

Policy brief

Employment should be promoted through targeted measures

Rapid re-employment of unemployed people is a key objective of labour market policies. Successful labour market policies require careful targeting of employment services and policy evaluation through randomized controlled trials. Problems related to the work ability of unemployed people must be identified at an early stage in order for targeting to be effective.

1

CHALLENGES TO WORK ABILITY OF UNEMPLOYED PEOPLE MUST BE IDENTIFIED EARLY

Promoting the health and work ability of unemployed people requires early identification of health and work ability problems. Services must be adequately resourced, timely and well targeted. Promotion of health and work ability of unemployed people should also be supported by clarifying benefit and service systems.

2

IN ADDITION TO CARROTS AND STICKS, EMPLOYMENT SERVICES NEED PRECISE TARGETING

Financial incentives and sanctions can increase participation in labour market programmes, but they do not automatically speed up re-employment. What is essential is to direct unemployed people to measures from which they actually benefit. Therefore, alongside incentives and sanctions, additional investments are needed to improve the quality of service targeting.

3

RANDOMIZED CONTROLLED TRIALS SHOULD BE USED IN THE EVALUATION OF LABOUR MARKET POLICY

Evaluation of labour market policies should make use of randomized controlled trials designed jointly by researchers and policy makers. In such trials, participants are randomly assigned either to a treatment group or a control group. Although randomized trials are more costly than ex post analyses, they allow reliable evaluation of policy packages and the side effects of individual measures. Such trials have been used, for example, in other Nordic countries.



1

CHALLENGES TO WORK ABILITY OF THE UNEMPLOYED MUST BE IDENTIFIED AT AN EARLY STAGE

According to estimates, nearly half of unemployed jobseekers—particularly those who are long-term unemployed—have health problems that limit their ability to seek and accept employment. Among these, mental health problems in particular are associated with weaker employment outcomes (Salonen et al.; Junna et al. 2022).

Health problems are often not identified early enough, and the actual causes of work disability easily remain unrecognized within employment services (Oivo & Kerätär 2018). However, early identification of these problems is a prerequisite for successful rehabilitation and later employment. For example, health examinations for unemployed people could, if functioning well, serve as an effective means of assessing health and work ability as well as the need for services that support work ability. Several shortcomings have been identified in the implementation of health examinations, including a lack of resources and personnel, problems in information flow, jobseekers' limited awareness of available services, and inadequacies in medical statements concerning work ability (Karjalainen & Liukko 2020).

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In addition to early identification, existing services should be sufficiently resourced, timely, and responsive to the needs of jobseekers. The diverse life situations and needs of jobseekers require tailored services. In particular, those in a weak labour market position benefit from multidisciplinary and active support.

Directing individuals who are unfit for work due to work disability to appropriate services would also free up resources within employment services. Access to the right services also requires clarification of the benefits system.

Many unemployed people with work disability are left without appropriate services because the complex and cause-based benefits system ties access to services to the benefit received. This prevents so-called recipients of the “wrong” benefit from accessing the services they need. For example, the limited duration of sickness allowance and the difficulty of qualifying for disability pension may leave unemployment benefits as the only option, even though the individual is not actually fit for work (Perhoniemi et al. 2018).

As a result, jobseekers may fall between different services and benefits. In addition, transitions from one benefit to another may cause interruptions in benefit payments, weakening the financial security of jobseekers in this situation.

2

BEYOND CARROTS AND STICKS: EMPLOYMENT SERVICES MUST BE BETTER TARGETED

Financial incentives can increase participation in labour market programmes, but they do not automatically speed up re-employment. What matters is channeling unemployed people to programmes and services from which they actually benefit. Therefore, alongside incentives, greater investment is also needed in the quality of service targeting.

Rapid re-employment of unemployed people is a key objective of labour market policies. Substantial public resources are spent, for example, on training, job search coaching, and meetings with case-workers. Previous research shows that, on average, employment services have a rather modest impact on employment outcomes, although some services can have substantial effects for specific groups of unemployed people. In particular, activation based on mandatory meetings and sanctions has been found to speed up re-employment. By contrast, there is limited research evidence on the effects of voluntary, reward-based activation that aims to increase service participation without relying on compulsion.


A recent study examines a re-employment programme introduced in Finland in 2005 (Kyyrä & Verho 2025). Dismissed workers who participated in the programme received an increased unemployment benefit for four weeks and during individually targeted training programmes. At the same time, the first meeting at which a job search plan was drawn up was brought forward—often already during the notice period. Participation in the programme was voluntary but financially attractive.

An analysis based on extensive register data shows that the programme clearly increased early meetings with caseworkers. Participation in labour market training also increased, especially among men, older workers,

and those with lower levels of education. However, the programme did not shorten unemployment spells or improve employment outcomes over a two year follow up period. No effects were observed either at the level of the overall target group or within specific sub groups. Although some jobseekers participated in training because of the incentive, most of them would have participated anyway.

These results show that reward-based activation did not accelerate re employment in this setting. While rewards may increase participation in services, they do not automatically improve selection into those services. If policymakers prefer rewards to sanctions for equity or political reasons, complementary investments in targeting and assignment quality of employment services are likely necessary to translate higher participation into employment.

Otherwise, there is a risk that public investments will increase activity and costs without improving employment outcomes.



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RANDOMISED CONTROLLED TRIALS SHOULD BE USED IN THE EVALUATION OF LABOUR MARKET POLICIES

The effectiveness of active labour market policies is typically assessed ex post using register based data. A key challenge of this approach is that it does not allow for the evaluation of policy packages or service pathways, nor does it adequately capture the spillover effects of active labour market policies.

The first major shortcoming in research on active labour market policies is that, in practice, they consist of bundles of measures, whereas research has mainly focused on estimating the effects of individual measures. The effectiveness of policy packages, or how different measures should optimally follow one another, has hardly been evaluated.

A second shortcoming is that research often fails to account for spillover effects of active labour market policies. These refer to the fact that policy measures may also affect individuals who do not participate in the programmes.

A good example of research addressing spillover effects is provided by Cheung et al. (2025), who studied a randomised controlled trial of intensified job search assistance in Sweden. Their results show that intensified job


search support increased employment among participants by around 1.8 percentage points during the first quarter. However, it simultaneously reduced employment among non participants by around 1.5 percentage points. While the overall effect on employment was positive, it was substantially smaller than one might conclude by examining participants alone.

Assessing spillover effects is essential when evaluating the effectiveness of active labour market policy. Existing studies suggest that spillovers can be substantial and that they weaken the employment effects of active labour market programmes (Kauhanen 2020).

The most reliable evidence on the effectiveness of active labour market policies would be obtained through randomised controlled trials implemented jointly by policy makers and researchers.

Randomised controlled trials refer to interventions in which participants are randomly assigned to either a treatment group or a control group, allowing the effects of the policy to be estimated reliably without selection bias.

This approach has been used in the United States, Sweden, and France. It would enable the evaluation of policy packages and spillover effects of active labour market policy. Although randomised trials are more expensive than register based ex post analyses, they are more reliable, can answer a wider range of questions, and integrate evaluation into the implementation of active labour market policies themselves.



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