

ACTIVE LABOUR MARKET POLICY AND UNEMPLOYMENT -- A  
FRAMEWORK FOR THE ANALYSIS OF CRUCIAL DESIGN FEATURES

by

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ABSTRACT

This paper assesses the role of active labour market policies (ALMPs) as an instrument for fighting persistent unemployment. An analytical framework is developed to examine the effects of these policies on a number of economic outcomes, including: job matching; labour force participation; competition between labour market insiders and outsiders; displacement, deadweight and substitution in the labour market; productivity; and tax effects. While some of the effects converge, others work in opposite directions. The paper develops a framework to assess the net effects and examines available empirical research in this perspective. It concludes with a discussion of key design features of ALMPs which can help improve the positive labour market effects while limiting the negative effects. The role of different types of ALMPs, compensation levels, targeting, co-ordination with unemployment insurance and other social programmes are explicitly examined.

RÉSUMÉ

Ce document évalue le rôle des politiques actives du marché du travail en tant qu'instrument de lutte contre un chômage tenace. Un cadre d'analyse y est développé afin d'examiner les effets de ces politiques sur un certain nombre de résultats économiques tels que : l'adéquation de l'offre et de la demande de main-d'oeuvre ; le taux d'activité de la population active ; la concurrence entre ceux qui ont un emploi et ceux qui en cherchent un ; les suppressions d'emplois, les effets d'inertie et de substitution sur le marché du travail ; les effets sur le plan fiscal. Bien que certains effets aillent dans la même direction, d'autres divergent nettement. Le document élabore un cadre qui permet d'évaluer les effets nets et analyse les études empiriques réalisées dans ce domaine. Il se termine sur un examen des principales caractéristiques des politiques actives qui pourraient améliorer les effets positifs sur le marché du travail et en limiter les effets négatifs. Le rôle des divers types de politiques actives du marché du travail, les taux de remplacement, le choix des groupes-cibles, la coordination entre les régimes d'assurance-chômage et d'autres programmes sociaux y sont également examinés.

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In recent years, there has been a growing interest in so-called active labour market policy as a means of fighting the persistent unemployment in Western Europe. This is easy to understand in view of the disillusionment with more aggregate policies: on the one hand, traditional demand stimulation runs the risk of primarily increasing inflation with only small effects on employment; on the other hand, supply-side structural reforms in order to remove various labour market rigidities have either been difficult to implement or appear to produce results very slowly. In this situation, active labour market policy seems to be regarded by many as the *deus ex machina* that will provide the solution to the unemployment problem. It is the purpose of this paper to try to make a realistic appraisal of this option.

One problem when analysing active labour market policy is that there are different interpretations of the concept. Here I shall use a narrow definition: measures targeted to the unemployed with the aim of improving the functioning of the labour market. Active labour market policy will then comprise three basic subcategories: (i) *job broking* with the purpose of making the matching process between vacancies and job seekers more efficient; (ii) *labour market training* in order to upgrade and adapt the skills of job applicants; and (iii) *direct job creation*, that may take the form of either public-sector employment or subsidisation of private-sector work.

Another complication is that each type of labour market policy measure may work through several different channels. It is another aim of this paper to try to structure the various effects with the help of a simple analytical framework and to use that to highlight the crucial determinants of policy effectiveness.

The discussion is organised as follows. Section I presents the basic analytical framework. Section II discusses the various types of effects of active labour market policy, whereas Section III discusses the possibilities to draw conclusions on the net effect of active labour market policy from existing empirical knowledge. Section IV focuses on the importance of various design features. Section V presents some conclusions.

### I. The basic analytical framework

The traditional way of discussing labour market policy in macroeconomic analysis has been as a method of "cheating the Phillips curve", i.e., to improve the inflation-unemployment trade-off, thereby lowering the equilibrium (natural) rate of unemployment (see, e.g., Baily & Tobin (1977) or OECD (1990, 1993a)). An analysis within such an expectations-augmented Phillips-curve (natural-rate) framework, however, tends to become *ad hoc* in nature, since the fundamental determinants of the equilibrium rate of unemployment are usually left unspecified. What is required is instead an explicit theory of how labour market equilibrium is determined.

This paper will take as its starting point the type of labour market analysis developed in, e.g., Layard & Nickell (1986), Johnson & Layard (1986) and Layard *et al.* (1991). The basic reasoning is illustrated in *Diagram 1*. The downward-sloping curve is an *employment schedule* relating employment (assumed to be equal to labour demand) measured as a proportion of the labour force to the real wage.<sup>1</sup> The upward-sloping curve is a *wage-setting schedule*, which shows how higher aggregate employment causes pressure for higher real wages. Such a relationship can be derived from several wage-setting frameworks: monopoly-union, efficiency-wage and bargaining models.<sup>2</sup> One argument is that union incentives to avoid wage increases causing lay-offs are weakened when employment is high and it is easy to get a new job, another that employers have to pay more to compete for labour and extract optimal effort from their work forces in such

a situation. Full employment of the labour force is indicated by a vertical line. The equilibrium values of employment and the real wage are obtained as the intersection of the two curves (point A). The amount of involuntary unemployment -- on the part of individuals -- can be read off as the horizontal distance between the equilibrium point and the full-employment line.

To the above diagram one can -- in the spirit of, e.g., Pissarides (1985, 1990) or Blanchard & Diamond (1989) -- append the Beveridge curve, which can be interpreted as a measure of the effectiveness of the matching process between vacancies and unemployed. More precisely, the Beveridge curve in *Diagram 2* shows the equilibrium relationship between vacancies and unemployed, along which hirings exactly match quits, so that employment stays constant. More vacancies will in general be consistent with lower unemployment, since the extra hirings due to more job vacancies need to be offset by fewer job matches due to a smaller number of job applicants if employment is to stay constant.<sup>3</sup> In equilibrium, the unemployment rate in *Diagram 2* must, of course, be the one implied by the intersection of the wage-setting and employment schedules in *Diagram 1*.

To analyse active labour market policy, this model set-up has to be slightly modified. The reason is the need to distinguish between participation in labour market programmes and regular employment. For this purpose, the employment and wage-setting schedules are instead drawn with regular employment (excluding participation in programmes) on the horizontal axis in *Diagram 3*.<sup>4</sup> Participation in training and job creation programmes (as a fraction of the labour force) is measured by the horizontal distance  $\tau_0$  between the full-employment line FE and the vertical line RR, showing the proportion of the labour force that is not in programmes. (Programme participation may in principle also include subsidised private-sector jobs that are perfect substitutes for regular jobs from the point of view of the individual employee). Since the intersection between the employment and wage-setting schedules at A now determines the rate of regular employment (as a fraction of the labour force), it follows that the distance  $u_0$  between the equilibrium point and the RR-curve measures open unemployment.<sup>5</sup>

The Beveridge curve also needs to be modified (see *Diagram 4*). The horizontal axis now measures the total number of job searchers without a regular job, i.e., the sum of openly unemployed and participants in labour market programmes. The vertical axis indicates vacancies for regular jobs. Two implicit assumptions lie behind this illustration. The first is that regular job openings can be filled either from the stock of openly unemployed or from the stock of programme participants.<sup>6</sup> The second is that the matching process with respect to labour market programmes is much simpler than in the regular job market: the labour market authorities do not usually have to post vacancies but can directly place unemployed workers in various programmes.

The diagrams can be used to illustrate the various effects of labour market programmes. Increased placement in training or job creation schemes can be depicted in *Diagram 3* as a leftward shift of the RR-line (programme participation increases by  $\Delta r$ ). If nothing else were to happen, the effect would simply be to reduce open unemployment by a corresponding amount (from  $u_0$  to  $u_1$ ). This will be referred to as the gross (or bookkeeping) effect of such an expansion of programmes. However, to obtain the net effect it is obviously necessary to take a number of indirect effects into account. One must analyse how the incentives for wage setting, regular labour demand and labour supply are affected. This is done below.

The emphasis will be on how regular employment and the total number of job searchers without a regular job (the sum of open unemployment and programme participation) is affected. The idea is to capture to what extent the gross impact on open unemployment is reinforced or counteracted by the indirect effects.

## II. Different effects of active labour market policies

The analysis will distinguish the following types of effects of active labour market policies, which can be considered additive to each other: (i) effects on job matching; (ii) effects on labour-force participation; (iii) effects on competition in the labour market; (iv) deadweight losses and substitution effects; (v) displacement effects via wage setting; (vi) productivity effects; (vii) work-test effects; (viii) general-equilibrium tax effects; and (ix) repercussions on other policies.

### A. Effects on the matching process

A traditional rationale for active labour market policy has been to facilitate the matching process in the labour market. This may occur through a number of mechanisms: (i) mismatch between different sub-markets for labour may be eliminated to the extent that the qualifications of job searchers can be better adapted to the structure of labour demand; (ii) more active search behaviour on the part of job seekers can be promoted; and (iii) labour market programmes can substitute for regular work experience in reducing employer uncertainty about the employability of job applicants.

The impact of improved matching is to reduce the number of job searchers for a given number of vacancies, i.e., to shift the Beveridge curve in *Diagram 4* to the left. This is likely to affect both the employment and the wage-setting schedules in the Layard-Nickell diagram (see *Diagram 5*). Since vacancies become filled more quickly, they become less costly to firms, and more vacancies are opened. This is equivalent to an increase of labour demand, i.e., a rightward shift of the employment schedule (Calmfors & Lang (1993)). Moreover, to the extent that posting vacancies and offering high relative wages can be seen as substitutes for each other in the hiring process of the individual firm, an increased matching effectiveness weakens the incentives for individual employers to attract labour by pushing up wages. This tends to shift the wage-setting schedule downwards (Johnson & Layard (1986)). As can be seen, both effects work in the direction of increasing regular employment (from A to B), although the real-wage effect is ambiguous.<sup>7</sup>

One should expect intensified placement services that help increase the search effectiveness of job seekers to have unambiguously positive effects on the Beveridge curve in *Diagram 4*. With placement in training or job creation schemes, there are, however, also effects working in the opposite direction, since search intensity is likely to be reduced during the period of actual programme participation. Edin (1989), Holmlund (1990), and Edin & Holmlund (1991) have shown how participants in Swedish relief work schemes appear to search no more intensively than the regularly employed, and that the re-employment chances for those still participating in programmes appear lower than for the openly unemployed.

To get the net effect on job matching, one obviously has to subtract negative locking-in effects on individual search behaviour during programme participation from the potentially positive treatment effects once programmes have been completed. One must also take into account that the prospect of being placed in a programme may reduce search effectiveness already before placement. This risk is greater, the more attractive are the programmes offered. It will not be captured by microeconomic evaluation studies comparing re-employment probabilities of the openly unemployed and earlier programme participants: on the contrary, these may show large differences precisely because of such *ex ante* effects on search behaviour.

On the whole, micro studies of how the job chances of specific target groups have been affected by various labour market measures provide little information on the overall effects on job matching, since improved opportunities for one category may have been bought at the expense of others. Nor are most of the available Beveridge-curve studies at the macro level very helpful. The reason is that they have usually focused on the relationship between open unemployment and vacancies (e.g., Jackman *et al.* (1990), Bourdet & Persson (1990), Layard *et al.* (1991), OECD (1992, 1993a), and Lehmann (1993)). It is not surprising that one finds an inward shift of the open unemployment-vacancy relationship, as depicted in *Diagram 2*, when active labour market programmes involving participation during extended periods are expanded: even with a zero effect on matching probabilities, this relationship would shift simply because of the arithmetical reduction of open unemployment when programme participation is increased (the shift from curve I to II in *Diagram 2*). This is why the Beveridge curve has been drawn here as the relationship between the total number of job seekers without a regular job (the sum of openly unemployed and participants in programmes) and vacancies, in which case an inward shift will only reflect an increased effectiveness of the matching process (the shift from curve I to II in *Diagram 4*).<sup>8</sup>

In the Swedish case, there is some -- but unfortunately conflicting -- evidence on how the total Beveridge curve in *Diagram 4* has been related to active programmes. On the one hand, Bourdet & Persson (1993) find that there has been no trendwise outward shift of this curve in Sweden, in contrast to other countries, such as France, which have placed less emphasis on active labour market measures. On the other hand, the estimations in both Jackman *et al.* (1990) and Calmfors (1993a) fail to disclose any time-series relationship between the variations of programmes and the movements of the total Beveridge curve.<sup>9</sup> Some further indirect evidence is provided by McCormick & Skedinger (1991), who find that more programme placements in an individual region appear to increase open unemployment, which they interpret as the consequence of a weakening of incentives for labour mobility.

## B. Effects on the labour force

One of the negative effects of unemployment, especially when it is of long duration, is that labour supply tends to be reduced. Discouraged workers who do not find jobs will tend to leave the labour force. The risk of such negative supply effects appears greatest for elderly workers, especially when early retirement is used as a method of solving the labour market problems of this group, as has been the case in, e.g., Belgium, France, the Netherlands and the Nordic countries. In addition, prospective entrants may not enter the labour force in situations of high unemployment.

This reasoning points to another possible channel of influence of active labour market policy, namely to maintain labour force participation. There have not been many quantitative studies of this link, but one example has been provided by Wadensjö (1993) in the case of Sweden. The qualitative effects are, however, easy to outline.

The larger is the labour force, the lower is the proportion of it that is regularly employed at each wage level (since each wage is associated with a given number of employed persons). Hence a positive labour-supply effect of labour market programmes means a *ceteris paribus* shift to the left of the employment schedule in *Diagram 5*. The higher supply of labour relative to demand means more competition for the available jobs, which puts downward pressure on wages. A new equilibrium tends to be established at C. As can be seen, the labour-market situation deteriorates in the sense that a lower proportion of the labour force is now regularly employed, and hence a larger proportion is either openly unemployed or participating in programmes.<sup>10</sup> But

situation has improved in the sense that a larger proportion of the population is regularly employed. This illustrates the importance of distinguishing between different goal variables when analysing labour market programmes.

## C. Competition effects for insiders

The labour-force effect discussed above does not presuppose that labour-market programmes are targeted on outsiders in the labour market, such as the long-term unemployed or other marginal groups (young people, women not previously seeking work, immigrants etc.): in principle, programmes for the short-term unemployed may also help counteract the tendency to lower labour supply, since the pace with which these are turned into long-term unemployed with larger risks of demotivation is slowed down (Calmfors & Lang (1993)). Programmes targeting outsiders should, however, be expected to be more effective in promoting labour-force participation. Such programmes may also increase the competitiveness of outsiders relative to insiders and therefore have wage-reducing competition effects in addition to the aggregate labour-supply effect analysed above, as has been emphasised by, e.g., Layard (1986, 1989, 1990), Layard *et al.* (1991) and Calmfors & Lang (1993). This is explained by the hypothesis that insiders -- in this context the employed and the short-term unemployed -- exert a dominating influence on wage setting (Gottfries & Horn (1986), Blanchard & Summers (1986), Lindbeck & Snower (1988), Nickell (1990)). An increase in the competitiveness of outsiders may occur through several channels: by increasing their productivity, by substituting labour market programmes for regular work experience when employers screen job applicants, or by encouraging more active search behaviour. The competition effect, can be illustrated as a downward shift of the wage-setting schedule in *Diagram 5*.<sup>11</sup> This tends to move the equilibrium to D with lower wages and higher regular employment.

In principle, all forms of active labour market policy may contribute to a redistribution of employment opportunity. As has been found in a number of studies for e.g., Britain, France, the Netherlands, Sweden and the United States, intensified counselling and encouragement of active search behaviour for the long-term unemployed or other disadvantaged groups appear to have significant effects on job finding rates (Björklund (1990), Haveman & Hollister (1991), OECD (1993a,b), Lehmann (1993)).<sup>12</sup> In fact, one might expect such job search assistance to produce the fastest results with respect to competition effects: training programmes and temporary job creation will not have an effect until the participants leave the programmes, and while in programmes, the participants may even compete less vigorously for regular jobs, as discussed in Section II.A. On the other hand, successful training and job creation schemes might produce more sustained competition effects if they have permanent effects on the skills of the participants. Placement in job creation schemes or programmes giving on-the-job training may also prove necessary to overcome employer reluctance to hiring long-term unemployed because of uncertainty about the job applicants' work capability (Meager & Metcalf (1987), Colbjørnsen *et al.* (1992)).

#### D. Deadweight and substitution effects

So-called deadweight losses and substitution effects have received substantial attention in the literature (e.g., Haveman & Hollister (1991), Layard *et al.* (1991), Björklund & Holmlund (1991) and OECD (1993a)). These apply mainly to job creation schemes. The *deadweight loss* is defined as the hirings from the target group that would have occurred in the absence of the programme. The *substitution effect* is defined as the extent to which jobs created for a certain category of workers simply replace jobs for other categories, because relative wage costs are changed.

The deadweight and substitution effects of job creation programmes can be illustrated by a leftward shift of the employment schedule in *Diagram 5*, which will tend to reduce regular employment and counteract the fall in open unemployment (the equilibrium tends to move from A to C in this case as well). Such effects are likely to be most important in the case of subsidies for private-sector work, which are common in many countries for young people and long-term unemployed. Similar effects may, however, also occur with public-sector job creation schemes: since these usually are organised at lower levels of government, there is a risk that they hold back ordinary job creation in order to be able to take advantage of schemes financed by the central government (fiscal displacement). In order to minimise this danger, a principle of additionality is often imposed on public work programmes: they are designed to be of such a character that they would not otherwise have been undertaken (Grubb (1993)).

Available empirical evidence indicates that deadweight and substitution effects may indeed be substantial. Studies of subsidisation of private-sector work in Australia (Department of Employment, Education and Training (1989)), Ireland (Breen & Halpin (1989)), and the Netherlands (de Koning *et al.*, (1992)) all point to combined deadweight and substitution offsets of the order of 70-90 percent of the gross number of jobs created. For Sweden, Vlachos (1985) found that the majority of new hirings benefiting from a recruitment subsidy would have been made anyway, whereas subsidies in order to prevent lay-offs achieved a net impact of around 40 percent under the assumption that wage setting was not affected (see Section II.E below).

The evidence on fiscal displacement effects in the case of public-sector job creation is more mixed. For the Netherlands, de Munnik (1992) found only small effects in a programme offering permanent municipal work to the long-term unemployed. For Finland (Eriksson (1993) and Germany (Bellmann & Lehmann (1990)), public-sector job creation was found to increase the flow out of unemployment. In contrast, Jackman and Lehmann (1990) found no significant impact on the flows out of unemployment from the British Community Programme. For Sweden, a recent study by Ohlsson (1993) comes up with similar results. During their first quarter, public-sector relief works are estimated to have a net impact of around half the gross effect, but in subsequent quarters no significant effects on open unemployment can be found. (Incidentally, a similar result is obtained for labour market training). The conclusions in Gramlich & Ysander (1979) and Forslund & Krueger (1993) are more ambiguous. For road building, Gramlich & Ysander find the regular work force to be reduced by more than the increase in the number of relief workers, whereas Forslund & Krueger estimate that total deadweight and substitution effects amount to 60-70 percent of the gross employment in job creation schemes in the building sector. In contrast, there is not much evidence for such displacement effects in the health and welfare sector in the two studies. One can only speculate about the reasons for these sectoral differences. Gramlich & Ysander suggest that there are more complementarities in the health and welfare sector (relief workers cannot substitute for the ordinary personnel). Another possible explanation is differences in the budget process: the decisions in the municipalities to apply for relief-work grants in the case of large building projects may

often be taken at the same central level as where the overall budget allocations are made. In contrast, the decisions to use relief workers may be taken at more decentralised levels, and with fixed budgets, in the health and welfare sector.

#### E. Reduced welfare losses for the unemployed and crowding-out effects

An explicit aim of active labour market policy is to reduce the welfare loss from being out of work. The pursuit of this aim may, however, give rise also to undesirable side effects, because insider wage demands are accommodated, as has been stressed in the Scandinavian discussion of these policies (see Calmfors and Forslund (1990, 1991), Calmfors and Nymoen (1990) or Holmlund (1990), but also Corneilleau *et al.* (1990)). The reason is that most wage-setting models postulate a negative relationship between the welfare reduction from a job loss and the wage level. This is the case in union and bargaining models, where unions are assumed to trade off the welfare gains from higher wages for the employed members against the welfare losses for those members that are laid off (see, e.g., McDonald and Solow (1981), Oswald (1986) or Layard *et al.* (1991)). It is also the case in efficiency-wage models, where employers have to pay more to induce effort on the part of the employees as well as to recruit and prevent quitting when the welfare for a job searcher is higher (Shapiro and Stiglitz (1985), Johnson and Layard (1986)).

There are several reasons why participation in job creation or training schemes may reduce the welfare loss of the unemployed. One is that a labour market programme may offer higher compensation than unemployment benefits. If so, an expansion of labour market programmes will have effects similar to a rise of the unemployment benefit (Calmfors and Forslund (1990, 1991), Calmfors and Nymoen (1990)). But the welfare losses from unemployment may also be reduced to the extent that programme participation decreases the risks of future "unemployability" or unfavourable wage developments due to present unemployment spells (Calmfors and Lang (1993), Calmfors (1993a)). Unfortunately, these desired effects of labour market programmes always involve the risk of weakening incentives for wage restraint. In *Diagram 5*, this is illustrated as an upward shift of the wage-setting schedule, which works in the direction of reducing regular employment (tending to move the equilibrium from A to E).

The effect discussed here thus means that active labour market programmes may crowd out regular employment. It can be seen as a generalisation of the so-called displacement effect, i.e., the possible reduction of jobs elsewhere in the economy because of competition in goods markets, which has been discussed especially in connection with subsidised jobs in the private sector (see, e.g., Haveman and Hollister (1991), Layard *et al.* (1991) or OECD (1993a)). Here the correspondence would be the case when participation in a labour market programme is regarded as a perfect substitute for regular work. Then the wage increase from the upward shift of the wage-setting schedule in *Diagram 5* would be exactly the same as would have occurred if the employment schedule had been shifted to the right by the amount of jobs created through subsidisation.

#### F. Productivity effects

A common argument, dating back to Phelps (1982), is that unemployment may have negative productivity effects because the opportunities to acquire human capital through on-the-job training are lost and working habits deteriorate. The recent debate has stressed this risk, especially for the long-term unemployed (see, e.g., Layard *et al.* (1991), Pissarides (1992) or Bean (1992)). Another possible effect of active labour market programmes is to counteract these tendencies. To raise or maintain the

productivity of the unemployed is, of course, the explicit aim of labour market training, but job creation schemes may serve the same end via on-the-job training.

Usually, it is just taken for granted that training, by raising the marginal productivity of programme participants, contributes to higher employment. If one, as a first approximation, views labour market training as just one form of general technological progress, the illustration would be a rightward shift of the employment schedule in *Diagram 5* (tending to move the equilibrium from A to F). This works in the direction of increasing regular employment. It is well-known, however, that all forms of technological progress need not give rise to such positive labour-demand effects. For instance, if technological development is labour-augmenting, i.e., if output depends on the amount of labour in efficiency units and labour becomes more efficient, the net employment effect is uncertain. On the one hand, there is a scale effect tending to increase employment because of the incentive to expand output by using more efficiency units of labour when the unit cost falls. On the other hand, there is a substitution effect tending to reduce labour demand, because a given output can be produced by fewer and more efficient workers. The scale effect dominates the substitution effect only if labour demand is elastic.<sup>13</sup> This uncertainty about the net employment effects of technological progress in general carries over to labour market training as well.

Another uncertainty concerns the response of wages to productivity changes induced by labour-market training. Although our knowledge on this point is very limited, we can draw parallels to the discussion about the wage and employment effects of productivity change in general. Here there exist two opposing views. On the one hand, insufficient adjustment of wage aspirations to the productivity slow-down in the early seventies has been advanced as a major explanation of the rise in unemployment in most OECD countries (Grubb *et al.* (1982, 1983), Bruno and Sachs (1985), Sachs (1987)). On the other hand, it has been claimed that the absence of a secular trend in the unemployment rate must be taken to imply that productivity increases in general result in corresponding wage rises (Bean *et al.* (1986), Blanchard and Summers (1986), Bean (1992)). For instance, Bean's interpretation of the available empirical evidence is that "the productivity slowdown has only a modest role to play in explaining the rise in unemployment". If this interpretation is correct, labour market programmes should not be expected to contribute to higher regular employment via their productivity effects. In terms of *Diagram 5*, a productivity rise will be associated with a corresponding upward shift of the wage-setting schedule, leaving the employment rate unchanged (with the new equilibrium at G). This would not, however, mean that productivity-raising labour market programmes are without value: although they will not in this case help increase regular employment, there are, of course, likely welfare gains from the higher productivity (output) in itself, and from the reduction of open unemployment.

A more elaborate analysis must allow for the heterogeneity of labour. The celebrated active labour market policy in Sweden has traditionally been motivated within a disaggregated framework. The original idea was to alleviate aggregate wage pressure by retraining labour in low-productivity sectors with excess supply, so that it could be moved to excess-demand sectors with high productivity (*Fackföreningsrörelsen och den fulla sysselsättningen* (1951)). With the help of *Diagram 6*, the argument can be cast in terms of the analytical framework used here. The Diagram shows a stylised wage-setting schedule, which is horizontal when there is unemployment and becomes vertical at full employment. The employment schedules I and II represent a low-productivity and a high-productivity sector, respectively. A transfer of labour from the former to the latter sector can be illustrated as a rightward shift of the employment schedule I and a leftward shift of the schedule II (at each wage, labour demand increases as a proportion of the labour force in the former sector, whereas it decreases in the latter). The result is a higher employment rate in the low-productivity sector and an unchanged one in the high-

productivity one. Since a larger share of the labour force also finds itself in the sector with a high employment rate, the aggregate employment rate must also increase. This effect will be reinforced to the extent that the two types of labour are complements in demand, since the wage reduction in the high-productivity sector also stimulates employment in the other sector.

The argument will be qualitatively the same with less extreme wage-setting assumptions. It is enough that wages increase progressively more as the employment rate increases (unemployment decreases), as claimed to be the case by, e.g., Blanchflower and Oswald (1993). This case is also illustrated in the diagram. However, the scope for such employment-increasing re-allocations of labour is much smaller in a situation of general excess supply for labour -- which would seem to characterise Western Europe at present -- when most sectors will find themselves clustered close together on the flat part of their wage-setting schedules. The Swedish re-allocation model was not designed to solve such a problem, but to facilitate a process of structural change.

Models have also been constructed in which re-allocation of labour through training programmes may have perverse employment effects. Saint-Paul (1992, 1993) has analysed the case when skilled and unskilled labour are substitutes. If firms are to hire some unskilled workers in this framework, their lower productivity must be balanced by higher unemployment: this may either reduce their relative wage (Saint-Paul (1993)), or allow vacancies to be filled more quickly than for skilled workers (Saint-Paul (1992)). Transforming some of the unskilled workers to skilled ones in this analysis raises unemployment among the latter category as an impact effect. As a consequence, the relative wage of skilled workers falls and skilled job vacancies are filled more quickly. This makes it profitable for firms to substitute skilled for unskilled workers, and hence unemployment rises for unskilled workers as well. The net outcome for aggregate unemployment is ambiguous: on the one hand the employment rates increase for both types of labour, on the other hand a larger fraction of workers find themselves in the high-employment category.

### G. Work-test effects

There will always be a certain fraction of those that receive unemployment benefits who are not really searching for work. With high unemployment, it is impossible for the labour market administration to test the willingness to work of benefit claimants through regular job offers. Placements in labour market programmes may provide an alternative work test for the eligibility of unemployment benefits, since some of those who are not genuinely interested in work will prefer to lose registration rather than to participate in a programme (OECD (1991), Grubb (1993)). This, of course, presupposes that it is compulsory for obtaining benefits to accept offers of programme participation, as is indeed the case in many countries.

The work-test effect will tend to reduce unemployment, as measured by the number of benefit claimants. There is not, however, much information on the magnitude of this effect. One would perhaps not expect it to be very large. According to some studies, more intensive counselling of the unemployed has, however, led to 5-10 per cent of the target group leaving the register (OECD (1991)). These figures could perhaps be regarded as minimum estimates of the work-test effect of programme participation.

There is, however, no reason to expect a fall in the number of benefit claimants to reduce the real amount of involuntary unemployment (as the Labour Force Surveys try to capture), since those affected by the work-test effect were not actively seeking work in the first place. If there is any effect on the effective supply of labour, it ought rather



to increase it, by making it less attractive to try to live only on unemployment benefits. Arguably, such an effect -- to which the analysis in Section II.B applies -- ought to be minor.

## H. Tax effects

In a complete analysis, one would also have to consider the *tax repercussions* of active labour market policies and how they impinge on wage and employment determination. To analyse this, it is necessary to distinguish between the real consumption wage (the after-tax real wage) of employees and the real product wage (the real wage cost including pay-roll taxes) to employers. There is a general presumption that tax repercussions may reinforce the net of the effects discussed above (Calmfors and Lang (1993)). For instance, higher regular employment (and output) tends to increase the tax base and reduce the sum of the costs for unemployment benefits and programmes, which should allow tax rates to be lower than would otherwise be the case. If we think of the vertical axis in *Diagram 5* as denoting the real consumption wage, lower tax rates will then shift the employment schedule to the right, since the real product wage associated with each real consumption wage falls.<sup>14</sup> There is an on-going discussion - similar to that about the link between productivity and wages (see Section II.F above) - on how such a tax change will affect wage-setting behaviour in the long-run, *i.e.*, on whether the wage-setting schedule will ultimately shift so much upwards that the real product wage is left unchanged (see, *e.g.*, OECD (1990), Calmfors and Nymoén (1990), Layard *et al.* (1991), Andersen (1992), Bean (1992)). If the wage-setting schedule shifts less than the employment schedule - as some evidence indicates - active programmes that tend to increase regular employment in the first round also give rise to additional reinforcing tax effects.

However, it is also possible that programmes are more expensive than unemployment benefits because of higher compensation levels and/or the costs of arranging them (from which one has to deduct the value added produced in job creation schemes). To the extent that this is the case, there will be a tendency for tax rates to increase, thereby increasing real product wages and reducing regular employment. There will be similar effects if participation rates increase, with the consequence that more people claim unemployment benefits, but this will be counteracted by lower costs for early retirement pensions and the work-test effects on the number of unemployment benefit claimants discussed above.

## I. General-equilibrium effects on other policies

In a full general-equilibrium analysis, account must finally be taken of possible *interrelations* between various policies.

One common claim is that labour market programmes may act as a *substitute* for long duration of unemployment benefits (*e.g.*, Layard (1991) and OECD (1993c)). It is well known from a number of studies that unemployment in general and long-term unemployment in particular is correlated with the duration of unemployment benefits (*e.g.*, Burda (1988), Layard (1990), Layard *et al.* (1991), Layard and Nickell (1991), Heylen (1993), OECD (1993a), Zetterberg (1993)). If one interprets this correlation as a causal relationship, one can argue that a sufficient condition for active labour market policy to increase regular employment in a true general equilibrium that takes all policy interrelationships into account is that the "partial" effect without policy responses -- *i.e.*, the net of the employment effects discussed in Sections III.A-III.H -- is less negative than the net "partial" effect of the alternative with long duration of benefits.

Another alternative to active labour market policy may be aggregate-demand policies in order to increase regular employment. It is a common view, especially in the older literature on labour market policy, that an increase in participation in job creation schemes will contribute less to wage pressure than a corresponding increase in regular employment -- even if the same wage is paid and the jobs are also regarded by workers as perfect substitutes in other respects (see, *e.g.*, Baily and Tobin (1977)). The basic idea is that inflationary effects can be reduced by targeting the increase of labour demand on those who are unemployed instead of raising aggregate labour demand in general, which will result also in competition between employers for the already employed. This is likely to be a relevant argument if programmes are targeted on outsiders, as discussed in Section II.C. However, there are also potential risks if labour market policies are used to counteract unemployment wherever it threatens to occur, as was tried in many countries in the mid-seventies, when it was a common policy objective to try to maintain workers in their current jobs through redundancy-deferring subsidies (OECD 1990)). In fact, such selective accommodation policies are likely to weaken union incentives for wage restraint more than an increase of aggregate labour demand: in the former case, lay-offs resulting from high wage increases for the members of any individual union will be partly accommodated by placements in labour market programmes, whereas in the latter case the individual union's members will have to compete on equal terms for the new job openings created by the expansion of aggregate labour demand (Calmfors and Horn (1985), Leonard and van Audenrode (1993)). This reasoning has been used to explain why some Swedish studies have found labour market programmes to be more wage-raising than regular employment (Calmfors and Forslund (1991), Forslund (1992)).

Indeed, one may see it as a risk that too strong an emphasis on active labour market measures could lead policy makers to neglect other policies. It has, for instance, been claimed that the strong belief in the potential of labour market programmes may have been an important explanation of the restrictive demand policies in Sweden in 1990-92, which seem to have contributed strongly to the dramatic rise in unemployment (Calmfors (1993a)). However, such problems need not be inherent, but may rather reflect slow learning processes.

At the same time, it is obvious that properly designed programmes can act as *complements* to demand policies. To the extent that these are held back because of the fear that increased labour demand will just lead to increased wage pressure, active programmes that attack various persistence mechanisms (by increasing the search effectiveness of the unemployed, by providing them with the skills in demand, or by acting as substitutes for regular work experience in the screening of job applicants by employers) may be a necessary prerequisite for a more expansionary policy stance.

The difficulties of drawing precise conclusions about the effects of active labour market policy become even greater once one allows for possible interrelationships with various structural reforms in the labour market with respect to, *e.g.*, wage-setting practices, employment protection legislation, competition policy etc. The great uncertainty surrounding the possibility of such endogenous policy responses does not mean, of course, that these effects need be less important than the ones that are easier to quantify. Indeed, the opposite might be the case.

## III. The net effect of active labour market programmes

The main conclusion from the analysis in Section II is that active labour market policies work via a number of channels. *Table 1* represents an attempt to summarise the various possible effects. The discussion has made it clear that it may sometimes be difficult to sign individual effects. It is impossible to infer the *net* impact of active

labour market policy from theoretical reasoning only. Unfortunately, however, the available empirical evidence on the overall macro effects is still scarce.

#### A. Existing empirical research

The area where there exists most empirical research is aggregate wage setting. A number of studies have tried to estimate how the wage-setting schedule in our diagrams are affected by active labour market programmes. These studies can be interpreted to give estimates on the net of several of the effects on the wage-setting schedule discussed above: the matching effect (Section III.A), the competition effect (Section III.C), the reduced-welfare-loss effect (Section III.E) and possibly, also, the productivity effect (Section III.F). Although these effects do not represent the full general-equilibrium ones, they still make up an important subset.

Most wage-setting studies made so far are time series estimations for Sweden, where the traditional emphasis on active labour market policy has made it more natural than elsewhere to analyse the macroeconomic impact. The majority of these estimations, which are summarised in Calmfors (1993a), have found increased programme participation to shift the wage-setting schedule in our diagrams upward (aggregate wage pressure rises when programme participation increases at a constant rate of regular employment or, which is the same thing, when a given number of workers are transferred from open unemployment to programmes). (Sometimes, the wage-raising effects of active programmes appear to be even larger than those of regular employment).<sup>15</sup>

There are also a few time-series studies of the relationship between wages and active labour market policy for other countries. For Finland, similar results as for Sweden were obtained by both Eriksson *et al.* (1990) and Calmfors and Nymoén (1990). The latter also found unemployment-reducing programmes to increase wage pressure in Denmark but not in Norway.

A more favourable picture of the wage-setting effects of active labour market programmes is provided in OECD (1993a), where Phillips-curve estimations covering nineteen different countries are made. For the majority of these, increased programme participation that reduces open unemployment seems to contribute to *less* wage pressure, although the estimates often are imprecise. A drawback is also that the number of observations on programmes is very small for each country.<sup>16</sup>

An attempt to exploit cross-country variations in the size of labour-market programmes has been made by Heylen (1993), who tries to explain differences in the responsiveness of wages to open unemployment. He finds that increased expenditures on active programmes per unemployed person (as well as a larger ratio between expenditures on active programmes and on unemployment benefits) tend to increase the wage responsiveness to changes in open unemployment. These results are not directly comparable to the ones reported above, since they cannot readily be transformed so as to indicate whether an expansion of labour market programmes that reduces open unemployment is likely to be wage-increasing or wage-reducing. (On the one hand, a fall in open unemployment puts upward pressure on wages, but on the other hand the increased responsiveness of wages to unemployment tends to moderate them).<sup>17</sup>

Finally, it is possible to infer what can be regarded as estimates of the *total* effects of active labour market policies (excluding only some of the policy interrelationships in Section II.I) from a couple of studies also exploiting cross-country variations. Layard *et al.* (1991) estimates a cross-country reduced-form equation for open unemployment in the eighties, where expenditures on active programmes per unemployed as a ratio of GDP per capita is one of the explanatory variables. Zetterberg (1993) pools cross-country and time series data for 1985-91 and makes his estimations

with instead the share of expenditures on active programmes out of total labour market expenditures as the labour-market-policy variable. The two studies come up with similar results: they seem to imply that an increase of programme participation with 1 percentage point of the labour force reduces open unemployment by 1.5 (*i.e.*, the rate of regular employment increases by 0.5 percentage points).<sup>18</sup>

#### B. Problems of interpretation

The limited but yet diverse empirical evidence on the net employment effects of active labour market policy suggests the need for more research. However, it appears important to point out a few problems in this context.

All the studies mentioned measure unemployment and programme participation in relation to the labour force. Hence they do not take into account the possible job-creating effects of active labour market policy from increased labour-force participation, as discussed in Section II.B.

The effects of labour market programmes may very well depend on how much unemployment there is. One can find theoretical arguments why active programmes should be expected to give better results with higher unemployment (see also Section IV.C below). There is then a smaller risk of accommodating insider wage claims. The scope for targeting the long-term unemployed and strengthening their relative competitiveness increases, and the task of maintaining labour-force participation becomes more important. Hence the earlier wage-setting studies from Sweden, which refer to situations with very low unemployment (in the 1-3 percent range) may not be relevant to the typical Western European case of high unemployment (to which also Sweden has recently conformed).

There are also statistical problems of interpretation. It has been pointed out in Grubb (1993) and OECD (1993a) that the typical pattern within the OECD is that active programme expenditures seem to increase *less* than proportionally with unemployment. If this is taken to reflect a "government policy reaction function", the results of, *e.g.*, Layard *et al.* (1991), Zetterberg (1993) and van Heylen (1993) may all be subjected to simultaneity bias that tends to give too positive a picture of active labour market programmes: the estimated negative effects on, for instance, open unemployment may reflect government reactions to unemployment as well as the response of unemployment to active programmes. The reason is that the above studies all capture the emphasis on active labour market policy by some measure of programme expenditures in relation to unemployment.<sup>19</sup>

The Swedish wage-setting studies may suffer from an opposite simultaneity problem, since the typical pattern in Sweden seems to have been that programme participation has increased *more* than proportionally when unemployment has risen (Calmfors and Forslund (1993)). Hence, higher real wages that have led to lower employment may also have caused programme participation to increase relative to open unemployment. Such an effect may have biased the estimated wage effects of an increase in programme participation relative to open unemployment upwards in the Swedish case.<sup>20</sup>

#### IV. Crucial design features

A possible approach to take may be that the question of the net effect of active labour market policy is perhaps not the most meaningful one. A more relevant issue may be how programmes should be designed and how large they should be in order to make a maximum contribution to employment performance. This Section discusses the



following crucial design features: (i) compensation levels; (ii) the extent of targeting; (iii) the type of programme; and (iv) the duration of programmes and the co-ordination with the unemployment benefit system.

### A. Compensation levels

It is a standard conclusion in the theoretical literature that higher unemployment compensation increases equilibrium unemployment (see, e.g., Oswald (1986), Björklund and Holmlund (1991), Layard *et al.* (1991), Bean (1992)). An analogous argument can be made with respect to compensation levels in labour market programmes. The higher the compensation, the smaller will be the expected income and welfare losses for workers who are laid off or quit (Calmfors and Forslund (1990, 1991), Calmfors and Nymoen (1990)). This strengthens the tendency to wage-raising effects discussed in Section II.E. Moreover, the incentives for participants in programmes to search actively for regular work and accept job offers become weaker, the higher the compensation, with adverse Beveridge-curve effects as a consequence, as discussed in Section II.A.

In practice, compensation in programmes ranges from the equivalent of unemployment benefits (usually in training programmes) to market wages (in many job creation schemes). The above reasoning seems to suggest that there are strong macroeconomic arguments for setting compensation levels close to unemployment benefits. Indeed, the high compensation levels in public job creation schemes in the Nordic countries have been advanced as an explanation of the finding in many studies that labour market programmes there seem to have increased wage pressure (Calmfors (1993a)).

It is sometimes claimed that setting compensation levels in programmes that are in excess of unemployment benefits is necessary in order to provide incentives for participation, especially in the case of labour market training. This reasoning appears questionable, especially if unemployment benefits can be withdrawn in the case of refusal to participate in programmes, as happens in several countries. But the argument is not self-evident even in "laissez-faire systems" where programme participation is voluntary. One could argue that a prerequisite for efficient training programmes is that they should be able to attract participants on their own merits, *i.e.*, because of their effects on future re-employment probabilities and wages, and not because they offer higher short-term compensation.

One method of reducing programme compensation levels in, e.g., public job creation schemes, may be to continue paying market hourly wages but offer only part-time work. For instance, in Sweden both working time and compensation in public-sector relief work have been cut to 90 percent of the "market levels". An earlier youth programme offered only half-time work. An additional advantage of this approach is that the spare time is freed for active job search, which can help counteract the tendency for programme participants to be locked in (see Section II.A).

### B. The extent of targeting

As already discussed in Section II.B, the extent of targeting is likely to be another crucial design feature. If programmes targeted on outsiders in the labour market stimulates wage reducing competition for jobs, the likelihood of substantial positive employment effects is increased.

One issue in this context is whether one should (delay) labour-market-policy interventions until people have actually become long-term unemployed, or if one should try to identify the difficult-to-place early and intervene before they become long-term

unemployed. This problem relates to the general question of to which extent the reduction of re-employment probabilities for categories with long unemployment duration is caused by *heterogeneity* (*i.e.*, the fact that the least employable are gradually sorted out and therefore make up a larger proportion of the categories of unemployed the longer they have been out of work) or by *state dependence* (*i.e.*, the fact that a given individual's chance of re-employment decreases over time). Although there is an ongoing discussion on the relative importance of these two mechanisms, there appears to be a consensus that heterogeneity is important (see, e.g., Jackman and Layard (1991) or van den Berg and van Ours (1993a,b)). This provides an argument for targeting easily identifiable groups of difficult-to-place, such as immigrants, disabled, and those with long earlier unemployment spells. However, a necessary requirement is that the programmes are reasonably effective in raising the competitiveness of the difficult-to-place. Here the results are somewhat mixed. On the one hand, Haveman and Hollister (1991) conclude that targeting seriously disadvantaged groups seems to be the most effective (although the impact does not appear very strong). On the other hand, a few of the studies surveyed in OECD (1993a) seem to indicate that the best results are obtained by targeting groups with "moderately severe, easily identifiable" problems (such as women re-entering the labour market).

There are, however, also likely to be limits to the degree of targeting on those that are regarded as difficult to place. Exclusive targeting on this group is not likely to be appropriate, since programmes then run the risk of stigmatising the participants as problem cases and hence signal to employers that hiring them should be avoided (Burtless (1985)). This would seem to be a strong argument against focusing programmes only on disadvantaged groups.

From a theoretical point of view, young entrants to the labour market clearly form a group of outsiders that compete with the current insiders. Youth programmes, such as are common in many countries, would therefore be expected to reduce wage pressure (Calmfors and Lang (1993)). Surprisingly, however, according to some Swedish studies, programmes targeting young people seem to have been less successful than one would expect from theoretical reasoning. Skedinger (1991) finds that active labour market programmes for this group appear to have been more wage-raising than programmes for other age groups. Wadensjö (1987) also points to large crowding-out effects on regular employment for young people. Calmfors and Skedinger (1994) find that the extent of targeting on this group does not influence the overall employment impact of active labour market programmes.

As concerns targeting according to the duration of unemployment, *i.e.*, the issue of *optimal timing* of labour-market-policy interventions during a typical unemployment career, there has, somewhat surprisingly, been almost no empirical research. It is, however, easy to outline the main trade-offs involved.

There are a number of advantages with programme placements late in an unemployment spell. Deadweight losses will be smaller to the extent that one avoids programme participation by many of those who will anyway find a new job. This tends to hold down costs so that unfavourable tax repercussions with possible adverse employment effects, as discussed in Section II.H, are reduced. A smaller number of job applicants are locked in by programmes. One is also more certain to target outsiders. Finally, the benefits of programme participation for the individual will be discounted more heavily, which decreases the risks of accommodating insider wage demands, as stressed in Section II.E (see also Calmfors and Lang (1993)).

The above benefits, must however, be traded off against the disadvantages. The later programme placements occur, the smaller is the potential number of outsiders who can compete more effectively with insiders. It is also likely to be more difficult to

restore lost competitiveness on the part of the unemployed, the more it has been allowed to deteriorate. This has led, e.g., Layard *et al.* (1991) to recommend targeting the "medium-term unemployed" (those having been unemployed around six months) rather than the really long-term unemployed.

To analyse the appropriate timing of labour-market-policy interventions, one would need more knowledge on the duration dependence of both re-employment probabilities and the effects of active programmes. On the latter point research is almost non-existent. On the former, there is a fair amount of evidence on negative duration dependence, i.e., that re-employment probabilities fall over time, but there is also material that does not support this conclusion (see, e.g., Björklund (1990), Steiner (1990), Layard *et al.* (1991), OECD (1991) and van der Berg and van Ours (1993a,b)). Also, to the extent that there is negative duration dependence, the speed of deterioration of re-employment chances is very important, e.g., if there are "jumps" in the development at certain points of time. Here we have only circumstantial evidence. For instance, a Norwegian study indicated only minor changes in employer attitudes toward hiring an unemployed during the first half-year of unemployment, but significant changes when duration exceeded six and twelve months, respectively (Colbjørnsen *et al.* (1992)). Macroeconomic studies of wage-setting that have found a higher proportion of long-term unemployed to increase wage pressure -- given the total rate of unemployment -- have drawn the dividing line between short-term and long-term unemployment at twelve months (see, e.g., Layard and Nickell (1986), Franz (1987) or OECD (1993a)). In contrast, Calmfors and Nymoen (1990) found no evidence on differential effects of short-term and long-term unemployment on wage formation in the Nordic countries when six months was used as the dividing line.

When analysing the impact of targeting, one should in general be careful when drawing conclusions from wage equations with the proportion of long-term unemployment as an explanatory variable. Although this variable has been shown to be negatively related to the ratio between active expenditures and unemployment benefits across countries (OECD (1993a)), earlier estimated wage equations reflect labour-market processes where active programmes have been of limited importance. Variations in measured long-term unemployment are likely to have come about mainly through variations in regular employment and outflows from the labour force. Hence the equations may provide little information on the extent to which wage pressure can be reduced by a large-scale expansion of active programmes in order to cut long-term unemployment. This may be seen as an example of the general *Lucas critique*: the statistical relationships that hold under one policy regime may not be relevant under another when variations in the explanatory variables arise from different policies.

Unfortunately, the data necessary to test whether a reduction of long-term unemployment through labour market programmes are likely to have the desired effects do not exist today. The reason is that in most countries no statistics are readily available on the proportion of job seekers -- including both the openly unemployed and programme participants -- who have been out of a regular job more than a certain period of time and on how large shares of the outflows from long-term unemployment are into programmes. The collection of such data on an international scale ought to receive high priority if active labour market policy is to be evaluated properly.

### C. Types of programmes

Another crucial issue is how to best allocate resources between the various types of programmes discussed here, i.e., placement services and job search assistance, labour-market training, public-sector job creation and subsidised work in the business sector. Put differently, how does the optimal labour-market-policy portfolio look?

The sad answer is that we, despite an impressive amount of research, know very little. Already to go through only existing micro studies or surveys of such micro studies is a very distressing experience, because of the difficulties to generalise (see, e.g., Haveman and Hollister (1991), Björklund (1993), Dolton (1993), Johannesson and Zetterberg (1993) or OECD (1993a)). There seem to be as large differences in results within programme categories as between them. Sometimes one finds substantial effects on both future earnings and employment, sometimes one does not. It is often not possible to explain variations in results by the differences in programme design. Nor can one usually judge to which extent resource costs have differed between programmes that appear to have produced different results. It also happens frequently that various evaluations of the same programme, made with different methods or for different time periods, give widely diverging results. Still, a few general comments can be made.

As discussed in Section II.C, there appears to be a broad consensus between most studies that intensified counselling and job search assistance do raise re-employment probabilities substantially for the target group in question, and especially so for the long-term unemployed. It is not surprising that the studies also indicate large substitution effects of such measures. One may indeed consider this to be exactly the point, i.e., to contribute to lower wage pressure by subjecting insiders to more competition. This does, of course, presuppose careful targeting.

Unlike other programmes, intensified counselling and job search assistance do not involve any risks that participants are locked into programmes with reduced search activity as a consequence. On the contrary, the whole idea is to put the unemployed involved at the immediate disposal of the labour market. There will, however, be no "book-keeping" reduction of open unemployment as with placements in training or job creation schemes (see *Diagram 3*). Nevertheless, there may still be welfare increases to the extent that demotivation and discouragement of long-term unemployed and other outsiders are counteracted, although these effects are perhaps smaller than with the other programmes.

Although much of the recent labour-market-policy discussion has stressed the merits of training as opposed to direct job creation (e.g., OECD (1990)), few systematic comparisons of the macroeconomic effects seem to have been made. For Sweden, there exists some evidence that participation in training programmes -- in contrast to direct job creation -- exerts downward pressure on wages (Forslund (1992), Edin *et al.* (1993)). Heylen (1993) reports a similar result for the wage responsiveness to unemployment from cross-country regressions. When trying to explain regular employment in pooled cross-region and time series regression for Sweden, Calmfors and Skedinger (1994) also find training programmes to give consistently better results. So did Jans (1992) in an aggregate time series analysis. Although these results provide some support for the view that training programmes may be more beneficial than job creation schemes, one can still raise some caveats:

(i) One possible explanation of the findings may be that compensation in training programmes is usually lower than in job creation schemes rather than the fact that the former are intrinsically more effective.

(ii) Micro evaluations of various training programmes have produced mixed results (e.g., Haveman and Hollister (1991), Björklund (1989, 1990), OECD (1991, 1993a)). In general, there appears to be a tendency for narrowly targeted programmes that provide specific skills to groups with identifiable training needs to perform better than broad programmes and those providing more general education (OECD (1993a)). The US experience seems to be that programmes for women have been the most successful, whereas the results for young people appear the most uncertain (Lalonde (1992), Forslund and Krueger (1993)).

(iii) Training is likely to be more efficient under "normal business conditions" than in a situation with persistently high unemployment. In the former case, it may play an important role in eliminating skill mismatches and hence increase allocative efficiency, as discussed in Section II.F. When unemployment is high and job prospects after completion of the programmes are bad, the motivation of the participants is likely to be low. It may then be more important to use labour market programmes as a substitute for the screening function that earlier work experience may play for employers, as discussed in Section II.A. Also, it has been pointed out that the long-term unemployed do not exhibit markedly lower general educational achievement than the unemployed in general (OECD (1993a)). Against this background, it is not surprising that there is some empirical support for the view that on-the-job training, especially of young people, may be the most effective form of training in order to improve employment prospects (OECD (1991b, 1993a)). A frequently quoted example is the British youth training scheme (YTS) introduced in the early 1980s, which has been claimed to have given employers the opportunity to screen job applicants and thus to reduce the uncertainty associated with hirings of, especially, long-term unemployed (Dolton (1993)).

(iv) Even if training schemes in general were to be more effective than other programmes, there are always groups for which they are not suitable. These will include both elderly unemployed close to retirement age as well as young people who are hard to motivate (e.g., school drop-outs).

In general, one should expect all types of active labour market programmes to be subject to decreasing marginal returns. As intensified placement services and job search assistance are extended to more groups, the scope for improving the relative competitiveness of individual groups obviously falls and the deadweight losses increase. An expansion of job-creation measures -- whether in the form of direct job creation or subsidised work in the business sector -- implies greater risks of accommodating insider wage claims and locking large groups into programmes as well as rising substitution and deadweight effects. To the extent that one tries to avoid the latter by job creation in the public sector or non-profit organisations based on the additionality principle (Grubb (1993)), i.e., when the projects undertaken are confined to such that would not otherwise have taken place, the result is instead likely to be a low marginal value of the output produced.

Decreasing returns to scale are likely to be a serious problem also with training programmes (see, e.g., Calmfors (1993b) or Grubb (1993)). The larger the programmes, the more difficult it will be to tailor them to the specific needs of the participants (see point (ii) above). The possibilities of identifying and increasing the supply of those categories of labour that are likely to be in short supply (and thus serve as bottlenecks) in the coming upswings may soon be exhausted. The supply of high-quality training capacity is limited, and the difficulties of monitoring the effectiveness of the programmes increase as they expand. There will be more participants who are poorly motivated, and who are likely also to have negative external effects on the more motivated ones.

Usually, the methods used for evaluating the effects of various programmes do not allow average and marginal effects to be distinguished. An attempt to make such a distinction was, however made by Björklund and Möffit (1987) in their study of Swedish training programmes in the early 1980s. They found negative marginal effects on future wages with a programme size of around 1 percent of the labour force. Forslund and Krueger (1993) use information on the earnings effects of Swedish training programmes from a number of studies and seem to be able to reject the hypothesis that they have been socially profitable.<sup>21</sup>

The obvious conclusion is that the optimal mix of programmes should be a "balanced portfolio". This may need emphasising, since there is always a risk that changing fashions due to earlier disappointments lead to excessive swings in policies. Today, the generally favourable attitude towards education and training might involve such a danger. The greatest risks of decreasing returns to scale for these programmes are likely to be associated with rapid expansions before the necessary investments in training capacity have been made. Since these will largely involve investment in human capital through acquiring organisational knowledge, the process of expanding capacity may very well be a slow one. Another risk to be avoided is that large placements in training -- as well as job creation schemes -- are allowed to strain the resources of the labour-market-administration to the point that basic placement services and job-search assistance are crowded out.

#### D. The co-ordination with unemployment insurance and programme duration

Although there has been an extensive discussion about the duration of unemployment benefits (see Section II.I above), much less interest has been devoted to the co-ordination between active labour market policy and the unemployment insurance system as well as the appropriate length of programmes.

There appears to be a general tendency in much of the policy discussion to view unemployment insurance and active labour market programmes as distinctly different systems, where "passive" unemployment benefits are regarded as "bad" and active measures as "good". However, a more fruitful approach may be to analyse the whole system of support for the unemployed, and to recognise that the incentives for lower unemployment depend to a large extent on the co-ordination of its various parts.

The most obvious aspect of co-ordination between unemployment insurance and active programmes concerns benefit eligibility. It is common that programme participation qualifies the participants for new benefit periods. In Denmark, for example, this has been one of the main aims of labour-market programmes: a job offer guarantee -- later on combined with an education offer -- has been in effect for the unemployed approaching the termination of benefits (after 2½ years; see OECD (1991a, 1993d) or Grubb (1993)). Such a use of programmes should be expected to lead to similar problems as long duration of unemployment benefits, the main difference being that the long-term unemployed will instead be permanently going back and forth between programmes and open unemployment. Indeed, this way of co-ordinating unemployment insurance and programmes may be an important explanation of why long-term unemployment in Denmark has been considerably lower than in other Western European countries with similar rates of unemployment.

If programmes come to be regarded mainly as a means of prolonging the duration of benefits, there is likely to be a serious weakening -- among placement officers, among organisers and among participants -- of the incentives to strive for maximum efficiency in terms of enhanced re-employment probabilities. Although there are few evaluations of Danish labour market programmes, there is some evidence that this may indeed have occurred. Spells in job-offer schemes have often been recurrent -- 60 percent of the participants in 1984-88 had more than one placement up to 1991 (and around 25 percent more than two) according to Langager (1992). Among the unemployed, the education offer seems widely to have been seen as a method for benefit renewal -- as an "unemployment benefit generator" to use the Danish term -- rather than as a step to a regular job (Rapport om arbejdsmarkedets strukturproblemer (1992)). The effects on hiring probabilities have been found to be negligible (Aarkrog et al. (1991) and Pilegaard et al. (1991)). The finding by Thaulow and Anker (1992) that the participants'

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Mala na'vratnost

evaluation of the job and education offer schemes was not related to the subsequent employment situation, might be considered indirect evidence of the risks involved.

In a recent study for Sweden, Røgner (1993) found significantly lower future incomes for participants in labour market training than for those that were openly unemployed in the 1989-91 period. This is in contrast to some studies of earlier periods (see *Politik mot arbetslöshet* (1993)). The suggested explanation is that training programmes had increasingly come to be used as a means of renewing benefit eligibility.

Leaving the co-ordination with unemployment benefits aside, the duration of programmes is an important issue in itself, about which the empirical knowledge is scant. On the one hand, programmes of long duration are a risk from the point of view that participants may be locked in and therefore search less actively for regular jobs. On the other hand, a certain length of programmes may be necessary in order to achieve substantial results. An indication of this may be that a recent cross-country study found higher programme expenditures per participant -- which is likely to be correlated with programme duration -- to contribute to lower aggregate wage pressure (OECD 1993a)). Somewhat surprisingly, however, Axelsson (1989) and Axelsson and Löfgren (1992) were not able to confirm any relationship between duration of training programmes and their social return in the case of Sweden. Korpi (1992), however, found that the probability of finding a permanent regular job seems to increase with programme duration, but to decrease with the number of programme placements.

A specific issue concerns temporary versus permanent job creation measures. Temporary job creation is the prevailing pattern in most OECD countries. But in some countries, notably Belgium, the Netherlands and Spain, permanent jobs -- usually in the public sector -- are created for long-term unemployed. A serious drawback of such a policy is that the workers concerned are likely to withdraw permanently from active search from regular jobs. Such permanent job creation schemes seem hard to justify except possibly for elderly and disabled workers, where early retirement may be the main alternative.

In e.g., Belgium, Denmark and Sweden, job offers for the long-term unemployed take the form of explicit job guarantees. One should expect these to have more adverse effects on search intensities than when discretionary decisions are taken about placements in job creation schemes.

#### V. What can we expect from active labour market policy?

The main conclusion from this analysis is that active labour market policy may give rise to a diverse set of effects, some of which are favourable and some of which are not. One cannot from a theoretical analysis evaluate the net impact of these policies. There are also severe problems of interpretation with much of the empirical macroeconomic research and a lot of conflicting evidence from the microeconomic studies. There are crucial areas such as the optimal timing of labour-market-policy interventions as well as the optimal mix and size of programmes that appear more or less unexplored.

Still one can draw some tentative conclusions on how active labour market programmes should be designed so as to maximise the chances of success. Obviously one must try to strike a balance between providing the unemployed with better opportunities and at the same time maintaining sufficient incentives for individual job search as well as for responsible collective wage-setting behaviour. A tentative list of requirements would be as follows.

Compensation levels ought to be set well below market wages. Programmes should be carefully targeted so as to provide insiders with more competition for the available jobs. This is not, however, likely to mean exclusive targeting on the most long-term unemployed and on the otherwise-most-difficult to place, since this may give programmes a bad reputation, making it impossible to substitute them for regular work experience as a screening mechanism for employers. Targeting medium-term unemployed in order to prevent them drifting into long-term unemployed may also be more efficient than trying to counteract the negative effects of long-term unemployment once it has occurred. At the same time, it is obvious that the very concept of targeting in order to redistribute employment opportunities puts severe restrictions on the overall size of programmes.

It seems to be important that programmes are not of too long a duration in order to avoid locking-in effects. Programme placements -- especially in the form of guarantees -- in order to make the participants eligible for prolonged unemployment benefits are likely to have detrimental effects on the effectiveness of the programmes. To avoid such risks, limits may have to be imposed on the extent to which programmes may qualify the participants for extensions of unemployment benefits. It may also be wise in many countries to combine an increased emphasis on active labour market programmes with a reduction of the maximum duration of unemployment benefits in order to avoid undesired incentive effects.

As to the type of programmes, one should expect the optimal mix to be a balanced portfolio involving all forms of active labour market policy. Although an expansion of labour-market training may be appropriate in most countries, there may be a risk that the current discussion overemphasises the benefits and neglects the importance of decreasing returns to scale. These risks are, however, likely to be smaller with on-the-job-training than with other training schemes. It appears important that the administration of large training and job creation schemes is not allowed to crowd out counselling activities and job search assistance for the long-term unemployed, which have often proved to be quite effective.

What contribution can active labour market policy make to fighting unemployment? On the basis of this exposition, my guess would be that most countries in Western Europe could do better with more active programmes -- if carefully designed -- but not a lot better. The proper perspective appears to be to view active labour market policy as only one ingredient of many in a general programme against unemployment.

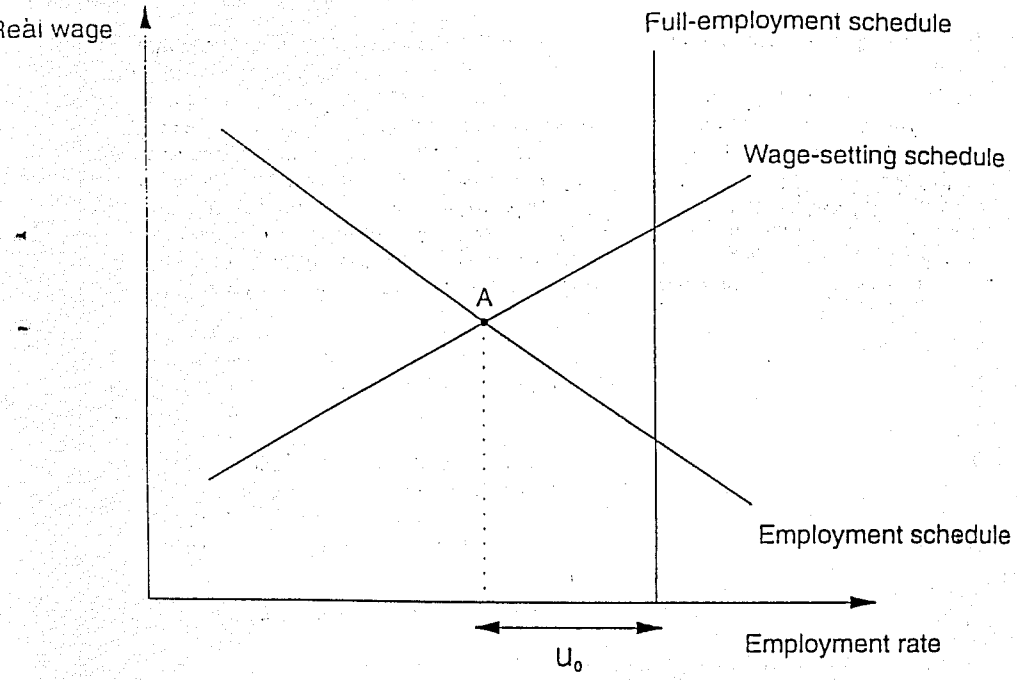


Diagram 2: The Beveridge Curve

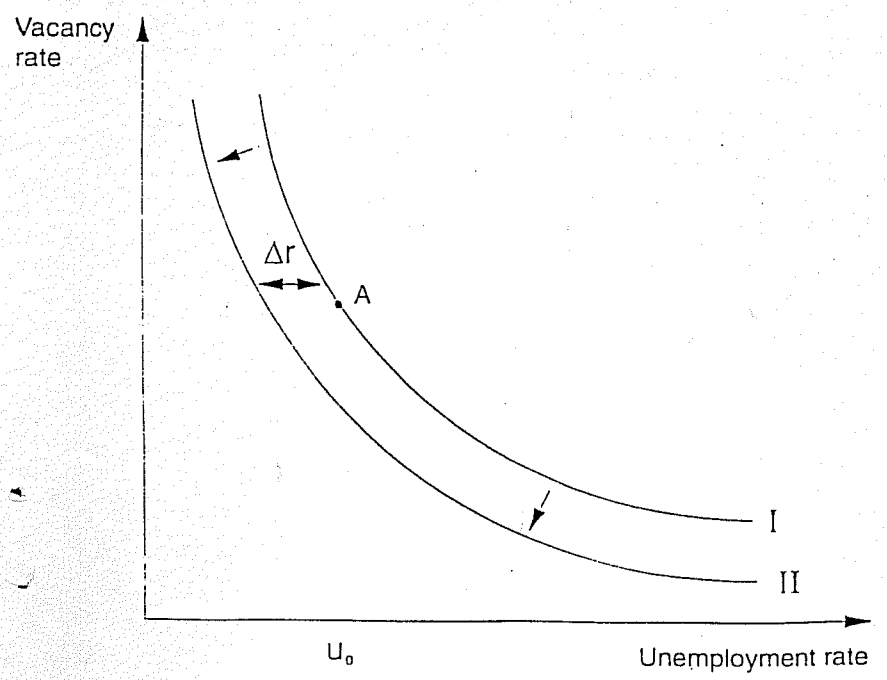
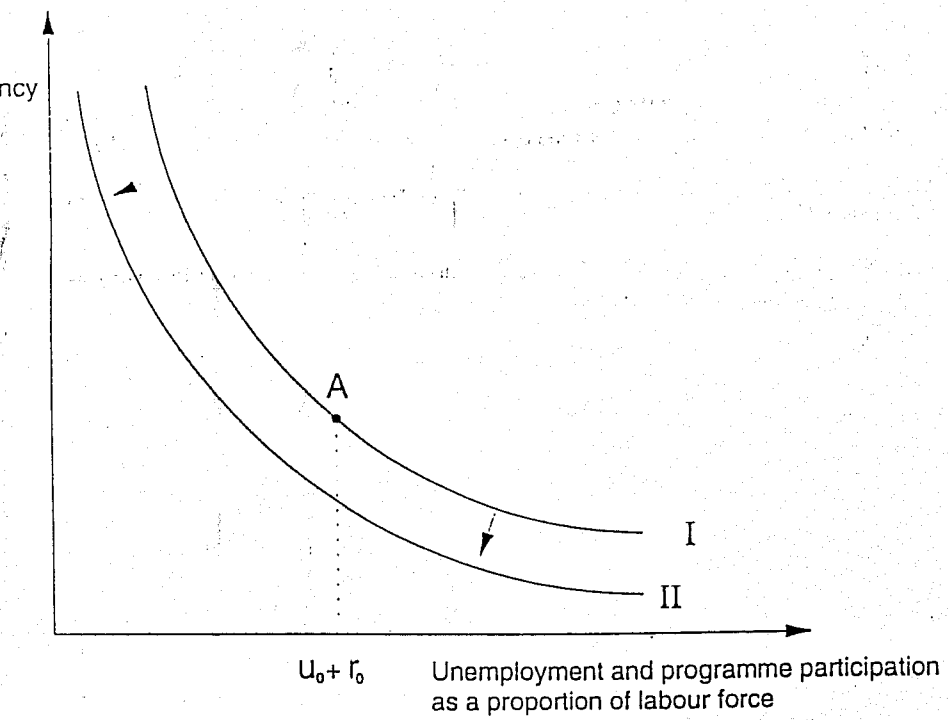
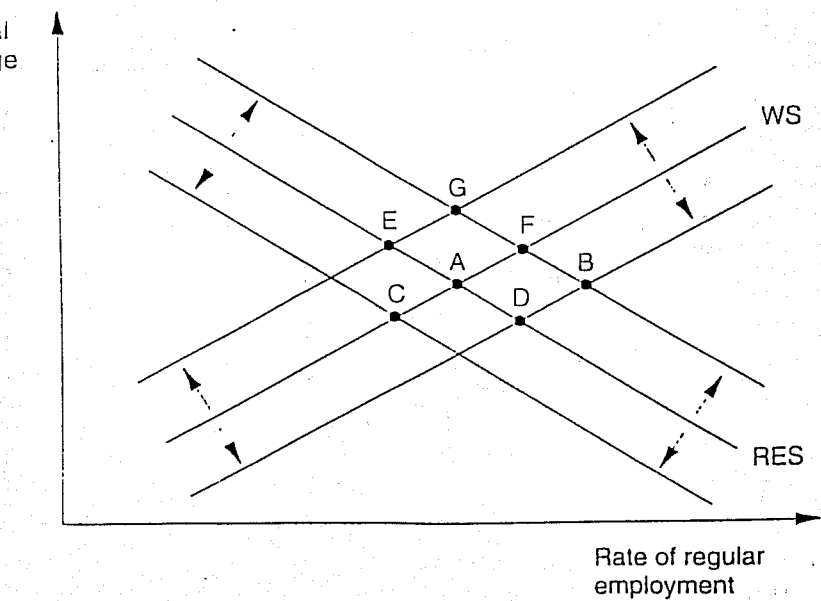


Diagram 3: A revised Layard-Nickell framework

WS = Wage-setting schedule  
 RES = Regular-employment schedule  
 FE = Full-employment schedule  
 RR = Schedule indicating full employment less programme participation



**Diagram 5: Various effects of labour market policy on wages and regular employment**



**Diagram 6: Reallocation of labour**

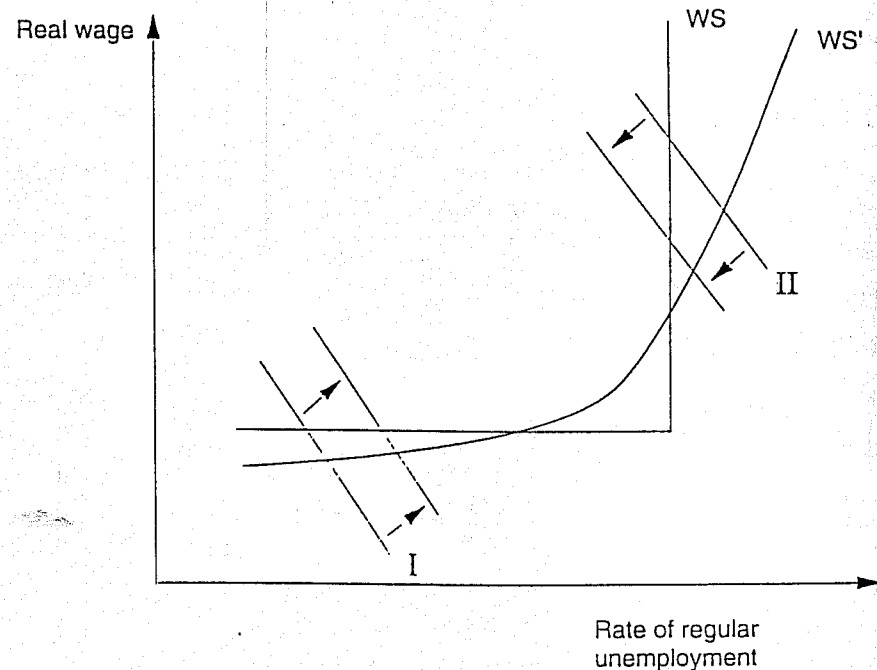




Table 1: Various effects of active labour market policy

EFFECT	Real wage	Regular employment as proportion of labour force	Regular employment as proportion of population	Effective labour force	Measured labour force
MATCHING	?	+ (?)	+ (?)	0	0
LABOUR FORCE	-	-(0)	+	+	+
COMPETITION FOR INSIDERS	-	+	+	0	0
SUBSTITUTION AND DEADWEIGHT LOSSES	-	-	-	0	0
REDUCED WELFARE LOSS	+	-	-	0	0
PRODUCTIVITY	+ (0)	? (+)	? (+)	0	0
WORK TEST	0 (-)	0 (+)	0 (+)	0 (+)	-
TAXES	?	? (0)	? (0)	?	?
OTHER POLICIES	?	?	?	? (+)	? (+)

Parentheses indicate possible but uncertain effects. The last columns do not take into account the secondary labour-force effects that may occur because of the induced wage and employment changes according to the first three columns.

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REDUCED WELFARE LOSS	+	-	-	0	0
PRODUCTIVITY	+ (0)	? (+)	? (+)	0	0
WORK TEST	0 (-)	0 (+)	0 (+)	0 (+)	-
TAXES	?	? (0)	? (0)	?	?
OTHER POLICIES	?	?	?	? (+)	? (+)

Parentheses indicate possible but uncertain effects. The last columns do not take into account the secondary labour-force effects that may occur because of the induced wage and employment changes according to the first three columns.

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the Beveridge curve as  $H(v, r(c-1) + (r+u)) = q[1 - (r+u)]$ , where  $r$  will be a shift parameter if  $c \neq 1$ .

<sup>7</sup> To the extent that the real wage increases, this is, however, warranted because of the increased efficiency of the matching process, which is tantamount to a productivity increase (see Pissarides (1990) or Calmfors & Lang (1993)).

<sup>8</sup> This case corresponds to  $c > 1$  in footnote 6. With  $c = 1$ , the revised Beveridge curve will not shift, although  $du = -dr$  for a given  $v$ .

<sup>9</sup> This cannot be seen directly in Jackman *et al.* (1990). A recalculation is done in Calmfors (1993a).

<sup>10</sup> In the special case of a vertical wage-setting schedule, the proportion of the labour force that is regularly employed remains unchanged (Layard *et al.* (1991)). So does the sum of open unemployment and programme participation as a proportion of the labour force. But since the labour force has increased, both regular employment and the sum of open unemployment and programme participation rise in relation to the population.

<sup>11</sup> This case requires a more complex model of wage setting than in the earlier examples which introduces heterogeneity in the labour force and thus distinguishes between the re-employment probabilities for laid-off insiders and outsiders (Calmfors & Lang (1993)).

<sup>12</sup> For Sweden, a few recent studies from the second half of the eighties have found less favourable results of intensified placement services than earlier studies (Delander & Niklasson (1987) and Behrenz (1993)). One interpretation is that such policy measures contribute less in situations of low unemployment in general, such as was the case in Sweden in these years (*Politik mot arbetslöshet* (1993)).

<sup>13</sup> Suppose that the production function is  $Y = F(eN, K)$ , where  $Y$  = output,  $N$  = the number of employed workers,  $e$  = the efficiency of an individual worker and  $K$  = the capital stock. The profit-maximising level of employment is then given by  $w = eF'_N(eN, K)$ , where  $w$  = the real wage. Only if the implicit labour demand function implied by this condition has an elasticity with respect to the real wage exceeding unity, will a rise in  $e$  increase the number of employed persons.

<sup>14</sup> Let  $w_c$  = the real consumption wage,  $w_p$  = the real product wage,  $\theta$  = the tax wedge,  $W$  = the nominal wage,  $P$  = the price level,  $t$  = the income tax rate and  $\tau$  = the pay-roll tax rate. Then  $w_c = W(1-t)/P$ ,  $w_p = W(1+\tau)/P$  and  $\theta = (1+\tau)/(1-t)$ . Hence  $w_p = \theta w_c$  and a reduction of the tax wedge lowers the real product wage for a given real consumption wage.

<sup>15</sup> If  $w$  = the real wage,  $r$  = the share of the labour force in programmes, and  $u$  = the unemployment rate, a transfer of openly unemployed to programmes ( $dr = -du$ ) increases the

<sup>1</sup> The employment schedule is negatively sloped provided that the ordinary labour-supply curve is not more backward-bending than the ordinary labour-demand schedule. The employment schedule can also be thought of as indicating excess demand in the labour market, measured as the ratio between demand and supply.

<sup>2</sup> If  $w$  = the real wage,  $s$  = the re-employment probability of an unemployed worker, and  $a$  = other factors, we have in most wage-setting models that  $w = w(s, a)$  with  $\partial w / \partial s > 0$ . The re-employment probability can be expressed as the ratio between the number of job openings and the number of unemployed job-seekers. If  $q$  = the probability of a quit,  $N$  = employment,  $U$  = unemployment,  $L$  = the labour force,  $n = N/L$  = the employment rate (as a fraction of the labour force),  $u = 1 - n = U/L$  = the unemployment rate (as a fraction of the labour force), we have  $s = qN/U = qn/u = qn/(1-n)$ .

<sup>3</sup> If, in addition to the symbols in footnote 1,  $H$  = the number of hirings and  $V$  = the number of vacancies, the usual assumption is that  $H = H(V, U)$  with  $\partial H / \partial V > 0$  and  $\partial H / \partial U > 0$ . For employment to stay constant, hirings must equal quits, i.e.,  $H(V, U) = qN$ . If the hiring function exhibits constant returns to scale, and  $v = V/L$  = the vacancy rate, one obtains  $H(v, u) = qn = q(1-u)$ , which implicitly defines the Beveridge curve in *Diagram 2*.

<sup>4</sup> As shown in Calmfors & Lang (1993), one can under certain conditions derive that  $w = w(s, a)$  also in a model where participation in a labour market programme is an alternative to open unemployment, if  $s$  is interpreted as the expected probability to find a regular job for a representative worker without one. Let, in addition to the symbols in footnote 1,  $c$  indicate the search effectiveness of a programme participant relative to an openly unemployed person,  $s_u$  the re-employment probability of the latter, and  $R$  the number of programme participants. We then have  $s_u = qN/(cR+U)$ . Suppose that the proportions of those without a regular job in programmes and open unemployment are  $\gamma$  and  $(1-\gamma)$ , respectively, i.e.,  $\gamma = R/(R+U)$  and  $(1-\gamma) = U/(R+U)$ . Then it holds that  $s_u = qN/[\gamma c + (1-\gamma)](R+U)$  or  $s = \gamma c s_u + (1-\gamma) s_u = qN/(R+U)$ . Letting  $r = R/L$  = the share of the labour force in programmes, and remembering that now  $r+u = 1-n$ , it follows that  $s = qn/(r+u) = qn/(1-n)$  in this case as well.

<sup>5</sup> Note that I have implicitly assumed that all programme participants belong to the labour force.

<sup>6</sup> Using the notation of the earlier footnotes, the hiring function for regular jobs is now assumed to be  $H(V, cR+U)$ , where  $c$  again measures the relative search effectiveness of a programme participant. From  $H(V, cR+U) = qN$ , it is straightforward to derive the equation for

<sup>19</sup> See footnotes 17 and 18. The point is well illustrated in OECD (1993a), where it is shown that the unemployment-reducing effect found by Layard *et al.* (1991) is no longer significant, if active expenditures as a proportion of the wage bill is substituted for the Layard *et al.* measure of policy activism. However, since programme expenditures do seem to increase with unemployment, this alternative measure is likely to introduce a simultaneity bias in the opposite direction.

<sup>20</sup> In general, to the extent that employment reacts only with a lag to wages, the simultaneity bias is likely to be less severe in wage than in un(employment) regressions. Unfortunately, there appears to be no early way of handling the simultaneity problem, since this requires finding instruments that shift the government policy reaction function but *not* the employment (or wage-setting) schedule.

<sup>21</sup> They can reject the hypothesis of a 3 percent earnings increase (over a 20-year period), which according to a rough calculation would have been required for the social gains to balance the costs.

wage if  $\alpha_1 > \alpha_2$  in a wage equation written as  $w = \alpha_0 - \alpha_1 u - \alpha_2 r + \dots$ . Alternatively, since  $u = 1 - n - r$ , where  $n$  = regular employment as a share of the labour force, the equation can be written  $w = (\alpha_0 - \alpha_1) + \alpha_1 n + (\alpha_1 - \alpha_2)r + \dots$ . It follows that  $\alpha_1 > \alpha_2$  is also the condition for the wage-setting schedule in our diagrams to be shifted upwards. If  $\alpha_1 < 0$ ,  $\alpha_2 < 0$  means that programmes create more wage pressure than regular employment. Two later studies, not summarised in Calmfors (1993a) are OECD (1993a) and Ohlsson (1993). The former conforms to the majority of earlier Swedish studies, whereas the latter does not find any significant wage effect of increased programme participation.

<sup>16</sup> The estimations are of the form  $\Delta \ln w = \beta_0 - \beta_1 u - \beta_2 k + \dots$ , where  $w$  = the real wage,  $u$  = the unemployment rate,  $k = b_r R / wN$  = expenditures on active programmes relative to the wage bill,  $b_r$  = expenditures on programmes per participant,  $R$  = the number of programme participants and  $N$  = regular employment. If we let  $b_r / w \approx 1$  and  $R/N \approx R/L = r$ , where  $L$  = labour force, and  $r$  = the share of the labour force in programmes, the equation can be reformulated as  $\Delta \ln w \approx \beta_0 - \beta_1 u - \beta_2 r + \dots$ . The equation is estimated on pooled time series and cross-country data for the 1985-90 period, but separate  $\beta_2$  coefficients are estimated for each country. For most countries, the point estimates indicate that  $\beta_2 > \beta_1$ .

<sup>17</sup> Heylen starts out from a wage equation like  $w = \alpha_0 - \alpha_1 u - \alpha_2 r + \dots$ , as in foot-note 15, but where  $\alpha_2 = 0$ . It is then assumed that  $\alpha_1$  depends upon, *i.a.*, the size of labour market programmes. For instance, in one equation he lets  $\alpha_1 = \varepsilon_0 + \varepsilon_1 \gamma + \varepsilon_2 A$ , where  $\gamma = b_r r / b_u u$ , is the ratio between active and passive expenditures,  $b_r$  = programme expenditure per participant,  $b_u$  = unemployment compensation, and  $A$  = a vector of other explanatory variables. Hence  $w = \alpha_0 - (\varepsilon_0 + \varepsilon_1 \gamma + \varepsilon_2 A)u + \dots$ . This can be rewritten  $w = \alpha_0 - (\varepsilon_0 + \varepsilon_1 A)(r + u) + (\varepsilon_0 + \varepsilon_2 A - \varepsilon_1 b_r / b_u) r$ . The wage effect of a transfer of openly unemployed to programmes ( $du = -dr$ ) depends upon whether  $\varepsilon_0 + \varepsilon_2 A \gtrless \varepsilon_1 b_r / b_u$ . Since van Heylen transforms the wage responsiveness parameter  $\varepsilon_1$  to a variable giving the rank of different countries, it is not straightforward to calculate  $dw/dr$  from his regressions.

<sup>18</sup> A typical estimate by Zetterberg is  $u = -0.13\gamma \cdot 100 + \dots$ , where in addition to the symbols in the earlier footnotes  $\gamma = b_r r / (b_r r + b_u u)$ . If we let  $b_r = b_u$ ,  $u = 7.0$  percentage points and  $r = 3.0$  percentage points, we can derive  $du/dr \approx -1.5$  or  $dn/dr = d(1 - u - r) \approx 0.5$ , *i.e.*, open unemployment falls by 1.5 percentage points and regular employment increases by 0.5 percentage points when programme participation is increased by 1 percentage point of the labour force.  $b_r / b_u > 1$  gives even more favourable employment effects. Layard *et al.* instead estimate  $u = -0.13\bar{\gamma} \cdot 100 + \dots$ , where  $\bar{\gamma} = b_r r / uy$  and  $y$  = GDP/capita. Letting  $b_r / y = 0.5$  and  $u = 7.0$  and  $r = 3.0$  as above gives  $du/dr \approx -0.67$  and  $dn/dr = d(1 - u - r) / dr \approx -0.33$ .



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## ARTICLE

### PITFALLS AND DILEMMAS IN LABOUR MARKET POLICIES FOR DISADVANTAGED GROUPS – AND HOW TO AVOID THEM

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### Summary

This article summarizes the findings of an explorative research project commissioned by the European Commission's Third Poverty Programme, on inefficiencies and undesired side-effects of targeted labour market policies. These 'pitfalls and dilemmas' are discussed in relation to three types of socioeconomic effects that are expected from these policies:

- 1 distributional effects: a number of explicit or implicit mechanisms of discrimination against vulnerable groups in existing policies are described: legal or administrative barriers to entry, creaming off mechanisms, inconsistencies between measures. Even positive discrimination in favour of the most vulnerable groups appears to have its drawbacks. The article concludes that the abolition of existing discriminations, and the establishment of guaranteed services to all unemployed people are to be preferred over positive discrimination.
- 2 labour market outcomes for beneficiaries: low or even negative performance of policies are manifested in failures to meet the needs of unemployed people or of the labour market, segmentation of provision, or other kinds of 'shortcomings' including stigmatization. Remedies are sought in a better design of policies for particularly disadvantaged groups, a rigorous application of the routine principle, and partnerships between public agencies, social

- partners and local non-profit organizations.
- 3 macro-economic effects: it is argued that 'active labour market policies' are on the whole more effective at redistributing opportunities than at creating employment. In a situation of excess labour supply, one can hardly expect supply-side measures to restore the equilibrium. Therefore, activating labour supply should to in tandem with more structural policies.

### Résumé

PIÈGES ET DILEMMES DANS LES POLITIQUES DU MARCHÉ DU TRAVAIL VIS-À-VIS DES GROUPES DÉFAVORISÉS – ET COMMENT LES ÉVITER

Cet article résume les résultats d'un projet de recherche exploratoire réalisé dans le cadre du troisième programme pauvreté de la Communauté sur les effets non désirés et entraînant une inefficacité des politiques ciblées du marché du travail.

Ces pièges et dilemmes sont discutés en fonction de trois types d'effets socio-économiques qui sont attendus de telles politiques.

- 1 Les effets de répartition: nous décrivons un certain nombre de mécanismes implicites et explicites de discrimination envers les

groupes vulnérables dans les politiques actuelles: les barrières légales ou administratives d'accès, les mécanismes d'écroulement, les contradictions entre différentes mesures. Les procédures de discrimination positive envers les groupes les plus vulnérables semblent avoir également des inconvénients. L'article conclut que l'abolition des discriminations existantes et l'établissement de services garantis à toutes les personnes sans emploi doivent être préférés à des mesures de discrimination positive.

2. Les résultats sur le marché du travail pour les bénéficiaires? Les performances faibles voire négatives des politiques menées sont attestées par l'échec de reconstruire les besoins des personnes sans emploi ou du marché du travail, ce qui se traduit par exemple par une segmentation de l'offre de formation (ou autre) ou par d'autres formes d'imperfection y compris la stigmatisation des intéressés. Les remèdes sont à rechercher au travers d'une meilleure conception des politiques visant particulièrement les groupes défavorisés, par une application rigoureuse du principe de 'guidance' et par le partenariat entre les agences publiques, les partenaires sociaux et les associations locales.
3. Les effets macro-économiques: les politiques actives du marché du travail sont dans l'ensemble plus efficaces pour redistribuer des opportunités de travail que pour créer de l'emploi. Dans une situation d'offre de travail excédentaire, on peut difficilement attendre des mesures se concentrant sur l'offre qu'elles restaurent l'équilibre. Par conséquent, des mesures actives doivent s'accompagner davantage de mesures structurelles.

**Introduction**

Our article describes a number of mechanisms that cause inefficiencies and undesired side-

effects in targeted labour market policies for disadvantaged groups. It summarizes the results of a transnational and multidisciplinary - though still explorative - research project commissioned by the European Commission's Third Poverty Programme. (The 'poor' as a target group are very sensitive as a touchstone for evaluation, because of the gap that separates them from the average job seeker whose needs are mostly used as a yardstick in the design of policies.) Our study is focussed mainly on five EU-member states: Belgium, Denmark, France, Luxembourg, and the United Kingdom. It is based on case studies and a literature review.

Throughout this article, we will make flexible use of terms such as 'poverty', 'disadvantage', and 'social exclusion'. Generally speaking, we refer to 'the poor' as individuals and groups whose material, cultural and social resources are so limited as to exclude them from the minimum acceptable way of life in the country which they live (see the definition given by the Council of the European Communities in its Council decision of 19 December 1984). The more recent shift in terminology from 'poverty' to 'social exclusion' is essentially meant to emphasize the multidimensionality, the duration, and the structural causes of poverty. However, in a policy context, one has to acknowledge the gap between the theoretical definition of concepts and their operational use. Target groups of policies, or administrative categories, are never defined in such a holistic way as to represent exactly the 'poor' or the 'socially excluded'. Moreover, it is indeed useful and necessary to consider the poor in connection with related social groups (for example low-skilled or long-term unemployment, minimum income recipients, school dropouts, workers in the secondary labour market, single-parent families, disabled persons, and migrant workers) because these are the categories targeted by policy makers and with which they either overlap or compete on the labour market.

Our analysis is confined to policies aimed to (re)integrate unemployed people into the reg-

POVERTY  
social exclusion

ular labour market, leaving aside, for example, preventive actions to maintain jobs, or policies focused on the upgrading and regulation of working conditions. Within the (re)integration strategies, we concentrate on selective programmes targeted at disadvantaged groups, but we also consider general programmes as far as they are relevant for the poor. The analysis covers a wide range of actions, including (pre)vocational education and training, recruitment incentives, direct employment programmes, 'social economy initiatives', orientation and guidance, as well as all kinds of mixed programmes.

The expected economic effects of targeted labour market measures can be roughly classified into three categories:

1. distributional effects: does a measure redistribute employment in the right direction? To what extent is the target group covered? What are possible side effects for other groups?
2. labour market outcomes for beneficiaries: does the measure enhance the employment opportunities, earnings, quality of jobs for the target group?
3. macro-economic effects: can one observe effects on the general level of unemployment, wages, the government's budget?

Our discussion of pitfalls and dilemmas will be ordered accordingly.

**1 Distributional effects**

From a distributional point of view, the so-called Matthew effect,<sup>2</sup> or the 'law of perverse distribution' is a well-known phenomenon in the literature on social expenditures (Deleeck et al. 1983). In the context of labour market policy, it refers for example to the overrepresentation of young, short-term, highly skilled job seekers in training programmes. However, this phenomenon should not be con-

sidered as a religious, nor as a social or natural law; it is also the consequence of wrong policy design, and hence, can be avoided.

*Legal and administrative barriers to entry*

A first possible explanation is that the most disadvantaged groups are almost by definition not eligible for participation in mainstream labour market programmes (such as wage subsidy schemes, enterprise allowance schemes, or training). Most programmes are confined either to registered unemployed people, or even in some case to those entitled to unemployment insurance benefits. In Belgium in 1993, only 475,000 individuals who were 'remunerated full-time unemployed actively seeking work' had access to programmes such as Guidance Plan, Youth Recruitment Plan, or the Enterprise Allowance Scheme. Therefore 312,000 other - registered - unemployed people (including those part-time unemployed, disabled people, minimum income recipients, other unemployed not entitled to benefits, and the unemployed aged over 50 who are automatically 'exempted from control') had no access to the programmes - quite apart from several tens of thousands of unregistered unemployed people.<sup>3</sup>

Governments and administrations have an obvious interest in narrowing the definition of unemployment, and indirectly, in setting artificial boundaries to the labour market. The differences between official counts and the Labour Force Survey, which uses the International Labour Organization definition of unemployment, are sometimes substantial. An estimate for the UK (based on Lawlor and Kennedy 1992) is that the number of people looking for work but who were not registered in the official unemployment count, over the years 1984 to 1991 averaged 841,000. Policy makers should realize that in this way they tend to reinforce the exclusion of marginal segments from the labour market.

Social Exclusion  
unregistered unemployed

1 ne-kantola  
2 disabled  
3 state policy  
x 'u has wic'  
ke-tuoring (V ty ep)

Recipients of a minimum income guarantee (MIG) are a particularly vulnerable group in this context. In Denmark as well as in Belgium, they have no access to mainstream labour market programmes. Single parents in the UK, the long-term unemployed (LTU) classified as 'disabled' in the Netherlands, and the older unemployed in Belgium and France are other examples of disadvantaged groups that are considered as being 'out' of the labour market in some countries (yet not in other countries) and therefore ineligible (or eligible only as an exception to the norm) for programmes designed to combat exclusion from employment. Analyses of the living conditions and socio-economic profiles of these groups indicate that many individuals from these groups live in relative poverty.

*Creaming off: the false dilemma between equity and efficiency?*

Sibille and Verdié (1992) carried out a detailed case study of the French AIF-scheme (*Actions d'Insertion et de Formation*). This scheme is targeted specifically at the long-term unemployed (LTU) and within this category, those designated as priorities were: people who had been out of work for a very long period of time (more than three years), the over-50s, and people in unstable situations, such as those in receipt of a minimum income allocated for integration purposes (RMI - *Revenu Minimum d'Insertion*).

The study reported a large percentage of people not officially entitled to benefit from the initiative. Among the five *départements* studied, the most 'dynamic' department can boast the greatest number of people who should have been disqualified from the initiative because they had been registered for too short a time with the employment office (one in two); it also had the lowest percentage of 'over-50s' (5 per cent) and the highest proportion of advanced training course (for more than half of the trainees).

The evaluators identify a number of explicit as well as implicit mechanisms that explain this bias. The officers from the employment agency themselves claim their selection procedures are based on:

- 1 efficiency (priority is given to people who are thought to be most 'motivated' and have a goal in mind, as they are thought to have the best employment prospects after participation). Or then again when the officers choose people from the short-term unemployed category, they feel they are helping the people to avoid 'joining the army of long-term unemployed later on'
- 2 recruitment difficulties
- 3 'humanitarian' reasons: it would be impossible not to allow someone to participate in a scheme on the grounds that he or she has not been out of work long enough.

Another possible criterion, one that is less explicit, is based on the fact that the AIF initiative includes on-the-job training and the credibility of the employment service officers is at stake in the eyes of the employers to whom the officials might be induced to propose candidates later on (this primarily concerns the employment offices). It is therefore tempting to select trainees who are most likely to be employable, who already have some skills and have not been out of work for too long a period.

Training bodies that are awarded the 'quality clause' by the public employment service are entitled to larger subsidies and sometimes the clause is conditional upon the number of trainees that find a job immediately after completing a scheme. It is obvious, then, that this criterion does not encourage the training bodies (who in many instances select the trainees themselves) to pick unemployed people who are the most disadvantaged and those who have been out of work for the longest periods of time.

Similar funding rules are applied in the UK, where the large programmes of centrally funded training (Youth Training and Employ-

ment Training, now called Training for work) are delivered through local Training and Enterprise Councils (TECs and LECs). Their funds are quite deliberately related to the 'output' they can deliver ('output related funding'), specifically qualifications and offers of employment; they are therefore implicitly encouraged to select and favour the better qualified/adjusted and spend less on the more excluded. In February 1993, new contracts proposed by the government to TECs were aimed to cut the length of training for the long-term unemployed (from 26 weeks to 14 weeks) while demanding that more of them are placed in jobs (the output related element averages 20 per cent, the Department wanted to raise this to about 40 per cent). This time the employer-led bodies which deliver government training schemes in England and Wales said explicitly 'they will be forced to "cream off" those people most likely to get work or qualifications' (*Financial Times* 7/2/93).

Even without explicit funding arrangements based on short-term input, simple placement ratios (after six months, for example) are still very commonly used to evaluate labour market programmes. They used to be requested as key parameters in the evaluations of ESF-cofinanced programmes for youngsters and long-term unemployed in all member states. Yet the evaluation studies produced some evidence that 'absolute' placement rates may be seriously biased as a performance criterion applied to provisions for different target groups. One of the key conclusions of the Belgian study (Nicaise et al. 1995) was that initiatives targeted on the most disadvantaged groups are, when considered in 'output' terms, less successful in helping people back to work than other measures. However, in 'value added' terms (differences in placement rates between beneficiaries and non-beneficiaries with the same characteristics), the initiatives for disadvantaged people turn out to be highly effective and often more so than other kinds of measures. For example, pre-vocational training schemes for the least skilled showed placement ratios (six months after the scheme)

around 40 per cent only, compared to a 65-80 per cent range for more advanced training courses. However, the 40 per cent result of the pre-vocational training schemes meant a doubling of the employment probability for their (disadvantaged) target group, which in relative terms is a better performance than the one reached in the advanced courses, after allowing for the trainees' personal characteristics.

Besides their expression in relative terms (with comparison groups), genuine efficiency criteria should also involve a *dynamic* perspective. On the cost side, they should take into consideration, for the most disadvantaged groups, the length of time needed to gain access to the labour market, especially under difficult economic conditions. On the benefit side, on the other hand, one should take account of the fact that disadvantaged job seekers (in the absence of intervention) are facing a longer expected duration of unemployment, and hence the expected return from placement is much higher for categories at risk than for the average unemployed person. In other words, the placement of disadvantaged persons is worth more, in terms of social cost-benefit analysis, than the 'easy' placement of job seekers from stronger groups. From this perspective, the whole equity-efficiency dilemma as it is perceived so far by many policy makers and administrators in this area looks rather short-sighted and may well be a false one indeed. This issue has been acknowledged in textbooks of labour economics (for example Layard et al. 1991: 473-75), but apparently, it is still not applied in practice.

*Inconsistencies between measures and 'reverse substitution'*

In a context of targeted labour market policies, substitution is generally interpreted (and accepted) as a reversal of the 'normal' queuing mechanism, whereby individuals from disadvantaged groups get new employment oppor-

tunities that would otherwise be opened for better situated job seekers. With reverse substitution, employment opportunities are *diverted from those at the end of the queue towards more privileged groups*, and poverty actually increases. To illustrate the real danger of such effects, consider the discussion about 'preventive' versus 'curative' policies vis-à-vis long-term unemployment. The problem is particularly topical in Belgium, where the regional government of Flanders has taken several measures in favour of the most disadvantaged groups, whereas the federal government has focused its strategy on preventive measures. The policies are obviously complementary, but to some extent also contradictory. For example, the Flemish *Weer-Werk actie* ('back to work' action) aims to reactive long-term unemployed on a voluntary basis through a combination in counselling, training and work experience measures. The federal 'Guidance plan' interferes to some extent with this scheme by providing (compulsory) extra assistance to the 'almost LTU', including counselling, training and wage subsidies. In 1993, in the context of very sluggish economic growth and upsurging youth unemployment, together with the abolition of military service, the federal government launched a Youth Recruitment Plan (YRP) with wage subsidies for youngsters after six months of unemployment. These wage subsidies are nearly unconditional and much more attractive than the existing recruitment incentives for LTU. Whereas the Youth Recruitment Plan has had an unexpected success, labour market analysts fear that resources and opportunities are, to some extent, diverted away from the hard core of the unemployed. Since the start of the YRP, within six months, the share of vacancies reserved exclusively to youngsters has risen from 6 to 36 per cent (Holderbeke 1994). Moreover, some of the most disadvantaged among the unemployed youngsters, those who are not entitled to unemployment benefits, have no access to the YRP; even young LTU who are entitled to benefits and who had the opportunity to get some work experience in the *Weer-Werk*

action, are (temporarily) excluded from the plan. In December 1994, criticism of these inconsistencies persuaded the Minister of Employment of the need to harmonize different types of wage subsidies.

A similar problem has been noticed in some northern EU-member states, with ESF-interventions focussed equally on youngsters ('ESF-objective 4') and LTU ('objective 3'), with a real danger of reverse substitution at the expense of LTU. This danger was accentuated by the fact that the relatively well-educated young unemployed people are more easily reached by policy measures than the LTU, who are often discouraged by previous failures and poor employment expectations. As the budgets for objective 4 were exhausted more quickly than those for objective 3, a tendency to shift budgets from LTU to youngsters was observed in some countries.

#### *Insufficient supply and within-group substitution*

To explain the relation between insufficient supply and substitution *within a target group*, let us consider a simplified (theoretical) case: suppose that a new job search assistance scheme is targeted at the LTU, but that, due to budget constraints, current resources are merely reallocated to assist half of the target group (selected at random) more intensively, instead of serving the whole population in a usual way. In this setting it can reasonably be expected that the flow of vacancies to the LTU remains unchanged. It is obvious that the employment probabilities will be merely redistributed within the group of LTU: beneficiaries will improve their position, whereas the position of non-participants from the same target group deteriorates.

To our knowledge, the concept of substitution *within target groups* has been recognized but never measured in practice. However, obvious cases of within-group sub-

stitution have been observed in some mandatory programmes. In the UK, it has been argued that changes in legislation which were designed to ensure that young people (aged 16 to 18) are either in education, or in employment or vocational training have resulted in numbers of young people becoming homeless or otherwise marginalized. This is because income support was withdrawn from those aged 16-18 unless they were registered as attending a Youth Training (YT) scheme (those in employment receive wages and those in education are assumed to be supported by families). Since there was a shortfall in provision of YT places this left a number of young people with no income. The number of places for YT fell from 389,224 in March 1988 to 274,000 in 1993. It is estimated that around 50,000 homeless are living in London alone and about 150,000 youngsters become homeless each year (*The Guardian*, 1 June 1994). There has been an attempt to ameliorate this situation recently by changes in the rules on income support payments, but the basic situation remains unchanged.

Similar drawbacks have been noted in the Netherlands with the introduction of the Youth Guarantee Act (JWG - *Jeugdwerkgarantiewet*) in 1992, which caused the exclusion of thousands of youngsters from social security due to a lack of (suitable) provision, and in Denmark, where the most vulnerable unemployed lost access to AMU-training courses (AMU - *Arbejdsmarkedsuddannelse* 'Labour market education') due to insufficient supply.

#### *Positive discrimination has drawbacks too*

There are many examples of exceptions to the normal eligibility criteria for programmes, which result in a form of positive discrimination: for example in the UK exceptions may be made for women who are returning to economic activity after child-rearing, for recently released prisoners, for people with disabilities,

for people recently quitting the armed forces, for those with difficulty with literacy or numeracy, and in other special cases such as in areas with large-scale redundancies. In Belgium MIG-receivers with the status of 'head of household', and those under 25 years of age enjoy priority treatment in some cases, while in France there is a general category of exemption for those experiencing problems with exclusion, as well as priority status for those unemployed for longer than three years, for MIG-recipients who have been unemployed for more than one year, for unemployed people of over 50, and for people with disabilities.

While there are clearly examples of good practice aimed at positive discrimination, one question which must be asked is how far these priorities are substantiated by objective studies of the relative disadvantage of different groups. For example, in many countries, eligibility for labour market programmes is closely linked to the duration of one's employment spell. Each episode of unemployment begins a new time period, so a person who repeatedly leaves the unemployment register, perhaps to undertake short spells of seasonal work, will never reach the duration threshold which provides access to a scheme. In other words, intermittent workers with an equally long unemployment experience are implicitly discriminated against by the mere definition of unemployment duration. This amounts to a special case of 'within-group substitution' or even 'reverse substitution'.

Another question is how well the rules are publicized to employers as well as to the population groups who would benefit most by taking advantage of them. It must also be acknowledged that detailed priority rules tend to make legislation and administration more complex - sometimes even incoherent - and that in some cases they are rather designed for reasons of demand management than for social reasons. As a consequence, the question remains whether positive discrimination encourages underutilization or indeed a better targeting of measures.

A final drawback of positive discrimination is the risk of stigmatization of beneficiaries. This implies that hidden handicaps are relegated to employment services or to employers by the mere fact of 'benefiting' from a special programme. For example, in Luxembourg, the beneficiaries of the RMG (minimum guaranteed income), received, during the first years of implementation of the law, an introduction card to the employment services coloured differently from that of other job seekers. Needless to say, this scheme proved to be highly discriminatory. It has, in fact, since been abolished.

## 2 Effects for the beneficiaries

A number of recent evaluation studies of selective labour market policies have pointed at poor, and sometimes even zero or negative employment effects (see for example, OECD 1993; Pedersen and Westergård-Nielsen 1993). In the absence of deeper analysis, one would be tempted to attribute the causes of the failure of the target group or to the concept of the measures as such. Yet there is some evidence of poor implementation or management of the measures, which can be avoided in the future.

### Mismatches between provisions and needs of disadvantaged groups

In Denmark, the mandatory training courses for long-term unemployed people within the framework of the job offer scheme have been subject to much discussion in recent years. Not more than 13 per cent of the participants appear to have a job within six months after leaving the course (Thaulow and Anker 1992). According to Jensen *et al.* (1992) the employment effects of the courses are even negative, compared with a control group of non-participants with the same profile. Westergård-Nielsen (1993) found positive effects for

employed participants in AMU-courses, while the same courses yielded negative employment results for LTU. Among the many reasons put forward, one possible explanation is a mismatch between the scheme and the needs and capabilities of LTU: in the survey by Thaulow and Anker (1992), about 25 per cent of the trainees declared that the courses did not suit at all their abilities or needs; consequently, about 40 per cent of the individuals in public job-offers said they had no experience whatsoever with the work they were supposed to do. This in turn caused demotivation on the part of many beneficiaries.

There is surprisingly little empirical evidence about the needs and motivations of disadvantaged job seekers. However, the conclusions converge on the following points. Some long-term unemployed have had problems at school and their fear of repeated failure can prevent them from attending courses. The best way of overcoming this problem is that training courses match the qualifications and stimulate the self-confidence of the unemployed (rather than making them compulsory).

One shortcoming of many training schemes is that they are too short for groups who lack basic skills such as literacy and numeracy, or basic work attitudes. Or in some cases, pre-qualifying courses exist but are not linked to subsequent stages of training so that the process stops halfway.

Training is generally considered as an investment with an uncertain outcome. The 'costs' of this investment on the part of the unemployed may be threefold:

- 1 direct material constraints, like the financial cost (for example: transport, child care, material) or simply the absence of facilities to respond to these practical problems
- 2 indirect financial costs: participants have to postpone or reduce their job search activities while they attend courses and hence are increasing their expected unemployment spell in the short run. Policy-makers should acknowledge that neither

the direct material costs, nor the indirect costs can be borne by poor participants: in other words, adequate remuneration of participants is an essential condition of success

- 3 it is also necessary to remove the psychological constraints, in order to enable unemployed people to participate in programmes and achieve good results. Obstacles such as a negative self-image, fear for failures, threat of exclusion, fatalism should be removed by linking provision with social assistance in a holistic approach. Also, positive support seems to be a better incentive than pressure and sanctions.

Some of the most disadvantaged unemployed people (older, totally unskilled, long-term unemployed people) are less keen to participate in training than the average job seeker. For them, training is not necessarily the best strategy to start with. When the expected return on training is lower – for example, for reasons of age or former school failure – or when the financial need is so urgent that it does not allow for postponed incomes, direct employment seems to be a better response in the short run, possibly supplemented by training in a second stage. This justifies the strategy of many local employment initiatives, sometimes called 'social economy projects', which give priority to (non-profit) employment over training.

Considerations of this type have induced the Danish government to modify its job and training offer scheme through a diversification of services, with different options at each stage. In this way the pressure on the mandatory scheme is also mitigated.

### Mismatches between provisions and needs of the labour market

There are different, yet all unsatisfactory, ways of measuring the degree of matching between provisions and needs of the labour market. A

fairly simple method is to ask ex-participants (e.g. ex-trainees) who had found a job after the programme how far they perceive a correspondence between the content of the programme and their subsequent employment. A recent evaluation study (which used this method) of the Flemish public training agency revealed a 'complete non-correspondence ratio' of 30–40 per cent for vocational training courses. Although these figures cannot be compared to similar studies in other countries, they do not seem very uncommon since on the whole, these courses appear to be fairly effective (see Bollens and Nicaise 1994).

Despite the difficulties encountered in measuring the phenomenon of (mis)matching, there is much 'anecdotal' evidence of provisions for disadvantaged groups being geared towards weak labour market segments. This applies to training as well as job creation projects, especially in small scale, local initiatives.

The economic potential for local initiatives of this sort is a small one. Attempts to develop businesses and create jobs through initiatives the 'classic' economic sector often run aground because of competition and the resistance of companies active in the sector in question. On the other hand, new economic sectors (high-tech industries, information technology, electronics and communications) are still underdeveloped in Europe and they are often beyond the reach of local initiatives (because of a lack of expertise, professionalism and funding on the part of the instigators of the schemes, plus the inadequate qualifications of those taking part in the initiatives). Thus, local initiatives tend to work well in areas that are not brand new but have been abandoned by companies for failing to give an adequate return on investment. Several studies of local projects in Europe show that a good number of them tend to offer training or employment in traditional activities such as recycling, clearing and renovation, gardening, restoration, neighbourhood services, promoting local products, or activities carried out in the context of farm co-operatives.

The choice of offered activities may also have an impact on the financial situation of the projects – as illustrated in the evaluation study of 'social workshops' in Flanders (Vanhuysse and Henkes 1992): poor outcomes (in financial terms) in some local projects are not solely attributed to the personal characteristics of the target group but also to poor management, lack of experience, and an inappropriate choice of proposed activities (like gardening, maintenance, recycling activities, and subcontracting) whereas activities within the industrial sector bring better results.

Inappropriate funding methods may themselves affect the labour market outcomes of provisions. A study of ET (Employment Training – now 'Training for Work') in the UK by Alan Felstead (1994) indicates that this programme is largely inclined to provide skills which are not in much demand – paradoxically, due to the output related funding of the local training companies (TECs – see above). When the cost per output in some area such as construction and engineering trades is higher, the TECs have more economic incentives to provide output in low-cost areas such as clerical and secretarial occupations. This will result firstly in a relative excess supply of these areas. A second consequence is that training providers are being segmented into providers of specialist (Colleges of Further Education or dedicated workshops) and large providers of low skill trainees.

#### Segmentation and sidetracks

The recent movement towards decentralization of efforts and resources aimed at combating unemployment may have made it possible in many cases to differentiate the provision and to respond in a more effective way to the needs of the more vulnerable groups of unemployed. Nonetheless, this tendency implies, to some extent, a risk of reproducing the existing segmentation of the labour

market. There are examples where the most disadvantaged candidates are put on sidetracks which in one way or another cut off the way to the regular labour market.

Training markets are typically split up among three different types of providers:

- 1 employers or social partners are mainly interested in updating or renewing skills of their (potential) employees according to the changing needs of the labour market
- 2 public employment agencies cover an intermediate field: their primary aim is to reduce unemployment by retaining job seekers, thus ensuring a better match between labour demand and supply
- 3 finally, local non-profit organizations offer training programmes that reflect the specific needs of disadvantaged groups, rather than needs of the labour market.

All three types of providers have their strengths and weaknesses. However, in some cases, unhealthy competition leads to discrimination against the private non-profit sector, which then faces problems of insecure and irregular funding, and hence, a higher turnover of staff, discontinuities in programmes, weaker management, and poorer outcomes.

Similar segmentation processes can be observed among local job creation initiatives, where again three models can be distinguished:

- 1 'work experience initiatives' offering just a temporary job, often combined with on-the-job training, with a view to transferring the worker to the regular labour market within a well-defined time limit. The 'entreprise d'insertion' in France are the typical example
- 2 'social co-operatives' (Germany, Italy) functioning on a quasi-commercial basis, whose aim is to create new and permanent jobs in a 'niche' of the market
- 3 'social workshops' (Netherlands, Flanders, Germany) that work on a non-profit basis, offering permanently subsidized jobs to the least 'employable' job seekers.

Every type of initiative seems to respond to the needs of a specific subgroup. But social workshops, which depend more heavily on subsidies, tend to become more vulnerable themselves when the subsidies are inadequate. As a consequence, their poorer economic performance tends to be transferred to the target group and to act as a self-fulfilling prophecy, thus indeed limiting the mobility of participants towards the regular labour market (see the section on stigmatization below).

#### Dead ends

The solidarity for work (CES – 'Contrats emploi solidarité' contracts represent one of the major instruments of labour market policy in France (660,000 contracts in 1993) offering half-time jobs for a limited time in the non-market sector (including a training offer in some cases) to the vulnerable unemployed (like LTU, MIG-recipients, young unemployed with no vocational qualification). While this instrument represents a first offer of integration to a large number of people suffering from social exclusion, it has to be noted that for a large group of the participants, this does not go beyond a temporary solution. In too many cases CES contracts are followed by a new period of redundancy. A regular work contract as a result of a CES contract is certainly not the rule.

The problem with the integration of disadvantaged groups in public employment programmes is also recognized in the Netherlands, namely in the 'labour pools' (*banenpools*) for the LTU, as well as in the Flemish 'back to work' programme (*Weer-Werk*), and in the Luxembourg ATI-Scheme (*Affectation Temporaire d'Insertion*) for MIG-recipients. In the present context of mass unemployment, temporary jobs in non-profit activities normally end with backsliding into unemployment, yielding at most a renewed contract with the labour market and a reactivation of job search

activities. On the other hand, the discouragement at the end of the employment period is all the greater.

It would be worthwhile examining whether such work experience programmes would yield more stable employment in the private sector. But in many countries there seems to be a reluctance on the part of policy makers to subsidize private employers in the profit sector for hiring disadvantaged job seekers, mainly for fear of substitution and displacement effects. A new dilemma seems to emerge here, between 'additionality' and 'integration in the regular labour market'. The principle of 'additionality' of job creation programmes is indeed sometimes operationalized through the deliberate creation of separate employment circuits, well outside the regular labour market, but possibly with fewer prospects of stable contacts. In the light of the above analysis, this approach would need to be reconsidered: if 'additionality' implies further segmentation of provision, lower transition to regular jobs, and hence, less stable employment results, it would perhaps be preferable to accept more substitution.

#### Carousels

This mainly refers to the idea that different arms of the administration may attempt to shift the responsibility for unemployed clients from one to another, as the desire to reduce their costs, reduce their degree of responsibility, or achieve administrative targets takes precedence over the needs of clients. As a result, the effect of integration programmes is sometimes very temporary and does not imply any long-term progress on the part of the beneficiaries.

In Denmark there are examples of carousels in the Job Offer scheme, and in the employment projects run by the municipalities, MIG-clients are employed just long enough to render them eligible for the (nationally funded)



unemployment insurance scheme. As the income maintenance of the uninsured unemployed people is expensive for the municipalities, some of the municipal provisions are used, not to integrate those unemployed, but to make them eligible to claim benefits from the insurance system. As soon as the unemployed become eligible, they are no longer entitled to benefits from the social assistance system. In this way part of the measures are managed to serve institutional interests, which results in the unemployed being pushed from one system to another.

In Belgium a similar carousel is thought to be the temporary work programme designed to move clients from social assistance back into social security (art. 60#7 of the law on social welfare centres). This is illustrated by some striking findings from an evaluation study carried out by Van de Velde (1990); retrospective interviews with 173 individuals who had participated in the scheme three years earlier revealed that nearly all of them had indeed gained access to unemployment insurance. However, 91.5 per cent had fallen back into unemployment immediately after the scheme; 61.4 per cent were unemployed at the time of the interview, while 48.5 per cent had remained unemployed for the whole of the period following the scheme. Those who did fall back into long-term unemployment run the risk, of then being excluded from unemployment insurance, and having to return to social assistance. Two important reasons for these poor results were the absence of training offers (only 5 per cent had attended a formal training course) and the lack of guidance and mediation. As a consequence of these findings, the scheme was reorganized so as to include training and a guidance for all participants. A second evaluation, three years after the reform (Wouters *et al.* 1994) revealed that fewer participants (42 per cent) had fallen back to persistent unemployment despite the economic recession of the early 1990s. In a third phase, the scheme was again improved by including intensive guidance and counselling services.

In Luxembourg, another kind of carousel is

observed by field workers, who call it 'social and training tourism'. Among young people taking part in initial vocational training in 1990, 30 per cent had participated in one or more programmes before; and 60 per cent had at least one job before with an average employment duration of more than 20 months. Only 24 per cent of participants had had no work experience and no training.

### Stigma effects

We talk about *stigma* effects, in the narrow sense, when hidden disadvantages (like dependence on MIG, poor socio-economic background, criminal record, previous drug addiction) are revealed to employers by the mere fact of 'benefiting' from a programme. Stigmatization in the broader sense implies that 'visible' disadvantages which are usually ascribed to a group (like long-term unemployment) are reinforced at the individual level by participation in a programme.

Following a study by Burtless (Dayton, Ohio; 1985) on the effectiveness of a targeted wage subsidy (intended to increase the employment of MIG-receivers by offering employers reimbursement for part of those worker's wages), job seekers given experimental vouchers identifying them to employers as eligible for a generous wage subsidy were significantly less likely to find employment than were similar job seekers without vouchers.

In Europe, a risk of stigmatization appears to be associated with mandatory programmes. In Denmark, one of the reasons for the negative performance of the training offer scheme for LTU – besides possible mismatches between provision and needs – is said to be the rather bad reputation of the scheme among employers (Aakrog *et al.* 1991). Negative employment effects were also found by Dolton *et al.* (1993) for YT, the Youth Training scheme in the UK, which is a more or less mandatory scheme as well. They suggest that

stigmatization may be the main cause of this disappointing result. Other British studies (White and McRae 1989) have pointed to the stigma effect of YT, although it is very difficult to prove. However, if the results of these studies are correct, job-participation in the scheme may in some cases be a rational choice on the part of the individual, even if he/she would lose benefits, because (a) it would signal to employers that one is 'better' than the participants and (b) it would leave more time for job search.

### 3 Macro-economic impact

A well-known factor reducing the net impact of a labour market policy is *deadweight*. Deadweight effects relate to the fact that the jobs filled by beneficiaries of policy measures are not always 'extra' jobs created by these measures. In other words, in the absence of the measures these jobs would perhaps have been created as well, e.g. simply due to an increase in demand. Deadweight is often mentioned together with substitution (see Section 1) and, according to the definitions used, it may or may not encompass substitution.

Deadweight effects are extremely difficult to estimate empirically. Estimates can be made either via macro-econometric studies that include – besides the number of beneficiaries of the programmes concerned – all other relevant contextual variables (growth of GDP, wages, flows of vacancies); or via surveys among employers. Although the latter are less sophisticated from the theoretical and methodological point of view, they sometimes yield more reliable results. A noteworthy example relating to disadvantaged groups is the study by Ameels *et al.* (1994) who interviewed a stratified sample of 400 employers, selected on the basis of their recent experience with labour market measures for disadvantaged groups (LTU, poorly qualified youngsters, MIG-claimants, women re-entering the labour market, and disabled

persons). They found deadweight effects of 54–58 per cent for wage subsidies, and of 38–49 per cent for training measures. The lower estimate for training appears to be consistent with other studies (Bassi and Ashenfelter 1986; OECD 1993). Bushell (1986) evaluated a British scheme of wage subsidies to employers conditional upon the recruitment of LTU: he estimated the deadweight effect at 63 per cent. De Koning *et al.* (1992) measured an effect of barely 40 per cent in a similar Dutch scheme by means of econometric analysis. A sub-programme of the Dutch scheme, targeted at very long term unemployed and ethnic minorities, was even found to have no deadweight loss at all (de Koning *et al.* 1992). Wood and Hamilton (1989) found a 69 per cent deadweight in a study on Jobstart, a wage subsidy paid to LTU for accepting a job within 3 months. As regards direct employment schemes, few comparable figures are available as evaluation techniques are different; however, some studies suggest that they are effective in terms of net job creation, sometimes even more than training or wage subsidies, if at least they are targeted at the structurally unemployed (Eriksson 1991; Bällman and Lehman 1990). De Munnik (1992) reports a deadweight effect of only 15 per cent in the Dutch 'labour pools' (banenpools), whereas PACEC (1992) estimates that two-thirds of the jobs created in the UK's 'Inner cities' task force initiatives are not really new.

Admittedly, the mere existence of deadweight losses in labour market programmes does not imply that they are ineffective; but it should be borne in mind that the net employment creation effect of targeted programmes is in most cases only a fraction of their gross impact.

The limited macro-economic impact of 'active labour market policies' is hardly surprising, if one considers its underlying philosophy, which, according to Layard *et al.* (1991: 472–81) is mainly to 'improve the search efficiency of the unemployed', or in other words, to boost labour supply. After the unforeseen experience of stagflation in the 1970s and early 1980s, and the bankruptcy of Keynesian de-

mand stimulation and labour supplying reducing programmes, the basic idea of active labour market policies is to stimulate growth and simultaneously fight inflation by supply stimulating measures.

Whereas this argument seems logical concerning the markets for goods and services, it is less straightforward for labour markets, which are already characterized by a situation of excess supply. Stimulating labour supply by means of active labour market policies may thus indirectly enhance unemployment rates and poverty.

The advocates of active labour market policy will reply that it does not only aim to increase labour supply, but rather to increase its flexibility. LTU and low-skilled job seekers should be retrained and geared towards the new, dynamic sectors of the economy, in order to avoid rigidities and wage inflation, and to raise their productivity; contracts should be made more flexible to lower the fixed costs of labour; and so on (Andersen 1992). To some extent these strategies are quite legitimate, given the handicap of high labour costs in Europe. But even without boosting labour supply, such measures would not fundamentally solve the problem of unemployment; they are more effective as a means to combat inflation and to redistribute (un)employment than as employment creation strategies. In some extreme cases, they may even lead to a downgrading of labour conditions in precarious jobs, and thus to more poverty.

This failure of active labour market strategies to yield the expected employment creation effects has been recognized by the OECD in its *Employment Outlook 1993* (pp. 46-53). In a cross-sectional analysis of 21 countries over the period 1985-1990, the macro-economic impact of active labour market policies on employment was estimated after controlling for other factors such as growth of GDP and wages, by means of regression analysis. Paradoxically, employment growth turned out to be negatively (instead of positively) related to growth in expenditure on active measures. In other words, countries raising

their expenditures on active measures saw their unemployment grow faster (or diminish less) than other countries. The paradox can only be understood by inverting the causal relation: as unemployment rose, governments reacted by spending more on labour market measures. But anyhow, the results demonstrate the ineffectiveness of active measures in reducing unemployment. Similar estimates of their influence on wage levels indicated that in most countries (but far from all), active labour market measures tend to 'facilitate wage moderation'. But apparently, not to an extent that would affect employment growth substantially.

The general macro-economic context in Europe is rather one of a deep structural crisis that produces poverty and social exclusion, even if it goes hand in hand with a high living standard of the majority of the population. High wage costs, excessive taxation of labour, tight monetary policies, and the absence of effective macro-economic strategies to cope with unemployment determine the context within which programmes are developed to give disadvantaged groups new chances of (temporary) re-integration. Is this 'mopping with open taps'? In any case, as the problem seems to be one of uneven distribution and dualization rather than economic recession, it seems worth examining whether more solidaristic solutions, e.g. a stronger commitment to redistribute labour (together with income and social security contributions), would offer a valuable alternative.

#### 4 Policy implications

The objective of this article is certainly not to 'prove' the ineffectiveness of targeted labour market policies or to plead for their abolition. Rather, we want to contribute to their improvement by pointing at some major problems which can, in most cases, be overcome. In this final section, an attempt is made to draw

PROBLEM TO POLICY  
HANDS !!

together the main conclusions of the previous sections into a coherent set of policy recommendations, addressed to the national and local authorities as well as the European Commission. These conclusions will be rearranged in the following order: design, targeting, operation, and outcome. We close the section with a comment on the consistency between targeted and general labour market policy.

#### 1 Design

1 Special measures may be necessary to reach the most excluded groups and to respond to their particular needs. Thus for example, temporary subsidized employment in 'social economy'-initiatives may be an adequate alternative for those who are rather reluctant to undertake training; long training trajectories with a sufficient remuneration of participants are necessary to motivate those with acute financial problems to engaged in initial training; judicious use of selective marginal wage subsidies, linked with in-service guidance and counselling may help overcome employers' prejudices against very disadvantaged groups. Existing evidence about the particular needs of the most excluded groups relating to labour market reintegration is very scarce. Labour market authorities should invest more in these kinds of studies.

2 Special measures should never be conceived as 'sidetracks'. They should always be integrated in a trajectory, written down in an individual action plan that stipulates all steps to be taken, with intermediate evaluation (and possible revision), and with integration into the regular labour market as the ultimate goal. We call this the 'routing principle'

3 As poverty is a multidimensional problem, labour market measures for the poor should be embedded in a holistic

approach, including elements of social assistance, guidance and counselling, training, child care and so on.

4 Mandatory programmes may be seen in some circumstances as useful measures, but they should be avoided as a rule, as they cause demotivation of participants and stigma effects. The sanctions involved when 'beneficiaries' do not comply with the rules, or simply the lack of adequate supply tend to result in the opposite of (re)integration. A good balance between compulsion and efficient help can be reached by offering different options and outcome guarantees to the participants (see the recent reform of the Danish job and training offer scheme).

#### Targeting and accessibility

5 Before engaging in specific measures for separate groups, all existing forms of discrimination should be abolished. One of the basic principles of every labour market policy should be the right of every person at active age to participate in the labour market and to have access to all existing services for job seekers.

Defining some groups of the population a priori as being 'out of the labour force' (single parents, older unemployed, disabled persons) should be regarded as a hidden form of discrimination.

Limiting access to labour-market programmes to job seekers entitled to unemployment insurance benefits is even worse, a direct form of social exclusion.

6 Registration as a job seeker should be facilitated, e.g. through automatic registration of some categories of social security recipients. Automatic deletion from the register for administrative reasons should be avoided.

7 Positive discrimination in favour of disadvantaged groups (e.g. LTU) can be useful

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in order to counteract the external danger of creaming off in 'mainstream' services. However, positive discrimination itself can be dangerous in several respects:

- (a) overlooking equally disadvantaged groups that are ipso facto excluded from the measure and whose competitive position worsens as a consequence of the measure
- (b) increased complexity of measures for employers
- (c) potential stigma effects of too narrowly targeted provisions.

Perverse substitution effects (i.e. given more help to less disadvantaged groups) should be avoided by establishing a clear, legally approved hierarchy of priority groups, based on objective criteria such as outflow probabilities from unemployment, multiple deprivation and so on.

- 8 Guaranteed services (like the Danish Job offer scheme) are a better means to ensure a minimum of equity in the delivery of services to the unemployed. They are a concrete way of realizing the 'right to labour', and a necessary counterpart to compulsion.

In some provisions (e.g. training programmes, recruitment subsidies), quota systems for particular target groups can also be used as an alternative to separate provisions.

- 9 Mixing target groups with different handicaps (e.g. disabled and hard-to-place unemployed) in single measures may cause double stigmatisation and should therefore be avoided.

### 3 Operation

- 10 Socially excluded people deserve well-managed services for their reintegration into the labour market. Some well-intentioned local initiatives (training as

well as employment projects) suffer from poor management: they can be improved by the establishment of adequate quality criteria for their approval and funding, and/or by providing management advice services.

- 11 Setting up partnerships and networks is an important element for the successful implementation of the 'routing' principle, as no single operator is able to offer the complete range of services that may be useful for combatting exclusion from the labour market. Five (types of) partners were identified in our research, each with its strengths and weaknesses: public agencies, private organizations, employers, trade unions, and organizations representing the target groups.

- 12 The funding of private, local provisions needs to be made more adequate and secure, in order to allow for the development of professional and stable services. In the context of operational programmes cofinanced by the ESF, the lack of long-term guarantees for small NGO-projects and the delays for payment caused by the different hierarchical stages in administrative procedures constitute a serious handicap, that could be overcome by pre-financing and longer-term agreements.

- 13 The injudicious use of output-related funding may turn out very harmful for the most disadvantaged groups and may even be quite inefficient from a social cost-benefit point of view (see point 15). It seems preferable to base funding on the extent and characteristics of the target group and on criteria related to the quality of the services delivered.

### Outcomes and evaluation

- 14 Our whole report has demonstrated the need for a continuous and rigorous evaluation of labour market policies and

provisions, by pointing at examples of inefficiencies and perverse effects.

- 15 The short-term placement ration (x months after participation in a programme) is a fairly simple, but socially and economically biased evaluation criterion: socially, as it tends to show better results for programmes geared towards stronger groups, and thus to reinforce creaming of mechanisms; economically, because it does not account for the long-term effects of policies.

A more balanced evaluation of employment effects would be based

(a) on 'differential' rather than absolute placement ratios (i.e. compared to a reference group of non-beneficiaries with similar characteristics)

(b) on longer-term analyses (the long-term benefit of reintegrating disadvantaged individuals is expected to be greater than for the average unemployed person).

- 16 Besides merely quantitative employment effects, one should take account of aspects like equality of access, the quality of the obtained jobs (like terms of contract, stability of employment, concurrence between training and job, and the prospects of the sector), and psychological and social effects.

- 17 Furthermore, one must not forget the (possibly substantial) side effects of targeted labour market policies on non-participants. In our study, we focused on negative side effects for equally or more disadvantaged groups rather than the 'classic' deadweight and substitution effects.

'Within-group' substitution occurs in some cases when a policy measure has limited coverage and actually drains services and opportunities away from equally disadvantaged individuals in favour of beneficiaries. It can be overcome by providing for sufficient capacity to cover the whole target group.

'Reverse substitution' means that

stronger measures are taken in favour of less excluded groups (e.g. youngsters), thereby reinforcing the exclusion of those less privileged (e.g. LTU, MIG-receivers). It can be avoided by establishing a clear hierarchy of priority groups (see point 7).

18 The danger of substitution in general should not be exaggerated, however. Selective labour market policies generally aim at a redistribution of opportunities rather than at large-scale job creation. However meaningful the 'additionality' criterion included in many programmes may be, it should not give way to 'side-track' provisions, which in the long run prevent reintegration.

Similarly, efforts to avoid deadweight and substitution through more narrow targeting of measures should be weighed against the drawback of possible stigma effects.

The examples of deadweight and different types of substitution described in the text (one of them relating to ESF-interventions) confirm the need to evaluation policies for disadvantaged groups against a broader macro-economic and social background.

### Consistency between targeted and general labour market policies

This brings us back to one of the key issues of Section 3, namely, the relation between the fight against social exclusion on one hand, and the growing dualization of European societies on the other. Although the macro-economic context of the labour market was not the focus of this study, it appeared unavoidable to devote some comments to this fundamental issue.

Even if there were consensus about the view that the growing unemployment, dualization and poverty in Europe are triggered by external shocks (oil shocks, socio-demographic

shifts), much less agreement would be reached about the avoidability of their persistence, as well as the strategies to combat them.

Economic theory and policy seem to have lost their problem-solving power. From a purely economic point of view, everybody would agree that unemployment is to be interpreted as an excess supply in labour markets. Nevertheless, after the failure of demand-boosting and supply-reducing policies in the 1970s and 1980s, the present strategy ('active labour market policies') seems to be focused on the victims themselves: supply is stimulated, flexibilized, put under pressure in order to control wage pressures and inflation, but who believes that this will bring us back to full employment? And everybody knows that neither economic growth, nor 'more Europe' – however desirable they both may be – will be the ultimate answers.

From a social point of view, active labour market policies – if they are well designed and targeted – redistribute probabilities of employment, but are not really increasing employment for all.

It appears to us that this contradiction can only be overcome by 'embedding' the targeted approach into a powerful macro-economic policy mix of employment creating measures, which stimulate labour demand without boosting inflation. This may include alternative social security funding methods, as well as a general redistribution of labour and income. The latter is clearly not a simple strategy because it requires a new social consensus, a new equilibrium of power, and greater solidarity.

## Notes

- 1 Nicaise et al (1995). The book and article are written by independent experts and do not necessarily reflect official points of view of the European Commission.
- 2 The expression refers to the enigmatic verse from St. Matthew's gospel (chapter 13, verse 12) which states

that 'For those who have will be given more, till they have enough and to spare; and those who have not will forfeit even what they have', *The Revised English Bible*, OUP and CUP 1989.

- 3 Among them, 80 per cent of the MIG-recipients = 46,000.
- 4 In fact 'active labour market policies' are more ambivalent than our discussion suggests, some measures even aiming to stimulate demand through cost reductions. However, we have deliberately simplified the argument in order to clarify it. The parallel existence of demand-stimulating measures does not in any case alter our critique fundamentally.

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# METODIKA PRO HODNOTÍCÍ VÝZKUM

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## ÚVODNÍ POZNÁMKY

Hodnotící výzkum sleduje tradičně dva cíle. Na jedné straně slouží k posouzení účelů, relevance a finančních priorit (externí cíle). Na druhé straně slouží k pochopení účinků programových aktivit a k hodnocení jejich efektivity (interní cíle). V našem konkrétním případě budeme sledovat jak externí, tak i interní cíle.

### Program

Program budeme chápat jako určitou "intervenci nebo jako soubor aktivit směřujících k dosažení stanovených cílů (uspokojení určitých identifikovaných sociálních potřeb nebo řešení určitých identifikovaných sociálních problémů). V konkrétním případě půjde o programy zaměřené:

1. Na pracovní místa (rekvalifikace těch, jimž jasně chybí dovednosti pro nabízená místa)
2. Individuálně – na uchazeče orientované projekty

### Tradiční otázky hodnotícího výzkumu:

- "Do jaké míry je program relevantní situaci (potřebám, problémům, prostředí) a cílům?*  
?  
*"Jaké jsou sociální problémy a potřeby, na které program reaguje a kdo je formuloval (či problémy a potřeby to jsou)?"*  
?  
*"Do jaké míry odpovídají stanovené cíle těmto potřebám a problémům a do jaké míry přihlíží k prostředí?"*  
?  
*"Do jaké míry je program úspěšný při dosahování těchto cílů?"*

Jedním z hlavních výsledků má být identifikace klíčových prvků úspěchu. Kostru hodnocení tvoří odpovědi na dílčí otázky:

1. Hodnocení politiky (zejména cíle, jejich vztah k potřebám, změny cílů, vztah k nástrojům, kvalita nástrojů)  
Otázka: *"Co je potřeba/problém a jak politika odpovídá jim odpovídá?"*
4. Hodnocení implementace (administrativní-instituční faktory- selekce, kvalitativní hodnocení), tzv. demonstrační studie pro nové programy – ověřované jsou zvláště důležité  
Otázka: *"Jak nejlépe uspokojit potřebu/řešit problém?" (hodnocení nových a existujících strategií)*
5. Dopady-efekty (na zaměstnanost, jiné-sociální, náklady)  
Otázka: *"Co se docílí zavedením programu?"*

### Struktura hodnocení

Při hodnocení programu je třeba identifikovat:

- Cíle programu a zvolit způsob jak indikovat jejich dosažení. Tyto cíle mohou být neuspořádanými položkami, ale mohou tvořit i uspořádaný soubor. Přitom je třeba brát v úvahu u nezamýšlené konsekvence programu, respektive aktivit jimiž je program realizován. Zvláště je třeba identifikovat základní obecné cíle jako *růst šance na znovuzískání zaměstnání* a cíle dílčí či specifické a také rozlišit cíle krátkodobé, mezi něž může patřit zmíněný růst šanci na znovuzískání zaměstnání a dlouhodobé, jako například *změna profesní kariéry*.
- Komponenty programu, jako základní jednotky pro jeho hodnocení (dílčí fragmenty programu jejichž dílčí cíle lze vymezit).
- Aktivity směřující k jejich realizaci a nástroje tyto aktivity zajišťující a podporující (včetně finančních prostředků). Znamená to i posoudit celek i dílčí činnosti, jimiž je program realizován, z hlediska jejich úspěšnosti a neúspěšnosti. Patří sem i posouzení prostředků ve vztahu k cílům a posouzení zacházení s těmito prostředky.
- Okolnosti za nichž je program realizován a posoudit jejich vliv na úspěšnost programu.
- Zájmy, jež se s cíli i aktivitami programů v průběhu jeho realizace spojují, nebo jsou nimi kontradiktorické a subjekty, jež jsou nositeli těchto zájmů (například kdo má zájem na umístění určitých typů pracovníků a jaká je poptávka po nich).
- Populaci, která reálně prochází programem, s ohledem na vymezení populace v cílech programu a populaci, kterou program nepostihuje (možný rozpor mezi cílovou populací a těmi, komu program reálně slouží).
- Skryté agendy, neboli cíle programu, které nebyly artikulovány, ale jejichž dosažení může ovlivnit úspěšnost programu. Mohou to být i cíle formulované realizátory programu na základě jejich vlastních zájmů. Patří sem i otázky toho, nakolik se shodují cíle programu s cíli organizace, která ho realizuje.
- Sociální kontext, neboli jakékoliv další skutečnosti intervenující ze širšího sociálního okolí do cílů programu, realizace jeho aktivit a do jeho efektů.

## POSTUP HODNOCENÍ

### Popis programu

Program je třeba popsat z hlediska jeho cílů (jejich identifikace a hodnocení způsobu jejich formulace), metod (zachytit vazbu mezi cíli a metodami), personálního zajištění, poskytovaných služeb a rozvíjených aktivit a jejich délky, rozsahu, povahy jeho klientů (cílené a reálné, včetně úvahy o možné disproporcii mezi nimi), lokalizace, způsobu jeho řízení a administrace a povahy podpory, jíž se mu dostává. Klienty programu je třeba popsat z hlediska základních sociodemografických charakteristik, postojů ke skutečnostem na něž program reaguje, motivace jich samotných i jejich rodinných příslušníků k účasti na aktivitách programu. Důležité je určení informací, které jsou k hodnocení konkrétního programu nezbytné.

### Struktura hodnocení

Program je hodnocen jako celek, ale při vlastních hodnotících aktivitách je analyticky rozčleněn na své komponenty jako logicky či časově uspořádané aktivity.

- Analýza struktury programu: design programu (délka, zaměření, kvalita, náklady,



- propojení – návaznost na jiné programy, obtížné momenty programu a způsob jejich řešení), identifikace cílů, odlišení cílů a prostředků k jejich dosažení, identifikace kontrolních mechanismů (jak jsou kontrolovány výstupy a efekty programu), vytvoření profilu prvků programu (identifikace jejich cílů - příloha 1). Jak jsou jednotlivé prvky programu sladěny, jaká je komunikace mezi jejich realizátory.
- Analýza povahy cílů: adekvátnost cílů, jasnost jejich formulací, znalost cílů realizátory a míra konzistence výkladu cílů (včetně způsobu jakým jsou základní obecně formulované cíle v týmu realizátorů překládány do observačního jazyka) a ztotožnění se s nimi v týmu realizátorů, míra v níž jsou cíle v systému inovativní, narušující tradici. Míra seznámení klientů a sociálního okolí s programem a s jeho cíli. Konzistentnost systému cílů (podporují se dílčí cíle, nejsou ve vzájemném rozporu, ...?) a hlavní spojení mezi jednotlivými cíli. Jaký vztah mají cíle programu k povaze systému (trh práce v ČR respektive v daném okrese), sledují jen minulý vývoj systému nebo se ho snaží předvídat?
  - Aktivity programu ve vztahu k jeho cílům: do jaké míry jsou aktivity relevantní cílům, existují variantní řešení a proč nebyly vybrány. Jak jsou aktivity realizovány (ovlivňuje způsob jejich realizaci výstupy a efekty programu)? Na které problémy tyto aktivity narážejí a co snižuje jejich účinnost (ze strany realizačního týmu, klientů, širšího sociálního okolí)? Náklady jednotlivých aktivit.
  - Výstupy: Kvalitativní i kvantitativní popis formálních výstupů<sup>1</sup> aktivit (počty klientů, kteří projdou programem, počty konzultací, hodiny výuky atd.).
  - Způsob řízení aktivit programu a koordinace mezi jeho prvky: Povaha kontrolních systémů, vedená evidence a zpětná vazba (povaha informací o efektech programu a míry dosahování jeho cílů. Kvalifikace vedoucích a členů realizačního týmu.
  - Kontext: Povaha okolí (úroveň a struktura nezaměstnanosti v dané lokalitě, množství a struktura pracovních příležitostí, typy zařízení schopných poskytovat rekvalifikaci, ...).
  - Efekty: Výsledky aktivit programů v termínech formulovaných cílů.
    - Z hlediska změn v systému (změny parametrů systému či procesů v něm probíhajících v průběhu realizace programu).
    - Z hlediska změn v povaze participantů (změny postojů, dovedností, schopností, životních strategií, ...) a jejich životních šancí (krátkodobých i dlouhodobých).
  - Participantí: k jakému druhu klientů se program obrací (jaká je cílová skupina, proč a jak byla vybrána) a jaké reálně rekrutuje (v obou případech jejich sociodemografické charakteristiky, vzdělání, pracovní historie, postoje, ...). Jak jsou získávání a motivování k účasti na programu a k akceptaci jeho cílů. Názory participantů programu. Sleduje se způsob výběru účastníků – kritéria a jejich uplatnění, reálná skladba účastníků.
  - Unikající populace: Identifikace těch skupin z cílové populace, které unikají aktivitám programu a zhodnocení důvodů tohoto úniku.
  - Informační systém a způsob kontroly: Kontrola dílčích aktivit programů a programu jako celku a cost-benefit analýza, povaha a kvalita informací, které má realizační tým k dispozici pro sledování povahy systému, výstupů a efektů programu.
  - Efekty: Jde o dopady programu na trh práce, sociální a ekonomické parametry území a na osobnost participantů, jejich postoje, životní situaci ap. (zaměstnanost, výši mzdy, stabilitu zaměstnání, spokojenost se zaměstnáním, sebedůvěru, motivaci, sociální kontakty, kvalita života v nezaměstnanosti atd.). Z nich je možno identifikovat nezamýšlené latentní důsledky programu.

<sup>1</sup> Ty nemusí mít přímou vazbu na cíle (z jejich rozsahu se ještě nedá usoudit nic o kvalitě programu).

### **Průběh hodnocení**

Hodnocení je částečně průřezové (stav v určitém okamžiku), částečně dlouhodobé. Zejména efekty na straně participantů programu je možno použít quasiexperimentální strategie a porovnávat je s analogickými skupinami, které neprošly programem. Možné komparace:

- ? Různé cílové skupiny v jednom programu.
- ? Cílovou skupina v různých programech.
- ? Pokud by byla možnost sledování kontrolní skupiny (ti, kteří byli odmítnuti z účasti resp. nevybráni) pak lze hodnotit čistý efekt – nejsložitější postup, ale nejslibnější z hlediska výsledků.
- ? Případně se o to pokusit metodou fixních efektů, ale nemusí se vždy podařit “namodelovat” srovnatelnou skupinu“.

Vlastní “experimentální” skupinu je nutno sledovat (popřípadě i skupiny kontrolní se sledují v analogických časových okamžicích):

- ? Na vstupu do programu.
- ? V průběhu realizace programu.
- ? Na výstupu.
- ? S určitým časovým odstupem od participace.

Jednotlivé hodnotící aktivity se budou soustřeďovat kolem výše uvedených prvků struktury hodnocení. Půjde zejména o:

- Rozhovory s iniciátory a realizátory programu
- Rozbor programových dokumentů.
- Analýzu databází vedených o participantech: statistiky o klientech procházejících programem (sledování toků účastníků a ostatních uchazečů) a o jejich další kariéře.
- Rozhovory s participanty a zúčastněné pozorování.
- Institucionální záznamy o zajištění programu a o jeho jednotlivých aktivitách (včetně záznamy o finančních a lidských nákladech).
- Rozbor statistik charakterizujících relevantní vztažný systém a způsob jeho ovlivnění programem.

### **Shromažďování podkladů o participantech**

Jde o dva typy údajů: identifikace participantů podle jejich sociodemografických údajů vedených v databázi ÚP a dodatečně zjišťované údaje o jejich postojích, hodnoceních programů a vlastních životních šancí. Pro jednotlivé segmenty hodnocení je nezbytné vytvořit sady sledovatelných indikátorů (například pro efekty situací klientů po určité době od skončení jejich participace na programu: nezaměstnaní; nezaměstnaní, ale zvyšující si kvalifikaci; zaměstnaní na částečný úvazek, zaměstnaní, ale s výdělkem blízko minimální mzdy; zaměstnaní se mzdou blížící se průměrné mzdě; zaměstnaní se mzdou rovnou průměrné mzdě či průměrnou mzdou převyšující).

Je třeba označovat (minimálně v určitém období) u všech uchazečů:

- ? Vstup do programu aktivní politiky.
- ? Typ programu
- ? Ukončení – výstup z programu.
- ? Dále by bylo vhodné uvádět i podle programů náklady na program/daného účastníka (cost-benefit analysis), případně podíl ÚP na mzdových nákladech jde-li o úhradu MN.

Následně se použije metoda fixních efektů<sup>2</sup>, resp. vícenásobná regresní analýza, life-event history.

- ? Sleduje se i uplatnění participantů: získání zaměstnání, jejich mzdy, stabilita jejich zaměstnání).
- ? Sledují se i měkká data: vztah k aspiracím-potřebám, dopady na motivaci, stigmatizace, sebedůvěra, pracovní uspokojení, prožitek nezaměstnanosti, vztahy v rodině, stress.

Je vhodné, aby, co se týče postojů a efektů, bylo sledováno cca 100 účastníků a více.

### **Srovnání s jinými programy**

Pro toto hodnocení je vhodné vybrat k porovnání dva programy – jeden tradiční, jeden nový, když zvažujeme, který je vhodnější. Hodí se i k zkoumání efektů cílených programů (na obtížné skupiny).

### **Srovnávací dimenze (osy)**

- ? Čisté efekty programů:
  - ? Podle průměrné délky nezaměstnanosti různých kategorií nezaměstnaných (rozlišeně účastníci-ostatní).
  - ? Podle statusu na trhu práce po xx měsících od vstupu do registru (nástup na místa).
  - ? Podle průměrné délky nezaměstnanosti před vstupem na pracovní místa.

Podmínka je sledování kohorty nezaměstnaných alespoň v určitém období z hlediska účasti v programech.

- ? Srovnání programů mezi sebou (účinnost):
  - ? Výsledky pro různé programy ve vztahu k jedné kategorii nezaměstnaných.
  - ? Výsledky pro určitý program ve vztahu k různým kategoriím nezaměstnaných.

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<sup>2</sup> Sirovátka. 1995. *Politika pracovního trhu*. Brno: Masarykova univerzita.

## **Příloha 1**

**Program:**

**Prvek programu:**

**Délka trvání:**

**Zahájeno:**

**Rozpočet na rok .....**

**Vedoucí:**

**Popis (struktura aktivit/služeb):**

**Cíle:**

**Výstupy:**

**Efekty:**

**Povaha klientů:**

- Z hlediska cílů:

- Reálná: