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WHY AND WHEN EVIDENCE HAS (NOT) IMPACT ON POLICY MAKING?

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Impact evaluation has become a norm in developing employment policy – however, evidence is often missing

Andersen (2020): in Denmark ALMP reforms are possible only if there is high quality evidence that they have positive employment impact.

In Finland, governments accept reforms into their programme only if their employment impact can be estimated by the Ministry of Finance.

Problem: valid evidence on impact is not always easily available. Typically, impact assessments have been based on observed effect of reforms made in other countries, which casts doubts on their validity in Finnish conditions.

Evidence can have impact only when it is available. Why is it often missing?

Evidence is not sufficient nor necessary condition for a policy reform - political will is necessary, and sometimes sufficient motor of reform. Many reforms have been launched without any clear support of evidence on expected outcomes.

OECD prefers evidence over political motivations

- “While evidence has guided the on-going ALMP reforms in the Nordic countries and plays a more significant role than ever, political motivation remains the main driver for launching reform” (OECD 2025, 46).
- “Political will is desirable to push for change, overcome resistance to large-scale reforms, and reach agreements between various stakeholders. However, the decision to launch a reform in the first place and the direction that the reform should take should rely on evidence” (ibid, 12).
- OECD recommends “move from politically motivated reforms to evidence-driven reforms by *collecting evidence before launching reforms, piloting changes* to fine-tune reform design, *designing monitoring and ex-post evaluation frameworks already during the design phase of reforms*, and *ensuring sufficient funding for evaluation*” (ibid, 7).
 - Recommendations all refer to *observed failures in practices of recent evaluations*.

*Decision to municipalize **all** PES in 2025 – Why?*

- In May 2021, just a few months after starting a pilot to gather evidence for decision making, the government unexpectedly decided to transfer services worth *700 million euros and 4,300 person-years from the state to the municipalities*.
- In preparatory documents, only the expected employment gain was mentioned as the reason for this reform. Nothing was said about the will or ability of municipalities to take the responsibility.
- Supporters of the reform argue that municipalities are better than the state to mobilize various actors to build up an *employment-promoting ecosystem*. However, employment gain is expected to be caused by *economic incentives to municipalities* to reduce unemployment.
- **Available scarce evidence does not support PES decentralization, but similar reform as what is implemented now in Finland has never been evaluated** (In Denmark, the impact of municipalization compared to earlier dual system has not been evaluated).

(More: Aho ym. 2024, 39-43 & 98-99)

*Decision to municipalize **all** PES in 2025 – Why?*

- Municipal employment trials 2012-15, 2017-18 to **develop innovative services for least employable**. Wide support to continue (and later regularize) the trial in 2018, but municipalization did not fit into government's plans of new regional administration. New government decided 2020 to start again municipal trials for 2021-23.
- Municipalities have traditionally opposed expanding of their service responsibility, suspecting that it will increase their economic burden. When expected to increasingly participate in provision of PES and paying the costs of unemployment security, they in Dec 2020 claimed authority over PES altogether.
- Government's need for immediate action to increase employment was urgent, but it was difficult to find measures that would according to credible scientific evidence create new employment. However, something was found; Ministry of Finance's estimate based on **one Danish study** (Pedersen & al. 2019) > cost sharing model similar to the Danish model would in Finland create 6,600 jobs.
- To have a similar employment effect than in Denmark, Finland had to follow the example and municipalize all employment services!

In Finland, pilots and ex post evaluations are carried out but they typically do not provide valid evidence on impacts

- Räsänen (2013) asked already long ago ”Has any employment pilot been successful in Finland?” Unfortunately, this question is relevant even today: Finnish governments have started many employment trials during recent decades but are seemingly not able or willing to design them so that they provide valid evidence on the effects of tested reforms.
- In the case of municipal trial 2021-23, researchers were consulted, and they told that valid evaluation design should include randomized selection to trial and comparison population inside various local labour markets, but instead all willing municipalities were chosen to trial, incl. all 21 largest towns of the country. Obviously, the political pressure to allow wide participation was more powerful than the interest to acquire valid evidence. As one politician once put it: *“researchers may have evidence, but politicians have vision!”*

Evidence is missing, because politics have no time to wait for it

- Often the political interest in new policy or reform develops before there is evidence about its impact. Acquiring of valid evidence through pilot trial takes generally several years, but politicians have need to act immediately. In Finland, decision about a major reform has been made twice in the middle of a pilot that was supposed to provide evidence for decision making: “joint services” 2002 and municipalization of services 2025.
- Often it seems, that evidence is not needed to choose the best policy, but to provide arguments for the already chosen policy. (“Policy-based evidence making”)
> cf ”application-must” to education as a condition for benefit for under 25-year-olds (see Aho 2019, 105)
- Impact evaluation demands time and resources and often does not fit in with the timetables and cycles of politics. Of course, sometimes it is necessary to act even when the knowledge about the effects of alternative lines of action is missing, incomplete or contradictory, but it is not an excuse to fail acquiring evidence to inform policymaking. Typically, planning of evaluation starts 1-2 years too late, and must be reported 1-2 years too early. It seems that it is enough that policy is ”evaluated”, no matter how adequately.

When has evidence changed policy?

- Impact evaluations of most common ALMP measures have been carried out with contrafactual methodology (typically with control groups defined by propensity score matching) several times. The results have shown that wage subsidies to private market employers and occupational training increase later employment of participants compared to similar non-participants. Other measures have low, none and sometimes even negative impact on later employment.
- In the long run, these results have changed the structure of ALMP provision:
 - Wage subsidies to public sector have been abolished (except municipal jobs to ageing long-term unemployed as a "compensation" to removal of prolonged right to UI benefit).
 - Wage subsidies to private sector have been favoured, but the problem has been shortage of employers willing to recruit long-term unemployed.
 - Work experience while on benefit has been replaced by work trials and job search coaching.
- "Activation of labour market support" started at **2006**, was shown to have no employment impact in evaluation of Hämäläinen & al in **2009**, and was canceled in **2012**.

Targeting of ALMP by later activity

Population: “first” unemployment spell started in 1995 (n=12461).

Interest: Targeting of ALMP total volume to this population by later activity (after the last unemployment spell or at the end of follow-up of 10 years):

Of all ALMP participation days during follow-up

- 45% were targeted to those, who ended up to steady employment
- 11% to those, who started education
 - Both of these include those who benefited from ALMP, and deadweight (= had found job/education even without participation)
- 38% to those, who at the end were mainly unemployed or in ALMP
- 8% to those who later left labour force

(Aho & Koponen 2008)

Impact depends on targeting

- A service or ALMP measure is effective, when it is beneficial for participants in finding regular employment. However, part of participants do not benefit; either they do not need it, because they are able to find a job anyway sooner or later, or the measure is insufficient to help them.
- The more widely unemployed are "activated", the more probable it is that many participants do not benefit. **Universal schematically implemented obligation to participate in ALMP leads to a situation where all are activated, beneficial or not.**
- Typically, impact evaluations show whether participation in a certain category of services increases later employment in average, compared to those belonging to the potential target group, but did not participate in same service during the same follow-up period. However, these **average results do not much help in deciding who of the potential target group will gain of participation and who will not.**
- Nowadays large share of unemployed are quite far from open market jobs, and the available services are not sufficient for most of them. However, it is believed that "better to provide something than nothing". Can we afford it?

What is especially needed to improve targeting?

- Major part of the unemployed need a long path of successive measures to overcome obstacles of employment, and many will never find a permanent job in spite of all efforts. To increase the proportion of successful paths to steady employment two improvements of evaluation methodology and practices are needed:
- (1) Instead of measuring **immediate impacts of participation vs. non-participation to various measures under current targeting practices**, we should identify and evaluate **service paths of several successive participations vs. different paths of participation (and non-participation) inside defined segments of population**. Essential is to **evaluate service paths from their start to their end instead of evaluating each step separately**.
- (2) A standardized digital tool to gather information from participants and – if possible – their caseworkers for **identifying eventual steps forward or achieving intermediary goals** during the service path. In Denmark there has been a promising trial of this kind of tool (www.vaeksthuset.dk/projekter/beskaeftigelses-indikator-projektet), but after the end of pilot funding, it has not been widely implemented. Institutionalized long-term commitment and sufficient regular resources are necessary!

Evidence based policy – utopia and opportunity

- In ideal world, comprehensive impact evaluation with valid methodology could show **which service practices and measures are cost-effective in various segments of target population**, and what should be their optimal volume. However, employment services are by no means the only factor shaping the employment rate, and **even the best PES can never lift more than a proportion of the jobless to steady employment** at the regular labour market. ALMP increases employment rate only when labour demand is increasing.
- Policy-making that is comprehensively based on solid evidence of its impacts remains utopistic. It is not possible to stop the world and test all alternatives of action with RCTs and long enough follow-up periods before implementation.
- However, **various impacts of restricted and well-defined service innovations and reforms can be measured, when conditions of valid evaluation are considered properly** in planning of trials and reforms.
- What is needed and possible, are **tools that help to target various measures and scarce resources more accurately** – to choose a promising path or identify where is need for innovation. This demands time and money – systematic long-term **investment in competence and cumulative knowledge**

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Thank you!