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ABSTRACT

Both Germany and Great Britain have recently experienced increases in unemployment. Both countries have developed substantial labor market programs. Germany offers full-time adult training and retraining courses for employed and unemployed persons. Great Britain has a system of youth training but, until recently, has done little for adults. It has now, however, instituted a large program of part-time employment training for unemployed adults and subsidies to employers providing work experience. Germany has its own recruitment subsidy system that subsidizes 50-70 percent of the wages earned by persons recruited from the ranks of the hard-to-place unemployed. Germany has a job creation scheme for employing mostly long-term unemployed persons with a focus on social service employment, whereas Great Britain abolished its own large-scale job creation program in 1988 and now allocates resources directly to training. Both countries offer free job placement services. In Great Britain, the Restart Programme works to remotivate unemployed persons and pressure them to fill available vacancies. Both countries' employment programs have had degrees of success in reducing unemployment but could be improved by the following: an active system of placement and counseling, a system to recruit hard-to-place workers, and a system of publicly supported temporary work at regular workplaces. (13 figures; 62 tables; 169 references.) (MN)

HELPING THE UNEMPLOYED

Active labour market policy in Britain and Germany

Richard Disney, Jane Gosling, Ann Hoskins,
Wolfgang Franz, Richard Jackman, Richard Layard,
Hartwart Lehmann, John Philpott

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ACTIVE LABOUR MARKET POLICIES IN BRITAIN AND GERMANY

Richard Disney (Convenor), Lutz Bellmann
Alan Carruth, Wolfgang Franz
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The Foundation aims to contribute to the knowledge and understanding of industrial society in the two countries and to promote contacts between them. It funds selected research projects and conferences in the industrial, economic and social policy area, designed to be of practical use to policymakers.

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Preface

Unemployment remains a major problem in both Britain and Germany. Various policies to reduce unemployment have been tried in each country, and it seemed that much could be learned from a comparative analysis. The Employment Institute therefore asked the Anglo-German Foundation to support a collaborative venture to undertake a comparative analysis of policies towards unemployment. The events in Central and Eastern Europe, as well as the unification of Germany, which unfolded during and subsequent to the project, have underlined the need for policies designed to deal with major economic restructuring. Understanding the scope and impact of labour market policies is of particular importance in this context.

During the course of the project, Lutz Bellman and Wolfgang Franz visited the London School of Economics, while Alan Carruth and Richard Disney visited the *Bundesanstalt für Arbeit* in Nürnberg and the University of Konstanz. The *Bundesanstalt für Arbeit* also kindly made its facilities available for a conference held in December 1989 to discuss preliminary drafts of the various chapters of the book. Many participants at the conference, from a range of British and German academics and governmental organisations, made useful comments.

The monograph has been collectively produced, with Richard Disney taking overall responsibility for co-ordinating the exercise. Chapters were originally drafted by particular individuals: Chapter I by Richard Disney, Wolfgang Franz and Richard Layard; Chapter II by Alan Carruth; Chapter III by Alan Carruth and Richard Disney; Chapter IV by Richard Disney and Wolfgang Franz; Chapter V by Lutz Bellmann; Chapter VI by John Philpott; Chapter VII by Hartmut Lehmann and Richard Jackman. Wolfgang Franz and Richard Layard were project leaders and chaired the Nürnberg conference in December. Derek Clark and Alun Thomas wrote an extremely useful survey of the existing evaluations of German policies, which has been

drawn on in Chapter IV; it is available on request from the University of Kent.

John Philpott would like to thank David Stanton for helpful comments; Alan Carruth would like to thank Claus Schnabel and Wolfgang Scheremet; and Lutz Bellmann would like to thank Ulrich Cramer, Werner Karr, Helmut Rudolph and Konrad Ermann. We are extremely grateful to the Anglo-German Foundation for providing financial support for the whole project, including the conference. We would particularly like to thank the Foundation's Publications Officer, Clare Haworth-Maden, for her help in preparing the manuscript for publication.

Chapter 1

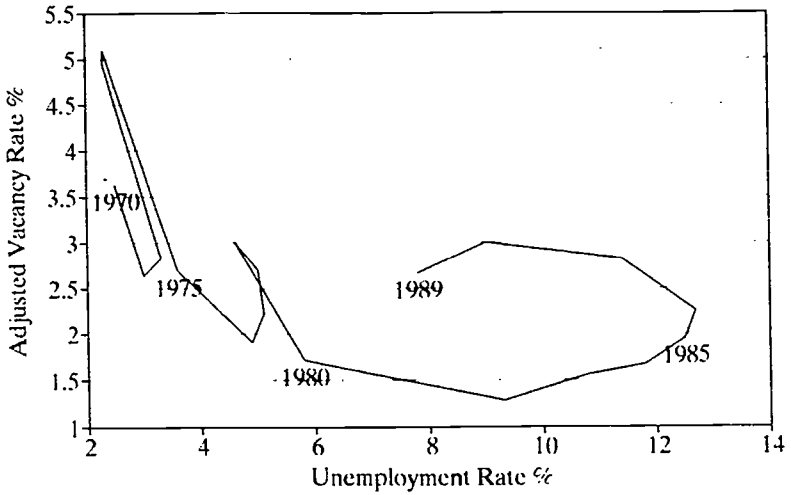
Overview

Unemployment remains one of the greatest social evils in Europe. In many OECD countries it was three times higher in the mid-1980s than it was in the 1960s. In Britain, after a period of unemployment falling in the late 1980s, it is back on an upward trend. In Germany, rising unemployment in the Federal Republic in the 1980s was already a concern, but the unification of Germany, and the ending of the various employment protection measures in the ex-GDR in July 1991 seem likely to exacerbate the unemployment problem for the unified Germany.[1] Hand in hand with the rise in unemployment is the problem of long-term unemployment accounting for over a third of all the unemployed.

What can be done about unemployment? A natural answer would be, 'increase the demand for labour'. But this is too simple-minded. For, as Figures 1.1a and 1.1b show, in both Britain and Germany the number of vacancies is not low by historical standards. The problem is that unemployment has increased although vacancies are available. And this helps to explain why the threat of inflation has not receded, despite high unemployment.

The problem is not, therefore, that there is a shortage of demand for labour but that the unemployed are not providing an effective supply of labour to fill the existing vacancies. This raises the obvious question of whether we could not reduce unemployment by doing more to help the unemployed. If they have the wrong skills, have no opportunity to 'prove themselves', or have poor motivation, would it not be cost effective to offer them relevant help? In other words, is there a role for 'active' labour market policy? Would it be cost effective?

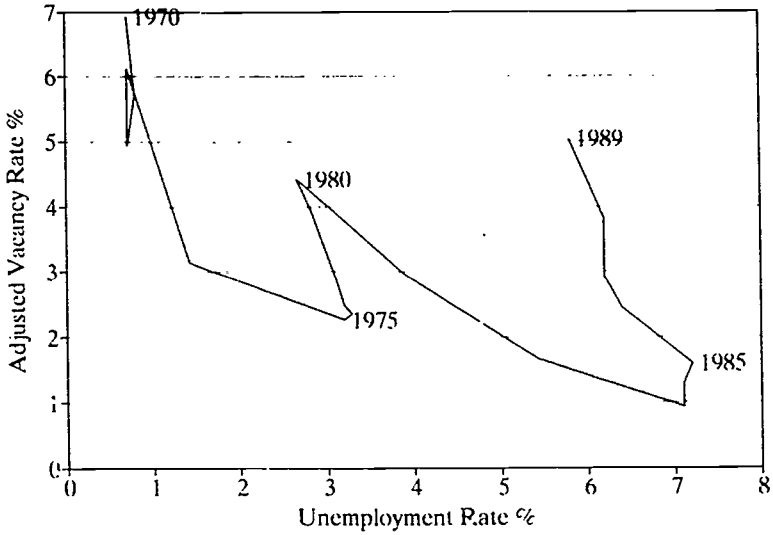
Figure 1.1a: Unemployment and vacancies in Britain



Source: British adjusted vacancy rate: Department of Employment Vacancy Series adjusted by factor in Jackman, Layard, Pissarides (1989), 'On Vacancies', *Oxford Bulletin of Economics and Statistics*, Vol. 51, No. 4.

British unemployment rates: 1971-89, DE *Gazette*, current official definition. Before 1971, CSO, *Economic Trends*, Historical Abstract 1980, multiplied (2.6/3.1) to fit current series in 1971.

Figure 1.1b: Unemployment and vacancies in Germany



Source: German corrected vacancy rates: Wolfgang Franz.

German standardised unemployment rates: OECD, *Economic Outlook,* 1989. Values before 1984 multiplied by (7.1/8.0) for consistency with later figures.

Table 1.1a: Numbers on programmes in Germany (000s)

	Adult Training	Wage Subsidy	Job-Creation (ABM)
1982	201	4	29
1983	209	7	45
1984	221	6	71
1985	246	10	87
1986	308	16	102
1987	346	17	115
1988	361	15	115
1989	337	14	97

Source: Amtliche Nachrichten der Bundesanstalt für Arbeit, Arbeitsstatistik 1988 Jahreszahlen, p.202, 229 and 1989 update.

Note: Numbers on training and wage subsidies relate to December. Numbers on ABM are annual averages.

Table 1.1b: Numbers on programmes in Britain (000s)

	Employment Training	Community Programme	Restart Interviews
1982	0	30	0
1983	0	72	0
1984	0	120	0
1985	0	145	0
1986	0	221	780
1987	0	233	2,164
1988	NK	221*	2,248
1989	205**	0	2,142

Note: Annual averages.

* First two quarters. In mid-year the programme was terminated and no new placements were accepted.

** Estimated average for financial year 1989/90.

Both Germany and Britain provide test-beds for answering this question, since over the last decade both have developed substantial labour market programmes of this kind (see Tables 1.1a and 1.1b). The main programmes have been the following.

- *Training of adults.* Germany has a major system of full-time adult training and re-training courses (for employed and unemployed people). Britain, like Germany, has its own system of youth training but, until recently, has done little for adults. It has now, however, instituted a large scheme of mainly part-time employment training for unemployed adults, with a wage subsidy to employers providing work experience.

- *Recruitment subsidies.* Germany has a system of recruitment subsidies. Employers receive 50-70% of the wage cost for up to two years if they hire hard-to-place unemployed people.

- *Job-creation.* Germany has a job-creation scheme (ABM) employing mainly long-term unemployed people, generally for a year and with a focus on social service employment. Britain abolished its large-scale Community Programme in 1988, preferring to direct resources to training, although a new (albeit relatively small-scale) programme, Employment Action, has recently been introduced.

- *Employment advice and placement.* In both countries there is a free placement service. In Britain this service has implemented the Restart Programme since 1986, intended to remotivate the unemployed and put pressure on them to fill the available vacancies.

How have these programmes affected the level of unemployment? And have they been cost effective? We will give our answers to that question. But first we need to be quite open about the difficulties of answering it.

The classic method of approaching the question is to compare the subsequent employment histories of individuals going on the programmes with those of a control group who did not go on the programmes. The method of using control groups has been followed in a series of careful studies done by the *Bundesanstalt für Arbeit* (Federal Employment Institute).

As the authors of these studies point out, they are subject to a number of difficulties. First, it is difficult to control effectively for all the intrinsic differences between programme participants and others. But, if one can, this *will* tell us how the programme affects the employment record of one individual in given labour market conditions. This is quite different from saying how the programme affects the *overall* level of unemployment. For if the programme leads one particular individual to become employed rather than unemployed, it may lead to some other individual (who would have been employed) becoming unemployed. If so, the frustrated individual might either have been employed within the same firm (the so-called 'substitution' effect) or within another firm that now loses out (the so-called 'displacement' effect). The substitution effect can, with luck, be estimated by questionnaire methods or econometric analysis. The displacement effect is more difficult, since it involves the general economic interaction of the whole economy.

One way to try to handle this is the so-called 'transitions approach', that has been developed at the London School of Economics. The aim here is to find how programmes affect the aggregate outflow from unemployment (and ideally the inflow). In this way, one can find how the programmes have affected the aggregate level of unemployment. We therefore use this approach to supplement the individual-cum-control-group approach.

A separate question is whether, if unemployment is indeed reduced by the programmes, this serves any useful function. If trainees learn nothing, or job-creation workers produce nothing, the value of these activities comes into question. This requires us to look at the subsequent productivity of trainees (or at least their subsequent em-

ployment) and at the current value of the output of job-creation schemes and subsidised work.

In all this analysis, one is always contrasting the actual outcome with what would otherwise have happened. Since these programmes are rightly directed at hard-to-place individuals, the alternative may well be years of continuing unemployment - financed by transfers from the rest of the population. In this context, a small improvement in employability may well yield a higher benefit-cost ratio than would a big improvement for people who would in any case find work quite quickly.

Our broad conclusions are these.

- Training programmes in Germany improve employability and often improve the occupational prospects of the individual. They derive strength from the fact that they are mainly full-time. Britain's mainly part-time Employment Training can learn from this example (Chapter IV).

- Sample surveys suggest that wage subsidy programmes in Germany reduce the duration of unemployment (Chapter IV). The effect on aggregate outflow rates is less clear-cut (Chapter V).

- The German job-creation programme (ABM) has reduced unemployment at a low cost-per-job to the public sector. Programme participants have been more likely to be employed afterwards than participants in the British Community Programme. This is mainly because the ABM involves work with regular employers, while the Community Programme was based on *ad hoc* projects. There is no strong evidence that the Community Programme had a major effect on the level of unemployment (Chapters IV, VI, and VII).

- The British Restart Programme has substantially reduced the duration of long-term unemployment and has important

lessons for counselling and benefit administration in Germany (Chapters VI and VII).

In the chapters that follow, we substantiate these statements. Chapter II describes the course and nature of unemployment in the two countries. Chapter III discusses the methodology of assessing the impact of active labour market policy. There follow two chapters discussing the German policies. Chapter IV describes them and discusses the earlier evaluations in the German literature, and Chapter V presents our own new econometric evaluation of transitions. The remaining chapters do the same for Britain: Chapter VI describes the policies and earlier evaluations of them, while Chapter VII presents our own new econometric analysis.

From our study we are more convinced than ever that Western countries should follow the recommendations of the OECD in the attack on long-term unemployment (OECD, 1988). This requires a package with the following ingredients:

- there must be an active system of placement and counselling which both helps the individual and insists that they accept any reasonable opportunity of work or training that presents itself;
- there must be a system which makes high-quality training and re-training available. Unemployment must be regarded as an opportunity to provide newly-skilled workers for the industries of the future;
- for hard-to-place workers there must be a system of recruitment subsidies to overcome the resistance of employers to hiring them;
- as a last resort, there must be a system of publicly-supported temporary work of reasonable social value. This should be provided at regular workplaces.

The pursuit of this combination of policies in the labour market has much to commend it and, if best practice is followed (see Chapters III, IV and VI), will provide valuable data for evaluating the impact of active labour market policies. More generally, it is our belief that intervention of this kind can provide significant net economic benefits to the countries of Europe.

Reference

1. The data for Germany in this study refer to the Federal Republic unless we indicate otherwise by reference to united Germany. Chancellor Kohl's ten-point plan for unification had been published just before our conference in Nürnberg in December 1989, amid large demonstrations in the German Democratic Republic and substantial migration to West Germany. The subsequent problems for the East German economy in a united Germany has meant that there are an additional 3 million people, either unemployed or on short-time work, from a population of about 17 million. An examination of the scope and effect of labour market policies in Germany and Britain is a timely reminder of the potential importance of active intervention in the labour market to provide training (and re-training) or, in the short term, to create suitable jobs.

Chapter II

Unemployment in Germany and Britain

2.1 Introduction

The overview has described a variety of active labour market policies[1] operating in the Federal Republic of Germany[2] and in Britain. Several questions arise. Why do we need active labour market policies to combat unemployment rather than aggregate reflation? Can the policies be justified on other criteria? Are the particular policies summarised in the overview the most appropriate policies? Ideally, to answer these questions, we need a thorough understanding of the causes and effects of unemployment.

Therefore, this chapter documents the rise in unemployment in Germany and Britain since 1970, describes the impact on the structure of unemployment, and examines the debate about the key factors in the explanation of these phenomena. As well as considering the detail of the British and German experiences, it may be helpful to provide a wider focus and include evidence from other OECD economies at appropriate points in the argument. Unemployment in the OECD economies has been widely debated in recent years, see for example the special issue of *Economica* (1986).

2.2 The rise in unemployment since 1970

The most significant stylised fact in the recent economic history of the industrial economies is the upward trend in unemployment. Table 2.1 contains annual unemployment rates, using the OECD standardised definition, for a selected number of countries, which documents the 'good' and 'bad' unemployment experiences since 1970. Unemployment rates in excess of 10% of the workforce have been common during the 1980s, though not adequately reflected in Table

2.1 due to the choice of countries, and the OECD standardised definition of unemployment.[3] A striking feature of Table 2.1 is the universal upward trend (the 'persistence') since 1970, even though the experience of individual countries is notable for its diversity. Perhaps more importantly, Table 2.1 shows that the four EC countries have experienced very high rates of unemployment in the 1980s, with little sign of a dramatic fall, except perhaps for Britain since 1986, though since 1990 unemployment in Britain has been rising again at an alarming rate.

Two issues, of some controversy in Britain, that arise from Table 2.1, are the 'appropriate' definition of unemployment, and how the unemployed should be counted, whether by a sample survey of joblessness and availability for work, or by a count of those claiming benefits.[4] If we are interested in the best way to provide a count which gets close to an 'appropriate' definition of the level of unemployment in terms of labour market attachment, labour force surveys are clearly superior. This is not to say that surveys are without difficulties, simply that they provide more scope for acquiring the information needed by economists to assess the true extent of unemployment. One popular practice in Britain is reconciling the information gleaned from the annual *Labour Force Survey* and the monthly claimant count, as in Treble (1988) and, more substantially, McCormick (1988b).

Table 2.1: Standardised unemployment rates - selected OECD countries

Year	Country						
	Germany	GB	France	Italy	Sweden	Japan	USA
1970	0.8	3.0	2.4	5.3	1.5	1.1	4.8
1971	0.9	3.7	2.6	5.3	2.5	1.2	5.8
1972	0.8	4.0	2.7	6.3	2.7	1.4	5.5
1973	0.8	3.0	2.6	6.2	2.5	1.3	4.8
1974	1.6	2.9	2.8	5.3	2.0	1.4	5.5
1975	3.6	4.3	4.0	5.8	1.6	1.9	8.3
1976	3.7	5.7	4.4	6.6	1.6	2.0	7.6
1977	3.6	6.1	4.9	7.0	1.8	2.0	6.9
1978	3.5	6.0	5.2	7.1	2.2	2.2	6.0
1979	3.2	5.1	5.9	7.6	2.1	2.1	5.8
1980	3.0	6.6	6.3	7.5	2.0	2.0	7.0
1981	4.4	9.8	7.3	7.8	2.5	2.2	7.5
1982	6.1	11.3	8.1	8.4	3.1	2.4	9.5
1983	8.0	12.4	8.3	9.3	3.5	2.6	9.5
1984	7.1	11.7	9.7	9.9	3.1	2.7	7.4
1985	7.2	11.2	10.2	10.1	2.8	2.6	7.1
1986	6.4	11.2	10.4	10.9	2.7	2.8	6.9
1987	6.2	10.2	10.5	11.8	1.9	2.8	6.1
1988	6.1	8.3	10.3	11.8	1.6	2.5	5.4
1989	5.7	6.6	9.5	11.3	1.3	2.3	5.2

Source: OECD Quarterly Labour Force Statistics, various issues.

Notes: The Italian figures for 1986-89 are the national rates, which are very close to the OECD standardised definition, the difference is that army conscripts are excluded from the Italian labour force definition, but are included in the OECD's.

McCormick (1988b) has examined the evolving structure of unemployment in Britain during the 1980s, using both the claimant count and a modified OECD measure of unemployment which he calls 'employer contact'. This tries to take account of the different types of job search procedures individuals undertake, and is more in

line with what we have termed an 'appropriate' definition of unemployment. It is important to stress that while the British claimant count and the *Labour Force Survey* estimates yield comparable overall numbers of unemployed, this hides considerable differences when the figures are broken down into different groups (male/female/age/socio-economic, etc.) and definitional categories (non-claimants but unemployed *versus* claimants but not unemployed). Given the underlying complexity of count statistics, it may not be prudent to assume that these two methods of counting the unemployed will always give similar totals.

Germany counts the unemployed through labour office registrations (similar to the old British system), backed up by survey evidence to provide additional information on the unemployed. Even so, there has been considerable debate about the extent of unemployment in the sense of the appropriate definition, and how it might be categorised; as between structural, classical, and Keynesian. Franz (1987) is critical of German registration data, and suggests that if discouraged workers, involuntary re-migration, and short-time working[5] are included in the definition, then the adjusted 1983 unemployment figure for Germany would be almost 15% of the workforce.

Returning to Table 2.1, it is clear that Japan and Sweden have not suffered unemployment to anything like the extent of many other economies, though there is still evidence of a slight, upward trend in unemployment since 1970. According to Brunello (1989), Japan has been much more able to absorb exogenous shocks to the economy, so that the impulse mechanism of shocks to unemployment levels is considerably moderated. He ascribes this to wage indexation and pro-cyclical labour supply behaviour; however, the strict union membership rules in Japan are similar to her European competitors, so Japan, it is argued, experiences the hysteresis (persistence or long-lasting dynamics, when adjusting to shocks) of unemployment. The phenomenon of unemployment hysteresis has been given considerable prominence in the analysis of aggregate unemployment during

the 1980s, see Cross *et al.* (1987), Blanchard and Summers (1987), Lindbeck and Snower (1986), and section 2.4 of this chapter.

If we narrow the focus, and concentrate on Britain and Germany, we find the labour markets are of a roughly similar size. Tables 2.2 and 2.3 give a clear record of the actual data, and Figures 2.1, 2.2 and 2.3[6] provide a visual impression. Table 2.2 shows that, in Germany, unemployment rose 8 percentage points between 1970 and 1988. The comparable British figure from Table 2.3 is 6 percentage points; however, the range of the data is not necessarily a good guide as to which country has the worst unemployment record.

In the 1950s Germany had experienced high unemployment, up to 10%, followed by a period of sustained growth involving a considerable excess demand for labour, which was satisfied by the immigration of foreign workers. These guest workers held 2.3 million jobs by 1973, compared to only 280,000 in 1960. From Table 2.2 we see that, in 1973, this amounted to 10% of the workforce. However, since 1973, the position has changed considerably. Figure 2.3 shows that two significant jumps in unemployment can be observed for 1974 and 1980. The oil price shock of 1973 exacerbated the unemployment problem as it coincided with the onset of recession, unlike 1979, when the oil price hike impacted on an upswing. Since 1981 labour market conditions have worsened, to which Table 2.2 and Figure 2.1 provide clear testimony. The average unemployment rate in the 1970s of 4% has more than doubled in the 1980s, and it is clear from Figure 2.1 that both decreasing employment and an expanding labour force contributed to the increase in unemployment.

Table 2.2 suggests that the German labour force increased by more than 1 million people in the period 1980 to 1988 (ignoring the 1987 census results which found another million employees), reflecting increased female participation, the impact of the baby boom of the 1960s, and a change in the behaviour of guest workers who no longer re-migrated when job prospects were bad, which in the past had a beneficial effect on the supply of labour. The participation rate of

married women increased from 43% to 55% over the period 1972-83, and between April 1982 and June 1985 the number of women in the labour force increased by roughly half a million. However, it should be borne in mind that the overall female participation rate increased by less than 2 percentage points over the period 1975-86, as seen in Table 2.10.

On the demand side, Figure 2.1 shows that employment fell severely during the period 1980 to 1983 and, over the period from the first OPEC price rise (1973) to 1983, 1.4 million fewer people were employed in the German economy.[7] The bulk is attributable to the manufacturing sector, whereas the service and government sectors showed an increase in employment. The other dimension of labour services - hours worked - has been a potent subject of debate in Germany. A key feature has been that even during severe recession, a considerable amount of overtime is worked.[8]

Table 2.3 and Figure 2.2 reveal that some of the discussion for Germany could approximately apply to Britain, though the issue of guest workers does not arise. What is more dramatic about Britain is the slump in employment over the period 1980 to 1982 and, even though the labour force fell slightly over this period (probably a discouraged worker effect), the impact on unemployment illustrated by Figure 2.3 can only be described as a quite staggering upward surge, and to much higher levels than those experienced in Germany. Like Germany, the bulk of jobs were lost in manufacturing industry. Interestingly, the fall in unemployment in Britain after 1986 is much sharper than in Germany, in spite of a faster growing labour force. In fact, Tables 2.2 and 2.3 indicate that the British labour force has grown more quickly than the German labour force throughout the post-1970 period. Table 2.11 provides additional calculations concerning this growth. The latest information (DE *Gazette*, April 1991) indicates that employment has continued to rise, and unemployment to fall, throughout 1989 and into 1990. May 1990 witnessed the first monthly rise in unemployment in Britain for almost four years, and

since then unemployment has risen quickly, to above 2.25 million by the end of 1991.

Table 2.4 provides further information for Britain, predicated on the earlier remarks about the arguments over the counting of British unemployment, and concerns the inadequacy of the claimant count, and other tinkering with the figures. In fact, the Centre for Labour Economics at the London School of Economics argues that only male unemployment figures can be considered in any way reliable. In consideration of this point, Table 2.4 presents unemployment data provided by the Department of Employment for 1971 to 1989, which is meant to be consistent with the current counting procedures.[9] With respect to the overall, upward trend, the behaviour of female unemployment is consistent with male unemployment. Difficulties such as female entitlement to benefits and participation during slumps, which can make claimant count data difficult, if not impossible, to work with, have less force in the context of the broad discussion of this section. Therefore, the inclusion of data on female unemployment should not be too misleading.

Whether these high levels of unemployment in Germany and Britain are considered to be a matter of grave concern depends upon the underlying theory or views one has about the operation of the labour market. If it is believed that the observed level of unemployment is consistent with equilibrium in the labour market, so that all unemployment is voluntary, then the blame for such a high level of unemployment is laid firmly at the door of the unemployment benefit and social security system. Alternatively, it might be argued that all unemployment stems from Keynesian demand deficiency, in which case aggregate demand reflation is the key to reduced unemployment. More likely, high unemployment may be regarded as stemming from a variety of factors, including rigidities in structural adjustment. In the latter case, the scope for active labour market policies is heightened. Further disaggregation of the figures, and a survey of some of the explanations of unemployment in both countries, may provide some of the answers.

In terms of disaggregation of the figures, it is instructive to examine the consequences of the dramatic rise in the stock of unemployment in Germany and Britain for the structure of unemployment in these countries, in particular, the impact on the duration of unemployment.

Table 2.2: German labour market

Year	Total Labour Force	Total Employ-ment	Unem-ploy-ment	Vacan-cies	Short-Time Work	U Rate %	V Rate %
			(Millions)				
1970	26.82	26.67	0.15	0.79	0.01	0.7	3.5
1971	26.91	26.73	0.18	0.65	0.09	0.8	2.9
1972	26.90	26.65	0.25	0.55	0.08	1.1	2.4
1973	26.98	26.71	0.27	0.57	0.04	1.2	2.5
1974	27.15	26.57	0.58	0.32	0.29	2.6	1.4
1975	26.88	25.81	1.07	0.24	0.77	4.7	1.1
1976	26.65	25.59	1.06	0.24	0.28	4.6	1.1
1977	26.58	25.55	1.03	0.23	0.23	4.5	1.0
1978	26.69	25.70	0.99	0.25	0.19	4.3	1.1
1979	26.92	26.05	0.88	0.30	0.09	3.8	1.3
1980	27.22	26.33	0.89	0.31	0.14	3.8	1.3
1981	27.42	26.14	1.27	0.21	0.35	5.5	1.0
1982	27.54	25.71	1.83	0.11	0.61	7.5	0.5
1983	27.59	25.33	2.26	0.08	0.68	9.1	0.3
1984	27.63	25.36	2.27	0.09	0.38	9.1	0.4
1985	27.84	25.54	2.30	0.11	0.24	9.3	0.4
1986	28.02	25.79	2.23	0.15	0.20	9.0	0.6
1987	28.24	26.01	2.23	0.17	0.28	8.9	0.7
1988	28.40	26.16	2.24	0.19	0.24	8.7	0.8
			1987 Census				
1987	29.24	27.11	2.23	0.17	0.28	8.9	0.7
1988	29.50	27.26	2.24	0.19	0.24	8.7	0.8
1989	29.65	27.61	2.04	n.a.	n.a.	7.8	n.a.

Continued overleaf

Sources: OECD *Economic Surveys* and *Quarterly Labour Force Statistics* plus *Amtliche Nachrichten der Bundesanstalt für Arbeit;* n.a. indicates not available.

Note: The national unemployment rate is defined to be unemployment divided by the dependent labour force (%). The dependent labour force is taken to be total employment minus the self-employed plus the unemployed (c.f. Table 2.1). The vacancy rate is also defined in terms of the dependent labour force. The 1987 census found an additional 1 million employed individuals. The new information has not been used retrospectively to adjust the labour market data (at the time of writing). To add to problems for the future, German reunification means that from 1990 time series comparisons of statistical data for Germany may show a substantial structural break. It is not clear to what extent the German authorities will be able to provide comparable statistical data.

Table 2.3: British labour market

Year	Total Work Force	Workforce Employed	Unemployment	Vacancies	U Rate %
		(Millions)			
1970	25.31	24.74	0.57	0.19	2.3
1971	25.12	24.40	0.72	0.13	2.9
1972	25.19	24.39	0.80	0.15	3.2
1973	25.55	24.97	0.58	0.31	2.3
1974	25.60	25.06	0.54	0.30	2.1
1975	25.80	24.93	0.87	0.17	3.4
1976	26.11	24.84	1.27	0.12	4.7
1977	26.22	24.88	1.34	0.15	5.1
1978	26.36	25.01	1.35	0.21	5.2
1979	26.63	25.39	1.24	0.24	4.7
1980	26.84	25.33	1.51	0.13	5.6
1981	26.74	24.35	2.39	0.09	8.9
1982	26.68	23.91	2.77	0.11	10.4
1983	26.61	23.63	2.98	0.14	11.2
1984	27.27	24.24	3.03	0.15	11.1
1985	27.80	24.62	3.18	0.16	11.4
1986	27.99	24.76	3.23	0.19	11.5
1987	28.26	25.36	2.90	0.23	10.3
1988	28.39	26.13	2.26	0.25	8.0
1989	28.62	26.80	1.82	0.22	6.4

Sources: Department of Employment *Gazette* (various issues), and *Annual Abstract of Statistics.*

Note: Workforce is the workforce in employment plus the claimant unemployed. The workforce in employment comprises employees in employment, the self-employed, HM forces, and participants in work-related government training programmes. The unemployment rate is given as a proportion of the workforce, in other words *Total Workforce* minus *Workforce Employed* as a percentage of the *Total Workforce.* This does not correspond exactly with the up-to-date national definitions, but gives a reasonable basis for comparison with Germany. Table 2.4 contains a retrospective unemployment series

using current count procedures, and the results are consistent with this Table in the sense that unemployment in Britain was higher than Germany in the early 1980s but has fallen more sharply than Germany since 1986.

Table 2.4: British unemployment series consistent with current coverage

Year	(seasonally adjusted, thousands)			Rate as % of Workforce		
	Male	Female	All	Male	Female	All
1971	565.7	89.7	655.4	3.5	1.0	2.6
1972	620.7	105.6	726.3	3.8	1.2	2.9
1973	435.8	81.3	517.1	2.7	0.9	2.0
1974	441.7	78.7	520.4	2.7	0.8	2.0
1975	661.4	136.8	798.2	4.1	1.4	3.1
1976	867.3	225.9	1093.3	5.3	2.3	4.2
1977	890.0	272.7	1162.7	5.5	2.7	4.4
1978	852.8	292.9	1145.7	5.3	2.9	4.3
1979	797.0	296.8	1075.8	4.8	2.9	4.0
1980	982.0	383.7	1365.7	6.0	3.6	5.1
1981	1598.2	575.4	2173.6	9.8	5.5	8.1
1982	1866.6	680.1	2546.7	11.5	6.5	9.5
1983	2012.3	778.1	2790.5	12.5	7.4	10.5
1984	2058.2	862.4	2920.6	12.6	7.9	10.7
1985	2114.3	921.4	3035.7	12.8	8.2	10.9
1986	2148.3	958.9	3107.2	13.0	8.4	11.1
1987	1971.0	851.3	2822.3	11.9	7.3	10.0
1988	1607.1	686.8	2293.9	9.8	5.8	8.1
1989	1289.6	507.0	1796.6	7.9	4.2	6.3

Source: Department of Employment *Gazette*, April 1989, Historical Supplement. This Table provides a consistent historical record based on the latest counting procedures.

Figure 2.1: German labour market, 1970-89

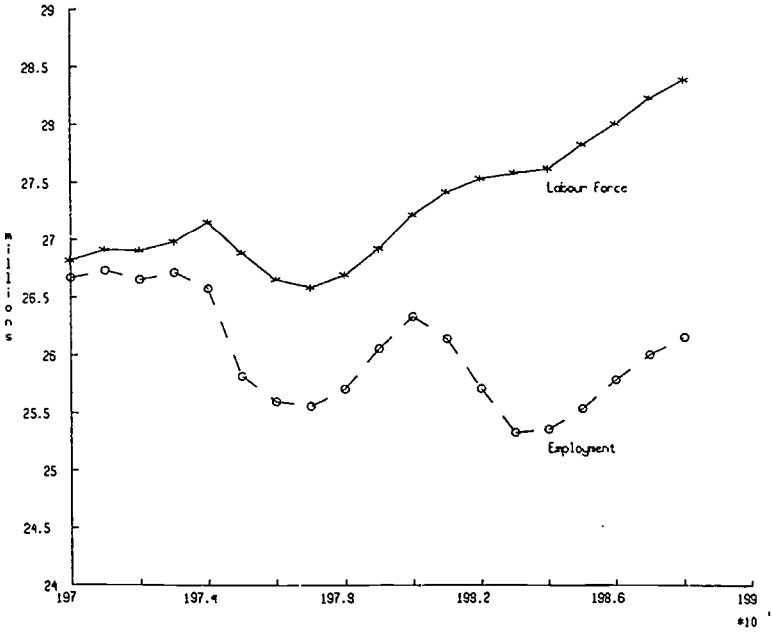


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Figure 2.2: British labour market, 1970-89

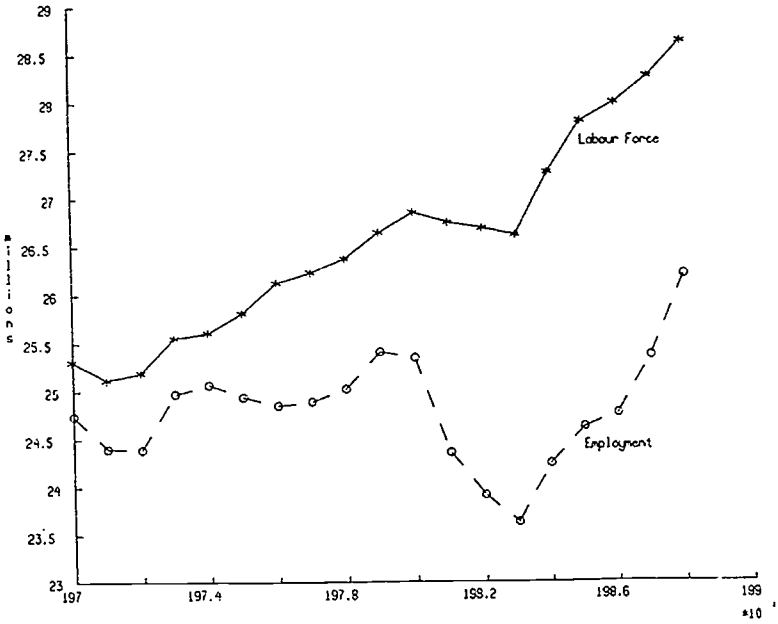
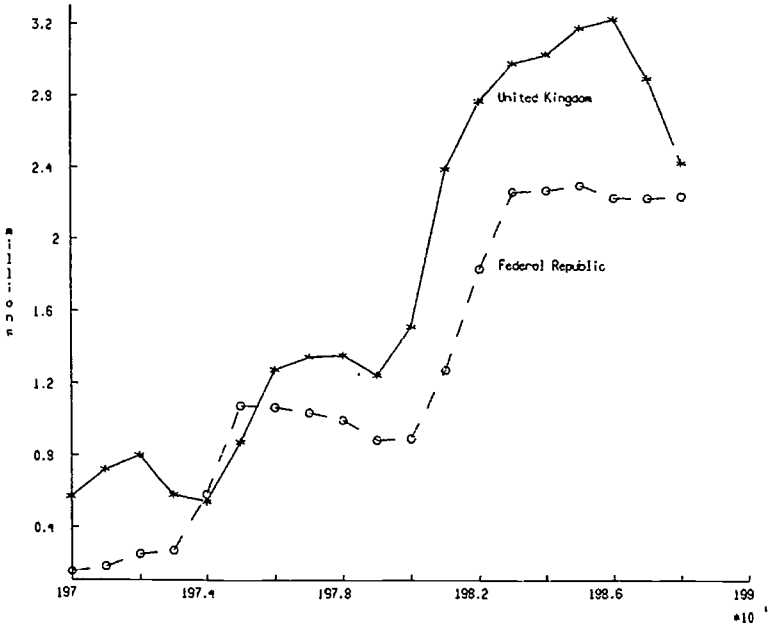


Figure 2.3: British and German unemployment, 1970-89



2.3 The structure of unemployment

Many researchers emphasise the importance of labour market flows and the consequences for the structure of unemployment in any study of a country's unemployment experience. Here we focus on the consequences for long-term unemployment, along with the issue of who actually becomes unemployed (incidence). Readers interested in a more detailed disaggregate analysis of the evolving structure of unemployment in Britain, both in terms of claimant count and search-based measures, are referred to McCormick (1988a, 1988b and 1991). A more general comparative study is given in OECD (1988).

The rise in unemployment has not been evenly spread across Germany and Britain. Table 2.5 shows that some regions have fared better than others, and there is a distinct north-south divide in the unemployment experience of both countries, though no region in either country escaped the high unemployment of the early 1980s. It is interesting that the improvement in the British unemployment position since 1986 has benefited all regions, though the southern regions have made the stronger gains.

Table 2.6 presents the structure of unemployment in terms of sex, age and duration for Germany. The share of unemployment between males and females is very similar in 1976 and 1988; however, there was a change in the relationship in 1980 in favour of males, which was subsequently reversed. The composition of unemployment in terms of age has shifted against older workers over the period 1976 to 1988. In 1976 25.6% of the German unemployed were under 25 years of age, but by 1988 this figure had fallen to 19.8%.[10] Correspondingly, the over-45s constituted 27.8% of the unemployed in 1976, but 34.3% by 1988. One positive feature of Table 2.6 is the improvement of youths (under 20) in the share of unemployment. This has fallen from a 9.9% share in 1980 to 4.8% in 1988, and may signal the success of the training programme designed for this group.

The duration structure paints a gloomy picture, because in 1976 16.8% of the unemployed had been unemployed for over a year, but

by 1986 this figure had jumped to 31.9%. The inflow into unemployment did not change much over this period, as documented in Table 7 of Schmid (1988).[11] This means that the rising unemployment depicted in the previous section is characterised mainly by longer unemployment duration, and lower exit probabilities. This is confirmed by the work of Scheremet (1989).

Table 2.5: Regional unemployment rates

	Germany			
Region	1973	1980	1985	1988
Schleswig-Holstein	1.6	4.2	11.1	10.0
Hamburg	0.8	3.4	12.3	12.8
Lower Saxony	1.8	4.7	12.3	11.2
Bremen	1.6	5.3	15.2	15.3
North Rhine-Westphalia	1.3	4.6	11.0	11.0
Saar	2.0	6.5	13.6	11.9
Hessen	1.0	2.8	7.2	6.4
Rhineland-Palatinate	1.1	3.8	8.6	7.6
Baden-Württemberg	0.5	2.3	5.4	5.0
Bavaria	1.3	3.5	7.7	6.3
Berlin	1.1	4.3	10.0	10.8
National average	1.2	3.8	9.3	8.7

Figures for Great Britain continued overleaf

Table 2.5: Regional unemployment rates *(continued)*

Region	Great Britain 1973	1980	1985	1988
North	4.6	8.0	15.4	11.9
Yorks. & Humberside	2.8	5.3	12.0	9.5
East Midlands	2.0	4.5	9.9	7.2
East Anglia	1.9	3.8	8.0	4.8
South East	1.5	3.1	8.0	5.2
South West	2.4	4.5	9.3	6.3
West Midlands	2.2	5.5	12.7	8.5
North West	3.5	6.5	13.8	10.7
Wales	3.4	6.9	13.8	10.5
Scotland	4.5	7.0	12.9	11.2
Northern Ireland	6.1	9.4	16.1	16.4
National average	2.7	5.1	10.9	8.0

Sources: Statistiches Jahrbuch, Regional Trends and Department of Employment *Gazette.*

Table 2.6: Structure of unemployment in Germany

Structure	(Percentages in each group) 1976	1980	1986	1988
Sex:				
Males	52.4	48.0	50.8	53.5
Females	47.6	52.0	49.2	46.5
Age:				
< 20 years	8.9	9.9	7.3	4.8
20 - 25 years	16.7	17.4	17.3	14.9
25 - 45 years	46.6	42.5	44.2	46.0
45 - 55 years	16.1	14.7	18.0	19.5
> 55 years	11.7	15.5	12.5	14.8
Duration:				
< 1 month	11.6	17.7	12.2	11.7
1 - 3 months	22.9	27.5	20.0	20.1
3 - 6 months	20.8	18.6	15.6	16.0
6 - 12 months	27.9	19.2	20.3	19.6
1 - 2 years	13.6	9.6	16.3	16.1
> 2 years	3.2	7.4	15.6	16.5

Source: Franz (1987) and updated from *Amtliche Nachrichten der Bundesanstalt für Arbeit.* The duration data has been standardised by Wolfgang Scheremet (1989).

Table 2.7 has similar information for Britain. It is noticeable that the male share of unemployment is rather higher in Britain than in Germany, which may simply reflect lower attachment to the labour force on the part of females. The information on age structure highlights the growing problem of youth unemployment in the 1970s, which has been analysed in considerable detail (Makeham, 1980), and which has encouraged policies to combat it. The position of the under-25s certainly improved in the 1980s, their share of unemployment falling from a peak of 46.6% in 1980 to 32% in 1988. A recent study of the 1984 and 1987 *Labour Force Surveys* by Wells (1989)

has indicated that young people experienced more frequent spells of unemployment but that the length of these spells was less than a year in duration. In 1987 78.8% of unemployed teenagers had been unemployed for less than 12 months. The comparable figure for 1984 was 68.8%. For the 20-24 age group, 53.6% had been unemployed for less than a year in 1984, and by 1987 this figure had risen to 62.0%.

The share of the over-55s in unemployment has fallen since 1976, 19.6 to 12.4%, which reflects the policy-oriented attempts to remove them from the unemployment register, alongside improved pension provisions encouraging earlier retirements. Like Germany, the duration structure tells the same sorry tale, only worse; the proportion of those unemployed in the category of long-term unemployed has increased from 16.3% in 1976 to 39.6% in 1988.

In McCormick's (1988b) study of the post-1970 evolution of British unemployment, mentioned earlier, he suggests that one of the most striking features in the development of unemployment during the 1970s and early 1980s was the noticeable increase in unemployment of semi-skilled manual workers. These workers had unemployment rates of about two-thirds that of unskilled manual workers in 1973, but by 1983 had higher unemployment rates. On controlling for socio-economic and personal characteristics, McCormick found that both the skilled and semi-skilled had higher unemployment rates relative to other occupational categories in 1983 compared to 1973.

Since the 1983 recovery, the position of the skilled and professional workers has improved significantly, returning them to their unemployment rates of the early 1970s. However, unemployment continued to rise among the unskilled and semi-skilled categories. McCormick also emphasises regional imbalances (see Table 2.5) and, at a more disaggregate geographical level, the difficulties experienced by workers in the large conurbations of Merseyside, Manchester, Tyne and Wear and the West Midlands.

Table 2.7: Structure of unemployment in Britain

Structure	(Percentages in each group) 1976	1980	1986	1988
Sex:				
Males	73.2	66.7	68.0	69.0
Females	27.8	33.3	32.0	31.0
Age:				
< 25 years	36.1	46.6	35.9	32.0
25 - 54 years	45.3	39.7	52.7	55.6
55 years and above	19.6	13.7	11.4	12.4
Duration:				
< 1 month	24.2	23.8	11.6	12.6
1 - 6 months	42.1	42.0	28.1	28.8
6 - 12 months	17.4	15.2	19.1	19.0
> 1 year	16.3	19.0	41.1	39.6

Source: Department of Employment *Gazette*, various issues.

In view of these aggregate trends, it may be useful to consider who in Britain is likely to end up as long-term unemployed.

Incidence of unemployment

Nickell (1980), in a study of male unemployment, analyses the considerable inequality in the distribution of unemployment among the population. Similarly, Layard (1986) provides a very simple, but stark, illustration of the problem. With unemployment constant, we can define unemployment to be equal to the number of entrants per week times the number of weeks unemployed. With unemployment of 8% in 1988 (official figure), we can interpret this inflow-duration relationship in two extreme ways; everybody becomes unemployed once a year for, on average, 8% of the year, or 8% become unemployed each year for roughly a year. Unfortunately it is the second case that is closest to reality.[12]

Moreover, those 8% are not randomly selected. Using a hazard function methodology, Nickell (1980) shows that certain people in Britain have a much higher probability of finding themselves unemployed:

> 'Such individuals probably have at least one of the following characteristics. They are either young or old or unskilled, with a large family or living in a council house in the northern half of Britain.' (1980, p. 789).

Unemployment, it would seem, is shared very unequally, and Tables 2.6 and 2.7 are testimony to this recent serious worsening of the situation. How can we account for this unequal incidence and lengthening durations? It is unlikely that the unequal distribution of unemployment durations can be explained by differences in search intensities, and the relatively stable inflows suggest that it is not entirely an aggregate demand problem. Rigidities in structural adjustment may be an important factor. Before considering these possible explanations in more detail - the task of the next section - it is useful to examine the nature of long-term unemployment in greater detail.

Long-term unemployment

Tables 2.6 and 2.7 highlighted, among other things, the high share in unemployment of those categorised as long-term unemployed. This issue has received a good deal of attention in the last few years, see OECD (1988). Table 2.8 provides a more detailed time series breakdown of long-term unemployment in Britain and Germany. In particular, it traces the huge jump in long-term unemployment in Britain and Germany following the severe recession of 1980-81. Such a rise was unprecedented in recent economic history. It should also be noted that the figures do not include those long-term unemployed participating in government schemes, be it the Temporary Job Creation Programme (ABM) in Germany or Employment Training or Employment Action in Britain.

Table 2.9 provides information on the age and sex composition of the long-term unemployed. In Germany, the proportion of males in long-term unemployment is generally greater than one-half, though not by much in the 1980s. The corresponding figures for Britain show that males have borne roughly three-quarters of the share of long-term unemployment during the 1980s. In both countries, the greater proportion of the long-term unemployed are adults. However, since the mid-1970s, young people have tended to form an increasing proportion of the long-term unemployed. This is hardly unexpected, in view of the crisis in the labour market since 1980.

The trend in long-term unemployment can also be illustrated with the simple flow relationship mentioned above, such that the stock of unemployment in 'steady state' is equal to the inflow (outflow) times the average completed duration of unemployment. If we have a million people unemployed and an inflow rate of 100,000 per month, the average duration will be ten months. But if the inflow happens to be 300,000 per month, stock unchanged, the average duration will be 3.3 months. Therefore, over the recent past, inflows in Britain and Germany tended to remain the same, but average duration rose dramatically or, in other words, exit probabilities fell sharply. There is considerable variation in this flow-duration relationship across OECD countries. A recent OECD (1988) report suggests that, for 1986 figures, three broad country groupings can be identified. One group, including Austria, Canada, Japan, Norway, Sweden and the USA, has very low proportions of long-term unemployment (7 to 17%). A second group, comprising Australia, France, Germany, Ireland and Britain, had long-term unemployment proportions in the range 27 to 48%. Finally, long-term unemployment in Belgium, the Netherlands and Spain accounted for over 50% of total unemployment.

It would seem that many European countries are characterised by small flows and long durations; whereas, in North America, greater labour market flexibility may be one of the reasons for large flows in and out of employment with correspondingly shorter durations.

Table 2.8: Long-term unemployment in Germany and Britain

(Persons unemployed for a year or more expressed as a percentage of total unemployment)

Year	Germany	Britain
1979	19.9	25.4
1981	16.2	22.0
1983	28.5	36.5
1984	32.7	39.8
1985	31.0	41.0
1986	31.9	41.1
1987	31.8	40.8
1988	32.9	39.6

Source: OECD (1988), Department of Employment *Gazette*, and *Amtliche Nachrichten der Bundesanstalt für Arbeit.*

Table 2.9: Composition of long-term unemployment in Germany and Britain

(Percentage share of long-term unemployment by age and sex)

Country	Year	Youths	Prime-age adults	Older workers	Males	Females
Germany	1973	3.4	23.8	72.8	73.8	26.2
	1975	12.8	43.3	43.9	62.3	37.7
	1979	9.0	35.1	55.9	48.1	51.9
	1981	11.5	39.2	49.3	48.6	51.4
	1983	15.8	46.7	37.5	56.1	43.9
	1984	13.2	46.1	40.7	56.3	43.7
	1985	10.7	43.3	46.0	54.6	46.4
	1986	9.9	42.9	47.2	51.4	48.6
	1987	8.7	41.3	50.0	51.3	48.7
	1988	6.8	40.0	53.2	51.6	48.4

Figures for Britain continue on next page

Table 2.9: Composition of long-term unemployment in Germany and Britain *(continued)*

(Percentage share of long-term unemployment by age and sex)

Country	Year	Youths	Prime-age adults	Older workers	Males	Females
Britain	1973	6.3	23.7	70.0	91.0	9.0
	1975	8.4	25.1	66.5	90.3	9.7
	1979	16.8	32.1	51.1	78.9	21.1
	1981	24.4	34.7	40.9	78.2	21.8
	1983	29.1	39.4	31.5	79.3	20.7
	1984	28.6	39.8	31.6	77.4	22.6
	1985	26.4	41.1	32.5	76.6	23.4
	1986	23.8	42.6	33.6	75.9	24.1
	1987	21.6	42.8	35.6	76.4	23.6
	1988	19.8	42.5	37.9	76.9	23.1

Source: OECD (1988), Department of Employment *Gazette*, and *Amtliche Nachrichten der Bundesanstalt für Arbeit.*

Notes: Youths are those under 25 years of age; prime-age adults are those 25-44 years of age, and older workers are those over 44 years of age.

The dramatic rise in unemployment, in conjunction with its implications for the structure of unemployment, has placed governments under a good deal of pressure to embrace imaginative employment schemes to alleviate the consequences of this huge waste of talent and resources. While it is important for governments to respond to the economic climate, they require good advice as to what created the current climate, in conjunction with a careful analysis of its effects. Needless to say, there has been a large research input into the causes of the recent European unemployment experience, leading to a diverse set of explanations (see the Special Issue of *Economica*, 1986 and Summers, 1990).

2.4 The explanations of the recent unemployment experience

The unemployment difficulties of the European economies are undeniable, from the evidence presented in sections 2.2 and 2.3. As the commonality of experience has not been shared, for instance, Sweden in Table 2.1, or Austria, one hope was that it would be possible to learn something from cross-country comparisons. Bean *et al.* (1986) report some broad findings for the OECD economies from a conference which has come to be known as Chelwood Gate I.[13] This conference focused on two main issues:

- to what extent was the increase in unemployment in the industrial economies an increase in equilibrium unemployment? The conference debate suggested that by 1985 actual and equilibrium rates were congruent, which was consistent with the relative constancy of inflation rates in many OECD countries;
- what explained the increase in equilibrium unemployment and latterly its persistence?

The explanation of the trend increase in OECD unemployment was, of course, a key question. It returns us to the issue of whether it was caused by too high real wages, insufficient aggregate demand, low search intensity, structural rigidities, or some combination of all four, or some other factors, like adverse demography, or the oil price shocks of the 1970s. In reality, it is likely to be a mixture of all these effects, but unravelling the importance of the individual effects is a critical issue for economic analysts and policymakers.

The analytical debate has involved a variety of competing explanations and methods of analysis; demography and trends in labour demand and labour supply, macroeconometric models of the labour market, and assessments of the role of institutional factors. The national studies at the Chelwood Gate conference used econometric

models, embracing a wide variety of empirical methodologies and theoretical underpinnings, from Layard and Nickell's (1986) imperfectly competitive, equilibrium framework, to Sneessens and Drèze's disequilibrium model. We now examine these various approaches to look for common factors in the explanations.

Labour demand and labour supply

A simple statement describing this approach is 'the supply of jobs was unable to meet the demand for them', although this is more a description than a causal factor. Rowthorn and Glyn (1987), in a paper presented to a second Chelwood Gate conference,[14] show that 1973 heralded an important turning point in the economic fortunes of the OECD countries. Until 1973 output had grown steadily in all major sectors of the OECD economies. But since that time the trend has reversed completely. Similarly, after rising quite fast prior to 1983, industrial employment has been falling. In 1985 there were 104 million people employed in the industrial sector of the OECD countries; however, Rowthorn and Glyn show that if industrial employment had continued to grow at the pre-1973 rate, this figure would have been 129 million. This represents a loss of approximately 25 million potential jobs in the OECD as a whole and, clearly, may have had important consequences for unemployment, should the shortfall in jobs not be created in other sectors, or large numbers of people be discouraged enough to leave the labour force. Of course, this decomposition of employment does not answer the question of why the jobs disappeared. This is taken up in the next section on macroeconometric models of the labour market.

It is nevertheless difficult to measure labour supply accurately, and the commonly used measure of the labour orce is a fairly narrow definition because of the way a number of groups, for instance, housewives, are classed as economically inactive. Therefore, this definition can vary for two reasons: either a change in the size of the population of working age, or persons treated as inactive change their status and participate. Section 2.2 has noted that female participation

has risen in Britain and Germany, especially among married women. Table 2.10 presents some further evidence for a selection of OECD countries. Two simple trends stand out: the fall in male participation over a fairly short period, and the rise in female participation. Interestingly, the fastest rise in female participation comes from countries at either end of the ranking distribution, namely, Italy and Sweden, which have had very different unemployment experiences over this period.

Table 2.10: Labour force participation rates by sex

Country	Male				Female			
	1975	1979	1983	1986	1975	1979	1983	1986
France	84.3	82.8	78.3	76.5	51.0	54.1	54.4	55.0
Germany	87.0	84.5	80.6	79.9	49.6	49.6	49.7	51.2
Italy	84.7	82.6	80.7	79.0	34.6	38.7	40.3	42.2
Britain	92.1	90.5	87.6	87.9	55.1	58.0	57.1	61.1
USA	85.4	85.7	84.6	85.2	53.2	58.9	61.8	65.1
Japan	89.7	89.2	89.1	87.5	51.7	54.7	57.2	57.4
Sweden	89.2	87.9	85.9	84.2	67.6	72.8	76.6	78.3

Source: OECD, *Employment Outlook*, 1987.

Certainly, participation and not population is the crucial variable in labour supply. Tables 2.2 and 2.3 of section 2.2 chart the annual movements in the German and British labour forces, while Table 2.11 compares labour force changes over longer periods. It is apparent that, for Germany, labour force growth has been faster since 1982, following the worst of the recession,[15] yet unemployment has levelled out and, by 1987, was showing signs of falling, albeit slowly (since 1990, reunification has, of course, changed the picture rather dramatically). It is also noticeable that the British labour force has grown more quickly than in Germany since 1970, and even more so since 1982. This has placed added pressure on the British labour market to find jobs for these new members of the workforce. The substantial

fall in British unemployment since 1986, illustrated in Figure 2.3, looks rather more impressive given the rise in the labour force shown in Table 2.11. (This improvement has been undone since the spring of 1990, when the impact of a severely deflationary policy was beginning to be felt.)

However, an important observation is that these labour force increases are not out of line with the longer-term historical experience of either country, and unemployment was often not an issue of concern. Table 2.11 indicates that the period of slowest labour force growth in Germany (1970-82) coincided with the start of the long upward trend in unemployment, rising from 150,000 in 1970 to 1.83 million by 1982. It should be remembered that the strong growth in the German labour force during the 1960-70 period is mainly due to the planned immigration of guest workers.

For the OECD as a whole, these experiences are similar: Rowthorn and Glyn (1987) show that labour force growth in the periods 1960-73 and 1973-85 was 1.1 and 1.3% per annum (annual averages) respectively. This slight acceleration in the labour force growth was due to variations in the participation rate.

It would appear that labour supply is not a serious contender as an explanation of the rise in the equilibrium unemployment rate.

Table 2.11: Labour force increases in Germany and Britain, 1961-88

	(actual numbers of individuals)		
	1960-70	1970-82	1982-88
Germany	1,250,000	720,000	860,000
Britain	210,000	1,370,000	1,950,000

Source: Sources to Tables 2.2 and 2.3.

Macroeconometric modelling of the labour market

Another line of reasoning is that the exogenous shocks of the 1970s, for instance, OPEC's decisions on oil prices, required suitable relative

price movements to restore equilibrium in the labour market; however, the necessary fall in consumption wages took place very slowly in many countries. This led to what has come to be called 'classical unemployment', in the sense of Malinvaud (1977), an economic regime with excessively high real wages.

A contrary point of view emphasises the depressed state of aggregate demand or 'Keynesian unemployment'. One story is that the shift in government priorities from full employment to the control of inflation has led to the deflationary policies of the late 1970s and 1980s, which exacerbated the unemployment experience of many countries. Considerable research effort in Europe has been concerned with assessing the relative importance of these competing explanations.

It is not surprising that such a sharp distinction can lead to protracted arguments over which type of unemployment a particular country is experiencing, not least from the issue of policy choices. One reason for this is the difficulty of isolating the key exogenous factors in the joint explanation of macroeconomic aggregates. For instance, the explanation of current unemployment levels in terms of excessive real wages, according to Solow (1986), is incomplete because it is unable to isolate the exogenous factors responsible for the observed levels of real wages. Indeed, in a Keynesian model, the level of real wages is endogenous. These problems provide the impetus for developing a macroeconometric model of the labour market (for a good survey of these developments, see Nickell, 1990).

One approach, advocated by Layard and Nickell (1986), constructed a macroeconometric labour market model based on imperfect competition, whereby firms can be optimising in their pricing and employment decisions, yet the demand for labour will depend upon both the level of real product wages and the level of real aggregate demand (see also Layard, Nickell and Jackman (1991)). In this model, the equilibrium level of unemployment is dependent on exogenous, supply-side forces. The Layard-Nickell framework was used in the British study at Chelwood Gate I, and Bean *et al.* (1986) used the model to decompose the contribution of different factors for

the explanation of equilibrium unemployment for the OECD countries. The idea was that a common modelling procedure had a better chance of isolating the key factors in the story of rising unemployment. The quantitative results from this study for Britain and Germany, as well as a selection of other OECD countries, are presented in Table 2.12.

Table 2.12: Breakdown of change in unemployment, 1956-66 to 1980-83

	(percentage points)					
	Taxes	Import prices	Search	Demand	Total	Actual
Australia	2.56	-0.03	2.44	-0.28	4.69	4.98
Belgium	1.41	-0.04	5.28	2.53	9.15	8.93
Canada	1.34	0.02	-	4.59	5.95	4.56
Denmark	-	-	0.00	5.40	5.40	7.56
France	0.46	-0.04	3.27	2.39	6.08	5.98
Germany	-	-	3.68	-0.03	3.65	4.02
Netherlands	2.93	-1.38	-3.41	9.68	7.84	8.77
Sweden	1.70	0.12	-0.47	-0.49	0.85	1.04
Britain	2.06	-0.05	2.25	5.33	9.60	8.33
USA	1.30	0.19	-	0.48	1.97	3.35

Source: Bean *et al.* (1986).

Note: Hyphens indicate that restrictions were imposed on the estimated results for certain countries because of implausible coefficient signs in the unconstrained equations. For full details of this procedure, see Bean *et al.*. Obviously, in trying to impose one empirical model across a host of OECD countries (Table 2.12 is a selected subset), there will be many difficulties, so the results should be treated in a very tentative way.

The results of Table 2.12 confirm the importance of demand influences (mainly government-induced deflationary policies) in the rise in unemployment, especially in the European countries. However, it is worthy of note that there would seem to be a significant contribution from reduced search intensity in a number of countries, which includes the influence of unemployment benefits in this case. This, of course, provides strong grounds for direct intervention in the labour market, aimed at improving the exit probabilities of the unemployed by extolling the virtues of better job search practices (see Chapter VI). The findings concerning the importance of deflationary demand policies in providing the shock to unemployment, are also consistent with the results of Bruno (1986) for the OECD economies. However, his 'wage gap' methodology is able to shed some light on the role of excessive real wages in the rising unemployment story.

Bruno (1986) defines the wage gap as the percentage deviation of the actual product wage from the full employment product wage, which, in equilibrium, will be equal to the marginal product of labour. His findings suggest that the wage gap rose in the 1970s, especially in response to the first OPEC shock, but with wide differences among countries, and began to fall from roughly 1980 onwards. From a decomposition of the rise in unemployment into wage and demand components, he deduces that real wages played an important role throughout the 1970s, but the 1980s have seen deflationary demand shocks rise to prominence.[16]

The idea that real wages will be slow to adjust, and may contribute to the different international unemployment experiences, has also been studied, using the more traditional Phillips curve approach. Coe (1985), among others, found that measures[17] of wage rigidity differed across countries, and were correlated with the rise in unemployment in these countries - greater wage rigidity was consistent with higher unemployment. Hyclak and Johnes (1989) use this approach in a study of regional labour markets in Britain, the USA and Germany. Their results suggest that 'wage rigidity may be an important deter-

minant of regional differences in labor market responses to macroeconomic shocks' (p. 423).

Table 2.12 shows that the Layard-Nickell approach highlights the importance of reduced search intensity instead of demand as an explanation of the rise in unemployment in Germany. This is not consistent with the national study of Franz and König (1986), presented to the conference, and work by Franz (1987) on structural unemployment,[18] where the adverse demand shock of 1979-82 was found to be important. The results from Table 2.12 for Britain emphasise the importance of demand, search, and the tax wedge as being responsible for the rise in unemployment.

It is interesting that, even though Bean *et al.* tried to use a common specification across the countries, the results differed in important ways, and made it very difficult to give a clear explanation of high and persistent unemployment. Blanchard (1988) has argued that one reason for this may have been the sharp distinction between actual and equilibrium unemployment because, in the Layard-Nickell model, aggregate demand moves unemployment around its equilibrium level but does not determine the equilibrium level; therefore, this framework has difficulty in reconciling the 1980s' experience, when a demand-induced increase in unemployment was followed by an increase in equilibrium unemployment. This notion of equilibrium unemployment following actual unemployment has come to be termed the persistence of unemployment (hysteresis) (Blanchard and Summers (1987)), and was an important focal point for the Chelwood Gate II conference, (Blanchard (1988)), which tried to assess why equilibrium unemployment no longer returned to its pre-shock level.

Another difficulty is to find adequate empirical models for all the countries from a specific theoretical framework. There is some evidence in the Bean *et al.* paper that restrictions had to be imposed on some of the estimating equations to make sense of the individual country results. This may explain why the individual national studies, using different methodologies, data, and recourse to institutional in-

fluences arrived at different explanations for the rise in unemployment, for instance, see the paper by Sneessens and Drèze (1986).

For obvious reasons, we shall concentrate on the analyses of the German and British economies. Franz and König (1986) assess a number of possible explanations for the rise in unemployment in Germany. Their econometric work employs a more traditional labour demand-Phillips curve approach. This allows them to focus on the other important dimension of industry's labour requirements, namely hours of work, in particular hours of overtime worked. Their empirical results emphasise a number of important reasons for the rise in unemployment in Germany:

- 'the negative impact of the negotiated wage rate on employment;
- the role of insufficient product demand; and
- the higher degree of unionization, especially in the early 1970s'.

Franz and König (1986) found no support for the argument that structural factors are the main cause of high German unemployment; though they do concede that there are likely to be regional and occupational mismatches between labour demand and labour supply (see Table 2.5), and that some unemployed individuals reduced their search intensity while being supported by the insurance system. However, they did not believe that mismatch and search could be responsible for the dramatic rise in the Non-Accelerating Inflation Rate of Unemployment (NAIRU). More likely candidates are the 1970s' supply shocks, and capital stock deterioration.

In another paper, Franz (1987) assesses to what extent the current German experience of unemployment is attributable to structural imbalances, such as mismatch, reduced search intensity and higher turnover rates. The motivation for the study is the preoccupation of the German Council of Economic Advisers with the idea that the core of German unemployment is structural. Franz examines the outward

shift in the U/V (Beveridge) curve, apparent in Germany since 1975. He finds little evidence that regional and occupational mismatch (Table 2.5) or turnover rates provide an adequate explanation of the U/V shift. While search intensity may have a role to play, he is sceptical that it is of quantitative significance, given the scale of the unemployment problem. His econometric results suggest that the frictional and structural unemployment rate in 1983 was close to 4%, in comparison to an actual unemployment rate in excess of 9%. However, he was unable to isolate any crucial factor to explain this increase in structural imbalances.

The national study for Britain was carried out by Layard and Nickell (1986), using the imperfectly competitive, macroeconometric labour market model described earlier. Their findings as to the causes of increased British unemployment can be summarised as follows. Firstly, most of the rise in unemployment since 1979 is due to falls in demand. Of the push factors which raise product wages, unemployment benefits, employment protection, mismatch in terms of the U/V relationship, and union militancy, all had supporting roles to play in the rise in unemployment. Of the factors that reduce take-home pay for given labour costs to the employer, only employers' taxes and relative import prices had a significant impact on unemployment. They could find no evidence that income taxes, indirect taxes, productivity slowdown, technical progress or capital shortage explained the post-1979 rise in unemployment.

It was mentioned earlier that the debate at Chelwood Gate I indicated that actual unemployment in the industrialised economies was close to the equilibrium rate by 1985,[19] so, even though demand factors were an important cause of the rise in unemployment, reflation was not a viable policy option, especially in a political climate which has been strongly anti-inflationary in both Britain and Germany. The alternative was active labour market policies operating on the supply side of the economy. This has been very much the norm in Britain and Germany.

Institutional factors

Without going into too much detail about 'misery indexes' and the like, Bean *et al.* (1986) find support for the idea that the functioning of the labour market is influenced by the degree of corporatism,[20] in particular, that corporatist countries would seem to enjoy a greater degree of wage flexibility. However, the authors find that the link to the average level of unemployment is tenuous. This means that exogenous shocks may be more easily absorbed in corporatist labour markets, but this does not mean that their unemployment experience will be better.

Jackman (1989), in a study of the Nordic countries, considers whether centralised wage bargaining, a key element of 'corporatism', is an important reason for the lower unemployment rates of these countries, compared to the rest of Europe. It would seem that, 'by reducing the conflict between private and social interests in wage bargaining', corporatism may be consistent with improved macroeconomic performance. However, a contrary point of view implicates centralised wage bargaining with excessive union power, reduced efficiency and the creation of a huge public sector. Another argument is that centralised wage bargaining is essentially an institutional structure with no economic impact. The scope for local wage negotiations in the Nordic countries, and the similarities of estimated wage equations with those for other European countries, provide some support for this latter point of view.

Jackman finds that unemployment rates have been lower in economies with centralised wage bargains, but there are no distinctive patterns to other measures of economic performance, which is consistent with the work of Calmfors and Driffill (1988), and the aforementioned Bean *et al.* study. However, although centralised wage bargaining has been important to the success of the Nordic countries in maintaining lower average unemployment rates than other European countries, Jackman also finds that differences in unemployment rates between the Nordic countries can be attributed to the different tax credit systems and labour market policies in oper-

ation. In particular, he singles out the important impact of Swedish public sector employment policies.

2.5 Conclusion

This chapter has examined the implications and causes of the rising unemployment trend in Britain and Germany. It is clear that the experiences discussed have not been confined to these two countries alone.

It became apparent that, when viewed in the wider context of the structure of unemployment, in particular the duration structure, the threefold rise in unemployment since the 1960s has had serious consequences for the industrialised economies. It could not be dismissed in favour of theories that see the study of labour markets as solely involving the explanation of movements in wages and employment. How unemployed workers allocate their time can be treated as analytically distinct from the issue of whether labour and product markets function in such a way to allow those who wish to work at the going wage to find a job.

An understanding of the causes and effects of unemployment is crucial for any decision to use active policy measures. The basic facts about unemployment, and the causal analysis, suggest that aggregate demand reflation may not be the most appropriate policy instrument, given the apparent rise in equilibrium unemployment, though this is very sensitive to how the relationship between actual and equilibrium unemployment is modelled, and the well-documented stability of inflows into unemployment. Neoclassical search models are unable to explain the unequal incidence of unemployment or the wide range of unemployment durations, and improved search intensity is not likely to make a significant impact on mass unemployment.

The analysis of Franz (1987) suggests that structural imbalances may be important, and are certainly consistent with the persistence of mass unemployment. The outcome has been to place considerable emphasis on what are called active labour market (supply-side)

policies as the key weapon in the fight against unemployment. It is motivated by the need to target the 'hard-to-place' unemployed, and to reduce equilibrium unemployment. The chapters that follow evaluate the impact of the active labour market policies adopted in Britain and Germany.

References

1. By active labour market policies we mean measures specifically designed to improve the operation of the supply side of the labour market, for instance, specialised training programmes.
2. The bulk of the study was carried out before the collapse of the Berlin wall and German reunification (see endnote 1 in Chapter I), so the historical basis of the data for the study refers solely to the Federal Republic of Germany. When we refer to Germany we mean the Federal Republic of Germany unless otherwise stated.
3. The OECD calculates unemployment rates in relation to estimates of the total labour force in each country, whereas for Germany the calculation is presented in terms of the dependent labour force, which excludes the self-employed. Calculations for Britain are complicated by the frequent changes, since 1981, in government practice over the unemployment count. This is discussed in the text.
4. Britain has a monthly count of those claiming unemployment benefits and an annual survey of the labour force. The unemployed in Germany are those registering at labour offices as such.
5. Table 2.2 has information on short-time working in Germany. It is a scheme to combat the vagaries of the business cycle. Employers can obtain subsidies if they have to reduce working time for at least one-third of their workforce, and by at least 10% of normal working time.
6. Figure 2.1 is not adjusted to take account of the 1987 census in Germany, which revised employment upwards by roughly 1 million individuals (Table 2.2 provides details). Figure 2.3 uses the actual numbers unemployed because the labour markets are of similar size, so any distortion from this factor should be slight.

7. These magnitudes may require revision once the 1987 census results have been applied retrospectively; see note 6 and Table 2.2.

8. Since Christmas 1989, when the bulk of this study was completed, there have been dramatic political changes in Eastern Europe, most notably the formal reunification of Germany on 3 October 1990. The consequent collapse of the economy in eastern Germany, with regional unemployment rates of 50% predicted, means that the political pressure for active intervention in the labour market will be greater than ever.

9. Note that this still ignores the debate mentioned earlier about an appropriate definition of unemployment.

10. This reflects the increased demand for higher education and possibly benefits from the dual system of training. Note that this training system is integrated into the educational process and is not classed as an active labour market policy.

11. The total inflow into unemployment in 1975 was 3.45 million, and in 1986 it was 3.64 million. The lowest total inflow over this period was 2.84 million in 1979, and the highest total inflow was 3.71 million in 1982. Schmid (1988) contains further information on flows and durations.

12. For a detailed discussion of the importance of unemployment duration, see Johnson and Layard (1986).

13. See the Special Issue of *Economica* (1986).

14. Blanchard (1988) has argued that the diversity of explanations of unemployment across countries, and the difficulty of explaining persistent high equilibrium unemployment, extended the research programme to a Chelwood Gate II conference.

15. Note that from Table 2.2, the German labour force rose by 320,000 individuals during the 1980-82 recession.

16. An assessment of the debate over the role of real wages *versus* demand factors in the explanation of the trend rise in European unemployment is given by Newell and Symons (1987).

17. The most popular measures are based on the ratio of the coefficients of price inflation to unemployment from Phillips curve regressions.

18. In correspondence, Wolfgang Franz has suggested that the difference in results may have been due to the exclusion of a productivity growth term, and search variables dominated by trends.

19. In a debate on the influence of trade unions on the economy, organised by the Employment Institute and the TUC in May 1989, Patrick Minford argued that the equilibrium rate of unemployment in Britain at that time was well below the actual rate. This was a reflection of the dramatic improvement in the supply side of the economy, inspired by the policies of the Thatcher government. In this case, reflation would have seemed to be a policy option for Britain. However, inflationary pressures were increasing dramatically in 1989, despite well over 1 million unemployed, which led to a subsequent retrenchment and reversal of the trend fall in unemployment.

20. Corporatism is taken to mean a social and economic structure where groups rather than individuals wield power.

Chapter III

Evaluating active labour market policies

3.1 Introduction

The evaluation of active labour market policies (ALMPs) has involved a mainly microeconomic approach, though often with macroeconomic implications; for example, the net cost to the Exchequer of removing an individual from the unemployment register, as in Davies and Metcalf (1985), has been popular in Britain. A number of important issues arise in evaluating ALMPs. These concern the following sorts of questions/debates. What are we trying to measure? Which economic variable provides an unambiguous signal of the impact of an ALMP, earnings, or re-employment probabilities? How do we measure this impact? Will the ALMP involve a crowding-out effect in terms of the stock of jobs? Are general equilibrium effects important when we try to net out the overall effect?

The capacity of economists to evaluate the impact of economic policy in the framework of a non-experimental approach is severely constrained. In a microeconomic context, it is difficult to assess the impact of, for instance, a training programme on individuals, because it is difficult to control for the counterfactual outcome in the absence of the training, due in the main to the problem of selectivity bias arising from 'choice-based' samples. It is believed by some, Ashenfelter and Card (1985), and Lalonde (1986), that a classical experiment with random assignment is the only way truly to capture the counterfactual scenario.

However, even this may not be foolproof, because of the possibility of the Hawthorne effect, where the act of participation in an experimental programme will change an individual's behaviour even when randomly assigned to the control group. Furthermore, the choice-based nature of the list of participants can lead classical ex-

periments into the realms of adverse selection. For instance, an experiment in Dayton, Ohio, involving wage vouchers, led to worse results for the participants in contrast to the control group which received no wage voucher. The sample for this experiment was made up of welfare recipients and, by being able to hand over a wage voucher, the participant was signalling this adverse characteristic to a prospective employer: see Björklund (1989) for a detailed discussion of this experiment.

In macroeconomics it is equally very difficult to simulate what would have happened to the economy in the absence of a policy. For instance, how do we judge if regional policy has been successful? What are the effects of ALMPs on the macroeconomy (section 3.4)? These are important questions that economists are expected to provide answers to, but assessing what would have happened to the economy in the absence of these policies is no easy task, as counterfactual macroeconomic policy simulation is beset with pitfalls.[1] Decision-makers who respond to economic policies by altering their behaviour can influence both the microeconomy and the macroeconomy in unpredictable ways, possibly frustrating the intentions of the policy.

Sections 3.2, 3.3 and 3.4 take up these questions. Section 3.5 assesses a popular approach for analysing the impact of ALMPs, due to Jackman *et al.* (1986) and Haskel and Jackman (1987, 1988), which we can describe as a transitions methodology. Section 3.6 considers the debate about classical experiments *versus* non-experimental methods which has been prominent in the American literature. Section 3.7 offers some conclusions.

3.2 What are we measuring?

The object of an ALMP is, directly or indirectly, to enhance the quantity and/or quality of human capital embodied in the workforce. ALMPs are therefore logically distinct from policies designed to increase the quantity of human capital of those outside the workforce,

notably investments in schooling. For those within the workforce, ALMPs may be intended to raise the level of human capital directly by, for example, training programmes, or indirectly, by offering employment experience which may ultimately enhance human capital, and therefore productivity, *via* on-the-job training.

In section 3.4, below, some of the problems associated with ALMPs, such as deadweight, churning and displacement, are described. These problems are associated with the general equilibrium effects of increasing the human capital of the workforce and, in many instances, serve to reduce the net effectiveness of ALMPs relative to their gross effect, whether on earnings, employment (or whatever indicator is used).

It is important, however, to emphasise, even at this early stage, that there is no logical necessity for ALMPs to have zero net effects. This 'stock of jobs' fallacy (analogous to the 'wages fund' fallacy of the nineteenth century) is most often expressed in the context of ALMPs designed to increase the re-employment probability of a subset of the labour force. It is often argued that such policies (for example, measures to help the long-term unemployed) must, of necessity, simply lead to a redistribution of the stock of jobs or the distribution of unemployment durations, *via* the displacement effects noted above and described in more detail subsequently.

While, however, this full displacement is a logical possibility (indeed, the net stock of jobs as a result of ALMP could actually be reduced with suitable macroeconomic parameter values), it is not a necessary outcome, as is clear when the human capital content of ALMP is emphasised, as here. We would not, after all, dispute the case for greater investments in schooling on the grounds that the net effect on wages and employment would, of necessity, be zero, even if this were a possible, albeit unlikely, outcome.

The traditional microeconomist's formulation of ALMP is, therefore, to regard its effect as shifting the aggregate marginal physical product of labour curve (MPP_L), which, multiplied by average product price, gives the marginal revenue product of labour curve, to

the right. For a given real wage, the shift of the MPP_L induces more employment. Alternatively, the enhanced human capital implies a higher real wage for a given stock of employment. Appraisals of ALMPs have tended to focus on one or other of these changes (that is, to employment, or to the real wage), albeit rarely on both in a full general equilibrium model. In practice, of course, the impact on employment or the average real wage will, in large part, depend on the elasticity of the aggregate labour supply function.

There is another reason why ALMPs may have a net effect on employment or real wages. This is where such policies affect the aggregate supply function of labour. Such schemes often have an impact on the pay structure, especially at the lower end of the distribution. For example, the lower end of the pay structure may be truncated by the level of income support obtained by means other than paid work, including unemployment insurance (UI) or, indeed, the pay offered on schemes such as public training programmes or 'make-work' programmes. Where there is some degree of compulsion in such schemes (for example, making receipt of UI conditional on willingness to participate in them), this removal of the automatic 'floor' may depress pay at the lower end of the distribution and so increase net employment. Although policymakers generally espouse the conventional rationale for ALMPs of enhancing the MPP_L of the workforce, it may well be that the effects on labour supply are of equal significance.

Policymakers and macro-oriented economists often provide a rather more general justification for ALMPs than is provided in the human capital framework. In such a context, policies of this kind are seen as a cost-effective method of reducing imbalances, whether aggregate or sectoral, between supplies and demands in the labour market. Implicitly, therefore, some macroeconomic constraint (such as a discrepancy between target and feasible real earnings growth, a target level of public sector borrowing, or a specific monetary target or exchange rate policy) is the cause of such an imbalance. ALMPs, it can be argued, are a method of alleviating such a constraint, given

their 'positive' cost-effective or macroeconomic qualities (as in Layard and Nickell, 1980; or Davies and Metcalf, 1985).

Although this more general approach is common in a number of measures of ALMP effectiveness and, indeed, leads to similar criteria, such as the extent of deadweight and displacement, as the microeconomic approach (see section 3.4 below), it can be argued that the merits of different ALMPs, and the timescale of the evaluation, are often determined by the choice of approach used. Emphasis on the macroeconomic merits of ALMPs typically encourages the pursuit of policies that alleviate the detrimental effects of cyclical variation in the economy as a whole. Measures which seem to be 'cost-effective' in the short run, such as job-creation programmes, tend to perform well when subject to the criterion of macroeconomic efficacy. In contrast, policies which emphasise the supply side, in particular, the impact of training, tend to show smaller gains in the short run. This is particularly true when policies designed to deal with the supply side in the long run, such as Germany's system of dual training, are transmuted into short-run stabilisation policies, such as (temporary) re-training schemes. Our later case studies of Germany and Britain tend to reinforce this argument (see Chapters IV and VI).

3.3 How do we measure the effects of ALMP?

Three 'measures' of ALMP effectiveness have generally been used in the literature.

(i) The first method is to look at the earnings of ALMP participants before and after the spell of training, employment or whatever. The presumption is that the ALMP, by enhancing their human capital, will increase their earnings. Alternatively, the earnings of a group of post-ALMP participants can be compared to some control group, which may be the whole workforce. With a suitable set of control variables (as well as a control group), a positive 'return' to the ALMP measure (for example, whether the individual was on a particular programme)

can be interpreted as the net effect of the ALMP on the human capital of the individual.

This is the well-established method of evaluating ALMPs, and has been much used in evaluating training programmes in the USA; see, for instance, Ashenfelter (1978); Ashenfelter and Card (1985); Lalonde (1986); Bassi (1983, 1984); Moffit (1987); Björklund (1989); Burtless and Orr (1986); Fraker and Maynard (1987); Heckman, Hotz and Dabos (1987); Dickinson, Johnson and West (1987); and Lynch (1989) - a comparable study for Britain is Booth (1989). Nevertheless, there are two dangers in this methodology. First, the employment effects, or the impact on re-employment probabilities, are ignored. (This may be interpreted as treating the aggregate labour supply function as vertical in the microeconomic approach.) Alternatively, if the market is not clearing pre-ALMP, the lack of a return on the ALMP may be misinterpreted as an indicator of ineffectiveness of the policy, when the actual impact of the policy was to eliminate some shortage of a particular supply of labour stemming from mismatch or similar bottleneck.

Secondly, the treatment of the control group, and the character of the ALMP group itself, is of some importance. Various control groups have been selected in the British and German experience, and these are described elsewhere (see chapters IV and VI). Some of these control groups may not be representative of the workforce as a whole (for example, where the control group is a sample of drop-outs from schemes, or of those who have recently been unemployed). Equally seriously, the ALMP participants may themselves not be a random sample of the workforce; indeed, there is a strong presumption that the group in question will have been targeted and/or self-selected.

In the former case, for example, individuals who are regarded by the administrator as 'less productive' may be placed on such schemes. The implication of this for their expected earnings subsequent to the programme, and relative to the rest of the workforce, is unclear. If returns to increments of human capital are non-linear, or diminishing, the lack of human capital of these individuals may

show up in 'high returns' to these particular individuals, in the form of wage gains. But these wage gains ('return to the ALMP') would not be typical of those for the workforce as a whole. However, it is easy to think of a counter-argument where the returns are understated relative to those of the workforce generally. Thus the 'returns' to the ALMP are participant-specific, not population-general, and the direction of the bias is unclear.

The second problem, self-selection, arises where there is some degree of voluntarism on the part of participants joining the ALMP, as would normally be the case. Here the selected group of participants may have unobservable characteristics, such as motivation, which bias upwards the 'returns' on their participation. Thus the 'returns' would not be typical of those to be expected on the targeted group as a whole. Indeed, on occasions, participants can be seen to have clear observable differences (in, for example, age and education) from the targeted population. The returns should be adjusted by the evaluation study to take account of these distortions.

ii) In some cases, ALMP participants and post-participants may be placed in programmes where it is difficult to interpret the earnings of the individual as measuring increments in human capital. Such a case arises where individuals are placed on public employment programmes,[2] or in the voluntary sector, and where their subsequent employment in the same post is funded from elsewhere (by, for example, the local public authority or by a charity). The success of placing the individual in a contract beyond the term of the ALMP intervention should be regarded as being of positive value. Nevertheless, the wage that the individual will have been earning in such a programme will probably not reflect their (increment in the) marginal product. A direct measure of the 'value' of the individual has to be obtained, by reference to the value of the 'output' produced by the individual.

Normally, such a value could be obtained by calculating the cost of hiring someone from elsewhere in the public sector, or from the private sector, to carry out the task: for example, a social welfare

agency. However, many public employment programmes, such as the Community Programme in Britain, state explicitly that posts created under the programme should not undertake tasks that directly compete with, or substitute for, other public and private sector employment. The rationale for such restrictions is that the employment of people in these ALMPs is often heavily subsidised, and thus the risk of output displacement is high. Equally, workers' representatives, such as trade unions, have often supported such restrictions, since the rate of pay on these types of programmes is typically lower than in comparable activities in the public and private sector, thus inducing a threat to the 'outside' pay structure. In such cases, therefore, there is no comparable measure by which to evaluate the 'productivity' of the individual in such a programme.

iii) The most common measure of the effectiveness of ALMPs in Europe has been to study their impact on re-employment probabilities. Thus, in the context of the microeconomic approach, this criterion can be treated as assuming that there is a perfectly elastic supply curve. Schemes are treated as 'successful' if (a) the 'impact' re-employment probability of individuals leaving such schemes is higher than for comparators who are officially unemployed, and (b) where the job tenure of such individuals is longer than would be the case had they entered the job directly from employment. The latter implies access to some longitudinal data, but these are not always available. Where such data are available, they often show a strong initial impact effect (that is, (a) above) of ALMP, but a gradual reversion of the re-employment rate to the 'norm' of the control, that is, the unemployed generally (see, for example, Ham and Lalonde (1989)).

This method of evaluation is able to handle the cases where there are mismatches or bottlenecks which are not reflected in accruals of earnings. Nevertheless, the problems of choice of control group and the self-selectivity of the ALMP group, described under section (i) above, are not eliminated by using this procedure. Indeed, it is these related problems which have been considered at length in studies in

Germany, which have generally used the re-employment probability as a measure of the 'success' or otherwise of ALMPs. In the USA, these difficulties have led to renewed enthusiasm for designing classical experiments to elicit the 'true' impact of ALMPS (see section 3.6).

3.4 Measuring net effects

While ALMP may have an impact on the earnings or re-employment probabilities of a chosen group of participants, it is the overall effectiveness of such measures that is the central concern of the policy-maker. Traditional measures of 'effectiveness', such as the 'cost per job created', beg the question of whether a net job is created as a result of the ALMP in question. One issue that arises in this context is the method of financing the ALMP. For example, the effectiveness of the ALMP depends on its labour intensity relative to other economic activities, and on the ability to use the ALMP to bypass other macroeconomic constraints, such as the balance of payments on aggregate demand reflation (see, for example, Layard and Nickell (1980), (1983); Davies and Metcalf (1985); and Whitley and Wilson (1983)). The method of financing ALMPs and, in particular, the question of whether government budget neutrality is assumed, are of crucial importance in determining these measures of net effectiveness.

On the supply side, there are the effects on labour markets and the wage structure to consider. If a measure of earnings gain is used, for example, the issue arises as to whether the reduction in mismatch between labour demands and availabilities of various skills ultimately leads to a change in wage differentials, perhaps compressing the return associated with the acquisition of a particular skill on an ALMP programme.

More often, however, these various offsetting effects or complementarities are analysed in measures of effectiveness that focus on the employment creation aspects of ALMPs. A variety of terminology is used in describing some of these wider effects and here the definitions described in Metcalf (1986) are utilised.

(i) *Deadweight* occurs where subsidies are offered to create jobs (or, indeed, to expand skills) which would have, in fact, been offered by employers without the subsidy. Presumably the rationale of ALMP is that the labour market, left to itself, is unable to furnish these employment or training opportunities, and therefore high proportionate deadweight is not to be expected. Nevertheless, the extent should be investigated, whether by sample survey or by questions to ALMP participants. However, exploring the implicit counterfactual is not a straightforward task; asking participants invites obvious problems of moral hazard. This suggests that a strategy of establishing a precise control group is superior; nevertheless, finding an exactly identical group of non-participants among, say, employers, who could thereby act as a control, is no straightforward task either. For such an identical group might well be eligible to participate in the ALMP, if displacement and substitution effects (see below) are to be avoided.

(ii) *Displacement of employment (substitution)* occurs where potential participants change their behaviour. If, by offering a position to a particular individual, an employer thereby receives a subsidy, there is an inducement to substitute that individual for some other person who might not have been eligible for the subsidy. For example, if employers are subsidised to hire people who have been out of work for a certain period of time, firms may substitute these individuals for other hirings who have not been out of work for such a long period.

Even with 100% substitution, a case for such a policy could still be made if we are concerned with the welfare losses associated with unequal unemployment experience and/or if the long-term unemployed exert no downward pressure on wage levels in a Phillips curve-type world, so that the level of unemployment compatible with a given level of wage pressure depends (positively) on the average duration of unemployment (Nickell, 1988). On the other hand, if the targeted individuals are generally less productive, the net impact on economic welfare is uncertain. In part, this rests on the thorny issue of whether unequal unemployment experience (especially differen-

ces in expected durations) is associated with population heterogeneity or with 'duration dependence': see section 3.5 below.

(iii) *Displacement of output* arises when subsidies to particular employers or, indeed, individuals, have an impact through the output market on other unsubsidised employers or individuals. The classic case is an employment subsidy to a particular firm, which is thereby able to maintain its output prices below 'true' cost, so undercutting other firms operating in the same market. If such effects occur in an open economy, these displacement effects may spill over into other countries, and the subsidising country is a net beneficiary, which is why GATT, the EC and other bodies monitor such subsidies very closely. On the other hand, in a primarily domestically traded market, these spillover effects will be internalised. Such displacement/substitution effects are frequently calculated and cited (as in Deakin and Pratten (1982), and Metcalf (1986)).

Although such effects are rarely measured in the European context, in principle it is not difficult to expand the concept of displacement *via* relative price effects to the labour market. For example, by supplying extra individuals with a particular skill, the ALMP may ultimately depress the return on that skill, so inducing a fall in the number of individuals volunteering to acquire that skill outside the government-funded project. As with any other market, the government subsidy distorts the price (here the earnings differential) and may thereby drive out the private market for that skill. This issue has typically been raised in the context of manpower planning and human capital acquisition outside the labour market (notably schooling). Note that it is quite distinct from, albeit similar in effect to, the substitution effect described previously.

(iv) *Churning* is generally described as the case where individuals repeatedly return to programmes subsidised through ALMP. It is not perhaps apparent as to why this matters *per se* from the point of view of the appraiser, since the transition out of unemployment should be captured by the analysis of re-employment probabilities, assuming that longitudinal data are available, and it does not matter to the

criterion used, such as 'net cost per job', whether subsequent ALMP entrants are new individuals or recidivists. On the other hand, long-term churning may induce reputation effects for the programme itself, by signalling that participants have a high probability of re-entry. Through adverse selection effects, the programme will ultimately be dominated by recidivists and will therefore be associated with low employment effects.

3.5 Transitions methodology

The 'orthodox' procedure in evaluating ALMP is to estimate effectiveness by some 'net cost per job' criterion, by first starting with a simple measure, such as the re-employment probability, and subsequently enhancing the sophistication of the exercise by attempting to measure displacement, deadweight, and so on. In contrast, some analysts have suggested that, if the programme is large enough, the net macroeconomic effects should be measured directly from the start. If, for example, the programme is designed to reduce unemployment by reducing unemployment durations among a subset of the unemployed, then a direct measure of the impact on the unemployment level, or on the net distribution of unemployment durations, seems warranted.

An illustration of this methodology is in the work of Haskel and Jackman (1987, 1988), although there are precedents in Germany: for example Schmid and Peters (1982). The basic approach is to estimate a time series model of duration-specific exit rates on unemployment, vacancies, or their ratio and some set of standardised measures of the impact of ALMP; the whole with a suitable dynamic structure. The maintained hypothesis is that ALMP exerts a positive effect on outflow from the targeted group, with the question of targeting effectiveness and possible aggregate substitution and 'churning' investigated by an examination of the duration-specific exit rates of non-targeted categories or age groups, where negative effects may be observed.[3] The method can be extended to, for example, a cross-

section framework in which exit rates across sub-labour markets can be investigated in the presence of differential intensity of ALMP across these markets.

A number of issues arise in this context. One concerns the issue of 'state dependence' and population heterogeneity. One rationale for duration-specific (as opposed to, say, age-specific) targeted ALMPs is that 'state dependence' exists: that is, exit probabilities decline with duration at the individual level (it is well known that they decline in the aggregate, but this may simply be a 'sorting' process, given individual-specific exit rates). In general, if some heterogeneity is observed (such as age, education, skill, and so on), it is straightforward to show that the coefficient α rises towards 1 (no duration dependence) in a typical proportional hazard function of the kind described in (1):

$$\Theta(t,x) = \exp(\beta_0 + \beta' x)\alpha t^{\alpha-1} \qquad (1)$$

where t is the length of an uncompleted spell of unemployment, and x is a vector of independent variables (Lancaster, 1979), as the vector of significant x variables is increased. If the value of α remains less than 1 after all significant measured variables are included, the residual aggregate state dependence stems either from unobserved heterogeneity or from 'true' individual state dependence.

The point of this small diversion is to suggest that 'true' state dependence can only be observed with suitable micro datasets. Even then, tests of 'true' state dependence *versus* unobserved heterogeneity have yielded no clear-cut conclusions. Conversely, aggregate data and models cannot separate 'true' state dependence from heterogeneity of any kind, although the introduction of a set of x variables into exit rate models will reduce the likelihood of general heterogeneity being observed. Nevertheless, the issue is something of an irrelevance for the conduct of ALMP, since, irrespective of whether the decline in exit probabilities with duration stems from unobserved heterogeneity or 'true' state dependence, the policy conclusions remain the same. Even with no 'true' state dependence and only un-

observed heterogeneity, targeting of policies on the long-term unemployed would still be rational on informational grounds. The 'correct' mix of policies in targeting ALMPs is to target on both identifiable exit-rate reducing characteristics (the x vector) and on duration (residual sample state dependence).

3.6 Experimental *versus* non-experimental methods

For reasons of cost and the collection of available information, non-experimental methods are the established practice of those interested in evaluating ALMPs. In the United States there has been a substantial research effort concerned with the impact of training policies on individual earnings which, interestingly, has led to some disenchantment with non-experimental methods.

This disenchantment has resulted in a debate about best practice evaluation methodology, in particular, the extent to which non-experimental economic techniques and evaluation methods could generate reliable estimates of a programme's impact for policy-makers, and whether experimental methods are a better alternative to non-experimental methods. A brief sketch of this debate follows, and provides an interesting background for the material in Chapters IV and VI.

The US Manpower Development and Training Act (MDTA) of 1962 initiated a series of training programmes aimed at improving the human capital of a variety of groups in the United States population, especially the unemployed and other disadvantaged workers (at the time considered to be structurally unemployed). Ashenfelter and Card (1985) point out that, despite the failure to address the effectiveness of the MDTA programme, the US Congress in 1972 introduced the Comprehensive Employment and Training Act (CETA), in the belief that it would enhance the effectiveness of the old training programmes. The CETA programme attempted to provide a mix of schemes encompassing on-the-job training, educational training,

public employment and job search assistance. CETA tried to combat countercyclical and structural ('disadvantaged') unemployment.

While a number of early evaluations were attempted without a comparison or a control group, the US Department of Labor instituted the compilation of a database to aid non-experimental evaluation. The Continuous Longtitudinal Manpower Survey (CLMS) collected socioeconomic data on a sample of CETA participants when they joined the programme and over a period of time thereafter. A new set of participants was sampled each quarter to provide a panel dimension, and earnings data for the participants were grafted on from the Social Security Administration. To aid the formation of comparison groups, the Department of Labor added data on individuals taken from the Current Population Survey (CPS).

This effort led to a large number of evaluations of the CETA programme by way of the non-experimental approach, a sample of which is Ashenfelter (1978); Ashenfelter and Card (1985); Bassi (1983, 1984); Barnow (1987); Moffit (1987); Björklund (1989); Burtless and Orr (1986); Fraker and Maynard (1987); Dickinson, Johnson and West (1987); and Stromsdorfer (1987). Much of this work relies on sophisticated econometrics, in conjunction with the idea of providing a pseudo control group, or what are called comparison groups, which will contain individuals with observable characteristics as close to those of the ALMP participants as possible, so that the 'true' training effect may be isolated.

However, the results led indirectly to disenchantment with non-experimental methods. Essentially, the impact of training on many participants' earnings was found to be positive but small, occasionally negative, but worryingly imprecise and sensitive to the determinants of programme participation. Selectivity bias, and inadequate control groups, were put forward as the weak links in non- experimental evaluations. In 1982 CETA was replaced with the Job Training Partnership Act (JTPA), which removed job creation from its sphere of activities and simply concentrated on training (both classroom and on-the-job), and job search education. Interestingly, the

requirement that proper evaluations be carried out was written into the legislation.

An alternative possible approach to the assessment of ALMPs is to design classical experiments, in the spirit of a pure scientific experiment, to analyse policy effects. A classical experiment is identified by the random assignment of individuals into participant and control groups. The random assignment of the list of participants is fundamental to this approach, because the experimental and control groups will be identical in terms of all observed characteristics. In this context, it is argued, the selectivity bias discussed in section 3.3 should not arise.

Over the 20-year period since the MDTA, there was only one major experiment to assess the effectiveness of these employment and training programmes - the National Supported Work Demonstration (NSW).[4] Lalonde (1986) used this experiment in a form of 'evaluation of evaluations' to show that non-experimental methods were unable to reproduce the results found by this experiment. Lalonde implicitly assumes that NSW results record the 'correct' impact of that experimental programme, and so his conclusion is that:

> 'policymakers should be aware that the available non-experimental evaluations of employment and training programmes may contain large and unknown biases resulting from specification errors' (Lalonde, 1986, p. 617).

The reasons for the specification errors were again selectivity bias and inadequate control groups. Ashenfelter and Card (1985) voice similar concerns to those of Lalonde (1986).

These findings provided the motivation for the consideration of classical experiments as a better alternative to non-experimental methods. However, the Lalonde study (1986) does not provide any examination of the possibility for Hawthorne effects influencing the behaviour of the control group in the NSW experiment. There is an implicit assumption that this issue is of little consequence.

A defence of non-experimental methods, on grounds other than 'difficult to measure' Hawthorne effects, is put forward by a group

led by James Heckman, for example, in Heckman, Hotz and Dabos (1987). This group has two main criticisms of those who carry out non-experimental methods. Firstly, the empirical methods, normally econometric estimation, are not being carried out in a satisfactory manner, so that the empirical models presented in the evaluation literature are inadequate. Secondly, and perhaps more importantly, the non-experimental evaluation literature has either neglected the implications of using choice-based samples which over-record trainees relative to their proportion in the population, or at least have not adequately controlled for this bias. The outcome is that the estimators used in the evaluation literature to evaluate non-experimental methods are themselves biased and inconsistent, and should not be be relied upon to judge the value of non-experimental evaluations.

The ultimate outcome of this debate is difficult to foretell. However, one significant event has taken place with respect to the 1982 JTPA. In 1984, the US Department of Labor established a Job Training Longitudinal Survey Research Advisory Panel to judge the best evaluation studies of the CETA programme, the predecessor of the JTPA. The outcome of this group's deliberations was to advise the Department of Labor not to rely solely on non-experimental methods. Instead, the panel favoured a randomised classical experiment to be linked to structural econometric models designed to investigate and resolve the problem of selectivity bias. The Department of Labor accepted this recommendation, which may be seen as some vindication of the views of Ashenfelter, and Lalonde, among others (see Stromsdorfer (1987)). It should, of course, be underlined that this initiative is designed to enhance non-experimental research, not simply to replace it.

3.7 Conclusion

The effects of ALMPs require careful assessment. The problem associated with moving from partial equilibrium effects to general equilibrium; from establishing adequate control groups, and in assessing

behavioural changes associated with the introduction of ALMPs, have all been described. The 'ideal' requirements of ALMP evaluation are extremely stringent.

Both Britain and Germany have carried out numerous evaluations of ALMPs. The extent to which these evaluations satisfy the requirements of the 'ideal' evaluation are discussed extensively in Chapters IV and VI of this book.

References

1. One celebrated criticism concerns the idea that econometric models, no matter how sophisticated, are not necessarily an easy solution to providing accurate counterfactual outcomes, for as Lucas (1976) argues:

   'given that the structure of the econometric model consists of optimal decision rules for economic agents, and that optimal decision rules vary systematically with changes in the structure of series relevant to the decision maker, it follows that any change in policy will systematically alter the structure of econometric models' (Lucas, 1976, p. 41).

2. This course of action is popular in Sweden.

3. The concept of 'creaming', an expression used in the British literature, relates to targeting ineffectiveness, whereby schemes select participants with the best characteristics which will tend to overestimate the impact of an active labour market policy.

4. The NSW experiment was conducted across 15 different areas of the USA. It was targeted on women with dependants, and receiving welfare, addicts, offenders and youths. It offered employment for 12 to 18 months on a group basis. It has been extensively studied in its own right, see Björklund (1989) for details and references.

Chapter IV

German policies and their effects

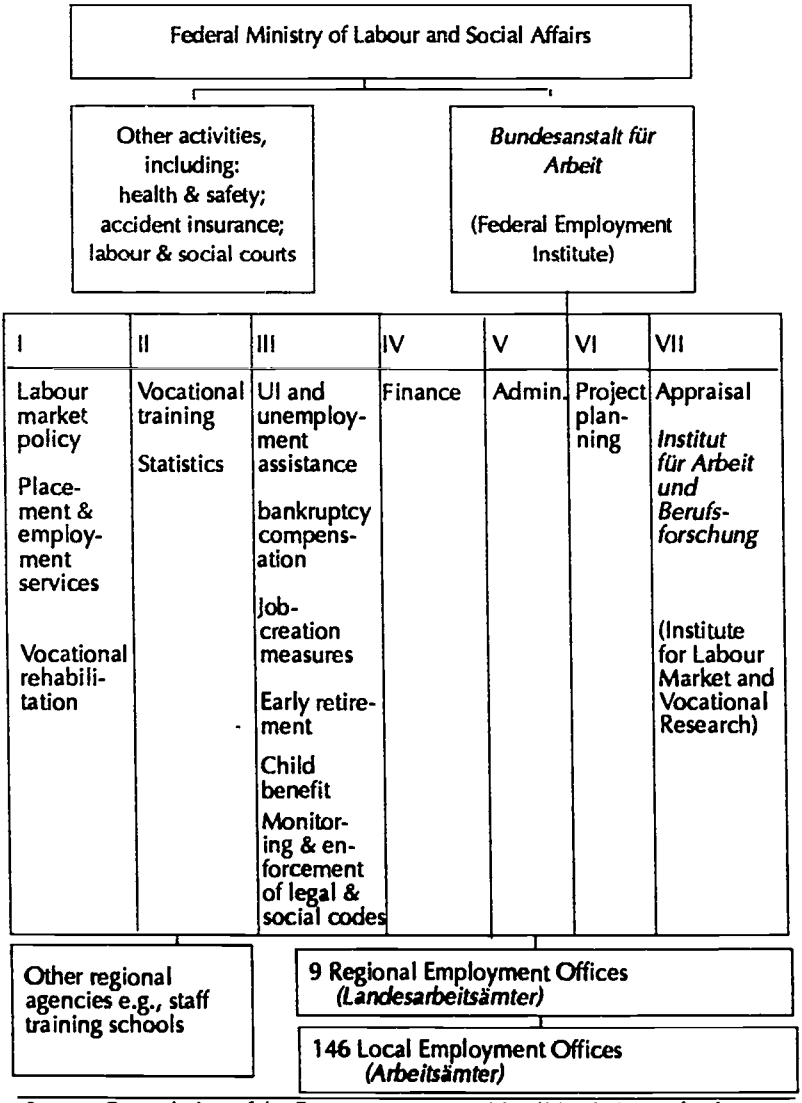
4.1 Institutional structure

The basis of labour market policy in the Federal Republic of Germany (FRG) was laid down in the Labour Promotion Act (*Arbeitsförderungsgesetz* or AFG) enacted on 1 July 1969. This Act transformed the role of the Federal employment service from operating 'a compensatory to a pro-active labour market policy', to use the description of the European Commission (CEC, 1987). As well as the traditional role of the service in organising the scheme of unemployment insurance, the Act listed a range of objectives encompassing the collection of evidence on the labour market, assistance with employment placement and vocational training, measures to reduce regional and sectoral imbalances in labour supply and demand, and to counteract persistent as well as temporary unemployment.

Before examining these policies in practice, it is useful to describe briefly the administration of labour market policy in Germany, as the differences from the British structure are illuminating. In one sense, the administration in Germany appears more complex than that of Britain, because labour market policy in Germany operates at a variety of devolved levels of management, and with inputs from a number of sources. For example, 'off-the-job training', which is an important component of active manpower policy in Germany, is administered at a state level, whereas provisions governing 'on-the-job training' are administered at a Federal level. Furthermore, representatives of employees, employers and public bodies have a direct role in the administration of Federal policy through their representation in the *Bundesanstalt für Arbeit*: the Federal Employment Institute.

Since 1969, the *Bundesanstalt für Arbeit*, (originally established on 1 May 1952 as the Federal Institute for Job Placement and Unemployment Insurance) has had responsibility for the implementation of labour market policies under the AFG. It is a self-governing body, with general policy developed by representatives of various groups as described previously, although it is legally subject to the *Bundesministerium für Arbeit und Sozialordnung* (BMA): the Federal Ministry of Labour and Social Affairs, of which it is legally part and which ultimately approves its budget. The *Bundesanstalt* finances 90% of its expenditure from a contribution levied on employees and employers, collected by the health insurance administration and transferred automatically to the *Bundesanstalt*. This contribution is currently levied at a rate of 2.15%, on both employees and employers, up to a ceiling (civil servants are excluded from the contribution). These revenues are used to carry out a variety of programmes, from the payment and administration of unemployment insurance (UI) and the operation of employment exchanges through to 'active' policies, such as job-creation programmes and wage subsidies. A chart of the main functions of the *Bundesanstalt*, and of its organisational structure, is contained in Figure 4.1.[1]

Figure 4.1: Administration of labour market policy in Germany



Source: Commission of the European Communities (1987), *Mutual information system on employment policies: basic information report: Germany.*

There is another obvious sense in which labour market policy in Germany differs from that of Britain. For, unlike Britain, the *Bundesanstalt* has responsibility for a wide range of labour market policies, both active and 'passive' (such as its involvement in operating the UI scheme). In contrast, in Britain, these functions are divided between the Department of Employment, the Training, Enterprise and Education Directorate, the Employment Service and the Department of Social Security. In Germany, these policies are broadly financed from the same source of revenue whereas, in Britain, again in broad terms, 'passive' policies are funded from the system of National Insurance contributions, whereas active policies are funded through general tax revenues. In principle, this lack of a division of responsibilities and sources of revenues should make the German system of labour market policies more amenable to policy trade-offs, and to the evaluation of costs and benefits of alternative programmes, such as between active and passive labour market policies. In practice, however, the *Bundesanstalt* faces its own constraints, such as general Federal policies on economic issues, including tax rates, which circumscribe its flexibility (Bruche and Reissert, 1985).

4.2 Labour market structure

The economic background to the labour market of Germany, notably the magnitude of unemployment and the characteristics of the unemployed, has been described in Chapter II. Other aspects of the structure of the labour market in Germany, and of the employment relationship, such as the twin system of collective bargaining and enterprise bodies such as the Works Councils (*Betriebsrat*), are well known. But there is another important component of the 'supply side' of the labour market in Germany which is also well known: the dual system of vocational training. This training system requires a brief discussion, as its existence underpins some of the active labour market policies described subsequently here.

A brief outline of the system of vocational training is as follows (for a more detailed account, see Rose and Wignanek, 1990). For those youths who complete compulsory full-time schooling, but who do not stay on in schooling in order to qualify for higher education, vocational training is provided through a dual system of training in the firm and in the vocational school. Those who complete full-time schooling, and are recruited into employment as apprentices, are required to supplement their on-the-job-training with general training, by attendance at a vocational school for one day a week, where their performance is assessed by examinations, which 90% of trainees pass (Prais, 1981).

Apprentices receive a training allowance of around one-fifth to one-third of the average basic wage of skilled workers in their particular industry, but the status of the trainee is equivalent to that of a trained worker in terms of employment protection legislation (CEC, 1987; Schmid, 1988). Thus the scheme is equivalent to a combined British system of apprenticeship and day release, but very much larger in magnitude (Prais and Wagner, 1983). It is estimated that 1.8 million youths were undergoing vocational training in 1987 in Germany (CEC, 1987), and that about 70% of all young people between the ages of 15 and 17 years were in the dual training system (Schmid, 1988). The costs of supporting the dual system are broadly shared by the employers and the *Länder*.

Schmid (1988) points out that the extensive nature of this youth training scheme in Germany is probably one reason why youth unemployment is very much lower than in other comparable countries and why, unlike, say, in Britain, active public labour market policies designed to enhance the human capital of the workforce are not primarily targeted at youths. Nevertheless, the system of dual training does not successfully cover the whole youth population. Some individuals fail their vocational training qualifications, or drop out of training courses. Others do not complete schooling by the time they leave school, having failed intermediate examinations at school and so having repeated classes (Prais, 1981). Many of this latter group

may be assigned to full-time vocational training, generally in the unskilled general courses, and here drop-out rates are highest. Thus, the background to this system of full-time vocational training for those who cannot enter the dual system serves as the basis for some of the labour market policies described shortly, but also illustrates why further adult re-training policies may be required; the dual system does not completely cover the cohort of school-leavers.

4.3 Main policies: a description

Given that training in Germany has been viewed 'as a means to facilitate structural change and as a way of promoting the occupational mobility or raising the overall qualification level of an already well-trained workforce' (Schmid, 1988, p.76), it is apparent that the description of adult training schemes in Germany should be given a more detailed analysis. Nevertheless, it is useful first briefly to describe the range of employment policies undertaken in Germany, largely by the *Bundesanstalt*, particularly those introduced in order to deal with the rise in unemployment from the 1970s onwards.

A primary aim of the *Bundesanstalt* is to organise the scheme of unemployment insurance and unemployment assistance. In addition, the catalogue of objectives of active labour market policy, as laid down by the AFG in 1969, were to:

- avoid persistent unemployment or manpower shortages;
- improve occupational mobility;
- prevent and compensate labour for the adverse effects of technical and structural economic change;
- foster the vocational integration of people with mental and physical disabilities;
- eliminate sex discrimination in the labour market;
- enhance the vocational integration of older workers;

- avoid regional and industrial 'mismatch';
- combat illegal employment.

The measures on which it is intended to concentrate in this study are: re-training and further training (section 4.4 (i)), wage subsidies and on-the-job training (section 4.4 (ii)), and job-creation measures (section 4.4 (iii)). However, it is useful to describe the other policies undertaken by the *Bundesanstalt* in some detail, and this occupies the remainder of this section.[2] The four groups of policies are:

- unemployment benefit and unemployment assistance;
- job placement;
- programmes for 'special categories';
- miscellaneous measures.

Unemployment benefit and unemployment assistance

The major part of the activity of the *Bundesanstalt*, in terms of revenue and expenditure, is to administer the scheme of unemployment compensation. For those workers with regular employment, entitlement to unemployment benefit (*Arbeitslosengeld*) is achieved by working 360 calendar days in the previous three years. For seasonal workers, the condition is somewhat more lenient. Payment of unemployment benefit is for a minimum of six months of unemployment, although the period of entitlement is extended for those aged 42 and over, and for those with longer periods of qualifying employment. The rate of benefit is from 63-68% of normal earnings[3] *net* of tax and contributions, and is financed from the insurance contribution which is the main source of revenue of the *Bundesanstalt*.

For workers not entitled to unemployment benefit, either through benefit exhaustion or an insufficient qualifying period, but with, in most cases, some previous employment record, a second benefit, termed unemployment assistance (*Arbeitslosenhilfe*) is available. The benefit is means-tested and the rate of benefit is 56-58% of past net

earnings. The scheme has been funded from Federal revenues since 1981, rather than from the insurance contribution. Duration is unlimited, although eligibility has to be proven annually.

A third source of unemployment compensation administered by the *Bundesanstalt* is the bankruptcy compensation payment (*Konkursausfallgeld*), which pays the wages of employees of bankrupt concerns for the three months preceding bankruptcy. This fund is financed by a special levy on employers.

The *Bundesanstalt* is not responsible for the 'final safety net' (Schmid, 1988), which is the social aid paid to unemployed people who are not entitled to the benefits mentioned so far, or whose benefit level puts them below the official poverty line. These welfare payments are financed by local authorities.

Table 4.1 illustrates the breakdown of the unemployed by type of benefit received. The proportion receiving unemployment benefit has fallen steadily, at least until the very end of the period. This almost certainly results from the lengthening of average durations, leading to benefit exhaustion. The proportion receiving unemployment assistance has doubled, but has not completely taken up the reduction in entitlement to unemployment benefit. It is likely, therefore, that the third form of compensation, local social aid, has borne a greater share of the burden of financing unemployment since the first oil shock of 1973-74.

Table 4.1: Unemployment and benefit receipt

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Year	Unemployed (thousands)	In receipt of UB (thousands)	(3) as % of (2)	In receipt of UA (thousands)	(5) as % of (2)	Not in receipt (%)
1970	148	96	64.4	17	11.4	24.2
1975	1,074	707	65.8	110	10.2	33.0
1980	889	454	51.1	122	13.7	47.2
1983	2,258	1,014	44.9	485	21.5	33.6
1985	2,304	836	36.3	617	26.8	36.9
1987	2,229	834	37.4	576	25.8	36.8
1988	2,242	947	42.2	528	23.6	34.8

Source: Schmid (1988), Table 2, updated.

Placement measures

The other 'traditional' role of the *Bundesanstalt* is as an agency for job placement. This role involves:

- (i) vacancy notification and placement of the unemployed through the network of 146 local employment offices and 483 branch offices. This job-placement service is free of charge. There is no obligation to notify vacancies through the service. The relevant flow magnitudes are depicted in Table 4.2, where it will be noted that there is a steady upward trend in jobseekers using the service, notwithstanding the variation in unemployment, vacancies and the placement rate.
- (ii) Employment counselling and vocational guidance. This service covers provision of information to both employees and employers concerning labour market trends, as well as individual counselling, especially for skilled trades and professions.

This role in job placement has been supplemented in recent years by a programme of subsidies, mostly introduced after 1969, and intended primarily to subsidise job search and job mobility. Under this programme, the *Bundesanstalt* may subsidise:

- job applications;
- travel costs covering an interview or even for regular work if the individual has particular skills which are hard to place geographically;
- removal expenses;
- working clothes and tools;
- a separation allowance for those working away from their home, for up to two years;
- temporary bridging allowances for those awaiting their first full wage or starting up small businesses.

Of these various subsidies, the major numbers of payments are made for travelling expenses (317,200 cases in 1987), job application costs (115,500 cases) and temporary bridging allowances for those awaiting their first pay (97,600 cases) (CEC, 1987).

Table 4.2: Placement services: main indicators

	Inflow of (in thousands)			
Year	Jobseekers	Unemployed	Vacancies	Placements
1980	4,016	3,084	1,709	1,905
1982	4,551	3,707	1,124	1,395
1984	4,576	3,673	1,403	1,754
1986	4,619	3,637	1,841	1,965
1988	4,668	3,669	1,935	2,116

Source: CEC (1987), updated.

Programmes for 'special categories'

The *Bundesanstalt* operates a range of programmes for individuals with special problems in finding employment.

(i) Vocational rehabilitation for people with physical and mental disabilities. Studies suggest that those with physical and mental disabilities in Germany have much lower rates of re-employment when unemployed than the average, and have lower incomes, given their greater reliance on unemployment assistance rather than unemployment benefit (Semlinger, 1984). A greater emphasis on policies to promote the employment and re-employment of people with disabilities was given by the Severely Disabled Act, 1974. The two types of measures promoted by the *Bundesanstalt* are those to provide places for people with disabilities in vocational training and rehabilitation centres, and those to provide financial support for people with disabilities when engaged in these or other re-training programmes, such as the contributory-related transitional allowance (*Übergangsgeld*) or a means-tested training allowance (*Ausbildungsgeld*). In the late 1980s, over 300,000 people per year received general rehabilitative training, with almost 100,000 of these in special vocational programmes. Just over 40,000 participants received the training allowance and over 20,000 the transitional allowance (CEC, 1987). As in Britain, expenditure on people with disabilities has risen sharply in recent years.

Semlinger quotes evaluation studies as showing that drop-out rates for trainees with disabilities are somewhat lower than for other trainees, but that it is difficult to assess whether re-employment probabilities are improved, since there is no obvious group on which to base the comparison (i.e., vocationally-trained people with disabilities are not a random cross-section by characteristics of people with disabilities). This is a standard sample selectivity problem as described in other studies of this kind.

The other Federal intervention is in the form of compulsory quotas for all employers employing more than 16 people to set aside 6% of places for people with severe disabilities. Those employers who do

not fill their quota have to pay an 'equalisation contribution'[4] for every unfilled quota place. The proportion of quota places filled rose in the late 1970s, but this may have been at the expense of people with less severe disabilities (Semlinger, 1984, Table 21). In addition, the trend may have been halted in the 1980s.

(ii) Vocational training programmes for young people lacking the requisite educational and training qualifications provided by the system of schooling and dual training described in section 4.2 above. These involve full-time training courses, usually comprising rather general training. Participants in each financial year have averaged just over 40,000 in the 1980s.

(iii) Vocational training and financial aid for foreign trainees who require additional training (for example, on language grounds) other than that provided by the existing vocational programmes. Annually, just under 40,000 cases are supported.

(iv) Since 1988 there has been a programme to subsidise immigrants from Eastern Europe, and others seeking asylum, by providing subsistence allowances and training courses for those requiring German-language training as part of a programme of vocational training.

Miscellaneous measures

The *Bundesanstalt* finances a variety of measures which do not come under any other broad categories, and these measures are now briefly discussed.

(i) For workers who are put on short-time working, a short-time allowance (*Kurzarbeitergeld*) is available. The reduction in work must attain a significant volume; that is, over 10% of the agreed working time for at least one-third of the workers in the establishment, for at least four weeks. The allowance is paid for up to six months, at a rate equivalent to unemployment benefit, although the duration can be extended to 24 months in exceptional circumstances.

This is the largest of the short-time subsidies, with between 90,000 and 675,000 workers involved in the scheme at different times in the 1980s. However, the *Bundesanstalt* also gives special subsidies to the

building industry to encourage provision for round-the-year working (such as protective materials, generators etc.) and a bad weather allowance where building work is disrupted by climatic conditions.

(ii) For workers aged 59 or over, the *Bundesanstalt* grants subsidies to employers who allow such workers to retire on a pension of at least 65% of their gross salary. In return, the employer must hire an unemployed worker. The scheme is therefore somewhat similar to the Job Release Scheme in Britain. The original scheme operated from 1984 to the end of 1988. By the end of 1987, around 75,000 applications had been received, most of which were successful (CEC, 1987).

(iii) Integration assistance subsidies (*Eingliederungsbeihilfen*) can be offered to employers to take on unemployed workers who are difficult to place. The subsidy covers 50% of the normal wage and can be granted for up to six months (in exceptional cases, two years). Annual cases averaged 40,000 in the 1980s.

4.4 Individual policies

It is now useful to consider in rather more detail the particular policies which are investigated in this study. These are the various programmes for adult training, including the wage subsidy scheme, as well as the job-creation measure known as the ABM programme (*Förderung von Allgemeinen Maßnahmen zur Arbeitsbeschaffung*).

Re-training and further training

The Labour Promotion Act (AFG) utilised the existing system of dual training of school-leavers as a means of enhancing the skill capacity of adults. Initially, the aim of such programmes was to encourage structural and occupational mobility in the economy; increasingly, however, the measures have come to be seen as part of an active countercyclical labour market policy, with many trainees drawn from the ranks of the unemployed. Schmid (1988) shows that, whereas in

1970, only 11% of those entering public training programmes were unemployed, by 1983, 66% had been without work. In 1970, 20% of those entering public training had no vocational qualification, whereas by 1983 this had risen to 29%. So although both proportions had risen, previous labour market status rather than the extent of existing skills has become the crucial determinant of entry to public training programmes.

The public training scheme operates through a voucher system. Adults may choose to enter certificated courses or be directed by placement officers of the *Bundesanstalt*. The training institution is then reimbursed for the training cost. In addition, the individual may be able to receive a subsistence allowance (*Unterhaltsgeld*), which is related to previous earnings, or flat rate where previous earnings are too distant or non-existent. This allowance may be offered in the form of a grant or a loan. The number of individuals being trained has risen sharply, from around 170,000 in 1970, to 210,000 in 1979, and to 534,000 in 1987, but the proportion receiving a subsistence allowance has remained roughly constant, at around 30% of trainees.

There are three kinds of training under this heading:

- (i) further training for skilled workers to adapt their skills, usually on programmes of short duration (i.e., 6 to 12 months);
- (ii) re-training in a different occupation, with courses of up to one to two years;
- whereas (i) and (ii) are usually institutional or classroom-based, unskilled and semi-skilled workers may be offered on-the-job training.

Characteristics of adult trainees

The *Bundesanstalt* provides a wealth of data concerning the characteristics of individuals on training programmes. Table 4.3 provides some tabulations of characteristics for males and females on further

training programmes, and Table 4.4 presents similar details for those on re-training programmes.

Table 4.3 shows that roughly two-thirds of those on further training schemes are male. A typical male trainee is aged around 30, has been unemployed for less than a year, or has been in employment, and has at least the basic school-leaving certificate, as well as on-the-job training. Nevertheless, the majority of male trainees will be doing general or basic training on relatively short courses. Two in every five will be funded by the *Bundesanstalt*, and the likelihood of funding by the *Bundesanstalt* increases slightly if they are doing general or basic training. Guilds and employers' organisations will typically fund those engaged in craft or skill training. This re-emphasises the point that, unlike current British public training programmes, these further training schemes are not explicitly targeted at the school-leaver with no on-the-job training, or at the long-term unemployed.

Table 4.3: Characteristics of individuals in further training

(All individuals entering schemes Jan-March 1989)

Characteristic	All	Men	Women
No. in advanced training (thousands)	73,033	48,895	24,138
of which (in %)			
general/basic training	75	67	90
training in particular skill	19	27	4
for vocational or other qualification	6	6	6
Age (in %)			
Under 25	20	18	23
25 to less than 35	50	55	41
35 to less than 45	20	18	24
45 to less than 55	9	8	12
55 and over	1	1	0
Duration of unemployment prior to training:			
(in %)			
Not unemployed	52	59	37
Less than 1 year	39	32	53
1 year to less than 2 years	5	5	6
2 or more years	4	4	4
For those in basic/general training only:			
Duration of unemployment prior to training:			
(in %)			
Not unemployed	38	43	32
Less than 1 year	50	45	57
1 year to less than 2 years	7	7	7
2 or more years	5	5	4
Method of training (in %)			
Full-time	62	58	69
Part-time + on-the-job (OTJT)	37	40	30
At home	1	2	1

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Table 4.3: Characteristics of individuals in further training *(continued)*

(All individuals entering schemes Jan-March 1989)

Characteristic	All	Men	Women
Educational qualifications (in %)			
No school-leaving certificate	6	8	2
Basic certificate (*Hauptschulabschluss*)	55	61	45
Technical (*Fachhochschulreife*) or Final (*Hochschulreife*) certificate	39	31	53
Post-school qualifications (in %)			
None	19	18	21
Up to 2 years OTJT	3	2	6
2 or more years OTJT	69	72	63
Training outside firm	9	8	10
Source of scheme funding (in %)			
Firm	2	2	1
Trade union	12	10	17
Employers' organisation/guild etc.	28	34	15
School	18	15	24
Bundesanstalt	40	39	43
(*Bundesanstalt* % of basic training)	(46)	(46)	(45)

The characteristics of females on further training schemes are somewhat different to those of males:

- a greater proportion of females are engaged in general or basic training courses;
- their ages are more dispersed;
- a significantly greater proportion of them have been unemployed prior to training;
- fewer are undertaking on-the-job training as part of their programme;

- females have better schooling qualifications but similar post-schooling qualifications;
- a greater proportion of females are sponsored by employees' organisations, probably reflecting the lower proportion engaged in acquisition of crafts or skills and therefore sponsored by guilds and similar organisations.

Table 4.4 gives similar details for those engaged in re-training. Not surprisingly, those engaged in re-training have somewhat different characteristics from those engaged in further training: the re-trainees have similar educational qualifications but much inferior post-school qualifications and experience to those in further training. Almost all re-trainees are on full-time training courses, unlike the third or so following mixed part-time courses and on-the-job training among those engaged in further training. A greater proportion of re-trainess have been unemployed prior to the training course, although, perhaps somewhat surprisingly, roughly the same proportion of participants are funded by the *Bundesanstalt*. However, the reduced emphasis on training in crafts and skills is reflected in the lower proportion of participants funded by employers' organisations and guilds relative to firms and technical schools. Finally, unlike those engaged in further training, the difference between the profiles of male and female re-trainees is not distinct.

Table 4.4: Characteristics of individuals in re-training schemes

(All individuals entering schemes Jan-March 1989)

Characteristic	All	Men	Women
No. in re-training schemes (thousands)	11,750	7,289	4,461
Age (in %)			
Under 25	20	20	21
25 to less than 35	57	58	54
35 to less than 45	19	18	20
45 to less than 55	4	3	5
55 and over	0	1	0
Duration of unemployment prior to training: (in %)			
Not unemployed	25	24	25
Less than 1 year	60	60	60
1 year to less than 2 years	10	10	10
2 or more years	5	6	5
Method of training (in %)			
Full-time	98	98	98
Part-time + on-the-job (OTJT)	2	2	2
At home	0	0	0
Educational qualifications (in %)			
No school-leaving certificate	9	13	3
Basic certificate (*Hauptschulabschluss*)	50	53	44
Technical (*Fachhochschulreife*) or Final (*Hochschulreife*) certificate	41	34	53
Post-school qualifications (in %)			
None	54	57	50
Up to 2 years OTJT	3	2	4
2 or more years OTJT	32	33	31
Training outside firm	11	8	15

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Table 4.4: Characteristics of individuals in re-training schemes *(continued)*

(All individuals entering schemes Jan-March 1989)

Characteristic	All	Men	Women
Source of scheme funding (in %)			
Firm	17	19	14
Trade union	11	11	12
Employers' organisation/guild etc.	9	11	5
School	22	17	31
Bundesanstalt	41	43	37

Wage subsidies and on-the-job training

The previous section suggested that those engaged in further training and re-training spend much of their time in off-the-job training. Tables 4.3 and 4.4 showed that many of these participants had reasonably good schooling and post-schooling investments, especially amongst those engaged in further training. Thus these courses are still designed in part to reflect the original objective in adult training of encouraging occupational mobility. Nevertheless, the proportion of participants who have been unemployed prior to training has increased, and is especially high among re-trainees and women in further training.

The *Bundesanstalt* also finances schemes designed to give a greater involvement in on-the-job training. Since such schemes involve the firm financing the training, a wage subsidy is paid to the firm. This subsidy is sometimes termed a 'settling-in allowance' (*Einarbeitungszuschuss*). The idea behind the programme is to place individuals with hiring problems, such as the long-term unemployed, old people without skills, and people with restricted work ability. A subsidy of between 50 and 70% of earnings is provided for up to two years, although the payment must be reduced after six months.

More generous provisions exist for older workers. Workers aged over 50 who have been out of work for more than two years can be

subsidised up to 75% of wage costs for a period of up to eight years. Some 8,000 new claims for the special scheme for older workers were received in 1987, compared with 49,000 for the more general and somewhat less generous scheme for a wider range of participants. Under a proposal under review at the *Bundesanstalt* in June 1989, however, it is proposed to extend these rather more generous terms to the long-term unemployed in other age groups. Participants in the proposed scheme must have been continuously unemployed for at least one year, and the subsidy is to be granted for at least one year's duration. The worker must be employed for at least 18 hours a week. The structure of the subsidy is as follows:

- for a person unemployed for at least three years, 80% replacement of wage costs for the first six months, and 60% for the second six months;
- for a person unemployed for between two and three years, 70% for six months and 50% thereafter;
- for a person unemployed for between one and two years, 60% in the first six months and 40% thereafter.

The most interesting points concerning this new programme are: first, the relatively high replacement rates, at least for the first six months of the programme and, secondly, the emphasis on the long-term unemployed. A relevant question, therefore, is the extent to which the wage-subsidy programme, in its previous manifestation, was targeted on the 'hard-to-place' groups, such as the long-term unemployed. Again, it is useful to look at the characteristics of entrants to the scheme in the early part of 1989, and this information is detailed in Table 4.5.

An examination of the characteristics of scheme entrants in this Table suggests that there is a wider dispersion of age than for training schemes, although the median entrant is still around 30 years old. Most have some on-the-job training, but have generally left school having attained a lower academic level on average than adult trai-

nees. A much greater proportion of those receiving the subsidy were unemployed prior to the scheme, but it should be noted from Table 4.5 that only 15% had been out of work for more than a year; the majority had been out of work for considerably less than that (in fact, the median duration is around three months). For almost three-quarters of participants, the expected duration of the subsidy is not more than six months.

It is apparent, therefore, that the scheme is now effectively targeted on individuals with fewer formal qualifications and a greater probability of recent unemployment experience than those entering adult training programmes. The analysis of the characteristics of participants suggests, however, that the wage-subsidy programme may not reach the 'hard-to-place' long-term unemployed. Furthermore, few older workers currently enter the scheme, nor do those with extremely poor work experience.

Whether such individuals can be reached by the final type of scheme: the public job-creation programme (ABM), therefore, is the next issue to be considered.

Table 4.5: Characteristics of individuals receiving the wage subsidy

(All individuals entering the scheme Jan-March 1989)

Characteristic	All	Men	Women
No. receiving subsidy (thousands)	8,063	5,253	2,810
Age (in %)			
Under 25	24	21	29
25 to less than 35	41	43	37
35 to less than 45	22	21	22
45 to less than 55	12	12	11
55 and over	1	2	1
Duration of unemployment prior to subsidy: (in %)			
Not unemployed	8	8	9
Less than 1 year	77	78	76
1 year to less than 2 years	10	10	10
2 or more years	5	4	5
Expected duration of subsidy (%):			
3 months or less	14	13	18
4 to 6 months	58	58	58
7 to 12 months	28	29	24
Educational qualifications (in %)			
No school-leaving certificate	9	10	5
Basic certificate (*Hauptschulabschluss*)	56	60	51
Technical (*Fachhochschulreife*) or Final (*Hochschulreife*) certificate	35	30	44
Post-school qualifications (in %)			
None	24	24	23
Up to 2 years OTJT	5	4	6
2 or more years OTJT	57	57	57
Training outside firm	14	15	14

Job-creation measures

The object of the job-creation measures, of which the major measure, and the only one considered here, is that implemented by the *Bundesanstalt* and known as the ABM programme, is to organise temporary employment for the unemployed. As with the Community Programme in Britain, the *Bundesanstalt* finds sponsors to carry out projects employing people assigned by the local employment offices. As with the Community Programme, such projects must not displace existing projects; that is, they must be new projects which could not be carried out at the time without Federal assistance, and they must produce publicly useful 'output' (Schmid, 1988). Sponsors must contribute at least 10% of the costs, but the *Bundesanstalt* can provide up to the remaining 90% (sometimes supplemented by the Federal government itself, and by the *Länder*). Workers assigned by the local employment agency must have been without work for at least six months, and the *Bundesanstalt* can finance from 60-80% of total wage costs. Support is normally for one year, but can be extended up to two years, or even beyond, if there seems to be a prospect of permanent employment (CEC, 1987).

At its peak in the mid-1980s, well over 100,000 individuals were on ABM programmes. Table 4.6 suggests that a large number of placements are now found in public sector administration and in the social services; indeed, over half of placements for women are in the social services. In contrast, almost 90% of those employed in agricultural work are men. These, and the general category 'other', are the major industrial sources of placements.

For people with disabilities, and those with industrial injuries, placements are evenly divided between these four major sources of agriculture, administration, social services and 'other'. For the elderly, perhaps surprisingly, agriculture provides the greatest number of placements, whereas the young have a relatively lower proportion in administration. The long-term unemployed form the greatest number of placements, and their proportions in the various occupations roughly reflect the overall allocation. Part-time employment with

outside training have fewer in agriculture and administration. Finally, a breakdown by sex (not shown) shows that a greater proportion of older people involved in the programme are male, while a greater proportion of females placed are drawn from the long-term unemployed.

Table 4.6: Characteristics and industrial distribution of ABM participants

(All individuals currently on schemes, first quarter, 1989)

Codes of columns:

1) People with disabilities
2) Aged 50 or over
3) Aged under 25 with no training
4) Long-term unemployed (greater than 12 months' duration)
5) 'Hard-to-place'
6) Industrial injuries and health problems
7) Part-time employment (for example, with some course training)

Note: some individuals may be in more than one category (column).

	Total numbers							
Industry	Total	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Agriculture	17,351	1,445	3,696	4,945	8,949	1,929	1,648	2,312
Reclamation	54	2	11	1	43	1	2	2
Forestry	2,663	121	612	537	1,425	342	259	161
Transport	1,337	76	293	213	683	162	117	76
Construc-tion	5,790	352	126	2,161	2,286	759	442	3871
Public utility	777	41	153	165	372	69	49	107
Adminis-tration	1,4157	1,863	1,652	655	8,485	3,173	842	2,775
Social Service	30,501	1,416	1,741	5,546	16,149	6,086	1,010	7,854
Other	24,055	1,419	2,138	8,176	10,660	3,700	982	7,565
Total	96,685	6,735	11,558	21,850	49,633	16,056	5,332	21,723

4.5 Summary of expenditures on labour market policies

Table 4.7 provides a summary of the major expenditures by the *Bundesanstalt für Arbeit* on various policies for 1983, 1985, 1987, and those budgeted for 1988 (*source:* CEC, 1987). Proportions of expenditure are given in brackets. It is apparent that the budget is still dominated by the payment of unemployment benefits: the proportion of the budget accounted for by the two benefits was 62% in 1988, although it is necessary to remember that unemployment assistance is now financed directly from Federal funds.

Of the 'active' labour market policies, it is apparent that the programmes that dominate expenditure are, by orders of magnitude, further training and re-training, and job creation; the latter having overtaken short-time allowances and vocational rehabilitation, which are also major programmes. Expenditure on adult further training and re-training and the ABM scheme combined has doubled as a share of the budget over the last five years. However, the share of these programmes is only slightly higher than it was at previous peaks; for example, in the mid-1970s, expenditure on training and job-creation programmes totalled around 20% the budget, compared with the current figure of 22% (see Schmid, 1988, Table 3).

There remains the issue of whether 'active' labour market policies are effective in the aggregate as a countercyclical macroeconomic policy device. This issue has been studied at length by many people, including Bruche and Reissert (1985), and Schmid (1988). At risk of excessive simplification, the conclusions of the latter authority may be described as follows:

- there is a clear correlation between expenditures on active labour market policy and the unemployment rate throughout the 1970s and early 1980s (*ibid*, Figure 1). Thus there is a countercyclical element to the expenditures.

- Earlier studies by Schmid suggest that this countercyclical effect, although significant, was not perhaps as large as in other countries; he suggests, for example, that active policies reduced the aggregate unemployment rate in the 1970s by about 1.3 percentage points, compared with an average of 3.2 percentage points in Sweden over the same period.

- Further use of active labour market policies as a 'pure' instrument of countercyclical policy is limited by the need to establish microeconomic 'cost-effectiveness', and the historic nature of these policies as primarily instruments of structural adjustment and occupational mobility, rather than of macroeconomic stabilisation. Nevertheless, several of the studies appraising the particular programmes examine the impact on aggregate unemployment as one of the criteria involved in judging the success or otherwise of particular policies. These appraisal studies are examined in greater detail in the next two sections.

Table 4.7: Expenditures of the *Bundesanstalt* on labour market policies

(Totals in millions of DM; proportions in brackets)

Measure	1983	1985	1987	1988
Short-time allowance and winter building allowances	4,634 (13)	2,825 (8)	2,480 (6)	2,653 (7)
Unemployment benefit	17,091 (47)	14,067 (40)	15,252 (40)	16,752 (42)
Unemployment assistance (Federally funded)	7,124 (20)	9,126 (26)	9,030 (23)	8,130 (20)
Incentives to enter employment	228 (1)	321 (1)	538 (1)	537 (1)
Support for basic vocational training	461 (1)	577 (2)	692 (2)	745 (2)
Further training and re-training	3,035 (8)	3,431 (10)	5,615 (15)	5,548 (14)
Job creation (ABM)	1,177 (3)	2,177 (6)	3,177 (8)	3,312 (8)
Vocational rehabilitation	1,884 (5)	1,900 (5)	2,451 (6)	2,472 (6)
Bankruptcy compensation payments	457 (1)	558 (1)	487 (1)	476 (1)
Total	36,091 (100)	34,887 (100)	38,535 (100)	40,362 (100)

4.6 An evaluation of ABM measures

This subsection is devoted to an evaluation of the job-creation (ABM) programme. As far as possible, we concentrate on issues also raised in the relevant sections of chapters VI and VII about British job-creation measures, in order to allow for a direct comparison.

At the outset, it has to be stressed that all the evaluation studies on ABM measures suffer from a lack of (appropriate) control group data, as is the case with most, if not all, British analyses (see Chapter

VI on British labour market policies). As has been discussed in Chapter III, this is extremely unfortunate, since virtually nothing can be said of what would have happened to the same cohort had they not participated in the ABM programme.

The following considerations are based on analyses by Spitznagel (1979, 1980, 1985, 1989), who has undertaken the most extensive research on the appraisal of the ABM programme. More specifically, we concentrate on the more recent of his studies (1989). The data base of this evaluation consists of a random selection of 856 ABM measures, which were started in August 1985, and which included some 2,700 participants. During the course of these measures, their entries and exits into or out of the measures were sampled in a special survey carried out at the labour offices. Most interesting for our purposes, is the information about the first labour market destination immediately after leaving the measures, and a follow-up survey of these participants in April 1989 which is, on average, 32 months after the exit from the ABM measure for each individual.

Our first consideration is the problem of target efficiency, that is, whether the programme really concentrates on individuals decreed to be the target group put forward by the Employment Act (AFG). As has been outlined previously, the target group of ABM are those individuals whose placement into jobs is very difficult, such as the long-term unemployed, older unemployed people and people with disabilities or with health restrictions. Table 4.8 compares the proportion of ABM participants belonging to target groups with the respective figure for all unemployed. The latter figure is available for September 1986 which is, by and large, appropriate, since the ABM measures started in August 1985 and the average individual duration of the sample within the ABM programme amounts to 11 months. Table 4.8 indicates that about 70% of all ABM participants had one or more of the four characteristics associated with a target group (rows 1-4)[5] compared with 48% of all unemployed persons (last row). With the exception of the older unemployed, the target group is clearly over-represented in the group of ABM participants compared with

all unemployed persons. For example, the long-term unemployed are represented twice as much in ABM compared with the number of unemployed (17.5 and 35.6% respectively).

Table 4.8: Proportion of ABM participants belonging to target groups, 1986

(Percentages)

Individual Characteristic	All unemployed	ABM participants	First labour market destination after ABM (percentages of column 2)	
			Employment	Unemployment
	(1)	(2)	(3)	(4)
Disability	1.4	3.5	24.7	64.5
Age of 50 and older	8.7	3.1	25.6	69.5
Age of 25 and less	4.7	12.2	21.4	51.6
Duration of unemployment one year and more	17.5	35.6	22.6	61.7
One of these characteristics	32.4	54.4	22.6	60.0
Three of these characteristics	2.0	0.9	20.0	72.0

Source: Spitznagel (1989).

This is somewhat at variance with the experience of the British Community Programme, although the figures in Chapter VI, Table 6.8 refer to people unemployed for two years and more. Figures for these very long-term unemployed are displayed in Table 4.9. Note that these figures cannot be compared with those of Table 4.8 be-

cause, for example, in Table 4.9 an ABM participant with a one-year duration of unemployment may be in the age category 50 years and more, while this is excluded in Table 4.8 (see endnote 3).

Table 4.9: Some characteristics of ABM participants and of all unemployed

1986 (Percentages)

Characteristics	ABM participants[a]	All unemployed
Male	59.6	50.8
Female	40.4	49.2
Age		
15-19	11.0	7.3
20-24	20.4	17.3
25-29	18.2	15.4
30-34	16.1	12.0
35-39	7.3	9.8
40-44	6.2	7.7
45-49	8.1	9.4
50-54	7.2	8.6
55 and over	4.8	12.5
Duration of unemployment (before ABM)		
less than 13 weeks	13.7	32.5
13-25	9.8	15.8
26-38	13.1	11.1
39-51	8.6	8.7
52-77	21.2	10.3
78-103	12.9	6.1
104 weeks and more	20.7	15.5
Vocational training		
with[b]	23.5	38.7
without	40.9	50.8

[a] = Inflows into ABM programme weighted by duration in ABM

[b] = Completed apprenticeship training

Source: Spitznagel (1989).

Turning to the very long-term unemployed, their share among ABM participants amounts to 21% compared with the 16% figure of all unemployed. Without putting too much emphasis on this point, it seems that ABM is more successful in targeting long-term unemployed people than the British Community programme.

Taken together, and judged by the evaluation criterion of target efficiency, the ABM programme has a favourable record.

More important, however, is the criterion of (re-)employment probabilities. A rough inspection of Table 4.8 reveals that employment is the first labour market destination for only 22% of all ABM participants after leaving ABM. Even for the most successful age group (age of 25 and less), more than half of all participants enter the unemployment pool (again). These overall figures are disaggregated in Table 4.10. Column (1) of this Table displays the share of individuals who received a job immediately after leaving ABM. As can be seen, these shares range from 14.2% for participants older than 54 years up to 30% for the age group 25-29 years. Moreover, the shares are inversely related to the length of the previous unemployment spell. With the exception of the categories 78-103 and 104-130 weeks (not reported in Table 4.10), they decrease steadily from 26 to 20%. Not surprisingly, individuals without vocational training face a smaller employment probability (16.7%) than those with a completed apprenticeship training (25.7%).

Table 4.10: First labour market destination of individuals leaving the ABM programme

1986 (Percentages)

Characteristics of the Individuals	Employment				UNEMPLOYED	training education	OTHER	UNKNOWN
	TOTAL	Job received by						
		placement	from providers of ABM	self-sought				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	22.4	6.2	8.9	7.3	59.8	4.5	4.8	8.4
Male	21.4	6.8	7.4	7.2	61.3	5.3	4.4	7.7
Female	24.8	5.1	12.1	7.6	56.9	3.2	5.8	9.5
Age								
15-19	18.9	8.5	1.2	9.2	51.6	8.9	3.1	17.2
20-24	23.1	8.3	5.5	9.3	57.6	6.1	5.2	8.0
25-29	30.0	4.6	13.5	11.9	54.6	3.9	4.8	6.7
30-34	25.3	4.7	14.2	6.4	56.7	5.1	4.5	8.4
35-39	16.3	3.4	8.4	4.5	70.2	1.7	2.2	9.6
40-44	19.1	5.1	10.8	3.2	67.5	2.5	5.8	5.1
45-49	18.5	5.3	10.1	3.1	64.5	4.4	6.1	6.6
50-54	22.2	7.1	12.1	3.0	68.2	-	5.0	4.5
55 and over	14.2	3.9	8.7	1.6	75.6	-	9.5	0.8

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Table 4.10: First labour market destination of individuals leaving the ABM programme *(continued)*

1986 (Percentages)

Characteristics of the Individuals	Employment				UNEMPLOYED	training education	OTHER	UNKNOWN
	TOTAL	Job received by						
		placement	from providers of ABM	self-sought				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Duration of unemployment before ABM								
< 13 weeks	26.1	9.2	9.5	7.4	50.4	9.0	2.9	11.8
13-25 weeks	26.9	7.8	7.4	11.7	51.1	6.1	7.4	8.4
26-38 weeks	22.6	5.8	8.7	8.1	57.7	4.0	5.7	10.0
39-51 weeks	21.1	5.7	6.9	8.5	61.1	3.6	6.8	7.3
52-77 weeks	20.0	5.2	7.6	7.2	64.7	3.0	4.0	8.4
78-103 weeks	25.1	7.1	11.9	6.1	60.1	5.1	5.1	4.5
Vocational training								
with	25.7	6.5	11.3	7.9	61.3	1.9	5.6	5.7
without	16.7	6.6	4.4	5.7	63.0	6.2	4.5	9.6

Source: Spitznagel (1989).

Columns (2) and (4) of Table 4.10 split the employment probabilities into three subcategories, defined according to how the job was found: by placement managed by the labour offices (col. 2), being kept on by the firms in which the ABM measures were under-

taken (col. 3), or by the individual's own successful search (col. 4).[6] Without going into details, for most of the subgroups, being taken on constitutes the major part of the employment probabilities. For example, half of all participants aged 25-39 who entered employment did so by being taken on. Successful own job search seems to decline with age, but it is not known whether this is also due to lower search intensity in older age groups due to discouragement.

It is interesting to compare the overall employment probability of the ABM programme with that of the Community Programme (CP). As can be seen from Table 6.6 in Chapter VI, 23% of all individuals leaving the CP were in employment (full- and part-time) as the first labour market destination. This corresponds with the 22.4% figure for the ABM programme. The figure for those who enter unemployment is somewhat higher for CP (65%) compared with ABM (60%), but the higher proportion of 'unknown' destinations in the ABM programme (8.4%) compared with the CP (4%) may cloud the issue. Hence, from this viewpoint, it is hard to identify differences in success between the CP and the ABM.

Focusing on ABM again, people who finish ABM may enter the unemployment pool only for a short period of time. On the other hand, employment spells may not last very long. It is therefore important to see what happened to ABM participants in the 'long run'. Table 4.11 firstly summarises some results of Table 4.10 and, secondly, reports the respective shares as surveyed on 1 April 1989.[7]

Table 4.11: Labour market status of individuals after leaving the ABM programme

(Percentages)[a]

Destination	First labour market destination, 1986	Surveyed 32 months after leaving ABM, 1989
Employment	22.4	41.2[b]
Unemployment	59.8	41.3
Training/education	4.5	3.2
Other[c]	4.8	10.3
Unknown	8.4	4.0

Notes:
a) see text for details
b) including ABM measures
c) such as retirement, withdrawals from the labour force, illness.

Source: Spitznagel (1989), p. 531.

This date is, on average, 32 months later than the individual's exit from the ABM programme. Unfortunately, no information is available as to what happened between the two dates. Given this caveat, Table 4.11 displays a remarkable increase in the share of participants being in employment.[8] For long-term unemployed persons, a slightly lower share of 38% being in employment is reported. Correspondingly, the share of those in unemployment falls. In total, we have an equal share of about 40% of persons being employed and unemployed, respectively. Compared with the British CP, we note that Table 6.7, Chapter VI, also reports an increase in the share of employed participants surveyed, eight months after leaving the CP.

The 40% figure in Table 4.11 is clearly a remarkable figure (given, however, its limitations), but it can hardly be used to infer whether

ABM is a success or not. Put differently, what is the share of similar people being in employment in April 1989 who became unemployed at the end of 1985, but who never entered the ABM scheme? In the absence of a control group, this question cannot be answered. Moreover, given the design of the surveys, it is impossible to extract from aggregate outflow data information comparable with those discussed here. Like the study on the British CP, we are left with considerable uncertainty whether the ABM really pays off. On the other hand, a figure of 38% of long-term unemployed being in employment about three years later is clearly good news.

It is interesting to see ABM evaluated from the employers' viewpoint.[9]

Employer evaluation of ABM schemes

Sellin and Spitznagel (1988) consider job-creation measures from the providers' point of view. A survey of ABM schemes beginning in August 1985 was carried out, in which 750 providers expressed willingness to be surveyed. Of these, 204 were chosen at random. This is very much a subjective analysis and therefore the figures quoted only reflect perceptions. We can surmise, too, that those providers not willing to participate in the interview may have a more negative attitude to ABM, and this is likely to introduce self-selectivity bias into the results. Three measures of effectiveness are distinguished.

First is the permanence of ABM activity. One of the aims of ABM is to create permanent jobs and to contribute to the improvement of the social infrastructure. With this in mind, providers were questioned on the chances of ABM-promoted schemes becoming a regular act-ivity of the firm/institution, and thereby helping to create non-promoted employment. Of those providers surveyed, 71% agreed that the ABM project work could be repeated in the same or a similar fashion and a further 21% of these suggested that the likelihood was high that the project work would become part of their regular activity.[10] The ABM scheme can thus be regarded as providing the em-

ployer with an incentive to explore a project area which may well lead to permanent employment.

A second measure considers the retention of ABM employees. This measure of effectiveness is based on previous work by the IAB (*Institut für Arbeitsmarkt- und Berufsforschung*) which concluded that, in the past, 10% of the individuals on ABM schemes were given regular work in the same area after completion. Others found work elsewhere (by placement or self-sought positions) or took up an apprenticeship, so the number directly absorbed into employment rose to 20-25%. Once individuals who obtained a job after a period of unemployment are included, the figure is higher still, at 50%. This compares favourably with Spitznagel's earlier findings. The survey reveals that providers intend to continue taking on 10% of ABM workers permanently.

When an inquiry of this type is made among ABM scheme providers, information can be sought on the presence of Hawthorne effects, which would manifest themselves as a change in the behaviour of the permanent workforce in response to the employment of promoted workers. What is needed, for example, is a measure of productivity of the permanent staff before and after the introduction of ABM labour. All that is given in this study, however, is the subjective evaluation of the provider regarding relative work performance of the two groups and whether ABM labour was treated sceptically by the permanent workforce (a problem in 15% of firms interviewed).

The third measure of effectiveness was concerned with future participation in the ABM scheme. Sellin and Spitznagel try to gauge the willingness of providers to participate in the scheme in the future. Over 60% of those interviewed expected to raise the number of ABM workers over the period 1985-90, 35% expected the figure to remain constant, and only 3% were planning a reduction. At first glance, this augurs well for the future effectiveness of the scheme, but there are two drawbacks to be borne in mind. Firstly, as mentioned briefly above, the sample is made up of employers who expressed willingness to be surveyed and these are more likely to be enthusiastic about

the scheme than those who decline. This will tend to introduce an upward bias into the statistics. Secondly, the fact that employers are willing to raise the number of ABM workers in their labour force does not imply that these individuals will be given permanent employment. It may be the case that they require a large number of temporary workers in the near future who will be laid off after a particular project is completed. To identify this effect, it would be necessary to re-examine individuals' circumstances a substantial period after the termination of a scheme (as in Hofbauer and Dadzio (1987) and Büchtemann (1983) in the context of training schemes: see below). This type of analysis would also clarify the extent of churning effects.

In contrast to Spitznagel (1979), it appears that a displacement effect may prevail, as 10% of providers have increased their quota of ABM workers whilst simultaneously reducing the number of permanent workers over the period 1980-85. Nevertheless, the finding made by Spitznagel that some permanent workers have their contracts reinforced by ABM projects is supported here, as 38% of providers have employed a larger number of both ABM and permanent workers between 1980 and 1985, and a further 4% have increased ABM-promoted labour whilst keeping the stock of permanent workers constant.

With reference to deadweight, the authors regard it as important to distinguish between ABM projects which are being used to aid the development of new areas and those which take place within the usual activity of the provider. It appears that ABM measures are involved in a good deal of innovation, as 59% of all projects are in spheres which were previously unexplored by the firm, but there is also evidence of a small substitution effect, in that 2% of providers admitted that the promoted work used to be carried out by non-promoted employees. The analysis is extended by questioning providers on risk factors which, if present, indicate a tendency to replace permanent by promoted workers. The factors and proportion of firms affected are as follows:[11]

- the promoted scheme is mainly used to close important gaps in supply (42%);
- the firm often or always has to consider whether the project is really 'additional' (16%);
- the promoted work used to be carried out by non-promoted workers (2%);
- the number of permanent workers has fallen from 1980 to 1985 (21%);
- there is a great deal of financial flexibility in the determination of personnel expenditure (13%).

Cost per job for the ABM programmes

From the information provided by Spitznagel (1979), an approximate cost per contract can be calculated. He takes 2,736 projects granted in 1975 and 1976 which represent 20% of the total, implying that there were 13,680 projects in all. The overall cost can be estimated at DM 3,812.5 million, of which DM 1,555.5 million came from the public purse. In 1975 and 1976 public finance created 46,500 new contracts through ABM, which gives a gross cost per contract of DM 33,452. This is a gross figure, as it does not take into account the fact that unemployment benefit, for example, does not have to be paid to an ABM worker.

Spitznagel (1985) compares the costs of placing an individual on an ABM scheme with the financial benefits of removing him from the jobless total. The costs refer to expenditures incurred by the provider and the *Bundesanstalt für Arbeit* (Federal Employment Institute - FEI) of setting up the project, for instance, worker-maintenance allowance. For 71,000 promoted workers in 1984, total cost amounted to DM 2,552 million. Benefits are obtained, as once an individual is placed on an ABM scheme he does not receive unemployment benefit and starts paying income tax and health insurance. The total benefit arising from ABM participation in 1984 was estimated at DM

2,455 million. These 'benefits' include savings in unemployment benefit and unemployment assistance which are not paid to ABM workers, increased direct and indirect tax receipts and pension and health insurance contributions. Furthermore, benefits are created directly by ABM and indirectly due to the secondary effects on those permanent workers who have their contracts extended as a consequence of the firm's execution of an ABM-sponsored project. Net cost of the sponsored workforce is therefore DM 97 million. No attempt is made to value output of the projects, which may well lead to the benefits outweighing the cost of the programme. The problem in such a valuation is that the value of output produced by the long-term unemployed, for example, is likely to be lower than for 'more able' groups.[12] It would be useful to know the internal rate of return of an ABM project, but this is not calculated by Spitznagel.

Bach *et al.* (1986) estimate that, in 1984, 105,000 new contracts were created and 95,000 were removed from the unemployment register as a result of ABM. This means that each new contract cost DM 924, and one individual could be removed from total unemployment for an (average) expenditure of DM 1,021. Table 4.12 provides a comparison of the figures for 1984 and 1985.

Table 4.12: Cost of ABM projects, 1984 and 1985

Year	1984	1985
Number promoted ('000)	71	87
Total cost (DM mill.)	2,552	3,368.6
Total benefit (DM mill.)	2,455	3,074
Net cost (DM mill.)	97	294.6
Contracts created ('000)	105	128
Net cost per contract (DM)	924	2,302
U/E reduction ('000)	95	116
Net cost per U/E worker (DM)	1,021	2,540

Notes: Source for 1984 is Spitznagel (1985), except for contracts created and number removed from jobless total (Bach *et al.* (1986)) and cost per contract/unemployed worker (own calculations). Source for 1985 is Bach *et al.*, except cost per contract/unemployed worker which are own calculations.

It is apparent from the Table that the marginal cost of promoting ABM workers rose between these two dates. Whilst total cost increased 32%, benefits in 1985 were only 25% above the 1984 level. The number of contracts created, and the number taken off the unemployment register, both grew 22% over the period. Table 4.13 gives the average cost per worker over the period 1981-85. The dramatic rise in marginal cost of the ABM programme in the first half of the 1980s is apparent.

Table 4.13: Gross and net cost of ABM

Year	1981	1984	1985
Number promoted ('000)	40	71	87
Average gross cost (DM '000)	41	35.9	38.7
Average net cost (DM)	700	1,352	3,391
Average net cost (DM) (without indirect effect)	n/a	10,456	13,579

Notes: Source for 1981 figures is Bruche and Reissert (1985). For other sources, see notes to Table 4.12.

The figures suggest that the ABM scheme can only be expanded further at a rising cost per worker which, in the limit, is unlikely to be politically feasible. Notice the dramatic rise in average net cost if indirect effects are ignored. If these costs either do not come into being or the input-output model used in the evaluation is misspecified, then the cost per ABM job rises above the cost per trainee.

4.7 An evaluation of training schemes

Evaluation studies: re-employment probabilities and targeting

The studies of the effectiveness of training have been concerned with two questions:

- how has training affected re-employment probabilities?
- How well is training targeted?

The evidence suggests that these questions are closely related.

Hofbauer (1981) compared data from two surveys to facilitate his analysis of measures designed to enhance further training and re-training. One of these surveys contained information on those participating in vocational training schemes, while the other dealt with the structure of the unemployed. By comparing these data sets, he was able to contrast the numbers of unemployed workers before and after training. Most of the analysis is carried out for the period July 1979 to end of September 1980, although some results for 1978 were also presented.

In the context of Hofbauer's analysis, we can identify three measures of the effectiveness of training schemes. Firstly, we may regard people leaving a scheme early, or not completing it successfully, as a sign that resources have been used inefficiently. In the former case, it might be argued that the individuals concerned did not need the training and, in the latter case, one might argue that the individuals concerned were unsuited to the training. Both are forms of deadweight. However, this is a misleading interpretation if trainees have left the scheme after a period in which they have learned new skills which enable them to secure employment before the planned end point of the training. Nevertheless, Hofbauer and Dadzio (1987) take as their control group those trainees who leave a scheme, for reasons other than lack of suitability, within one month of the starting date.[13] They find that one-third of these individuals enter directly into employment and imply that this is pure 'deadweight'. As argued, this measure of effectiveness can be regarded as a little pessimistic, because even brief periods of training can assist fast learners in securing employment. The following groups were identified as being most likely to leave a scheme early:

- individuals with no lower secondary school-leaving certificate;

- individuals with no vocational or school education in general;
- low-income groups;
- individuals who were unemployed before the scheme.

It seems highly unlikely either that these groups will be those entering straight into employment or that they are the most receptive to training. Indeed, the fact that those leaving early are likely to be low achievers provides a rationale for the fact that only one-third of premature leavers do so in order to take up work. Others leave presumably due to financial difficulties (possibly to take up illegal work), personal problems or learning disabilities.

We cannot directly use Hofbauer's analysis to judge whether the above groups of individuals are not suited to the training schemes or, conversely, if it is the schemes which are not suited to these individuals. Nevertheless, the fact that the least-qualified individuals have such a high drop-out rate has prompted the *Bundesanstalt* to initiate measures to prepare them for training (see Schmid (1988), p.80).

Hofbauer's second measure of effectiveness examined the percentage of those leaving a (successfully completed) full-time training scheme between July 1979 and the end of September 1980 who were unemployed at the end of September 1980. The study presented results for further training and re-training programmes and the wage-subsidy scheme, although a detailed breakdown in terms of various characteristics of the participating groups is only given in the former two cases. The group which had completed the wage-subsidy scheme had the highest (immediate) re-employment probability: only 1.2% of those leaving schemes during the reference period were unemployed at the end of September 1980. This compares with 8.2% for those successfully completing further training, and 11% for those coming from a re-training scheme. This accords entirely with *a priori* expectations: wage-subsidy participants are actually working during their period of training, and it seems likely that they will continue to be employed for at least a short period at the end of the scheme.

Those on further training and re-training programmes seek employment only at the end of the course, so are less likely to be in work until a period of search has elapsed. This points to the need for an analysis of re-employment probabilities over a longer period.

Men were, on average, less likely than women to be unemployed after successful completion of a training scheme, although re-training appeared to benefit women more than men (compare Table 4.3). The more detailed results indicated that re-employment probabilities decrease with age, although individuals under 20 years of age have a high incidence of unemployment among those successfully completing training programmes. Also, there appears to have been an inverse relationship between re-employment probabilities and educational qualifications attained, in that individuals with a university education were two to three times more likely to be unemployed after completing their training than those who left school, even without a certificate of lower secondary education. Although this might suggest that individuals with lower educational qualifications were more receptive to training, it is more likely to depict unobserved heterogeneity: those participants who have a university education may have other characteristics which lower their re-employment probabilities. The latter is indeed likely to be the case, as such individuals would usually not be expected to need further training. Table 4.14 details the results.

Table 4.14: Percentage of individuals who successfully completed a further training or re-training scheme between 1.7.79 and 30.9.80 and are unemployed at the end of September 1980. By type of scheme and chosen characteristics. (In % of those successfully completing the respective schemes)

Characteristic	Type of scheme	
	Further training	Re-training
Sex		
Male	6.0	11.7
Female	11.6	10.0
Age		
< 20	24.2	(40.7)
20-25	7.6	11.1
25-30	7.0	9.0
30-35	7.5	10.0
35-40	8.3	11.7
40-45	8.2	13.4
45-50	9.7	14.8
50-55	10.7	12.9
55-60	13.6	(27.0)
60-65	15.1	(15.4)
Education		
Group 1	4.0	4.5
Group 2	8.1	13.2
Group 3	7.7	8.2
Group 4	12.3	10.6

Notes: Figures in brackets represent less than 100 observations used. Key to educational groups: (1) No lower secondary school-leaving certificate (*Hauptschulabschluss*); (2) with *Hauptschulabschluss*; (3) with intermediate school-leaving certificate (*Mittlere Reife*); (4) higher education.

Source: Hofbauer (1981).

The final measure of effectiveness used by Hofbauer is the difference in duration of unemployment between individuals who participated in training programmes and those who did not. This latter group is thus presented as a control group, and the sample for this comparison was comprised of all people who were unemployed at the end of September 1980. Bias is unlikely to arise due to sample selectivity, since those who did not participate did not self-select, but there is no indication that the distribution of characteristics between the control and the test groups is identical. Indeed, if training is targeted, the difference in characteristics between the two groups should be marked. Hofbauer's analysis is limited, in that it is not fuiiy multivariate; that is, combinations of, at most, three characteristics are examined. There is a further restriction on the sample in order to avoid the problem of unequal forward censoring of experience after training. Hofbauer restricts his examination at this point to those who have completed their training at least 15 months before the reference date (end of September 1980).[14] If the analysis were not carried out in this way, then those on training schemes during the last 15 months are almost certain to have shorter durations than non-participants, as trainees do not belong to the registered unemployed.

Using this measure of effectiveness, one of the findings reported above is corroborated, as unemployment duration rises as the age of an individual increases. This again indicates that older groups have relatively low re-employment probabilities. However, for each age group, individuals who participate in further training or re-training are found to have shorter unemployment durations than those who do not. Not surprisingly, therefore, the difference between the participant and control groups is greatest for older individuals, as the young would have a shorter duration in any case.

Hofbauer goes on to examine unemployment duration for the participant and control groups according to age and each other characteristic in rotation. Analysing age in conjunction with health restrictions, for example, he finds that those in the target group 'aged over 45, with health restrictions which affect ability to work', have

their duration reduced by approximately 50% after participating on a further training scheme. Similar results are obtained for the re-training programme. The analysis further considers age groups in combination with school education, previous vocational training and job status before unemployment where, in almost all cases, the training reduces the duration. As Hofbauer himself acknowledges, some of his results are based on very few observations and so may be inaccurate.

Hofbauer and Dadzio (1984) extended Hofbauer's earlier work by considering three different categories of vocational training: refresher training, re-training, and a wage-subsidy scheme designed to aid vocational adjustment. The method of examination parallels Hofbauer's earlier study, with additional data being taken from a database on those receiving unemployment benefit (*Arbeitslosengeld*) or for those not entitled to full benefit, unemployment assistance (*Arbeitslosenhilfe*). Information on the structure of participants was taken for those individuals who began a scheme in the first six months of 1983. Analysis of premature leavings and job take-up was carried out using the data on individuals who finished a scheme in the first quarter of 1983. The database on those receiving benefits is used to give an indication of the location of an individual after completing the programme. The control group is non-participants, as in the earlier study, with the participant and control groups being subdivided by characteristics which were previously shown to have a large effect on re-employment probabilities, such as age, state of health and vocational training.

Premature leavings are again taken to be a manifestation of an inefficient use of resources, although this is once more subject to the reservations noted above. The following groups are more likely than others to leave each of the refresher and re-training schemes:

- individuals under 25 years of age;
- those with no lower secondary school qualification;
- those with no completed vocational training;

- previously unskilled workers;
- the long-term unemployed.

The pattern is less marked for individuals leaving the wage-subsidy scheme, although there is a slight tendency for the last three categories to leave prematurely, in addition to older workers. The striking feature of these results is that, whilst 26% of those on refresher training and re-training leave the scheme early, only 13% of those on the wage-subsidy programme drop out ahead of the planned completion date. This difference can be traced back to the structure of the participants in each scheme, which is illustrated in Table 4.15.

Table 4.15: Structure of participants on refresher training, re-training and wage-subsidy schemes in 1983 (in %)[15]

Group	Refresher	Re-training	Wage subsidy
1	n/a	14	9
2	30	61	26

Notes: Key to groups. (1) no lower secondary school-leaving certificate; (2) no vocational qualification.

Source: Hofbauer and Dadzio (1984).

It is apparent that the shares of those groups prone to premature leaving is smaller for the wage-subsidy than for the other two schemes examined. Furthermore, 68% of those leaving the wage-subsidy programme prematurely have not received unemployment or supplementary benefit up to mid-1983. Individuals who do not receive benefit are assumed to have entered into employment.[16] The corresponding figures for refresher training and re-training are lower, at 57% and 44% respectively. Of those individuals who successfully completed a wage-subsidy scheme during the first quarter of 1983, 87% had found employment by the end of June in the same year. For refresher training and re-training, the percentages are 53% and 58%

respectively. In combination, these results appear to demonstrate the high degree of efficiency of the wage-subsidy programme. A more pessimistic view is that the schemes give rise to deadweight, as a large number of those who leave early enter directly into employment, which tends to suggest that they may not have needed the training in the first instance. At this stage it would be useful to know how occupational mobility was affected by each scheme, but unfortunately such information is not provided, although this deficiency is remedied by Hofbauer and Dadzio (1987), and is discussed below.

The control group is used in order that the unemployment durations of participants after a scheme and non-participants may be compared, as in Hofbauer (1981). The interest centres around groups with different combinations of the characteristics 'age', 'health restrictions' and 'vocational training'. Individuals who are older than 45, are in poor health and have completed no previous vocational training, for example, have their duration reduced from 60 to 54 weeks by participating in an advanced training measure, and to only 44 weeks if they are re-trained. In fact, participation in one of the schemes reduces duration in all cases considered. The findings demonstrate that re-training reduces the unemployment duration more for older participants, but for further training the greatest reduction is achieved for those between 25 and 45 years of age. Durations of those suffering health restrictions are lowered more by both types of scheme than for healthy individuals.

A final measure of the effectiveness of the programmes examined by Hofbauer and Dadzio (1984) looks at how well the target groups of labour market policy are represented among scheme participants. There are, in general, four such groups:[17]

- older workers;
- the long-term unemployed;
- individuals with health restrictions;
- women.

Table 4.16 indicates that three of these groups are under-represented (there are no figures in the paper for the missing category).

Table 4.16: Percentage of those belonging to target groups in total unemployment (at end September 1982) and among those beginning schemes in the first six months of 1983

	Total unemployed	Scheme participants
Women	46	36
Aged over 45	25	9
U/E one year plus	21	16

Source: Hofbauer and Dadzio (1984).

Juxtaposing the results, it appears that the better rates of re-employment of workers after training stems from their better-than-average characteristics. This can be examined by looking at re-employment rates in conjunction with target efficiency.

Hofbauer and Dadzio (1987) consider target efficiency in their general examination of further training schemes, which is conducted in terms of those individuals who finish a full-time scheme in 1982. The method used to obtain the data is the same as in their earlier paper, with the addition of an employee database which delivers information on participants' circumstances two years after having finished their training. By identifying employees by their social insurance number, it is possible to follow the progress of the individuals themselves, rather than simply of groups sharing the same characteristics. The presentation of the results regarding target efficiency is slightly different to Hofbauer and Dadzio (1984), in that the percentages of those belonging to a target group are given according to the occupation in which the individual is trained. Of those training to be mechanical engineers, for example, only 22% come from a

target group, but 97% of gardening trainees are specifically targeted individuals. In total, 61% of individuals on further training schemes belong to target groups. Two years after finishing training, 52% of targeted individuals are still employed, which is lower than the 64% of non-targeted workers who remain employed.

In the different areas of training, there is a negative correlation (r=-0.61) between the proportion of targeted trainees and the likelihood of still being employed in the same area two years later (measured across both targeted and non-targeted groups). Taking the above examples again, only 37% of those training to be garden workers are still employed in the same area after two years have elapsed, whereas the corresponding proportion for trainees in mechanical engineering is 74%. The reason for this negative correlation is obvious. Individuals are in a target group because they are difficult to place, so we should expect the proportion of these people remaining in employment two years after training to be smaller than for those individuals who are, by definition, more easily employable. A more relevant and useful analysis would be to consider targeted individuals who are differentiated only by participation or non-participation in a scheme, as this would identify the effect of training on the re-employment probabilities of an homogeneous group (targeted individuals), rather than between distinct groups.

The control group used in this study differs from the other cited papers, as it now consists of individuals who began a scheme but dropped out after less than one month for no other reason than a lack of suitability. This suffers from the fact that the control group now includes those people who are fast learners and leave the scheme prematurely to enter directly into employment. This gives rise to an upward bias in the re-employment probabilities of this group. Indeed, one-third of early leavers enter a job, for which social insurance contributions have to be paid, and there are presumably others in employment for whom there is no record, that is, those working but with no social insurance number. However, those who leave early may have a lack of staying power, which would also differentiate them

from the trainee group. This effect is expected to bias the re-employment probabilities of the control group downward. Hofbauer and Dadzio (1987), however, do attempt to guard against this possibility by omitting from the control those individuals who are unsuitable for training. As was suggested in Chapter III, a more rigorous control is to divide a homogeneous group into two halves, where one is allowed to take training but the other is prevented from so doing. Such an external mechanism will ameliorate the self-selection bias apparent in the control groups used so far (for a detailed discussion of participant assignment see Chapter III).

The limitation of using social insurance numbers in order to identify individuals is that there is no record of the location of those with no number. Of those previously unemployed individuals who successfully completed a full-time training course in 1982, 56% were employed two years later in a job for which insurance contributions were due, 19% were drawing benefit, and 25% were not recorded. Therefore, the re-employment probability of all groups lies in the range 0.56 to 0.81. In interpreting the following results, this source of inaccuracy should be borne in mind.

The participants who were most likely to be employed two years after finishing a training scheme were found to be:[18]

- individuals aged 20-45;
- those with higher educational qualifications;
- those with vocational qualifications;
- previously skilled workers;
- the short-term unemployed.

The probability that individuals who successfully completed a scheme are employed two years later is consistently above that for premature leavers. In total, only 41% of those previously unemployed individuals leaving before the end of the scheme are employed after two years (with no record for 33%). This indicates,

however, that deadweight continues to be a problem which affects the whole re-employment measure of cost effectiveness. The difference in employment probabilities between successful and premature leavers differs across characteristic groups. For skilled workers, for example, the relevant figures are 65 and 47% respectively, but there is less of a gap for officials/white collar workers (58 and 48%). As in previous analyses, an unemployed individual who successfully completes a wage-subsidy programme has a higher employment probability of 0.78 than someone completing re-training (0.59).

Estimates reported for further training schemes are not directly comparable with earlier studies, as this category has been subdivided into different types of further training. In general, individuals who were employed before starting the scheme are more likely to be in employment two years afterwards (81%) than those previously unemployed individuals (56%). This difference is especially acute for workers aged 45 and over. Of those in this group who were unemployed prior to training, 42% were employed two years later, but for those who were employed, this figure is 83%. Table 14.7 suggests that subjecting the target group of previously unemployed older workers to further vocational training has less effect on their re-employment probabilities than for younger individuals.

Table 4.17: Percentage of individuals successfully completing schemes in 1982 and still in employment two years later. By age and employment status before the measure

Age	Previously unemployed	Previously employed
under 25	61	81
25-35	58	81
35-45	54	82
over 45	42	83

Source: Hofbauer and Dadzio (1987).

Comparisons with the control group demonstrate that training increases an individual's re-employment probability, as 56% of those successfully completing training are in employment two years later, compared to only 41% of the control group. More detailed comparisons are also made in terms of combinations of various characteristics. An individual who belongs to a target group, comes from a high employment area, and begins a scheme with a planned duration of 13 months or more has a 66% chance of being employed two years after successfully completing the course, but this probability shrinks to 40% if the individual leaves before completing the first month of the programme. The corresponding probabilities for targeted individuals (older than 45 years, unemployed for more than one year, and either without lower secondary school or vocational training, or last employed as unskilled or semi-skilled labour) are 52% for those completing and 35% for those dropping out of the course. Those who do not possess any of the characteristics of targeted individuals are more likely to be employed in the reference period, with probabilities of 64% for a successful trainee and 53% for the control group. Irrespective of whether an individual belongs to a target group, it is the case that those living in a depressed region have lower re-employment probabilities than individuals from more prosperous areas.[19]

A measure of effectiveness which appears unique to Hofbauer and Dadzio (1987) is to look at occupational mobility, that is, job status before, and two years after, training. A programme is deemed to be more successful if a worker moves into a more skilled job category as a consequence of the training. Even if the worker does not progress in this way, the scheme should not be regarded a failure, as it may still assist unemployed individuals in securing employment. Most white-collar workers (72%) remain in the same category, but 9% move down to being unskilled or semi-skilled labour after training. Of the previously unskilled workers, 14% become white-collar workers and 31% progress into skilled employment. Almost half of skilled workers remain in this category after training, whilst 22% secure em-

ployment in the white-collar sector, with the same proportion dropping down to working as unskilled or semi-skilled labour. Whilst these figures are useful and informative, they do not give a measure of the extent of net mobility, although suggesting, on balance, some increment out of the unskilled category.

A more detailed analysis is provided in terms of various characteristics: type, duration and provider of scheme; sex; age; school and vocational qualifications; unemployment duration and rate in the individual's home region. This breakdown indicates that women are most likely to become white-collar workers after training; 35% of female skilled workers and 32% of unskilled or semi-skilled workers cross over into this category. Similarly, a large number of individuals with an intermediate or high-school certificate transfer into the white-collar sector. Most of those without school or vocational training switch from being white-collar or skilled workers to unskilled employment, although it is also true that as many as 30% of unskilled workers without qualifications are able to secure employment as skilled workers after training. Unemployment duration appears to have no systematic effect on occupational mobility, but the long-term unemployed are most likely to make the transition from skilled to white-collar or unskilled labour. This group is least likely to move from white-collar to unskilled work.

One of the stated aims of training is to provide a job which, in a suitable sense, 'befits' the training received. As a measure of this, Hofbauer and Dadzio examine the proportion of unemployed individuals who are re-trained for at least 19 months and, two years later, are employed as unskilled or semi-skilled workers. This type of job is thought not to suit the training given and, as such, represents a (partially) inefficient use of resources. In total, one-quarter of the individuals examined fall into this category. Both young (under 25 years) and older (over 45) workers are prone to this phenomenon, as are those without school or vocational qualifications. As expected, those coming from high unemployment regions are likely to end up as unskilled workers, but the duration of the unemployment has little

effect: 30% of those affected are unemployed for less than one month and, of the long-term unemployed, 29% find themselves in unskilled activities, following a lengthy period of re-training.

Table 4.18 brings together the results of both the Hofbauer and Dadzio studies to compare re-employment probabilities at two different points after training.

Table 4.18: Percentage of previously unemployed individuals who are employed after successfully completing training, according to type of scheme

Scheme	Employed after 3 months[a]	Employed after 2 years[b]
Advanced[c]	53	54
Re-training	58	59
Wage subsidy	87	78

Notes:

a) *Source:* Hofbauer and Dadzio (1984).

b) *Source:* Hofbauer and Dadzio (1987). In terms of those in jobs for which social insurance contributions are liable. There are missing records for 28%, 23% and 12% respectively.

c) First row represents all types of further training and second row gives figures for measures designed to establish, maintain, extend and aid adaptation of vocational skills (FEEA).

The re-employment probabilities appear to be more or less constant over time although, due to missing records and the fact that they are solely for employees with social insurance numbers, those figures in the second column should be viewed as lower bounds. It would seem as if, at least in the German case, training schemes have a lasting effect on chances of re-employment.

Büchtemann (1983) also carries out a longitudinal analysis in examining trainees' circumstances four and a half years after completing a course. This analysis looks at five types of training programme (we are mainly concerned with the first three):

- advanced training and re-training;
- ABM;
- wage subsidy;
- financial mobility assistance;[20]
- paragraph 41a courses.[21]

Three inquiries were made at different points in time: beginning of 1978, end of 1978 and beginning of 1982, and two samples are drawn. Sample A contains 696 individuals who were unemployed in November 1977, and sample B comprises 512 individuals leaving unemployment in September/October 1977.

In order to gauge the effectiveness of training schemes, Büchtemann calculates for each sample the proportion of individuals that were offered a placement by the *Bundesanstalt für Arbeit* (Federal Employment Institute - FEI), those who, as a consequence, were able to take up work and those still in a job given by the *Bundesanstalt* four and a half years later. The results are presented in Table 4.19.

Table 4.19: Placement and employment (in %)

Sample	Offered placement	Taking work	Still employed
A	61	23	7
B	61	32	9

Source: Büchtemann (1983).

From the Table, it can be seen that, of those beginning employment suggested by the *Bundesanstalt*, 30% of sample A and 28% of sample B are still in that job after a period of four and a half years.

The next stage in the analysis is to measure group-specific take-up of schemes, which is carried out in terms of both samples combined, but restricting analysis to those still active in the labour force in 1982. To be active in the labour force, an individual must either be em-

ployed or be searching for work. The results are broken down into characteristic groups (sex, age, vocational training, state of health, job status before unemployment and total unemployment duration 1973-82). Men are more likely than women to be offered placement by the *Bundesanstalt*, and are consequently dominant in each type of training scheme. Given that women belong to a target group of active labour market policy, an effective training programme would be expected to increase the share of female participants. Men outnumber women by at least two to one in all schemes examined, however.

Age appears to have very little effect, although only three categories are examined (under 30, 30-39, and over 40). The older group is more likely to be placed by the *Bundesanstalt*, and these individuals have the greatest share of participants in advanced/re-training and the wage-subsidy schemes, and are also well represented in ABM. Those without completed vocational training have a greater probability of starting work as a result of a *Bundesanstalt* placement: 0.37 as compared with 0.32 for qualified individuals.

The training programmes are obviously identifying the long-term unemployed as a group which needs placement assistance but, whereas 76% of those unemployed for three years or more are offered a placement, only 29% take up employment through the labour office as a result of this. By way of comparison, 56% of individuals with durations of less than six months are offered placement, and 33% actually start work.

Büchtemann finally examines whether individuals who become re-integrated into the labour market are better qualified than before their bout of unemployment. Participants on advanced or re-training schemes are compared to a group which receives no training. Table 4.20 presents the results.

Table 4.20: Level of qualification among participants and non-participants in advanced/re-training (in % of those being re-integrated into the labour market)

	Participants	Non-participants
Better qualified	30	20
Worse qualified	16	21
Vocational advancement	18	15
Vocational decline	61	3

Source: Büchtemann (1983).

Training has the expected positive effect on vocational qualification but, as can be seen from the second column, the difference between those receiving training and non-participants is modest. The fact that more trainees than non-trainees experienced vocational advancement indicates that participation on a training scheme tends to aid (upward) occupational mobility. There is also evidence that training prevents a decline in the vocational category.

Cost per job for the training schemes

Spitznagel (1985) and Bach *et al.* (1986) attempt to estimate the net cost of full-time adult training measures for 1984 and 1985 respectively. Net cost is defined here as the difference between training expenditure and the cost incurred by keeping an individual unemployed. The costing of both alternatives includes the amount of public revenue foregone compared to that which would be received from an employed person. This comprises the following two elements:

- reduced receipts on health and pension insurance;
- reduced income tax and indirect tax payments.

The figures in Table 4.21 indicate how cost per job has changed between 1984 and 1985 for adult training schemes.

Table 4.21: Cost of full-time adult training schemes in 1984 and 1985

Year	1984	1985
No. receiving maintenance ('000)	102.2	105.9
Net cost (DM mill.)	993.6	1,065.6
Contracts created ('000)	124	130
Net cost per contract (DM)	8,013	8,197
U/E reduction ('000)	114	120
Net cost per U/E worker (DM)	8,716	8,880

Notes: See notes to Table 4.19.

Although it is true that net cost per contract/unemployed worker has risen between 1984 and 1985, the increase has been much more gradual than that experienced with the ABM programme. The net cost does appear to be relatively high, however, and it is likely that marginal cost will rise further.

Training schemes: an appraisal

The evidence from the studies of further training is complex and, at first sight, suggests that the results have been disappointing relative to, say, the ABM programme. Cost per job is considerably higher and there have been great difficulties in finding suitable control groups against which to evaluate the success of such programmes in re-employing participants.

It is apparent that there is a trade-off between targeting and re-employment probability; those more heavily targeted (but with worse than average characteristics) are less likely to be employed two years after finishing training. For instance, the Hofbauer and Dadzio (1987) study showed that only 37% of those training to be garden workers (97% of whom were targeted) were still employed in the same occupation two years after training; whereas 74% of mechanical engin-

eering trainees (22% of whom were targeted) were still employed in this occupation two years after completing the training. This is hardly surprising, given that, by definition, targeted workers are hard to place; however, the better re-employment rates obtained for individuals with better than average characteristics may involve a considerable element of deadweight and possibly displacement.

Of necessity, training is a long-run phenomenon. Furthermore, in part, the further training and re-training programmes transpose an institutional structure of training designed for long-run 'supply-side' productivity increases to the question of short-run macroeconomic management. Unsurprisingly in comparison with ABM, the results look less attractive.

References

1. Note that the regional and local employment offices in Figure 4.1 refer to the Federal Republic of Germany and do not include the five German Democratic Republic states: Brandenburg, Mecklenburg-West Pomerania, Saxony, Saxony-Anhalt, and Thuringia.
2. It will be interesting at some future date to look back and see how the objectives and instruments of active labour market policy, organised by the *Bundesanstalt*, are able to cope with the growing unemployment problem in the eastern part of united Germany.
3. This excludes overtime payments, so there is no possibility of increasing benefits by working overtime before a period of unemployment.
4. The equalisation contribution for not employing people with disabilities is extremely low, so that it is not really an effective measure to fill jobs with people with disabilities.
5. Each of the first four rows refers to individuals who possess only that characteristic, but not the other three.
6. The sum of columns (2)-(4) gives the figure in column (1) if rounding errors are absent.

7. There is a slight reduction of the sample size (= 2,332 individuals compared with 2,694 previously).

8. Lamentably, this figure includes the unknown number of persons being in ABM again.

9. The rest of this chapter is by Derek Clark and Alun Thomas. We are grateful for this contribution.

10. These figures are weighted by the number of ABM workers per provider.

11. See endnote 1.

12. Remember that the output of an ABM project must 'serve the public interest'.

13. It should be noted that different training schemes have different durations - further training generally lasts up to six months, so even those leaving after one month have completed at least a small proportion of the scheme.

14. Forward censoring will always be present in this analysis, because Hofbauer is looking at individuals at a particular point in time from a sample of individuals selected for training at an earlier date. Since training schemes vary in duration, those on longer schemes are less likely to be observed at the subsequent observation point.

15. The structure of participants seems to have changed since the date of this study.

16. This may well be an invalid assumption. Brinkmann (1984) provides evidence that the proportion of the unemployed claiming unemployment benefit or unemployment assistance fell from 3/4 in 1981 to 2/3 by 1984. This is mainly due to the fact that the length of time for which benefit can be drawn has become shorter relative to the total duration of unemployment.

17. The groups are the same as for ABM and the results are similar, compare Table 4.2.

18. According to actual numbers in work.

19. This links in with the general argument that structural problems underlie the unemployment problem in Germany - see Chapter II for a discussion.

20. Subsidised application costs, travel costs and financial aid on entering new employment, for example.

21. Courses designed to enhance placement prospects where tuition is given on job choice and possibilities for vocational training. This measure is aimed at the long-term unemployed.

Chapter V

German policies: a fresh evaluation

5.1 Introduction

Although many countries experienced high levels of unemployment during the 1970s and 1980s, the dramatic rise and the degree of persistence of long-term unemployment within Britain and Germany have been particularly notable (OECD, 1988 and Chapter II of this study). According to the study of Haskel and Jackman (1988) for Britain, the increase in long-term unemployment seems to be attributable to a decline in the outflow rates from both short- and long-term unemployment. Haskel and Jackman discuss several possible reasons for this fall in outflow rates. For example, they reject the 'bulge' hypothesis, that the rise in long-term unemployment stems from the sharp rise in inflows in the 1980s, because outflow rates from short-term unemployment have also decreased. Table 5.1 and Figure 5.1 show the rise in long-term unemployment in Germany and the decline of the outflow rate from long-term unemployment.

Figure 5.1: Duration-specific outflow rates of unemployment, 1977-88

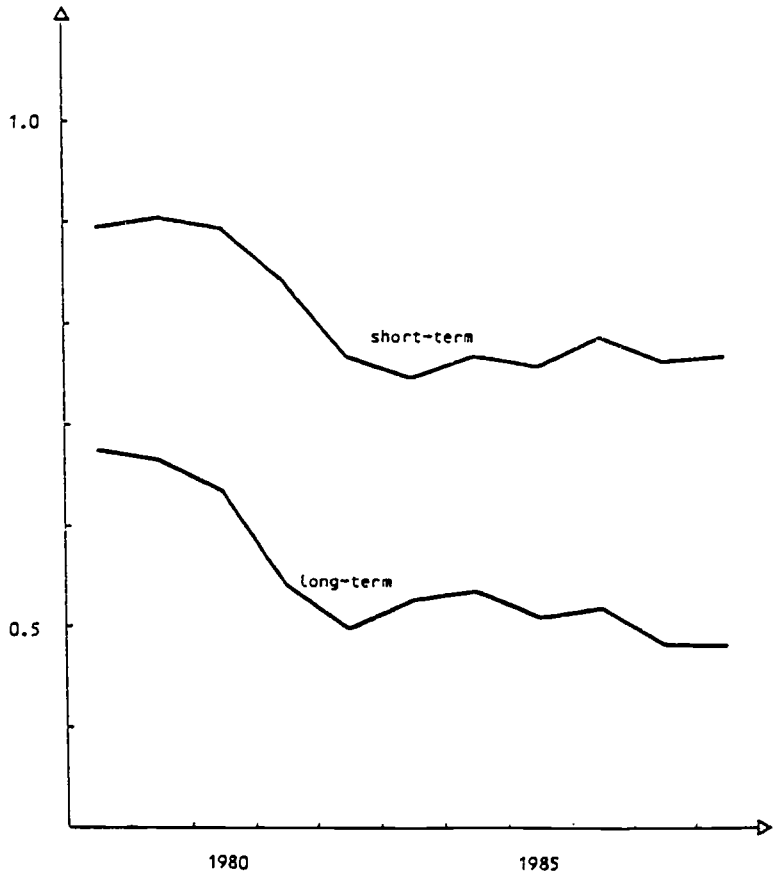


Table 5.1: Long-term unemployment in Germany, 1977-88

	Number of unemployed with current duration of unemployment		Outflow rate from long-term unemployment
	> 1 year	> 2 years	
	(1)	(2)	(3)
1977	130,533 (.14)	40,370 (.04)	
1978	126,957 (.15)	42,477 (.05)	.675
1979	114,410 (.16)	42,462 (.06)	.665
1980	106,145 (.13)	41,756 (.05)	.635
1981	162,504 (.13)	48,601 (.04)	.542
1982	326,632 (.18)	80,606 (.04)	.498
1983	531,632 (.25)	154,618 (.07)	.527
1984	617,462 (.29)	246,872 (.12)	.536
1985	665,793 (.31)	302,683 (.14)	.510
1986	654,008 (.32)	320,016 (.16)	.519
1987	670,170 (.32)	338,296 (.16)	.483
1988	684,670 (.33)	347,260 (.17)	.482

Note: Ratios of number of unemployed within given category of completed duration of unemployment to total number of unemployed are given in parenthesis.

Source: Calculations from data presented by Brinkmann (1989a).

The outflow rate from long-term unemployment is simply a comparison of the number of unemployed whose current duration of unemployment is one year or more (01) with the respective number of unemployed of two years or more, one year later (02). The outflow rate from long-term unemployment is therefore defined as 1 - (02/01). With the exception of 1982 and 1984, Table 5.1 shows that this rate has decreased steadily since 1978. Table 5.2 and Figure 5.1 show the rise in short-term unemployment and the decrease in the outflow rate from short-term unemployment. The decline in the short-term outflow from unemployment is noticeably less than the decline ex-

perienced by the long-term unemployed and, indeed, reached its lowest point in 1983.[1]

Table 5.2: Short-term unemployment in Germany, 1977-88

	Number of unemployed with current duration of unemployment		Outflow rate from short-term unemployment
	< 1 year	1-2 years	
	(1)	(2)	(3)
1977	358,010	41,276	
1978	326,802	37,529	.895
1979	263,332	30,978	.905
1980	319,182	27,641	.895
1981	541,407	50,184	.843
1982	815,068	125,256	.769
1983	853,182	205,500	.748
1984	814,292	196,592	.770
1985	768,514	190,381	.760
1986	703,931	161,752	.789
1987	738,193	165,719	.765
1988	720,188	169,945	.770

Therefore, it seems highly relevant to devote effort to an assessment of employment measures aimed at combatting long-term unemployment in Germany (see Brinkmann, 1989a, b; Lambert, 1989; Schäfer, 1988). The approach adopted in this chapter is to work on an integrated assessment of different employment measures (further training, re-training, wage subsidies and job creation), and to account for substitution, displacement and deadweight effects (that is, to adjust for activities which might have taken place anyway). Detailed descriptions and assessments of these employment measures can be found in Chapter IV of this study, and in Werner (1989).

It is worthy of note that reductions in long-term unemployment may have favourable macroeconomic consequences. The isolation

of the long-term unemployed means that they offer little or no effective competition to the other members of the labour market for the available jobs. Lack of competition can inhibit the efficient operation of the labour market, and provides another important reason for directing labour market programmes at the long-term unemployed.

5.2 Labour market programmes in Germany

According to the number of placements, further training and re-training (565,611 in 1988) and job-creation measures (114,888 in 1988) are the most important programmes to help the unemployed (see Chapter IV for a detailed assessment). We also examine the effects of the smaller wage-subsidy programme.

Further training and re-training cover a wide range of measures, for example, further vocational training and re-training, vocational preparation courses for young people, state education grants for the young unemployed, individual aid for vocational training, aid for vocational training for disadvantaged young people and a settling-in allowance (see Chapter IV; plus Werner, 1989; and Eurostat, 1989).

The employed and unemployed who have either completed a vocational training course and have three years' work experience, or have six years' work experience, are eligible for further vocational training and re-training courses. Aid may also be granted to unemployed people who take part in special measures for improving their chances of being placed in employment if they have not yet worked. Further vocational training is intended to help to provide or develop knowledge and skills, or to permit vocational advancement, ideally in such a way that recipients are in a position to switch professions (improve mobility).

Job-creation schemes are implemented mainly in the public sector. They are administered by local authorities. Non-profit organisations may also organise such work. The output must be of value to the general public, and would not otherwise be carried out at all, or only at some later date. The jobs created typically involve construc-

tion, environmental improvement and other kinds of work which require few skills and can be started or discontinued at short notice. The selection of workers is made by the employment offices, which give priority to the long-term unemployed. The assignments are temporary, normally for one year, in exceptional cases, for two or three years. Only a special programme aimed at young people without occupational training includes a training element.

Although the number of participants is comparatively small, the settling-in allowance as a *wage subsidy* attracts special attention. This subsidy is paid to unemployed or employed persons under threat of being made redundant, in order to achieve optimum performance at the workplace after a period of settling in. It is provided under the condition that the worker has already been working for at least six months, and that the period of settling in lasts more than four weeks.

The remainder of this chapter examines the impact of these measures on outflow rates from unemployment, using the methodology of Haskel and Jackman (1988) to account for substitution or displacement and deadweight effects. Deadweight costs arise if a subsidy is paid for recruitment which would have occurred anyway. Displacement means, in the case of further training and re-training, that newly trained or subsidised workers replace unsubsidised individuals. In the case of job creation, conflicts of interest with regular employees may arise (see Chapter III for a detailed examination of deadweight and displacement).

5.3 Methodology

The Centre for Labour Economics at the London School of Economics has analysed unemployment in the context of flows into and out of unemployment (Pissarides, 1986; Pissarides and Haskel, 1987; Jackman and Layard, 1988; Haskel and Jackman, 1988; Lehmann, 1989, and Chapter VII of this study). In general, the empirical work is based on models of the determination of the overall outflow rate and the duration-specific outflow rates. Chapter III summarises this metho-

dology. Haskel and Jackman (1988) and Chapter VII investigate models with quarterly time series for Britain. In the context of the impact of the Community Programme, they estimate outflow rate regressions for different age groups, and for males only, using as regressors the vacancy-unemployment ratio, the ratio of the Community Programme *vacancies* to economy-wide vacancies, or the ratio of the Community Programme *places* to economy-wide vacancies, the proportion of the respective unemployment category in total unemployment, and some variables to account for autocorrelation.

Lehmann (1989) and Chapter VII extend the analysis to include the Enterprise Allowance Scheme and the Restart Programme. By comparing, for instance, the impact of the ratio of the Community Programme vacancies or places variable on the outflow rate variable for different age groups and duration of unemployment categories, it is possible to analyse whether the positive impact of the Community Programme for one age group (that is, increasing the outflow rate for this group) is accompanied by an impact for other groups. If one group has an increasing outflow rate and another a decreasing one, (a negative impact on the outflow probability), evidence for a substitution effect is found. The same is true if the inflow rate into unemployment increases. On the other hand, deadweight is evident if there is no effect of the employment programmes on the outflow rate.

5.4 Cross-sectional outflow rate regressions

It is not possible, in Germany, to use detailed statistics which would enable us to compute outflow rates from unemployment on different age and duration categories for men over periods of time. However, the method would seem equally applicable to cross-sectional analysis. Therefore, outflow rate regressions are estimated for 142 local employment office areas in Germany. This provides sufficient data points, and there is no need to make adjustments for legislative changes, which involve different definitions of unemployment in different years.

But some additional problems arise if cross-sectional instead of time series regressions of inflow and outflow rates are performed. By definition, the number of vacancies and the number of unemployed persons can be decomposed into a flow and a stock variable, that is, the inflow rate and the average duration of vacancies and unemployment spells. Comparing different cross-sectional units may lead to the wrong conclusions, because the identical labour demand and supply conditions may lead to different numbers of vacancies. Two reasons for this possibility should be emphasised. Firstly, segments of the labour market may differ according to the extent of labour hoarding, which determines the effect of changes in labour demand on the number of vacancies offered. Secondly, segments of the labour market may differ according to the percentage of job placements that are obtained through public employment services. Therefore, we estimate the inflow and outflow rate regressions with control variables, which should account for diverse patterns of labour mobility in different segments of the labour market with different degrees of labour hoarding.

Variables

For 142 local employment office areas, outflow rate regressions were estimated. The variables to be explained are constructed as follows (compare Egle, 1979): the outflow rate from short-term unemployment for young men, 1987-88, is 1-(02y/01y), where,

01y = unemployed males, 1987, with current duration of unemployment of less than one year, aged 18-25 years.
02y = unemployed males, 1988, with current duration of unemployment of one to two years, aged 19-26 years.

The outflow rate from short-term unemployment for prime-age men, 1987-1988, is 1-(02m/01m), where,

01m = unemployed males, 1987, with current duration of unemployment of less than one year, aged 26-55 years.

02m = unemployed males, 1988, with current duration of unemployment of one to two years, aged 27-56 years.

The outflow rate of the long-term unemployed could be calculated only for the prime-age men, because of a small number of cases for the other age category. The outflow rate from long-term unemployment for prime-age men, 1987-88, is 1-(03m/02m), where,

02m = unemployed males, 1987, with current duration of unemployment of one to two years, aged 26-55 years.

03m = unemployed males, 1988, with current duration of unemployment of two to three years, aged 27-56 years.

The respective computations are carried out for the years 1986-87 as well, as they are used in section 5.6. The inflow rates into unemployment are measured as the relation between the number of males who become unemployed and the number of employees in September 1988.

As explanatory variables, the unemployment rate and the vacancy rate (defined as the number of vacancies divided by the number of vacancies plus the number of employees) are used for the year 1988 to measure the ease or difficulty of getting a job. These variables should account for the development of the local labour market. The expectations are for a negative sign for the unemployment rate and a positive one for the vacancy rate. It would be possible to include the vacancy-unemployment ratio instead of those two variables, but the general specification is initially preferable to the testable restriction implied by inserting the ratio. The employment growth rate 1987/88 is included to proxy labour turnover, in conjunction with the percentage of employees in firms with less than 500 employees in 1987, and the number of employees in manufacturing in 1988. The last two variables are included to take account of differences in the pattern of employment growth in small and large firms in manufacturing and the service industries.

The impact of wage subsidies (settling in), further training, retraining and job creation as employment measures is studied. The

flows into places on schemes are measured relative to the number of vacancies during the year 1988. Table 5.3 contains a regional summary of the actual flows into employment measures in Germany in 1988. Interestingly, the flows into job creation show the greatest regional variation and, in general, the schemes operate more intensively in the northern industrial areas. Table 5.4 provides the summary statistics for all the variables described above:

Table 5.3: Flows into employment measures, by regional office areas, 1988

	Job creation	Further training	Re-training	Wage subsidy
Schleswig-Holstein	15,929	38,419	6,845	6,121
Lower Saxony	29,229	66,568	10,918	8,882
North Rhine-Westphalia	28,930	111,919	19,168	15,748
Rhineland-Palatinate	8,103	37,876	5,279	3,956
Hessen	13,367	37,263	5,937	2,973
Baden-Württemberg	5,453	66,715	7,432	4,955
North Bavaria	10,643	42,933	4,004	4,858
South Bavaria	6,414	38,901	3,989	2,223
Berlin (West)	11,769	8,142	2,134	1,453
West Germany	129,829	448,736	65,706	51,169

Source: Bundesanstalt für Arbeit.

Table 5.4: Summary statistics for Tables 5.5 and 5.6*

	Levels 1987/88		Differences 87/88 - 86/87	
	mean	s.d.	mean	s.d.
Outflow rates:				
Short-term U, young	0.927	0.042	0.0079	0.0221
Short-term U, prime age	0.767	0.069	-0.0114	0.0311
Long-term U, prime age	0.574	0.085	-0.0166	0.1012
Inflow rate	0.195	0.069	-0.0049	0.0163
Unemployment rate	0.098	0.035	-0.0008	0.0055
Vacancy rate	0.008	0.023	0.0009	0.0012
% small firms	0.773	0.100	-	-
% manufacturing	0.409	0.099	-	-
Employment growth	0.014	0.011	-	-
Wage subsidy	0.031	0.019	-0.0002	0.0079
Further training	0.266	0.075	-0.0311	0.0467
Re-training	0.036	0.017	-0.0005	0.0078
Job creation	0.075	0.057	-0.0070	0.0139

* *The dependent variables (outflow rates) and the unemployment and vacancy rates are measured in logs: U stands for unemployment.*

Empirical results

The outflow rate regressions are expected to show a negative sign for the unemployment rate and a positive sign for the vacancy rate, the employment growth rate and small-sized firms, whereas the influence of the number of employees in manufacturing is not clear. For the inflow rate regressions, all variables which indicate a higher mobility rate (vacancy rate, small firm size, employment growth) and the unemployment rate are expected to have positive signs. As there is no necessary link between manufacturing and mobility, the sign of the manufacturing variable is again not clear.

The results for the inflow and outflow rate regressions for males are presented in Table 5.5. All signs of the regression coefficients,

except some of those relating to the effects of the programmes themselves, are as expected. The percentage of employees in manufacturing in 1988 increased the outflow rates and decreased the inflow rates in that year. The variable for the job-creation scheme shows a highly significant positive impact on the outflow from short-term unemployment. This is not the case for the three other employment measures. Re-training and wage subsidies even decrease the outflow from unemployment for some groups, but these substitution effects are insignificant, with one exception. Haskel and Jackman (1988), in evaluating the Community Programme in Britain, found that the outflow rate of the young men was increased, but the outflow rate of the prime-age men was decreased by the programme.

From the positive signs of the job-creation and further training variables in the inflow rate regression, it could be concluded that there are higher inflow rates in those regions where the schemes are used relatively more. In summary, these results suggest that job-creation measures have a significant impact on outflows from unemployment, although the effect is weaker for the long-term unemployed. However, no such evidence is found for training measures, in contrast to some of the results described in Chapter IV.

Table 5.5: Inflow and outflow rate regressions for males, 1987-88

	outflow rate from short-term unemployment		outflow rate from long-term U	inflow rate into U	
	young	prime age	prime age	OLS	IV
Unemployment rate	-0.1037**	-0.2209**	-0.1790**	0.3845**	0.3713**
	(11.32)	(11.28)	(3.15)	(5.64)	(5.28)
Vacancy rate	0.0031	0.0093	0.0304	0.3075**	0.2974**
	(0.36)	(0.52)	(0.58)	(4.89)	(4.32)
% small firms	0.1111**	0.2051**	0.2144	1.3035**	0.2940**
	(4.61)	(3.98)	(1.43)	(7.26)	(7.17)
% manufacturing	0.0752**	0.0422	-0.0741	-0.2398	-0.3022
	(3.03)	(0.80)	(0.48)	(1.30)	(1.63)
Employment growth	0.3053	0.1369	1.9251	0.5870	0.3513
	(1.57)	(0.33)	(1.59)	(0.40)	(0.25)
Wage subsidy	0.1858	-0.0083	-0.6076	1.3723	0.9507
	(1.29)	(0.03)	(0.68)	(1.28)	(0.73)
Further training	0.0378	-0.0030	-0.0202	0.5543*	0.6339*
	(1.06)	(0.04)	(0.09)	(2.08)	(1.89)
Re-training	-0.3656*	-0.4502	0.3645	-1.7683	-3.4280*
	(2.28)	(1.32)	(0.37)	(1.48)	(2.42)
Job creation	0.2448**	0.4869**	0.6666*	1.5336**	1.9101**
	(4.24)	(3.94)	(1.86)	(3.56)	(4.20)
R^2	0.770	0.729	0.194	0.755	-
SEE	0.023	0.049	0.143	0.172	-

Notes: Absolute t-values are given in parenthesis. The equations are estimated with a constant term. The number of cases is 142. Coefficients marked with * (**) are significant, at least at the 5% (1%) level of significance.

5.5 Endogeneity of employment measures

An important result of an evaluation study of the employment programme of the German government in 1974/75, conducted by the Science Center Berlin (Schmid, 1980, pp. 230-242), was that the unemployment rate could account for 38% of the explained variance

of the utilisation of a wage-subsidy programme for people who were difficult to place (integration assistance subsidy). Therefore, it might be helpful for the interpretation of the results of the inflow and outflow rate regressions to test whether the variables for the employment measures are endogenous. Hausman (1978) devised a test to decide whether the independent variables of a regression should be considered as endogenous or not. The test is based on a comparison of the regression coefficients estimated by OLS with those estimated by the instrumental-variables method (last column, Table 5.4). For the outflow rate regressions, the null hypothesis that the employment measures are exogenous could be maintained at the 5% significance level. However, this was not the case for the inflow rate regression (test statistic F-value = 3.58 > critical 5% value); therefore, in Table 5.5, both the OLS and IV estimates are reported for the inflow rate regressions, although they do not differ substantially.

5.6 Determinants of regional outflow rate differences over time

Since the availability of data sets with information on individuals has increased, the interest in pooled cross-section time series analysis is growing. Theoretically unobserved individual effects could be accounted for. Adopting this kind of analysis here would enable us, for example, to answer the question whether the positive effect of job-creation schemes on the outflow rate from unemployment is really due to the scheme, or is caused instead by the characteristics of the local employment office area in which these schemes operate. Using pooled cross-section time series analysis, it is possible to account for regional differences without explicitly modelling them.

The variables are defined as follows. The dependent variable: the outflow rate from short-term unemployment for men aged 18-25 years, is computed as the difference between the outflow rates 1986/87 and 1987/88, as defined in section 5.4. Growth rates of unemployment are defined as the difference of unemployed males

in 1986 and 1987 divided by the number of unemployed in 1986. The growth in vacancies is given by the difference in vacancies in 1986 and 1987 divided by the number of vacancies in 1986.

The policy change is measured by the number of participants in 1987 minus those in 1986 divided by the number of participants in 1986. The results are shown in Table 5.6. They are similar to the inflow and outflow rate regressions presented in Table 5.5. The unemployment rate and the job-creation variable are the only variables which are significant at the conventional level. The estimates support the impression that the job-creation schemes are the only effective measures to combat unemployment. The substitution effect of job-creation schemes, indicated by its positive and significant influence on the inflow rate into unemployment, is absent in the fixed effects model.

Considering the significance of the regression coefficient of the job-creation variable, it seems that the positive effect of this measure is restricted to the short-term unemployed. Even though the magnitude of the regression coefficient for the long-term unemployed is higher, compared to the coefficient of the short-term unemployed, it is statistically insignificant.

Table 5.6: Inflow and outflow rate difference regressions for males

(fixed effects models)

	outflow rate from short-term unemployment		outflow rate from long-term U	inflow rate into U
	young	prime age	prime age	OLS
Unemployment rate	-0.1204**	-0.3436**	-0.7014**	0.6827**
	(2.96)	(5.39)	(2.33)	(7.53)
Vacancy rate	0.0038	-0.0359	-0.1361	-0.0216
	(0.24)	(1.45)	(1.16)	(0.61)
Wage subsidy	-0.0929	-0.3371	-2.9142	0.1911
	(0.35)	(0.81)	(1.49)	(0.32)
Further training	0.0189	0.0737	0.2368	0.0661
	(0.39)	(0.98)	(0.66)	(0.62)
Re-training	-0.3965	0.1024	1.1728	-0.1782
	(1.38)	(0.23)	(0.55)	(0.28)
Job creation	0.3799**	0.6011**	1.7674	0.0719
	(2.50)	(2.53)	(1.58)	(0.21)
R^2	0.107	0.211	0.073	0.317
SEE	0.024	0.038	0.178	0.054

Note: See notes to Table 5.5.

Within the framework adopted, it is possible to calculate the unemployment reducing effect of job-creation measures (Δ U). Assuming a constant inflow rate, the change in the outflow rate from unemployment (Δ log O_i/U_i) may be explained by the ratio of the number of flows into places in job-creation schemes to the pool of vacancies (M/V), the regression coefficient of that variable in the fixed effects model (a_i) and the number of unemployed in the ith group (U_i): therefore,

$$\Delta U = - \Sigma U_i \Delta \log O_i/U_i = - M/V \Sigma U_i \alpha_i$$

The unemployment reducing effect of the job-creation schemes amounts to 6,255 men in the group of short-term unemployed,

19,820 men in the prime-age short-term unemployed group and 14,625 men in the prime-age long-term unemployed group. The total of 40,700 men is comparatively high relative to the number of places for both sexes: 52,465 in 1988, and may be due to the lack of precision on the job-creation coefficient for the long-term unemployed group.

5.6 Conclusion

It may be concluded that job-creation measures are relatively successful compared to further training, re-training and wage subsidies when there are controls for deadweight and substitution effects. But training programmes may have their merits with regard to human capital formation, an issue explored in Chapters III and IV. Reissert (1988) points out that there are differences between the policy measures as regards the targeting of the funds to the regions most in need. But, in any case, the total amount of funds available for active labour market policies is too small to overcome the persistence of the constant level of 2 million unemployed, and the dramatic rise in long-term unemployment (Brinkmann, 1989a).

References

1. The outflow rate from short-term unemployment is a comparison of the number of unemployed whose current duration of unemployment is less than one year (03) with the corresponding number of unemployed of one to two years, one year later (04). The outflow rate from short-term unemployment is therefore defined to be 1 - (04/03).

Chapter VI

British policies and their effects

6.1 Introduction

In the fiscal year 1988/89, during which the average stock of registered unemployment in Great Britain was 2 million, around £1.5 billion of central government expenditure was devoted to a combination of active policy measures designed to assist unemployed adults (those of 18 years and older) back to work. These included short counselling sessions for all those unemployed for more than six months and direct provision for 400,000, consisting of places on temporary job-creation and training schemes, subsidy assisted entry to jobs, and subsidised entry to self-employment. In addition, the British government spent over £5 billion on passive assistance to unemployed people in the form of unemployment-related benefits (for more detail on how the benefit system operates, see Layard and Philpott, 1991).

The active policy measures, in the majority aimed at the long-term unemployed, provide the focus for this chapter. Section 6.2 outlines the main measures implemented in Britain since 1975, whilst section 6.3 briefly describes the institutional structure within which they have operated. Sections 6.4 to 6.8 look in more detail at individual policies under five broad headings: temporary job-creation measures; training measures; wage subsidies; miscellaneous direct measures; and job-search and counselling measures. Each section will discuss the results of evaluations and other studies of individual policy measures and will assess chosen methods of research or evaluation in terms of the discussion of evaluation methodology in Chapter III.

6.2 Main policy measures, 1975-89

The use of special policy measures to assist the adult unemployed began in earnest in the recessionary climate of the mid- to late 1970s, at a time of changed perceptions of the effectiveness of traditional macroeconomic policy responses to high unemployment. At first, and, indeed, throughout the first half of the 1980s, such measures were considered in government circles as essential, but largely temporary, palliatives to a problem eventually soluble by sustained economic growth (see Chapter II). The most extensive measures operated during this period thus consisted of wage subsidies to preserve jobs by preventing redundancies (notably the Temporary Employment Subsidy introduced by the Labour government of 1974-79) and temporary job-creation measures providing, at maximum, work for one-fifth of the long-term unemployed. In more recent years, there has been a growing awareness of the structural, institutional and behavioural limits of the extent to which growth can reduce unemployment. Consequently, training measures have assumed greater prominence amongst the entire class of special measures, and more stress has been placed on measures designed to raise the level of job-search activity.

Table 6.1 lists the main measures that have operated at any time since 1975, classified by broad type in the manner of the OECD (1988). Measures printed in bold type are those still in operation. Tables 6.2 and 6.3 list measures, according to numbers covered and by gross expenditure respectively for the years 1975/76 to 1988/89, for which full data are available at the time of writing. Interestingly, in spite of the plethora of measures and the rise in unemployment since the mid-1970s, real expenditure on employment policies of this kind rose by only 12% between 1976/77 and 1988/89.

Classification according to type of measure is, of course, rather crude; job-creation or training measures normally contain subsidy elements, while work experience can often amount to basic 'training' and *vice versa*. Bearing this in mind, however, reference to individual

policy measures in this chapter will be based upon official designations.

Table 6.1: Active policies to reduce adult unemployment, 1975-91

Policy type	Date of operation
TEMPORARY JOB CREATION MEASURES:	
• Job Creation Programme (JCP)	(1975-78)
• Special Temporary Employment Programme (STEP)	(1978-81)
• Community Enterprise Programme (CEP)	(1981-82)
• Community Programme (CP)	(1982-88)
• **Employment Action (EA)**	**(1991 - >)**
TRAINING MEASURES:	
• Training Opportunities Programme (TOPS)	(1972-85)
• Old Job Training Scheme (OJTS)	(1985-88)
• Wider Opportunities Training Programme (WOTP)	(1985-88)
• New Job Training Scheme (NJTS)	(1987-88)
• **Employment Training (ET)**	**(1988 - >)**
WAGE SUBSIDY MEASURES:	
Job preservation:	
• Temporary Employment Subsidy (TES)	(1975-79)
• Temporary Short-Time Working Compensation Scheme (TSTWCS)	(1979-84)
Employment expanding:	
• Small Firms Employment Subsidy (SFES)	(1977-80)
Targeted:	
• Adult Employment Subsidy (AES)	(1977-78)
• New Workers Scheme (NWS)	(1987-88)
• Jobstart Allowance (Jobstart)	(1986-91)
Self-employment:	
• **Enterprise Allowance Scheme (EAS)**	**(1982 ->)**
MISCELLANEOUS DIRECT MEASURES:	
• Job Release Scheme (JRS, Early Retirement)	(1976-88)
• **Job Splitting Scheme (JSS/Jobshare)**	**(1982 ->)**

Continued

Table 6.1: Active policies to reduce adult unemployment, 1975-91 *(continued)*

Policy type	Date of operation
INTENSIVE COUNSELLING AND JOB-SEARCH MEASURES:	
• **Restart Interviews**	**(1986 ->)**
• **Restart Courses**	**(1986 ->)**
• **Jobclubs**	**(1985 ->)**
• **Job Interview Guarantee Scheme (JIGS)**	**(1989 ->)**
• **Job Search Seminars (JSSEM)**	**(1991 ->)**
• **Job Review Workshops (JRW)**	**(1991 ->)**

Table 6.2: Numbers helped by special employment measures, 1975-89

	Year						000s
Measure	75/6	76/7	77/8	78/9	79/80	80/1	81/2
JCP (Entrants)	14.1	79.3	106.1	-	-	-	-
STEP(Entrants)	-	-	-	19.7	22.4	18.4	-
CEP (Entrants)	-	-	-	-	-	-	27.6
CP (Entrants)	-	-	-	-	-	-	-
ET (Entrants)	-	-	-	-	-	-	-
Other training (Entrants)	58.2	74.5	76.8	82.9	110.5	114.4	102.7
TES (Entrants)	11.3	161.0	197.7	129.1	-	-	-
TSTWCS (Jobs saved)	-	-	-	-	92.9	635.1	166.7
SFES (Entrants)	-	-	3.1	82.2	99.0	-	-
AES (Entrants)	-	-	-	-	1.4	-	-
NWS (Entrants)	-	-	-	-	-	-	-
Jobstart (Entrants)	-	-	-	-	-	-	-
EAS (Entrants)	-	-	-	-	-	-	2.1
JRS (Entrants)	-	10.0	14.5	25.6	68.2	24.2	38.7
JSS (Jobs split)	-	-	-	-	-	-	-

Continued

Table 6.2: Numbers helped by special employment measures, 1975-89 *(continued)*

	Year						000s
Measure	75/6	76/7	77/8	78/9	79/80	80/1	81/2
Restart (Interviews)	-	-	-	-	-	-	-
Restart Courses (Places)	-	-	-	-	-	-	-
Jobclubs (No. passing through)	-	-	-	-	-	-	-

	Year						000s
Measure	82/3	83/4	84/5	85/6	86/7	87/8	88/9*
JCP (Entrants)	-	-	-	-	-	-	-
STEP(Entrants)	-	-	-	-	-	-	-
CEP (Entrants)	39.5	-	-	-	-	-	-
CP (Entrants)	12.1	134.4	161.4	241.2	300.9	n/a	-
ET (Entrants)	-	-	-	-	-	-	n/a
Other training (Entrants)	85.2	109.8	131.8	269.6	252.5	260.6	-
TES (Entrants)	-	-	-	-	-	-	-
TSTWCS (Jobs saved)	101.4	29.6	-	-	-	-	-
SFES (Entrants)	-	-	-	-	-	-	-
AES (Entrants)	-	-	-	-	-	-	-
NWS (Entrants)	-	-	-	-	50.0	50.0	-
Jobstart (jobs supported)	-	-	-	-	2.0	7.0	4.0
EAS (Entrants)	26.9	28.4	46.8	60.2	86.0	160.0	102.0
JRS (Entrants'	46.1	44.8	14.9	12.0	12.0	12.0	6.0
JSS (Jobs split)	0.2	0.6	0.2	0.2	1.0	0.8	0.8
Restart (Interviews)	-	-	-	-	1,300.0	2,300.0	2,300.0

Continued

Table 6.2: Numbers helped by special employment measures, 1975-89 *(continued)*

	Year						000s
Measure	82/3	83/4	84/5	85/6	86/7	87/8	88/9*
Restart Courses (Places)	-	-	-	-	114.0	90.0	80.0
Jobclubs (No. passing through)	-	-	-	1.3	25.0	106.0	140.0

Notes and Source: Davies and Metcalf (1985); Hansard, 17th February 1987; *Public Expenditure White Papers*, January 1987 and 1988. A figure for total coverage is inappropriate since figures in some cases refer to entrants, in others to counselling interviews etc.. *Estimates.

Table 6.3: Gross expenditure on special employment measures, 1975-89

	Year					£m 1987/8	
Measure	75/6	76/7	77/8	78/9	79/80	80/1	81/2
JCP	9	215	348	301	-	-	-
STEP	-	-	-	37	163	96	-
CEP	-	-	-	-	-	-	144
CP	-	-	-	-	-	-	-
ET	-	-	-	-	-	-	-
Other training	374	472	445	480	450	397	354
TES	2	576	367	521	119	-	-
TSTWCS	-	-	-	-	72	751	434
SFES	-	-	9	464	131	22	-
AES	-	-	-	0.9	2	0.9	-
NWS	-	-	-	-	-	-	-
Jobstart	-	-	-	-	-	-	-
EAS	-	-	-	-	-	-	-
JRS	-	8	77	86	249	280	224
JSS	-	-	-	-	-	-	-
Restart Interviews	-	-	-	-	-	-	-
Restart Courses	-	-	-	-	-	-	-
Jobclubs	-	-	-	-	-	-	-
TOTAL	385	1,271	1,246	1,889	1,186	1,546	1,126

Continued

Table 6.3: Gross expenditure on special employment measures, 1975-89 *(continued)*

	Year						£m 1987/8
Measure	82/3	83/4	84/5	85/6	86/7	87/8	88/9*
JCP	-	-	-	-	-	-	-
STEP	-	-	-	-	-	-	-
CEP	224	-	-	-	-	-	-
CP	-	533	600	725	1,097	1,065	-
ET	-	-	-	-	-	-	1,146
Other training	326	266	235	200	191	254	-
TES	-	-	-	-	-	-	-
TSTWCS	104	-	-	-	-	-	-
SFES	-	-	-	-	-	-	-
AES	-	-	-	-	-	-	-
NWS	-	-	-	-	10	14	-
Jobstart	-	-	-	-	2	10	8
EAS	4	31	81	113	150	196	198
JRS	307	342	321	201	115	71	39
JSS	0.2	0.2	0.2	0.2	0.2	0.7	0.8
Restart Interviews	-	-	-	-	23	40	38
Restart Courses	-	-	-	-	12	8	8
Jobclubs	-	-	-	-	3	13	17
TOTAL	965	1,172	1,237	1,242	1,603	1,671	1,454

Note: * Estimates.

Source: As Table 6.2. All figures are converted into constant 1987/8 prices using GDP deflator. Training figures refer to TOPS until 1984/5, OJTS/WOTP from 1985/6 - 1986/7, the Trainer plus NJTS 1987/8.

6.3 Institutional and administrative framework

At first sight, the institutional framework supporting efforts to assist the unemployed in Britain appears straightforward. Complexities arise, however, both from functional divisions within and between central government departments, and the rather *ad hoc* structure of relationships between different authorities at regional and local levels.[1] Most of this complexity is ignored in the following description, since all the policy measures under consideration fall within the province of what is officially referred to as the Employment Department (ED) Group, although even here the situation is complicated slightly by frequent change in the structure of the Group in recent years.

The ED Group

Figure 6.1 (see page 225) illustrates the ED Group, incorporating major changes that have occurred in the administrative structure since the mid-1970s. As the Figure shows, the ED Group's activities are fairly broad, ranging from labour market policy to industrial relations and health and safety at work. Most functions are performed by separate agencies or administrative arms funded by, and accountable to, the central Department of Employment, a functional demarcation extending into the province of labour market policy. There is therefore no direct equivalent of the German *Bundesanstalt für Arbeit* (described in Chapter IV). Moreover, whilst the ED Group's activities encompass the payment of unemployment assistance (Unemployment Benefit and Income Support, the former a national insurance based benefit lasting for up to one year, the latter means-tested) through Unemployment Benefit Offices, it does so as the agent of a separate government department, the Department of Social Security (DSS), which determines, independently, benefit levels and the conditions under which benefit can be received.

The Department of Employment, through the person of the Secretary of State for Employment, has executive responsibility for formulating labour market policy and, in negotiation with the Treasury,

determining related levels of expenditure. The Department undertakes centrally, and through its own local offices, collection and publication of labour market statistics, including, at present, the monthly claimant count of individuals unemployed and claiming unemployment assistance. In certain instances, notably in the case of wage subsidies, the Department of Employment has organised and administered particular employment policy measures itself. In general, however, these have been the responsibility of other arms of the ED Group; for many years the now defunct Manpower Services Commission and, at present, the Employment Service and the Training, Enterprise and Education Directorate (TEED).

The Employment Service

The Employment Service is responsible for job placement, counselling, and administering payment of unemployment assistance to the unemployed. Prior to 1987, it formed part of the Manpower Services Commission's Employment Division, along with the Unemployment Benefit Service. The most overt objective of the Employment Service is to help get unemployed people back to work. Mainstream placement and counselling functions are organised through a national network of, at present, over 1,000 local 'high street' Jobcentres, which play a pivotal role in improving the information flow between employers and jobseekers.

There is no obligation upon employers to notify vacancies, and many prefer to use informal recruitment channels, even though Jobcentre notification is offered free of charge. Official estimates suggest that over half of the flow vacancies are notified to Jobcentres at some stage, but that only one-third of the stock of vacancies is held at any point in time. The effectiveness of Jobcentres was, for many years, hindered by their physical separation from Unemployment Benefit Offices, which are responsible for assessing claims for unemployment assistance, at present, in Britain, payable indefinitely to individuals with insufficient means who are judged to be available for, and actively seeking, work.

The original rationale for such a separation in the early 1970s was that it would serve to project the Jobcentres as available to all jobseekers, not just the unemployed, and thereby raise the proportion of vacancies notified. Whilst this may have been a reasonable aspiration, though not one that was generally realised, such a separation was often criticised for failing to ensure that active and appropriate job search was sustained by unemployed claimants, the casual and mostly 'self-service' nature of Jobcentres placing too much confidence in the ability of the unemployed to make best use of the placement service (Layard, 1986; Burton, 1987).

This latter weakness was, if anything, compounded in 1982 when, as part of a Civil Service rationalisation exercise, it was decided that unemployed claimants need not even register at a Jobcentre as a condition of continued receipt of benefit. Given the previous lack of success in raising the proportion of notified vacancies, the rationalisation sought instead to reduce the average cost per Jobcentre placement, mostly by way of cutting staffing levels. Measured solely in terms of reduced cost per placement, Table 6.4 suggests that the exercise may be considered successful. It is, of course, possible that cost reductions have been achieved at the expense of poorer quality job matching, although there is no way to assess this without further evaluation, and there has been no comprehensive evaluation by the Employment Service of its mainstream placement activities since 1982.

Table 6.4: Employment Service: cost per Jobcentre job placement, 1982-88

Year	Notified vacancies	Placings	Cost per placing
	millions	millions	£
1982/3	2.0	1.5	94
1983/4	2.2	1.7	77
1984/5	2.4	1.8	58
1985/6	2.5	1.9	53
1986/7	2.6	1.9	53
1987/8	2.7	1.9	53
1988/9 *(estimate)*	2.7	1.9	52

Source: MSC Annual Reviews, 1985/6 and 1986/7; *Public Expenditure White Papers*, 1987 and 1988.

In recent years, however, there have been attempts to remedy the weaknesses described above, in order both to provide more advice to claimants on how to use the placement service and more counselling support, especially for those facing particular difficulties in the labour market. Moves began in 1986 with the introduction of the Restart programme of counselling interviews at Jobcentres for all those registered as unemployed and claiming unemployment assistance for more than six months. This was somewhat ironic, when seen in the light of the 1982 Jobcentre rationalisation, since the Restart programme was considered necessary in order to restore the somewhat diminished contact between Jobcentres and longer-term claimants, and thus instil more active and efficient job-search behaviour.

More recently still, Jobcentres have begun to merge with Unemployment Benefit Offices, in order to create a network of between 1,100 and 1,200 integrated offices of the Employment Service (DE, *Employment Gazette*, January 1990). The combining of services for claimants and jobseekers together under one roof marks something of a shift back to the situation prior to the reforms of the 1970s. In

addition, however, the Employment Service has itself become a semi-autonomous so-called 'Next Step' agency. It is set performance targets and executives are given greater freedom to manage their operations, albeit still responsible to government and accountable publicly. What impact these latter changes will have on the efficiency of the Employment Service remains to be seen. An assessment of the Restart programme is possible, however, and this is contained in section 6.8 below.

The Training, Enterprise and Education Directorate (TEED)

The TEED is responsible for devising, developing and overseeing public training measures. Its activities cover not only help for the unemployed, but also that for people in employment and, in some instances, also for those at school or in non-advanced further education. It is important to note, however, that throughout most of the period covered by this study, the TEED (and its immediate precursors, the Training Commission and the Training Agency, see below) to all intents and purposes formed the Training Division of the Manpower Services Commission (MSC).

The MSC, to which frequent reference will be made in the following discussion, was a semi-autonomous, integrated administrative body (in some respects similar to the *Bundesanstalt für Arbeit*), with its own independent chairman. It was funded by, and accountable to, the Department of Employment and was staffed by civil servants, but enjoyed a degree of control over its policy strategy and, to this end, was advised by an independent board of ten commissioners, composed of representatives of employers' organisations, trade unions, local authorities and the education sector. As Marquand (1989) points out, however, the accountability of the MSC to the Secretary of State for Employment was 'no paper relationship' and, in general, limited the range of new institutions and relationships which the Commission could introduce.

The Training Division was organised through a system of ten regional and 58 area offices, performing its administration of special employment measures in co-operation with public, private or voluntary sector vocational education and training providers at local level. In 1987, however, the Department of Employment assumed direct managerial control over the Employment Division and, at the same time, transformed the Training Division into a new body, the Training Commission, funded and operated in the manner of the MSC, but with majority employer representation on the advisory board of commissioners. 1989 witnessed further change, following disagreement between central government and trade union representatives on the Training Commission over the nature of training provision for the long-term unemployed. The Training Commission was dismantled, renamed the Training Agency, and its functions placed under the direct control of the Department of Employment.

Shortly after this, yet more structural plans were announced, heralding a restructuring of training provision with plans to formulate a network of 80 local employer-led Training and Enterprise Councils (TECs) in England and Wales, and 20 Local Employer Councils (LECs) in Scotland. TECs are closely modelled on the Private Industry Councils (PICs), which operate throughout the United States, but have a much broader remit. In Scotland, the arrangements are different.[2] It is far too early to assess the likely impact of these recent changes, but one needs to recognise that, in future, TECs will be responsible for organising the delivery of existing public training programmes for the unemployed, in a manner tailored to the (largely private sector assessed) needs of each TEC area. In effect, therefore, 1990 marked the beginning of the end of nationally homogeneous, special employment and training measures for the unemployed in Britain. Whilst this conveys possible advantages in terms of flexibility to match the heterogeneous training needs of employers in different localities, such a development has obvious implications for policy evaluation which may be rendered more difficult. In the light of the advent of TECs, it was also decided, in the autumn of 1990, to rename the

Training Agency the Training, Enterprise and Education Directorate, thus resulting in the present ED Group structure.

Official approach to policy evaluation

The Department of Employment is required by the Treasury to undertake or sponsor (externally or through the Employment Service and the TEED) evaluation of the absolute and relative effectiveness of its special employment measures. This can involve evaluation of experimental 'pilot' programmes, as well as that of full-blown programmes. Evaluation began almost immediately the first measures were in place, and evaluation methods are continually under review. Estimates of the effectiveness of different measures are thus available for most of the period since the mid-1970s. In many cases, though by no means all, details of evaluations are published in the Department's monthly journal, *Employment Gazette*.

An indication of the official approach to evaluation is offered by the evidence of the Department of Employment and the MSC to the all-party House of Commons Employment Committee in 1985 (House of Commons, 1985). This stressed that each measure was evaluated in relation to its objectives, although the evidence submitted suggested that emphasis was placed on obtaining estimates of the cost effectiveness of measures and their immediate economic effects. It should be noted, however, that this evidence concerned measures primarily concerned with the short-run alleviation of unemployment. As both Stern (1988) and Meadows (1988) point out, the official approach to evaluation has, in more recent years, encompassed a somewhat broader set of performance criteria, reflecting in part the growing importance of supply-side oriented measures, such as training programmes.

The Department of Employment's preferred measure of the cost effectiveness of most direct measures is the first year net Exchequer cost per person no longer unemployed. Estimates of this net cost are available for most of the policies discussed in the following sections, and are published while policies are extant. Prior to 1989 they were

published in the government's annual *Public Expenditure White Paper,* see Table 6.5, although now they are contained in the annual departmental review of the ED Group. Prior to 1986, the White Paper also contained the Department's estimates of the register effects of special measures; estimates for 1984/85 are also shown in Table 6.5. This practice, however, was discontinued, on the premise that the largest of all measures, the Youth Training Scheme (now simply Youth Training), for 16-17 year-olds rather than adults, was a training scheme, the prime objective of which is ostensibly to increase skill levels rather than reduce unemployment. Similarly, net cost measures are not published for training measures.

Table 6.5: Register effects and net Exchequer cost per person no longer unemployed associated with selected special employment measures

Measure	Effect on unemployment register as % of no. covered, 1984/5	Net cost £ 1987/8
CP	90	2,450
JRS	88	1,950
JSS	75	400
EAS	33	1,850
NWS	n/a	1,000

Source: House of Commons (1985); *Public Expenditure White Paper,* (1987/8).

6.4 Temporary job-creation measures

A number of job-creation measures providing temporary work experience for unemployed adults have operated in Britain since the mid-1970s, beginning in 1975 with the straightforwardly named Job Creation Programme (JCP), which was also open to unemployed youths. The JCP was superseded in 1978 by the Special Temporary Employment Programme (STEP) which was replaced in turn in 1981

by the Community Enterprise Programme (CEP). These all represent stages in an evolutionary development, involving greater numbers of unemployed people and higher expenditure, culminating in 1982 with the translation of the CEP into the Community Programme (CP).[3] The remainder of this section focuses entirely on the CP which, during its six-year existence, came to comprise the single largest special employment measure targeted at adults. A description and discussion of the earlier programmes is contained in Metcalf (1982).

The Community Programme

The Community Programme (CP) was targeted at the long-term unemployed, in the hope that temporary work would restore atrophied work habits and improve their prospects of obtaining employment. Year-long work placements were provided on labour-intensive projects of 'practical benefit to the community' (the average length of stay was nine months). Participation in the CP was voluntary and restricted to 18-24 year-olds who had been registered as unemployed for at least six of the previous nine months, and to those aged 25 and over who had been unemployed for 12 of the previous 15 months. However, one should note that although the number of CP places built rapidly upon the 25-30,000 provided by its predecessor, the CEP, reaching a maximum in 1987 approaching 260,000 at a gross annual cost of £1 billion, places were available for only one-fifth of the potential client group of long-term unemployed.

The Community Programme was funded centrally, but administered locally by the MSC, through its network of area offices which contracted out the task of providing placements to Managing Agents. Managing Agents, mostly local public authorities and voluntary organisations, either acted as project sponsors providing placements themselves, or worked together with other individual project sponsors. Most projects involved environmental improvements, energy conservation and certain forms of community care. Under the rules of the programme, however, projects were to undertake work which would not otherwise have been done within two years, in order to

avoid displacement effects. Any private gain from projects was to be incidental rather than by design, and secondary to the community benefit, reducing to almost nil the potential for private sector involvement.

Sponsors' operating costs for overheads, materials and equipment were met by the MSC up to a ceiling of £440 per CP place per year, a figure which remained unchanged during the lifetime of the programme. When aggregated for projects as a whole, this represents just 10% of total expenditure on the CP, indicating the labour-intensive nature of the programme, although this figure excludes expenditure by Local Authorities, which included significant elements of non- labour expenditure. Sponsors were required to pay individuals employed under the CP the local hourly rate for the job, but the MSC re- imbursed sponsors for wage costs per worker up to an average (in 1987/88) of only £67 across a project. As a result, the vast majority of CP employees (over 80%) worked part-time, normally for between 16-24 hours per week and, similarly, around two-thirds were aged below 25, since the weekly wage was attractive only to individuals without dependants and thus with low benefit entitlements.

Official evaluation of the Community Programme

At first sight, official evaluation of the CP appears less systematic than that of the similar German ABM programme, discussed in Chapter IV. This is somewhat surprising, given the size of the CP, and is explained in part by a relative dearth of published evaluation. The Department of Employment did, in fact, devise a fairly detailed and structured evaluation strategy for the CP, and further reports may be published in future, but it is nonetheless disappointing that so little has been published to date. The most detailed published information is provided by an MSC scrutiny of the cost effectiveness and operational performance of the CP (Normington *et al.*, (1986)). This was not, however, intended as a full economic evaluation of the CP, although it offers useful insights into the programme's direct employment effects. Evidence on the subsequent employment of CP

participants is available from periodic official follow-up surveys (see, for example, Turner, 1985), but the value of this survey evidence is reduced considerably by a lack of appropriate control group data.[4]

The scrutiny exercise by Normington *et al.* involved analysis of statistical and documentary information pertaining to the CP, visits to local MSC offices, and meetings with 34 Managing Agents and project sponsors around Britain. They discovered little evidence of deadweight (as one expects from a programme targeted on the long-term unemployed), and reported an official MSC estimate that only 4% of CP jobs substituted for other jobs. The authors felt this to be an underestimate, since sponsors were aware of the additionality rules, and some might well therefore have disguised the true value of projects accordingly. On the basis of this evidence, the MSC estimated the impact on unemployment of the CP at over 90% of its coverage, a figure higher than the last published register effect of 77% for 1984/85, owing to tighter rules governing the programme.

These large register effects are mirrored in published estimates of the cost effectiveness of the CP, the net cost per person no longer unemployed amounting to £2,050 in the last full year of the programme, 1987/88. Unfortunately, no estimates of other possible short-run economic effects of the CP are available. It seems unlikely that the financing of such a cost-effective measure will in itself have given rise to any significant macroeconomic effects, although it is clearly possible that the scheme will have generated multiplier effects arising from the increased spending of participants. So long as the CP was accurately targeted at the long-term unemployed, however, it should not have given rise to any inflationary pressure.

The effects of the CP on the labour market prospects of participants can be observed from the follow-up postal surveys. Turner (1985), for example, reports the results of the first follow-up survey of a random 10% sample of individuals participating in the CP in 1983. The survey, conducted in 1984, contacted almost 900 individuals and achieved a response rate of 65%. The results of the survey are hardly encouraging. Of the respondents, who, on average, had left the CP

7.7 months prior to the time of the survey, Table 6.6 shows that 65% had re-entered unemployment on finishing their placement, and 51% were still unemployed. Of the remainder, almost a third were in employment, 5% were engaged in training, and 13% had, for a variety of reasons, left the labour market. Later surveys of different cohorts show very similar results. Table 6.7, which breaks down labour market status at the time of the survey by various background characteristics, suggests that those aged 21-24 exhibited the highest proportion in employment.

Results such as these, of course, offer only a very partial indication of the effect of the CP, since they say nothing of what would have happened to the same cohort had they not participated in the programme (see Chapter III). Unfortunately, no proper control group exercise was undertaken to discover the net effect of the programme on participants' employment prospects. Such an exercise was seriously considered, but it was decided not to withhold entry to the CP from people who were entitled to participate. Turner himself simply compares the survey findings with other available survey data on the success of long-term unemployed people in finding and keeping jobs. He admits that these data do not provide an adequate control, but nonetheless uses them to conclude that former CP participants were 'some two to three times more successful in obtaining jobs than might otherwise have been expected'. Significantly, however, the inadequacy of Turner's 'control' is highlighted by Normington *et al.*, who point out that a proper evaluation of the CP would have to control for the far from random distribution of background characteristics amongst CP participants.

It has already been mentioned that the majority of participants were young, aged under 25. In addition, Table 6.8 suggests that the very long-term (two years or more) unemployed were underrepresented, making up only a quarter of CP participants, even though accounting for half the entire client group, and that participants were twice as likely to have educational or technical qualifications. Moreover, the scrutiny survey of CP Managing Agents and

sponsors discovered that only 4% accepted all who applied, the vast majority rejecting individuals who appeared demotivated or lacking in skills. This evidence overall thus suggests considerable 'creaming' in the CP, which will have undoubtedly biased crude estimates of the effects of participation on subsequent employment prospects.

Table 6.6: First labour market destination of individuals leaving the Community Programme: survey evidence

Destination	%
MSC scheme	3
Full-time employment	19
Part-time employment	4
Full-time education	1
Other	5
Unemployment	65
No answer	4

Source: Turner (1985).

Table 6.7: Labour market status of individuals surveyed eight months after leaving the Community Programme

	Employment %	Training %	Unemployed %	Other %
Age 18-20	29	7	54	10
21-24	37	5	48	10
25+	31	4	52	13
Unemployment duration prior to CP				
<12 mths	26	5	58	11
> 12mths	33	8	51	8
All leaving CP	32	5	51	13

Source: As Table 6.6.

Table 6.8: Some characteristics of CP participants and the client group of long-term unemployed

	CP participants %	LTU %
Age 18-24	62	37
25-44	25	34
45+	14	29
Unemployed for 2 years +	24	50
Qualifications		
CSE	13	7
O' Levels	24	11
A' Levels	7	3
Degree	5	2
Technical qualification	24	6
Other	2	6

Source: Normington *et al.* (1986).

The Community Programme and the outflow from long-term unemployment

Haskel and Jackman (1988), in an independent study based on data supplied by the Department of Employment, take yet another approach to estimating the effects of the CP. They concentrate not on the effect on individual employment prospects, but rather on the effect of the CP on the outflow rate from long-term unemployment. This methodology, examined in more detail in Chapter III, is chosen because identification of improvement in individual employment prospects says nothing about aggregate outcomes; those leaving the CP might simply take jobs that would be taken by others. However, on the assumption that the stock of *short-term* unemployment is in equilibrium, and that *long-term* unemployment is in a steady state (the inflow equals the outflow), Haskel and Jackman argue that any policy measure or, indeed, any factor that raises the rate of outflow from long-term unemployment, will result in a reduction in total un-

employment because it will cause the steady state level of long-term unemployment to fall. This is why they seek to estimate the net impact of the CP on the outflow rate.

Haskel and Jackman restrict their analysis to those unemployed for between one and two years, and estimate the effects of factors other than the CP on the quarterly outflow rate for this group. The analysis is restricted to a single duration category, since estimation would be complicated by the inclusion of several different duration cohorts, each with different average outflow rates. Given the non-random age distribution of CP participants, it was also decided to look at age- specific outflow rates. Three regression equations were thus estimated: one each for 18-24 year-olds, 25-54 year-olds and 55-59 year-olds.

Two alternative forms of CP variable were included as regressors alongside the aggregate vacancy to unemployment ratio V/U, the proportion of the relevant age-specific category in the one to two year unemployment category, and the dependent variable (quarterly outflow rate) lagged once and twice. Inclusion of the age variable is intended to pick up any effect resulting from the productive quality of the age category; the higher this proportion, the more likely it is to contain individuals of higher productivity, a factor that will tend to raise the outflow rate from this category for any given V/U ratio.

The CP variables are, respectively, the ratio of CP vacancies to total vacancies and the ratio of CP places to total vacancies. The distinction is made because CP opportunities might not have been accurately measured by vacancies, given that people were often placed on CP projects without a vacancy having been notified. The number of CP places may therefore have been the more appropriate variable. Broadly similar results are obtained for both CP variables; attention here is focused upon estimates from equations incorporating CP vacancy data, CP/V.

The regression results seem fairly robust, the statistical 'fit' being somewhat better for the regressions for the 18-24 age group. Taking the ratio of coefficients on the V/U and CP/V variables, Haskel and

Jackman calculate that CP vacancies were about nine times more effective than other vacancies at removing 18-24 year-olds from long-term unemployment, but that the effect was insignificant for 25-54 year-olds and, in fact, poorer than ordinary vacancies for 55-59 year-olds. They then use the equation for 18-24 year-olds to calculate predicted change in the outflow rate between two years, 1981 and 1985 (chosen because the first marks the depth of the recession and the second the peak of the recovery in outflow rates).

Haskel and Jackman's predicted change was able to explain three-quarters of the actual change in outflow rates between the two years. Details are given in Table 6.9. Forty-four per cent of the predicted change was found to be due to the growth of the CP relative to other vacancies (the programme raising the outflow rate by just less than one percentage point), 39% to increased proportions of 18-25 year-olds in the total stock of one to two year unemployed, and only 15% to a general improvement in the labour market as measured by the V/U ratio.

Table 6.9: Actual and predicted change in the quarterly outflow rate from long-term unemployment between 1981 and 1985: 18-25 year-olds

	Actual	% of outflow rate
Change in outflow rate	0.0280	25
Predicted change	0.0205	18
Predicted change in outflow		% of predicted
Change rate due to:		
V/U ratio	0.003	15
CP/V	0.009	44
Proportion of 18-25 year-olds in total stock	0.008	39

Source: Haskel and Jackman (1988).

On the basis of the results overall, Haskel and Jackman make a number of observations. First, given that in 1985 the stock of people unemployed for between one and two years and aged 18-24 was around 100,000, the net percentage point effect of the CP on the outflow rate implied a total net outflow of 1,000 people per quarter. There were, however, roughly 6,000 people in this category participating in the CP in any quarter of that year, indicating that the net impact of the CP on the outflow from unemployment was much less than the number of places. Haskel and Jackman are unable to provide any firm explanation for this, but hint that this might well suggest much greater deadweight, substitution[5] or displacement problems associated with the CP than implied by official estimates. This finding, and the fact that CP vacancies appear to assist young workers far more than older workers, lead the authors to conclude that the CP, or programmes like it, would be better targeted at groups such as older workers, or the very long-term unemployed, with relatively poor re-employment prospects.

Haskel and Jackman are much more optimistic about the effects of the CP when the programme is set in the context of their model of the determinants of aggregate unemployment. They estimate, for example, that having exerted a net impact *via* the outflow rate on the stock of long-term unemployment, the programme reduced total unemployment by about 75% of the number of CP places filled by 18-24 year-olds unemployed for more than one year. The theory underlying this estimate is examined in more detail in the next chapter, which extends the research method outlined here.

The limits of the Community Programme

The Community Programme conveyed many advantages as an employment measure. Principle amongst these was its cost effectiveness: as a means of reducing unemployment in the short-run, the CP was some five times as cost effective as other forms of general public spending, and 15 times as effective as tax cuts (Davies and Metcalf, 1985). The main drawback of the programme, however, was that

common to almost all temporary public job-creation schemes: in order to avoid possible substitution and displacement effects, projects were forced to produce outputs of lesser economic priority. Without disputing the importance of many CP projects to local communities, and accepting that much of the output was difficult to value for it had no discernible market, one can question the logic of a programme directed at work of low economic priority at a time in Britain when work of much higher value remained undone because of government restraint of public expenditure.

Similarly, while the CP helped to provide participants with a structured day, and restored atrophied work habits, many projects did not provide experience of normal working environments. The CP was not, therefore, best suited to preparing participants for regular employment and, moreover, any training provided was incidental. Indeed, it was these last drawbacks that led the government to replace the CP in 1988 with a unified training and work-experience programme, Employment Training, discussed in the following section.

More recently, however, there has been yet another re-think on temporary job-creation measures. Faced with a resurgence in unemployment in 1990 - with the level of claimant unemployment rising by over half a million to reach 2.25 million by the summer of 1991 - the British govemment has decided to introduce a new temporary work programme, Employment Action (EA), from the autumn of 1991 onward, targeted at those unemployed for six months or more.

Like the CP, EA - which will operate alongside training and job-search measures - will provide temporary work on local community projects, although it differs from the CP in a number of distinct ways. It will, for example, offer more non-manual placements to assist those with administrative and clerical experience, this reflecting a rise in white-collar unemployment. Also unlike the CP, it will not offer the rate for the job, but instead an allowance equal to benefit plus £10 and expenses, broadly in the manner of Employment Training (see below), although early indications are that project sponsors will be

allowed to 'top up' the allowance to a level equivalent to the rate for similar jobs.

Employment Action will also be a relatively small programme in comparison with the CP, providing 60,000 places in a full year at an estimated annual gross cost of £181.8 million in 1992-93. It is not exactly clear at present how the programme will develop. The intention is that TECs will have reponsibility for ensuring the delivery of EA at the local level if they wish. In areas where TECs are unwilling to organise the programme, and prefer to concentrate on training programmes, the Employment Service will take responsibility. It should be noted, however, that a general election will have taken place in Britain within a year of the introduction of EA. What, if any, implications the outcome of the election will have for EA or, for that matter, any other programme discussed in this chapter, remains to be seen.

6.5 Training measures

In certain respects, training measures represent a different class of measures from the others encountered in this chapter. As Jackman *et al.* (1986) point out, government-funded training measures have not generally been confined to the unemployed, nor are they considered primarily as a means of reducing unemployment. As mentioned earlier, the Department of Employment does not, therefore, calculate the net cost per person no longer unemployed as a result of its training measures, even though they have, in many cases, been introduced to help groups such as the long-term unemployed back to work. Evaluation, where it has taken place, has instead sought primarily to estimate the effectiveness of training measures on the subsequent employment and earnings of trainees, although, in the case of the Youth Training Scheme, it has been necessary also to estimate the extent of deadweight and substitution effects. This section will concentrate on the major current public training measure for unem-

ployed adults, Employment Training (ET), but first takes a brief look at the training programmes that preceded ET.

Training the adult unemployed, 1975-88

Prior to 1985, training for unemployed adults was offered within the fairly broad Training Opportunities Scheme (TOPS), introduced in 1972. The TOPS provided grants for full-time training (mostly, but not exclusively, for unemployed adults) on short training courses. Training was normally undertaken at a Government Training Centre (or 'Skillcentre') but, in some cases, at colleges of further education. At its peak, over 100,000 people entered the TOPS each year, but the scope of the scheme came under review following publication in 1981 of the MSC's *A New Training Initiative* (MSC, 1981a). This was a wide-ranging initiative setting out objectives for improved training provision for youths as well as adults. The objective for adult training was to open up opportunities for the employed, unemployed or those returning to work, to acquire, increase or update skills. This led, in 1984, to the so-called New Adult Training Strategy, involving, amongst other developments, two new measures for unemployed adults introduced in 1985: the Job Training Scheme and the Wider Opportunities Training Programme. These, in turn, were joined in 1987 by the New Job Training Scheme, though all operated only until 1988.

The Job Training Scheme, now normally referred to as the 'old' Job Training Scheme, OJTS, in order to differentiate it from the New Job Training Scheme, NJTS, offered occupational training to upgrade, update and extend or convert the skills of unemployed people aged over 18. The NJTS, by contrast, was targeted principally at 18-24 year-olds who had been unemployed for between six months and one year, and was employer-led, with the objective of meeting skills shortages. Training for between three months and one year was provided both on and off the job. Employer placements and off-the-job training were found or provided by Managing Agents, in the manner of the Community Programme. Unlike the CP, however, participants

did not receive a wage, but instead had their benefit transformed into a training allowance. In 1987/88, 116,000 unemployed people were expected to have entered the NJTS, at a gross cost of about £2,500 per entrant.

The Wider Opportunities Training Programme (WOTP) provided TOPS-style training courses, either in a self-standing manner, or linked directly to project-based training within the Community Programme. In 1987/88, 64,000 unemployed people entered the WOTP, at a gross cost per entrant of just under £1,000.

Crude figures (based on unpublished survey evidence) that have appeared in the annual *Public Expenditure White Paper* and the MSC's *Annual Reviews* indicate that about half of those completing a period of WOTP training went into jobs, further education or training, whilst 70% of those completing the original JTS entered employment. Both these figures are lower than the 80% of TOPS graduates entering employment, obtained from a survey of 2,000 individuals conducted in 1978, but it should be made clear that the latter survey included individuals other than the unemployed (MSC, 1981b). None of the above findings are subject to control group evaluation. They thus provide only a very poor indication of the effects of these two training programmes, although the OJTS has been the subject of a more rigorous control group analysis (see Payne, 1990).

The analysis was based on a representative sample of 785 trainees who completed their training in the second half of 1986. Just under half had gained an externally-validated qualification. The sample was interviewed in the autumn of 1987 and surveyed by post in the spring of 1989. Their experience was then compared with that of a closely matched control group of individuals who did not participate in the training programme.

The proportion of trainees in work or self-employment following training rose from just under 50% in the month in which their training course ended, to 81% by the time of the follow-up postal survey, the proportion rising most rapidly in the first nine months following training. In comparison with the control group, those who had partici-

pated in training were 25% more likely to find employment. The hourly earnings of men and women who had participated in training were found to be 139 and 83% higher respectively than men and women in the control group (although this was only true where individuals moved into jobs in which they used the skills acquired on their training course). For men, the earnings premium attributable to training was substantially lower for older ex-trainees and, for both men and women, the premium was lower for those with a good educational record prior to training.

Employment Training

Employment Training (ET), introduced in September 1988, originally aimed to provide places for over 400,000 trainees per year, and thus represented a major expansion of training provision for the long-term unemployed. One should note, however, that ET replaced not only the OJTS, NJTS and WOTP, but also the CP, the smaller Voluntary Projects Programme (VPP), and elements of other programmes for the unemployed, and therefore did not represent a corresponding increase in total provision for this client group. Similarly, gross expenditure on ET (originally planned to be £1.3 billion when fully operational, although subsequently scaled down to £900m by 1991-92) is essentially the sum of expenditures on the programmes it replaced (Department of Employment, 1988; *Employment Gazette*, August 1988; and Table 6.3 above).

ET is publicly presented as a programme designed to 'train the workers without jobs for the jobs without workers', that is, as a means of training unemployed people in the skills that are in demand in their local labour markets. Like the YTS, ET offers a mix of broad-based foundation and project-based training for those long-term unemployed people with no, or low-level, skills, and higher-level skills training linked to placements in normal work environments. In addition, however, although the Department of Employment does not consider it appropriate to estimate the register effects of training programmes, one cannot ignore the fact that such a large-scale pro-

gramme as ET can have a considerable short-run impact on unemployment. Operating at full capacity, ET has the potential to remove, at any one time, from the unemployment register in the region of 40% of the stock of those unemployed for six months or more.

The original aim was to provide just over 300,000 training places, with 600,000 people passing through the programme in a year, on the assumption that trainees will, on average, remain in training for six months. Expected throughput in a full year has subsequently been scaled down, however, as a result of falling numbers of the long-term unemployed, though *per capita* funding (see below) is not to be scaled up accordingly. Priority for placements is to be given to the NJTS target group of 18-24 year-olds who have been unemployed for between six months and one year, with the intention of eventually offering places to other groups, beginning with 18-50 year-olds unemployed for two years or more. In principle, therefore, initial prioritisation does not appear to have attempted to reverse the age bias that existed in the CP, and suggests that 'creaming' is also a potential problem in ET. In practice, however, this problem has not emerged, because there is (for the reasons discussed below) no general shortage of ET placements, and people from all groups are able to find places on ET.

Prioritisation rules have thus not had to be implemented and, indeed, by the end of 1989, 62% of ET trainees were aged 25 years and older. It is nonetheless disappointing to discover that only 5% of trainees are aged over 50 and, moreover, that although one-third of ET participants had previously been unemployed for two years or more, almost a fifth of all trainees who entered ET by the spring of 1989 had not been unemployed for six months (Finn, 1989). According to the Department of Employment, those ET participants with shorter durations of unemployment are members of special groups, especially disadvantaged and/or learning a shortage skill, but regardless of this, it is still rather worrying that ET appears not to be catering for older unemployed people and the very long-term unemployed.

Entrants to ET are first directed to Training Agents, who assess their training needs. The assessment is combined with counselling, out of which a Personal Action and Training Plan is drawn up for each entrant. This is meant to determine an individual's training requirements and to set out a planned timetable for their eventual return to employment. At this stage, trainees are assigned to Training Managers, who provide necessary off-the-job training and arrange suitable training placements. Trainees are entitled to 60% on-the-job training ('practical training') and 40% off-the-job training ('directed training').[6] Practical training placements are provided either by employers, in the manner of the NJTS, or by CP-style project sponsors, as within the WOTP. It is expected that all trainees will spend at least some part of their time on ET with employers, and thus not rely solely upon project-based training: somewhat surprisingly, however, Finn (1989) indicates that, by mid-1989, only a quarter of ET trainees were involved in employer-based training. All trainees are encouraged to work towards a recognised qualification, or a credit towards one, and are given a National Record of Vocational Achievement (NROVA), in which they can keep any certificates gained on the programme.

Funding amounts to around £2,500 per six-monthly place per year. Training Managers receive a basic grant of £18 per trainee week, and a supplementary grant of up to £40 per week (depending on the cost of training), to provide a package of training, and can expect a contribution of at least £5 per day from employers for each day a trainee is in placement with an employer. Training Agents receive £31.50 (£38 in London) for each Personal Action and Training Plan completed, and a further £15 for each successful referral to a Training Manager. Trainees themselves are not paid a wage, but rather their benefit plus a Training Allowance of £10 per week, in the hope that this will increase participation by individuals with high benefit entitlements.

No detailed economic evaluations of ET have been published at the time of writing, and it is therefore premature to judge the sucess of the programme. The first official performance study, involving

2,000 people leaving after an average of five months' training, suggests that 55% entered jobs or further training. More worrying has been the high drop-out rate from the programme, which has not proved attractive to either the target client groups or to employers (see Atkinson and Meager, 1989 and Full Employment UK, 1989). In 1989, for example, 60-70% of people referred to ET failed to embark on training (see House of Commons Employment Committee, 1990). Moreover, of those who did embark on training, only 43% completed courses.

Partly as a result of the apparent disenchantment with ET of both unemployed people and employers, plans were announced in 1990 to reduce the scale of the programme. Expenditure on ET was cut from £1.06bn in 1990-91 to £757m in 1991-92. This was officially justified on the grounds that long-term unemployment had fallen substantially since ET was introduced in 1988 and also, on the basis of survey evidence, that many long-term unemployed people did not require training, but instead needed help with job search (spending on job-search measures was thus increased). Just over half of this cut has been subsequently restored, in the wake of sharply rising unemployment in 1991, and following pressure from Training and Enterprise Councils.

While it is too early to draw any firm conclusions on the effects of ET, it is likely that evaluation will proceed in similar fashion to that of Youth Training (formerly the Youth Training Scheme (YTS)), which, in many respects, resembles ET. The chief concern should be to estimate the quality of training provided, the extent of substitution effects, given that the trainees are paid less than other workers, and possible wider supply-side effects. Unlike the YTS, however, which can act as a general recruitment channel for young workers, ET, so long as it sticks rigidly to its client group of long-term unemployed, will probably suffer relatively little deadweight. More generally, however, the evolution of ET, whether as a scheme of skills development or, as some have suggested, as a 'work for dole' scheme, will have

implications for the evaluation criteria that need to be considered (Gregg, 1990).

6.6 Wage subsidies

Amongst the entire range of policy measures under consideration, few have been more widely or more comprehensively evaluated than subsidies. Subsidies introduced into Britain at any time during the study period have included those to employers, designed to preserve jobs, expand employment or raise recruitment of individuals from specific groups, and those to unemployed people, encouraging them to accept low-paid jobs or to set up businesses. In general, evaluation of subsidy effects has involved sample surveys of firms and individuals (in both cases recipients of the subsidy and non-recipients as a control), in order to estimate the net numbers of jobs created and the net Exchequer cost per person no longer unemployed. In some cases, notably those where coverage has been extensive, it has also been possible to examine wider effects. This section concentrates on a number of subsidies; more general surveys are provided by Metcalf (1982) and Lindley (1986, 1987).

The Temporary Employment Subsidy

Job-preservation subsidies were an immediate response to the threat of unemployment in the mid- to late 1970s and early 1980s. In terms of coverage, they represent the most extensive and overt subsidy measures introduced by the Department of Employment. The most important was the Temporary Employment Subsidy (TES), which operated between 1975-79.

The TES was a marginal stock subsidy, offering £20 per week (roughly one-quarter of average earnings at the time) to employers for any job retained, having previously been notified as part of a planned redundancy affecting ten or more workers. The subsidy could last for up to one year, with the possibility of a six-month ex-

tension, during which £10 per week was paid for every retained job. The subsidy seems to have been attractive to employers and, at any one time, was supporting 150,000 jobs and serving to reduce registered unemployment by around 100,000. Cumulatively, the TES supported over 2% of jobs in Britain, at a gross cost of £500 per job, in its peak year of 1978. Ninety per cent of supported jobs were in manufacturing, and as Metcalf (1982) suggests, the significance of the TES in preserving jobs is, in part, reflected in the severity of the decline in manufacturing employment in 1979-80, following its withdrawal.

Layard (1979) points to the potential problems of deadweight and displacement in the TES, the latter arising because jobs supported continued to contribute to output; unless aggregate demand were to rise by as much as the output of the subsidised firms, the subsidy would induce falls in employment elsewhere. In the absence of survey data, Layard is unable to make any estimate of deadweight. On the basis of figures on the incidence of the subsidy, however, he concludes that most of the jobs displaced were likely to have been overseas, since over half the subsidised firms were in the internationally competitive sectors of textiles, clothing and footwear. The TES thus seems to have performed well, in terms of its effects on domestic employment, unemployment, output and the balance of payments.

The most comprehensive study of the TES is that performed independently, but for the Department of Employment, by Deakin and Pratten (1982), and represents an exemplary approach to policy evaluation. The authors conducted a detailed breakdown of jobs supported by the TES, and assessed the effects of the subsidy against a full set of performance criteria. Analysis included that of both microeconomic and macroeconomic effects, in addition to the estimation of the net Exchequer cost per job preserved by the TES.

Several methods of evaluation were used. Firstly, an effective sample of 119 firms which had received the subsidy was asked about its use of the TES. In addition to this sample, which accounted for 14.4% of employees supported by the TES in 1977, a control group

of 54 firms not receiving the TES was surveyed. Secondly, employment and accounting data were obtained from firms receiving the subsidy, in order to perform a 'before and after' study of performance, and to compare the performance of recipient firms with other firms in the same industry that had not received the subsidy. Finally, statistical data for industries and regions were analysed. Since the incidence of the TES was very uneven, it was possible to compare TES-supported industries and regions with other 'control' industries or regions.

Deakin and Pratten are careful to point out that these methods are not perfect. It was not possible, for example, to obtain data from firms for more than two years prior to their receipt of the TES, a period considered insufficient to offer an indication of firms' 'alternative position without TES'. Similarly, firms receiving the TES (and those industries and regions with the highest incidence of the subsidy) were, of course, generally those facing difficulty and were thus self-selecting, with the result that non-recipients may not, therefore, have represented an optimal control group. The authors admit, therefore, that their estimates of the effects of the TES do not necessarily convey precision, a salutary reminder that even the best evaluations rely to some extent upon judgement and interpretation.

From the survey of recipients, Deakin and Pratten estimate the number of jobs preserved by the TES at around half of those supported. Deadweight and 'domino'[7] effects accounted for about 40% of the remainder, a further 10% was attributed to jobs lost anyway, as a result of natural wastage and redundancy during the year that firms were in receipt of the TES. From the control group survey, and the other methods of evaluation, however, it was estimated that 10% of jobs preserved in recipient firms resulted in displacement of workers elsewhere. Accounting for all countervailing effects, the net job preservation effect of the TES was therefore estimated at 40% of all jobs supported (see Table 6.10, only first round effects are estimated).

Table 6.10: Effects of the Temporary Employment Subsidy per 100 jobs supported

	Effect %
Jobs lost	11
Deadweight	29
Displacement	21
Net jobs saved	39

Source: Deakin and Pratten (1982) after Metcalf (1982).

Deakin and Pratten confirmed Layard's conclusions as to the beneficial effect of the TES on domestic output and the balance of payments. Over 80% of workers covered by the subsidy were found to be contributing directly to output, with exports of goods rising, and import penetration falling, in those sectors where the incidence of the TES was highest compared with the five-year period prior to the introduction of the subsidy. It was precisely this favourable domestic impact, however, that found disfavour with the European Community, on grounds of unfair competition, and caused the TES to be withdrawn in 1979.[8]

The analysis of data from TES-supported firms showed that their output per employee was, on average, lower than that for their industries, with the result that the TES served to reduce average labour productivity. However, as mentioned above, most of those workers supported were contributing to output by undertaking normal work, and there was little to suggest that the TES itself led to a reduction in efficiency or productivity within supported firms. Of course, it may have been more efficient for workers to shift from activities of relatively low productivity to higher productivity activities; therefore, the TES may have slowed down resource allocation to the detriment of long-run economic efficiency. Deakin and Pratten are unable to be precise on this matter, although they do conclude that it was unlikely

that the TES adversely affected productivity growth. During the period of the subsidy, labour shortages did not hinder the growth of efficient firms, whilst firms supported by the TES were in a position to improve the efficiency of their operations. Those which did not so improve are likely to have contracted or closed once TES support was withdrawn.

Finally, Deakin and Pratten estimate the net Exchequer cost of the TES at 60% (£625 at 1977/78 prices) of the gross cost. This is based on their estimates of the net job preservation effect, related reductions in unemployment pay, and tax flowbacks.

Small Firms Employment Subsidy

A modest form of (marginal stock) job-expansion subsidy was the Small Firms Employment Subsidy (SFES). This was introduced as an experiment in 1977, and was initially confined to (high unemployment) Special Development Areas, and to manufacturing establishments belonging to firms employing fewer than 50 workers. It paid £20 per week for up to six months for each additional employee taken on over and above the number employed at a base date prior to the introduction of the subsidy. The SFES was subsequently extended nationally, however, and was also made available to firms employing up to 200 workers in the manufacturing or service sectors. During the course of its peak year of 1978/79, 90,000 jobs were supported by the SFES, at a total gross cost of around £30 million (1978/79 prices).

Layard (1979) and Metcalf (1982) both report the findings of a Department of Employment evaluation of the SFES during its experimental phase. This involved two evaluative methods: a control group study, and a questionnaire sent to employers receiving the subsidy. The control group consisted of a sample of firms similar to those receiving the subsidy, which had expanded employment during the first eight months of the experiment, but outside the experimental area. Comparison showed that the subsidised firms expanded employment by 20% over the period, and the non-subsi-

dised firms by 12%, suggesting that the net effect of the subsidy had been to induce 40% (two in five) of the jobs created in the subsidised firms. The questionnaire obtained similar results, and also discovered that over half the net jobs created would survive removal of the subsidy.

These results implied a net Exchequer cost per person off the unemployment register of £1,500 (1978 prices), although Metcalf is rather cautious about this estimate for a number of reasons, primarily because the evaluation study made no proper attempt to account for displacement effects, which may well have become more important as the geographic coverage of the SFES was extended beyond areas of high unemployment.

Adult Employment Subsidy

In addition to the marginal stock subsidies referred to above, a number of flow subsidies have operated, with the objective of raising the recruitment of adults from amongst specific target groups. One such was the Adult Employment Subsidy (AES), which was introduced in three areas - Merseyside, Tyneside and Leeds - in August 1978. The experiment lasted ten months and involved fewer than 1,000 individuals. £20 per week was paid in subsidy for up to six months to employers in the private sector (not receiving certain other grants from public funds) prepared to recruit men or women aged between 19 years and pensionable age who had been registered unemployed for more than 12 months, that is, who were long-term unemployed.

The AES was never evaluated in a thorough manner, but the Department of Employment did commission a survey of recipient and non-recipient firms, in order to discover the responsiveness of employers to such a recruitment subsidy. As is commonly found with recruitment subsidies, especially in areas of high unemployment such as those in the AES catchment area, deadweight was considerable, 71% of the subsidised recruits in the survey would have been taken on without the subsidy. Moreover, the survey concluded that deadweight might have been as high as 84%, given uncertainty

amongst respondents to the survey. Only 16% of recruits would definitely have not been taken on but for the subsidy, 13% of whom were found to be additional, having taken substitution into account.

New Workers/Young Workers Scheme

Another targeted subsidy, the New Workers Scheme (NWS), which operated between 1986 and 1988, was really a hybrid youth/adult recruitment subsidy, applying only to those unemployed and aged under 21 years. Under the scheme, employers were able to claim £15 per week for up to a year for individuals in their first year of employment, recruited at a gross weekly wage of £55 or less (for 18 and 19 year-olds), or £65 or less (for 20 year-olds). In addition, individuals recruited under the scheme were to be no longer eligible for the Youth Training Scheme. At its peak, some 50,000 people were employed under the NWS at a gross cost of £10 million.

The wage stipulations provide a clue to the aim of the subsidy: it was designed to encourage employers to recruit workers at rates of pay well below those paid to older workers. The rationale for this was that youth unemployment or inadequate youth training provision resulted, at least in part, from relatively high youth wage rates, imposed by unions or, in some sectors, by statutory minimum wage orders. This rationale also underlay the YTS and the so-called Young Workers Scheme (YWS), which the NWS replaced. The YWS operated in much the same way as the NWS, but applied to 16 and 17 year-olds. Those eligible for the YWS were, of course, part of the potential YTS client group, with the result that the two schemes were, in a sense, competitive. This, and the fact that the government aimed eventually to extend a universal guarantee of a YTS place to all unemployed 16-17 year-olds, was the main reason why the YWS was superseded by a subsidy targeted at a slightly older client group. Moreover, since participation in the YTS did not constitute previous employment under the rules of the NWS, the latter subsidy was seen as a means of providing a bridge between YTS training and work, by increasing placement rates of YTS graduates.

The NWS has not been the subject of any published evaluations. There have, however, been a number of studies of the YWS which one can reasonably assume to have operated in a fairly similar manner (accepting the fact that the NWS may have benefited from its ability to place individuals who had passed through a broad-based course of general vocational training). Reference will be made here to studies by Rajan (1985) and Bushell (1986), the latter for the Department of Employment.

Rajan's study is based on an independent survey of employers, conducted during the course of 1983 and 1984. 365 companies responded to a postal questionnaire, designed primarily to estimate the initial (first year) net effect of the YWS on employment. Of these, around a third were YWS users, 20 of whom were the subject of a more detailed case study, designed to look more closely at the employment effects of the scheme and, in addition, to assess the impact on recruitment behaviour and youth-adult hourly wage differentials. Bushell also reports survey evidence, including that of both a specifically commissioned 1985 interview survey of 754 establishments claiming payments under the scheme, and a continuous postal survey of employers claiming payments which began in 1982. In neither case, therefore, were non-recipient employers consulted. In addition, data from management systems developed to administer the scheme were utilised.

Rajan's postal survey indicated very high deadweight in the YWS: 80% of jobs supported by the subsidy would have existed without it. This was much higher than the 63% deadweight identified by Bushell, recorded in Table 6.11. Although not referring to Rajan's work, Bushell does indicate that the latter estimate is lower than that derived from earlier surveys of the YWS, and attributes this to two factors. Firstly, it seems that the scheme initially allowed employers to claim support retrospectively for workers already recruited; a procedure clearly prone to deadweight. Secondly, the availability of the subsidy encouraged far greater induced recruitment of young workers over

time, as experience of the scheme became known to more, and particularly smaller, employers.[9]

On substitution effects, the differences between the studies are reversed: Bushell estimating this at 10% of jobs supported to Rajan's 4%. However, given that Rajan finds that substitution (unlike deadweight) is more evident in smaller establishments, a rising average substitution effect probably reflects the very same changes in take-up of the subsidy to which Bushell attributes the fall in deadweight. These differences in estimates of deadweight and substitution effects give rise to a difference of 11% in first-year estimates of the net numbers of jobs induced by the YWS, Bushell's estimate being the higher of the two, at 27% of jobs supported. One should note, however, that, on the basis of case study evidence, Rajan adds 5% to his first year estimate of 16%, in order to reflect the continuing effects of the subsidy in the years after its introduction.

These latter effects included increased youth-adult earning wage differentials, and improved competitiveness on the part of recipient firms. Rajan concludes, however, that the second round, and thus also the cumulative effects of the subsidy on employment, were subdued in particular by the strength of traditional wage structures, collective bargaining, and Wages Council Orders (legal minimum wages), which reduced the extent to which youth-adult wage differentials could widen. The most marked effects were observed in smaller establishments, with the result that Rajan expected stronger employment effects the higher the take-up of the subsidy by smaller employers. Bushell seems broadly to confirm these findings; in the short run, the YWS was estimated to have reduced the average starting wage of young people by around 6% of that prevailing in its absence. Moreover, the introduction of the subsidy coincided with a slowdown in the rate of pay increases of those aged 18 and under (although the YWS was unlikely to have been the only factor contributing to this). Perhaps significantly, however, he identifies the strongest downward pressure in establishments where deadweight was

low and substitution high; the pattern which Rajan discovers to be typical of smaller establishments.

As for other effects, Bushell reports that 51% of respondents in the special 1985 survey considered the YWS to have enabled them to improve their products; 14% believed that it had enabled them to avoid price increases, and 11% believed that it had enabled them to increase capital investment. Fifteen per cent considered the subsidy to have improved their overall competitive position, a factor that Rajan posits as a contributor to the cumulative job-creation effect of the subsidy. In view of this, it is rather surprising that Rajan makes no attempt to consider displacement effects, considering these unlikely because of the modest total Exchequer outlay, and its low concentration amongst recipients. Bushell, however, does approach estimation of displacement, even though recognising this to be very difficult to identify in the case of a relatively small-scale subsidy. He reports that 40% of establishments in the 1985 survey considered the YWS to have enabled them to increase output, although further investigation of the same respondents suggested that any such increase was small in relation to their total turnover. Rajan is probably justified, therefore, in his view that significant major displacement effects were unlikely to occur as a result of the YWS.

Table 6.11: Initial employment effects of the YWS per 100 jobs subsidised

	Rajan %	Bushell %
Deadweight	80	63
Substitution	4	10
Net jobs created	16	27
Total	100	100

Source: Rajan (1985); Bushell (1986).

Jobstart Allowance

The final targeted subsidy under consideration is the Jobstart Allowance (Jobstart for short), which operated between 1986 and 1991, and was targeted at people who had been registered as unemployed for more than 12 months. Jobstart shared the same basic policy rationale as the NWS/YWS, in that it attempted to expand low-wage employment. Unlike the NWS, however, the subsidy was paid to employees rather than employers, in an effort to overcome the so-called 'unemployment trap', which may result in prolonged unemployment of individuals with high replacement ratios. The subsidy was thus paid to employees in the form of a taxable wage allowance (currently £20 per week) for up to six months, to any eligible person entering a job paying less than £90 per week (originally £80).

Jobs had to be full time - over 35 hours - had to last for up to three months, and claimants had to accept jobs before applying for the allowance (just under a quarter had applications turned down). The employer did not need to know about the payments, the allowance being paid direct to the recipient. The scheme was not open to those entering self-employment (for which a separate subsidy, the Enterprise Allowance, is available, see below) or private domestic service. By mid-1989, around 40,000 people had entered employment and had claimed the allowance. Gross expenditure on the scheme in 1988/89 amounted to around £8 million.

The subsidy contained no mechanism to discourage the obvious problem of deadweight, other than the application procedure, which might well have been fallible. Moreover, it is quite possible that individuals returned to claim Unemployment Benefit once the allowance period was exhausted, although voluntary job quitters in Britain cannot claim unemployment assistance within six months of leaving employment. Alternatively, those supported by Jobstart may have subsequently progressed to higher-paid jobs, or have applied for other assistance from the state, in the form of means-tested, in-work benefits or wage credits (such as Family Credit), available to low-paid workers. Each, or a combination of all of these outcomes was clearly

possible, and required close investigation if the effectiveness of the subsidy was to be properly evaluated.

There are no published estimates of the cost effectiveness of Jobstart, although results of the first independent national evaluation of the subsidy are available. On behalf of the Department of Employment, Wood and Hamilton (1989) performed a survey in July/ August 1988 of all individuals starting a Jobstart job in October 1987 and April or early May 1988. There were thus two samples of Jobstart recipients, the first consisting of those who had exhausted their Jobstart entitlement three months prior to the survey, and the second consisting of those about halfway through their entitlement. The first sample resulted in 379 interviews, the second 391, the response rates being 76 and 81% respectively.

A distillation of the findings, which are similar for both groups, is reported in Tables 6.12 and 6.13. Around two-thirds of individuals interviewed from each sample said they would have taken the Jobstart job *without* the subsidy, providing a measure of deadweight. There was a marked relationship between deadweight and the previous level of benefit. Half those individuals with previous benefit of £60 or more per week said they would not have taken the job without Jobstart, compared with only one-fifth of those who had been getting less than £25. Individuals with dependants generally had higher benefit levels, and were also less likely to have taken the job without the subsidy. The high level of deadweight was clearly a major reason for the withdrawal of the subsidy in 1991.

Most of those receiving Jobstart were young - about half aged under 25 - and very few were aged over 40. The subsidy nonetheless appeared to be serving its client group; roughly half those interviewed in both groups had been, prior to Jobstart, continuously unemployed and looking for work for two years or more. Somewhat surprisingly, however, about 10% had been unemployed for less than a year. It is unclear whether this reflects poor administration of the scheme or, as the Department of Employment suggests, was simply due to the fact that because respondents were asked to give their subjective

assessment of how long they had been unemployed, answers were unlikely always to correspond with the official record of their duration of unemployment.

The survey found that most people on Jobstart worked in small firms in the private sector, commonly retailing, clothing and footwear manufacture, and construction. Average gross starting earnings were around £66 per week, or £1.70 per hour. For all but 6% of the sample, take-home pay plus their allowance was higher than basic benefit. About a fifth, however, had taken up Family Credit (an in-work benefit) while receiving the allowance, whilst a quarter had suffered a loss of, or reduction in, Housing Benefit.

Of those interviewed after the period of the allowance had been completed, two-thirds were still with their employer and half had experienced an increase in earnings. Only 40%, however, had broken the subsidy wage threshold (£80 per week at the time of the survey), although the study makes no attempt to assess whether the subsidy had had any effect on wage levels in firms employing Jobstart employees. Of those not with the original Jobstart employer, half had moved to another employer, and half had returned to unemployment.

Table 6.12: Some characteristics of people on Jobstart

	3 mth sample %	9 mth sample %
Age under 20	12	12
20-24	34	42
25-29	19	17
30-39	19	17
40-49	11	7
50+	5	4
Unemployment duration prior to Jobstart job		
Under one year	7	7
One year	42	28
Two years	17	20
Three years	10	15
Over four years	22	27
Unclear	1	2

Source: Wood and Hamilton (1989). Sample definitions as given in text.

Table 6.13: Jobs created by Jobstart as percentage of jobs supported

(a) All interviewed	3 mth sample %	9 mth sample %
Deadweight	65	69
Net jobs created	32	30
Unclear	3	2

(b) 9 mth sample by previous weekly benefit

	£ per week				
	<25 %	25-34 %	35-59 %	60+ %	All %
Deadweight	79	71	57	51	69
Net jobs created	19	27	39	49	30
Unclear	2	1	3	-	2

Source: As Table 6.12.

A self-employment subsidy: the Enterprise Allowance Scheme

The Enterprise Allowance Scheme, piloted in 1982 and introduced nationally in 1983, is a subsidy to encourage unemployed people to set up their own small businesses or enter self-employment. The scheme is restricted to those who are unemployed and in receipt of benefit for eight weeks or more, able to provide £1,000 as business start-up capital. The objective of the subsidy, paid at the rate of £40 per week for one year, is, therefore, to assist those with the initial financial ability and desire to start a business, but who might otherwise be deterred, because to do so would result in the loss of unemployment assistance and, thus, necessary income. In principle, the capital requirement might be expected to limit the ability of many unemployed people to take up the subsidy. In practice, however, the requirement is not a great handicap, because it will be met by evidence of an overdraft facility. Moreover, the sum of £1,000 has not

been raised in seven years. The EAS is thus quite popular, supporting a total of around 470,000 businesses since 1982. In 1988/89 the government spent around £200 million (gross) on the scheme.

As Lindley (1986) points out, the EAS presents somewhat different problems of evaluation than more straightforward employment subsidies, because it is more akin to a business incentive than an employment measure. Long-run considerations, such as business survival rates, are thus as important, if not more so, than short-run effects on employment and unemployment. The scheme has been the subject of several published evaluations of its progress, based largely on evidence from periodic MSC/Training Agency follow-up surveys of cohorts of individuals setting up in business under the scheme. Stern (1988) reports the results of some of these surveys and, from this, offers an assessment of the effectiveness of the EAS in terms of short-run net cost to the Exchequer, medium-term direct effects, and long-run supply performance effects.

The surveys reviewed by Stern indicated that just under half of EAS participants would have set up in business without the subsidy, perhaps not too high a deadweight element when compared with some of the subsidies discussed earlier. The most recent survey estimates suggest that 36% of EAS applicants are pure deadweight, and a further 20% partial deadweight (would have set up in business within a year). Stern assumes a comparatively high displacement effect, with around 50% of EAS businesses displacing similar businesses. This is to be expected, in view of the predominance of sole-trader businesses amongst those supported by the EAS, and the high incidence of the subsidy in sectors such as construction, personal domestic services and retailing (see Table 6.14).[10] The latest figures on the register effect of the EAS suggest that, for every 100 EAS entrants, 37.4 people leave the unemployment count, and that the net cost to the Exchequer of one person off the count is approximately £1,850, or 33% of the gross cost.

Table 6.14: Some characteristics of businesses set up under the Enterprise Allowance Scheme

	Survivors %	Non-survivors %
(a) Sector		
Construction	16	15
Retail	14	17
Personal/domestic service	12	14
Repair	9	10
Undefined	49	44
(b) Business type		
Sole trader	77	82
Partnership	14	17
Co-operative	-	-
Limited company	8	1
Other	-	-

Source: RBL Research International (1987).

Turning to medium-term direct effects and supply performance effects, Stern reports that 65% of those who completed their EAS year were still working in the same business two years after they stopped receiving the subsidy (after three years in total). Moreover, for every business still trading after three years, 114 employees had been taken on, 84 full-time and 30 part-time. On supply performance effects, Stern, in fact, lists expected effects rather than observed or estimated effects of the EAS. He points out that the EAS was likely not only to have increased the stock of small businesses, but also the supply of entrepreneurship. In addition, the EAS probably reduced wage pressure in the economy by way of inducing an increase in the active labour supply by raising the participation of married women. Surveys of businesses developing out of the EAS showed that a quarter of their employees after three years worked part-time, over a third of whom were the spouses of the former EAS recipients.[11] From these expected

supply performance effects, Stern concludes that the EAS will have generated higher levels of output and employment and lower unemployment, although the subsidy probably did little to contribute to higher productivity or higher real wages.

6.7 Miscellaneous direct measures

Brief mention must also be made of a number of other measures that have assisted unemployed adults into employment in Britain. These include work-sharing and early retirement measures, as well as special employment provision for people with disabilities. This section will concentrate on work-sharing and early retirement measures, namely, the Job Splitting Scheme (now renamed Jobshare), and the Job Release Scheme. Help for people with disabilities, in the form of the Sheltered Employment programme, which provides work for those unable to compete in the labour market on equal terms with others, is not considered, since few, if any, of those helped would otherwise appear on the unemployment register. Details of a recent official evaluation of Sheltered Employment are provided by Dutton *et al.* (1989).

In general, work sharing and early retirement are regarded as second-best solutions to unemployment. Their prime merits are the equity they instil in the labour market by spreading existing work and thus the burden of unemployment. Neither solution, however, results in higher output or net additions to employment in terms of full-time equivalents, and neither serves to reduce inflationary pressure in the labour market that constrains economic expansion. Indeed, both will, if anything, raise wage pressure, thereby threatening output and jobs; early retirement, because it reduces the active labour supply, and work sharing, because, in the absence of corresponding wage sharing, it is likely to result in higher unit labour costs. Despite these drawbacks, Davies and Metcalf (1985) suggest that work sharing and early retirement might nonetheless be worthwhile, so long as they

are voluntary (and are thus not imposed as general solutions to unemployment) and prove to be cost effective.

The Job Splitting Scheme/Jobshare

The Job Splitting Scheme (JSS), now called Jobshare, was introduced in 1982. The scheme offers payments to employers prepared to create part-time jobs. by splitting existing work or combining regular overtime working, and filling them with people taken off the unemployment register. In 1987/88 employers could claim £1,000 for each part-time job created in this way, on the stipulation that the job would last for at least one year.

The main plus point for Jobshare is its extremely low net cost per person no longer unemployed. At only £400 per person per year, this is less than one-fifth of the cost of the most cost effective of special employment measures. Indeed, in the early years of the JSS, the net cost was negative, so the Exchequer saved £100 for every job created under the scheme, because savings in benefit and tax returns were greater than payments to employers. Unfortunately, this low net cost was reflected in a lack of employer interest in the scheme. In five years only 2,000 shared jobs were created under the JSS and, despite higher payments to employers, Jobshare currently supports only 200 shared jobs per month. According to Meager (1988), however, lack of employer interest reflects not the level of payment on offer but rather the stipulation that recruits must be taken off the unemployment register; employers felt that recruits from this source would be unsuitable for the posts they might consider sharing or splitting.

No published evaluations of the scheme are available, so it is unclear what proportion of part-time jobs supported would not have been created in its absence. The tiny numbers supported by the scheme, however, mean that its impact on unemployment is minimal, regardless of the extent of deadweight.

The Job Release Scheme

The Job Release Scheme, a form of early retirement subsidy, by contrast, had a considerably greater impact on unemployment. The scheme, which operated between 1977 and 1988, offered financial help to people accepting early retirement, if this released a job that would be filled by a person taken off the unemployment register. People eligible for the scheme were those within one year of the formal state retirement age of 65 for men, and 60 for women, and received payment under the JRS until eligible for the state retirement pension. Retirees were paid (in 1987/88) up to £74 per week, if married with dependents, or up to £52, if single.

Employers had, of course, to agree to the procedure, and had the right of veto. Those agreeing to participate received a fee to cover necessary administrative costs. Jobs released could be replaced directly or indirectly. Indirect replacement would occur, for example, where an employer replaced someone retiring from a senior post by means of internal promotion, leaving vacant a more junior post to fill from the unemployment register. At its peak in 1983/84, some 85,000 previously unemployed people were in employment in any given month, as a result of jobs released under the JRS, at a gross total cost for the year of around £150 million.

Evaluation of the JRS has been concerned to measure the extent of two main problems. First, there is the obvious problem of deadweight, since some jobs may have been released anyway. Second, is the problem of non-replacement, where released jobs are, in fact, lost, or are not filled by an unemployed person. This latter problem should, of course, have been avoided as a result of administrative checks on the operation of the scheme. In practice, however, monitoring is never perfect and, in the case of the JRS, was complicated in particular by indirect replacement. In the event, as Metcalf (1982) reports from the findings of Department of Employment evaluations of the scheme, around 15% of jobs released were not replaced, a further 10% of those released representing deadweight. The net reduction in unemployment induced by the JRS is thus calculated at

75% of jobs released as a result of the scheme, enabling the Department of Employment to calculate the net cost per person no longer unemployed at £676 in 1978. The equivalent published figure for 1987/88 was £1,950; the estimates of net job creation had risen to 88%, as a result of tighter monitoring of replacement in the 1980s (see Table 6.4 above).

Metcalf, referring to the 1978 figures, calculated that the JRS was over three times more cost effective than any alternative early retirement solution to unemployment, for example, a general compulsory reduction in the retirement age. For this reason, although accepting the second-best nature of such a policy, Davies and Metcalf (1985) advocate an expansion of the JRS, as well as other, and generally preferable, cost-effective special employment measures which generate output and net employment. Their suggestion was that JRS eligibility should be extended to able-bodied men aged 60-65.

Regardless of the merits or otherwise of this suggestion, the government decided to abandon the JRS in 1988. This reflects, in part, a gradual decline in interest in early retirement since the mid-1980s, as unemployment had fallen and policies designed to enhance rather than reduce the supply of labour have come to greater prominence. The official reason given for the decision was that the JRS did not offer help specifically to the long-term unemployed, nor did it ensure training for those entering jobs which were released.

6.8 Counselling and intensive job-search measures

This section discusses measures that do not in themselves directly provide unemployed people with employment, but are designed to increase the intensity and efficiency of job search. The measures to be considered here are the Restart programme of counselling interviews, Jobclubs, Restart courses, and the relatively new Job Interview Guarantee Scheme.

The Restart programme

The Restart programme of Jobcentre interviews for all registered long-term unemployed people was introduced nationally in July 1986. In view of the numbers of long-term unemployed at that time (1.3 million unemployed benefit claimants had been out of work for more than 12 months), Restart represented a major extension of the work of the Employment Service, every long-term unemployed claimant being invited by letter to attend a short counselling interview. Moreover, the programme was extended still further in April 1987, to cover those registered as unemployed for six months or more, with interviews being repeated at six-monthly intervals for those remaining unemployed. By the end of the fiscal year 1988/89, over 3 million counselling interviews had been conducted, the programme in the latter year costing £40 million.

Restart has often been cited as a major factor underlying the fall in claimant unemployment in Britain that occurred between 1986 and 1990 (indeed, the fall began in the month that the programme was introduced). At first sight, this is a remarkable claim for a counselling measure, although less so when one considers the variety of effects exerted by Restart.

Firstly, Restart seeks to re-motivate 'discouraged' workers, and those unemployed people who may have lost touch with the Employment Service. Such individuals are made aware of available vacancies and/or what help they can be offered by way of direct special employment measures. In official descriptions of Restart, the interview is depicted as an event during which interviewees are offered a range of training or job-search 'options', only one of which is the offer of notified vacancies.

Secondly, Restart interviews can also filter out those amongst the unemployed with health or related problems, who need different help from that available from the Employment Service. And thirdly, Restart allows for a more rigorous assessment of claimants' availability for work, and is therefore able to detect the fraudulent, such as those drawing benefit whilst working in the so-called 'black econ-

omy'; although this feature of Restart is played down in official publicity, interviews are, in effect, compulsory, and failure to attend or co-operate at interviews can result in referrals to benefit claims assessors.

The second and third effects will result in reductions, mainly in registered unemployment, in the form of a 'shake-out' of claimants. This will generate savings in outlays on unemployment assistance and will remove any overstatement of the extent of unemployment that might otherwise be contained in claimant statistics.[12]

Reductions in unemployment brought about in the latter way will, of course, only lead to higher employment if, in the process, individuals take jobs otherwise rejected because benefit was available without job-search conditions attached. But whatever the outcome for employment, the shake-out effect is likely to be a once and for all effect, unless ever-tougher job-search conditions are attached to the receipt of unemployment assistance. In fact, progressively tighter conditions have been attached. This has involved the gradual introduction, since 1986, of stricter 'availability for work' criteria and, most recently, under the terms of the Social Security Act, 1989, a new stipulation requiring unemployed benefit claimants to demonstrate that they are 'actively seeking wor '.

The strength of the first effect of Restart, mentioned above, will be the greater the more job or training opportunities are readily available. In the absence of sufficient jobs or necessary training provision, those passing through Restart will either remain unemployed, or take jobs that would have gone to other workers, although if, in the process, the programme were to generate a net increase in the outflow rate from long-term unemployment, it may exert a downward effect on total unemployment in the manner discussed by Haskel and Jackman (1988) in their study of the Community Programme.

Ideally, one would wish to estimate the combined effect of Restart and decompose this into each of these individual effects. Clearly inadequate, though often cited, are official figures of the 'effects' of Restart, which suggest that approximately 20% of those called to

interview subsequently leave the unemployment count. These provide no account of why individuals leave the count, nor any indication of the net effect of Restart. Somewhat more detailed estimates, however, can be derived from the results of a number of MSC pilot studies of Restart and, in addition, independent econometric studies.

The pilot exercise was carried out in the six months prior to the introduction nationally of the programme, and involved nine localities throughout Britain (see Smith, 1986). Invitations to attend an interview were sent to 34,000 long-term unemployed claimants and, of these, 21% left the unemployment register during the course of the pilot period. Clearly, some of these would have left anyway, requiring a comparison to be made between the pilot areas and a number of control group areas. Unfortunately, the latter were not defined, so it is not possible to assess how comparable they were, in terms of labour market conditions, to the pilot areas. The comparison indicated that around half of those leaving the count after being approached for an interview did so as a result of Restart, roughly 10% of all those invited.

The MSC did not provide a published breakdown of the characteristics and final destination of this 10%, but did publish some findings relating to the 21% who left the register in total. Five per cent were helped straight into a job, or were provided with places on the Community Programme, a further 2% entered a government training programme, or took advantage of the Enterprise Allowance Scheme. Three per cent were almost certainly directed to another form of benefit, as a result of previously undetected sickness or disability, whilst a further 2% were probably deemed ineligible for unemployment assistance because genuinely not available for work. As for the remainder, some may have taken jobs sooner than otherwise, as a result of the prompt of Restart, and others will simply have stopped claiming because they were in receipt of undeclared earnings in the black economy (a cohort likely to have left the unemployment register prior to the interview itself).[13] Finally, one should note that, in addition to this 21%, around 8% of those interviewed were directed

to more intensive help with job search (Restart courses and Job Clubs, see below), while remaining on benefit.

An alternative approach to estimating the effects of Restart, has been to enter the number of Restart interviews conducted within a given period into time series regression equations, constructed to examine the relationship between employment and registered unemployment. Gregg (1989), for instance, estimates an unemployment equation using quarterly data for the first quarter of 1974 to the first quarter of 1988, with the number of Restart interviews per quarter included for each quarter following the introduction of the programme. The other regressors include employment and demographic variables, the log of the real post-tax wage, and a lagged dependent variable. A broadly similar approach, using a Restart variable of the same form, is that of Dicks and Hatch (1989), who estimate the effects of Restart within a more wide-ranging analysis of changes in the employment-unemployment relation. They include sectoral employment, broken down by sex and full-time/part-time distinctions, and demographic variables within a number of unemployment equations, using quarterly data covering a slightly longer period than that of Gregg.[14]

Gregg finds the Restart variable significant, the estimated effect of the programme being to raise the outflow from long-term unemployment by 11% per quarter so that, for every 100 interviews, 11 people left the register. Dicks and Hatch offer a number of estimates of the effect of Restart, based upon different specifications of their model. They suggest that between 11 and 18% of those interviewed leave the unemployment register each quarter, the lower end of this range being similar to Gregg's estimate, and comparable to the findings from the Restart pilot exercise for the net effect of the programme. On the basis of their estimates, Dicks and Hatch conclude that at least 50% of the fall in registered unemployment since 1986 may be attributed to Restart. Further econometric analysis of the overall effect of Restart, derived from estimates of the net effect of the programme

on outflow rates from unemployment, is contained in the next chapter.

These results are subject to a number of caveats. Gregg, for example, points out that the accuracy of estimates of the effects of Restart are bound to be affected by the quality of employment data. For the period since 1986, these have been subject to several quite substantial revisions. The Department of Employment, meanwhile, makes the important point that the data used by Dicks and Hatch only go up to 1988, two years after Restart was introduced, with the consequence that their estimates of the effect of the programme are based on few data points.[15]

Dicks and Hatch are themselves concerned that their Restart variable might, at least partially, be proxying the effects of the tougher availability for work rules mentioned earlier, which first began to come into effect at the time that Restart was introduced. Given that these were general rules, and were applied to all unemployed claimants and not just the long-term unemployed, Dicks and Hatch thus estimated a trend equation for short-term (less than six months) unemployment, with the Restart variable as a regressor. The latter variable would be expected to prove non-significant in such a regression, since Restart is aimed solely at the long-term unemployed. Somewhat surprisingly, however, Restart is found to have an impact on short-term unemployment, leading Dicks and Hatch to conclude that their variable may indeed be picking up effects of both Restart and tighter benefit regulations.[16] The more recently introduced 'actively seeking work' rule will probably also have an effect upon short-term unemployment, in addition to any effect of Restart upon long-term unemployment.

Dicks and Hatch also point to the likelihood that the effects of Restart are unlikely to be sustained into the future at the levels of 1986-88, partly because the number of interviews will fall as the client group gets smaller, and partly because the remainder of the client group will contain a higher proportion of individuals who have been unable to find work, despite several interviews. This indicates

that there are limits to what was earlier described as the 'shake-out' and that, for those continually passing through Restart, the process will come to resemble something of an '(un)merry-go-round'.

Finally, it should also be pointed out that econometric studies of the type discussed above cannot offer a full account of the effectiveness of Restart as an employment measure rather than as a means of 'policing' claimants. The Dicks and Hatch study, for example, carries the implication that Restart forced people off the count before they went into jobs, even though it is quite possible, as the Department of Employment prefers to suggest, that people were leaving the count to take up jobs or to enter training. Similarly, it is possible that many of those leaving the register as a result of Restart simply join it again quite quickly. These qualitative rather than quantitative effects of Restart can only be evaluated properly using micro-based survey data (see Chapter III), in order to discover the destinations of those passing through the programme. The Employment Service is undertaking follow-up surveys of people passing through Restart, and may even contemplate allowing a cohort of claimants to avoid interview, in order that they might form a control group. It remains unclear as to if, and when, such evaluations will be published. In the absence of such evidence, it is difficult to be precise about the overall effects of Restart.

Intensive job-search measures

As mentioned earlier, a proportion of individuals may, as a result of their Restart interview, be referred to Jobclubs or Restart courses. These measures, introduced prior to Restart interviews, provide additional help with job search, at a gross cost per year of around £20 million and £10 million respectively (estimates for 1988/89).

The short-duration Restart courses, originally providing places for over 100,000 people per year, attempt to re-motivate and build up the confidence of the unemployed. Methods include the provision of information on how best to submit job applications and design cvs, etc. In addition, personal and communicative skills are de-

veloped by 'role-playing' exercises, intended to improve interview techniques. Jobclubs, based on the American model, and introduced well before Restart interviews in 1984, cater for the already more motivated and basically 'job-ready' unemployed, for whom are provided practical facilities, such as free use of telephones, stationery, photocopiers and postage etc., and a structured programme of help designed to improve the quality of job search. Jobclub members are expected to attend for four half-days in every week.

Jobclubs and Restart courses are provided either at Jobcentres (Jobcentre Jobclubs) and are staffed by Training Agency team leaders, or by subcontracted private agencies (Agency Jobclubs), the role of the latter having been expanded in recent years to provide more places. There are, at present, for example, over 1,000 Jobclubs, with some 150,000 passing through annually. The remainder of this section concentrates on Jobclubs and examines studies of their effectiveness.

The effectiveness of Jobclubs

It must, from the outset, be made clear that there is no immediate correspondence between numbers of Jobclub members and reductions in the unemployment register, since those engaged in job search in this way remain unemployed. Evaluation of the immediate net cost per person off the register is therefore inappropriate. The Department of Employment measures instead the number of subsequent job entries of Jobclubs, and publishes the 'gross cost per Jobclub job entry'. This is calculated at around £282. Unfortunately, this does not represent a measure of cost effectiveness, since it ignores, in particular, the problem of deadweight, a problem also ignored by the preferred official Employment Service indicator of Jobclub performance, the Job Entry Rate (JER), that is, the proportion of Jobclub members in any given period leaving to enter jobs.

Official MSC evaluations of the initial 29 Jobclubs in operation throughout Britain, discovered a JER of 63% for the six months to February 1986 - a further 13% of Jobclub members entered a temporary work or training programme. Caution is needed in interpreting

these results, however, because Jobclubs maintain fairly strict selection criteria, requiring, in particular, that participants demonstrate a reasonable degree of literacy, in order to be able to follow up job leads effectively. Jobclubs thus tend to draw upon the most able long-term unemployed, and often younger individuals with relatively short durations of unemployment. In 1987, for example, Table 6.15 indicates that a third of Jobclub members were aged under 25, two-thirds under 50, and almost half had been unemployed for only between six months and one year. Many such individuals may well have been able to find jobs without Jobclubs, the existence of such 'creaming' imparting an upward bias to JERs, and suggesting the possibility of deadweight.

Table 6.15: Some characteristics of Jobclub members

	%
Aged under 25	30
25-39	38
40-59	32
60+	1
Duration of unemployment	
Six months - one year	46
One - two years	24
Two - three years	10
Over three years	20

Source: Spillsbury (1988).

The significance of this seems to have been overlooked, or at least ignored, in the decision to expand the number of Jobclubs from 200, in 1986, to the current 1,000. It is not surprising, therefore, to discover that the average JER declined to just over 50% by the end of 1987, although the Employment Service suggests that this may be partly due to less under-reporting of early leavers. It remains unclear

whether this was a consequence of more disadvantaged individuals participating in the expanded number of Jobclubs, or simply that, in the more buoyant British labour market of 1986-87, many of those most likely to benefit from Jobclubs found employment without the help they provided - a fact which might, of course, imply a lower deadweight element in the JER.

JERs can also be misleading for other reasons. For example, individuals can remain in a Jobclub until they find a job, as long as they pursue a target number of job vacancies, normally ten, each day. This will tend to bias performance indicators, because those finding it difficult to leave will either remain in the Jobclub or simply drop out. After six months' attendance, a member's progress is reviewed, with the possibility of continual three-weekly extensions or referral back to a Restart counsellor. In addition to this, there is a suggestion that Jobclub members receive advance notification of vacancies; JERs may therefore be raised at the expense of reducing job entry by non-Jobclub jobseekers (Unemployment Unit, 1989). This suggests that Jobclubs can give rise to a particular form of substitution effect (displacement of employment within a firm, see Chapter III). It is, of course, true to say that, to some extent, they are intended to do so, in order that long-term unemployed people might be substituted for the short-term but, given the make-up of Jobclub members, there is still nonetheless a possibility of substitution of Jobclub members for long-term unemployed non-Jobclub members.

Deadweight and substitution effects of the type identified here are, of course, somewhat more difficult to calculate precisely, given the nature of Jobclubs as a job-search measure. Indeed, no attempts have been made to identify such effects with accuracy, research into Jobclubs being concerned either with the labour market destinations of ex-members, for example, those of Spillsbury (1988) and Demery (1988) for the Employment Service, and/or with the determinants of variation in individual Jobclub performance, as in Green (1989).

Spillsbury examines a sample of 400 official records of those individuals leaving Jobclubs, and their reasons for leaving. He dis-

covers a JER of 59% amongst those examined, but indicates much greater success for those with relatively short durations of unemployment. Demery's study is based on a representative sample of 3,000 individuals, who had joined Jobclubs between September and October 1987 and had left by March 1988. This showed that, on average, 55% of people leaving Jobclubs during that six-month period entered jobs, and 2% became self-employed. A further 14% left, either to enter the Community Programme or full-time education or training. Jobcentre Jobclubs showed better results in terms of job entry than Agency Jobclubs, as demonstrated in Table 6.16. Demery also finds that only 58% of jobs obtained by former Jobclub members were full-time and permanent, this being interpreted as a reflection of labour market conditions rather than an indication of deficiencies in the Jobclub approach.

Table 6.16: Destinations of people leaving Jobclubs, October 1987 - March 1988

	Jobcentre Jobclubs %	Agency Jobclubs %	All %
Job	57	50	55
Self-employment	2	2	2
Community Programme	9	8	9
Full-time education or training	6	4	5
Other	25	33	28
Not stated	1	2	1
All	100	100	100
N =	1,069	751	1,820

Source: Demery (1988).

Green, by contrast, seeks to estimate the causes of variation in two measures of Jobclub performance - JER and Jobclub Employment

Probability (JEP) - the latter defined as the number of members leaving to enter jobs in a given period, as a proportion of the number still searching at the beginning of the period, and the inflow of new members over the same period. Using data provided by the Employment Service on individuals and Jobclubs, covering 90% of Jobclubs in existence in September and October 1987, Green discovered an average JER of 52%. JEP was 21%, the average stay in a Jobclub being between six and seven weeks.

Green uses regression techniques to estimate separately the relationship between JER and JEP, and a range of individual variables, from the characteristics of Jobclubs themselves, to the structural characteristics of localities and local labour markets in which clubs were situated, and characteristics of Jobclub members. Over 20 such regressors were entered in linear form into an equation, the dependent variables JER and JEP subject to a logit transformation. Estimates for 'full' and 'final' models were obtained, the latter excluding variables found to be non-significant in the full model. The fit of neither model was good - in both cases 80% of the variance in Jobclub performance measures was left unexplained - as one might expect in variance models of this kind, but individual coefficients were sufficiently robust to allow reasonably confident conclusions to be drawn. The findings suggest that the single most important influence on individual Jobclub performance is the local unemployment rate, the higher the rate the lower JER and JEP. The individual characteristics of most importance were found to be the proportion of Jobclub members unemployed for at least two years, and the proportion of non-white members, both of which depressed performance.

More intensive job search was found to improve performance, although performance suffered if Jobclubs were situated in London or the West Midlands region. Individual Jobclub performance was also found to be positively associated with the importance of manufacturing and construction in the local labour market, and the proportion of female members. Finally, Agency Jobclubs were found to perform less well than Jobcentre Jobclubs. Most of these findings

conform to prior expectations, although a weakness in the analysis lies in the failure to provide an explicit rationale of the findings, for those variables the effects of which are not, *a priori*, obvious; for example, the relatively poor performance of Agency Jobclubs throughout Britain and that of all Jobclubs in London and the West Midlands. The Employment Service itself attributes the worse performance record of Agency Jobclubs largely to a relative lack of experience.

The Job Interview Guarantee scheme

The Job Interview Guarantee (JIG) scheme is a new special employment measure, introduced nationally in 1990 after this chapter was first drafted, following a series of pilot schemes in 20 inner-city areas. The scheme, which will provide help for 82,000 people a year, is intended to bring prospective employers directly into contact with long-term unemployed people who are ready for employment, but might be overlooked in normal recruitment, and involves a *quid pro quo* between employers and the Employment Service. The Employment Service promises, free of charge, to match, as far as possible, potential recruits from amongst the long-term unemployed to the needs of an employer, so long as the employer guarantees the 'matched' individual a job interview. The scheme, which is being promoted to employers as a means of 'taking the uncertainty out of recruitment', thus, to some extent, resembles the schools' Compacts, under which employers guarantee to interview school-leavers with a proven record of achievement at school.

The scheme consists of four essentially separate elements: 'Work Trials'; 'Job Preparation Courses'; 'Adopted Jobclubs'; and 'Customised Training'. Work Trials offer employers up to two weeks to screen a long-term unemployed person free of charge on the job, prior to the guaranteed interview. Unemployed participants in the trials receive their benefit plus travel and meals expenses. Job Preparation Courses, normally lasting one week, are, in some ways, similar to the Restart courses described earlier, but involve employers in

tailoring the course content to their recruitment needs. Course participants are told about vacancies and are prepared for their guaranteed interviews. Similarly, employers can 'adopt' Jobclubs, at which they can make company presentations or hold mock interviews etc. Jobclub members showing interest in their vacancies are then guaranteed an interview. Finally, Customised Training is designed to provide long-term unemployed people with short ET-style training, matched to the expressed preferences of employers who, in turn, agree to interview trainees reaching agreed standards of competence.

At the time of writing, just over 1,000 individuals and 258 employers had participated in the pilot initiatives in one form or another, and almost 60% of those passing through a Job Preparation Course have entered jobs (although clearly the same caveats apply to this figure as to Job Entry Rates of ex-Jobclub participants). Having said this, however, it must be made clear that only two employers had shown interest in Work Trials in the first two months of the pilot, and only two individuals had participated in them. It would appear that many long-term unemployed people are understandably wary of working for nothing more than their benefit, whilst some employers have experienced trade union opposition to the scheme.

6.9 Conclusion

This chapter has reviewed evidence of the effectiveness of various special measures to assist the adult unemployed in Britain. Such measures represent an extremely cost-effective means of reducing unemployment, indeed, in the short-run, much more cost effective than any other fiscal means of reducing unemployment. Temporary job-creation measures appear to be more cost effective than wage subsidies in the short run,[17] the latter being prone to deadweight and likely to give rise to substitution effects. The more recent measures, such as Restart and Jobclubs, designed to enhance job search, have been associated with a rapid fall in unemployment, to which they may have contributed, but it is difficult to disentangle macroecon-

omic effects (see Chapter VII). A more general conclusion as to the relative effectiveness of the different measures will, however, require much more detailed evaluation of their wider and long-run economic effects.

Whilst both the methods and degree of official policy evaluation have undoubtedly become more sophisticated and wide ranging over recent years, for the period under consideration as a whole it is difficult to observe any hard-and-fast rules governing evaluation.

It would appear that inadequacies in evaluation have, in some cases, arisen simply because of the small numbers covered by a measure, or its span of existence and, in others, because of the contrary problem of large programme size. As the Department of Employment points out, with some justification, true 'scientific' control groups, for example, are not really feasible for large-scale national programmes which have an impact on non-participants, and where there is usually a strong element of self-selection.[18] As mentioned earlier, the policy of not excluding people who are eligible for a programme was a major reason for not having a scientific control group for use in evaluation of the Community Programme.

However, while the relative absence of control group evaluation may be excused in this way, there seems less reason to excuse another key weakness of many of the evaluations under review in this chapter. This is their almost total concentration on partial policy impacts, such as those on individual employment prospects, a fact reflected also in a perhaps unwarranted concern with substitution and displacement effects (for a view on this see Jackman and Layard (1987)). The Department of Employment says that it does take indirect policy impacts into consideration, but they are less likely to be published because both are more sensitive and tentative. Nonetheless, there appears to be a strong case for extending and improving the scope of evaluation of broader policy impacts, and this is why the more analytical chapters of the current study will place a much stronger emphasis on the effects of particular policy measures on aggregate unemployment.

Finally, it must be said that one does not observe an obvious link between the significance of a measure, in terms of its coverage or required expenditure, and subsequent evaluation. Moreover, there appears to be no clear relationship between evaluation and decisions to expand, adapt or withdraw individual measures. Indeed, some of the best evaluations referred to in this chapter have been published long after policy measures have been withdrawn. It may be, of course, that even though a direct link between evaluation and policy is not always apparent, evaluation has an effect on the design of new measures, and on the choice of future policy options. Indeed, it would be surprising if some form of diffusion did not occur. Nonetheless, the nature of the relationship is, to say the least, oblique, and one must surely conclude that the operation and evolution of special employment measures in Britain owes as much to the theories or pragmatism of policymakers as to the results of evaluative studies.

Appendix A

Approaches to evaluating British government training programmes: the example of the Youth Training Scheme

Background

The Youth Training Scheme (YTS; now called Youth Training), introduced in 1983, originally guaranteed one year of integrated work experience and vocational training to all 16 year-old school-leavers and, if places were available, offered training to 17 year-olds. The scheme was extended, in 1986, to two years for 16 year-olds, and the guarantee of one year of training was extended to 17 year-olds. Entry to the YTS is not restricted to the unemployed and, indeed, many employers have used the scheme as an alternative or support for their own apprenticeship schemes. It is thus seen increasingly as a major training programme, and not as a means of reducing unemployment, or as a last resort option for school-leavers unable to find work or training in any other way. Moreover, while between 1983 and 1988 an average of 20,000 16 and 17 year-old labour market entrants each year (around 5% of the total) preferred to remain unemployed rather than participate in the YTS, this particular 'option' has been effectively removed, following a change in 1988 in social security rules which withdrew from 16-17 year-olds the right to unemployment assistance if they refused places on the YTS.

The percentage of unemployed school-leavers entering the YTS who would otherwise remain unemployed is unknown, but it seems likely that the number will have fallen in recent years as the labour market prospects of younger workers has improved in Britain. In 1988/89, some 300,000 16-17 year-olds joined the YTS, roughly 60% of 16-17 year-olds entering the labour market.

The stated aim of the YTS is to provide broad-based foundation training (both on and off the job), leading to more specific skills train-

ing with an opportunity to obtain recognised vocational qualifications. Most of the on-the-job training is provided by employers although, in some cases, training is project-based, in the manner of Employment Training for long-term unemployed adults. At present, training is approved and financed by the Training and Enterprise Councils through grants paid to Managing Agents. The latter, who may themselves be employers, but include Local Authorities and independent training organisations, are responsible for securing placements and ensuring that trainees receive off-the-job training (expected to comprise a quarter of trainees' time).

Payment to employers is made in the form of trainees' training allowances and contributions to training overheads. The allowances (paid currently at the rate of £28.50 in the first year of training and £35 in the second) thus constitute the 'wage' paid to trainees and represent a subsidy to employers. If they wish, however, employers may provide supplementary payments. In 1988/89, gross expenditure on the YTS amou··ed to £1bn, a gross cost per trainee week of £50.

The approach to evaluation

The approach to evaluation of training programmes of this kind is not straightforward because of their different effects.

- (i) One may seek to evaluate them simply as training programmes, looking at the long-run effects on the human capital and earnings potential of ex-trainees and wider supply-side effects.
- (ii) Since large-scale training programmes undoubtedly serve to reduce unemployment in the short run, in a manner similar to an employment subsidy or job-creation programme, one might argue that they should also be evaluated in the same way as other employment measures. The British government does not consider the short-run register effect of its training programmes, nor the associated net

costs, appropriate criteria against which to evaluate them. There may be some justification for this in the case of the YTS, but clearly less so for ET, which is available only to the unemployed.

- (iii) Because the basic training allowances payable under training schemes are much lower than the prevailing wage levels of other workers, they may give rise to wage effects, especially in sectors where the marginal product of trainees is similar to that of other workers.

Points (i) and (iii) emerge most clearly in the most detailed evaluation of the YTS performed so far. This is the independent survey-based study by Deakin and Pratten (1982), carried out for the Department of Employment. Interestingly, however, they also go some way to considering point (ii) above. The remainder of this appendix will concentrate on the Deakin and Pratten evaluation. In addition, the results of econometric analysis of the YTS conducted by Main and Shelley (1988) will be discussed. These are not the only published studies of the YTS (see, for example, the detailed independent study by Chapman and Tooze (1987), but are chosen here in order to offer an account of two distinct methods of evaluation. One hopes that both methods will be combined in future evaluation of Employment Training.

Results of evaluation

Deakin and Pratten approach evaluation of the YTS in a manner very similar to that of their study of the TES, discussed in section 6.6 of this chapter. Information was obtained from interviews with 256 firms or establishments in eight industries where the incidence of YTS users was high. Of these, 57% had participated in the YTS during 1984-85 and together they employed 5,000 YTS trainees. The results of the survey, which apply only to the original one-year YTS, are used to estimate the initial impact of the YTS on employment, the contribu-

tion of trainees to output, what happens to YTS graduates, and any effects on wages, competition and prices.

Main and Shelley, by contrast, base their econometric analysis on an independent survey of a cohort of 1,000 school-leavers, who entered the labour market in the summer of 1984, which ascertained their labour market status in October 1984, 1985 and 1986. The authors attempt to explain, first, the effect of the YTS on the probability of a school-leaver being employed in 1986 and, second, whether the YTS had affected their earnings levels (assuming *a priori* that this would be positive, as a result of the YTS generating an increment to the human capital of ex-participants). One should note that the study relates only to Scotland, although the findings have been replicated using data from England and Wales.

Comparison between the two studies is most illuminating, and demonstrates strengths and weaknesses in the respective methodologies. In the case, for example, of the employment prospects of YTS graduates, Deakin and Pratten find that 67% stayed with their placement firm, 27% obtained employment elsewhere, and 5% became unemployed. Main and Shelley, however, are correct to point out that survey estimates of this kind make no attempt to control for other influences on the probability of a YTS graduate obtaining employment. Their approach is therefore to posit the probability of a school-leaver entering employment two years later as a function of a number of variables, including participation in the YTS.

These variables include personal characteristics (age, sex, qualifications, social class, employment experience) and so-called 'environmental circumstances' (whether father was unemployed, unemployment rate in location of residence). A probit model was then specified to provide maximum likelihood estimates of coefficients for each variable (most entered in dummy form). The results suggest a YTS effect on subsequent employability in the range 11 to 17 percentage points, far lower than the subsequent employment data derived by Deakin and Pratten. One should stress the fact that the samples in question are in no sense directly comparable.

As for earnings or wage effects, Main and Shelley were unable to derive firm conclusions. Regression of hourly earnings of those in the survey on variables likely to influence pay in addition to the YTS suggested no return to any human capital that may have been imparted by the training. Attempts to construct more sophisticated estimates, taking into account the fact that YTS participants may be atypical of school-leavers as a whole, proved unsuccessful. Deakin and Pratten provide no direct evidence on the post-scheme earnings of YTS graduates.

The strength of the micro-firm based survey is most evident from the detailed insights it can provide on the net employment effects of the YTS and effects on output. Deakin and Pratten estimate deadweight in the YTS of 40% of places supported (averaged over establishments of different sizes), with 7% of trainees substituting for other (mostly adult) workers. The numbers of places induced by the YTS is thus estimated at 53% of those supported. There is no explicit discussion by Deakin and Pratten of estimates of displacement, but they do report that none of the firms interviewed, who did not take YTS trainees, considered the 'subsidy' to have offered rivals a competitive advantage.

An interesting observation from Deakin and Pratten's results, which may have some bearing for Employment Training, is derived from employers' estimates of the value of the weekly output of trainees relative to that of trained employees. These suggest that the average weekly output of YTS trainees for 1985-86 varied from over £30 in many service sectors and occupations to below £10 in more skilled manufacturing occupations.

The higher estimates are, of course, above the YTS allowance level, and reflect the fact that, in many service sectors, and especially in retailing, skills can be learned quickly, enabling trainees to contribute to output in a very short time. Indeed, one could conclude from Deakin and Pratten's findings that, in a sector such as retailing, the YTS is much more akin to a wage subsidy than a training vehicle. Moreover, whilst Deakin and Pratten conclude that the YTS has in-

creased the level and quality of youth training, it is rather daunting to discover that nearly half the YTS trainees in the survey were being trained for skills which were not in short supply, or which would have been met anyway in the absence of the YTS. This fact, allied with a relative dearth of recognised qualifications attained by YTS graduates, provides an important caveat to claims of the effectiveness of the YTS, though one should recognise that Deakin and Pratten were looking at the initial one-year YTS. It is, nonetheless, a finding that should be borne in mind by those seeking to evaluate Employment Training for adults, which is supposed to 'train the workers without jobs to do the jobs without workers'.

References

1. The central government Department of Trade and Industry (DTI), and of the Environment (DoE), also play a role in efforts to increase employment opportunities. The DTI is responsible for regional policy expenditures and assists inner-city redevelopment through support for City Action Teams (CATs) and Inner City Task Forces in selected areas. The DoE interacts with local government in fostering economic and social development, in selected areas, providing money through the Urban Programme and City Challenge Programme. Similarly, efforts to reduce localised unemployment are assisted by the Scottish and Welsh Offices, in association with autonomous Development Agencies in their respective 'regions', while at county and district level in all parts of Britain, many local authorities (subject to limits on their statutory powers) fund their own 'tailored' employment measures, often with the support of other public or private bodies. The 'patchwork quilt' of policy to which this gives rise has often been the subject of criticism, the principal concern being that lack of co-ordination between different institutions results in confusion and inefficiency, especially at local level. For an account of local labour market policy in Britain, see Anglo-German Foundation (1988) and, for comment on the lack of policy co-ordination, see Audit Commission (1989).

2. TECs are independent companies, each with an individual board of directors, two-thirds of whom must be private sector employers at chief executive or managing director level. They are approved by the Secretary of State for Employment, are advised by a new national consultative body, the National Training Task Force, and operate under performance contract with the Department of Employment. The entire public budget for special employment and training measures is disbursed through the TECs, each receiving between £20 and £50 million. TECs do not, however, run training programmes themselves, but rather subcontract activities to training providers, following the practice of the former Training Agency's network of area boards, which they supersede, and drawing upon the existing local TEED staff (Department of Employment , 1989). There has been much discussion of the likely impact and effectiveness of TECs (see, for example, Ashby (1989) and Philpott (1989)).

3. In addition to these schemes and programmes, there was the Voluntary Projects Programme (VPP). This was a small programme providing work, and some amount of training, for around 12,000 people per year, on projects of value to the community. Unlike the other programmes, however, participants remained on the unemployed register and continued to draw benefit. The VPP was withdrawn in 1988.

4. Chapter III examines the problem of inadequate control groups.

5. Note that, in Chapter III, we referred to substitution as 'displacement of employment'. In this chapter, it will be clear from the discussion whether employment or output is being displaced.

6. Since this chapter was first drafted, it has been announced that, following representations from employers, the maximum length of time a participant can remain on Employment Training is to be doubled to two years. In a further relaxation, the Department of Employment has also dropped the requirement that trainees must spend 40% of their time in off-the-job 'directed' training. The revised framework for ET will come into effect from April 1990, once the first Training and Enterprise Councils are established. See 'Length of ET schemes to double', *Financial Times*, 29 January 1990.

7. This is an expression reflecting the notion of displacement of output discussed in Chapter III.

8. The sucessor to the TES, the Temporary Short-Time Working Compensation Scheme (TSTWCS, itself withdrawn by the British government in 1984) differed, in that it subsidised leisure rather than output. Unlike the TES, the TSTWCS was designed to encourage firms to put subsidised workers on short time, paying firms between 50 and 75% of their normal pay for each workless day, up to a maximum of nine months. For an evaluation of the scheme, see Metcalf (1982, 1986) and Lindley (1987).

9. One should note, in this respect, Rajan's finding that deadweight increased with establishment size.

10. The Department of Employment, however, is concerned that Stern's assumption may overestimate the degree of displacement associated with the EAS, since more recent surveys suggest a lesser displacement effect. It is currently considering a more objective method of estimation.

11. One should note, however, that Stern provides no information on what these women were doing before working for these businesses.

12. One should note that, whilst Britain's official measure of unemployment, those claiming unemployment assistance, includes some people not genuinely unemployed, it also excludes many seeking work but not eligible for unemployment assistance.

13. Some of these figures on Restart are based on correspondence between the Department of Employment and the Employment Institute.

14. The results of Dicks and Hatch's study overall do not concern us here, suffice it to say that they attribute the rise and persistence of unemployment in the first half of the 1980s to the fact that the sharp decline in (predominantly male and full-time) manufacturing employment was only slowly and partially compensated for by growth in other sectors, a large part of the latter growth consisting of female and part-time employment.

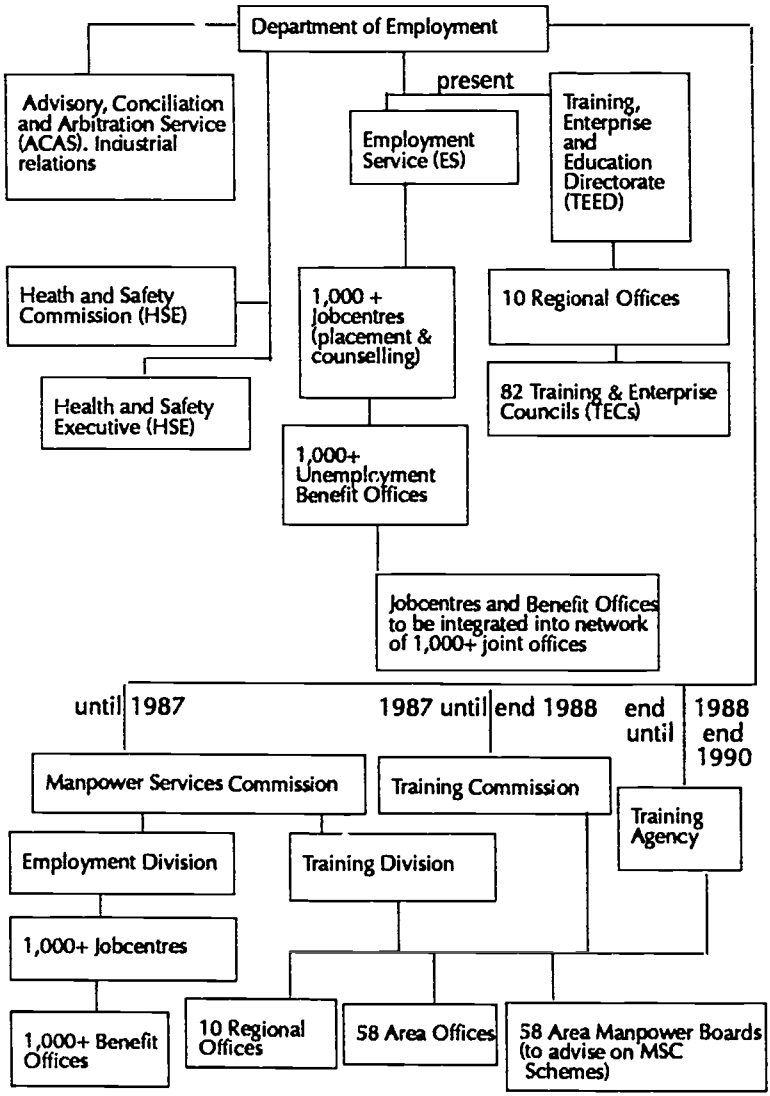
15. Paul Gregg, of NIESR, and the Department of Employment kindly drew our attention to these latter points.

16. The rules in question are those relating to availability for work and other stipulations on the receipt of benefit; they affect mostly those entering unemployment. These rules are set by the Department of Social Security, and tougher rules still were introduced in October 1989. These require benefit claimants to show proof that they are actively seeking work, and are not turning down jobs for no good reason, which can include reservation wages considered too high by benefit officials. These new rules will, at least in the first instance, affect long-term unemployed people and may well, in operation with Restart, give rise to a further 'shake-out' of benefit claimants.

17. This is consistent with the evaluation studies of Germany, examined in Chapter V.

18. These were amongst a variety of points made in personal correspondence between the Department of Employment and the Employment Institute.

Figure 6.1: Structure of the Employment Department Group, 1975-90



Note: This structure for training refers to England and Wales only. For Scotland, see Industry Department for Scotland (1988).

Chapter VII

British policies: a fresh evaluation

7.1 Introduction

This chapter offers some further evidence on the effectiveness of labour market policies in Britain. We make use of the 'transitions approach', which has already been discussed briefly in the overview and in earlier chapters.[1] We first outline the assumptions underlying this approach, and then go on to discuss how the impact of labour market policies can be estimated. We then set out results for three of the main policies which have been adopted in Britain: the Community Programme, Enterprise Allowance Scheme and the Restart Programme of interviews for the long-term unemployed.

Our main results are that each of these programmes appears to raise the outflow rate from long-term unemployment, but only in the case of the Restart Programme are the results sufficiently well-defined to allow a quantitative appraisal of the effects of the scheme. Our estimates for Restart suggest that it has raised the outflow rates from unemployment of the long-term unemployed by about 50%. Other things being equal, this would lead to a reduction in the long run in the number of long-term unemployed people of the order of 600,000, which is of the same order of magnitude as the actual decline in long-term unemployment in Britain since Restart was introduced in 1986.

7.2 Theoretical framework

Our main concern is with the question of whether labour market policies can reduce unemployment. It follows that we are interested in the overall effects of the policies rather than with their effects on particular individuals. A study of the effect of a programme on indiv-

iduals can tell us whether individual A, who has been on the programme, has a better chance of finding a job subsequently than an otherwise similar individual B, who has not. This may be because A's job prospects have improved while B's are unchanged, but the programme may simply have helped A to jump the job queue at B's expense and have had no effect on the total number of unemployed people finding work. Studies of individuals cannot resolve this difficulty and cannot, therefore, provide a means of estimating the overall impact of programmes on unemployment.

If labour market programmes are to reduce unemployment, it is clear they must, in some way, increase the total number of jobs available. But, as we have already noted in Chapter III, section 2, it is quite wrong to think of there being a rigid constraint on a number of jobs that can exist. Firms are always considering whether or not to create new jobs, and their willingness to do so will depend on the wage they will need to pay, the quality of likely applicants, and the ease of recruitment. Since any, or all of these, can be affected by labour market programmes, there is no problem in principle in expecting that an increase in the supply of willing and well-qualified workers will not bring forth an increase in demand. (There is, after all, no correlation, in general, between the rate of growth of the labour force and the unemployment rate).

But, accepting that there are no constraints on the growth of *employment*, there are severe constraints on the extent to which *unemployment* can be reduced. These constraints arise because, as unemployment falls, wage pressure rises and, after a point, further declines in unemployment lead to accelerating wage growth and thereby to an inflationary wage-price spiral. But wage pressures are held in check not simply by the number of unemployed people, but also by their energy and effectiveness in job search, and their attractiveness to employers. It is here that labour market policies have a role. The evidence is that employers are reluctant to take on long-term unemployed people, and that the long-term unemployed become ineffective in job search and, to a large extent, detached from

the labour market. Their unemployment thus becomes additional to that required to sustain equilibrium in the labour market. It follows that measures which re-activate the long-term unemployed can reduce the level of long-term unemployment without upsetting the equilibrium of the labour market, and without of themselves being a source of inflationary pressure. The overall impact of such policies can be measured by their effects on the outflow rate from long-term unemployment, and this is therefore the variable of prime interest in our empirical work.

The effect of a change in the outflow rate on the numbers of long-term unemployed people is simple to calculate in a steady state. If the level of long-term unemployment is constant, the inflow of people into long-term unemployment (IL) must be equal to the outflow (AL). Then the number of long-term unemployed people (UL) can be expressed as:

$$UL \equiv UL - \equiv \frac{IL}{AL/UL} = \frac{\text{inflow}}{\text{outflow rate}}$$

With a given inflow,[2] a rise in the outflow rate will lead in the steady state to an equiproportionate fall in the level of long-term unemployment. (For further discussion of this methodology, and of the relationship between outflow rates and unemployment levels, see Haskel and Jackman, 1988, and Chapter III.)

Clearly, however, the outflow rate from unemployment depends not only on the availability of labour market programmes, but also on the general state of the economy. The Community Programme was expanded during the early 1980s, at a time of economic depression, while the Restart programme has been operating in the late 1980s, when the labour market, in general, has been much tighter and job opportunities have been much more readily available. We need to assess the incremental effects of the various policies over and above the effects on unemployment outflows of changes in the state of the labour market. We thus require a full analysis of the factors affecting the outflow from unemployment.

The outflow rate from unemployment

In deriving our model, we make use, with slight modifications, of the approach of Pissarides (1986), Jackman and Layard (1988) and Jackman, Layard and Nickell (1989).

We measure A as the number of people leaving unemployment during a period, U as the number of unemployed people, and V as the number of actual vacancies. U and V are both measured at the beginning of the period. We define $\hat{c}$ as the average search effectiveness of the unemployed, when employment measures are absent. Then, let

$$c^* = \hat{c}(1 + \alpha M), \text{ where } M = \Sigma \beta_i E_i$$

M is a weighted sum of employment measures, E_i. We then postulate that the number of people leaving unemployment is determined by V, and by the number of unemployed people weighted by their search effectiveness:

$$A = f(V, c^*U), \text{ with } f1, f2 > 0. \qquad (1)$$

The assumption that the function f exhibits constant returns to scale is quite reasonable, and implies that (1) can be rewritten as

$$\frac{A}{U} = c^* f\left[\frac{V}{c^*U}\right] \qquad (2)$$

Log-linearising (2) we obtain

$$\ln\left[\frac{A}{U}\right] = \ln c^* + \delta_1 \ln\left[\frac{V}{c^*U}\right] \qquad (3)$$

$$= \delta_1 \ln\left[\frac{V}{U}\right] + (1 - \delta_1) \ln c^*$$

$$= \delta_1 \ln\left[\frac{V}{U}\right] + (1 - \delta_1)\ln\{\hat{c}(1+\alpha M)\}$$

Assuming small values of αM, we make use of the approximation,

$$\ln\left[\frac{A}{U}\right] = \delta_1 \ln\left[\frac{V}{U}\right] + (1 - \delta_1)\ln \hat{c} + (1 - \delta_1)\alpha M \qquad (4)$$

We may then estimate equations of the form,

$$\ln\left[\frac{A}{U}\right] = \text{const.} + \text{seasonals} + \delta_1 \ln\left[\frac{V}{U}\right] + \delta_2 \ln \hat{c} + \sum_{i=1}^{m} \Theta_i E_i + \delta_3 t/100 + e \qquad (5)$$

where $\Theta_i = \delta_2 \alpha \beta_i$ $(i=1,\ldots,m)$ and $e \sim N(0,\sigma^2)$.

An assumption of constant returns to scale implies the restriction that $\delta_1 + \delta_2 = 1$, but we do not impose this restriction in estimating the equation.

Duration-specific outflow rates

In the present context, however, our main interest is not in the overall outflow rate from unemployment, but in the outflow rate from long-term unemployment. We define the duration-specific outflow rate as the proportion of those unemployed for a particular duration at time t who leave unemployment between time t and time t+1. Thus, the outflow rate for duration d at time t is given by

$$\left[\frac{A}{U_t}\right] = \frac{U_{d,t} - U_{d+1,\,t+1}}{U_{d,t}}$$

For reasons of data availability, we have only five duration categories.[3] These are:

$U_{1,t}$ = number of people who have been continuously unemployed between 0 and 1 quarter;

$U_{2,t}$ = number of people who have been continuously unemployed between 1 and 2 quarters;

$U_{3,t}$ = number of people who have been continuously unemployed between 2 and 3 quarters;

$U_{4,t}$ = number of people who have been continuously unemployed between 3 and 4 quarters;

$U_{5,t}$ = number of long-term unemployed, i.e., those who have been out of work for more than 4 quarters.

The final duration category is open-ended, but its outflow rate can be calculated as

$$\left[\frac{A}{U}\right]_{5,t} = \frac{(U_{4,t} + U_{5,t}) - U_{5,t+1}}{(U_{4,t} + U_{5,t})}$$

We estimate the determinants of duration-specific outflow rates by using a class of equations similar to (5):

$$\Delta \ln \left[\frac{A}{U}\right]_d = \text{const.} + \text{seasonals} + \delta_1 \ln \left[\frac{V}{U}\right] + \delta_2 \ln S_d + \delta_3 \ln \left[\frac{A}{U}\right]_{d,-1} + \sum_{i=1}^{m} \Theta_i E_i + \delta_4 t/100 + e \qquad (6)$$

The main difference between (6) and (5) is that we replaced $\hat{c}$ with S_d, the 'probability of survival' to duration category d. The terms $\hat{c}$ and S_d serve essentially the same purpose, that is, to allow for dif-

ferences in search effectiveness amongst the unemployed. As is well known, such differences may arise from two causes, heterogeneity, or state dependence, as described in Chapter III. It is of interest to note what these two different hypotheses imply for the interpretation of $\hat{c}$ and S_d.

If there were no heterogeneity, and the differences in the search effectiveness of the unemployed were explained purely by the length of time during which people had been unemployed (pure state dependence), then there would be no role for S_d in the duration-specific outflow equations, while in the aggregate outflow equation $\hat{c}$ would depend only on the duration structure of the unemployment stock. If, at the opposite extreme, there were no state dependence, and the differences in the search effectiveness of the unemployed were explained entirely by heterogeneity, then S_d would have a positive effect on the duration-specific outflow equations while, at least in the steady state, there would be no role for $\hat{c}$ in the aggregate equation. The first of these effects arises because, with heterogeneity, the 'better' people leave unemployment first, so the greater proportion of the original entry surviving to a given duration, the better their average quality. The second of these effects arises because, in a steady state, and in the absence of state dependence, the average quality of the stock of unemployed people is, on reasonable assumptions, invariant with regard to the aggregate unemployment rate (Jackman and Layard, 1988).

However, if, as one might expect in practice, there exist both heterogeneity and state dependence, we would expect to see both a role for $\hat{c}$ in explaining the aggregate outflow rate, and a role for S_d in explaining duration-specific outflow rates, the former reflecting the effect of state dependence, and the latter the effect of heterogeneity.

7.3 Results

We first describe the main features of the data, including the various labour market policies, and then go on to present our regression estimates of the effect of the programmes. The quarterly series for total unemployment, duration-specific levels of unemployment, vacancies, inflows and $\hat{c}$, all spanning the period from 1979:2 to 1988:4, are discussed in the Annex.

The outflow rates from unemployment (A/U), and from long-term unemployment (AL/UL), are presented in Figure 7.1. There was a steep decline in the overall outflow rate after 1979, followed by a recovery towards the end of the 1980s. The outflow rates from long-term unemployment show the same basic pattern, though the variation is much less marked. The prime factor causing these movements is the general state of the labour market. The ratio of job vacancies to unemployment, shown in Figure 7.2, falls sharply in the early 1980s, and then rises, also quite sharply, in 1986/87. We turn now to the labour market programmes. There are three major schemes which have been in operation during the 1980s, for which suitable quantitative data are available. They are:

- the Community Programme (CP);
- the Enterprise Allowance Scheme (EAS);
- the Restart Programme (REST).

Other programmes are either too recent (in particular, Employment Training), or numerically too insignificant to allow time series analysis; but they are examined in Chapter VI.

The Community Programme, which was introduced in 1982, lasted until 1988, when it was replaced by Employment Training. It targeted people who had been out of work for at least six months (if under 25 years of age), or 12 months (if they were older than 25 years). The work undertaken by CP participants had to be on projects designed primarily to benefit the community, which otherwise would

not have been undertaken. Although firms could, in principle, propose such projects, nearly all were undertaken by the public sector. Because of the low pay associated with the CP, the main beneficiaries were single people under 25 years of age. In our empirical work, we amalgamate numbers of people on the Special Temporary Employment Programme and the Community Enterprise Programme (basically similar programmes which preceded the Community Programme) with the CP, and we assume Employment Training was as successful as the CP when it took over from it. Thus, for quarters after 1988 third quarter, we assume the same rate of entrants as had been the case with the Community Programme. *The Enterprise Allowance Scheme*, which was also introduced in 1982, provides £40 a week to any person who has been unemployed for at least eight weeks and wants to become self-employed or open his/her own business. The EAS remains in operation at the time of writing.

The Restart Programme was introduced in 1986. It offers an interview to any long-term unemployed person at a Jobcentre. The main aim of the programme is 'to help the long-term unemployed take advantage of the job training and other opportunities open to them' (Jackman *et al.*, 1986). Long-term unemployed people are expected to attend a Restart interview once every six months, and failure to do so can lead to loss of benefit (and hence removal from the unemployment register). It is frequently alleged that Restart has been more effective in scaring people from claiming benefit than in assisting them in finding work.

The schemes themselves are discussed much more fully in Chapter VI, so we do not go into any further detail here. To measure the scale of the schemes, we look at the ratio of the level of activity to the level of long-term unemployment. The reason for this is that there is an inbuilt tendency for the number of people entering a scheme to rise as unemployment goes up. For example, with Restart, if long-term unemployed people are to be interviewed every six months, clearly, the more long-term unemployed people there are the more interviews there will tend to be. The ratio of Restart interviews to the

number of long-term unemployed people provides a good measure of the degree of effectiveness of the programme.

Measuring programmes in terms of the ratio of the scale of activity to the level of long-term unemployment also avoids a problem of spurious correlation. If, when unemployment rises, the number of Restart interviews goes up, a crude correlation would suggest that more interviews lead to more unemployment. By focusing on the ratio of interviews to unemployed, one isolates the effect of policy changes affecting the scale of operation of the programme from purely endogenous responses to changes in the unemployment rate.

The scale of the programmes themselves is estimated as follows: CP is the number of people placed on a Community Programme scheme in a quarter, REST the number of Restart interviews conducted during a quarter, EAS the number of new entrants into the Enterprise Allowance Scheme during a quarter. For this last variable only annual data were available. We assumed a constant inflow rate into the scheme during a year, thus arriving at an equal number of new entrants in the four quarters of a given year.

The calculation of $\hat{c}$, and of some of the duration-specific outflow rates, makes it necessary to cut off the sample period after the fourth quarter of 1988. This means that we only have 27 data points for EAS and ten data points for REST respectively.

Figures 7.3, 7.4 and 7.5 show the scale of the Community Programme, the Enterprise Allowance Scheme and Restart respectively, each measured relative to the level of long-term unemployment.

We first examine the question whether the schemes individually, or in combination, have any impact on the overall outflow rate from unemployment. Our regression estimates are set out in Table 7.1. The results appear to be that there is no well-defined effect of any of the schemes on the overall outflow rate. The pattern of standard errors suggests, however, that the regressions may suffer from multicollinearity, and we have therefore investigated the extent to which similarity in the timing of the different schemes makes it difficult to distinguish their effects. It turns out that there is a significant degree

of collinearity between our measure of the Enterprise Allowance Scheme and Restart. Both leap up sharply in 1986/87. For the analysis of the duration-specific outflow rates, to which we now turn, we therefore focus on the larger programme, Restart, bearing in mind its collinearity with the Enterprise Allowance Scheme.

Table 7.2 sets out the regression equations for the duration-specific outflow rates. The impact of the Community Programme is not well-defined but, on statistical grounds, one cannot reject the hypothesis that it has had no effect at all on the outflow from unemployment at any duration. But if the estimates are taken at face value, the impact of the Community Programme on the outflow rate from long-term unemployment (that is, the 4+ duration category) is positive, and quite large. The effect on the outflow rates of the various short-term durations is much smaller (and, for one of the duration categories, negative).

The effects of the Restart programme are rather better defined. Restart has increased the outflow rate from long-term unemployment with a coefficient of 0.54. This means that increasing the scale of interviews from, say, 40% of the long-term unemployed (1986) to 80% (1988) would raise the outflow rates from long-term unemployment by about 22%.

It may also be noted that there is a significant negative impact of Restart on the outflow rate from the shortest duration category. One possible hypothesis is that the long-term unemployed are being made more effective in job search, and are thus able to find work that would have otherwise gone to short-term unemployed people. However, this would appear to conflict with much of the anecdotal evidence about Restart which suggests that in very few cases have Restart interviews led to jobs. (It is also, of course, possible that some people denied Unemployment Benefit as a result of the Restart programme have found work independently of any help provided by the Employment Service.)

In Tables 7.3 and 7.4 we test for the robustness of our own results by looking at the effects of the two programmes independently of one

another. The results are essentially the same, confirming that our results in Table 7.2 do not suffer from collinearity between the programmes. Finally, in Table 7.5, we introduce the Enterprise Allowance Scheme. As already noted, this programme is highly collinear in its timing with the Restart Programme, so we therefore exclude Restart from the regression. The EAS has a similar effect to Restart, again negative for very short durations, and positive and increasing in magnitude for longer durations. Unlike Restart, the effect is better defined for the 3 and 4 quarter duration categories than for the long-term unemployed. However, it is difficult to disentangle to what extent these results derive from the correlation between EAS and Restart, rather than from the direct effect of the programme itself.

7.5 Conclusion

In this chapter we have investigated the effect of three employment measures: the Community Programme, the Restart Programme, and the Enterprise Allowance Scheme, on outflow rates from unemployment and, in particular, on the outflow rates from long-term unemployment. Our results suggest that the Community Programme which, as pointed out in earlier chapters, is one of the largest and costliest programmes of job creation undertaken by the British government, has very poorly-defined effects on the outflow rate from long-term unemployment. The major expansion of the Community Programme between 1983 and 1984 resulted in the number of places taken up as a proportion of the stock of long-term unemployed people increasing from around 5 to around 13% (Figure 7.3). This increase, given the estimates in Table 7.2, will have increased the outflow rate from long-term unemployment by about 8.5%. This effect is small, relative to the scale of the Community Programme but, as noted above, the estimate is itself so poorly-defined that it would be wrong to make too much of this result.

The main result of the chapter, however, is the large and well-defined effect of the Restart Programme which, on our estimates, as

noted in the introduction, accounts for a very substantial part of the fall in long-term unemployment. Further evidence for the idea that Restart has been an effective policy, can be derived from the New Earnings Survey, which shows that since 1986 about 80% of employment growth has been concentrated in jobs paying significantly less than the average wage - possibly the type of jobs that unemployed people might be reluctant to take. The Restart programme has made if difficult for people to refuse such jobs and continue to claim benefit. The pronounced decline in productivity growth in the economy in the last few years also suggests the emergence of a greater number of low-pay, low-productivity jobs. Though our results are not entirely conclusive, they provide support for the idea that a more active policy of encouraging the unemployed to seek work can be an effective way of reducing long-term unemployment.

Table 7.1: OLS regression on ln(A/U); sample period 79Q3 to 88Q4

MOD-EL	ln(V/U)	ln $\hat{c}$	t/100	CP/ LTU(-1)	REST/ LTU	EAS/ LTU	SE	R^2
0	0.222 (5.37)	0.880 (3.49)	-0.185 (0.44)	-	-	-	0.087	0.873
1*	0.222 (3.53)	0.769 (2.36)	-0.516 (0.49)	-0.121 (0.11)	0.054 (0.36)	1.186 (0.35)	0.091	0.863
2	0.223 (3.94)	0.753 (2.37)	-0.383 (0.40)	-0.234 (0.23)	0.087 (0.73)	-	0.090	0.867
3	0.218 (3.58)	0.831 (3.06)	-0.457 (0.45)	-0.046 (0.04)	-	1.915 (0.73)	0.090	0.867
4	0.230 (3.98)	0.887 (3.44)	-0.030 (0.04)	-0.223 (0.22)	-	-	0.089	0.869
5	0.217 (5.05)	0.767 (2.40)	-0.603 (0.90)	-	0.051 (0.35)	1.295 (0.41)	0.089	0.867
6	0.221 (5.05)	0.747 (2.39)	-0.545 (0.89)	-	0.086 (0.74)	-	0.088	0.871
7	0.216 (5.12)	0.829 (3.16)	-0.493 (0.85)	-	- (0.77)	1.942	0.088	0.871

Absolute t-values in brackets.

* Test for joint insignificance of coefficients on employment measures gave LM-statistic of 0.91 (c.f. to $Chi^2(3) = 7.81$). A Chow-test for structural stability could not be performed, but other tests for stability did not indicate a structural break (Lehmann, 1989).

Continued on next page

Table 7.1: OLS regression on ln(A/U); sample period 79Q3 to 88Q4 *(continued)*

	Diagnostic tests			
MODEL	1-st order serial correlation	4-th order serial correlation	Normality	Heteroscedasticity
0	D.W. = 1.902	$Chi^2(4) = 3.080$	$Chi^2(2) = 7.156$	$Chi^2(1) = 3.104$
1	D.W. = 1.943	$Chi^2(4) = 5.388$	$Chi^2(2) = 4.767$	$Chi^2(1) = 2.646$
2	D.W. = 1.958	$Chi^2(4) = 5.681$	$Chi^2(2) = 5.038$	$Chi^2(1) = 2.512$
3	D.W. = 1.932	$Chi^2(4) = 3.829$	$Chi^2(2) = 5.332$	$Chi^2(1) = 3.008$
4	D.W. = 1.938	$Chi^2(4) = 3.596$	$Chi^2(2) = 7.259$	$Chi^2(1) = 3.142$
5	D.W. = 1.923	$Chi^2(4) = 4.557$	$Chi^2(2) = 4.742$	$Chi^2(1) = 2.658$
6	D.W. = 1.919	$Chi^2(4) = 4.624$	$Chi^2(2) = 5.045$	$Chi^2(1) = 2.504$
7	D.W. = 1.925	$Chi^2(4) = 3.559$	$Chi^2(2) = 5.302$	$Chi^2(1) = 3.004$

** The critical values of the various LM-tests at the 5% level of significance are:*

$Chi^2(1) = 3.84$;
$Chi^2(2) = 5.99$;
$Chi^2(4) = 9.48$.

Table 7.2: SURE regressions on $\Delta \ln(A/U)_{d,-1}$; sample period 79Q3 to 88Q3

Duration	ln(V/U)	Ins_d	$\ln(A/U)_{d,-1}$	t/100	CP/ LTU(-1)	REST/ LTU	SE	R^2
0-1	0.125	-0.406	-0.814	0.692	0.215	-0.256	0.0929	0.552
	(1.76)	(1.19)	(5.17)	(1.02)	(0.21)	(2.29)		
1-2	0.141	-0.231	-1.083	-0.318	-0.448	0.119	0.0981	0.737
	(2.02)	(1.28)	(8.63)	(0.43)	(0.41)	(1.04)		
2-3	0.205	0.204	-0.968	-0.599	0.142	0.212	0.0985	0.635
	(3.05)	(1.84)	(8.36)	(0.82)	(0.13)	(1.83)		
3-4	0.088	0.031	-0.856	-1.668	0.507	0.164	0.0737	0.541
	(1.83)	(0.35)	(6.13)	(2.89)	(0.60)	(1.78)		
4+	0.193	0.187	-0.954	-2.059	1.063	0.542	0.2031	0.714
	(1.39)	(1.00)	(6.24)	(1.16)	(0.47)	(2.14)		

Absolute t-values in brackets.

LM-test for serial correlation: 3.59; $Chi^2(4) = 9.48$.

Table 7.3: SURE regressions on $\Delta \ln(A/U)_{d,-1}$; sample period 79Q3 to 88Q3

Duration	ln(V/U)	Ins_d	$\ln(A/U)_{d,-1}$	t/100	CP/ LTU(-1)	SE	R^2
0-1	0.063	-0.169	-0.531	0.492	-0.266	0.0997	0.485
	(0.80)	(0.44)	(3.41)	(0.68)	(0.24)		
1-2	0.144	-0.225	-1.019	-0.226	-0.223	0.0997	0.728
	(2.16)	(1.30)	(8.04)	(0.31)	(0.20)		
2-3	0.205	0.240	-0.836	-0.581	0.672	0.1014	0.611
	(3.06)	(2.39)	(8.11)	(0.77)	(0.59)		
3-4	0.096	0.069	-0.695	-1.443	0.847	0.0769	0.500
	(1.05)	(0.81)	(5.99)	(2.45)	(1.00)		
4+	0.194	0.131	-0.829	-1.619	2.078	0.2166	0.673
	(1.33)	(0.71)	(5.51)	(0.89)	(0.84)		

Absolute t-values in brackets.

LM-test for serial correlation: 6.53; $Chi^2(4) = 9.48$.

Table 7.4: SURE regressions on $\Delta \ln(A/U)_{d,-1}$; sample period 79Q3 to 88Q3

Duration	ln(V/U)	Ins_d	$\ln(A/U)_{d,-1}$	t/100	REST/LTU	SE	R^2
0-1	0.133	-0.422	-0.821	0.836	-0.254	0.0929	0.553
	(2.44)	(1.28)	(5.29)	(2.89)	(2.31)		
1-2	0.124	-0.221	-1.080	-0.595	0.109	0.0984	0.735
	(2.29)	(1.23)	(8.58)	(2.32)	(0.97)		
2-3	0.211	0.195	-0.979	-0.513	0.218	0.0986	0.635
	(4.21)	(1.82)	(8.90)	(2.03)	(1.93)		
3-4	0.105	0.012	-0.879	-1.369	0.177	0.0739	0.539
	(2.83)	(0.14)	(6.45)	(4.87)	(1.97)		
4+	0.234	0.177	-0.963	-1.374	0.560	0.2033	0.713
	(2.15)	(1.00)	(6.49)	(1.72)	(2.24)		

Absolute t-values in brackets.

LM-test for serial correlation: 5.26; $Chi^2(4) = 9.48$.

Table 7.5: SURE regressions on $\Delta \ln(A/U)_{d,-1}$; sample period 79Q3 to 88Q3

Duration	ln(V/U)	Ins_d	$\ln(A/U)_{d,-1}$	t/100	CP/LTU(-1)	EAS/LTU	SE	R^2
0-1	0.095	-0.454	-0.708	1.180	-0.455	-3.777	0.0957	0.526
	(1.28)	(1.21)	(4.47)	(1.39)	(0.43)	(1.34)		
1-2	0.095	-0.286	-1.074	-1.098	0.156	5.137	0.0948	0.755
	(1.38)	(1.62)	(8.42)	(1.31)	(0.15)	(1.88)		
2-3	0.163	0.231	-0.889	-1.473	1.037	5.523	0.0967	0.646
	(2.38)	(2.26)	(8.22)	(1.73)	(0.95)	(2.00)		
3-4	0.060	0.081	-0.738	-2.291	1.217	4.600	0.0720	0.564
	(1.23)	(1.00)	(6.64)	(3.45)	(1.49)	(2.25)		
4+	0.111	0.138	-0.872	-3.350	2.8081	0.399	0.2075	0.702
	(0.77)	(0.75)	(5.81)	(1.57)	(1.14)	(1.72)		

Absolute t-values in brackets.

LM-test for serial correlation: 0.65; $Chi^2(4) = 9.48$.

Annex

The total stock of unemployment, U_t, is represented by the X-11 series of male unemployment (excluding school-leavers) in Great Britain, provided by the Department of Employment. It is consistent with the 1988 definition of unemployment. We use male unemployment, because it better reflects true unemployment than does aggregate unemployment.

We did use the following duration specific stocks of male unemployed:

1979(2)-1983(1):
$U_{1,t}\ U_{2,t}\ U_{3,t}\ U_{4,t}\ U_{5,t}\ U_{6,t}\ U_{8,t}\ U_{12,t}\ U_{12,t+}$

($U_{1,t}$ e.g., means 'the person counted at t was between 0 and 1 quarters continuously unemployed');

1983(2)-1989(1):
$U_{1,t}\ U_{2,t}\ U_{3,t}\ U_{4,t}\ U_{5,t}\ U_{6,t}\ U_{8,t}\ U_{12,t}\ U_{16,t}\ U_{20,t}\ U_{20,t+}$

They were computed from data published in the *Employment Gazette* and adjusted, where necessary, to ensure consistency with the total stock of male unemployment.

To get a series of actual vacancies, V_t (here we use total vacancies for males and females, since they reflect the true state of the labour market, as does male unemployment), we adjusted the published series of vacancies, which are notified vacancies at employment exchanges, by the procedure outlined in Jackman, Layard and Pissarides (1989); $\hat{C}$ was constructed as a weighted sum of *steady state* duration-specific outflow rates, where the weights are given by the proportion of the duration stock of unemployment with respect to the total stock. If we take 1984(1) as the steady state period,

$$\hat{C}t = \left[\frac{I}{U}\right] \phi_{I,84} + \sum_{d} \frac{U_{d,t}}{U_t} \phi_{d,84}$$

Note that for 1984(1) $\hat{c}_t$ and $(A/U)_t$ must be equal by construction. A complete description of how $\hat{c}_t$ is constructed can be found in the annex of Jackman and Layard (1988).

REST and EAS were calculated from published data in the *Employment Gazette* (April and October issues 1986, 1987, 1988, 1989, Section 9.2). CP was partially taken from the same source and from Haskel and Jackman (1988).

Figure 7.1: Time series of A/U and AL/UL

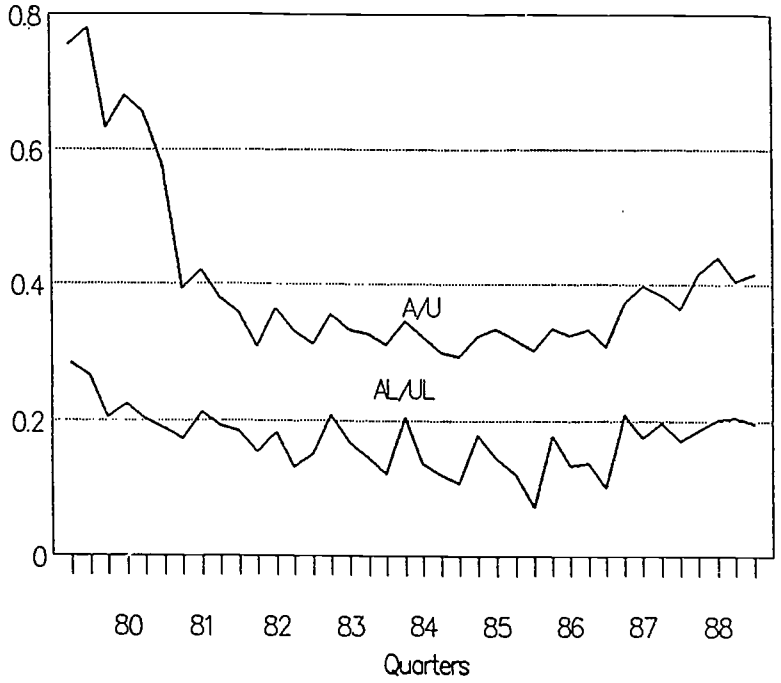


Figure 7.2: Time series plot of LN (V/U)

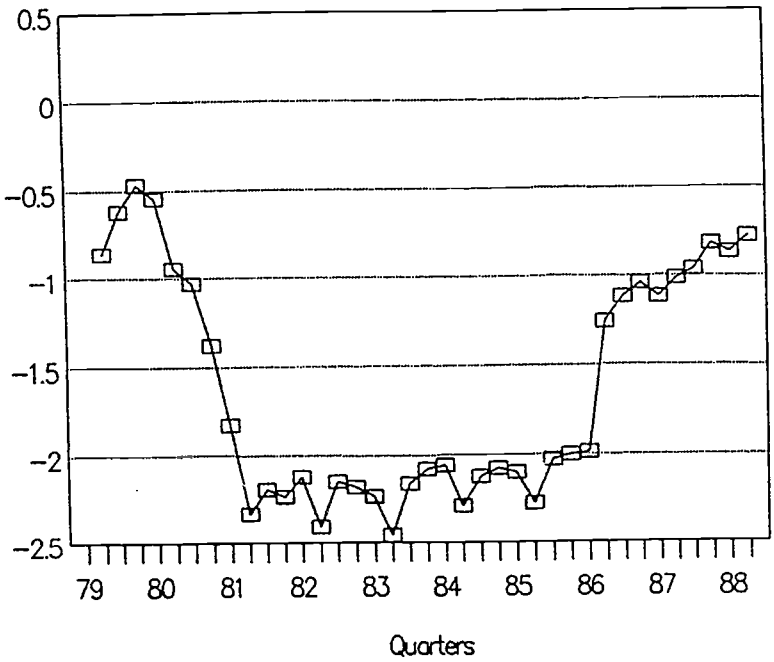


Figure 7.3: Time series: CP/LTU(-1)

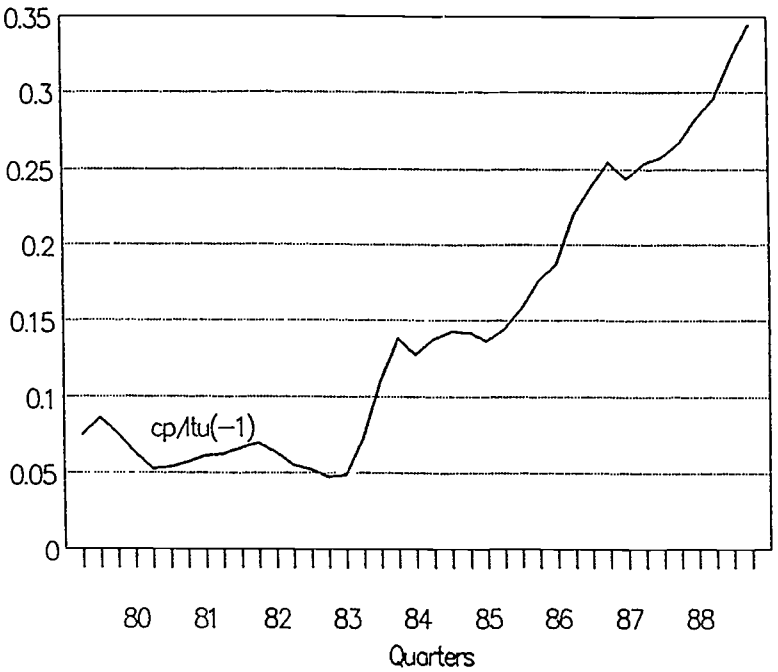


Figure 7.4: Time series: EAS/LTU

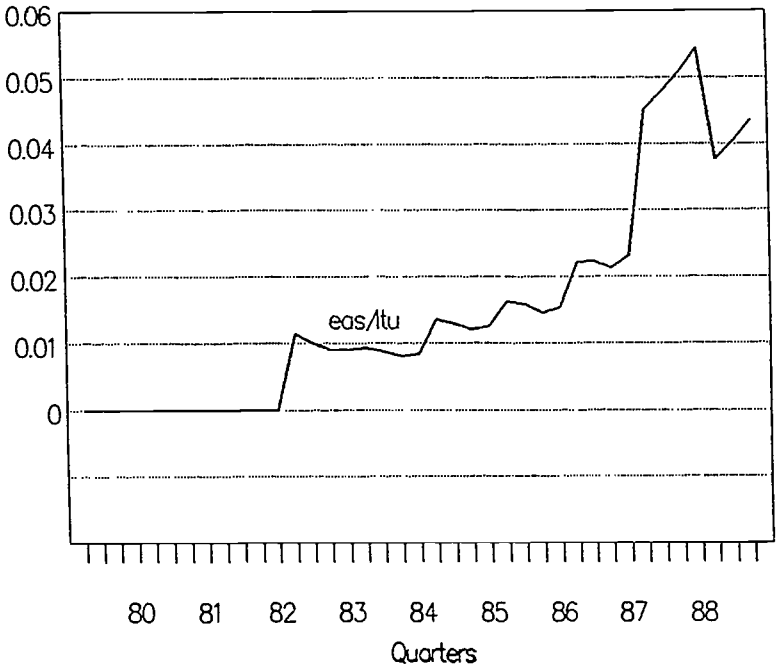
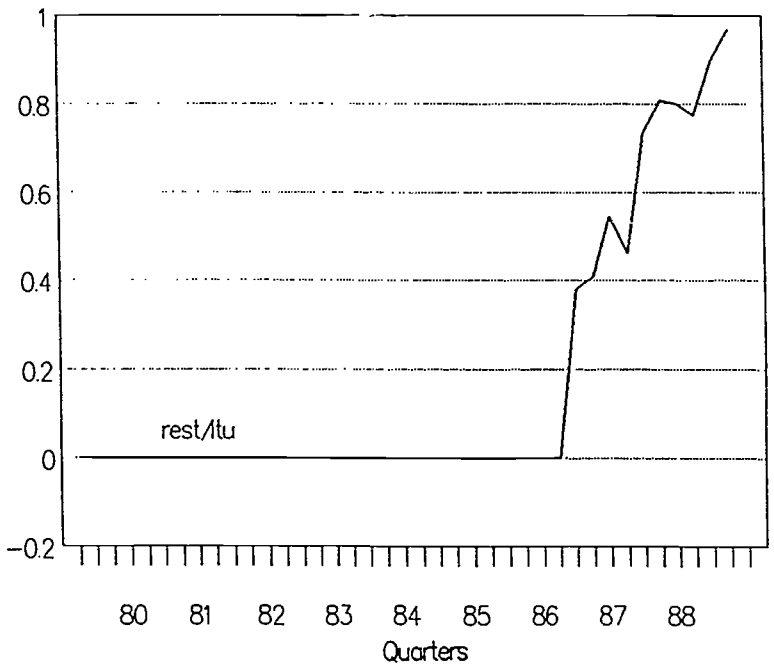


Figure 7.5: Time series: REST/LTU



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1. See, in particular, the relevant sections of Chapters III, V and VI.
2. The assumption of a given inflow can be justified on the grounds (i) that overall inflow into unemployment is approximately constant over time (Pissarides, 1986) and, (ii) that the level of short-term unemployment is given by the requirements of equilibrium in the labour market. It is, however, possible that one (or both) of these magnitudes may also be affected, indirectly, by labour market programmes, and this issue clearly requires further research.
3. More detailed disaggregation of the long-term unemployed by duration has become available during the 1980s. The data we have allow estimation over the period since 1979.

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Unemployment remains one of the greatest social evils in Europe. In Britain, after a period of unemployment falling in the late 1980s, it is back on an upward trend. In Germany, rising unemployment in the 1980s was already a concern, but the unification of Germany and the ending of the various employment protection measures in the ex-GDR in July 1991 seem likely to exacerbate the unemployment problem for the unified Germany. Hand in hand with the rise in unemployment is the problem of long-term unemployment, accounting for over a third of all the unemployed.

This volume examines the course and nature of unemployment in both countries and the policies of the two governments in combatting it, focusing on measures such as

- the training of adults;
- recruitment subsidies;
- job creation;
- employment advice and placement.

The authors also present a new econometric evaluation of the overall effects of such measures.

The authors recommend the following steps:

- an active system of placement and counselling which both helps the individual and insists that they accept any reasonable offer of training or work;
- a system which makes high-quality training and re-training available;
- a system of recruitment subsidies to help hard-to-place workers;
- as a last resort, a system of publicly supported temporary work of reasonable social value, provided at regular workplaces.

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