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16-17 February 1993

*Perspectives on DEET Labour Market Programs*

Wendy Jarvie and Robyn McKay

With a Comment by

P.N Junankar

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Wendy Jarvie and Robyn McKay

Evaluation and Monitoring Branch  
Economic and Policy Analysis Division  
Department of Employment, Education and Training

With a Comment by  
P.N Junankar  
Public Policy Program  
Australian National University

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## Contents

	Page
1. Introduction	1
2. Labour Market Programs - Historical Perspective	2
2.1 Definition	2
2.2 1973-1984	2
2.3 The Kirby Report	3
2.4 The Active Society and the ClinetFocus	4
2.5 Summary	5
3. Monitoring and Evaluation. Do LMPs Work? Why?	6
3.1 Do Current LMPs Work?	6
3.2 Monitoring	7
3.3 Evaluation	9
3.4 Summary	11
4. Current Policy Issues	12
4.1 LMPs and the Business Cycle	12
4.2 LMPs and Structural Change	14
4.3 LMPs and the Australian Training System	15
4.4 Impact on Labour Deman	15
4.5 LMPs and Regional Labour Markets	16
4.6 Management Issues	18
5. Conclusions	18
References	20
Attachments A - H	21-31
Comment by P.N. Junankar	33

## Introduction<sup>1</sup>

The rapid expansion in expenditure on labour market programs (LMPs) over the past two to three years has almost trebled the resources directly available for the reintegration of unemployed people into the labour market. Currently, DEET labour market program allocations are \$1.2 billion for 1992-93. These allocations are expected to assist 465,000 persons in 1992-93. In comparison in 1990-91 \$397.2 million was spent on LMPs, assisting 236,700 persons.

Outlays on labour market programs are intended to have both cyclical and structural outcomes. LMPs are commonly seen by many constituencies as addressing cyclical unemployment without contributing (except negatively through the impact on the PSBR) to long-term strategic goals. It is easy to jump to that conclusion when you inspect the pattern of recent outlays. Since the 1990-91 Budget, there has been a 40 percent increase in the March 1991 Economic Statement, followed by a further 2 percent in the August 1991 budget, a further 12 percent in the November 1991 Employment Statement, a further 1.7 percent in the February 1992 "One Nation" statement, a further 26 percent in the July 1992 Youth Statement and a further 38 percent in the August 1992 budget. Outlays on LMPs, as a result, stand at nearly three times the levels established in the August 1990 budget.

This expansion has been motivated by the rapid increase in unemployment since 1990, and the consequential increase in long-term unemployment. Labour market programs are aimed primarily at the long-term unemployed (over 12 months of unemployment), who have demonstrated by their duration of unemployment that they have difficulty competing in the labour market; or at other especially disadvantaged unemployed whose characteristics are likely to result in long-term unemployment.

The purpose of this paper is to review the evolution of labour market programs since the late 1970's, from the period when labour market programs were developed as an adjunct to increasing school retention rates in the bid to reduce youth unemployment; through to the recent rationalisation of client service strategies, particularly Newstart, which sought to bring together a range of DEET programs and services under a single umbrella, and to draw clients into a contractual partnership with the Government. The paper highlights the evolving nature of LMPs and the role of evaluation and monitoring in the development of our understanding of their effectiveness.

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<sup>1</sup>The authors would like to acknowledge the contributions made to the paper by Andrew Stuart, Chris Ryan, and William Thorn. Many other DEET officers also provided helpful comments.

As can be seen in the graph in Attachment A, it is clear that LMPs operate as a cyclical response to unemployment. However, the paper also postulates that LMPs are used as a partially effective means of preventing cyclical unemployment from becoming structural, that is to prevent unemployment becoming entrenched as very long-term unemployment. As such LMPs are an important vehicle to achieve the Government's equity objectives and to prevent the entrenching of poverty and disadvantage in families and communities.

LMPs can also contribute to the structural efficiency of the labour market. For example, increasing the competitiveness, and averting the skills atrophy of the unemployed - especially the long-term unemployed - can be important in reducing supply bottle-necks. It can also be important in reducing inflationary pressure in recovery.

## 2. Labour Market Programs - Historical Perspective

### 2.1 Definition

Labour market programs run by the Commonwealth through the Employment, Education and Training portfolio are designed to assist jobseekers disadvantaged in the labour market to secure long term employment or entry into further education and training. Many of the programs have been, and still are, delivered by the CES (Commonwealth Employment Service). Recently, there has been a considerable expansion in delivery through community organisations and brokers. Over their history the programs have offered a range of assistance, including assistance to employers to take on the unemployed (eg wage subsidies), and assistance to the unemployed such as training opportunities, relocation expenses and work experience.

This assistance is of course not the only form available to the unemployed: income support and the job placement and referral service offered by the CES are also important forms of assistance, as is the provision of post-compulsory education and training. Increasingly over the last few years LMP and other assistance has been viewed as a 'package' of assistance to the unemployed. The focus of this paper however is on the LMPs and not on the other aspects of assistance.

### 2.2 1973-1984

The past 15 years have witnessed a major shift towards the use of LMPs as a tool of labour market adjustment. In the immediate post-war years, labour market assistance was provided through the activities of the Commonwealth Employment Service and the payment of unemployment benefit. In the early 1970s, Australia began to experiment with employment and training programs for disadvantaged groups (women,

Aboriginals, retrenched persons, rural disadvantaged); and the earliest prototypes of industry training services. In 1973-1974, expenditure was \$12 million. These programs were subsequently rationalised into the National Employment and Training System (NEAT), and supplemented by the National Apprenticeship Assistance Scheme (NAAS), a major trade training initiative. Subsequently the Regional Employment Development Scheme (REDS) was introduced as a major job creation initiative which, at its peak in 1975, employed 32,000 people or 10% of the unemployed (Kirby 1985 Ch.3).

The mid 1970's brought a new focus to LMP intervention, involving reduced spending and increased targeting of LMPs. The priority target was young people, whose rapidly increasing unemployment the government sought to deal with by two measures, increasing school retention and a series of special programs - a wage subsidy program (the Special Youth Employment Training Program), a community support and training program (Community Youth Support Scheme), two other youth transition programs (the Education Program for Unemployed Youth and the School to Work Transition Program) and an income support payment (the Transition Allowance). By 1980, immediately after the first National Youth Conference, these were marketed as a package entitled Commitment to Youth.

By the beginning of the 1980's the elements of our current configuration of LMPs had all been tried - wage subsidies with private employers, training programs with public or community infrastructure, public sector job creation, structural adjustment assistance, apprenticeship training, and packages of assistance for particular client groups. The early 1980's also marked a return to public sector job creation programs in the aftermath of the 1982-83 recession, in the form of the Wage Pause Program and the Community Employment Program, which by 1983-84 constituted half of all LMP expenditure. The early 1980's also marked a shift in focus from targeting by unemployment rates, which justified a concentration on youth, to duration of unemployment, which led to a concentration on the long term unemployed and thus the older age groups.

### 2.3 The Kirby Report

A major landmark at this point was the 1985 Report of the Committee of Inquiry into Labour Market Programs, chaired by P.E.F. Kirby, and commonly known as the Kirby Report (Kirby 1985). The proliferation of programs in the period 1973-1984 (see Attachment B) was criticised for the resulting complexity of options, program guidelines, disparate program policy development procedures and poor program linkages. The Kirby Report promoted strongly the concepts of linked assistance, training content, program rationalisation and program evaluation.

The implementation of the Kirby Report resulted in a shift of focus towards training of individual clients, rather than job creation. The Report also recommended a major systemic change. With the introduction of the Australian Traineeship System in 1986, the prototype for the most recent entry-level training reforms, came recognition of the need for a productivity-linked training wage and the development of alternative pathways from school to work and training.

The rationale for labour market policy articulated by Kirby was "to help people control and direct their working and non-working lives... an approach which focuses on the individual ..... The assistance provided should be selected from the total array of programs in a way which best meets the needs of individuals." (Kirby 1985 P.6).

While this approach resulted in considerable rationalisation and coordination in 1986, and a stronger training focus, the structure of intervention remained a program one. The shift to a client focus was more gradual. However, the pattern of programs implemented in 1986 can be recognised in JOBSTART, JOBTRAIN, SkillShare, and the current entry-level training arrangements today. While there have been additions since, such as JOBSKILLS, TASK and OLMA, the Kirby schema is the core of current LMP provision. A summary of the current suite of LMPs is at Attachment C.

The rationalisation of programs following implementation of Kirby's recommendations was relatively shortlived. The subsequent fairly rapid proliferation of minor programs which share the Employment Access Program (EAP) umbrella with JOBSTART and JOBTRAIN was not envisaged. Whether the EAP in its current configuration has become confusing to clients is uncertain. However, the growth in the range of program options has been partly an outcome of focusing on what clients need (see below) rather than trying to fit clients to a limited program configuration.

#### 2.4 The Active Society and the Client Focus

A further major change came in the 1989-91 period, with the development of the 'active society' approach to assisting the disadvantaged. This approach seeks to link the receipt of income support with an obligation on the part of recipients to actively seek work, or to undertake training to enhance their employability. These initiatives in Australia paralleled those in a number of OECD countries. They flowed from the common experience that even during comparatively buoyant economic times, passive income support did not prove to be enough on its own to prevent income inequality becoming entrenched. The 'active society' approach was that income support and active labour market assistance must be closely linked, and that 'welfare' could be delivered through the medium of supported labour market participation. In

Australia's case the initial push came from the seemingly intractable number of long term unemployed left over from the recession of 1982-83. This led to the introduction of (old) NEWSTART in 1989 for long term unemployed adults. This was followed by the Jobs, Education and Training (JET) strategy for sole parents; Newstart, for all unemployed aged 18 years and over, and the Disability Reform Package to assist disabled people into the workforce.

In these strategies, labour market program assistance is just one of a range of assistance available to clients through a number of Commonwealth Government Departments. The range includes interviews and counselling, activity agreements, child care, and rehabilitation assistance. In these strategies the focus is on the client and their needs, not on the programs and services. In these strategies too, the role of services (interviews, job referrals etc) is being given increased prominence compared with program assistance. Reflecting these changes of philosophy, delivery in DEET and other Departments has become increasingly client focused, with structural reforms to the network of CES offices and client-targeted operational planning at State and Area levels. The structural reforms include the creation of four specialist service units (see Attachment D). Other reforms to improve the responsiveness of the CES network to client need have been the introduction of service standards (July 1992) and 'model' offices (from late 1992). The latter are trialing new methods of work organisation and service delivery.

The targeting of clients has been continually refined. Eleven priority groups were targeted for operational planning purposes in 1990, an unsustainable level. The list was refined to four for 1992 (Long Term Unemployed (LTU), Aboriginal and Torres Strait Islanders, People with Disabilities, and Sole Parents). Attachment E shows the 1990 and 1992 operational planning target groups. Other groups such as those unemployed between 6 and 12 months, while not forming target groups in the operational plans, are still eligible for assistance. These include most of the groups shown as target groups in 1990.

## 2.5 Summary

The history of LMP intervention is:

- a period of several years of trying out different programs for different client groups with different needs, but with poor links between programs and relatively unsophisticated evaluation procedures;
- a period when programs were rationalised, and coordinated and injected with greater training content; and

- . a period when program objectives became increasingly subordinated to client servicing objectives, and packages of linked assistance were developed to support active employment strategies for individual clients.

Since the early 1980's there has not been much new in the content of LMPs. They may go by different names, but in content they provide any or all of

- . training
- . work experience
- . a subsidised job
- . personal support

The 1980's were distinguished by diversification in delivery mechanisms. We have reduced our reliance on public training infrastructure and public sector employment, and moved to a broad mix of

- . private sector and local government employment;
- . self-employment;
- . community sector, TAFE and private provider training; and
- . counselling, referral and placement services.

A further innovation has been the integration of these services within a client focussed package, supported by infrastructure changes in the CES itself.

### 3. Monitoring and Evaluation. Do LMPs work? Why?

A key input in the refinement of our approaches to LMP intervention has been monitoring and evaluation of program outcomes. Despite early program review work undertaken in the former Department of Employment and Youth Affairs in the late 70s and early 80s, the Kirby Report had been critical of the level of commitment to program evaluation, and recommended that greater attention be given to evaluation when LMPs, especially pilot and experimental programs, were designed and implemented.

#### 3.1 Do Current LMPs Work?

The short answer is yes, they do. But they work at different costs, and with different levels of effectiveness for different client groups. At present the majority of LTU leave DSS benefits through participation in LMPs. Few leave without help. Without LMPs our LTU pool would be greater (assuming

the current structure of wage fixing, income support and the like), bringing in its train greater structural and equity problems.

The conclusions have been able to be drawn through a heavy investment in monitoring and evaluation by DEET in recent years.

### 3.2 Monitoring

DEET now has a highly developed approach to outcomes monitoring. Outcome information is collected through the Department's post-program monitoring (PPM) system. Approximately 3 months after ceasing assistance, such as the finish of a training course or the end of a wage subsidy, all participants are checked to see if they are in further program assistance. If not in further assistance they are surveyed by mail and telephone to find out what they are doing. Currently DEET is getting a 72% response rate, which is regarded as very good for a survey of this type. The PPM survey is expected to cover some 320,000 clients at a cost of about \$1.3m in 1992-93. This will provide outcome information relating to about \$1.2b of Commonwealth expenditure.

DEET believes that this system is more comprehensive than that available for other Commonwealth or State Government programs, or for LMPs run in other countries.

The data obtained from the PPM survey is available on a consistent basis from November 1988. It shows the following:

- 1) **Program outcomes vary**, between programs, between clients, and between different stages of the economic cycle.

For example, as can be seen in Figure 1, Attachment F, the recession has had a clear impact on the outcomes of nearly all programs. The exception appears to be JOBSTART - positive outcomes are at 58.6% (for the Quarter to end September 1992), almost back to pre-recession levels of around 60%.

Regression analysis suggests that the impact of the recession has occurred in various ways. For example the decline in Job Clubs outcomes appears to be related more to when retrenchments started to rise in early 1990, whereas JOBTRAIN's decline appears to relate more to when job vacancies started to fall (in March 1989). This reflects the different mechanisms by which these programs bring participants and employers together - Job Clubs promote the 'cold canvassing' of employers, while JOBTRAIN relies more on participants gaining job referrals, by the CES or other bodies, to existing vacancies. (See Figures 2 and 3, Attachment F).

The impact of the recession on JOBSTART was not so much on outcomes as on employer takeup. Initially there was a drop in the number of placements, a function of the limited promotion of the program occurring at that time, as well as the recession. However, a rise in the value of wage subsidies of about 30% in March 1991, together with increased promotion of JOBSTART to employers led to a substantial lift in takeup (over 50%) (see Figure 4, Attachment F). Simpler subsidy arrangements, and further increases in subsidy rates and durations announced in the Budget have further increased takeup. The target for 1992-93 is now 130,000 placements, a doubling over 1991-92, and a fourfold increase over 1990-91.

2) **Program outcomes vary between clients :**

- . sole parents do well compared to other disadvantaged groups;

- . the LTU generally have poorer outcomes than the shorter term unemployed, sole parents and participants with disabilities (see Figure 5, Attachment F). The one exception again appears to be JOBSTART which appears to be as successful for the LTU as for the shorter term unemployed (see Figure 6, Attachment F). JOBSTART participant outcomes are certainly much better than those for JSA/NSA recipients who get no assistance. Because of its success, JOBSTART has become one of the key labour market programs to deal with the immediate impact of the recession. In particular, the linking of JOBSTART assistance to other training assistance was a feature of a number of Government initiatives announced in 1992, for example the Accredited Training for Youth Program.

Monitoring data has shown that these differences in client outcomes are not immutable. For example, outcomes for the LTU have risen more strongly in recent months than for other groups - this reflects the very conscious decision to focus assistance - particularly JOBSTART assistance - on the LTU. Currently (to end December 1992) 66% of JOBSTART placements are going to this group. Of course, improved outcomes may also reflect the fact that, in times of recession, the LTU are better educated and are most likely to have prior work experience.

3) **Administrative and marketing practices** can affect LMP outcomes. For example, it is believed that the lift in outcomes across most programs that occurred in the second half of 1992 is associated with the increases in CES vacancies and available JOBSTART placements (see Figure 3, Attachment F with regard to JOBTRAIN). Concerted action by the CES to increase its vacancy penetration in order to provide more jobs for the disadvantaged jobseekers gives participants in labour market programs more opportunities to be considered for jobs. In

addition the SkillShare evaluation found evidence that requiring projects to achieve targets in terms of numbers of successful outcomes had been of great importance in the relatively high outcomes achieved. Following this approach JOBTRAIN is also moving to writing outcome targets into training provider contracts, and achievement of these will be critical in decisions to rerun courses.

4) **LMP assistance is important to the success of the Newstart strategy.** Our estimate is that, in the September quarter 1992, at least three quarters of the clients on NSA allowance who got jobs did so with LMP assistance, either as a JOBSTART placement or as a full-time job outcome from another program. At the moment, if you are LTU and on NSA, your chances of getting a job without LMP assistance are limited (see Figure 7, Attachment F).

### 3.3 Evaluation

In parallel with DEET's sophisticated monitoring program is vigorous evaluation activity. Building on evaluation approaches developed by the Bureau of Labour Market Research in the mid 1980s, the current evaluation program will cover each of DEET's major programs over a 3-5 year cycle.

Evaluations take issues raised by the monitoring data and other sources to identify how LMPs work and to try and quantify the net impact of assistance (that is the difference the LMP assistance makes to a person's chance of getting a job). Some of the results have been alluded to above, reflecting the strong interdependence between evaluation and monitoring activity in DEET.

The methodologies for evaluating LMPs are various, reflecting the different delivery arrangements and mechanisms. However, they have a 'core' of standard features including:

- use of one or more comparison groups drawn from CES registrants who did not participate in that program ('net impact');
- case studies of how the program works on the ground, for example, a sample of SkillShare projects, or CES offices delivering JOBTRAIN ('implementation' and 'best practice'); and
- in depth analysis of PPM and participant data.

A list of evaluations undertaken over the last few years is at Attachment G. While the conclusions are wide ranging, some general observations are possible:

- 1) **LMPs do have a net impact.** All evaluations for which control groups have been possible have indicated that

participation does improve the client's likelihood of obtaining employment. It has not been possible to ascertain if this impact is greater or less in a recession, although a comparison of outcomes with those of DSS beneficiaries (referred to earlier) suggests that the impact may be maintained, if not increased, for some groups in a recession. While it is not possible to compare directly the net impact of programs, programs such as JOBTRAIN and SkillShare increase the chance of getting a job by 50%. Evaluations have also shown that this impact is not temporary and that 6 to 8 months after assistance the participants are still more likely than members of the comparison groups to be in employment (see Figure 1 Attachment H).

2) **Training is not enough on its own.** In the 1980s it was postulated that the major barrier to employment for the unemployed was a lack of appropriate skills. The proliferation of training courses, frequently of short duration through JOBTRAIN and SkillShare, was the result.

The underlying logic was that those who remained unemployed for more than 3 to 6 months must possess outdated skills or no skills, and/or that once having possessed job skills, the unemployed are progressively deskilled by extended periods of unemployment.

We have not tried to test the extent to which skills atrophy or deskilling occurs, nor do we know the extent to which lack of skills is currently a major barrier. We do know that courses that provide a lot of help with subsequent job search and where the training provider has good links with employers have better outcomes than others. This effect appears to be independent of the vocational skills actually acquired. For courses of very short duration it appears that content may not be very significant: employers in the SkillShare evaluation for example reported that the confidence and the work habits gained *through* skills training was probably the most important aspect of the training from their point of view, not the skills themselves.

This is not to say that vocational skills acquisition is not important. There are some extremely successful JOBTRAIN courses which obtain participant job outcomes of 80-90%, even in the current economic climate, by matching skills training very closely to employer requirements. It may also be that in a recession generic skills, such as literacy, numeracy skills and work attitudes, may be of more general relevance than vocational skills (as postulated in Stretton and Chapman 1990).

3) **Personal support, interviewing and counselling can be critical.** Evaluations have shown that these, as part of LMPs or alone, can significantly increase job success. For example, training courses which have additional assistance

appear to be more successful than others; 'open access' activities of SkillShares appear to deliver outcomes which are as good as structured training courses; and persons on job placements (such as JOBSTART, Training for Aboriginals Program) who have CES contact during the placement are much more likely to hold on to their jobs than others. The (old) NEWSTART evaluation showed that the intensive joint CES/DSS interviews under NEWSTART had a significant effect on the job outcomes of the LTU, even without any program assistance. That is, just calling a person in for an interview to discuss strategies for finding work can lead to as significant an increase in the person's chances of finding a job as the impact of some LMPs. These results suggest that services (which have a relatively low unit cost) are a significant part of labour market adjustment strategy and a cost-effective complement to LMPs.

4) **Strategies to increase jobseeker contact with employers can deliver good outcomes.** Strategies to increase job search activity and thus to bring the disadvantaged unemployed to the notice of potential employers have been shown to be effective. Job Clubs works on this principle at a comparatively low cost, as does the issuing of JOBSTART self-canvassing cards to jobseekers. These cards indicate to a potential employer that the jobseeker is entitled to be supported by a wage subsidy if they are hired by the employer. Critical to the success of these strategies is increasing the motivation and self-confidence of the unemployed, particularly those who have been out of work for extended periods.

5) **There are limits to the effectiveness of Government interventions in the labour market.** While evaluations have been able to show what increases the success of labour market programs, they have also indicated some limits. The evaluation of the pilot arrangements to assist the Older Unemployed (those aged 55 years+) showed that the systemic barriers facing this group - including the attitudes of employers, the community and the older unemployed themselves; together with their likelihood of having health impediments and their lack of relevant skills - limit the effectiveness of special Government assistance in the form of counselling and LMPs. This is also true for Aboriginals and Torres Strait Islanders and people with disabilities. Attitudes have to change, and the Government can only be the facilitator: it cannot dictate change.

**3.4 Summary:** LMPs do work. They can be improved through using the results of monitoring and evaluation and currently they provide the best hope for the LTU to leave benefits and enter employment. It has to be recognised that there is a substantial cost involved. For example, a JOBTRAIN successful outcome cost in the order of \$7000 in 1991-92. Some of the costs of unemployment to individuals have been canvassed in a recent study by Junankar and Kapuscinski (1993).

This suggests that the relative benefits of LMPs compared to their costs could be significant.

#### 4. Current Policy Issues

There are a number of current policy issues with regard to LMPs. A few of them are discussed here.

##### 4.1 LMPs and the Business Cycle

There are no hard and fast views as to how LMPs should change with the business cycle. Indeed this has been subject to vigorous debate within the community, DEET and the Government.

Some issues are:

- a) Should expenditure be directly related to the number of unemployed? In the past, expenditure and the number of participants assisted have tended to be counter-cyclical and be related to the number of unemployed and number of LTU (see Attachment A). Establishing an optimal level of expenditure on LMPs for the unemployed is difficult. Even assuming the maintenance of the current wage fixing arrangements and other structures there are many considerations :
- . for a number of programs too rapid expansion can undermine effectiveness as the imperative to maintain expenditure commensurate with the number of unemployed overwhelms the focus on achieving the best outcomes;
  - . for programs such as JOBSTART, neither DEET or the Government can dictate the numbers of places, since the program relies on employers offering job placements. Experience shows, however, that takeup can be varied by adjusting subsidy rates and undertaking marketing;
  - . the cost per person assisted rises and cost-effectiveness of programs declines in a recession. For example, the unit cost per person assisted rose from about \$1700 in 1990-91 to \$2600 (expected) in 1992-93. This is partly a function of the increases in wage subsidy rates and the use of more expensive job creation programs.
  - it may thus be advantageous to continue to spend heavily in the upturn while the pool of LTU persists, since an expanding job market can supply vacancies which the disadvantaged jobseekers and the LTU can access much more cost-effectively than in a recession.
- b) who should be eligible for assistance, and who should get priority? This should and does change over the business cycle.

Most notable in the current recession is the change in definition of LTU and the increase in the amount of assistance directed to them: in the early 1980s a person unemployed for 3 months or longer was defined as LTU; now LTU means unemployment of 12 months or more. Given that many LTU are well-educated, perhaps we should now be focusing on the very long term unemployed (those unemployed for two years or longer). Should support be more sharply focused on DSS beneficiaries? This would give greater savings to the budget, but may be inequitable in terms of other Government objectives. The demographic focus may also have to change. For example the upturn analysis suggests there will have to be a focus on the older unemployed, particularly males (see 4.2 below).

- c) Should program mix change? Measures to increase labour demand (sometimes called job creation) and wage subsidies tend to be used in times of high unemployment; vocational training is used more in better times. Moreover, the number of distinct programs varies, increasing in poor economic conditions, and rationalised in good times.

There are competing views about the number of programs which should be offered. On the one hand, programs should be eliminated when the need for them is reduced. On the other there is a view that maintaining a range of programs with the associated infrastructure can allow a more rapid expansion in times of need. Often underestimated are the time lags and significant costs of creating new programs e.g. the employer/union agreements necessary for JobSkills and TASK; development of manuals and guidelines; staff recruitment and training; and development of management information systems. For programs such as JOBTRAIN which require a substantial training market to tender for and deliver courses, there are good reasons for maintaining a certain level of activity to ensure that sufficient capacity exists to allow the program to expand.

- d) Should the type of training change? Stretton and Chapman (1990) have argued that the relatively poor outcomes for short vocational training in a recession suggests that training programs are more useful to maintain work skills during recession, but only by delivering generic skills, such as literary, numeracy and English language skills. This may also imply that where few job opportunities are available there may be intrinsic value in maintaining training programs to foster labour force attachment and motivation, rather than to achieve direct employment outcomes.

#### 4.2 LMPs and Structural Change

While it is recognised that LMPs must and do change with the business cycle, it is less obvious that they also respond to the impact, and expected impact, of structural change.

Within DEET, recent work by Tom Karmel and Phil Aungles (forthcoming) has examined two issues which need to be taken into account when considering programs for the future. These are:

- . the characteristics of the pool of unemployed towards which programs are targeted; and
- . the types of jobs likely to emerge during the upturn and which, at least potentially, provide opportunities for the unemployed.

The analysis in the paper is designed to determine whether changes in industry/occupation structure explain demographic groups' labour market experience during the 1980s. The major result is that these factors, such as growth in the services sector, are relatively unimportant in explaining differences in labour market experience between, say, adult males and females.

High teenage unemployment and long term unemployment among older persons is found to be not so much the result of changes in industry/occupation structure but more related to the characteristics of those groups.

Employment growth in the upturn is likely to be influenced by both supply side and demand side factors. Re entrants and entrants to the labour force, especially mature age women, will continue to take many of the new jobs in the upturn. While the growth of service industries is also expected to benefit female employment, supply side factors are expected to play a major role in determining which groups benefit from the upturn.

Factors such as mobility, experience and skill levels will need to guide the development of programs to ensure that unemployed persons can share in the benefits of employment growth in the upturn. Karmel and Aungles conclude that it is the ability of groups to compete in the labour market that appears to be a key determinant of employment and unemployment experience. On this basis groups such as the male older unemployed will continue to face poor labour market prospects unless programs are available to remedy their perceived competitive disadvantage.

#### 4.3 LMPs and the Australian Training System

This is linked to the issue of structural change. The need for a more highly skilled and productive labour force to enhance our international competitiveness, together with the 'disappearing' lower skilled jobs, led both the Australian Education Council Review Committee chaired by Brian Finn, (Finn 1991) and the Education and Skills Formation Council, chaired by Laurie Charmichael (Charmichael 1992) to recommend that there be closer links between LMPs and the vocational education system. Strategies to integrate all DEET LMPs with a training component within the Australian training system would entail the introduction of a Competency Based Training (CBT) framework, as well as the formal recognition of LMP training courses by accrediting authorities.

DEET has taken these recommendations seriously and endorses the principles underlying them. At the same time the proposals create a dilemma. As indicated previously, recent evaluations of DEET's two major training based LMPs (SkillShare and JOBTRAIN), have identified key elements of "training" contributing to successful outcomes for participants as job search assistance, job brokerage activities and other general support. In courses of relatively short duration, and consequently low expense, these aspects loom even larger as the source of successful and cost effective interventions. The Finn and Carmichael recommendations for LMPs were developed to ensure access of the disadvantaged to the mainstream training system, and did not explore the impact on cost-effectiveness in terms of immediate employment outcomes.

The integration of LMPs into the Australian training system will have considerable cost implications if applied blindly: short duration courses - many are less than 80 hours - may have to be considerably lengthened to be accredited or even put on a competency base. At the same time the evaluations indicate that the employment prospects of participants or their levels of participation in further education and training are unlikely to improve as a result of the training received being accredited and articulating with other mainstream provision.

#### 4.4 Impact on Labour Demand

The duration and depth of the current recession has challenged the capacity of supply side measures to achieve the desired impact of reducing unemployment, and there has been a re-emergence of debate about the efficacy of encouraging labour demand, through direct public sector job creation or through support for community sector job creation initiatives. Since the wind-down of the Community Employment Program in 1986-87, Government has eschewed funding direct job creation on the grounds of its expense, its capacity to distort the private

sector labour market and to crowd out private investment and expenditure. However, in 1990, the Government returned to support for job development with the introduction of the JobSkills program. This is a work experience program for long term unemployed. DEET contracts community and local government organisations to act as brokers, who arrange work placements and training for participants in government and community organisations. Participants are paid a training wage. This program has expanded rapidly to assist an expected 10,000 people in 1992-93.

JOBSKILLS, while providing direct employment, contains a large element of structured on- and off-the-job training, consistent with the broader training agenda. This approach has also been incorporated in the Landcare and Environment Program (LEAP) which provides a training allowance to unemployed youth to obtain training and work experience in conservation projects.

Other initiatives to stimulate labour demand in designated regions have occurred through the Office of Local Government and announced in the "One Nation" statement. \$350m is being directed to projects run by Local Councils to fund the construction, restoration and enhancement of economic and social infrastructure. Projects have to involve a high local content in terms of labour, goods and services.

Monitoring of the impact of DEET's new programs has only just begun, and it will be not feasible to evaluate them until 1994. While evaluations will assess the success they have had in fulfilling their stated goals for participants it will be useful to assess the extent to which these interventions affect the market itself, through the creation or dissemination of private sector jobs, and the promotion of the community sector as an employer and provider of training.

#### 4.5 LMPs and Regional Labour Markets

The regional dimension of LMPs is developing as a major policy direction. The current structure of Area and regional planning in DEET, together with considerable program flexibility, already gives regional managers discretion to spend LMP funds in ways that best meet the needs of the unemployed, taking into account regional labour market characteristics. In addition, there are industry and regional labour adjustment initiatives administered by the Office of Labour Market Adjustment (OLMA), which combine demand and supply planning strategies. The regional packages can include services to support small business and enterprises, in order to foster local enterprise development and employment growth. OLMA programs are essentially local labour market development planning programs, with OLMA integrating supply and demand planning.

To assist this DEET has invested considerably in developing regional data bases and has conducted a number of studies on regional unemployment and labour market issues. For example, analysis of the labour market impact of regionally targeted job development and training initiatives will be made simpler and more rigorous by some recent work in DEET on the definition of what constitutes a regional labour market and analysis of the dynamics of supply and demand (Natural Labour Markets in Australia, DEET 1993). This study builds on an initial methodology developed in BLMR in 1986 (Jarvie and Upcher 1986), for estimating unemployment rates for small areas, and DEET's publications of estimates of unemployment for LGAs and SLAs on a quarterly basis since 1986 (Small Area Labour Markets, Australia, DEET 1986-1992). This work has considerable potential for analysis of which types of LMPs are appropriate for regions with high unemployment/long-term unemployment. Currently supply side LMPs are targeted to DEET Areas and Regions partly on the basis of share of population and partly on the basis of share of long-term unemployed. Targeting of planning and economic development measures would benefit from analysis of the interaction of supply and demand within natural labour markets, rather than within the more arbitrary boundaries of smaller geographical areas of local councils or DEET regions.

Two other regional labour market studies are of interest:

1) **Regional Labour Markets : Dynamic Aspects of Unemployment,** (McHugh, Karmel and Andrews, 1992) undertaken for the Social Justice Secretariat, examined the extent to which the dispersion in regional unemployment rates is a temporary or permanent phenomenon. The study showed that longer term factors dominate and that variation in regional unemployment will be moderated only in the long-term (10 years or more) by improvements in national economic conditions. Moreover regions with high unemployment were also shown to be more vulnerable to the national business cycle.

2) **Regional Labour Market Disadvantage: People or Places** (McHugh, Karmel and Pawsey, 1992), provides a partial explanation for continuing high levels of regional unemployment by examining the extent to which disparities in regional unemployment rates can be explained by the personal characteristics of individuals, rather than characteristics of the regions in which they live. This study lends weight to the view that LMPs (and education and training strategies) which strengthen labour supply are likely to serve the long-term structural needs of regional labour markets better than economic or employment development initiatives which do not seek to improve the quality of labour supply.

The results of these studies suggest that regionally targeted supply side measures to reduce cyclical unemployment may have no short term effect, but may in the longer-term reduce the

structural vulnerability of the labour market. Replication of this work using the natural labour market methodology will be useful in establishing the robustness of these conclusions in circumstances where the interaction of supply and demand characteristics is more effectively quarantined.

#### 4.6 Management Issues

1) The massive increase in expenditure over the last few years, the increase in the number of programs, and the introduction of the three major active society strategies - Newstart, JET and the Disability Reform Package - have posed a major management task for DEET. New programs involve creating new guidelines and databases, and extensive training and communication with jobseeker clients, employers, training providers, community organisations and staff. Massive expansion of existing programs involves recruitment and training of staff, and opening new offices.

One of the key issues in DEET is to ensure new programs, and substantial program expansion, are implemented while maintaining effectiveness and cost-effectiveness. A task of similar magnitude is likely to face the Department when recovery takes hold, significant inroads are made into LTU numbers and LMP expenditure is redeployed.

2) Delivery Arrangements. A significant development in LMP management in DEET has been the move to increase the utilisation of community organisation and brokers to deliver LMPs. For example in the last few years, the SkillShare program has been joined by JOBSKILLS and LEAP in using these delivery methods, while NEIS (New Enterprise Incentive Scheme) has moved to using managing agents to assist and monitor participants who are setting up and running their own business. The SkillShare evaluation has shown that such a delivery structure can be effective; of particular importance is the development of workable accountability arrangements which are not unduly onerous and intrusive.

#### 5. Conclusions

Looking back over the experience of LMP intervention over the last 15 years, two points stand out :

- . the evolutionary nature of LMP provision, and
- . the range and extent of the analysis work relating to LMP provision that has been undertaken within DEET and its predecessor departments and the steady build up of knowledge that this represents.

The nature of LMP intervention will undoubtedly continue to evolve in response to, among other things, changes in the

labour market and Government priorities. The considerable investment which the Commonwealth has made in the monitoring and evaluation of LMPs and more broadly in terms of analysis of labour market issues will continue to inform this evolution.

Economic and Policy Analysis Division, DEET.  
5 February 1993

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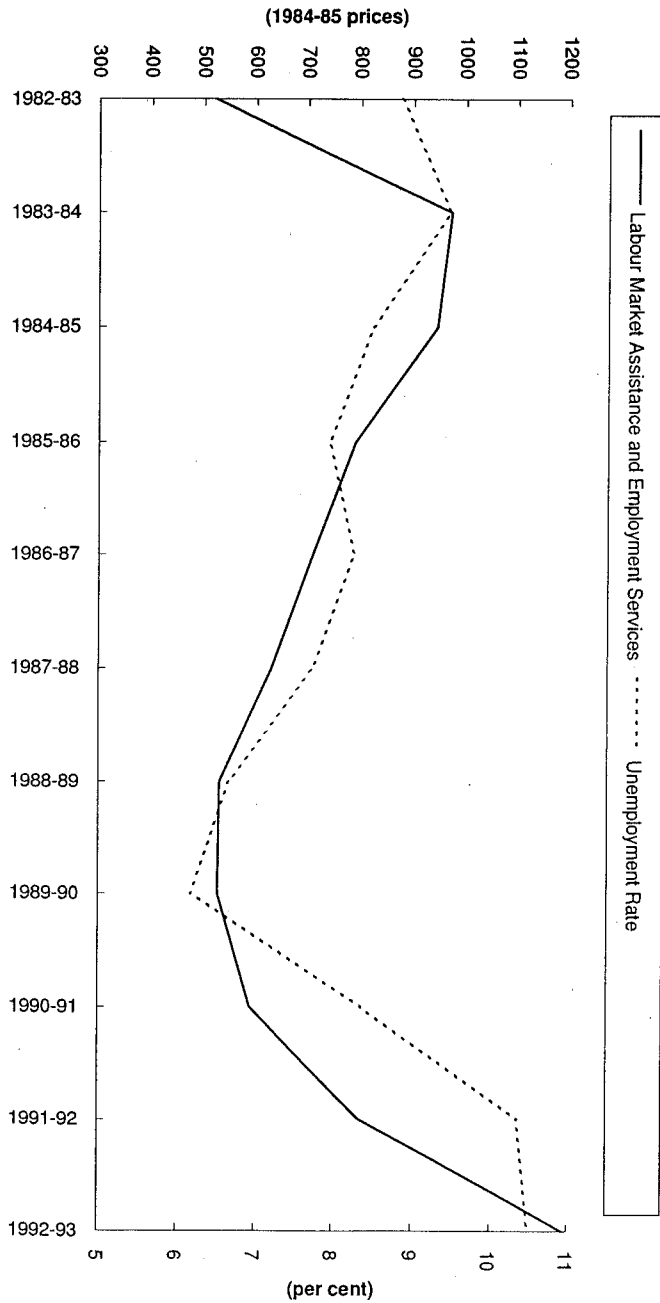
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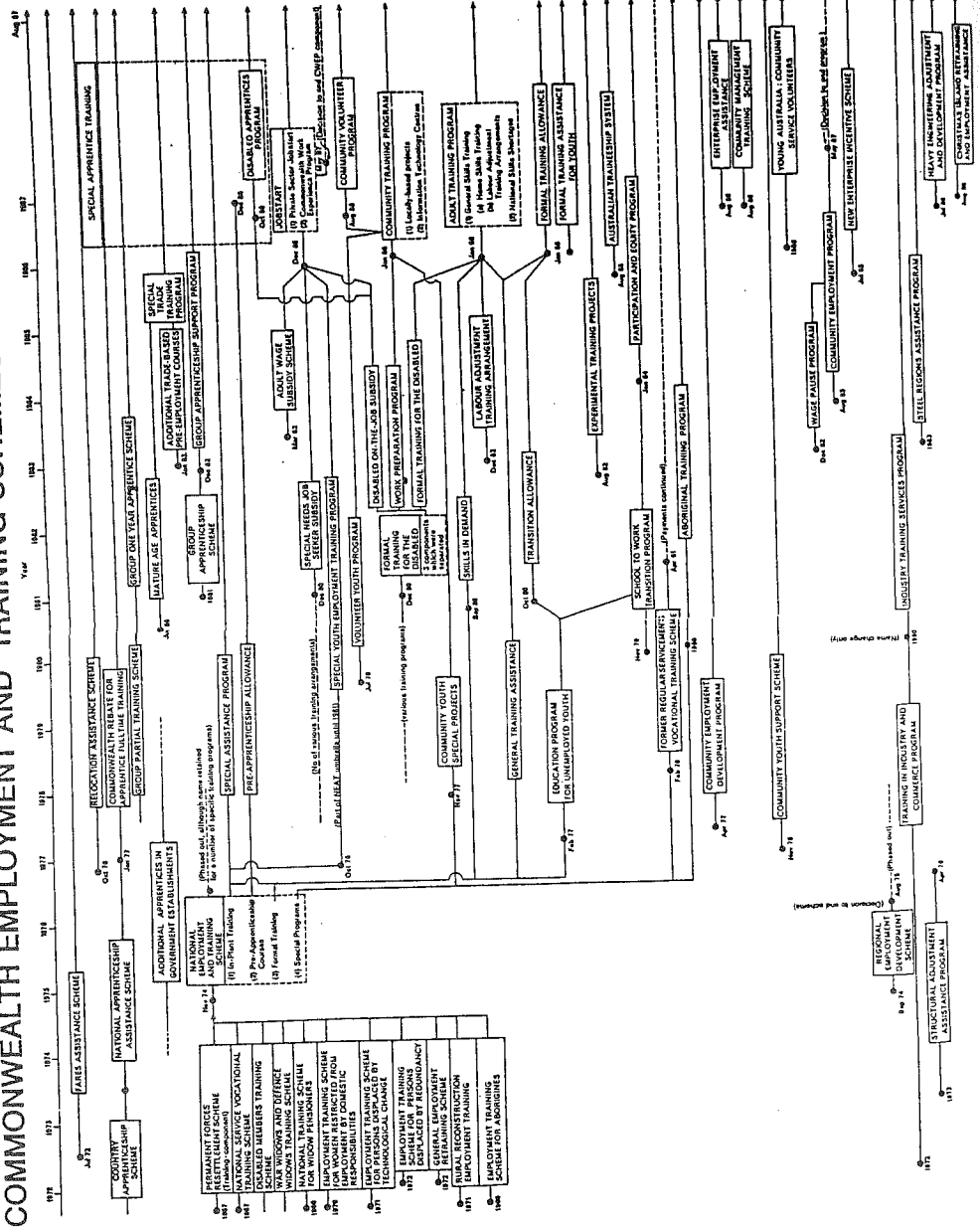
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PROGRAM EXPENDITURE AND THE CYCLE



# COMMONWEALTH EMPLOYMENT AND TRAINING SCHEMES 1973 - AUGUST 1987



## ATTACHMENT C

## LABOUR MARKET PROGRAMS 1992-93

	Allocation	Persons assisted (expected)
EMPLOYMENT ACCESS (EAP)		
JOBSTART	296.8	130,000
JOBTRAIN	197.3	93,000
Special Intervention	\$79.1	20,500 (a)
Job Search Assistance (Job Clubs, Job Search Training)	12.2	37,500
Mobility Assistance	9.4	5,500 (b)
Contracted Placement	5.2	1,100
Post Placement Support	2.1	2,000
Post placement - Disability Ref Package	0.7	1,100
Work Experience for People with Disabilities	1.6	400
Interpreter Services/Program Support	5.2	-
SkillShare	175.9	110,000
JOBSKILLS	154.2	10,000
Self Employment Assistance (New Enterprise Incentive Scheme, SelfStart)	43.9	3,600
Office of Labour Market Adjustment (OLMA) - Industry and Regional	29.2	7,500
OLMA - Enterprise (incl TASK)	25.7	12,000
Aboriginal Employment	45.8	5,800
LandCare	47.3	6,000
Accredited Courses (Youth)	101.2	19,500
<b>TOTAL</b>	<b>1232.8</b>	<b>465,500</b>

(a) Special Intervention places include assessments. In total, 36000 assessments and assistance are expected in 1992-93.

(b) Mobility Assistance places exclude Fares Assistance. As the program is demand driven precise estimates of likely placements for 1992-93 should be used with caution.

### Commonwealth Employment Service Outlet

#### Specialised Service Outlets

- . Job Centres, which assist job seekers who have been out of work for a short time and who have the skills and attitudes to get back into work quickly. Job Centres also provide a job brokerage service to employers and improve the efficiency of the labour market.
- . Special Service Centres, which provide disadvantaged job seekers with specialist assistance to help them find suitable employment. Special Service Centres play a central role in the Government's Newstart and Disability Reform initiatives.
- . Industry Service Centres, which provide employers with up-to-date information on the range of services available through the CES as well as advice on how to access these services.
- . Youth Access Centres, which offer young people a comprehensive information and advisory service ranging from assistance with finding a job and information on career options to information on a wide range of social issues. This service helps young people make well-informed decisions about their futures, particularly in the area of employment, education and training.

In addition, there are Country Service Centres, which provide all CES Service from the one office.

Other specialist offices:

Templine for short-term temporary recruitment of staff.

Career Reference and Work Information Centres offering occupational information to job seekers and students wanting to make informed career choices.

Australian Public Service Recruitment Offices, providing centralised testing and referral for categories of APS positions.

Professional Employment Service/Migrant Access Centres which focus on placing disadvantaged professional people, particularly those with overseas qualifications, in employment.

**CES : Operational Planning Target Groups**1990

Aboriginals and Torres Strait Islanders

Long Term Unemployed (12 months +)

NEWSTART - 18-20 year olds  
- 21 year olds and over

People with Disabilities

Non English Speaking Background

Sole Parents

Unemployed Clients aged 55-64 years

Youth (15-20 years)

Women

1992

Long Term Unemployed (12 months +)

Aboriginal and Torres Strait Islanders

People with Disabilities

Sole Parents

In addition, in 1992 four other groups are monitored through the operational plan:

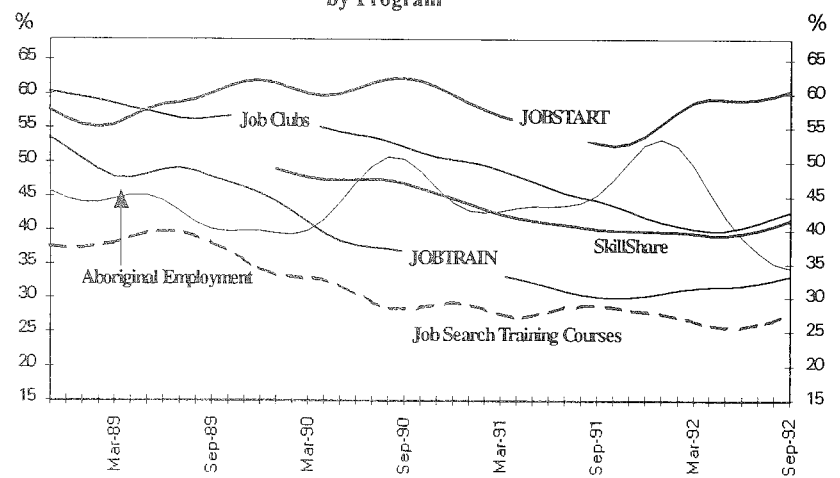
- women
- youth
- overseas born with English language difficulties
- Newstart recipients with dependents.

This is to ensure they receive adequate levels of assistance.

## ATTACHMENT F

OUTCOMES OF LABOUR MARKET PROGRAMS:  
RESULTS OF POST-PROGRAM MONITORING (PPM) DATA

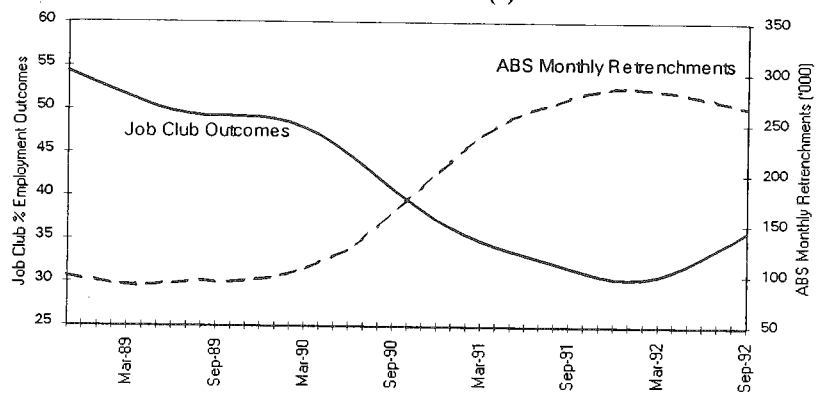
Figure 1. Trends in Positive (1) Outcomes from Labour Market Programs,  
by Program



- (1) Positive outcomes include unsubsidised employment, or education and training other than through a DEET labour market program.  
The series are seasonally adjusted and smoothed to show the longer term trends.

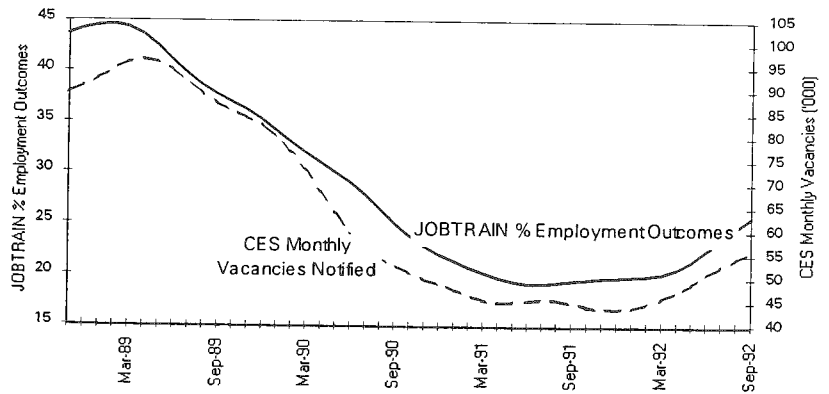
ATTACHMENT F

**Figure 2. Trend Relationship Between Job Club Outcomes (1) and Retrenchment Series (2)**



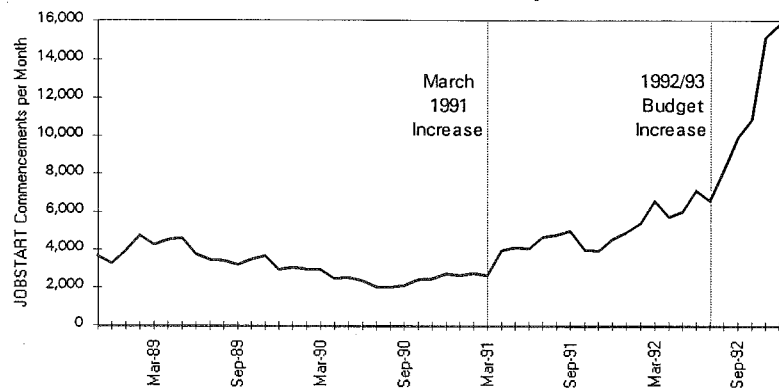
- (1) Unsubsidised employment outcomes for Job Clubs are shown seasonally adjusted and smoothed.
- (2) ABS retrenchments per month are shown, seasonally adjusted and smoothed by DEET.

**Figure 3. Trend Relationship Between JOBTRAIN Outcomes (1) and CES Vacancies (2)**



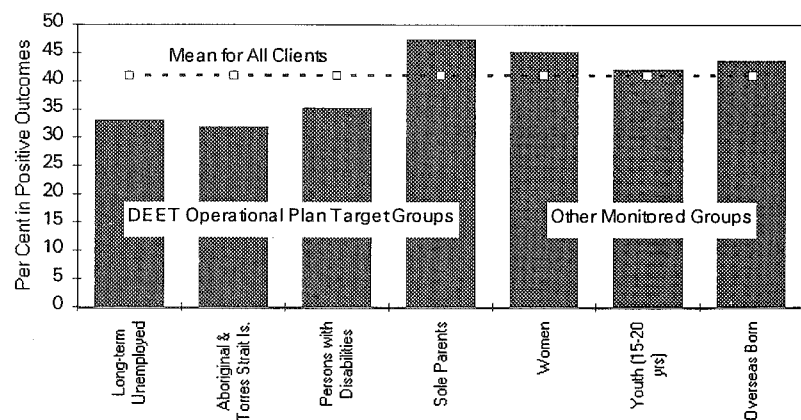
- (1) Unsubsidised employment outcomes for JOBTRAIN are shown seasonally adjusted and smoothed.
- (2) CES vacancies notified per month are shown seasonally adjusted and smoothed. These vacancies include vacancies into which JOBSTART clients are placed.

Figure 4. JOBSTART Commencements per Month



The data have been seasonally adjusted to clearly show the turning points.

Figure 5. Positive Outcomes (1) by Client Group (2), in the Year to End September 1992



- (1) Positive outcomes include unsubsidised employment, or education and training other than through a DEET labour market program.
- (2) Long-term unemployed are unemployed for a year or longer. Overseas born only includes those assessed by the CES having language or cultural difficulties which would constitute a labour market disadvantage. Client groups are not mutually exclusive, and many clients are in two or more groups.

ATTACHMENT F

Figure 6. Comparison of Full-time Job Outcomes of JOBSTART and Other DEET LMP s, by Unemployment Duration

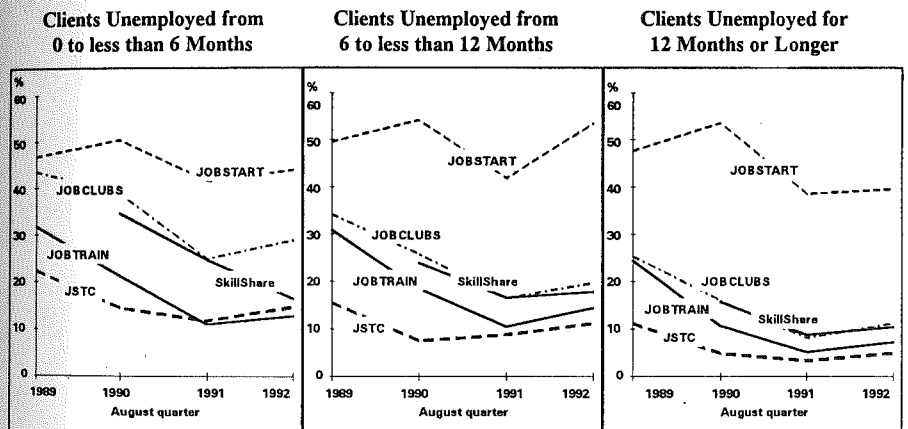
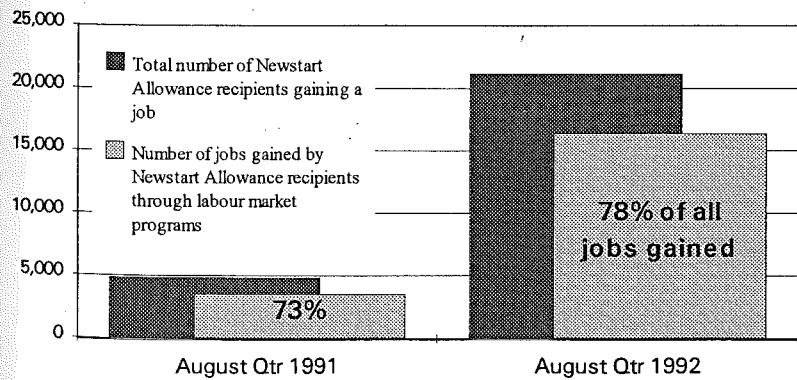


Figure 7. Contribution of LMPs to the Job Chances of Newstart Allowance Clients, August Quarters 1991 and 1992.



## ATTACHMENT G

## Labour Market Program Evaluations (year conducted)

JOBSTART (1989); being repeated 1993.

JOBCLUBS (1988); net impact component being repeated 1993.

JOBTRAIN (1990-91).

SkillShare (1992).

## New Enterprise Incentive Scheme

- pilot scheme 1987; inter governmental component 1991; managing agents underway 1993.

(old) NEWSTART (1991)

Disability Placement and Referral Pilot (1990-91).

Older Unemployed Labour Market and Income Support Strategy (1990-91).

Training For Aboriginals Program (1990).

Newstart, underway, report 1994.

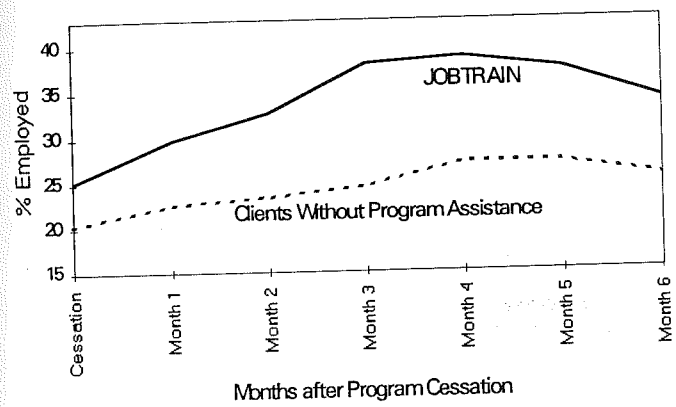
Disability Reform Package, underway, report 1994.

## Other aspects of assistance

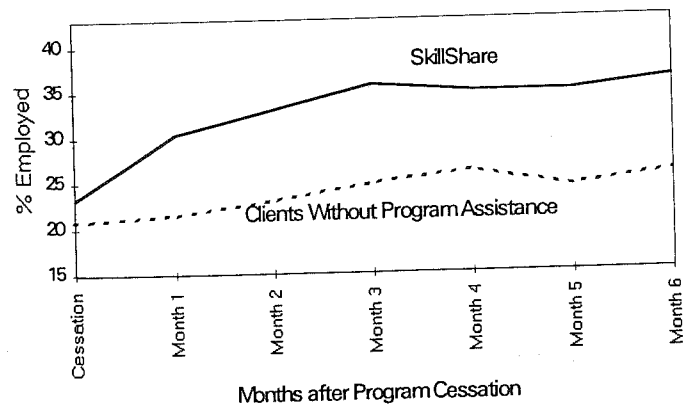
- . Co-ordinating role of Youth Access Centres (1992)
- . Youth Access Centre Network (1991).

Figure 1: Comparison of Participants' Job Outcomes and a Control Group, Month by Month

(a) JOBTRAIN, July 1990 Cessations



(b) SkillShare, November 1991 Cessations



## Perspectives on DEET Labour Market Programs

A comment by P.N. (Raja) Junankar

Public Policy Program  
Australian National University

### 1. Introduction

The aim of the paper is 'to review the evolution of labour market programs (LMPs) since the late 1970s' (p.1). LMPs are meant to have both cyclical and structural outcomes. They are often a cyclical response to unemployment, but the paper 'postulates that LMPs are used as a partially effective means of preventing cyclical unemployment from becoming structural' (p.2). The paper begins with a historical overview, which is mainly descriptive, then looks at problems of monitoring and evaluation, and finally turns to some current policy issues. Although clearly written, the paper ignores a large 'academic' literature on the subject—a problem common to many papers coming from the bureaucracy. One of the striking features of this area of policy is the growth of acronyms with the growth of new LMPs, as if there is a competition as to who can suggest a policy with the sexiest acronym or title! We have now come across JOBSTART, JOBTRAIN, REDS, NEAT AND JET<sup>1</sup>. What next? HELP (Help for the Employed Low Paid)?

My comments are structured as follows: after a brief summary of the paper I attempt to provide a conceptual framework for analysing the impact of LMPs. Next I look at some evidence on unemployment and some international comparisons of expenditure on LMPs, followed by a few specific comments on the paper. A brief conclusion completes this Comment.

### 2. Summary of the Paper

The historical perspective provided discusses the shift from LMPs targeted according to unemployment rates to targeting by duration: moving the focus from youth to older males. The landmark Kirby Report (1985) is discussed in terms of a shift to an Active Society approach; however a more recent Cass Report (1988) is not even mentioned. Perhaps it was not from DEET! Also discussed is a shift from job creation programs to training, work experience

<sup>1</sup> Unfortunately, nowhere in the paper is there a brief outline of what each LMP addresses. See my Appendix, lifted from a recent (1992) EPAC Council Paper.

programs, subsidised jobs, and personal counselling. The authors also note the diversification of delivery systems which is meant to be client focused. Hence the use of (a) private sector and local government employment; (b) self-employment; (c) community sector, TAFE and private provider training; and (d) counselling, referral and placement services.

The main part of the paper is contained in Section 3: Monitoring and Evaluation. Here the question posed is: do LMPs work? It is answered without qualification: Yes. The authors also maintain that the success is not temporary. An interesting finding is that short duration training courses may be successful simply because they instil work habits and confidence, rather than because of the specific training received (p.11). The importance of counselling is also noted.

The authors also look at changes in the success rates over the present recession compared to better times. Their finding is that there is a clear negative impact of the recession on the success rate of LMPs, except for JOBSTART (a wage subsidy program). They also find (surprise!) that the long term unemployed (LTU) have worse outcomes than the rest. However, a majority of the LTU leave social security benefits through a LMP. Recently, there has been an improvement in outcomes for the LTU, perhaps because of compositional effects (an improvement in the education level and previous work experience of the LTU) and the attention DEET is focusing on the LTU.

Section 4 of the paper, Current Policy Issues, ranges over a number of topics—whether LMPs should vary over the business cycle, the role of LMPs in the face of structural change, LMPs and the Carmichael Report, and finally, LMPs and Regional Markets.

The expenditure on LMPs over the cycle tends to be driven by the numbers unemployed, with only limited control by the government. Should the target groups vary over the cycle? The authors suggest we should now target the very long term unemployed<sup>2</sup> (VLTU, duration in excess of two years). (This was suggested by the European Commission a few years ago. See Junankar 1988.) They also discuss whether the program mix should change, or whether the type of training should change. On the basis of unpublished work by Karmel et al, they argue that structural change does not explain differences in the labour market success of different groups. I find this surprising. On LMPs and the Australian Training system the authors suggest caution in going into accrediting all forms of short and long duration training schemes, partly because of cost but also partly

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<sup>2</sup> In targeting LTU or VLTU we may also want to target *people who are likely to become LTU or VLTU*.

because often the training, *per se*, is not the critical element in the success of participants in the LMPs. Next the authors discuss the use of direct job creation because of failure of supply side LMPs to lower unemployment. Finally, they suggest the use of regional LMPs to help improvements in structural unemployment.

### 3. Some Evidence

Table 1 shows that over the period 1980-92 the unemployment rate for every educational category increased with the overall unemployment rate. During that period the unemployment rate for degree holders increased by 68.6 per cent, while it increased by 117.5 per cent for those with trade qualifications/apprenticeships. For persons who stayed on at school to the highest level the increase was 107.3 per cent, compared to 73.2 per cent for those who did not stay on. So much for increasing retention rates to lower unemployment! Simply acquiring more qualifications does not insulate a person from unemployment.

Table 2 shows that the mean duration of unemployment has increased for every educational category, and is higher in 1992 compared to 1980. Simply increasing educational or trade qualifications does not seem to help when aggregate unemployment increases. In a cross-section study of course we find that the more educated have a lower probability of unemployment. This does not mean, however, that if everyone increased their educational qualifications that unemployment would be lower. The message is that if LMPs are simply increasing training (or education) they will not solve the problem in aggregate, they only change the faces in the employment/unemployment stocks.

Comparisons of expenditure on LMPs across countries provide an interesting context in which to examine Australian performance. Table 3 shows that we spend less on 'Active' LMPs than Sweden and Great Britain, but more than the US. However, these data should be corrected for different unemployment rates, but such a correction would simply exaggerate the above result, since both Sweden and Great Britain had lower unemployment rates. Even in Labour Market Training, Australia seems to spend less than the other countries listed in the Table. Subsidised employment expenditures have fallen (it has been fashionable to reduce them) for all countries, although Sweden is still ahead.

### 4. A Conceptual Framework

What is the aim of LMPs? An obvious one is to increase employment or decrease unemployment. Another is to increase the efficiency of the operation of the labour market (improve the trade-off between inflation and unemployment, or

to 'cheat the Phillips curve' or shift the Beveridge U-V curve), i.e. to decrease frictions which may be due to imperfect information. A further important objective may be to improve equity. Thus LMPs may be targeted at disadvantaged groups, e.g. the Aboriginal people, NESB migrants, the sick and disabled, sole parents, women, the LTU. If the equity issue is taken seriously it means that LMPs need not decrease (increase) aggregate unemployment (employment) but simply redistribute (share) unemployment (employment). That may be an objective which is foremost in the minds of some governments and bureaucrats. However, in my view this is a very pessimistic line to take. LMPs should certainly target disadvantaged groups, but should also attempt to decrease aggregate unemployment. I believe this is only possible if LMPs are accompanied by measures to increase aggregate demand via fiscal and monetary policy.

It is useful to think of the labour market as being in a continuous state of flux, with inflows into and out of employment and unemployment. See Figure 1 which focuses on the flows into and out of unemployment. In this framework, what do LMPs do? We can imagine LMPs as increasing the outflows from unemployment, hopefully into employment, and decreasing the inflows into unemployment via LMPs for the *employed* workers. LMPs may also decrease the inflows into LTU from short term unemployment. The outflows from unemployment can be influenced by: (a) increases in labour demand, (b) changes in labour supply, (c) changes in the labour market via improved information, or improved efficiency of the operation of the labour market by better matching of skills. To emphasise the difficulty faced by the LTU, we have only shown outflows into employment from the pool of short term unemployed.

In evaluating LMPs we need to consider:

- (i) *deadweight loss*: the number of jobs which are being created (e.g. by a job subsidy) which would have happened independently of the LMPs;
- (ii) *substitution effect*: the extent to which the target group is helped at the expense of the rest of the unemployed (the non-targeted group);
- (iii) *displacement effect*: the employers who receive a subsidy have lower costs and other employers are forced to cut back production and employment, and
- (iv) *registration rate effects*: the impact of LMPs on the size of the labour force via changes in the participation rate.

(a) Labour Demand

Labour demand can be affected in a number of ways: by Keynesian methods—increasing aggregate demand (via fiscal or monetary policy); by direct job creation (DJC) measures; by changing the 'price' of labour for example through wage

subsidies, or by lowering the cost of labour by lowering the payroll tax. Increasing aggregate demand leads to a fall in inflows to and an increase in outflows from unemployment.

However, most western governments have in the past eschewed aggregate demand management and have become wary of DJC. Wage subsidies to employers have become more fashionable. It is clear that in a partial equilibrium sense employers who receive the subsidy will hire more workers, but an increase in aggregate depends on the general equilibrium consequences of the subsidy. If real wages are rigid, then a wage subsidy would lead to an increase in aggregate employment. If there is an increase in aggregate employment then there may be implications for inflation, which may be one of the reasons that the government did not use aggregate demand expansion in the first place. Much recent work on hysteresis in unemployment shows that the LTU have a negligible impact on inflation, so that wage subsidies (or DJCs) targeted to the LTU would not be inflationary.

#### (b) Labour Supply

LMPs which attempt to alter labour supply via training are essentially about lowering the 'price' of labour in efficiency units. Unfortunately, most of these schemes tend to 'cream off' the unemployment stock, i.e. these schemes get the more able people from the unemployment pool leaving behind those people most likely to become LTU. However, in a labour market with quantity constraints these LMPs are likely to 'reshuffle the queue'. It is clear that if someone went up in a helicopter and scattered PhDs and engineering or medical degrees<sup>3</sup> on all the unemployed people it would have no impact on unemployment: the faces of the employed and unemployed would be changed. Labour supply can also be affected by paying a wage subsidy to an unemployed person *conditional on obtaining a job*. In the US experiments have been carried out to test which method is better, a subsidy to the employer or to the unemployed, see Lalonde (*American Economic Review* 1989).

#### (c) The Labour Market

LMPs may be a means of improving information flows between the unemployed and the employers. Thus better information about appropriate job vacancies, about how to apply for jobs, counselling, etc. via Job Clubs/RESTART may have a marginal impact in aggregate, even if they have a significant impact for some

3 With apologies to Milton Friedman and his helicopter experiment with scattering money on the residents of a country.

people. Unless there are job vacancies to fill, all that may happen is a reshuffling the queue.

### 5. Comments

The paper is a wide ranging review of LMPs and provides a useful historical introduction to the subject. However, it is a very selective review of the literature. For example, even a recent report by the Auditor General on JOBTRAIN (Audit Report No. 29, 1990-91) is not mentioned. The huge literature emanating from the OECD and the European Community is also (apparently) completely ignored, as is the academic literature on evaluating the success of LMPs.

Turning to Section 3 of the paper, Monitoring and Evaluation, the first point I would make is that the paper does not consider whether LMPs have a **net** impact on employment or unemployment. In other words, there is nothing in the paper about whether overall unemployment is affected by LMPs. This may not be the concern of Evaluation and Monitoring Branch of DEET, but is clearly of concern to the Minister and to this Conference.

The second comment is that the method of deriving the success of LMPs is not clearly set out. The usual method is to have a matched control group and to compare any success with that of the control group. The section on Monitoring simply looks at the success of one LMP relative to another, or over time, but does not compare the results with a control group. In other words, the differential success rates may simply reflect the characteristics of different groups in terms of their 'saleability' in the labour market. One could venture a guess that those people who enter a particular LMP may have different motivations from those people who enter other LMPs, or for that matter do not enter any LMP. In the usual language of labour markets, 'creaming' may be taking place. In more technical language there is a selectivity bias. The relative success of JOBSTART commented on by the authors, *may simply be at the expense of the other LMPs* in a very slack labour market.

The authors also comment on the result that the LTU usually have worse outcomes than the short term unemployed. This is not surprising. However, they find that the LTU on JOBSTART have a similar success rate to the short term unemployed—which I do find surprising. Is this because DEET's concentration on JOBSTART has diverted successful outcomes away from other LMPs? This requires further investigation.

Even if we were to accept their results that JOBSTART is more successful than the other LMPs, we need to know the amount of expenditure on each LMP per

person and then work out the success rate per dollar of expenditure per person on LMPs. Clearly if the government is spending ten times more on JOBSTART than on some other LMP, we should expect at least a ten times greater success rate, unless the client groups are very different. Even this simple criterion would have to be amended to take account of special disadvantaged groups. However, none of this information is provided.

In the section on Evaluation, the authors do use a control group from the DSS register which is apparently *not* matched by age, educational qualifications, experience, and so on. In these comparisons they find that LMP participants have a higher rate of success than the so-called 'control group'. However, this *may* be a statistical artefact. I think the result is probably robust, but it still does not mean that there is a *net* impact on unemployment.

Given the data which are available to DEET (and to DSS) they could carry out econometric studies which use individual level data and control for selectivity bias. They would then be in a position to make the sort of judgements on the effectiveness of different LMPs which need to be made.

The success of LMPs could also be studied by using time series data to compare the outflow probability for different duration groups (using gross flows data, see Karmel 1988) to see whether the introduction of a new LMP has had a significant impact.

Given the growing problem of LTU, and now VLTU, I would have liked to see more discussion about how to tackle that problem. In particular, is it worth trying to stop people becoming LTU by targeting policies towards those people *who are likely to become* LTU? There was also little discussion of whether subsidies should be paid to the firm or to the unemployed individual.

## 6. Conclusion

To summarise, LMPs apparently improve the probability of success of job seekers at a point in time, although there is no evidence that it has any net effect on aggregate unemployment/employment. Some LMPs are apparently better at improving the probability of success. The authors find that JOBSTART is one such program. I have suggested that the analysis should be carried out more rigorously.

The message which I would like you to take home is that LMPs are not likely to help lower the unemployment levels unless accompanied by measures to increase aggregate demand via monetary or fiscal policy (the latter could be achieved through direct job creation measures).

Table 1: Unemployment Rates by Educational Attainment (%)

Highest qualification:	February:				
	1980	1983	1986	1990	1992
With post-school qualifications (a)	4.0	7.4	5.3	4.4	8.3
- Degree	3.5	5.0	3.8	4.3	5.9
- Trade qualification or apprenticeship (b)	4.0	7.9	5.4	3.6	8.7
- Certificate or diploma (b)				5.0	9.1
Without post-school qualifications (c)	8.0	12.1	11.1	8.8	14.2
- Attended highest level of secondary school available	6.8	11.6	10.4	8.3	14.1
- Did not attend highest level of secondary school available	8.2	12.8	11.2	9.0	14.2
Total (d)	6.7	10.7	8.9	7.0	11.5

Table 2: Mean Duration of Unemployment by Educational Attainment (Weeks)

Highest qualification:	February:				
	1980	1983	1986	1990	1992
With post-school qualifications (a)	22.7	23.4	35.9	33.1	37.8
- Degree	20.1	22.0	23.4	27.6	26.4
- Trade qualification or apprenticeship (b)	22.5	23.0	38.0	37.4	43.0
- Certificate or diploma (b)				33.5	38.1
Without post-school qualifications (c)	29.6	34.6	47.5	41.9	49.8
- Attended highest level of secondary school available	18.5	24.5	29.5	23.5	29.1
- Did not attend highest level of secondary school available	31.4	37.2	52.5	48.0	58.7
Total (d)	27.5	30.9	42.7	37.4	44.3

Notes to Tables 1 and 2:

- (a) Includes people with other post-school qualifications.
- (b) Prior to February 1987 the data now published in the Educational Attainment categories 'Trade qualification or apprenticeship' and 'Certificate or diploma' were published as a single group 'Trade, technical or other certificate'.
- (c) Includes people who have never attended school.
- (d) Includes people aged 15 to 20 still at school.

Source: Australian Bureau of Statistics, Catalogue No. 6235.0.

TABLE 3  
Public Expenditure on labour market programmes as a percentage of GDP

	Australia	Great Britain	Sweden	United States				
	1985-6, 1990-1	1985-6, 1990-1	1985-6, 1990-1	1985-6, 1990-1				
1. Public employment services and administration	0.11	0.09	0.14	0.15	0.25	0.21	0.07	0.08
2. Labour market training	0.02	0.06	0.09	0.23	0.50	0.54	0.12	0.09
a) Training for unemployed adults and those at risk	0.01	0.06	0.07	0.20	0.48	0.52	0.12	-
b) Training for employed adults	-	-	0.02	0.03	0.02	0.01	-	-
3. Youth measures	0.07	0.04	0.26	0.19	0.21	0.07	0.03	0.03
a) Measures for unemployed and disadvantaged youth	0.03	-	0.02	-	0.21	0.07	0.03	0.03
b) Support for apprenticeship and related forms of general youth training	0.04	0.04	0.24	0.18	-	-	-	-
4. Subsidised employment	0.19	0.05	0.22	0.02	0.43	0.13	0.02	0.01
a) Subsidies to regular employment in the private sector	0.07	0.04	-	-	0.10	0.02	0.01	-
b) Support of unemployed persons starting enterprises	-	0.01	0.03	0.02	0.01	0.01	-	-
c) Direct job creation (public or non-profit)	0.12	-	0.19	-	0.32	0.11	0.01	0.01
5. Measures for the disabled	0.04	0.04	0.03	0.03	0.72	0.76	0.04	0.04
a) Vocational rehabilitation	0.01	0.02	0.01	0.01	0.09	0.10	0.04	0.04
b) Work for the disabled	0.02	0.02	0.03	0.02	0.63	0.66	-	-
6. Unemployment compensation	1.30	1.12	2.05	0.95	0.75	0.81	0.57	0.50
7. Early retirement for labour market reason	-	-	0.05	-	0.12	0.08	-	-
<b>TOTAL</b>	<b>1.72</b>	<b>1.39</b>	<b>2.85</b>	<b>1.56</b>	<b>2.97</b>	<b>2.60</b>	<b>0.84</b>	<b>0.74</b>
Active measures (1-5)	0.42	0.27	0.74	0.61	2.11	1.71	0.28	0.25
"Mobilising labour supply" (2a,3a,4a,4b,5a)	0.13	0.13	0.12	0.23	0.89	0.71	0.20	0.16
"Non-targeted training" (2b,3b)	0.04	0.04	0.26	0.21	0.02	0.01	-	-
"Work as a social objective" (4c,5b)	0.14	0.02	0.22	0.02	0.95	0.77	0.01	0.01
Passive measures (6-7)	1.30	1.12	2.11	0.95	0.87	0.89	0.57	0.50

Source: OECD Employment Outlook, July 1992

..Data not available  
- Nil or less than half of the last digit used

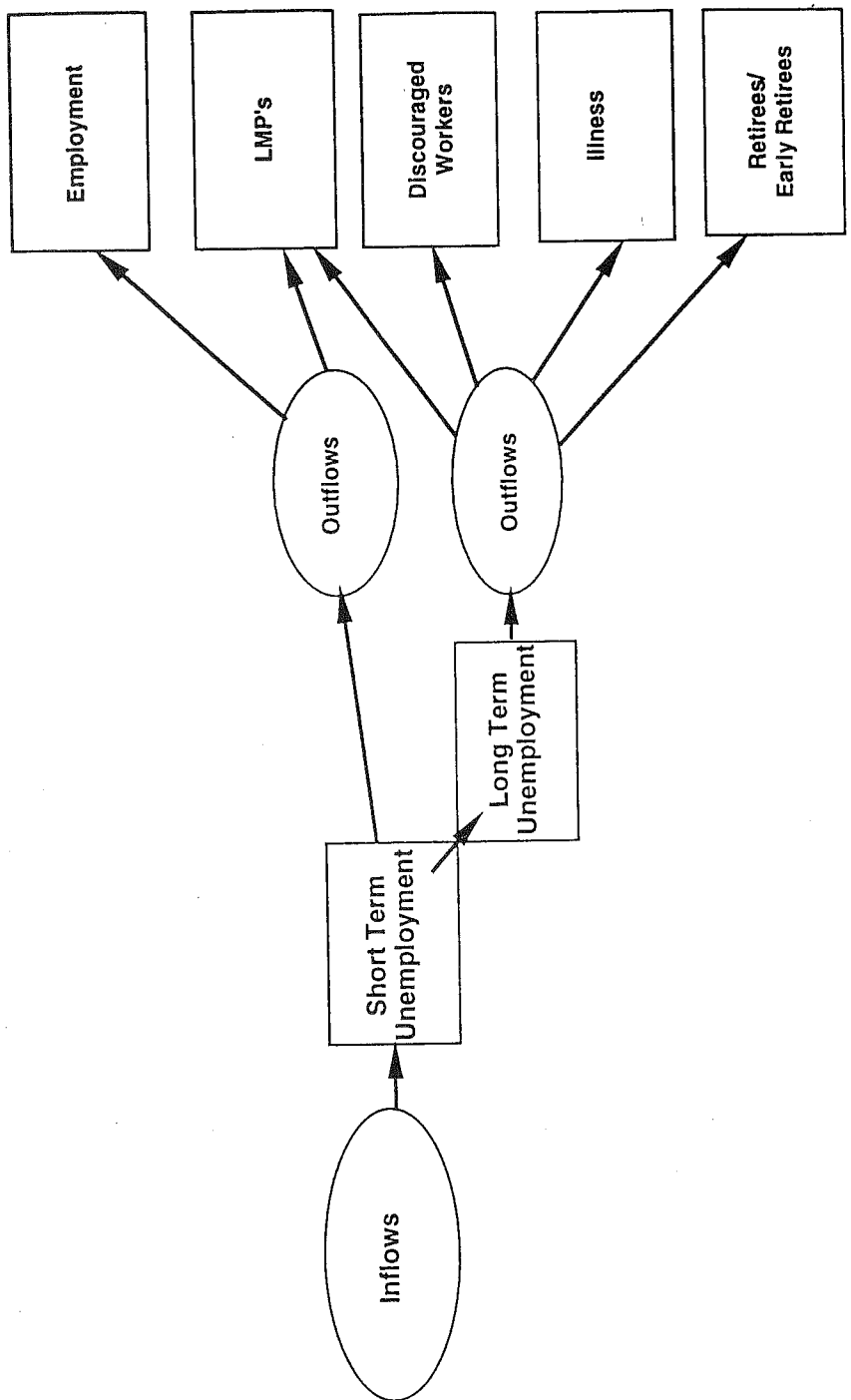


FIGURE 1

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