1. THE BACKGROUND AND INTERNATIONAL EXPERIENCES OF PUBLIC WORKS PROGRAMMES

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In this chapter we provide an overview of international experiences of public works. We present the motivation, goals and theoretical background of public works as a public policy intervention, the various designs of concrete public works programmes, and the main results of evaluations aimed at measuring the efficiency and effectiveness of these programmes. The chapter is supplemented with boxes which summarise the experiences of a few concrete cases in various countries (see *Boxes K1.1, K1.2* and *K1.3*).

Public works programmes were introduced in developed and less developed countries with a variety of motivations and goals. These included counter-cyclical measures or social policy, infrastructural development and disaster management aims. The programmes operated in various forms and with various target groups and programme structures. The experiences concerning their implementation and levels of success are also different.

The labour market background of public works – the problem of the long-term unemployed and their activation

The linkage of welfare provisions to public works (*workfare*) can only be understood in the context of activation *interventions* directed at the unemployed and the fight against poverty. Activation measures try to facilitate the return to the labour market of the long-term unemployed and other disadvantaged groups.

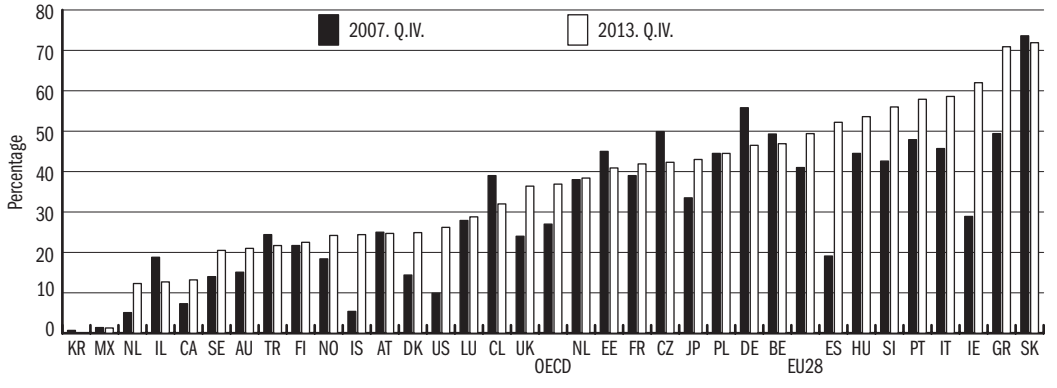
Earlier what was meant by activation – strictly speaking – was the size of expenditure for active measures, and in this respect, there were significant cross-country differences in public policy practices. The crisis has renewed attention to the importance of activation, as well as to the fact that different elements of the unemployment and social benefit systems were interrelated. Thus, the efficiency of active labour market measures depends on the generosity of insurance based and social benefits, eligibility conditions and the monitoring and enforcement of these conditions, as well as on the sanctions applied in the case of non-compliance (see more on this, for example, *Martin,* 2014, *Immervoll–Scarpetta,* 2012, and the OECD series: *Grubb–Tergeist,* 2006, *Duell–Grubb–Singh,* 2009, *Grubb–Singh–Tergeist,* 2009).

Since the outbreak of the economic and financial crisis, long-term unemployment has further increased (*Figure 1.1*) in most countries, including Hungary. This causes significant social tensions and puts a serious burden on the social and employment system, thus the activation of the unemployed involves significant challenges.

Following the rise in unemployment which accompanied the crisis, social spending has also risen in almost all countries. It is striking though that in

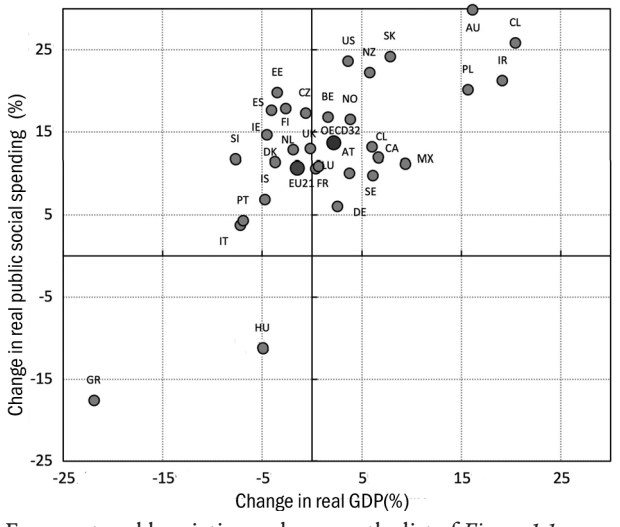
Hungary and Greece, both heavily affected by the crisis, social spending decreased, while in Spain and Ireland, which were also inflicted with high rates of long-term unemployment, this spending significantly increased (*Figure 1.2*).

Figure 1.1: The rate of long-term unemployed among the unemployed in OECD countries before and after the crisis, 2007, 2013 (percentage)



Abbreviations: AT: Austria; AU: Australia; BE: Belgium; CA: Canada; CL: Chile; CZ: Czech Republic; DE: Germany; DK: Denmark; EE: Estonia; ES: Spain; FI: Finland; FR: France; GR: Greece; HU: Hungary; IE: Ireland; IR: Israel; IS: Iceland; IT: Italy; JP: Japan; KR: Korea; LU: Luxembourg; MX: Mexico; NL: The Netherlands; NO: Norway; NZ: New-Zealand; PL: Poland; PT: Portugal; SE: Sweden; SI: Slovenia; SK: Slovak Republic; TR: Turkey; UK: The United Kingdom; US: The United States.
Source: *OECD* (2014a).

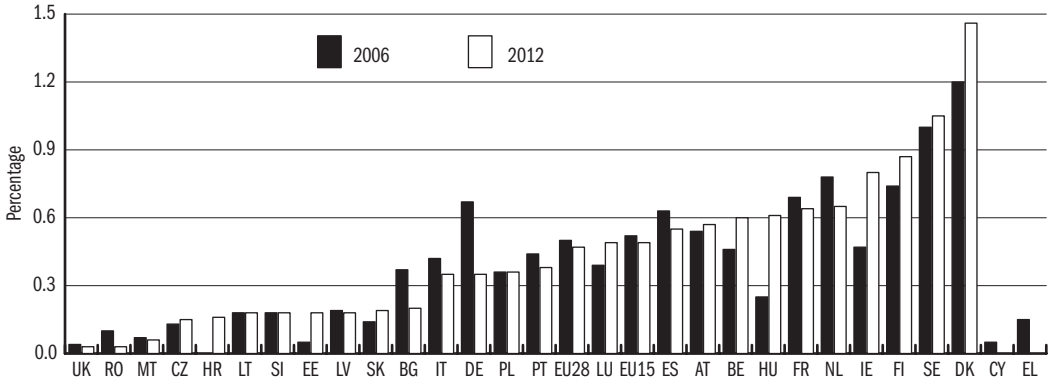
Figure 1.2: Changes in social spending and real GDP between 2007/2008 and 2012/2013 in OECD countries (percentage)



For country abbreviations, please see the list of *Figure 1.1.*
Source: *OECD* (2014b).

There are significant differences across countries in terms of their GDP-ratio expenditure allocated to active labour market measures, which are influenced by different public policy traditions, labour markets and macro-economic situations (*Figure 1.3*).[1]

Figure 1.3: Expenditures for active labour market interventions in GDP-ratio before and after the crisis in EU member states, 2006, 2012



Abbreviations: AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; DE: Germany; DK: Denmark; EE: Estonia; EL: Greece; ES: Spain; FI: Finland; FR: France; HR: Croatia; HU: Hungary; IE: Ireland; IT: Italy; LT: Lithuania; LU: Luxemburg; LV: Latvia; MT: Malta; NL: The Netherlands; PL: Poland; PT: Portugal; RO: Romania; SE: Sweden; SI: Slovenia; SK: Slovakia; UK: The United Kingdom

Source: Own calculations based on the Eurostat Labour Market Policy (LMP) database.

Increasing the rate of active labour market measures is unambiguously recommended by the OECD and the EU, since recent evidence supports the perception that these are much more efficient from a labour market perspective than passive measures. In this respect, Hungary is in the mid-range: it spends less as a share of GDP on active measures than the Scandinavian countries, but more than other East-Central European and especially, Mediterranean countries. One of the main reasons for the significant increase of these in Hungary after the crisis is attributable to the costs of its increasingly expanding public works programme.

Linking welfare benefits to work

The reform of the classical – primarily benefit based – welfare system, the practice of tying the provision of benefits to useful work for the public, and enforcement via financial sanctions, that is the development of the *workfare* (*work* and *welfare*) *system,* originates from the United States. The expression has been known since the 1970s but the use of these programmes has only spread in the developed and developing world since the 1990s.

1 *Hudomiet–Kézdi* (2011) and *Galasi–Nagy* (2012) write more extensively on the international experiences of public works.

In the United States, the Act that enabled member states to launch programmes linking benefits to work was introduced in 1981. After five years, these programmes were already in place in 29 states and, following the welfare reforms of the Clinton era [Personal Responsibility and Work Opportunity Act (PRWORA), 1996], their number increased sharply. At the same time, active labour market measures are used in the United States only to a very limited degree and the social welfare system is not as developed either as in European countries.

In the United Kingdom, it was also in the 1990s that connecting work with the welfare system became one of the main goals of the reforms (*welfare to work*). The New Deal programmes (*New Deal for Young People, New Deal* 25+, *New Deal for Lone Parents, New Deal for the Disabled, New Deal* 50+ *targeted those aged* 50+ etc.) and a tax reduction to support employment (*Working Families Tax Credit*) were introduced at this time. Several local welfare to work programmes were launched.

The introduction of welfare programmes linked to work and the emphasis on work elements also have traditions in the Scandinavian countries, although not necessarily in the form of extensive public works programmes (see *Box K1.2*). Welfare programmes linked to work are also prevalent in Australia (*mutual obligation*), Canada (*Canada Works* and other local programmes) and the Netherlands (*Work first*).

It is typical of workfare systems that beneficiaries have to comply with various conditions in order to be able to receive benefits. These conditions are such that an element of them is aimed at the improvement of the employability of the beneficiaries (training, rehabilitation, gaining work experience) and another element prescribes publicly useful activities (free or very low paid public works). The introduction of this system spurred heated social debates, as did the phenomenon of welfare dependency, which is often mentioned to justify the system.

There are two types of *workfare* programmes. While the first one is aimed at reducing benefit dependency and assisting a return to the primary labour market, the second one intends to improve skills and promote employment (training, qualifications) for recipients of social services and benefits, or among societal groups whose members have less opportunities to become employed in the primary labour market. In practice, the individual programmes usually incorporate both approaches: beyond changing income transfers they also seek to create incentives for employment (wages instead of withdrawn or reduced benefits).

Public works programmes in developed and developing countries

Specific public works programmes are known not only under the name of *workfare*, but as temporary community projects or work-intensive projects

– reflecting the idea that they are not only about infrastructure construction and maintenance projects organised by the government, but also about various useful activities beneficial to the public. These programmes are used in countries having different levels of development. In several less developed countries, they are virtually the only labour market interventions applied. In developed countries, however, their use is being retracted – due to the impact of negative evidence in analyses and evaluations –, for they are costly and other labour market interventions have proved to be more efficient, primarily due to substitution – and crowding-out effects.

The main macro-economic goals of public works programmes usually include: reduction of seasonal and/or cyclical unemployment, direct job creation, tackling regional and structural labour market problems, helping certain workforce-groups in disadvantaged situations, combating poverty, providing income transfers for the poor and a certain stimulus to the economy. The latter can be realised not only through rising consumption, but public works programmes can also encourage the creation of new jobs over the long term. Used as countercyclical measures during economic crises, jobs created by public works generate income and thus can increase aggregate demand.[2]

In developing countries the above goals are complemented or substituted by disaster management, reduction of seasonal unemployment and income losses following poor harvest years or slowdown in infrastructure construction etc. Most of these programmes tend to offer short-term (typically 3–12 months) employment for low wages typically in the construction, farming and regional development sectors as well as community (education, health, social) services (*Betcherman et al,* 2004). The organisers of public works can be municipalities, civil organisations or even private firms.

In countries with high and middle incomes – where there are no budget or administrative constraints to implement a rapid response programme – public works are primarily used for macro-economic reasons, most often as short-term shock therapies, or as temporary measures against high unemployment (the upper part of *Table 1.1*). The first and most well-known such public works programme implemented with a crisis-management purpose was the New Deal in the United States during the 1929–1933 crisis, but more current examples include the Argentinian, French, Chinese, South-Korean or even the Latvian, Slovenian, Portuguese programmes.

The targeted participants are usually special – less employable and/or long-term unemployed – social groups, and therefore, these programmes often involve re-employability (combined with training elements), or in some cases, welfare functions as well. Such an example is the reform of the Argentinian *Jefes* programme which transformed from a short-term intervention to a large-scale social safety net reaching the bottom 20 per cent of households (see *Box K1.2* on the Argentinian experiences). The South-African and Latvian public

2 **Among the EU countries, Latvia, Hungary, Slovenia, Portugal and the Czech Republic have restarted large-scale public works programmes in reaction to the crisis.**

works programmes were also similar, dedicated to reducing long-term poverty. Latvia, hit hard by the global financial crisis, introduced its programme as a reaction. Between 2008 and 2010, the county's GDP fell by 21 per cent, while from 2008 to 2009 the poverty rate increased from 10.1 per cent to 18.1 per cent, and the employment rate decreased by 11.2 per cent. In reaction to these problems Latvia spent an amount equivalent to 22 billion forints (or about 73 million EUR) for its public works program between 2009 and 2011, which comprised 0.25 per cent of the Latvian GDP and was 2.5 times the social and anti-poverty expenditure (*Azam et al*, 2013).

Table 1.1: Some examples of public works programmes in middle and low income countries

Country, programme	Start date	Main objective/root cause
Middle income countries		
Argentina (Trabajar)	1996	Tackling macroeconomic shocks
Argentina (Jefes de Hogar)	2002	Tackling macroeconomic shocks
Botswana	1978	Seasonal employment
Chile	1993	Tackling macroeconomic shocks
South-Africa	2004	Poverty reduction
Salvador (Programa de Antecion Temporal al. Ingreso)	2009	Poverty reduction
Latvia	2009	Tackling macroeconomic shocks
Poland	1992	Active labour market intervention
Mexico (Programa Empleo Temporal)	1995	Tackling macroeconomic shocks
Sri Lanka (Emergency Northern Recovery Project)	2009	Poverty reduction
Uruguay (Programa de Actividades Comunitarias)	2003	Tackling macroeconomic shocks
Low income countries		
Afghanistan	2002	Poverty reduction
Bangladesh (Rural Maintenance Program)	1983	Transition to re-employment
Ethiopia	2005	Poverty reduction
India (MGNREGS)	2006	Guaranteed employment
Yemen	1996	Tackling macroeconomic shocks
Kenya	2009	Poverty reduction
Madagascar (HIMO)	2000	Seasonal employment
Malawi (Central region, infrastructure programme)	1999	Transition to self-employment
Malawi (Social Action Fund)	2009	Seasonal employment
Ruanda (Vision 2020)	2008	Poverty reduction
Tanzania (Social Action Fund)	2000	Seasonal employment
Zambia	2002	Poverty reduction

Source: *Subbarao et al* (2013) Table 3.3 and 3.4.

In developing countries public works programmes can serve various short and long-term objectives (the bottom part of *Table 1.1*), however, these countries also face serious implementation challenges in a number of areas including administrative capacities, lack of information and budget sources. Due to such obstacles, the targeting of programmes is often combined: on the one hand, they are concentrated at the most disadvantaged settlements, which

is already some sort of selection, and, on the other hand, the public works wages are offered below the market wage (or if it exists, the minimum wage) usually accessed by the poor –, which has a self-selection effect, i.e. only those persons apply to the programmes who do not have other income opportunities (*self-targeting*). In these countries public works programmes serve the purposes of poverty reduction, guaranteed employment, perhaps transition to employment, in contrast to developed or middle income countries, where one-off tackling of macroeconomic shocks and active labour market character are more determinate.

Theoretical background – arguments for and against public works programmes

Linking welfare services to public works is based on the theoretical premise that the unemployment benefit, – allowances and other passive provisions decrease the willingness to work, which can be counter-balanced by the eligibility conditions and attached sanctions of active programmes – such as public works. So this is not about the eligibility criteria that determine benefit entitlement (such as that the claimant's income is below a certain level for means-tested benefits), but about further payment conditioned on behavioural requirements and the sanctioning of non-compliance (*OECD,* 2007, *Besley–Coate,* 1992, *Basu,* 2013).

Since access to information is asymmetric, this system helps the service to reach the target group. There is a screening effect that can operate through conditions which attract only those who are the most in need and keep the better-off away from the programme, which in turn, reduces the administrative costs for the government. The operation of this effect is confirmed by the study of *Dutta et al* (2012) who grouped the participants of the Indian workfare programme into income groups and demonstrated that the participation rate was virtually zero among the rich, but 35 per cent among those in the lowest income percentile.

Indirectly, a *deterrent effect* operates. The conditions cause such a degree of inconvenience (frequent visits to the public employment agency, compulsory public works, perhaps training, etc) which compels the leaving of the unemployment status as soon as possible, or the outright avoiding of benefits and the taking of individual steps against poverty. Nonetheless, *Besley–Coate* (1992) draws attention to the fact that the deterrence effect of public works can only function if the amount of work to be performed is much higher than the claimants usually work without the intervention. This, however, is very difficult to measure in countries with extensive grey and black economies.[3]

The following arguments are usually made *for* workfare type public works programmes:

3 Surveys (*Molnár et al,* 2014, *Koltai*, 2013c) in Hungary also confirm that those in the periphery of the labour market work a lot both in registered and unregistered employment, and public works is not a deterrent, but is perceived in some regions, quite contrarily, as an opportunity.

- *Political popularity* – programmes are visible and can be well communicated, the tax payers may feel that the beneficiaries provide something to the public in exchange for the benefits (*value for money*).
- Provision of *fresh work experience* to the participants. The lack of work experience is often one of the major obstacles of employment for the long-term unemployed.
- Well designed public works programmes can indeed create useful *infrastructure*, which can promote growth and reduce territorial inequalities, etc. (*OECD,* 2007, *Martin,* 2000).
- Wide-scale public works programmes *can have a wage-increasing impact* in the private sector. *Berg et al* (2012), for example, have shown that since most of the poor of India usually live and work in rural areas, one way in which the *Mahatma Gandhi National Rural Employment Guarantee Scheme* (*MGNREGS*) programme, involving some 54 million households, contributed to the reduction of poverty was an indirect effect, whereby market wages in the agricultural sector had increased in territories where many were involved in the programme. *Imbert–Papp* (2015) also found similar results in relation to this Indian programme.
- Strengthening social cohesion, pro-poor growth, reducing exclusion, combating unregistered employment (*OECD,* 2009, *Martin* 2014).

Against workfare type programmes the following arguments can be made:

- Programmes can stigmatise participants.
- The job opportunities offered in public works are usually simple tasks not requiring any qualifications, which do not help in gaining real work experience that is valued by employers and would increase subsequent chances of employment. In fact, by constraining the available time on job search, public works make employment chances even worse (*Kluve*, 2006).
- The *substitution effect* of these programmes, that is, if employees are laid off and then the given tasks are carried out by public workers, one cannot talk about real job creation.
- Too intensive use of the programmes can crowd out private employment, which can even contribute to the widening of the poverty gap and social inequalities, which may generate further public expense.
- There can be a *budget substitution effect* if public works programmes that are too long and involve expensive maintenance costs, draw away resources from more efficient public policy programmes; this effect has been shown by several evaluation studies in the United States with regards to directed job creation programmes. (*Roy–Wong*, 2000).
- A so-called *locking-in effect* takes place in public works when the engagement of participants in job search is limited or non-existent, whereby participation in public works makes people eligible again for unemployment benefits, which lead to a kind of public works-benefit spiral (on this see, for example,

Brown–Koettl, 2012, on the Hungarian situation *Csoba,* 2010, *Csoba–Nagy*, 2012, *Köllő,* 2009, *Köllő–Scharle,* 2011, *Molnár et al,* 2014). This effect can be increased or its development can be facilitated by the method of programme design: defining the number of working hours and other criteria.

- *Deadweight loss* can appear (as with all government interventions), that is, whether the given job would have also been created without the public works support.
- *Job replacement effect* can take place on the part of the individual, which means that there are even some employed in public works programmes who could otherwise find a job in the primary labour market.

Different forms of public works

As has been shown, public works are complex governmental interventions usually affecting multiple, even conflicting problem groups, which in turn can decrease their efficiency. The form of implementation and the structure of the programme depend on the declared objectives, size, characteristics and needs of beneficiary social groups. If these factors are not treated with due care, then the poverty reduction effect of public works deteriorates (*OECD*, 2009). The forms of public works programmes can be the following.

1) Fixed-term annual *employment guarantee programmes*, for example, providing guaranteed employment for a specific duration *outside the harvest season*. (An example of this are the Indian *National Rural Employment Guarantee Scheme,* later named the *Mahatma Gandhi National Rural Employment Guarantee Scheme*, and the *Employment Guarantee Scheme* operating in Maharashtra state.)

2) *Governmental employment programmes*, which mostly offer large-scale, long-term and continuous employment during economic, political or labour market tensions (the most well-known example is the *New Deal* programme implemented in the United States in the 1930s, or the *Jefes de Hogar* programme in Argentina, introduced in 2002). Typically, these larger-scale programmes are suspended or reformed following a change in the economic situation. These programmes in the United States have achieved some serious and long-lasting results in infrastructure development. Public works can mean not only the creation or maintenance of physical assets or infrastructure. Some experimental programmes employ public workers in social or health services – for instance, since 2010 in the United States public workers have been employed in home care for the elderly and people living with AIDS, or in day care for children, etc.

3) *Short-term employment* programmes following *natural disasters* or during temporary labour market tensions. This is the most typical form, for example, in Africa and South-Asia. These programmes have a dual aim: to eliminate damage and to provide temporary, one-off income transfers to the poor.

4) Explicitly *labour intensive employment programmes*: the aim of these, on the one hand, is to increase aggregated employment, and on the other, to

create valuable infrastructure. This form is often used by international donor organisations as well, in order to make sure that their organisational expenses also benefit the poor. An example of this could be the *AGETIP* programme in Senegal, the *Employment Intensive Infrastructure Programming* (*EIIP*) programme of the ILO, and a number of programmes financed by the World Bank.

The method of programme financing also varies. In Europe, the USA, Canada and South-Asia, these programmes are typically financed from national (and regional, local) government sources, while in Africa by multilateral organisations and donors. The latter usually provide only temporary employment and do not guarantee return to the primary labour market. The cost of programmes are influenced by capital intensity (especially, materials and assets in respect of high value infrastructure), but administrative, organisational and management costs are not negligible either. In public works that create physical infrastructure, the cost of the work force is usually around 30–60 per cent of total costs, while in programmes organised to provide services they can reach up to 80–90 per cent (*del Ninno et al,* 2009).

The *selection* of participants into public works programmes can occur by self-selection, by programmes focusing on disadvantaged local communities, by assessing the financial situation of applicants (means testing), or any combination of these. Since most of the time, the programmes provide temporary employment, participants are mostly registered as programme beneficiaries and not as public employees, hence, the employment regulations and respective wage levels do not apply for them either. In most of the public works programmes, payments are not accounted as wages but as compensations, which thus can be even lower than the official minimum wage, in fact, social security and health contributions are usually not deducted either. Some programmes however, – such as the Argentinian *Tarabajar* or the South-African public works programme – provide health and occupational accident-insurance to their participants, sick leave and maternity leave for those working more than four days per week, and so forth.

The regulation, organisation, practical implementation, administration and management of programmes are a complex task. Nevertheless, in the literature it is generally accepted that the *success and effectiveness of these programmes depend exactly on factors such as the timing, adequately determined wage levels* – motivation of participants –, and the quality of performed work and/or completed infrastructure (*Subbarao et al,* 2013, *Ravallion et al,* 2013).

Since public works programmes are often decentralised, the responsibility of the local municipalities must be stressed in the selection of projects and participants. In the literature a separate concept (*program leakage*) refers to public works-related fraud and corruption phenomena, which are unfortunately frequent, as opportunities arise at several points – but to date few aca-

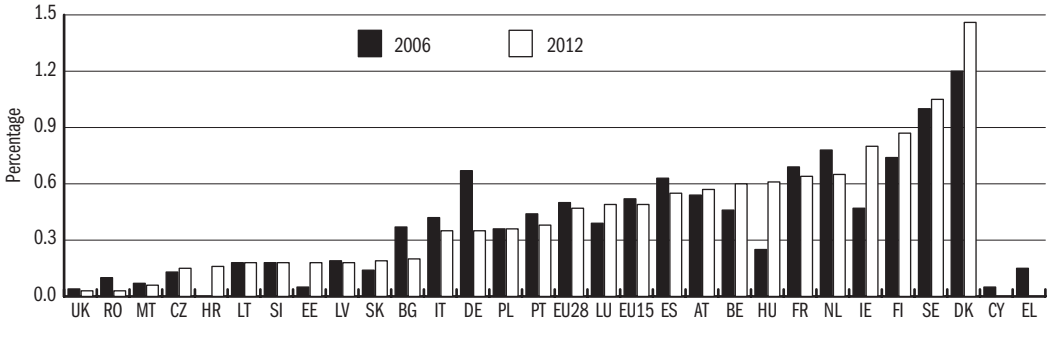
demic studies have examined these aspects in detail. Fraud and corruption can occur at the point of selection of participants/beneficiaries. Potential participants may provide false data regarding their household and personal incomes in order to get into the programmes. Selection might occur not only following predetermined eligibility criteria but also through acquaintances, bribed officials, on political grounds, etc and, therefore, the programme is less able to meet its original objectives in supporting the poorest. Furthermore, corruption cases can happen during the implementation phase as well: there are more public workers registered than actually employed, the performed job is over/under-estimated, or the actual payments differ from wages reported and reimbursed in the programme (*Subbarao et al,* 2013).

Expenditures and number of participants in European public works programmes

As we have seen in *Figure 1.3*, expenditures as a GDP percentage on active labour market interventions are very different in European countries. The Scandinavian countries are the forerunners, the Mediterranean ones are the laggards, and Hungary is situated somewhere in the middle. Within active labour market measures, it is *direct job creation* spending that indicates the resources allocated for public works programmes. The GDP ratio of these figures varies greatly in different countries as well (*Figure 1.4*). In 2014, Hungary (0.47 percentage points of GDP), Ireland (0.28 percentage points of GDP), Bulgaria (0.15 percentage points of GDP) and France (0.14 percentage points of GDP) spent the most on direct job creating public works programmes. Within the expenditure of active labour market measures the spending of Slovenia, Ireland, Lithuania and Latvia are relatively high (around 20–30 per cent, which translates to 0.07–0.14 percentage points of GDP). Together with Greece, these are the countries that operate more significant public works programmes.[4]

4 *Koltai* (2013c) offers more insight into the details, requirements and results of European public works programmes, which include several lessons for the Hungarian programme as well.

Figure 1.4: Expenditure on direct job creation in GDP percentage, 2006 and 2012

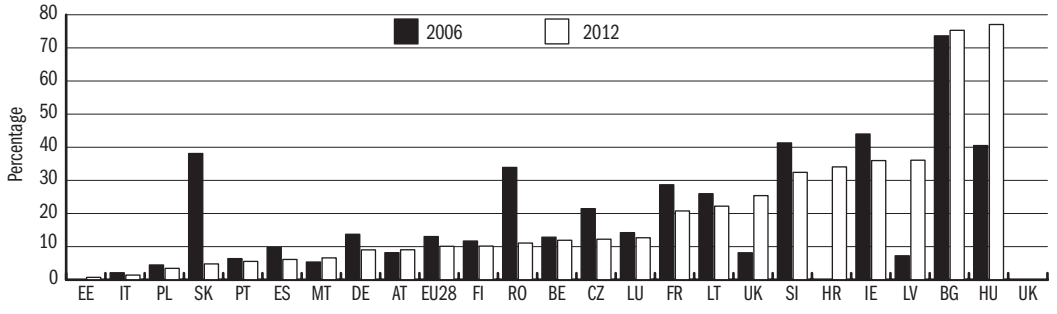


For country abbreviations, please see the list below *Figure 1.3*.
Source: Own calculation based on Eurostat Labour Market (LMP) database.

Figure 1.5 shows the rate of expenditure on direct job creation within active measures before and after the crisis. Strikingly, the expenditure was increased in only three countries in reaction to the crisis: in Bulgaria, Latvia and Hungary. Bulgaria and Latvia however belong to the group of countries that spend relatively little proportion of their GDPs on active measures (see *Figure 1.3*) but within active measures, Bulgaria devoted 75 per cent of its spending to public works in 2012.[5] The Hungarian public works programme achieved roughly a similar ratio within active measures by 2012.

5 Countries spending the most on ALMP measures in terms of their GDP ratios: Denmark, Sweden and the Netherlands do not even feature in *Figure 1.3,* which just shows how untypical it is for them to tackle unemployment by public works.

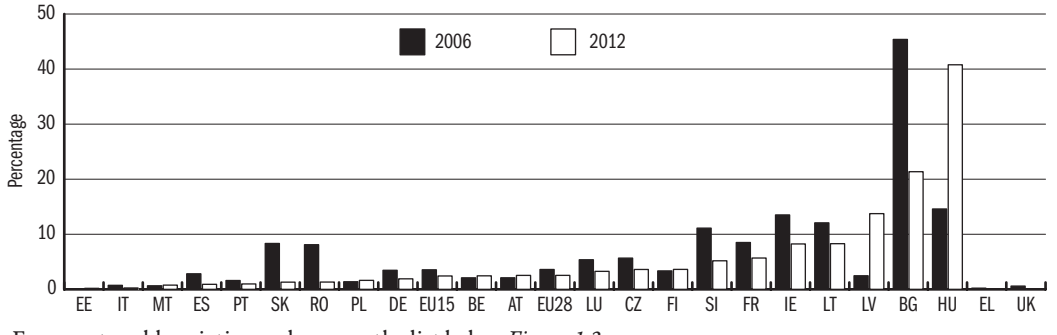
Figure 1.5: Expenditure on direct job creation within active labour market measures (percentage)



For country abbreviations, please see the list below *Figure 1.3.*
Source: Own calculation based on Eurostat Labour Market (LMP) database.

Looking at the ratio of expenditure on public works and direct job creation within total (active and passive) labour market expenditures (*Figure 1.6*), one can notice that even in Bulgaria – just as in any other countries – the rate of expenditure on public works programmes has fallen back to 20–21 per cent since the crisis.

Figure 1.6: Expenditure on direct job creation within total labour market expenditure (percentage)



For country abbreviations, please see the list below *Figure 1.3.*
Source: Own calculation based on Eurostat Labour Market (LMP) database.

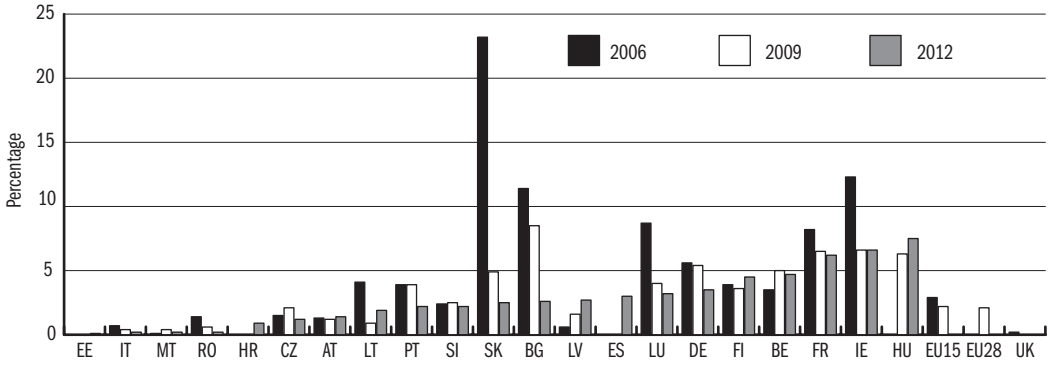
Thus, while the majority of European countries have reacted to the crisis with other types of labour market interventions, the increase of public works was striking in Latvia and especially Hungary (from 14 per cent in 2006 up to

40 per cent). The scale of the Hungarian public works programme shows that the degree of its application to manage the crisis and long-term unemployment are unrivalled in the whole of Europe.

Figure 1.7 provides a comparison on the number of participants in public works programmes before and after the crisis. These programmes were quite significant in Bulgaria, France, Luxemburg, Ireland and Slovakia, with 7–20 per cent of those seeking employment being public workers in 2006.

In most countries, however, the number of those involved in public works decreased during the crisis, even in the case of French, Luxembourgish and Irish programmes, which previously were characterised by high participation rates. In Slovakia the decrease was drastic, but even in Bulgaria, where the rate temporarily increased to 15 per cent between 2006 and 2008, yet by 2012, the proportion of public workers had fallen considerably, implying that after the crisis most of the unemployed were treated with other active and passive measures in that country too.[6] In 2012, the Hungarian public works programmes was the most extensive in respect of the rate of job seekers involved in public works, only the Irish and French public works programmes approximate this participation rate.

Figure 1.7: The rate of participants involved in direct job creation (public workers/100 job seekers) 2006, 2009, 2012



For country abbreviations, please see the list below *Figure 1.3*.
Source: Own calculation based on Eurostat Labour Market (LMP) database.

Evaluations of the efficiency and effectiveness of public works programmes

According to international evidence on active labour market measures the more a programme is tailor-made and targeted the better chances it has to achieve real results. Impact assessments and analyses of some programmes relying on micro-econometric tools found different impacts, and often not significant or negative effects for various labour market interventions (for de-

6 In this database there are no data with regards to Hungary in 2006. The Hungarian data on public works is presented in detail in Section 2.3.

tails on this and the applied methodology see, for example, *Kézdi,* 2011, *Hudomiet–Kézdi,* 2011, *Galasi–Nagy,* 2012, *Card et al,* 2010).

Evaluations addressing the *efficiency* of public works programmes have shown *negative* results on long term labour market effects (*Betcherman et al,* 2004, *Martin–Grubb,* 2001, *Card et al,* 2010, *Kluve,* 2010, *Rodriguez-Planas–Jacob*, 2010, *Hohmeyer–Wolff,* 2010, *Brown–Koettle,* 2012).

Analysing the active measures of the Swedish labour market reforms realised in the 1990s, *Calmfors et al* (2002) conducted a meta-analysis of a number of evaluations and found that the more job creations programmes imitated the situation of real employment, the more effective they were. Otherwise, the study depicts a rather negative picture in respect of all active employment policy measures. According to the authors, the scope and number of active measures that Sweden used in the 1990s was by no means efficient. Although these programmes have contributed to the reduction of Swedish unemployment they did not increase the employment rate. In their opinion, smaller but more concentrated programmes can be more efficient especially if they pertain to the long-term unemployed and less to the young. According to the Swedish experience, it is not a good idea to link active measures to regaining eligibility for unemployment benefits.

Card et al (2010) have carried out a meta-analysis on 97 evaluations involving 199 programmes (among them East-European and developing country ones) and concluded that it was not the size and time of introduction of active labour market programmes, nor the macro-economic situation that mattered, but *efficiency depended primarily on the type of programmes*. While individual counselling, job search assistance and job placements and wage subsidies (roughly in this order) could be efficient, *public works programmes were unsuccessful with respect to subsequent employment and earnings*. The success rate of training is mixed, small-scale, well targeted training may work well if the general growth prospects of the economy are also good. However, training in general is usually quite expensive and especially the programmes targeted at the young have a minimal positive effect both on subsequent employment and earnings. These findings are also supported by *Carling–Richardson* (2004) and *Sianesi* (2008), who have concluded that the closer public works are to the conditions of normal employment, the better their effect is on participants.

Another evaluation from the East-Central European region is the study of *Rodriguez-Planas–Benus* (2010) that examined the Romanian programmes running between 1999 and 2002 by the method of paired comparisons and using employment history variables. The results of individual program-types varied from each other, programmes assisting job search and small enterprises had a positive effect on the future employment chances of participants, while public works programmes were significantly ineffective. The Slovak public works programmes were analysed by *Ours* (2000) who, in contrast to other

evaluations, found the Slovak public works programmes to be effective – they significantly decreased the time participants spent on job search and increased the length of subsequent employment episodes. The high number of private entrepreneurs participating in the Slovak public works could have contributed to this extraordinary result (*Hudomiet–Kézdi,* 2011). At the same time, Ours' study found that the Slovak wage subsidy programmes and most of the training elements ineffective. Regarding the Latvian programme, *Azam et al* (2013) concluded that the targeting of the programmes was good. In a propensity score model the programme appeared successful in the short-term, the income of participants exceeded the income of non-participating households by 37 per cent, and forgone income due to participation in the programme was also quite low in comparison with other countries.[7] At the same time, the Latvian public works programme was very small compared to the weight of problems caused by the crisis (Latvia spent 0.25–0.5 per cent of its GDP on this in 2010–2011) which have limited the effect of the programme.

Public works programmes are popular in developing countries and have become standard measures to address poverty often used by governments and the World Bank[8] (see *Table 1.1*). Despite the extensive use, however, there have not been too many analyses prepared, and even the results of those are not positive. The targeting of programmes is in general good, the low income programmes reach the poor,[9] but often people with better incomes also enter the programmes. *Devereux–Solomon* (2006), and *McCord–Slater* (2009), evaluating public works in developing countries, concluded that in comparison with other development policy interventions, the results were quite meagre both in terms of reducing poverty as well as stimulating growth.

Analysing the world's biggest volunteer public works programme, the Indian NREGS programmes by counterfactual, regression discontinuity design, *Zimmermann* (2012) has shown that the programme mattered more in terms of combatting poverty, but it had no effects on the Indian rural labour market. Concerning NREGS, *Azam* (2012) has found that the programme had significant effects on the activation and wages of females, but the study could not demonstrate similarly significant results for males. Examining the same programmes, *Dutta et al* (2012) have also shown that there was a higher need for the programme in the poorer parts of India, but actual participation rates did not reflect this need. Thus, the NREGS did not guarantee employment to all the poor: on the one hand, it generated queues and rationing, on the other hand, there were territorial inequalities in its targeting and many families above the threshold could get access.

There are few empirical studies on the operation of local labour markets, and thus, it is not known to what extent public works programmes crowd out employment in the private sector. The general view of evaluators is that as long as public works programmes are well targeted, they can be effective

7 On one hand, because Latvia in this period was characterised by a very high level of unemployment, which is to say, that it was very difficult to find other, even temporary work too. On the other hand, the number of benefit recipients and the coverage of assistance was rather low, and hence, participants in public works did not forego serious alternative sources of income.

8 Since 2008, the World Bank has supported the financing of 24 public works programmes in several developing countries.

9 It is important for targeting to adequately define the wages in the programme. *Zimmermann* (2012) notes that while wages in the public works programmes of Burkina Faso, Bangladesh, Pakistan, Chilli, Senegal and Sri Lanka remained under market wage level, in the programmes of Botswana, India, Kenya, Tanzania and Philippines, it occurred that higher wages were provided resulting in a crowding out effect on employment in the private sector.

measures of poverty reduction and social safety net provision by offering temporary employment (*Subbarao et al,* 2013, *Betcherman et al,* 2004, *Ravallion et al,* 2013, *del Ninno et al,* 2009, *Spevacek,* 2009, *Martin,* 2000, 2014, *Dar–Tzannatos*, 1999, *Brown–Koettle,* 2012, *Zimmermann* 2014). But, according to evaluation results, even this effect is valid only in the short-term, in particular, when public works wages remain below the minimum wage applying to the unskilled workforce (*Ravallion,* 1999, *del Ninno et al,* 2009, *Ravallion et al,* 2013). However, *as active labour market measures promoting re-integration and opportunities in the labour market*, public works programmes do not function well, moreover they are quite costly.

Evaluation evidence shows that it is more in the case of special situations when public works programmes can be justified and successful. On the one hand, during crises even in middle income countries there might be a need for income transfers providing appropriate stimuli for the poor (*Brown–Koettl,* 2012). On the other hand, the programmes can be successful if they are aimed at regions or workforce groups in very disadvantaged situations, or if they also serve other goals besides increasing employment. Such temporary positive effect was shown, for example, by *Vodopivec* (1998) with regards to the Slovene programme, and the above statement is also valid for the Macedonian and Slovak programmes as well (see *Box K1.1*). The analyses however also highlight the fact that public work programmes only help the situation of participants temporarily, and do not contribute to long-term employment opportunities. The evaluations produced on more developed and transition countries have rather revealed an overall negative effect on the employment chances and future earnings of participants (*Card et al,* 2010, *Brown–Koettle*. 2012, *Betchermann et al,* 2004, *Kluve et al,* 1999, *Heckman et al,* 1999, *Walsh et al,* 2001, *Rodriguez-Planas–Jacob*, 2010, *O'Leary,* 1998).

Conclusions

Public works programmes are contested because they are highly expensive, and their benefits and success is uncertain, especially in the long run. Their use is often justified by economic and financial crises, when unemployment rises temporarily and aggregated demand decreases. It is for the mitigation of these causes that public works are introduced, but then they usually support re-employability and provide welfare functions, strengthening the social safety net. The latter objective is typical in developing countries, where – largely due to international donor organisations – the use of public works is increasingly prevalent.

Behind public works programmes, there is the workfare concept, according to which the provision of benefits and income transfers should be linked to publically beneficial work. These programmes have spread in developed countries especially since the economic and financial crises.

There are a number of arguments for and against public works programmes in the literature. Decisive elements in implementation and success are the following: good targeting (to what extent the programme reaches the poor), setting wage levels for adequate incentives, a clear and transparent regulation and institutional environment that help counter fraud and corruption opportunities.

Nevertheless, evaluation results are rather unfavourable. Public works programmes seem to be fairly unsuccessful in terms of subsequent employment and earnings, yet – if they are well targeted – they can fulfil the role of social safety net. It is worth noting that while the programme evaluations produced with micro-econometric methods provide very important information about the efficiency of these programmes, they usually examine output results (subsequent employment, wages) only. They do not include interactions among various labour market-oriented public policies (training, benefits, sanctions, other active measures, etc) important for activation. Very few evaluations have been done, for instance, on the effect of these programmes on inequalities or on the trade-off between efficiency and equity, which can be particularly interesting when stricter benefit sanctions increase employment and poverty at the same time.

Furthermore, it is important to point out that evaluations usually reveal only the short-term effects of the programmes, partly for lack of data, and partly for empirical estimation strategy reasons. In other words, the real, long-term (several years) impacts of public works programmes on poverty and unemployment are unknown. For the chronically poor, temporary employment is not a real and long-term solution and if their continuous employment is not possible then public works are not a feasible measure to manage the problem. If poverty is extremely widespread in a country, then large-scale public works programmes can offer some sort of a temporary social protection, but at the same time, they can also crowd out other, alternative and more cost-efficient social policy measures.

A brief analysis of the European data reveals that the scale and magnitude of the Hungarian public works programme, by allocating all available resources for labour market measures only to this type of intervention, is a public policy response to the problems of the crisis and long-term unemployment unrivalled in Europe. This is one of the reasons why the analysis of the programme's efficiency as well as its short and long-term impacts is a very important task.