Active labour market policies encompass training programs, wage subsidies, welfare-to-work and placement services. They are used by governments around the world to alter both the level of unemployment and/or the composition of unemployment. Such policies aim: to affect the demand for labour by maintaining or creating jobs; to increase the supply of labour via training and rehabilitation; and to encourage labour mobility via placement counselling and mobility incentives. Most OECD governments have sought to implement effective active labour market policies as part of their response to unemployment. This paper examines the record of different types of active labour market programmes in a number of OECD countries. Through an examination of existing evidence on different kinds of active labour market policies, the paper attempts to determine which programmes best achieve government policy objectives. New Zealand active labour market policies are reviewed in light of the international evidence.

During the 1980s unemployment spiralled in the wake of a global recession. In response to burgeoning unemployment, countries around the world sought to expand old labour market programmes and to introduce new and innovative programmes. In recent years countries have shifted labour market expenditures to measures which mobilise labour supply, improve the quality of the labour force and strengthen the search process in labour markets. Since 1990 spending has increased as a proportion of GDP for both active and passive measures in about half of the OECD countries.

This paper examines the effectiveness of active labour market programmes in producing positive employment and welfare outcomes. The paper is based on a review of New Zealand and international literature on active labour market programmes and is a synopsis of a much longer paper that was prepared for the Employment Task force in March this year by both the Department of Labour and Treasury. The paper examines the problems with evaluation methodology and the effectiveness of public employment services, wage subsidies, enterprise development, direct job creation and training.

First of all, it is important to define what is meant by active labour market policies. Active labour market policies, constitute government intervention to change the functioning of the labour market. They encompass training programmes, wage subsidies, placement services and direct job creation. They are used around the world to alter both the level of unemployment and/or the composition of unemployment. Such policies aim to affect demand for labour by maintaining or creating jobs; to increase the supply of labour via training and rehabilitation; and to encourage labour mobility via placement counselling and mobility incentives.

Evaluation Methodologies

Before considering the effects of active labour market programmes, it is important to consider the different evaluation approaches which have been used. Appropriate evaluation plays a valuable role in contributing to employment policy development and implementation. Evaluation seeks to discover the incremental effects of a policy or programme in financial and/or economic terms. Regular evaluation is desirable in order to determine whether the best possible use is being made of available resources in the pursuit of policy aims. It may also provide an input into policy decisions affecting the continuation, modification, or termination of employment programmes. Assessment of the broad policy objectives ensures that they remain current and appropriate. Evaluating the role and effectiveness of the administrative system in designing and implementing programmes appropriate to the policy objectives is also valuable.

A major focus of employment programme assessment is the extent to which the programme fulfilled its stated objective. To be able to do this, however, objectives need to be clearly laid out. This is not always the case. If the objectives of a programme are unclear, evaluation of the success or failure of the programme becomes harder, and there are losses in terms of transparency and accountability. In addition, it is common for one programme to have a number of objectives. In an assessment these need to be
There is a wide variety of evaluation methodologies. The different evaluation methodologies are listed below.

- Before and after studies. These compare variables (eg: employment status, earnings, attitudes) before and after participation on the programme, with the differences between the two points taken as an estimate of the net effects of the intervention on the participant. By themselves, studies of this sort are not very useful, as it is not possible to assess whether the effects are due to the intervention.

- Quasi-experiments, with constructed controls. These compare participants' outcomes with a comparison group of non-participants, matched as closely as possible by relevant characteristics (eg: age, gender, education, previous experience, duration of unemployment, location etc). This is the most widely used methodology for evaluations. The key weakness of this approach is selection bias, which arise because of the fact that those who participate in a programme may be more motivated, or more attractive to employers, than those who do not.

- Quasi-experiments, with statistical controls. These compare participants' outcomes with those of non-participants, using various econometric techniques to hold constant the differences between the two groups.

- Classical experiments. These randomly allocate members of the target population to either an experimental group, who are placed on the programme, or to a control group, who are not placed on the programme. This approach avoids the problem of selection bias by using random allocation. Concerns about the reliability of non-experimental evaluations has led to the widespread use experimental methodologies in the United States. However, it should be noted that random allocation is usually confined to pilot studies. Experimental methods are seen as most appropriate in cases where places on the programme are supply-constrained rather than demand driven, and where random allocation can be used as a rationing device. Outside the United States there is a reluctance to use experimental techniques for a number of reasons, including reluctance to exclude eligible people from assistance and the cost and the length of time it takes to complete the studies.

The international evidence shows that, in general, the most useful evaluations have taken place when the procedures for evaluation and monitoring are put in place when a new active labour market programme is being developed. Developing an evaluation after a programme has been implemented is difficult as the aims of the programme may not have been put in place.

The number of people assisted into employment through active labour market programmes is not met by a corresponding reduction in unemployment in the economy as a whole. There are three major reasons for this, deadweight losses, substitution and displacement. Deadweight losses, occurs when a subsidy is offered to create a job which would have been offered by the employer anyway. In some cases, the subsidy may bring forward the date at which the job would have been offered. Substitution effects occur when jobs that would have been provided to members of the non-target group are provided to the target group as a consequence of the subsidy. Displacement effects occur when a subsidy may, through reducing the employer’s costs, enable the firm to undercut its competitors, at the expense of employment in other firms.

The extent to which deadweight and substitution are undesirable depends on the objective of the programme. There is a consensus that there are high levels of deadweight associated with marginal wage subsidies, although figures vary considerably. If the primary objective is the redistribution of job opportunities to the disadvantaged, rather than the creation of additional jobs per se, then substitution (and, by implication, those deadweight losses where the job would, in the absence of the subsidy, have been offered to a non-target person) is not a problem. Furthermore, if the people who are ‘displaced’ as a result of the subsidy do not go on to take up a benefit, then this does not add to the net cost of the scheme. Bertram (1988) provides a cautionary note on the tendency for policy makers to “rely heavily upon selective quotation of worst-case numbers from the international research”. He also points out that it is shortsighted to see deadweight as ‘wasted’ expenditure, as, for example, increased profits for firms will flow through to a higher company tax take. Layard (1994) points out that fears of displacement and substitution by employment programmes may be exaggerated. He points out that even if a jobseeker loses out to another subsidised jobseeker, the jobseeker is still inherently more employable. If they do not get this job, they will offer themselves for others. Employers will find there are more employable people in the market and that they can more easily fill their vacancies. This increases downward pressure on wages, making possible a higher level of employment at the same level of inflationary pressure.

Overall, evaluation studies have a valuable role in assessing the success of programmes in attaining their objectives. However, the caveats regarding methodology and interpretation of results should be borne in mind when considering the next sections of this paper which deal with the effectiveness of various forms of active labour market policy.

Public employment services

Public employment services play a key role in active labour market programmes in most OECD countries. The
The key objective of public employment services is to reduce the economic and social costs of unemployment by: promoting an element of coherence between labour market programmes; assisting unemployed job-seekers and employers to make better and faster worker job-matches through information and brokerage; improving unemployed job-seekers' job search skills through job search assistance; generation and administration of labour market programmes; and admission of participants to labour market programmes.

Public employment services normally take the form of placement and counselling services. There is relatively little variance in the coverage of these services across countries. The effectiveness of public employment services can be hard to determine given the differing objectives that public employment services face. The success of public employment services may be judged by the extent to which the programmes they directly provide, such as job search assistance and counselling improve job matching between unemployed job seekers and employers, increase the subsequent earnings of programme participants and increase the amount of time participants spend in employment and training.

**Effects on employment**

There is little evidence on the overall effectiveness of Public Employment Services. The reason for this is that most employment services have multiple objectives, making it difficult to assess the overall effectiveness of a public employment service. The only evidence on the general effectiveness of Public Employment Services comes from Canada (Osberg, 1993). This evidence suggests that the employment service in Canada has no effect on the filling of vacancies in the labour market as a whole. However, it has a positive effect on the job finding probability of those in adverse labour market conditions, particularly in a recessionary period.

**Effectiveness of job search assistance**

Evidence from the United States (Corson Long & Nicholson, 1985) suggests that job search assistance provided by a public employment service can have a positive effect on re-employment probabilities, in some cases comparable to that of training programmes. There is also some evidence that there are positive income effects. This positive effect suggests that the job search assistance provided by Public Employment Services is value for money, given the low cost of these services relative to other programmes such as training programmes.

**Effectiveness of counselling**

Counselling plays an important role in the operation of most public employment services. The evidence from the Australian Newstart (DEET, 1993) evaluation and the English Restart (White & Lackay, 1992) evaluation is that counselling is effective. Calling a person to an interview to discuss strategies for finding work can lead to a significant increase in a person's chances of finding a job, that is similar to the impact of some labour market programmes. The success of counselling services is linked to the fact that they act as gateways to other programmes. Therefore the success of counselling partly depends upon the other labour market programmes in place.

**Effectiveness of focusing on the long-term unemployed**

There is some discussion in the international literature of the effectiveness of different approaches to operating public employment services. The evaluation of the Newstart (DEET, 1993) programme in Australia provides some interesting results. Firstly, it established it is possible to refocus services on the long-term unemployed, even in a recessionary period. The hardest group to provide useful assistance to were the very long term unemployed and the older unemployed. These groups may require programmes tailored to their particular needs. There was also evidence that the short-term unemployed may require less formal assistance. For example, greater emphasis being placed on the use of self-help materials.

**Effectiveness of more intensive case management**

The Newstart (DEET, 1993) evidence suggested that for intensive case management to be successful adequate management resources and solid staffing were necessary. Otherwise a case management approach would simply become another way of processing clients. Evidence from the UK also shows that more individual case management by employment advisers can have positive effects.

**Wage subsidies**

Employment subsidies are one of the most common active labour market programmes used in OECD countries. Employment subsidies have two main employment objectives: to increase or protect employment during a recession; or to alter the structure of employment and unemployment by promoting more equal access to employment opportunities and improving the functioning of the labour market. Subsidies can also maintain the workforce attachment of participants and help foster work habits. Some subsidised employment may increase the skills base of participants, though this is not a primary aim of subsidies.

Employment subsidies take a number of forms. Redundancy-averting wage subsidies aim to hold employment stable in the face of retrenchment or to reduce the impact of redundancies. Targeted recruitment subsidies aim to increase employment of selected groups of people. Both forms of subsidy usually apply to employment created or maintained above the usual operating level of the business. Employment subsidies may be paid to employees or employers. If paid to employers they may be paid as tax credits or direct wage bill subsidies. Subsidies to employers are usually paid as direct cash payments, but may also be paid as vouchers. Generally, subsidy programmes run
for a limited time period and participation is voluntary.

Effects on employment

The employment impacts of wage subsidy schemes are generally better than other schemes because participants are placed in subsidised jobs. They would therefore be reasonably expected to have much higher employment outcomes than jobseekers not placed in jobs. To control for this factor, the employment outcomes for those on wage subsidy schemes have been compared to control groups who went off the register and gained some work experience during the same time as participants were on the wage subsidy scheme and who were back on the register when wage subsidy participants finished their employment. The international and domestic (Dominick, 1992, DEET, 1993, OECD, 1991) evidence is that those people who participate in wage subsidy schemes have employment outcomes similar to those who found unsubsidised employment.

Effect on the most disadvantaged

The evaluation of the Australian JOBSTART scheme provides information on what groups of jobseekers gained most from the wage subsidy scheme. Women were found to do best in terms of employment outcomes relative to males. The long-term unemployed did not do as well as the short-term unemployed, while the very long-term unemployed and the old gained least from the wage subsidy. The report also showed that those who completed their JOBSTART placement had better labour market outcomes than those who did not complete their placement.

Effects on overall job creation

The key result from the international literature on wage subsidy evaluations is that most wage subsidy schemes, particularly broadly-based schemes, have high deadweight costs. Often in excess of 60 percent of all placements are deadweight, suggesting that only 40 percent or less of participants became employed as a result of the subsidies. Also on top of deadweight costs, there are displacement effects, suggesting that only a small percentage of jobs created by wage subsidies are net additions to employment. Thus wage subsidy schemes do not create substantial net additional employment. The recent Job Plus evaluation (NZES, 1993) shows that 40 percent of participants had left their employers within one month of the wage subsidy ending, this suggests that the aim of ongoing employment is not met for many participants.

As stated above, broadly targeted wage subsidy schemes do not create net additional employment. Wage subsidy schemes are more suited to achieving equity objectives, such as improving the employment prospects of the disadvantaged among the unemployed. Wage subsidies could also be used as a churning mechanism, that is changing the composition of the long-term unemployed by putting them through employment schemes. Where the objective of employment schemes is maintaining as much labour market attachment as possible, the focus is on redistributing unemployment rather than reducing it. The escape probability from unemployment decreases as the duration of unemployment increases. In this situation, a churning objective may be useful. As participation in the scheme breaks the continuous period of unemployment it maybe useful, even where it does not lead directly to a permanent job. Participants get the benefit of work experience, including developing or re-acquiring work habits, skills and contact with others. This may also serve to make participants more attractive to potential employers.

The OECD (1993) notes that, given the high deadweight costs of most wage subsidies, the main policy objective that can be justified is the redistribution of job opportunities to target groups. The problem is to determine which target group can be effectively selected. It is very difficult to defend subsidy programmes with relatively broad targeting.

Enterprise development

Over the last decade most countries in the OECD have established labour market programmes to help the unemployed found their own enterprises. The general objectives of these enterprise development programmes are: to provide the opportunity to unemployed job-seekers to pursue self-employment as an alternative to paid employment; to create the highest possible number of viable jobs in newly started enterprises; to increase the stock of small businesses and supply of entrepreneurship, particularly among those groups not traditionally well-represented among the self-employed, for example, Maori women.

Enterprise development programmes present a number of unique problems, in terms of performance measures and evaluation, compared to more straightforward employment schemes, because the schemes are often more akin to business incentives and there are other issues to be considered such as business survival rates. It is also important to assess both the impact of the programme on those persons starting firms and the subsequent employment among the firms started.

Who participates in enterprise development programmes?

The evaluations of enterprise development programmes show that these programmes were only of interest to a small number of participants and are unlikely ever be a major labour market programme. Those who participate in these programmes are likely to be more similar to the existing population of the self-employed than to the general unemployed population, although groups such as Maori and women, who have previously been under-represented among the self-employed, are becoming more interested in self-employment.
Effect on employment

In assessing the employment impact of enterprise development it is necessary to consider not only the impact on the persons starting firms, but also the subsequent employment among the firms started. The evidence from the Irish enterprise development scheme is that net job creation was of the order of 34 jobs per 100 participants, after the effects of deadweight and displacement had been taken into account. While many business fail, the enterprise development schemes may provide a stepping stone to wage and salary employment.

Business survival rates

There is a wide range of estimated business survival rates. In the UK, France and Ireland survival rates were estimated at around 50 to 60 percent over two to three years. While in Australia the survival rate was estimated at 29 percent over two years.

Factors influencing effectiveness

Those businesses that survive have larger initial investments, operate from specific premises, and are run by those who resemble the existing self-employed population rather than the unemployed as a whole. There is also evidence that the provision of training and advice increases survival rates.

Direct job creation

Direct job creation is generally used as a measure to create jobs for the long-term unemployed and/or those who are the most disadvantaged in the labour market. Direct job creation schemes aim to: create employment for the most disadvantaged unemployed; foster and maintain work habits and work force attachment of participants; and produce projects of social benefit that may not otherwise be undertaken. There has been a move in direct job creation schemes from traditional relief work to the emphasis being placed on the importance of the work experience element of the programmes. The programmes usually aim to provide workers with recent work experience, skills and work habits, which will improve their chances of finding unsubsidised work. There has also been a move towards programmes with a greater training element in recent years.

Effect on employment

New Zealand and international evidence shows that some work experience programmes have positive employment impacts relative to those who do not participate in these programmes. An evaluation of Community Task Force (MRL Research, 1992) shows Community Task Force (CTF) participants spend more time in jobs and training after completing the CTF programmes than a comparison group of job seekers who remained on the register. An evaluation of Task Force Green (NZES, 1993) shows similar results, with Task Force Green (TFG) participants spending more time in employment and training than a comparison group of job seekers who remained on the register. TFG participants have better chances of finding unsubsidised employment, than job seekers who remained on the register. Evaluations in Australia (Streeton & Chapman, 1990), Great Britain (Disney, 1992), and the US (Couch, 1992) all show similar results for direct job creation programmes.

Effect on the most disadvantaged

The evidence from the US studies (Couch, 1992) is that female long-term welfare family heads are the group who gain the most from work experience programmes in terms of increased employment and earnings' impacts. There was found to be no positive impacts on youth participants, either in terms of earnings or employment.

Factors influencing programmes effectiveness

There is no evidence relating to whether any particular type of work experience is better than any other. There is some evidence that work experience combined with training/employment is more effective. There is also evidence that work experience as part of a more integrated labour market programme such as the Conservation Corps may be more effective than simple work experience.

Is the work carried out beneficial to the community?

Direct employment creation schemes also usually provide benefits to the wider community, in terms of the useful work carried out by many of these schemes. These schemes may also have a role of re-integrating job-seekers into the local labour market and community. Both the Community Taskforce and Taskforce Green evaluations considered the benefit to the community of the programmes by carrying out surveys of the communities in which the programmes were running. Generally there were positive attitudes towards the programmes. Their main contribution to the community was seen as stemming from the wages being spent in the community. The work carried out by the two schemes was also perceived as useful by the local communities.

Training programmes

Government training programmes for the unemployed may have skills, activity, welfare dependency and equity objectives. Training strengthens the skills base of the economy by increasing the human capital of participants. By increasing human capital in selected skills, skill mismatch and unemployment can be reduced. Increasing human capital can also increase the productivity of labour, thus contributing to economic growth and lower unemployment. In periods of high unemployment, training schemes may be used to position people for jobs for when recovery begins. This increases the responsiveness of the labour market to an upturn. By providing people with

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skills and fostering work habits training programmes may reduce the future benefit dependency of participants. Training may be used to equalise the benefits of growth. Increasing the human capital of low-skilled people helps raise their relative earnings and increase their employment opportunities, thus promoting social equity. Through upgrading people’s skills, training allows people to adapt to varying labour market conditions. This increases people’s employment security over time.

**Employment effects**

The probability of getting a job after training varies widely across schemes. The probability depends upon the nature and duration of training and may be affected by the state of the economy. Generally, training programmes surveyed resulted in positive employment outcomes with post-programme employment rates ranging from 45% for the New Zealand WorkSkill (Department of Labour, 1984) to 94% for the Californian Employment Training Panel (Leigh, 1990). It should be noted that these figures are absolute and provide no information as to the employment rate of non-participants. However, one Australian study that did include a control group estimate, SkillShare (DEET, 1992), found that the programme increased participants’ chances of having a job seven months after programme cessation by about 50 percent.

**Earnings Effects**

Post-programme earnings are an important indicator of participants’ skill levels and employability. The earnings’ effects of training vary with participants. Generally, they are not large. Earnings’ effects are greatest for females, although the Danish AMU study (Westergrad-Nielsen, 1993) found training had a significantly positive effect on the wage rate for men. There is no information available as to whether the effect of training on earnings is the result of increased human capital or other factors such as increased job search.

**Targeting**

There is little evidence that broadly targeted training programmes have a positive effect. Programmes targeted on sub-groups amongst the unemployed or disadvantaged appear to be more effective than broadly targeted programmes. For the most disadvantaged, training appears to have positive effects on labour market outcomes, for example, the New Zealand ACCESS programme (Dominick, 1992).

For people who face some barriers to labour market entry, but not multiple barriers, the labour market impacts of training programmes are the greatest. For the least disadvantaged there is little difference in outcomes between different forms of training and non-intervention. Such people may thus not require training assistance during their unemployment spell. Programmes have the greatest absolute effect on those who have spent least time in the labour market previously, like women. Females enjoy a greater increase in earnings after training than men, and these earnings’ effects persist for relatively long periods of time.

The effectiveness of training programmes is improved by linkages to job-search assistance and employment information, good monitoring and training, the presence of good institutional incentives and flexibility of programme delivery. For the most disadvantaged individuals, short-courses are insufficient to improve their labour market prospects to a level where they are able to gain and retain employment. Training programmes which provide work-experience and have strong links to firms are more likely to result in employment than classroom training. This may be because information problems are minimised, because training is more relevant to employers’ needs and because facilities available are more current. For example, with ACCESS (Dominick, 1992), work-based training resulted in better employment outcomes than vocational or classroom training. Classroom training fails to have significant effects on earnings’ measures. Indeed, the effects of classroom training are no larger than those arising from job search assistance.

**Conclusion**

There are a number of common elements in the more successful active labour market policies, be they training, subsidy schemes, or direct job creation. The most important of these factors is the need for targeting of programmes to particular groups or individual needs. Targeted programmes are more successful in increasing participants’ employment probabilities because they focus more clearly on the specific needs of the participants. Broadly based programmes tend not to be as successful as the programme is forced to cater for too many differing needs and because they may interfere with some individuals’ job search.

Another important issue is that of linking programmes. An Australian study (DEET, 1992) has shown that closer progression from one type of programme to another is effective in increasing employment probabilities. Linking of programmes must be done in an effective manner if it is to be effective, such as training followed by a wage subsidy. The Australian study found that the linking of programmes was most effective if it is done in a logical manner, such as training followed by a wage subsidy.

The international evidence suggests that the unemployed are not a homogenous group, and different groups of unemployed benefit from different active labour market policies. Generally, the short-term unemployed seem to fare well without labour market programmes. Some job-search assistance may be beneficial. The Australian NEWSTART (DEET, 1993) programme evaluations suggest that the short-term unemployed should receive less formal assistance. This may include reducing their current eligibility to some labour market programmes and making
more self-help materials available to them.

The long-term unemployed benefit most from more intensive programmes. Job search assistance, and training are the most cost-effective interventions for the long-term unemployed. It is difficult to identify potential long-term unemployed early on during their unemployment spell. It is therefore more effective to intervene when a tendency to long-term employment becomes apparent. The very-long-term unemployed and older unemployed people usually have multiple disadvantages. Because of these disadvantages, most standard schemes are inadequate to meet the needs of the very long-term unemployed and they may require specialised programmes. Programmes for unemployed youth are most successful when they focus on the severely disadvantaged using specialised programmes which concentrate on their personal needs. Women appear to be positively affected by most forms of active labour market policy, especially those who are re-entering the workforce. Programmes such as the Compass programme which is designed specifically for women are relatively new in New Zealand.

New Zealand comparisons

Active labour market policies in New Zealand have followed the same trends as seen throughout the OECD countries. The thrust of employment policies in New Zealand over recent years has been broadly consistent with those in other OECD countries. During this period, the focus of employment policies has concentrated increasingly on the dynamics of the labour market. There has also been a recognition that unemployed are a much more diverse group than in the past. Since the mid-1980s New Zealand has adopted a more active role for the placement service (NZES) in speeding adjustment through matching unemployed job seekers to vacancies. It has also increased the emphasis on skills training for the unemployed and altered the direction of targeting of subsidy and training assistance towards the long-term unemployed. New Zealand has shifted away from large-scale fully subsidised work schemes such as the Project Employment Programme towards more carefully targeted programmes, offering partial wage subsidies, either for ongoing jobs or for projects of value to sponsors and the community. New Zealand has also moved towards support for less traditional employment models, for example the Limited Service Volunteers.

The most recent active labour market policy to be introduced, Job Action, is an example of a programme which combines many of the elements of other successful active labour market programmes. In particular the programme is targeted at the needs of a distinct group, those jobseekers who reach 104 weeks on the register. There is individual attention for each individual including an interview, a job seeking skills workshop, and the development of a Job Action Plan, a series of actions which a job seeker is committed to taking in order to enhance their ability to find employment. There is also ongoing case management of the job seekers. The success of the Job Action will be closely monitored and evaluated by the Department of Labour.

Future research

Relatively little evaluation of active labour market policies has been carried out in New Zealand. With the growth of different types of programmes being administered by organisations ranging from New Zealand Employment Service to local councils and voluntary bodies there is scope for a substantial number of evaluations to be carried out. As more evaluations are carried out, our increased knowledge of employment programmes effectiveness will allow programmes to be refined to provide better outcomes for those participating in them.

In tandem with the possibility of increasing the number of evaluations carried out there is a need to improve the understanding of evaluation methodologies and international best practise. If evaluations are to be useful they must be properly carried out. The Department of Labour is at present establishing an evaluation group to assist and develop evaluations of active labour market programmes operated by the services of the Department of Labour.

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Notes

1 The fraction of the impact of the wage subsidy that benefited participants only at the expense of job losses in other enterprises resulting from displacement effects in product markets.

2 The fraction of the impact that benefited participants only at the expense of other job seekers

Author

Anishka Jelicich is a policy analyst in the social policy branch of the New Zealand Treasury. Colin Lynch is an economic analyst in the Department of Labour, PO Box 3705, Wellington.