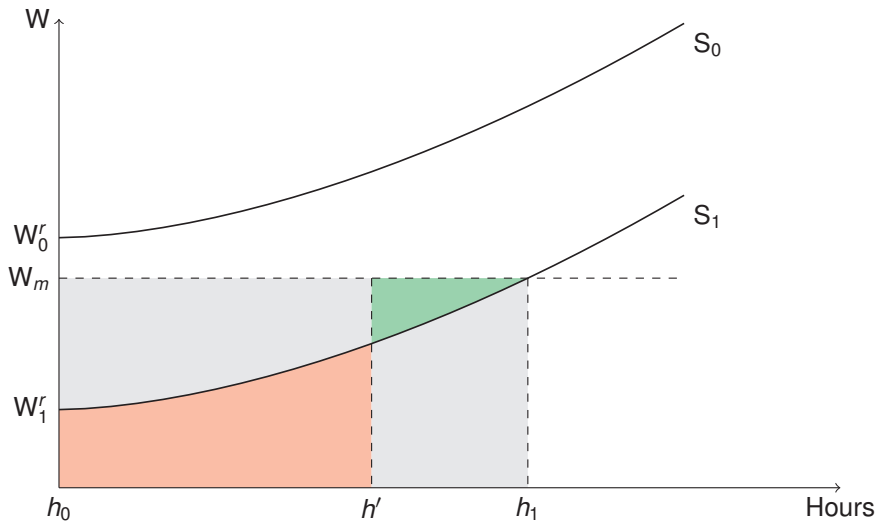
Workfare



Workfare



Workfare - pushing people to work



The Three Simple Rules¹

- 1 Full value of ↗ in earnings **due only to ↗ wages is benefit**
- 2 Full value of ↘ **transfer is cost**
- 3 Only **part of ↗ due to ↗ in hours is benefit**
 - Part of it is because of reduction in leisure

In practice

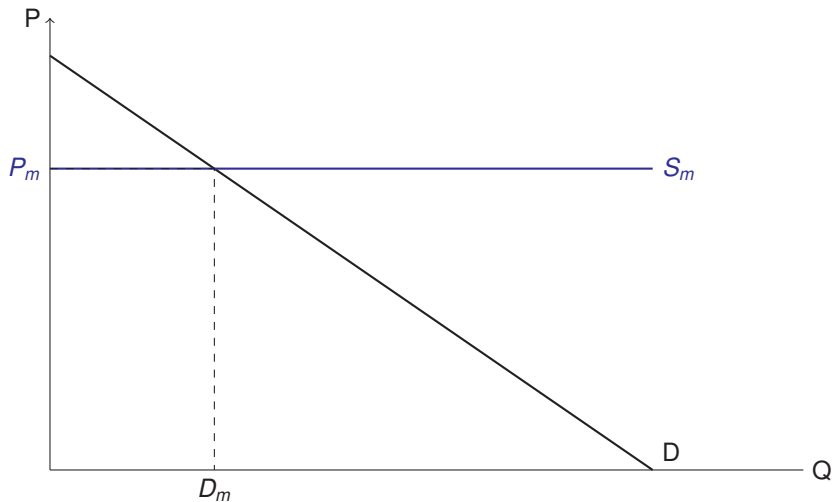
- First two rules straightforward to implement
- Third more complicated: requires est. of supply curves
 - Few studies apply it
 - Those who do, **huge impacts**

¹B. Sanderson - *Shadows for Silence in the Forests of Hell*

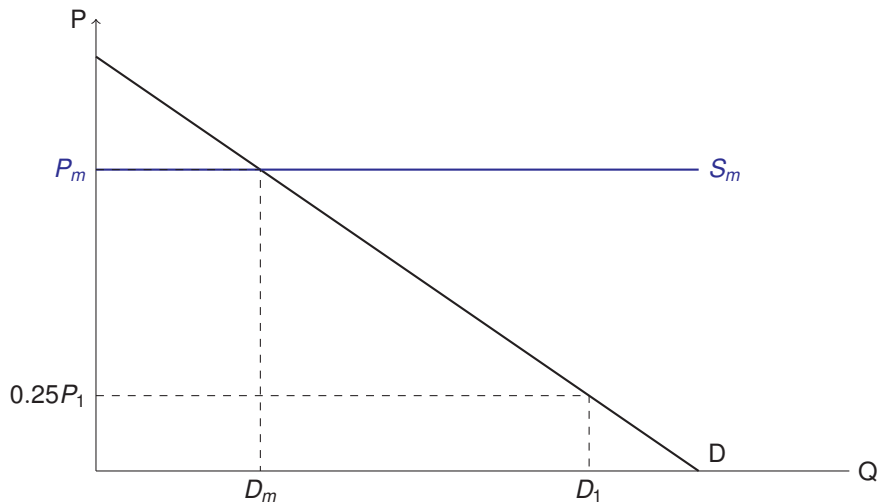
More issues for participants' well-being

- **Improvements in self-esteem**
- **Job-required expenditures**
 - **Secondary market:** if benefit = Δ in surplus, should be ignored (**double counting**)
 - Generally, effects on undistorted secondary markets incorporated in primary market effects
 - **However**, if benefit = Δ in earnings \implies **overestimate benefits** \implies **adjusting can reduce bias**
 - **Moral hazard**

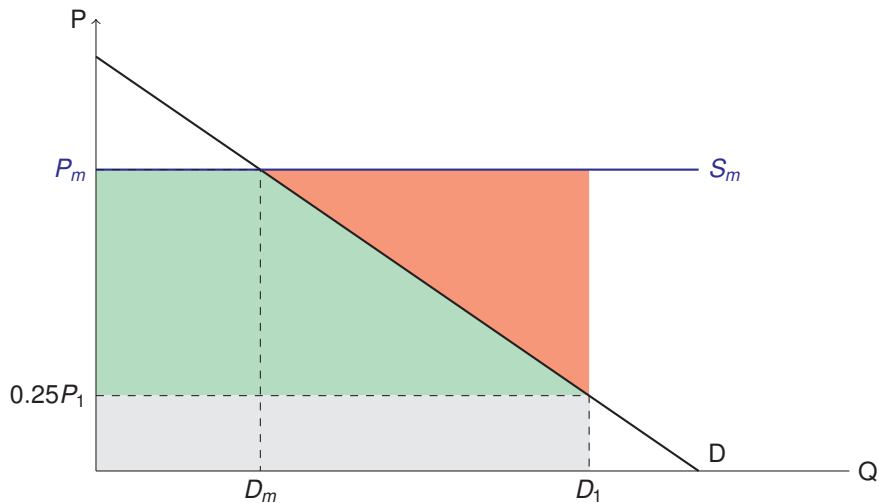
Moral hazard: deadweight loss



Moral hazard: deadweight loss



Moral hazard: deadweight loss



2 Non-participants' perspective

- **Δ in taxpayer's excess burden** (financing horizon)
 - Requires estimate or marginal excess burden
- **Value of output produced:**
Wage of similar employee \implies **overstatement**
 - E&T worker less productive
 - Decreasing marginal productivity of public sector
- **Displacement of regular workers**
 - Limited evidence on **general equilibrium effects** of policies
 - **Public sector:** directly displace job applicants
 - **Private sector:** if shift to private market, make other unemployed (but then AVG productivity of workforce ↗)

Practical issues - other parameters

Decay rate

- E.g. data from ongoing policy
 - Likely effect decreases with time (or increases? positive spiral)
 - Limited empirical evidence of **long-run** effects
 - Large risk of forecasting errors

How long time horizon?

- **Ideally from participants' age of entry to expected retirement**
- In practice, often **5 years**
 - **Empirical evidence:** US, males 5y, women can be longer
 - **Risk of understatement of benefits**
- Specific interventions might have appropriate time horizons