

# **Economic Issues**

**No. 23**

## **A Review of the Literature on Active Labour Market Policies**

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**June 2008**

**South Australian  
Centre for Economic Studies**

ISSN 1445-6826

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**Published by:** South Australian Centre for Economic Studies  
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The authors of this paper are Michael O'Neil, Executive Director of the Centre and Dr Penny Neal, Economics Lecturer at the Flinders Business School, Flinders University and a Research Fellow of the South Australian Centre for Economic Studies.

We acknowledge the financial support of our Corporate members and the Department of Trade and Economic Development. It enables the preparation of this *Economic Issues* series.

**Michael O'Neil**  
**Executive Director**  
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**June 2008**

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# **A Review of the Literature of Active Labour Market Policies**

## **Overview**

The South Australian Centre for Economic Studies has had the opportunity in recent times to review and evaluate a number of labour market projects and statewide programs.<sup>1</sup> In the conduct of these studies the Centre has been able to review some of the extensive literature on national and international active labour market policies. This paper draws together some (but not all) of that literature in the form of a discussion/information paper. In several of the studies the evaluation task was to “learn lessons” or to “identify key principles” to improve the effectiveness of labour market programs. Each of the evaluations involved gaining an understanding of the objectives of the program, the target client group and barriers to employment, the environment in which individual projects operated and how outcomes were achieved. Some seven labour market programs and an estimated 60 individual projects have been examined in recent studies, including to assess the guidelines, objectives, outcomes and cost effectiveness of programs overall in achieving their stated objectives.

There is no single, optimal labour market program as many of the individual case studies and the evaluation of programs the Centre has undertaken confirms. As well, the rationale for intervention in the labour market and the design of programs/projects has changed quite substantially in the past few decades. Labour market programs in the era of high unemployment and especially high youth unemployment (i.e., 1970s and 1980s particularly) had quite different objectives in responding to a situation of deficient aggregate demand for labour. More recently a combination of factors worldwide has given rise to strong demand for labour, exposed severe skill shortages in state and regional economies and necessitated greater attention to training and employability of entrants to the labour market. As the demand for skilled labour has grown, the objectives, guidelines, target groups and desired outcomes of labour market assistance measures have also changed. As well, welfare assistance policies and income support payment systems are now more closely integrated with active labour market policies.

The paper concludes with several key principles to consider in the design of labour market assistance measures. These principles include:

- the program must engage with the local community and local employers should be involved in the design of programs;
- individual projects should generally be small scale;
- the program may need to acknowledge the importance of achieving a qualification or certificate as a critical passport to enter an occupation or industry;
- training should be targeted to the needs of industry/local employers;

- combination programs which address multiple barriers to employment and tailored to the needs of individuals appear to work best; and
- early intervention to assist the unemployed job seeker combined with voluntary participation appear to achieve high retention rates, and sustainable employment outcomes.

An important element in the success of many local projects is the commitment, skills, knowledge and experience of project staff and coordinators. It is very often the case that local staff have years of experience in the delivery of a diversity of labour market projects; they understand employer requirements; they are skilled in working with a particular group of job seekers such as recently arrived migrants, and those with multiple barriers to employment.

## **Introduction**

Despite a large number of studies and some extensive literature reviews, there is still very little knowledge about what makes for an optimal labour market program. To the mid-1990s, reviews of labour market programs showed the results of most programs were disappointing and that it was difficult to generalise from them (Calmfors, 1994; Grubb, 1995). Little has changed over the past decade (Webster, 1997; Dar and Tzannatos, 1999; Martin, 2000). The literature is dominated by microeconomic studies of particular labour market programs. Because the programs differ from each other in terms of location, implementation, management, the time at which they are undertaken, local labour market conditions etc., it is difficult to make comparisons and unequivocally conclude particular factors contributed to the success or otherwise of various labour market programs.

Furthermore, judging the success of labour market programs depends on the role one believes programs ought play; as a policy weapon that can be used to reduce unemployment in its own right, or to help those who are currently unlikely to find a job become employed even if it is at the expense of some who are already in employment, or as a complementary policy to other policies designed to reduce unemployment (Nevile, 2003). This review focuses mostly on the second role.

Even those authors who have made extensive surveys of various labour market programs designed to help the unemployed find jobs (Brandt, Burniaux and Duval, 1995; Martin, 2000; Webster, 1997; Meager and Evans, 1997; Fay, 1996; Grubb, 1995 and Calmfors, 1994), find it difficult to draw firm conclusions from their comparisons, in some cases, of hundreds of programs. In addition, post-program employment prospects differ across time according to the strength or otherwise of the labour market. Active labour market policies (ALMP) tend to focus on the supply-side of the labour market assisting with job search and the acquisition of skills intended to make unemployed persons more 'employable'. They rarely address the demand-side; often persons who have become long-term unemployed become so because of structural change which leads both to decline in regions and rising regional unemployment, and persons with skills which were previously in demand in industries which are in decline may be unable to readily transfer those skills to expanding industries.

What little evidence there is suggests the type of active labour market programs that have enjoyed the most success are job search assistance, wage subsidies and combination-type programs that incorporate elements of job search assistance, employment and training. In particular, an employment element in 'real' enterprises for which the enterprise is prepared to pay a market-related wage appears to be important, as is the engagement of the local community.

This review proceeds as follows. First, we briefly outline the potential effects of ALMP based on the work of Calmfors and Skedinger (1995). Next we discuss how in recent years the focus of ALMP has moved away from the effects of programs on employment and earnings as to how they can be used to increase ‘employability’. Welfare-to-work or work-first policies designed to improve employability are based on the premise that any job is a good job. A number of welfare-to-work policies that have been implemented across different continents are discussed. We conclude that work-first policies probably do achieve to a limited extent their principal objective – to increase the employability of those most disadvantaged in the labour market – at least in the short-term. Section 5 of this review focuses on what works in terms of ALMP and concludes that job search assistance appears to be effective in helping most groups of unemployed persons, wage subsidies often lead to the post-program retention of employees, training appears to help women but not youth, combination programs involving elements of job search assistance, work experience and training seem to be the most successful type of ALMP for most groups of unemployed persons – especially those with multiple barriers to employment and youth, targeting persons who are most likely to be disadvantaged in the labour market and intervening at an early stage is likely to be useful as is engaging the local community. Finally, we briefly summarise themes in the literature with respect to program design and program evaluation.

### **Potential effects of active labour market policies**

Labour market programs have the potential to raise the aggregate level of employment and reduce unemployment, increase the skills base especially in areas of shortage, reduce income inequality and reduce the disparity of employment opportunities between individuals (Webster, 1997). However, experience with labour market programs has shown they usually fail to achieve these goals. If the programs lead to greater job search and skill enhancement, those who benefit most tend to be those groups with the least stable employment histories – youth, women and low-skilled workers (Brandt, Burnieux and Duval, 2005).

There tends to be a presumption amongst policymakers that active labour market programs will necessarily lead to a rise in aggregate employment and/or to increases in earnings. The former will be true only if ALMP lead to a rise in the available number of jobs. Studies of programs in Australia and the United Kingdom tend to focus on employment outcomes and studies in the United States and Sweden tend to focus on the effects of programs on earnings (Webster, 1997). However, theory suggests there may be other effects including:

- Deadweight losses and substitution effects;
- Job matching;
- Labour force participation;
- Competition in the labour market;



- Displacement effects via wage-setting;
- Productivity effects;
- Work-test effects;
- General equilibrium tax effects; and repercussions on other policies.

The following discussion of the effects of labour market programs is largely based on Calmfors (1994) and Calmfors and Skedinger (1995).

### ***Deadweight and substitution effects***

Some people who participate in labour market programs would obtain jobs even in the absence of program participation. Deadweight losses ensue as resources are expended on the program which make no difference to the employment outcomes for these participants. Substitution effects occur when program participants become employed in jobs that would otherwise be undertaken by job seekers who have not participated in a program.

Empirical evidence indicates deadweight and substitution effects of the subsidisation of private sector work may be substantial – in the order of 70-90 per cent of the gross number of jobs created (Calmfors, 1994, p. 18). Deadweight losses and substitution effects are likely to be higher in periods of high unemployment.

### ***Effects on job-matching***

Programs incorporating a job-search element that increases the effectiveness of job seekers have a positive impact on job matching; however, they also have a negative impact, as search intensity is likely to fall during the period of program participation. This is often referred to as the ‘attachment’ or ‘lock-in’ effect. There is some evidence of a lock-in effect in Australia in relation to the Work for the Dole scheme (Borland and Tseng, 2004 and Cameron *et al*, 2004) and in relation to active labour market programs in Sweden (Sianesi, 2001).

As a number of authors note, microeconomic studies of how the job chances of specific target groups have been affected provide little information on the overall effects of job matching, since improvements in outcomes may have come about at the expense of a worsening of job matching for other groups who are not the focus of these studies. Thus, job-matching programs that appear to be successful, may be successful in improving the job prospects of those individuals or groups that the program assist, but may cause displacement and substitution effects for other individuals. This may not be an issue if the goal is to improve the prospects of those who are most disadvantaged in the labour market: “... if labour market programs have a positive impact on the post-program employment prospects of ‘disadvantaged job seekers’, then an equity goal has been achieved” (Webster and Johnson, 2001, p. 3), but it is an issue if the goal is to increase employment in total.

### ***Effects on the labour force***

Unemployment, especially long-term unemployment, causes discouraged workers to leave the labour force. Labour market programs can counter this tendency and assist in maintaining labour force participation. If a labour market program leads to a higher participation rate, labour supply rises relative to the demand for labour. More competition for the available jobs puts downward pressure on wages, which in turn, leads to a larger number of available jobs. Unemployment should fall. However, the reduction in unemployment may be offset to some extent if labour market programs cause the hidden unemployed (discouraged workers) to re-enter the labour force or youth with no previous attachment to enter the labour force for the first time.

### ***Competition in the labour market***

Individuals who have only a very marginal attachment to the labour market are often referred to in the literature as outsiders. Outsiders in the labour market include the long-term unemployed and other marginal groups such as youth, women who have not previously sought work, immigrants and others against whom employers may practise discrimination: Indigenous persons, persons with disabilities, sole parents, ex-offenders and retrenched workers.<sup>2</sup>

Active labour market programs targeted at groups with a marginal attachment to the labour force may increase the competitiveness of outsiders relative to insiders through several channels: by increasing the productivity of outsiders, employers who are screening applicants may view participation in labour market programs as a substitute for work experience, or by encouraging more active job search behaviour.

Increasing the competitiveness of outsiders may contribute to a redistribution of employment opportunity because of displacement and substitution effects. This may be desirable if the aim is to reduce the pool of *long-term* unemployed, rather than the number of unemployed, *per se*. Job search assistance should form an element of a program targeted at outsiders as program participants will not benefit from their increased competitive position until they actually obtain a job, and while on the program participants may not engage as intensely in job search as they otherwise might. Training and job creation schemes which lead to permanent increases in the skills base of participants may be necessary to sustain an improvement in the competitive position of outsiders and may also be necessary in overcoming employer reluctance to hire the long-term unemployed because of concerns about job seekers' capabilities for work.

### ***Displacement effects via wage-setting***

Participation in labour market programs may reduce the welfare loss from being out of work by offering higher compensation than the unemployment benefit and by increasing future employability. However, these effects reduce incentives for wage restraint. Higher wages act to

reduce the quantity of labour demanded and so crowd out regular employment.

### ***Productivity effects***

It is usually taken for granted that training will contribute to higher employment by raising the marginal productivity of program participants; and that unemployment has negative productivity effects as the opportunity to undertake on-the-job training and skills are lost, and working habits and motivation deteriorate.

Economic theory suggests the net effect of training on employment is ambiguous. First, an increase in labour productivity implies a reduction in the unit cost of labour hence firms respond by increasing output because of lower unit costs (the scale effect). Second, a rise in labour productivity means a *given* level of output can be produced by fewer workers (the substitution effect). For training to have a positive effect on employment requires the scale effect to dominate the substitution effect.

### ***Work-test effects***

Placements in labour market programs may provide an alternative work-test for eligibility for unemployment benefits. Those persons who are registered as unemployed but who are unwilling to work may prefer to lose registration than participate in a labour market program, and hence aggregate unemployment may fall. Alternatively, participation in a program may be required to requalify for benefits and so program participation may be higher than would otherwise be the case. Ziguas, Duffy and Considine (2003) find the mutual obligation regime in Australia fails the most disadvantaged job seekers. Persons with the greatest barriers to employment view compulsory activities as 'welfare as work'. That is, mutual obligation activities are not a means to find work, but necessary to retain eligibility for benefits.

### ***Tax effects***

Labour market programs also have ambiguous effects on employment through their effects on taxes. Labour market programs must be financed. If labour market programs are effective in increasing regular employment, then the tax base will increase and offset the costs of financing the program. Conversely, labour market programs may be more expensive than unemployment benefits in which case higher taxes are required to finance the programs. The reduction in employment caused by higher taxes may not be altogether offset by the increase in employment resulting from the labour market program. The net effect of putting a labour market program in place on employment is ambiguous.

### ***Net effects***

It is often impossible from *a priori* reasoning to determine whether the individual effects discussed above are going to have positive or negative effects on employment and unemployment. It is thus unreasonable to expect that active labour market policies that are focused on supply-side

measures aimed at assisting individuals to have any marked effect on the unemployment rate in the absence of measures aimed at increasing the available number of jobs. The net effects of ALMP on employment and unemployment will almost certainly depend on the prevailing level of aggregate demand, and so will differ across time. Perhaps in tacit recognition of the fact that the level of demand does matter for employment and unemployment the focus in labour market programs has switched away in recent years from their effects on aggregate employment and unemployment to how labour market programs can best be used to increase employability.

### **Welfare-to-work or work-first programs**

During the 1990s, active labour market programs implemented by OECD countries including Australia, the United Kingdom and the United States increasingly tended to be based on ‘welfare-to-work’ policies. These policies are largely aimed at increasing ‘employability’. The Northern Ireland Executive has suggested a working definition of employability:

“Employability is the capability to move into and within labour markets and to realise potential through sustainable and accessible employment. For the individual, employability depends on the knowledge and skills they possess, and their attitudes; the way personal attributes are presented in the labour market; the environmental and social context factors within which work is sought”, (DHFETE (2002, p. 7) quoted in McQuaid and Lindsay (2005, p. 200).

This definition acknowledges that both supply-side factors – the skills and the motivation of individuals, and demand-side factors – the availability of jobs, matter for employment outcomes.

A policy-induced recession in the early 1990s led the Labor Government in Australia to publish a Green Paper on unemployment in 1993 which outlined a comprehensive policy program of economic growth, training, employment placement and job creation. The subsequent White Paper, ‘Working Nation’ made income support payments for the unemployed conditional on the notion of reciprocal obligation between the community and the unemployed. Unemployed people were to receive income support, not as a right, but conditional upon actively seeking work, accepting reasonable offers of training and accepting reasonable job offers. Expenditure on labour market programs was significantly reduced; at the same time Work for the Dole evolved to be one of the cornerstones of labour market policy (Burgess *et al*, 2000). In 1998, Minister Kemp described the principle of mutual obligation underpinning Work for the Dole:

“In return for financial support from the community, it is fair to expect individuals to improve their job prospects, their competitiveness in the labour market or contribute to their local community”. (DEETYA, 1998; Kemp, 1998 quoted in Burgess *et al*, 2000)

Welfare-to-work programs are predicated on the basis that participation of an unemployed person in the program will enhance his or her 'employability'. This comes about through reducing job search time for an individual by providing access to relevant employers, by providing formal and informal work-related skills, by increasing participants' motivation and confidence, and by providing employers with knowledge about job applicants, reducing the uncertainty associated with hiring them (Webster, 1997). If the programs succeed in intensifying job search and skill enhancement, they tend to benefit most those groups with the least stable employment histories, e.g., youth, women and low-skilled workers (Brandt, Burniaux and Duval, 2005).

Hillard and Pollage (1999, p. 83) quoted in Finn (2000, p. 87) outline three key elements to employability:

- "the ability to gain initial employment, hence the interest in ensuring that "key skills", careers advice and an understanding of the world of work are embedded in the education system;
- the ability to maintain employment and make "transitions" between jobs and roles within the same organisation to meet new job requirements; and
- the ability to obtain new employment if required, that is, to be independent in the labour market by being willing and able to manage employment transitions between and within organisations".

The need for individuals to manage employment transitions [and other life transitions] has gained currency. Schmid (2002) defines transitional labour markets as:

"... institutional arrangements that empower individuals to transit between various employment statuses during their life cycle through a set of mobility options and employability enhancing labour market policies" (quoted in Ziguras et al (2004, p. 11)).

Ziguras *et al* (2004, p. 3) argue transitional labour markets used as a guide to policy should:

- Empower individuals by building or maintaining their employment capacity.
- Provide active support instead of passive payments.
- Establish a balance between central regulation and individual or local flexibility.
- Stimulate networks and cooperation.

Four dimensions of employability were identified by Hillage and Pollard (also see Gore, 2005): personal work-related assets, presentation of these in the market place, deployment of a range of market place skills, with these three being dependent on the fourth – contextual factors such as the nature and extent of labour market demand, employer recruitment and selection practices and personal circumstances such as caring responsibilities. The contextual factors suggest it is very important that

employers be involved in the design of skills training and work experience programs.

One of the principal evaluators of welfare-to-work policies in the United States defines the approach as follows:

What defines [work-first] programs is their overall philosophy: that any job is a good job and that the best way to succeed in the labour market is to join it, developing work habits and skills on the job rather than in a classroom. Work first programs share a strong message that, for participants, employment is both the goal and the expectation. Work first programs seek to move people from welfare into unsubsidised jobs as quickly as possible, and job search itself is a central activity in these programs. However, work first is more than just job search. Work first programs generally begin with job search for most participants, using the labor market itself as a test of employability. Then, for those who are not able to find jobs right away, work first provides additional activities geared towards addressing those factors which have impeded employment. These activities might include education, training, work experience or other options. In the context of work first, they are generally short term, closely monitored, and either combined with or immediately followed by additional job search. (Brown, 1997, p. 4 quoted in Peck and Theodore, 2000, p. 125)

The most employable people in the job queue will generally be offered assistance with job search but not much more in order to speed up the transition from welfare to work. Individuals at the back of the job queue – generally those most disadvantaged in the labour market – are offered sporadic interventions intended to increase their employability which, if successful, serve to re-sort the job queue but do little to address the issue of inadequate demand for labour (Peck and Theodore, 2000).

Welfare-to-work policies can reduce or prevent the unemployed from becoming demotivated or habituated to unemployment as the duration of unemployment lengthens. They can also slow the loss of skills and work habits (Cockx, 2000). If an individual has been unemployed for some time, then training may be necessary. It may be necessary to make program participation compulsory for those individuals who have become habituated to unemployment.

The ‘stepping-stone’ philosophy of work-first is that any job is a good job. This idea is based on the notion that provided an individual obtains employment – even if in a poorly paid entry-level part-time or casual job – that job is likely to enhance the individual’s chances of moving to higher-paid and more stable full-time employment. Cameron *et al* (2004) provide some evidence to the effect that this is so (see below). Herr *et al* (1996) and Edin and Lein (1997) (quoted in Peck and Theodore, 2000), and Catholic Welfare Australia and WorkPlacement in submissions to the Productivity Commission (2002) questioned whether such jobs really were ‘stepping-stones’ putting individuals on a pathway to sustainable employment or whether they lead only to minimal and short-term benefits

and/or a marginal attachment to the labour market and lifelong reduced earnings.

A 'work-first' approach may not necessarily lead to the most successful post-program outcomes. Hasluck (2001) cited in Campbell (2001) argues it is important not to take a 'work-first' approach but build a successful package of interventions. He bases this on a number of evaluations of the New Deal (see below). Hasluck finds those who leave the New Deal program from Gateway (job search assistance) for employment fare worse in sustaining employment outcomes than those who leave from options involving training or placements. He suggests training and placements may be critical to the sustainability of outcomes. Hasluck notes the wage subsidy paid to employers was particularly effective in achieving post-program employment outcomes with high levels of employee retention at the end of the subsidy. Meager and Morris (1998) cited in Campbell (2001) find participation in general training or temporary work experience offers the only hope of eventual re-integration into the labour market for many of the most disadvantaged among the unemployed. If these people are to be helped then programs or project managers need to avoid the temptation to "cream", i.e., to take on participants who are likely to have the most successful post-program outcomes in terms of employment and/or higher earnings.

### **Do work-first programs work? Welfare-to-work programs in four continents**

#### ***Work for the Dole (Australia)***

The Work for the Dole (WfD) scheme is intended to provide opportunities for unemployed people to gain work experience, build networks, improve their self-esteem, communication skills and motivation, and contribute to projects that are of value to the community. As Nevile (2003, p. 128) notes quoting DEWRSB, employment outcomes are not part of the program's immediate objectives but making participants 'employable' is. Job seekers may currently be required to take part in Work for the Dole if they are:

- aged 18 or 19 years, recently completed Year 12, getting the full rate of Youth Allowance, and have been getting payments for three months or more, or
- aged 18 - 39 years, getting the full rate of Youth Allowance or Newstart Allowance, and have been getting payments for six months or more.

In addition, job seekers aged 18 and over who get the full (or part) rate of Youth Allowance or Newstart Allowance can volunteer to participate in a Work for the Dole activity. Work for the Dole projects are delivered through government or community organisations and agencies, and although the job seekers work part-time in a Work for the Dole project, they do not have the legal status of employees and thus have none of the

entitlements of ordinary workers including the right to the minimum wage mandated for the jobs they undertake on WfD. In essence, job seekers swap part-time work for continued access to the Newstart or Youth Allowance.

There have been a number of evaluations of WfD since its inception. Lipp and Cameron (2000) from DEWR undertook a matched comparison study of the off-benefit outcomes of WfD participants with a matched comparison group – matched on the basis of gender, age and duration on benefits. Other variables that might have been thought to influence outcomes had been found in previous studies to have only small effects and regression analysis confirmed that these other factors did not significantly affect the results. Lipp and Cameron found WfD participants were significantly more likely to leave income support than similar job seekers who had not recently participated in the program, and that referral to the WfD program appears to have a significant motivational effect on job seekers to increase their search activity. They also found positive post-program outcomes decline with duration on benefits, that the long-term unemployed, youth and those from a non-English speaking background did particularly well in equity groups, but that outcomes were lower for people in regions of higher unemployment.

The OECD (2001), Dockery and Strombeck (2002) cited in Productivity Commission (2002), Nevile (2003) and Borland and Tseng (2004) all criticise the methodology used in Lipp and Cameron (2000) DEWR study for several reasons. First, some individuals from the group of program participants who had already left unemployment at the beginning of the study were matched with a control group of non-participants, all of who were on unemployment benefits at the beginning of the study period (August 1999). This led to a bias towards finding a positive effect of WfD participation. Dockery and Strombeck indicate that it would be preferable to estimate the effects of program participation by identifying a control group that is comparable to program participants just before their entry to a program and subsequently following the employment status of both groups. This has the added bonus of taking account of ‘lock-in’ or attachment effects and is an approach that DEWR now follows in its post-program monitoring.

Another concern with Cameron and Lipp’s study is so-called *time bias*, where the authors did not count the time on the program as time that participants were engaged in job search when in fact participants were required to look for work. In addition, the probability of persons within any group finding employment is a decreasing function of the duration of unemployment so that if the time spent in the program is not recognised as time spent unemployed, program participants have a lower probability of finding a job than participants in the control group (OECD, 2001, p. 5.20). Nevile (2003) thinks unobservable characteristics and contamination of the comparison group through many in the comparison group undertaking activities that would improve their employment prospects as part of their Mutual Obligation activities is an issue for the



measurement of the net impact of Work for the Dole and that the estimates of the net impact are likely to be understated for these reasons. However, because the time bias is likely to have a larger positive impact, Neville is of the view that Cameron *et al*'s estimated value for the net impact is inflated.

Cameron *et al* (2004) sought information on the sustainability of outcomes for DEWR's Job Search Training, Intensive Assistance and Work for the Dole programs by comparing the outcomes of those who were employed three months after exit with the outcomes twelve months following exit. With respect to WfD, the key findings for those participants who were employed three months after exit were:

- Employment outcomes were 23 per cent at 3 months following exit rising to 35 per cent at 12 months following exit.
- There was only a 10 per cent improvement in the number of participants who had obtained full-time jobs.
- Fifty per cent of participants who obtained temporary or casual jobs by 3 months moved to permanent jobs by 12 months.
- Significant increase in earnings over the 12 month period, due to both an increase in the amount of work as well as an increase in rates of pay.

The significant factors that affected employment outcomes at 3 months were duration on unemployment benefits and gender, with long-term beneficiaries and males less likely to be employed. Those with lower education qualifications, and those from a NESB were less likely to be employed at 3 months. Longer duration on unemployment benefits, older persons and less education were significant factors in determining whether a person was unemployed at 12 months.

Cameron *et al* (2004, p. 5) concluded on the basis of their findings: "... taking even low paid casual jobs will increase their [the unemployed] chances of finding better paid, more permanent employment. In this sense, casual jobs can act as a stepping stone to higher paid permanent employment".

In contrast to Lipp and Cameron (2000) and Cameron *et al* (2004), Borland and Tseng (2004) concluded participation in WfD was associated with a large and significant adverse effect on the likelihood of exiting unemployment payments. They speculated that this may have been due to a 'lock-in' effect whereby program participants reduced job search activity during the time they are on the program. Cameron *et al* (2004) do find evidence of a 'lock-in' effect which they attribute to WfD participants being predominantly long-term unemployed so that few will leave projects to take up employment. The 'lock-in' thesis is supported by Borland and Tseng's finding that over the first 6 months after commencement, there was a steadily widening gap between outcomes for

WfD participants and the matched control group; after that time there is some reversal over the next 12 months.

A potential problem with assessing the net impact of program participation by examining post-program outcomes 3 months following exit is that it may overstate the benefits of program participation. If participants leave a program early on to go into employment or even when they have finished a program, it may be that their participation in the program was in no way responsible for their obtaining employment (OECD (2001), p. 220). A number of persons, even if they had not participated in projects, would likely have obtained jobs within the same timeframe (see the earlier discussion on deadweight losses associated with ALMP).

Carson et al (2003) found no evidence of WfD in improving self-esteem. Following WfD activities, participants became more sceptical about the likelihood of the program improving the chances of unemployed people obtaining jobs. In addition, participants were frustrated and disappointed that WfD was not tailored to their career aspirations and the work skills they wanted. Because WfD Mutual Obligation activities have to be undertaken in not-for-profit agencies, many young people who want to enter trades, retail or similar areas are not able to acquire the skills that would help them achieve these aims.

The Productivity Commission (2001, p. 5.10) notes a major objective of the Job Network is to reduce the number of long-term unemployed even if this does not reduce the total number of unemployed in the short-term. Because unemployment increases with duration whilst employability declines, it may be appropriate from an equity perspective to reorder the job queue through labour market programs even where these do not lead to short-term declines in the unemployment rate.

### ***The New Deals (United Kingdom)***

Underpinning the New Deals is a 'work-first' philosophy where unemployment can be reduced by improving employability and more proactively connecting people to the labour market. The New Deal for Young People (NDYP) is mandatory for young people aged 18 to 24 if they have been unemployed for 6 or more months. Job search assistance is the first type of assistance provided and it acts as a filter before more intensive forms assistance are offered to those who cannot find an unsubsidised job within six months during the so-called 'Gateway' period when an action plan is developed. During the 'Gateway' period, people are assigned a personal adviser who assists them with job search, and if they have not found a job towards the end of Gateway, advises them on a range of employment and training options aimed at improving employability: six months subsidised employment with a public or private sector employer (the employer option), six months placement with a voluntary organisation, six months placement on an environmental task force (government provided employment), or up to 12 months

studying towards National Vocational Qualifications level 1 or 2 for those who have not yet achieved this qualification (Fieldhouse *et al*, 2002, p. 500).

Should individuals return to unemployment within 13 weeks of leaving an option they go onto the 'follow-through' program of job assistance which is similar to Gateway. Education and training has been the most popular option. In contrast, the take-up rate for the employer option was much lower than anticipated being used by only 20 per cent of those in options (Van Reenen, 2003).

Finn (2000, p. 389) describes the overall objectives of the New Deals:

- to increase long-term employability and help young and long-term unemployed people, lone parents and disabled people into jobs; and
- to improve their prospects of staying and progressing in employment.

Young unemployed people who entered the New Deal were twenty per cent more likely to find jobs each month than those who didn't. When assessing employment outcomes 18 months after people entered the New Deal, the employer option (subsidised employment) appears to have had the best outcomes for participants who moved from Gateway to options although it was taken up by only 20 per cent of those on options (Bonjour *et al*, 2001 cited in Campbell, 2001); and Bell, Blundell and Reenen (1999) concluded the productivity effects were modest compared with the wage subsidy required to get young unemployed people into jobs. Fifty per cent of people who had been through NDYP had found jobs, 73 per cent of these still holding them after 13 weeks. Blundell *et al* (2004) concluded that short-term employment outcomes for men who had been unemployed for at least six months were improved by a small amount as a result of job search assistance but that the results were much stronger for the first quarter following exit from the NDYP than in the subsequent two quarters leading to doubts as to whether the program has positive long-run effects. Women and ethnic minorities were less likely to have found work. It was estimated that about half of those who found work would have done so even in the absence of the New Deal (Millar, 2000 cited in Campbell, 2001).

Only 16 per cent of those who entered the New Deal for the Long-Term Unemployed (NDLTU) subsequently found employment, compared with 39 per cent of those who participated in the New Deal for Lone Parents (NDLP).

Fieldhouse *et al* (2002a, b) examine the experiences of 75 young people mainly from minority ethnic communities in the north-west of England. They find those from the minority ethnic communities who move into options from Gateway are more likely than young white persons to move into the education and training option rather than the employer option (subsidised employment). However, those who did move onto the

employer option were the young people who were most satisfied with their placements. The ethnic communities were under-represented in the employer option and over-represented in the voluntary sector option. In the latter, young people perceived their work as comprised of menial and mundane tasks and felt that they had been pushed into the voluntary sector option by their personal adviser when they had not found unsubsidised employment towards the end of their time on Gateway. The authors of these studies felt perhaps the most significant long-term impact on participants from minority ethnic communities was on employability with many mentioning improvements in skills, confidence and motivation.

A much higher percentage of ethnic young people leave the New Deal during Gateway than do young whites which led the authors to interview young ethnic people who left the New Deal during Gateway or who avoided it altogether. They found the perceptions of the New Deal among ethnic youth who avoided the program were much more negative than those who participated in the program and conclude the program may be helping those ethnic youth who are likely, in any case, to obtain a job in a buoyant labour market.

#### ***Riverside GAIN and Wisconsin Works (United States)***

The Riverside GAIN program (one of the Californian Greater Avenues to Independence (GAIN) programs) includes job clubs, assisted job search and basic education. Participants are sorted into two streams on the basis of whether they have achieved a basic education level (high school diploma or General Educational Development Certificate (GED)), are able to pass at a predetermined level both parts of a mathematics and reading test, and are proficient in English. If participants have achieved the basic education level, they are assisted with job search. If not, they can choose either a basic education class or job search activity, but if they choose the latter and fail to find employment they must enrol in the education stream. Whichever stream participants are enrolled in, program administrators convey a very strong message that 'any job is a good job'. Participants who fail to find a job after job search or basic education are required to undertake an employability assessment designed to help them choose whether to go onto skills training, vocational education, on-the-job training or to engage in voluntary work. Continued receipt of benefits is dependent on participation in GAIN and the time span over which GAIN activities can be undertaken is limited.

Riverside GAIN is frequently cited in the literature as a successful program. Its success is usually attributed to the overriding emphasis placed on participants getting any job and so Riverside GAIN is a prime example of a program underpinned by the welfare-to-work philosophy. A series of evaluations have suggested Riverside GAIN has been more successful than GAIN projects in other counties in terms of post-program employment and earnings outcomes where less emphasis has been placed on taking any job and more emphasis given to upgrading skills in with a

view to participants obtaining higher paying jobs. However, a closer examination of the results of Riverside GAIN leads to some scepticism about the degree of success as Peck and Theodore (2000, p. 125) noted:

“A three year evaluation found earnings of those who were working were higher (but not much), that nearly two-thirds of participants were not working at the three-year interview, and that almost half had never worked during the entire three-year period. Nevertheless, the evaluators concluded that the Riverside results were the most impressive yet observed for a large-scale welfare-to-work program. Relative to the feeble and patchy results achieved elsewhere, this paradoxically was true.

Evaluation findings from Riverside GAIN, although both mixed and modest, have served to legitimate ‘work first’-style approaches to welfare reform.”

The United States National Bureau of Economic Research has since evaluated the results of the GAIN programs over a 9-year timeframe and found no statistically significant difference in employment outcomes between Riverside and other GAIN programs which emphasised training rather than ‘work-first’. Conversely, the evaluation found the ‘work-first’ approach had better short-term outcomes but the GAIN projects that had emphasised education and training had better long-term outcomes (Temby, Housakas and Ziguras, 2004).

Another welfare-to-work program in the US is Wisconsin Works (W-2). A work preparedness assessment is initially prepared for participants in W-2. Those deemed work ready are given assistance to find unsubsidised jobs. Then, depending on the outcome of the assessment, others are directed towards trial subsidised jobs for those without a work background, community service jobs for those who need to develop work habits or a work-activity program for those who are assessed as being least employable (Peck and Theodore, 2000).

### ***Private Industry Partnership (United States)***

Gore (2005) describes a combination program in New York that takes what he calls a ‘demand-led’ approach that focuses on the needs of the local labour market. The Private Industry Partnership (PIP) Program was a response to the existence of a large number of jobless people at the same time as employers in certain sectors were reporting recruitment difficulties, skill shortages and high levels of employee turnover. The program initially prepared people for entry-level but relatively skilled jobs in the financial services sector but was extended to cover more basic clerical and administrative jobs.

No round of the PIP program can begin until employers are signed up. Enrolment in the program is highly selective and provision is aimed almost exclusively at black and minority ethnic women. Once selected, participants undertake 16 weeks of pre-employment training alternating between a week of attending formal courses in computing, accounting, English and mathematics followed by a week on work placement.

Participants are expected to make good progress in both the training component and the work placement. Two-thirds of participants successfully complete this pre-employment training and are then put forward as candidates for internships involving a further 16 weeks with the firm. Most of the women who gain internships are taken on as regular employees following their time as an intern. Even if they are not, they have gained work skills and experience. Thus the program has improved their 'employability'. As Gore (2005, p. 345) notes: "By first identifying a demand for workers and the skills required to undertake the jobs on offer, the PIP programme essentially reversed the normal sequence of the unemployed looking for suitable employment after they have completed a chosen course of training".

### ***Ambition (United Kingdom)***

Gore (2005) discusses employer-based training and recruitment programs in the United Kingdom that were packaged under the 'Ambition' banner. These programs adopt a sector-specific approach with the aim being to address employers' recruitment difficulties and skills shortages by providing suitable training to unemployed people.

### ***Intermediate Labour Market (ILM) (United Kingdom)***

The intermediate labour market (ILM) model is a combination program that combines waged employment in temporary jobs with training, personal development and job search activities with the production of goods and services that are of benefit to the local community (Campbell, 2001). Non-government organisations generally act as the employer providing work experience and training and, in some cases, employment placements with employees expected to meet normal working requirements albeit with some leeway for learning on the job (Temby *et al.*, 2004). ILMs in the United Kingdom typically run for 6-9 months, with the explicit aim of being long enough in duration to lead to sustainable post-program outcomes. This they have achieved with over 90 per cent of participants still in employment after 6 months compared with around 40 per cent from other programs. In addition, former ILM program participants earn considerably more in the longer-term than participants in other programs.

Campbell (2001) outlines the critical factors for success for ILM projects: local and specific design to meet the needs of the target group, keeping as close as possible to mainstream employment conditions and disciplines, voluntary participation, a focus on transferable skills, paying wages related to local market rates as an aid to retention which also has the benefit of reinforcing the reasons for work, motivation and progression, and making job search an integral part of the process.

***ERGO (European Union)***

ERGO was a combination program which operated in the European Union from 1989-1996 that comprised more than 1,700 projects. Evaluation of ERGO suggested effective counselling, training corresponding as closely as possible to local vacancies and work experience either in the open labour market or in the not-for-profit sector were pivotal to successful projects (ERGO, 1996 cited in Campbell, 2001). The *package* of measures targeted according to individual needs was assessed to be far more effective than offering any of the elements separately.

***Conclusion: Do work-first policies work?***

Peck and Theodore (2000) argue the seeming success of work-first policies is attributable more to demand-side effects than the programs themselves. They cite a number of studies that support this. Zilial *et al* (1997) found caseload reductions were overwhelmingly attributable to business-cycle effects rather than to the influence of welfare-to-work policies. Wisconsin and Oregon, where 'work first' programmes were diligently pursued, witnessed some of the greatest percentage declines in welfare caseloads, but a substantial amount of this would have occurred even without welfare reform. Other research has also pointed to the important influence of labour market conditions on the size of welfare caseloads (Blank 1997A) and on duration on benefits (Hoynes, 1996).

More generally, aggregate demand matters (Martin, 2000; Cockx, 2000; Burgess *et al*, 2000). Labour market programs are going to be relatively ineffective in increasing employment and reducing unemployment in economies that are generating few job vacancies. In periods of high unemployment, less skilled jobs can be filled by skilled workers. For this reason, Burgess *et al* are critical of what they believe to be the premise of the Work for the Dole scheme (and by implication other welfare to work programs): that unemployment is due to individuals with deficiencies rather than due to demand deficiency. They argue further that training undertaken in isolation from the realities of the job market is inefficient.

Gore is of the view that the mainstream New Deal activities and demand-led approaches such as the PIP and the Ambition schemes are more suited when labour markets are buoyant. The clear implication is that 'employability' is a relative concept contingent upon the local demand for labour, a view supported by McQuaid and Lindsay (2005).

Burgess (2000) is sceptical of claims that Work for the Dole will make any long-term difference to the employment prospects of young people as the skills gained from undertaking community work are not likely to be the same as the skills in demand in the labour market. Burgess also makes reference to Leech (1997) who argues that making unemployed people work with other unemployed people, whilst developing a sense of *esprit de corps* amongst the unemployed, inhibits the unemployed from

developing contacts with employed persons and thus appropriate role models.

‘Work-first’ policies probably do achieve to a limited extent the principal objective of ALMP: to increase the ability of the most disadvantaged in the labour market to obtain employment; however, whether these employment outcomes can be sustained over the long-term is a moot point as are the displacement effects on others in the labour market. Nevertheless, the difficulty of obtaining employment increases with the length of unemployment so policies that move people more quickly into employment are to be advocated.

### **What works?**

#### ***The relative ineffectiveness of most labour market programs***

What works? Not much according to findings consistent with evidence from international literature (Grubb, 1995; Borland and Tseng, 2004). Grubb found job market programs have only modest effects on employment and earnings and little if any effect on welfare payments or on the probability of being on welfare. Borland and Tseng (2004, p. 20) cite the main conclusions from the North American literature drawing on Heckmann *et al* (1999, p. 2053): “Government employment programs have at best a modest positive impact on adult earnings but no impact on youth earnings; and there is some evidence that the largest program effect is for low-skill labour force participants.”

Public job creation and wage subsidy programs have tended to entail large deadweight losses and substitution effects, and have generally been unsuccessful in their longer-term aim of helping the unemployed move into unsubsidised jobs (Dar and Tzannatos, 1999; Brandt, Burniaux and Duval, 2005; and Martin, 2000). From European policies, Kluve and Schmidt (2002) conclude “both direct job creation and employment subsidies in the public sector almost always seem to fail” and Robinson (2004) suggests there is *no convincing evidence that work programs improve the employment chances of participants*” (emphasis added).

White and Knight (2002, p. 25) find – based on a survey of European and United States programs – that job creation programs (temporary public sector employment programs or community projects) are generally ineffective in improving employment outcomes and note: “[t]he evidence as a whole indicates that Job Creation programmes generally tend to produce no direct economic benefits, such as increases in employment. Their justification is likely to depend on arguments concerning equity and the reduction of social exclusion, rather than on economic efficiency”. In contrast, Dar and Tzannatos (1999) conclude on the basis of a review of 100 evaluations of ALMP that public works can help the more disadvantaged groups in the short-term but that they do not lead to long-term employment outcomes.



Sianesi (2001) evaluates the overall effectiveness of the six main Swedish programs available in 1994: labour market training (full-time vocational training to equip individuals with skills to find jobs more easily), workplace introduction (to give participants contact with working life to get workplace training, job experience and references), work experience placement (to prevent exhaustion of benefits while maintaining contact with the regular labour market and enhancing good working habits), relief work (largely in public sector specially created temporary jobs to maintain working skills and habits and to prevent benefit exhaustion), trainee replacement (to enhance skills by providing unemployed individuals with work experience in a regular job whilst the employee who usually does the job is on leave), and employment subsidies (with the expectation that the employee will be kept on in a regular job following the expiry of the subsidy period).

Only in the cases of trainee replacement and employment subsidies do participants replace ordinary labour. In terms of subsequent employment rates and reduced benefit collection, employment subsidies have the best outcomes of all these programs followed by trainee replacement – probably because they involve ‘real’ jobs for which the firms are willing to pay a regular employee and they can be used by employers as a cheap screening device to ensure that the productivity of potential employees is sufficiently high. These findings are supported by Carling and Richardson (2004) who conclude on the basis of a study of eight ALMPs in Sweden that programs in which participants receive work experience and training provided by firms have better outcomes than classroom vocational training. They surmise that the opportunity for participants to demonstrate one’s competence or receive on-the-job training reveals important information to both the participants and prospective employers: “Further, the more regular the work the worker is allowed to do while in the program, the more information on the match is revealed”. They also make reference to Johansson and Martinsson’s (2000) study that found vocational computer training located at, and organised by private firms, led to better employment outcomes than traditional classroom vocational training.

Employment and/or earnings post-program outcomes are not necessarily ideal measures of the success or otherwise of active labour market policies especially for the long-term unemployed. Moving people several ‘steps along the pathway’ to employment e.g., through the acquisition of literacy, numeracy, English language computer and/or other work-based skills may be an achievement in itself and may contribute to longer-term rather than short-term employment outcomes.

### **Training**

The literature suggests job training programs are generally more effective for women than for men and more effective for adults than for youth. In general, youths seem not to be assisted by job training programs (Webster (1997), Dar and Tzannatos (1999) and Martin (2000)). Friedlander *et al* (1997, p. 1814) view nearly all training program evaluations as a “black box” indicating only “... whether a particular program “works”, on average, for a particular sample under a particular set of circumstances (including labor market conditions and service delivery systems).”

On the basis of a review of European and United States programs, White and Knight (2002, p. 37) conclude: “[t]he most defensible generalisation from the available evidence might be that in terms of employment, Classroom Vocational Training has a variable success rate ... Targeting may assist in delivering employment gains ... but this is not certain from the evidence”. Vocational training appears to be less effective than wage subsidies but more effective than job creation.

Training programs seem most successful when they are small-scale and carefully targeted towards the workplace needs of local employers and the specific needs of job seekers (OECD, 1993; Webster, 1997; Fraser, 1999; Dar and Tzannatos, 1999; Martin, 2000). On the whole, training programs generally have little success although they tend to be more successful if they are long and lead to a formal qualification (Fay, 1996). Strombeck *et al* (1999) found for Australia that skills training had almost no impact on post-program employment outcomes. In particular, most studies find that training programs do not appear to help youth or groups with little education. Part of the problem is that these tend to be the persons for whom traditional educational methods have failed, and so placing them again in a classroom environment for vocational training is not likely to be very helpful. Training does appear to help women re-entrants into the labour force (Webster, 1997; Fay, 1996; Dar and Tzannatos, 1999).

Hamalainen and Ollikainen (2004) found using matched propensity scores (a sophisticated version of matched comparisons), no significant differences in post-program employment outcomes for Finnish youths who received practical training and their matched comparison groups. They also note that micro-econometric studies of active labour market programs in Nordic countries have not been encouraging; that Swedish studies in particular have found mainly negative or zero effects of programs on labour market outcomes.

An Australian study by Herbert and Leeves (2003) simulated the effects of active labour market programs of six months duration involving a mix of skills training and work placements targeted at the long-term unemployed on employment outcomes. They found programs had little net effect on long-term unemployment but a negative spillover effect on

short-term unemployment and note that the results of their simulation are consistent with empirical evidence for Australia.

Grubb's (1995) review of labour market programs suggested on-the-job training proved effective in some programs with the benefits being related to getting individuals into employment quickly rather than through higher wages. This seems a little odd given that (successful) training should lead to a rise in a person's productivity, and one would expect to see higher productivity reflected in higher wages. It may be that employers view labour market programs with a training component as a filtering exercise that provides them with more information on a potential employee than the information available to them had they selected a person to fill the job from the open labour market.

Some argue that training should be closely aligned with the needs of local labour markets (e.g. Dar and Tzannatos, 1999). Others argue that training should lead to transferable skills as being more useful in a world where labour is increasingly mobile and flexibility and adaptability are important attributes sought of employees by employers. For example, Bassanini (2004) is of the view training should lead to recognised competency based qualifications in order to foster transparency and the portability of skills.

Of course, training may be of poor quality or poorly matched to the needs of job seekers and/or potential employers in which case one would not expect job training programs to have much effect on the employment or earnings prospects of participants. Job training programs of this nature may also stigmatise job seekers by sending the wrong signals to potential employers.

Also, as Fay (1996) notes, the amount invested on training per participant in most job training programs is generally very low, far less than the amount spent on schooling, and so one should not expect a high rate of return or a high level of cost effectiveness.

Most evaluations of job training indicate that training is best used in conjunction with other forms of assistance as one element of a combination policy. An issue with respect to the evaluation of job training programs or combination programs with a job training element is that the benefits to training may accrue over the long-term (there is some evidence for this from NBER's evaluation of the long-term outcomes from the Californian GAIN programs), and most evaluations are only short-term.

Bassanini (2004) presents some interesting results on the links between training, employment and unemployment. He finds a strong cross-country correlation between training and aggregate employment, but not between training and unemployment rates. At the individual level, an increase in the amount of education and training in a person's adult life is associated with an increase in the probability of being in employment

and, unlike the situation at the aggregate level, a fall in the probability of being unemployed. Bassanini (2004, p. 12) concludes that displacement effects are probably at work: "... that training is not associated with lower aggregate unemployment – while being associated with a lower individual probability of being unemployed – suggests that some displacement might indeed be at work, thereby partially offsetting any aggregate employment gains from skill upgrading." Nonetheless, training may be a useful tool in assisting the most disadvantaged in the labour market with the possible exception of youth.

### ***General themes on what does work***

A reading of the literature suggests one must not expect too much of any labour market program. However, some programs have had some limited success in improving the employment prospects of their participants. An unfortunate aspect of the literature on the evaluation of labour market programs is where programs do seem to work, the literature tells us what works, but not why it works. This means, therefore, where programs are successful, the reasons for success tend to be speculative. However, there are some general themes to be drawn from the literature as to what does work.

Most evaluations of labour market programs indicate job search assistance appears to be effective in helping most groups of unemployed persons. (See, for example, Martin, 2000; Webster, 1997; Fay, 1996; Dar and Tzannatos, 1999; Fraser, 1999; Meijers and Te Riele, 2004; White and Knight, 2002; and O'Connell, 2002). Calmfors (1994) found in his review a broad consensus that intensive counselling and job search assistance raise re-employment probabilities substantially, especially for the long-term unemployed. However, studies also indicate substantial substitution effects for these measures. The advantage of these measures is that they do not reduce the intensity of job search efforts as in other programs.

Fay (1996, p. 30) and Martin (2000) note profiling new benefit claimants to identify those who are at risk of becoming long-term unemployed may help increase the number of at-risk unemployed who are given job search assistance at relatively low cost. Those who are at risk of becoming long-term unemployed should immediately be provided with intensive counselling and job search assistance. Deadweight and substitution effects may be higher from provision of job-search assistance, but individuals may be helped into employment who would otherwise be at high-risk of drifting into long-term unemployment.

Effective counselling tailored to the needs of the individual seems to be especially important. Assignment of a personal adviser, information on labour market opportunities, assistance with making job applications, information on training opportunities and follow-up assistance even after program participants have found employment all seem necessary to promoting post-program employment outcomes. For the most

disadvantaged in the labour market, counselling on matters other than those to do with the labour market such as child care, substance abuse, accommodation, and debt issues may be an important first step to get them into a position where they can engage in job search and/or be assisted to be job-ready.

Participants in subsidised employment seem to enjoy some degree of success in retaining post-program employment; direct employment of the workless through job creation programs seem not to be successful (Campbell, 2001). Sianesi (2001) finds for Sweden that the programs most similar to regular employment work best as does O'Connell (2002) for Ireland who demonstrated that programs with strong linkages to the labour market were more likely to improve job prospects for participants than those with weak linkages. For Australia, Strombeck, Dockery and Ying (1999) found that employment training and wage subsidy programs had the largest effects on post-program employment. White and Knight's overriding conclusion (2002, p. 9) was that participation in the employment option (i.e., subsidised employment) by participants in the NDYP in the United Kingdom improved the chances of being employed relative to the other options in the NDYP. This was also true of active labour market programs in the rest of Europe against which they benchmarked the NDYP.

Our review of the literature suggests that, if training is to be a part of active labour market policy, it should be incorporated as only one element of a combination program. Combination programs seem to enjoy some degree of success. Fay (1996) found that job search assistance in combination with other forms of assistance work well for many groups, but that there is mixed evidence on what works best for specific groups. This may be because combination programs are difficult to evaluate – the individual elements of a combination program tend not to be evaluated, and hence it is difficult to determine whether particular elements such as training or work placements are contributing to a program's success, or whether it is, in fact, that all of the individual elements are required in combination to make the program successful. It may be that some individuals within a program are better assisted by one element of the program and some assisted by another so that post-program evaluations of outcomes suggest a higher success rate than a program which comprises only one form of assistance. Alternatively, it may be the 'mix' of elements that contributes to the success of combination programs.

Webster (1997, p. 29) summarises the relative efficacy of different labour market programs in a table reproduced here as Table 1. Our review of the literature suggests the groups helped and not helped by various program types remain the same today.

**Table 1**  
**Relative efficacy of labour market programs**

| Program type         | Appears to help                          | Appears not to help              |
|----------------------|--|----------------------------------|
| Wage subsidy         | Most unemployed                          | Youth, groups with low education |
| Training             | Women re-entrants                        |                                  |
| Placement assistance | Most unemployed                          |                                  |
| Job creation         | Very disadvantaged, long-term unemployed |                                  |
| Combination programs | Youth, long-term unemployed              |                                  |

Source: Webster (1997), p. 29.

Temby *et al* (2004, p. 1) in a paper prepared for the Brotherhood of St Laurence, indicate they are also of the view a ‘mixed’ model incorporating community engagement, work experience, personal support, pre-vocational training, job placement and post-placement support, and accredited training qualifications through traineeships “... is both necessary and effective when working with people with multiple barriers to employment”. They argue that, in addition to employment goals, attention must be paid to physical and mental health, housing, education and family issues – what has been termed a ‘life-first’ approach to welfare to work policy for disadvantaged job seekers in contrast to the ‘work-first’ or ‘welfare-to-work’ approach previously discussed.

### **Youth**

The groups most helped by combination programs appear to be youth and the long-term unemployed (Webster, 1997). It seems combination programs are the only form of labour market programs likely to help disadvantaged youth whose employment prospects, on the whole, are not improved by labour market programs. The programs that tend to be cited as successful models for youth, Riverside GAIN in the United States and De Pasvorm in the Netherlands are combination programs. De Pasvorm consists of four closely associated components: practical experience, work, education and personal development. Meijers and Te Riele (2004, p. 21) describe the program thus:

“De Pasvorm is characterised by close collaboration with local employers; an appropriate mix of education and on-the-job learning; workshop instructors and practicum supervisors who have been trained to provide high quality instruction; pathways towards obtaining a vocational qualification; individual support through the personal development component; and extensive evaluation of outcomes. Thus, de Pasvorm meets to a greater or lesser extent all criteria for effective programmes set by the OECD.”

The six criteria set by the OECD for labour market programs for disadvantaged youth (OECD, 1999b cited in Meijers and Te Riele, 2004) include:

1. Close collaboration with local employers.
2. An appropriate mix and intensity of education and on-the-job learning, preferably integrated with one another. (In Australia many projects are of short duration – 12 to 16 weeks – which the OECD thinks ineffective.)
3. Programs must provide high quality instruction with attention paid to training and preparation of the staff involved.
4. Programs must have clear pathways to further education and training once young people complete the program. (In Australia, the disjointed nature of activities under Mutual Obligation tends to create confusion rather than a clear pathway.)
5. Programs need to address the related needs of participants such as childcare and counselling.
6. Rigorous evaluation of programs leading to improvements in the quality of programs is needed.

Grubb (1995) cites a combination of practices as distinguishing particularly successful programs targeted at disadvantaged youth. For Riverside, it was "... a strong message to participants about the importance of getting into jobs early; a strong commitment to job search and job placement efforts; a mix of job search, education and training; and a commitment to enforcing mandatory participation of all eligible welfare recipients".

Poor attitudes towards work among disadvantaged youth may be largely to blame for the lack of success of programs targeted at youth. By providing extended contact and support and a degree of monitoring, mentoring of participants by employed adults can play an important role in overcoming negative work attitudes among youth (Martin (2000)).

For Australia, Leeves (2002) found no significant overall effect on youth outflows from unemployment as a result of participation in active labour market policies, although there was some positive impact on females who had been short-term unemployed. Webster (1999) also found no significant impact of labour market policies on the employment prospects of youth. Both authors suggest this may be because of substantial displacement and substitution effects. Leeves noted the level of economic activity in the economy influenced post-program employment outcomes in his study; aggregate demand matters.

### ***Targeting***

Careful targeting of persons to be offered more intensive labour market assistance is one of the recurring themes in the literature. Profiling can help in this regard and ensures the most disadvantaged receive more intensive assistance than others. Evidence suggests the long-term unemployed need more than just job search assistance so those who are at

risk of long-term unemployment should be identified early on in the unemployment spell and be offered other services combined with job search assistance (Fay, 1996). This also leads to more cost-effective use of resources as deadweight losses and substitution effects are likely to be minimised.

Calmfors (1994, p. 29) states: “If programs targeted on outsiders in the labour market stimulate wage-reducing competition for jobs, the likelihood of substantial positive employment effects is increased”.<sup>3</sup> Calmfors is of the view that when intervention should occur in the unemployment spell depends on whether time acts as a sorting mechanism that distinguishes more employable persons from less employable persons so that the least employable persons make up a larger proportion of the longer-term unemployed (heterogeneity); or whether an individual’s chance of re-employment decreases in response to the duration of unemployment (state dependence). Calmfors suggests, based on the work of others (Jackman and Layard, 1991; van den Berg and van Ours, 1993, a, b), although there is ongoing discussion about these issues there appears to be a consensus that heterogeneity is important. The importance of heterogeneity is supported by more recent studies (Borland and Tseng, 2004, p. 1).

Calmfors further argues heterogeneity provides reason for targeting easily identifiable but difficult to place groups such as immigrants, the disabled and the long-term unemployed provided the labour market programs are reasonably effective in raising the competitiveness of individuals in these groups in the labour market. Other key target groups may include workless households, those experiencing repeat spells of unemployment, lone parents and those experiencing multiple disadvantages, e.g., ex offenders, homeless people and substance abusers (Campbell, 2001). Exclusive targeting of these groups, however, has the potential to stigmatise the participants as problem cases from the viewpoint of potential employers.

Le and Miller (2001) argue the focus of labour market programs should be on those persons with a history of unemployment as their research indicates employment outcomes are determined, in large part, by previous employment experience and the time spent looking for work in the previous year. They suggest the construction of a risk index to identify individuals at most risk of being unemployed. The index is similar to the Job Seeker Classification Instrument (JSCI) currently used by the Department of Employment and Workplace Relations to identify job seekers who are most likely to remain unemployed or become long-term unemployed (DEWR, 2003) and would assign points according to various indicators of labour market disadvantage with the greatest number of points being assigned to duration of unemployment but with points also assigned to other indicators they found to be associated with a higher probability of being unemployed such as limited English skills, disability, those who have never been married, the very young and early



school leavers. Such a risk index would allow for early targeting of those most at risk of unemployment who could then be case managed.

In addition to the loss of skills arising from long-term unemployment, most studies discuss how long-term unemployment can lead to a loss of motivation on the part of job seekers and how the long-term unemployed can become habituated to unemployment so that job search activity is reduced. An implicit if not explicit assumption underlying most labour market programs is that active labour market programs will accustom participants to work and increase their self-esteem (Carson *et al*, 2003).

As to the timing of intervention, Layard *et al* (1991) recommended targeting the medium-term unemployed – those who had been unemployed for six months – rather than the really long-term unemployed. Targeting the short-term unemployed will lead to deadweight losses as resources are expended on those who will find jobs anyway (also see Fraser, 1999). Targeting the medium-term unemployed will reduce the number of job seekers who reduce job search efforts as a result of program participation and it will ensure that the program is focused on outsiders in the labour market and seems appropriate given Le and Miller's (2001) finding for Australia that labour market history and job search activities are the two most important variables in determining duration of unemployment. Layard's view is that it is likely to be difficult to restore competitiveness in the labour market of the really long-term unemployed.

Kyle *et al* (2004) discuss targeted employment assistance programs for refugees – probably the most disadvantaged group in the Australian labour market. Their research identified only a few programs that included provision of employment assistance for refugees; the *Goulburn Valley New Settlers Network* in Victoria, the CMYI JPET program for young people, the *Migrant and Refugee Employment Project* in Queensland and the Ecumenical Migration Centre's *Given the Chance* program in Melbourne. *Given the Chance* takes a case management approach to addressing the specific needs of recent refugees and combines pathways planning with job skills training, work experience, mentoring and other support such as counselling. Refugees can participate in the program for up to a year.

Outcomes for participants in *Given the Chance* compared favourably with outcomes from Job Network Intensive Assistance and hence provide some limited support for early identification and targeting of programs towards those with a high degree of disadvantage in the labour market. Fifty-eight per cent of *Given the Chance* participants were in education, training or paid work three months after commencing the program, rising to 68 per cent after 6 months and 73 per cent after 12 months. Comparable outcomes for Job Network Intensive Assistance date from the time participants left the program with 54 per cent being in employment or education and training three months later and, of the most disadvantaged who attract more funding, only 42 per cent were in

employment or education and training three months after leaving the program.

Fraser (1999, pp. 157-162) summarises the efficiency and equity arguments for targeting the long-term unemployed with active labour market policies as follows:

### **Efficiency issues**

#### *For targeting*

1. Fewer deadweight loss effects. The probability of finding a job diminishes as the unemployment spell increases.
2. Targeting minimises costs: it avoids the considerable costs of programmes open to all unemployed during high unemployment and/or reduces the problem of guidance services being spread too thinly.
3. Targeting has a more profound effect on labour market outsiders by helping them to become more effective competitors for jobs.
4. Targeting the long-term unemployed will not add to the security for insiders in work by making unemployment more attractive.
5. Targeting results in fewer jobseekers being locked into schemes.

#### *Against targeting*

1. Even when assisted by ALMP, the long-term unemployed are less likely to compete effectively with insiders than the short-term unemployed.
2. Because of the difficulty in making the long-term unemployed job ready, employers are less willing to take part in respective ALMP.
3. Participation in ALMP may stigmatise individuals if they have to be long-term unemployed to qualify.
4. There is a danger that the unemployed wait to participate in programmes (especially in the last months prior to programme entitlement) instead of seeking work.
5. There is a danger of a “carousel” effect.
6. Placement services should not assist client only at a late stage when other measures have failed to get the unemployed back to work.

### **Equity issues**

#### *For targeting*

1. Targeting outsiders such as the long-term unemployed can be seen as a policy to fulfil an equity goal of reducing social exclusion [and is perhaps the most important goal of many ALMPs].
2. Targeting on equity grounds can restrict “creaming”.
3. The level of allowances for individuals on ALMP programmes is an equity issue with some efficiency implications.

*Against targeting*

1. Policies should seek to meet all jobseekers' needs.
2. Using ALMP early can prevent long-term unemployment.
3. Targeting also introduces equity (and possibly efficiency) problems through the way targeted groups are defined.
4. The issue of whether benefits should be refused unless people participate in ALMP program is an equity as well as efficiency issue.

*Engaging the local community*

Engaging the local community also seems to be a key to successful labour market programs. As Campbell (2001) states: "Projects need to take into account local resources, links with local employers, effective partnership arrangements and the capacity of local organisations". His review of the literature suggests it is not enough to concentrate solely on the needs of individuals. Employers should be engaged in the project early on. In order to secure employment for program participants, projects need to address local labour market conditions. Placements need to be of the kind where there are skill shortages, training should be of the kind that local employers want of their employees and should perhaps be geared toward the specific needs of local employers who are offering program assistance.

The Brotherhood of St Laurence (Temby *et al*, 2004) stress the importance of community engagement in engendering trust amongst program participants that local service providers are committed to assisting them to work through personal issues and obtain employment. The Brotherhood of St Laurence also emphasise the need to provide post-program support when participants are in jobs as this support is an important factor in job retention. As previously indicated, keeping a job rather than finding a job can sometimes be the issue. Furthermore, a whole of government approach is extremely important because of the challenging issues faced by disadvantaged communities. Tenby *et al* (2004, p. 6) refer to the Neighbourhood Renewal program as an important driver for change because it has adopted a whole of government approach and worked with community and residents to increase employment, training and education opportunities: "We believe partnership between the three tiers of government, community and business to plan, implement and continuously improve these programs is vital to making them effective".

One factor that might hinder community engagement is a lack of capacity at the local level or local resources may be too limited to implement programs without further assistance. Gore (2005, p. 350) notes the Ambition schemes in the United Kingdom (previously discussed) have clearly been brokered at the national level and therefore represent a clear departure from the local focus previously recommended by the New Deal Task Force: "Whether it also signals a perception that the capacity to

deliver on the scale envisaged does not exist at the local level is a moot point”.

The literature supports the necessity of engaging employers in programs. The type of programs that seem to enjoy the most success involve waged employment – often initially through the provision of a wage subsidy to employers who are prepared to pay a program participant a wage in exchange for regular work.

In engaging local communities, it should be recognised that a model project in one location will not necessarily be successful elsewhere both because of variations in local conditions and because the management style, employment and training opportunities etc., may differ between the locations. Lessons can be learned from both successes and failures. Detailed information, not just about what makes projects work but also about what problems they are encountering that might make specific projects not work or at least not work as well as they might, should be shared between the project managers of different projects (Campbell, 2001).

### **Program design**

Martin (2000) sets out eight lessons for the effective design of future policies:

1. Integrate referral to active programs as closely as possible with benefit and placement work.
2. Use ‘profiling’ for new benefit claimants to identify those at-risk of becoming long-term unemployed; provide the latter with immediate counselling and job-search assistance.
3. Make passive income support as active as possible, e.g., regular contacts with Centrelink.
4. Use ‘availability for work’ (controlled by work tests) and ‘job search initiatives’ (to be confirmed by employers) as criteria for continued benefits.
5. Make continued receipt of income support conditional on participating in active programs after a certain minimum duration of unemployment.
6. Ensure that participants continue to be available for work on the open market.
7. Avoid the ‘carousel effect’ by ensuring that participation in programs does not serve to establish new benefit entitlements.
8. Give a greater role to market signals and the private sector in the provision of programs.

There are arguments both for and against setting compensation levels for program participants close to unemployment benefits. The higher are compensation levels, the weaker are incentives for program participants to engage in job search and/or accept job offers. However, paying wages close to market rates can motivate program participants who are in a work placement or undertaking work similar to that available in the open labour market in the local community and increase participants' awareness of the benefits of work i.e., that it pays to work. Malmberg-Heimonen and Vuori (2005) present evidence for Finland of a positive impact of job search training on the employment prospects of those who had a financial incentive to participate in job search training programs. The programs did not have an impact on the re-employment prospects of those who participated but whose benefits were maintained at the minimum level. The amount paid to program participants for working should not be so low as to engender a feeling among participants that they are engaged in 'slave labour' which may lead to a loss of motivation and a reduction in the intensity of job search activity.

The appropriate level of compensation probably lies somewhere between the amount paid as unemployment benefits and the going wage rate for similar work. The evidence suggests wage subsidies are arguably the most successful policy at generating positive post-program employment outcomes for most unemployed persons. This is probably because the participants receive a wage close to market rates and so are made cognisant of the benefits of working. In addition, employers are able to use the subsidised employment period as a screening device for potential recruits whom they would otherwise regard as inherently risky.

Grubb (1995) sets out a number of reasons for the ineffectiveness of programs, most of which also provide lessons relevant to program design.

- Programs, on the whole, need to be longer-term, to effectively address the multiple barriers to employment experienced by many of those who are most disadvantaged in the labour market.
- Most programs stress moving people into employment quickly; this assumes that the basic problem of the unemployed is one of job-finding, and that once individuals get jobs they will remain employed. Sometimes job-keeping rather than job-finding is the issue. This suggests post-program support should be an integral part of programs.
- Job-related training is often of very poor quality.
- Some programs use school-based teaching methods for those who dropped out of school. If school did not work for these participants, then school-based training methods are unlikely to work.
- Job-skills training and on-the-job training is job-specific, and may not benefit individuals if they fail to find related employment. Training should also be provided in generic and transferable skills.

- Labour market explanations are still a very important explanation for why some people are unemployed even after participation in programs; there may not be enough jobs for unskilled and low-skilled workers. Macroeconomic policies to influence demand-side conditions are just as important to achieving employment outcomes, if not more so, as are labour market policies.
- Youth programs face special problems – many employers will not hire young people, or those without high school qualifications; hence more intensive assistance may be required for youth whilst being careful not to adopt the classroom techniques that failed them at school.

### **Program Evaluation**

A consistent theme throughout the literature is that program evaluations tend to be short-term; they generally do not monitor post-program outcomes for program participants for more than a few months following exit, which is simply insufficient time to properly evaluate whether the program is successfully contributing to the improvement of longer-term employment prospects and/or enhancing earnings capacity. Where longer-term outcomes are monitored, they tend to be less positive than those suggested by short-term evaluations. See, for example, our earlier discussion of Riverside GAIN.

Comparative international evaluations pose difficulties because of the variation in programs between countries and even within countries through time. This means there is rarely a stable set of programs to evaluate and so there is little consensus about the employment outcomes of the various programs (Carson *et al*, 2003).

A further problem in undertaking evaluations is there are a number of factors that may affect evaluations quite independently of the effectiveness of programs. These include (Grubb, 1995):

- Selection effects – job-training programs by construction select persons with certain barriers to employment.
- Maturation effects – individuals improve prospects by aging even without the help of a program – the maturation effect is particularly relevant to youth because some employers won't employ teenagers.
- Regression to the mean – some people, e.g., those who are retrenched and unemployed for some time would eventually find jobs even in the absence of programs.
- Many programs are an agglomeration of a large number of small programs each administered locally and evaluation of the average effectiveness of these programs masks the distribution of outcomes across the local projects.

There are several important lessons to be drawn from the literature on program evaluation. First, post-program monitoring needs to be undertaken over much longer time frames than is currently the case, say up to five years to assess the longer-term impacts of programs. Martin (2000) argues short-term evaluations cannot answer the question as to whether the program worked or not. Evaluators also need to recognise that post-program outcomes do not just relate to employment and earnings. Participants may develop other valuable skills such as literacy, numeracy, computing and other skills as well as knowledge of work habits, working in a team environment etc., that could assist them in the future even if there is no immediate return in the form of employment or higher earnings. Third, program evaluations can be used to assess which projects or programs have been successful or otherwise in achieving their intended outcomes but cannot generally ascribe the reasons for their success. Comparisons across programs or projects within a particular program is fraught with difficulty because of the many variables which influence the program environment including labour market conditions at the time of participation in labour market programs.

### **Conclusion**

Over the past few decades, the rationale for intervention in the labour market and the design of labour market programs has changed substantially. The Australian labour market is now characterised by low unemployment and skills shortages, whereas in the 1970s and 1980s there was high unemployment, especially high youth unemployment. There is no doubt that any labour market program must be tailored to prevailing labour market conditions. Programs may need to focus on finding appropriate skilled labour for employers in a tight market, or on reducing unemployment by encouraging employers to expand employment at a time of low labour demand. As labour market conditions change, so do the objectives, guidelines, target groups and desired outcomes of labour market assistance measures.

This review of specific programs and the literature confirms that there can never be one single, optimal labour market program. Further, it is often quite difficult to conclude why some programs appear to be more effective than others. Nevertheless, this review indicates there is broad agreement on several key principles that should be incorporated in the design of programs and the delivery of local projects.

The key principles include:

- there is a need to engage the local community (resources, employers, local organisations etc.) in programs, particularly to address local labour market conditions. Local employers should be involved in the design of programs.
- programs should generally be small in scale and be targeted at skills in demand or the needs of employers;

- achieving a qualification or certificate is important for some participants and for some industries, as it signals to the employer competency, skills and employability;
- combination programs work best as they have the capacity to address ‘multiple barriers’ to employment and are able to be tailored to the needs of the individual. Combination programs may involve, *inter alia*, training on and off the job, work placement, mentoring, job search assistance, and follow up once in employment;
- training should be closely targeted to the needs of industry or local employers and match the interests of the cohort of job seekers (latter involves careful selection of job seekers);
- early intervention is advisable, whether this involves the unemployed job seeker or those currently at school who are at risk of leaving school without sufficient a foundation to compete in the labour market; and
- there are job seekers with entrepreneurial skills and talents who have the capabilities and desire to commence their own business who would benefit from training and business start up support.

Voluntary participation is important, while local projects should attempt to mirror employment disciplines and conditions as much as possible.

The outcomes of programs may not always been able to be compared across programs or projects, but evaluation and post-program reviews against the objectives and guidelines of any program is essential in order to adjust and improve the effectiveness of labour market assistance measures. It is also imperative that evaluation is undertaken in both the short and longer term and is cognisant of local factors to the extent they effect outcomes.



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## End Notes

- <sup>1</sup> The various initiatives include workforce preparation and recruitment programs such as the Electronics Industry Association Education Initiative, training programs for indigenous workers and recently arrived migrants, and statewide programs including, *inter alia*, review of selected projects conducted under SA Works in the Regions, and evaluation of the Community Jobs Program, Workforce Participation Partnerships and components of the Job Network.
- <sup>2</sup> The literature suggests labour market programs carefully targeted towards outsider groups may be more effective than more generalised labour market programs. This issue is further discussed in the discussion on targeting later in this paper.
- <sup>3</sup> Also see Fraser's (1999) discussion of Layard (1997, a and b) and Layard (1999).