

This month's theme: Labor Market Policies**Expectations and reality collide in active labor market policies**

Headlines around the world warn of an impending crisis: how will countries create enough jobs for the next generation of workers? More than 100 million Africans will enter the labor force over the next decade, and youth unemployment rates are 30 percent or higher in some countries of the Middle East and North Africa. Over the past decade the World Bank and its partner countries have invested billions of dollars in active labor market policies. According to [David McKenzie](#), a Lead Economist at the World Bank, new studies reveal what has worked, what hasn't, and how governments can improve the effectiveness of their labor policies.¹

Labor market frictions not the reason self-employed entrepreneurs rarely hire paid workers

The majority of microenterprises in developing countries have no paid workers. Do labor market frictions prevent more of these firm-owners from becoming employers? In this experiment, a temporary wage subsidy provided randomly to microenterprises in Sri Lanka tests whether additional labor might benefit such firms. One would expect a short-term subsidy to have a lasting impact on firm employment in the presence of labor market frictions. Although firms responded to the subsidy by hiring additional workers, excess hiring dissipated completely within a year or so of the removal of the subsidies. The return to an additional worker is of similar magnitude to the subsidy during the subsidy period, so keeping unsubsidized workers is not profitable for firms. Complementary experiments to loosen credit constraints and provide entrepreneurship training also did not change the outcome of the temporary subsidies in terms of hiring. It seems hiring frictions do not constrain firm growth in this setting. Based on this analysis, microenterprises growth in Sri Lanka is not limited by large market frictions that would prevent self-employed entrepreneurs from becoming employers.²

The cost of a vocational training program for the unemployed exceeded the benefits

Vocational training programs became popular with governments and international donor agencies in the mid-2000s based on a concern that low skill levels may impede development in some countries. This randomized evaluation of a large-scale active labor market policy for a general unemployed population in Turkey asks: Do such policies help individuals who receive such training subsequently find jobs? The average impact of training on employment is barely positive—close to zero and statistically insignificant—and much lower than either program officials or applicants expected. The first year after training showed statistically significant effects on the quality of employment and that the positive impacts

¹ [Story](#) | [Presentation](#) | [Video](#) | [World Bank Policy Research Working Paper 8011](#) | [Blog](#)

² [Labor Drops: Experimental Evidence on the Return to Additional Labor in Microenterprises](#), Suresh de Mel, [David McKenzie](#), and Christopher Woodruff, World Bank Policy Research Paper 7924, December 2016 | [Summary](#) | [Blog](#).

are stronger when training is offered by private providers. However, after three years these effects also dissipated.³

Big data from an online job portal in India yields useful information about job skills and labor markets

Big data can yield a wealth of diverse, highly granular, multidimensional information to address longstanding economic questions and complement existing information sources. For example, analysis of information generated by Babajob, an online job portal in India, highlights five areas where online job-portal data can contribute to the development of labor market policies and analytical knowledge: (i) labor market monitoring and analysis; (ii) demand for workforce skills; (iii) job-search behavior and skills matching; (iv) predictive analysis of skills demand; and (v) experimental studies. This case study of online job data in a developing-country context in South Asia shows how big data analytics has opened new avenues for objectively monitoring workforce skills demand with a wide array of applications for business practices and labor policies.⁴

Policy interventions to reduce child labor can have unintended consequences

Household decisions about child labor are influenced by income, uncertainty, and relative returns to work and education. The complexity of the phenomenon implies that a large set of policy instruments can be used to address or affect child labor. This review of 31 impact evaluations provides a comprehensive look at pathways through which social protection (credit and microfinance, cash transfers, vouchers, food programs), and labor programs affect child labor. Despite the complexity of integrating findings across different child labor definitions, implementation contexts, and policy instruments, some patterns emerge. For example, programs that address child labor by reducing household vulnerability, such as cash transfer programs, produce the desired effect. Similarly, programs that help the household cope with exposure to risk, for example, health insurance, reduce household reliance on child labor. On the other hand, policies aimed at increasing adult household members' participation in the labor market or entrepreneurial activities, can generate demand for adolescent and child work. Of course, such programs are an important component of anti-poverty strategies, but they could be modified and integrated with additional interventions to ensure that they do not produce adverse effects on child labor.⁵

The 1998 child-labor ban in Brazil mostly affected boys with lower earning potential

The minimum employment age increased from 14 to 16 in Brazil in December 1998. This analysis looks at all individuals belonging to a cohort affected by the law, that is, those who turned age 14 after the law changed. Short-term results show that the ban reduced paid work activities by 4.1 p.p. or 27 percent. The proportion of boys doing paid work and studying fell, and the proportion of boys only studying increased. In the long-term, when the same cohort reached age 29, those at the bottom of the earnings distribution earned 6.2 percent less, especially among workers in the informal sector. Overall, the results suggest that

³ Hirshleifer, Sarojini, [David McKenzie](#), Rita Almeida, and Cristobal Ridaao-Cano. 2016. "[The Impact of Vocational Training for the Unemployed: Experimental Evidence from Turkey](#)." *Economic Journal* 126 (597): 2115-2146, 2016 ([replication files](#)).

⁴ [Toward Labor Market Policy 2.0: The Potential for Using Online Job-Portal Big Data to Inform Labor Market Policies in India](#), Shinsaku Nomura, Saori Imaizumi, Ana Carolina Areias, and [Futoshi Yamauchi](#), World Bank Policy Research Working Paper 7966, February 2017.

⁵ [Effects of Public Policy on Child Labor Current Knowledge, Gaps, and Implications on Program Design](#), Ana C. Dammert, Jacobus de Hoop, [Eric Mvukiyehe](#), and Furio C. Rosati, World Bank Policy Research Working Paper 7999, March 2017.

the returns to experience for the “control” cohort were similar to the returns to education for the “treated” cohort, except for those with lower earnings potential from the outset. The lesson for policy makers is that laws that reduce individual’s choice-set should be accompanied by compensating or complementary policies—for example, a conditional cash-transfer program or an apprenticeship program—for those likely to experience economic hardship.⁶

In the short term, India’s workfare program contributed to increased agricultural productivity

India’s Mahatma Gandhi National Rural Employment Guarantee Scheme is one of the largest programs of its kind globally. It offers unskilled employment in local productivity-enhancing infrastructure projects for up to 100 days per year to households expressing interest in such work by acquiring a job card. Wages are statutorily set and equal between men and women. The short-term effect on wages, labor supply, agricultural labor use, and productivity assessed using household data from 1999-2008 (spanning the years before and after the program) suggests a 10-point wage increase and higher labor supply to nonagricultural casual work and agricultural self-employment. The drop in hired labor demand was more than outweighed by more intensive use of family labor, machinery, fertilizer, and diversification to crops with higher risk-return profiles, especially by small farmers. Although aggregate productivity effects were modest, employment generated by the program significantly increased productivity, possibly by alleviating liquidity constraints and improving access to insurance suggesting that efforts to analyze longer-term effects will be desirable.⁷

Wage subsidies may be particularly effective during an economic crisis: Evidence from Mexico

Policymakers in 22 countries concerned about rising unemployment during the recent economic crisis used wage subsidies to promote employment retention. In Mexico the government granted firms in certain industries wage subsidies to retain workers during the recent economic crisis. This analysis focuses on groups of eligible and ineligible durable goods manufacturing industries that display statistically identical pre-program trends in employment. The program showed a positive but not statistically significant effect of wage subsidies on employment during the program’s eight-month duration, ranging from 5.7 to 13.2 percent. But the fact that employment increased 24 percent after the program suggests employment recovered faster in “eligible industries” than in ineligible industries. The findings suggest that the use of wage subsidies may be particularly effective during an economic crisis since payment for a relatively short time can have lasting effects on employment.⁸

⁶ [Short- and Long-Term Effects of a Child-Labor Ban](#), [Caio Piza](#) and André Portela Souza, World Bank Policy Research Working Paper 7796, August 2016.

⁷ [Short-Term Effects of India’s Employment Guarantee Program on Labor Markets and Agricultural Productivity](#), [Klaus Deininger](#), Hari K Nagarajan, and Sudhir K Singh, World Bank Policy Research Working Paper 7665, May 2016.

⁸ [Can Wage Subsidies Boost Employment in the Wake of an Economic Crisis? Evidence from Mexico](#), [Miriam Bruhn](#), World Bank Policy Research Working Paper 7607, March 2016.