

The Role of Training and Skills Development in Active Labour Market Policies

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Abstract

In the light of the task of the new UK Commission for Employment and Skills (UKCES) to achieve a greater degree of integration between skills policy and employment policy in the UK, this paper looks at what is known from the extensive international evidence about the role and effectiveness of training and skills interventions as part of a broader portfolio of active labour market policies (ALMP).

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1 Introduction

The new UK Commission for Employment and Skills (UKCES) is tasked with providing an integrated approach to UK employment and skills policies, previously somewhat fragmented between government departments (DfES and its successor department DIUS on the one hand and DWP on the other), and their various delivery agencies.

One likely implication of this integration is that skills will play an increasingly bigger role in the wide range of supply-side based active labour market measures (the New Deals and related initiatives) which effectively constitute employment policy in the UK, and are the key means by which the government hopes to meet its key public service agreement targets in this area (especially the target of an overall employment rate of 80 per cent and significant reductions in the differentials between that rate the employment rates of a number of specified target groups¹).

It is, therefore, timely to review what we know from the large international literature on this topic, about the effectiveness of skills interventions alongside other types of active labour market measures, within the overall active labour market policy (ALMP) portfolio. This paper attempts such a review, and should be seen as complementary to the paper by Alex Bryson (Bryson 2008) which covers some similar ground, but mainly in the UK context. In doing this we range quite widely over a large number of studies, and draw on both recent literature and some quite old literature. It is not fashionable in policy circles to acknowledge that policies, programmes and measures which existed in previous decades (particularly those introduced under different political regimes), may have lessons to teach us about what works and what does not. The pressure for novelty may blind policy-makers to the possibility that the problems they face are similar in many ways to those faced in previous generations, and the that solutions they come up with may also be similar to those tried before (or tried elsewhere). Those who remember the many reviews of the UK skill shortage and productivity problems produced in the 1980s by the long-defunct National Economic Development Council (abolished by the Major government in 1992), may be excused a distinct sense of *déjà vu* when reading the lamentations on the same topics in the recent Leitch review which is driving current policy in this area. Similarly when looking at the dominant policy thrust emerging from Leitch (the need for a demand-led system, with employers in the driving seat, and new employer-led bodies to deliver it, and so on) one cannot help but be reminded by the almost identically-argued rationale for the Thatcher government's creation of employer-led Training and Enterprise Councils in 1989 (the main difference, of course, being that the predominantly local focus of the TECs has been replaced with the a sectoral emphasis in the Leitch era).

¹ Lone parents, ethnic minorities, people aged 50-plus, disabled people, those with the lowest qualifications, and those living in the most disadvantaged local areas.

Our emphasis in this paper is on another important aspect of the policy conclusions following from Leitch: the proposal to move towards integrating skills policy and employment policy. In particular, we focus on that area where current skills policy and employment policy overlap, namely in the provision of training and skills development to participants in the UK's range of active labour market policies.

2 What are active labour market policies ...?

In the literature, 'active' labour market policies are distinguished from 'passive' labour market policies. 'Passive' policies are concerned with providing replacement income during periods of unemployment or job search, while 'active' policies emphasise labour market (re)-integration. Passive policies include unemployment insurance and assistance, and early retirement measures; active measures include labour market training, job creation measures, support for active job search, hiring subsidies, support for enterprise creation among the unemployed etc. ALMPs emerged on a large scale in the post-war period initially in Scandinavia. The OECD monitors the relative balance of labour market policy expenditure on active and passive measures in member countries, and has been a major proponent of a shift from passive to active measures (see OECD 2005, and various issues of the *Annual Employment Outlook* published by OECD).

The large literature on this topic contains various ways to categorise ALMPs. In simple terms, however, we can distinguish between ALMPs which have a supply side emphasis and those which are oriented towards the demand side of the labour market. Thus on the **supply side**, measures include:

1. **training schemes**: these are the classic elements of Scandinavian ALMPs and may cover vocational and or general skills. The underlying argument here is that the employability and job-finding chances of workless people will be enhanced by participation in the programmes.
2. **information and job-broking activities**: these are the standard job-matching activities of the public employment service², which involve the registration of vacancies, and the provision of vacancy information to job-seekers and the provision of information on job-seekers to employers.
3. **information, advice and guidance** to job-seekers: this involves more proactive engagement by the public employment service with job-seekers, providing support and advice on jobsearch, often along with motivational activities.

² In the UK, as in an increasing number of other European countries, the public employment service has been recently merged with the agency responsible for social benefits in an attempt to increase the employment orientation of benefit recipients. The merged organisation in the UK is known as Jobcentre Plus.

4. **sanctions and incentives:** these are ‘sticks’ and ‘carrots’ used to ‘activate’ workless jobseekers, with the sticks, for example, involving compulsory participation in active measures with the (threat of) benefit withdrawal in cases of non-participation; and the carrots involving financial incentives (eg a monetary bonus offered when a workless person accepts a job offer).
5. **subsidies** to individuals to support and encourage them to enter self-employment and start their own enterprises (arguably these also have a demand side component).

On the **demand side**, the main types of measures observed are:

6. **subsidies** to employers who hire workless job-seekers (typically from particular target groups)
7. **job creation** schemes: these are traditional ‘make work’ schemes often in the public or not-for-profit sector, which provide work opportunities for otherwise workless individuals.

In the UK, demand side ALMPs have all but disappeared in recent years, and the emphasis is overwhelmingly on supply side measures³. As noted in Meager 2007, there have also been a number of other important recent shifts in the emphasis of UK active labour market policy. In particular, we may note:

- an increasing focus on **economically inactive** (rather than unemployed) target groups of workless people, eg lone parents, disabled people on incapacity benefits, and older workers. Several factors explain this shift. First, as ‘mainstream’ unemployment has fallen to relatively low levels, there has been a recognition that reaching the target of an overall 80 per cent employment rate requires that economically inactive groups are brought into the workforce. Second has been a concern to reduce the expenditure on inactive benefits, particularly incapacity benefits, spending on which has grown threefold since the early 1980s. And third is an ideological preoccupation with a ‘work first’ or ‘welfare to work’ approach, inherited from the US (and increasingly found also in European countries such as the Netherlands), and which adopts the view that work is the single most important solution to a range of social and economic problems and in reducing welfare dependency and social exclusion.
- An emphasis on ‘**making work pay**’, through reforms to benefit regulations and the introduction of in-work benefits or tax credits, aimed at tackling the unemployment trap faced by many benefit recipients.
- Increasing levels of ‘**activation**’, through mandatory participation of workless groups within the various schemes. While most UK measures for economically

³ See Meager (2007) for a discussion of this shift and the relative merits of this supply-side emphasis.

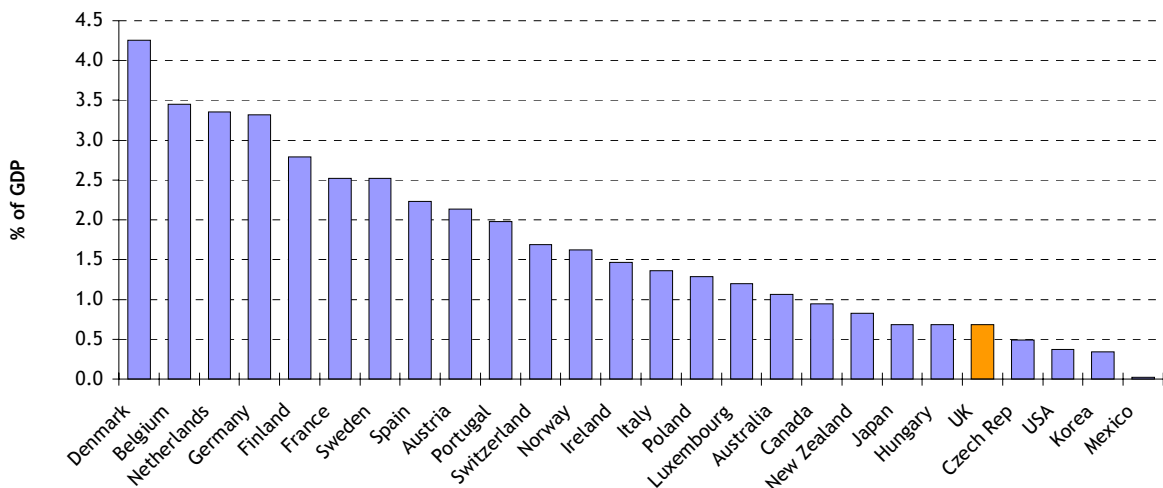
inactive groups still retain a voluntary aspect (unlike measures targeted at the unemployed), the degree of compulsion has grown over time (*eg* even where participation in the programme is not mandatory, it is now compulsory for some groups to participate in 'work-focused interviews' to discuss the options of programme participation), and the eligibility criteria for receipt of some benefits have been progressively tightened. Further extensions of compulsion to inactive groups have been flagged in recent government policy statements. DWP 2007 outlines, for example, that lone parents will be obliged to seek work when their children reach 12, rather than 16 as at present (and this age will be further reduced to 7 in due course), and that disabled people on incapacity benefits under the age of 25, as well as all new incapacity benefit claimants will be required to participate in the *Pathways to Work* programme.

- A shift towards **individualisation** in the support packages offered. This trend towards the development of individual 'pathways to work' for workless individuals is well-documented and found in many other countries. It is associated with a major shift in the culture of the public employment service and the benefit administration system (merged into a single agency *Jobcentre Plus* in the UK), the frontline staff of which are being gradually retrained from policing the administration of benefits, to a role of 'personal adviser' (this is similarly reflected in changed official terminology for the workless individuals themselves, who are no longer 'benefit claimants' or 'scheme beneficiaries', but 'clients' or 'customers').
- A growing **involvement of the private and voluntary sectors** in ALMP delivery. While the public employment service retains a key role in service delivery, in many ALMPs it does so in partnership or competition with private/voluntary agencies, typically operating under a performance-related funding regime with these agencies being paid under contract, conditional on achieving certain 'outputs' (such as job placements). Further acceleration of this process is anticipated in the UK, with the government committed to implementing, and indeed going beyond the recommendations of the Freud Report, which advocated greater private and voluntary sector contracting (Freud 2007).

As Figure 1 shows, the UK is not a big spender on labour market policy as a whole (active and passive), and the Czech Republic, USA, Korea and Mexico are the only OECD countries spending a smaller share of GDP on labour market policies. It is not our purpose in this paper to review the extensive literature on the aggregate relationship between LMP expenditure on the one hand and employment (or unemployment) rates on the other hand; suffice it to say that the UK's low level of LMP expenditure is not simply a reflection of the currently high employment rate in the UK. As Figure 2 shows, there is no simple linear relation between LMP expenditure and overall employment rates. In part this is because the different components of LMP expenditure are likely to move differently over the cycle, with the share of passive benefits being higher in times and places where unemployment/inactivity is higher. In part, however, it reflects fundamentally different policy regimes. If we look, for example, at those countries performing well in

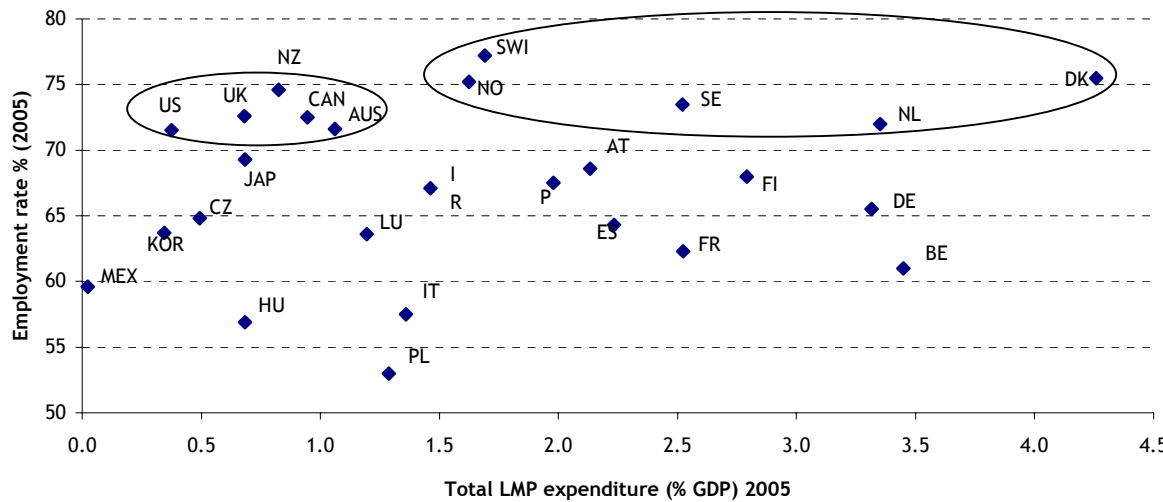
terms of overall employment rates (ie with rates of 70 per cent or higher), they fall very clearly into two groups: on the one hand are a group of Nordic countries, the Netherlands and Switzerland and on the other hand are the 'Anglo-Saxon' economies of the USA, Canada, Australia, New Zealand and the UK, whose low level of spending partly reflects less generous welfare state regimes (as measured, for example, by average benefit replacement rates⁴).

Figure 1: Total labour market policy expenditure as % of GDP (2005)



Source: author's calculations from OECD data

Figure 2: Labour market policy expenditure and aggregate employment rates

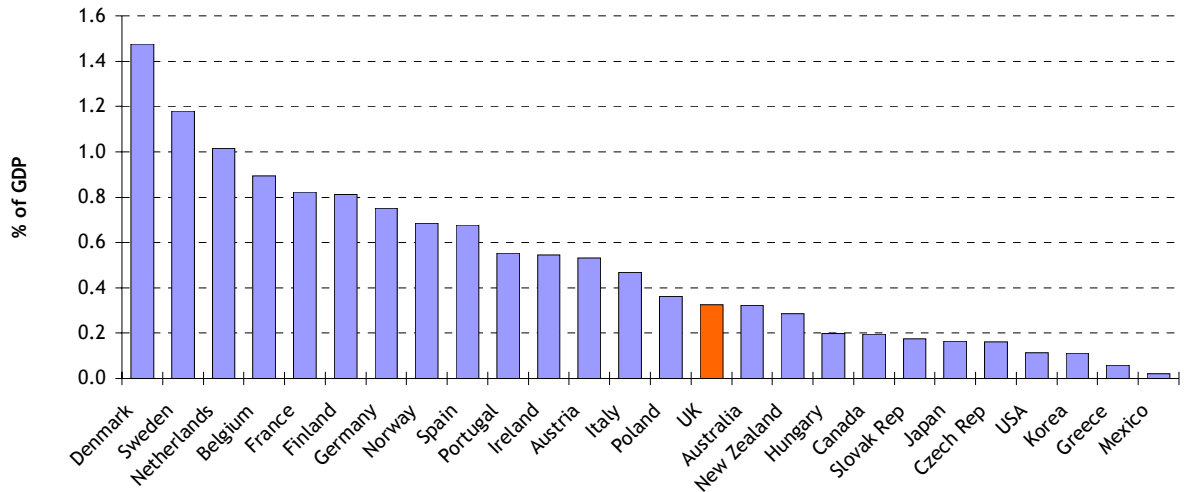


Source: author's calculations from OECD data

⁴ The ratio of out of work benefits levels to previous or average earnings in work (OECD 2004a).

When it comes to **active** labour market expenditure, however, the UK creeps up the league table a little (Figure 3) although it still spends a much smaller share of GDP on ALMP than most other western European states.

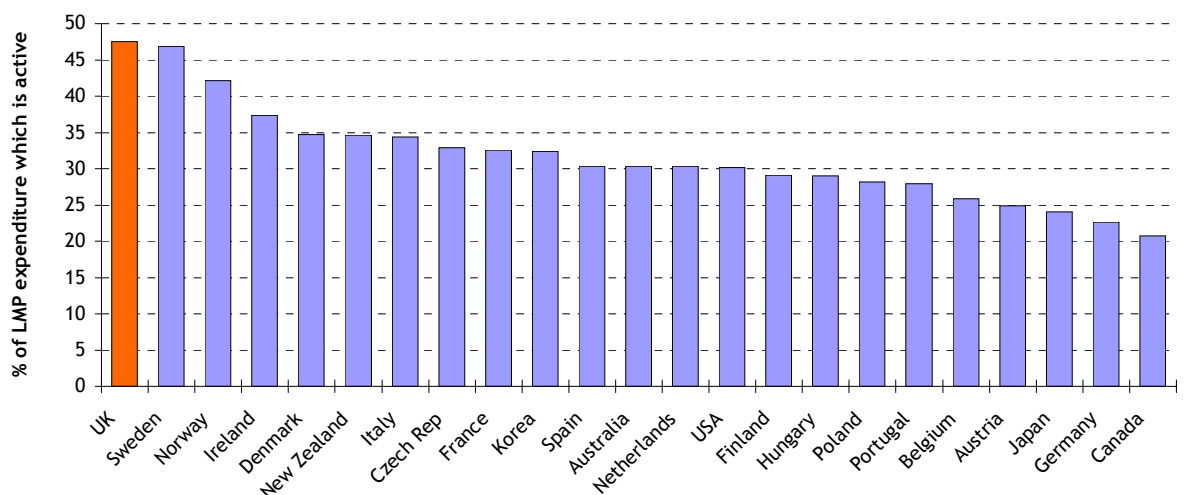
Figure 3: Total active labour market policy expenditure as % of GDP (2005)



Source: author's calculations from OECD data

Despite the low absolute level of spending on labour market measures in general and on active measures in particular, it is nevertheless interesting to note that the **share** of UK labour market spending which goes on active measures is very high (Figure 4). Again this partly reflects the low level of benefits in the UK, which means that passive spending is lower than average. It is clear, however, that although the UK does not spend much on labour market policy, what it does spend has a much more 'active' orientation than most other countries. Indeed in this respect the UK's profile is closer to some of the Nordic active welfare state regimes, than to its usual comparators in the other Anglo-Saxon nations.

Figure 4: Share of active labour market policies in total labour market expenditure (2005)

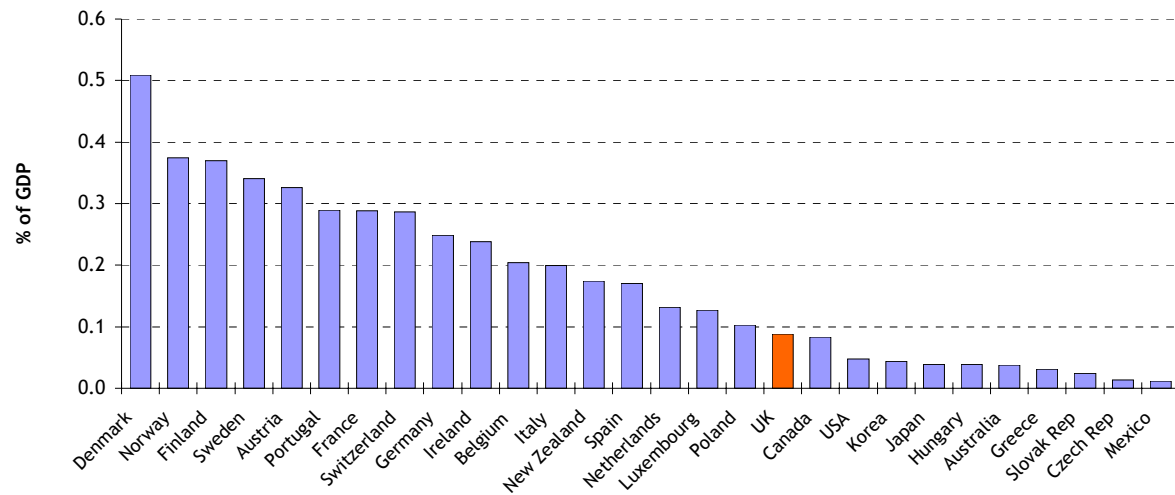


Source: author's calculations from OECD data

3 ... and how do training measures fit in?

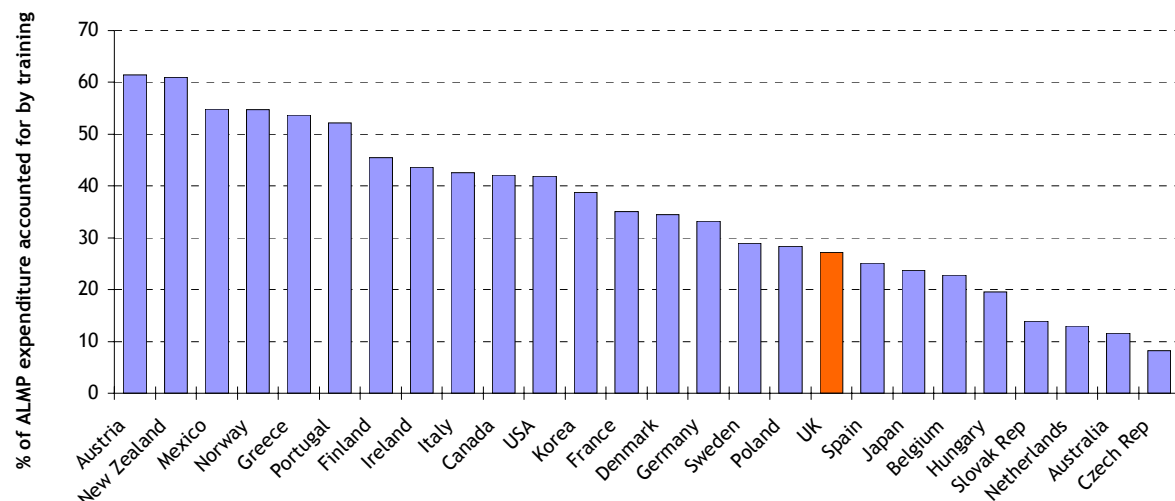
We now turn to the role of training as part of the portfolio of (active) labour market policy measures. Here we can see that the UK is again very different from the Nordic model in that not only does it spend a relatively small share of GDP on training and skills-related active measures (Figure 5) but such measures also account for a relatively small share of ALMP expenditure⁵ (Figure 6).

Figure 5: Expenditure on training-related ALMPs as % of GDP (2005)



Source: author's calculations from OECD data

Figure 6: Share of training measures in total ALMP expenditure (2005)

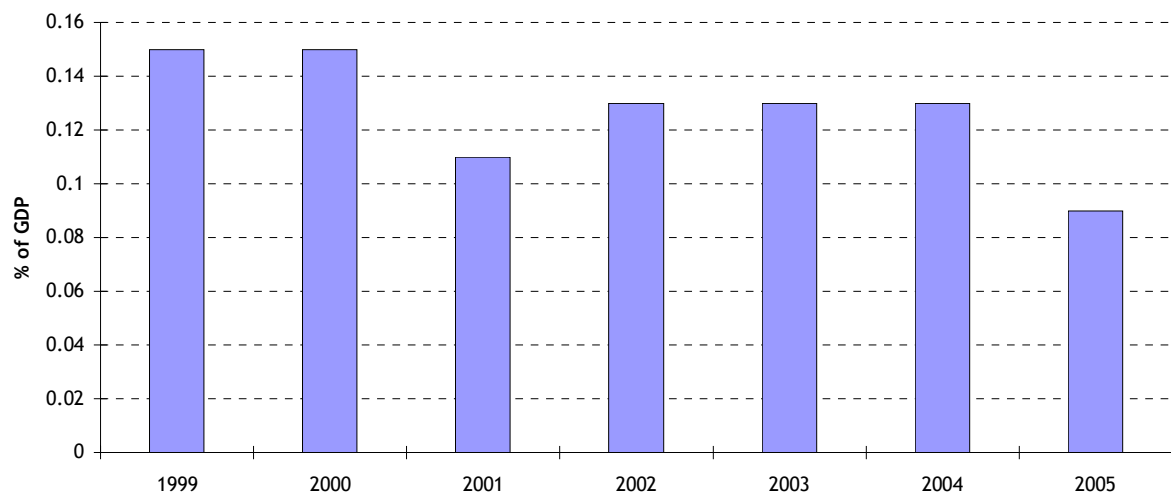


Source: author's calculations from OECD data

⁵ It should be stressed that these data refer only to training measures for the unemployed and economically inactive target groups of government employment schemes, and do not include any public expenditure on the training of the employed workforce

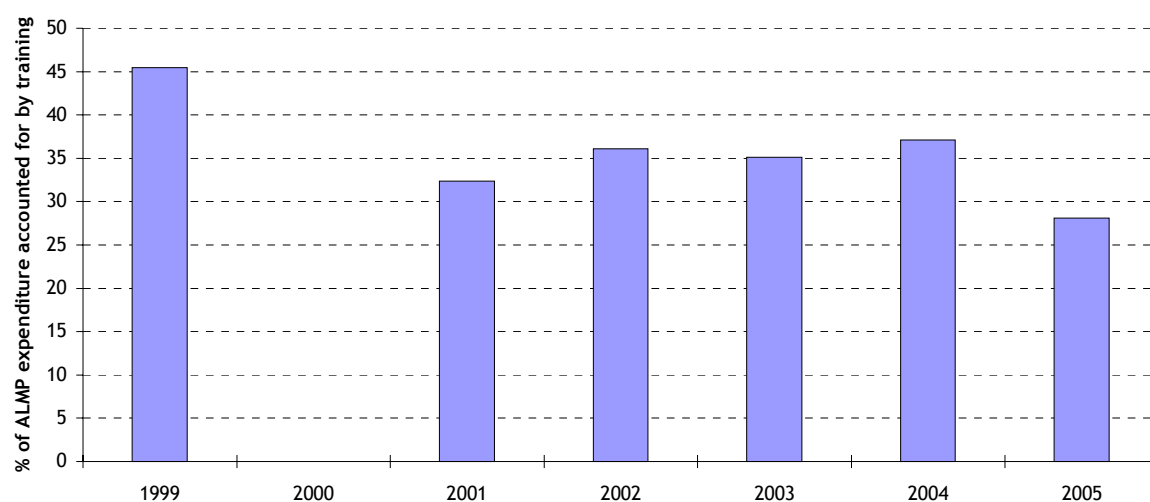
The approach to ALMP in the UK has been dominated by measures of types 2 and 3 (and increasingly also, type 4) in our earlier taxonomy, that is measures delivered through the public employment service and focusing on job-matching/brokering activities, job-search advice and support and to an increasing extent sanctions for non-participation. Training measures for the unemployed and inactive, although present as options in some of the New Deal measures, for example, have formed a relatively minor part of the overall approach to ALMP in the UK. Further, if we use the internationally-comparable OECD data on ALMP expenditure, it would seem that the importance of training measures has been decreasing in the UK in recent years at least. Thus Figure 7 shows that in 2005 the expenditure on training-related active measures fell below 0.1 per cent of GDP, down by over a third from 0.15 per cent at the turn of the century. Similarly, Figure 8 indicates that whereas training measures accounted for around 45 per cent of ALMP spending in the UK in 1999, this had fallen to only 28 per cent by 2005. This declining emphasis on training within active measures is not confined to the UK; de Koning (2007) presents data for 18 OECD countries looking at the share of different types of measures in total ALMP expenditure over the period 1991-2003. His analysis shows a clear increase in the share of mediation, counselling and similar measures delivered through the public employment service (from 20 to 28 per cent of the total over the period), as well as an increase in the use of subsidies for regular jobs (from 9 to 14 per cent) and a similar decline in the share accounted for by training measures (from 31 to 24 per cent). De Koning argues, moreover, that this shift is broadly in line with what the evaluation evidence shows about the relative effectiveness of different types of measures (we consider this evidence in more detail in subsequent sections of this paper).

Figure 7: Expenditure on training-related ALMPs as % of GDP (UK: 1999-2005)



Source: author's calculations from OECD data

Figure 8: Share of training measures in total ALMP expenditure (UK: 1999-2005)



Source: author's calculations from OECD data (no data available for 2000)

At a time when the new UKCES will be looking at a greater integration between the UK's approach to training and skills and its employment policies, it is clearly of interest to note:

- that, compared with its international counterparts, the UK government spends relatively little on the training/skills aspects of its employment policies, and this spend has been falling
- that training/skills measures are a relatively minor part of the UK portfolio of employment policies, and their significance has been decreasing in recent years.

4 How effective are training/skills-based active labour market policies?

Whether this state of affairs is desirable, and whether it is appropriate for the direction of policy in this area to change under the influence of the UKCES is, of course, dependent on whether, in comparison with alternative active measures, training interventions are effective (and cost-effective) tools for (re-)integrating unemployed and inactive target groups into the labour market.

The notion that training/skills-based measures might have an important role to play in this respect has some intuitive sense to it. As OECD 2004 observe

'The importance of education and training for labour market performance is likely to have increased'

(OECD 2004, p185)

At an aggregate level, there is a strong cross-country relationship between levels of initial education and continuing vocational training on the one hand and employment performance on the other (OECD 2004). Similarly, at the individual level, there is a strong relationship between training experience and labour market outcomes (eg the

probability of being in work). In both cases, there are difficulties in establishing causality through econometric methods, but much of the evidence is at least consistent with such a causal relationship (Brunello, 2007). Much less clear, however, is whether there is an impact of training on unemployment, and as OECD 2004 who failed to identify such a relationship, point out, this may reflect 'crowding-out' effects, ie those who are trained may simply displace those who are not trained or who have lower skill levels. OECD argue, however, that the direct evidence of such crowding-out effects within specific labour market groups is small, and conclude, on balance, that

'... appropriate [training]policies can improve the labour market position of specific targeted groups. Such policies can be an important component of a general strategy geared at reducing non-employment traps.'

(OECD 2004, p 185).

As Bryson (op. cit) notes, however, it does not follow from this that training/skills measures are the most (cost-)effective intervention for disadvantaged workless groups, particularly in the UK context, with evidence of a low-skills equilibrium in at least part of the labour market (Wilson and Hogarth 2003), and the existence of a significant proportion of low/unskilled jobs. In such a context, cheaper, shorter-term interventions focused on job-entry (job-search support with related sanctions and incentives) may give a greater pay off. The balance of measures in the UK ALMP portfolio described above, and recent trends in that balance, suggest that the UK government has until now implicitly taken such a view, although as Bryson (op. cit.) also notes, some recent evaluations of UK active measures with a skills component have offered positive results.

Looking more broadly at this question, however, there is a wealth of international research evidence (of varied methodological sophistication) which throws more light on the relative effectiveness of training/skills interventions. If, as seems likely from recent government policy pronouncements and the new role for the UKCES, such interventions are likely to play a greater role in the tool box of policy measures to move unemployed and inactive groups into employment, it is timely to look once again at the existing evidence, to ensure that lessons are learned from past experience both in Britain and overseas.

Consideration of this evidence is greatly assisted by a significant number of comparative reviews of the evaluation evidence produced by various authors, over the years, and I have drawn heavily on these reviews in producing the present summary. These include: Björklund (1991, 1994), OECD (1992, 1993), Robinson (1995b), Fay (1996), Martin (1998), Forslund and Krueger (1997), Meager and Evans (1998), Calmfors et al. (2002), Estevão (2003), Speckesser (2004), De Koning (2005, 2007), Kluve (2006).

4.1 The early evaluations - mainly negative results from training interventions

While it is difficult to draw universal conclusions from this literature, the growing volume of research in different countries, and across countries, has moved the situation on from that reported by Björklund (1991) who noted, after surveying the early Swedish evaluations, and the disappointing results of studies of the effects of general training schemes for the unemployed:

'... the results obtained are too uncertain to allow firm policy conclusions'
(Björklund, 1991, p.90).

Certainly, policy conclusions of varying degrees of firmness regarding effectiveness of ALMPs in general, and training/skills interventions in particular, began to become clearer from the evidence by the mid-90s, as the current author noted (Meager and Evans 1998):

'It is rapidly becoming conventional wisdom in the policy evaluation literature that labour market training and re-training schemes for the unemployed have not lived up to expectations. As many evaluation studies [...] have shown, such schemes (including those in countries such as Germany and Denmark, where the quantity and quality of workforce training in general is regarded as high), often appear to make little difference to the employment (or earnings) chances of participants.'
(Meager and Evans, 1998, p.49)

Indeed at that time, these predominantly negative evaluation results were being used in the UK to provide support for, and justify a shift in the balance of active labour market measures in the UK policy portfolio. As Robinson (1995a) argued:

'The recent movement of resources in Britain away from training and work programmes towards the initiatives run by the Employment Service is overwhelmingly backed by the results of research from across the OECD. Simple initiatives which offer improvement placement services or assistance with job search can be shown to significantly boost participants' job prospects. The evidence for the effects of training and work programmes is much more mixed.'
(Robinson 1995a)

Many other economists and policy commentators at the time were similarly arguing in favour of such a shift and for a downgrading of any emphasis on training/skills interventions within ALMPs (with some authors going further to argue against more or less *any* types of ALMP interventions, other than job search support coupled with benefit incentives/sanctions, eg Lange and Shackleton, 1998).

4.2 The 1990s - evidence that small scale, targeted training schemes may be effective

During the 1990s economists interested in labour market policy still struggled with the apparent mismatch between the strong theoretical justification for enhancing the

employability of disadvantaged job seekers through increasing their human capital, and the poor performance of active measures designed to do just that. The resolution to this mismatch appeared to lie with the question of the scale and focus of the training/skills measures. A more nuanced interpretation of the literature suggested that large scale, broad-brush training schemes and measures for the unemployed and groups outside the labour market were expensive, and largely ineffective, with little or no effects on employment chances or subsequent earnings of participants. Indeed some studies suggested negative impacts of such schemes, which may have even made things worse, by locking participants out of the labour market while they did the training, when their interests might have been better served through getting them into some kind of job or work experience first. Where the schemes were smaller in scale, however, and targeted on groups with specific needs, and where they were a) coupled with interventions to address other barriers which individuals faced (including social barriers); and/or b) took place in a 'real world' environment (eg training in a real workplace, in combination with a job placement or work trial, rather than in a classroom or vocational college), it seemed that better results were possible.

As Jackman (1995) observes:

'Given the increasing disparities in wages and employment opportunities between skilled and unskilled workers, one might expect training schemes to offer a high return to those taking them. A remarkable, but consistent finding is that the microeconomic evidence on general training schemes for unemployed adults provides very little support for such a view.

OECD (1993) examines the effects of numerous types of training schemes. A general conclusion is that programmes targeted on a small number of individuals, with a relatively high cost per head, often appear quite effective in improving the wage and employment prospects of at least some of the individuals involved. On the other hand, broader programmes covering a larger number of people at relatively low cost per head typically seem to have little if any effect on the prospects of participants.

A good example is the effects of programmes carried out under the Job Training Partnership Act (JTPA) in the US. Studies of the effects of JTPA show that the training component had no significant effect on the earnings or employment prospects of unemployed people generally, but special schemes, eg for those with poor education, did tend to improve their labour market prospects [....]

The overall conclusion is that training schemes need to be targeted to meet the needs of specific groups and supported by adequate resources. A corollary is that training of this quality cannot be made generally available to all unemployed people. Thus effective training schemes cannot be a large part of a labour market policy which seeks to place every unemployed person on a scheme or in temporary work.'

(Jackman 1995 pp. 15-16)

Consistent with these conclusions, in a review of the US and European evaluation evidence on active labour market policies targeted specifically at disadvantaged *young people*, Auspos et al. (1999) found generally negative results (for both training and other types of interventions), but the exceptions tended to be of this small scale,

targeted nature. Thus, among six skills US training programmes for disadvantaged youth (some of which were combined with other welfare-to-work interventions such as benefit sanctions, or job placements), it was noted that in general these programmes were ineffective, with two exceptions. One was the *Job Corps* programme which, as Auspos et al. note, '*produced large and consistent benefits across a range of employment and social outcome measures.*' It is, however, an extremely high cost intervention, consisting of a residential, long-term intensive education and training programme targeted on extremely disadvantaged groups (the non-residential variant of the programme was ineffective). Another exception was found in the interventions delivered by the *US Center for Employment and Training*, which achieved high earnings gains for participants, with a model based on intensive instruction over a substantial period (typically six months), with open entry and exit and a strong emphasis on early employment outcomes. The European evidence on youth programmes considered by Auspos et al. was less consistent (and more positive) than the American evidence, which the authors attribute partly to more rigorous evaluation methods in the US research (particularly the more widespread use of random assignment methods), as well as substantive differences between labour market and social institutions between the US and Europe. Auspos et al. note that, as far as youth training interventions are concerned:

- the evidence on large scale training/re-training programmes in Sweden is that such measures generally had no effect, or even a negative effect on employment and earnings (see also Björklund, 1991 and 1994 and Forslund and Krueger 1997)
- results were mixed in Norway, but with some small evidence of a positive earnings effect
- Danish evidence suggested that, for the most disadvantaged groups (ie with substantial periods of prior unemployment) there were small but statistically significant gains in subsequent employment entry, and in this case Auspos et al. concluded that '*In view of its short duration, the training was probably cost-effective when focused on those with the greatest employment problems.*'
- Some youth programmes in France, Ireland, the UK, Austria, Belgium and Ireland had had effects, but it was often difficult to distinguish the impacts of training interventions from other measures delivered as part of the same programme (temporary work placements, job search support etc.)

Other studies from this period, in different countries, also support the general conclusion that the scale and degree of targeting of the training appears to matter, as does the extent to which it is a stand-alone measure or embedded in a broader programme including other elements such as work experience (see, for example, the evidence from programmes in Austria, Ireland and the Netherlands cited in Meager and Evans 1997).

Particularly interesting is the Irish study of O'Connell and McGinnity (1997), which used a single survey-based follow up of participants across the full range of active

measures then in place in Ireland, and a matched group of non-participants to compare the relative impacts of the different measures on short- and medium term employment probabilities, job duration and earnings. The research compared a range of general training schemes, a specific skills training programme, and a range of employment subsidies and direct employment (job creation programmes). Their analysis also develops a useful typology of measures, building on the traditional demand-side/supply-side distinction, to incorporate the notion of the degree of 'market-orientation' of different measures. Thus, for example, on the supply-side, training programmes involving private sector placements with a high level of on-the-job training are seen as having 'strong' market-orientation, whilst purely classroom-based schemes distanced from a real work context, have 'weak' market-orientation. Similarly, on the demand side, traditional direct job-creation measures of a 'make work' type are weakly market-oriented, whilst indirect measures which create or subsidise jobs in the private sector are strongly market-oriented. The dominant conclusion from the evaluation was that what made the difference was the degree of 'market orientation' of the programme in question. In particular, programmes with a stronger 'market-orientation' lead to higher placement rates, longer job durations and higher earnings, than schemes with weak market-linkages. In the Irish context, this meant that the specific skills training programme had far more positive impacts than the general training programmes or the job creation schemes. Their results also point towards the need for greater targeting on the most disadvantaged groups (to avoid creaming and high deadweight); and the authors stress that the results do not militate against schemes with weak market linkages (particularly for the least 'job ready' groups), but suggest they should be appropriately targeted on those who need them, and be better integrated with, or lead to progression to schemes with a clearer market orientation. They also raise the interesting question of whether the strongly positive impacts of skills training may have a peculiarly Irish aspect given that, at the time (early 1990s) Ireland was a country with a well-documented low incidence of in-company training. It was, therefore, possible that specific skills training of the unemployed through ALMP measures was acting as some kind of functional equivalent to the training of employees or new recruits which in other countries (Scandinavia, Germany, the Netherlands or indeed the UK) might be more likely to occur within companies.

In the UK context (as also noted by Bryson 2008), the older evidence also suggests that it was the smaller scale schemes, targeted on particular disadvantaged groups, and/or particular skills and occupations which had the most impact, particularly where the training was customised to the specific needs of employers, rather than being general in nature, and where the training was delivered in conjunction with practical work experience. It is notable, for example (Payne et al. 1996) that the impact of the *Employment Training* (ET) programme for the long-term unemployed in the UK was greatest in those cases where the training was linked to a work placement with a private sector employer (rather than to work experience on a job-creation project); and where the training led to a formal vocational qualification. It is not always possible in such cases for the evaluation to distinguish between the relative impacts of the work

experience component and the training component on participants' employment chances. It is possible, for example, that those participants who got jobs did so, not because of the training per se, but because their private sector placement providers kept them on, or because the work experience made their CVs more attractive to future employers. The fact, however, that the ET options that generated formal qualifications also appeared to improve employment outcomes, suggests that (certified) training of the right type is also relevant, however.

4.3 The current picture from the evaluation evidence

On the basis of the evidence available up to the end of the 1990s, then, there appears to be an emerging consensus that job-broking and matching services, information advice and guidance measures, along with some kinds of targeted subsidy schemes have the most positive impact on conventional outcome measures (employment rates, subsequent earnings of programme participants), and to be most cost-effective in exchequer terms, while both direct job creation schemes and training/skills programmes perform rather badly, *unless they are small in scale and highly targeted in nature, and/or unless they are strongly 'market-oriented' and linked to practical job experience in a 'real' employment environment*. This consensus, as noted earlier in this paper, seems to have contributed in many OECD countries to a shift, within ALMPs, away from training measures towards job-broking, advice and guidance, and incentives /sanctions. At the same time, an increasing scepticism can be found in the policy-oriented literature regarding the value of active labour market measures *of any type*.

The conclusions of Calmfors et al. (2002), who examined the Scandinavian evidence are fairly typical of this consensus and worth listing here (our emphasis):

*'The Swedish experiences of the 1990s provide a unique example of how large-scale active labour market programmes (ALMPs) have been used as a means to fight high unemployment. [....] The main conclusions are: (i) there is hardly any evidence for a positive effect on matching efficiency; (ii) there are some indications of positive effects on labour force participation; (iii) subsidised employment seems to cause displacement of regular employment, whereas this appears not to be the case for labour market training; (iv) it is unclear whether or not ALMPS raise aggregate wage pressure in the economy (v) in the 1990s, **training programmes seem not to have enhanced the employment probabilities of participants**, whereas some forms of subsidised employment seem to have had such effects; and (vi) youth programmes seem to have caused substantial displacement effects at the same time as the gains for participants appear uncertain. On the whole, ALMPs have probably reduced open unemployment, but also reduced regular employment. The overall policy conclusion is that ALMPs of the scale used in Sweden in the 1990s are not an efficient means of employment policy. **To be effective, ALMPs should be used on a smaller scale**. There should be a greater emphasis on holding down long-term unemployment in general and a smaller emphasis on youth programmes. ALMPs should not be used as a means to renew unemployment benefit eligibility'*

(Calmfors et al. 2002, pp 1-2)

Moving on to the more recent literature (published since 2000), we can see a gradual build up of a strong empirical base of increasingly methodologically-rigorous evaluations of ALMPS. At the risk of oversimplifying the overall picture, it would seem that, while the broad conclusions established by the mid-90s have not been fundamentally altered by this new evidence, and the results remain mixed according to the national context and the precise design of the measures in question, it is possible to detect some more positive conclusions emerging with regard to some types of training and skills initiatives.

In particular, Kluge (2006) has undertaken a wide-ranging comparison of 73 microeconomic evaluation studies of European ALMPs (all published within the last few years), with an emphasis on the more rigorous approaches which, although generally falling short of the random assignment 'gold-standard' of experimental evaluation do at least use matching estimators and attempt to control for sample selection effects:

'Training programs are the most widely used active labour market measure in Europe. The assessment of their effectiveness shows rather mixed results; treatment effect estimates are negative in a few cases, and often insignificant or modestly positive. Still, there are several indications that training programs do increase participants' post-treatment employment probability, in particular for participants with better labour market prospects and for women. However, this pattern does not hold for all studies. Locking-in effects of training are frequently reported, though it remains unclear to what extent these are really entirely undesirable, and not rather a necessary element of this type of program.'

(Kluge 2006, p10)

In addition to this descriptive analysis, Kluge goes on to undertake an innovative meta analysis of data from some 95 European microeconomic evaluation studies (yielding 137 observations of different programmes), which enable him to assess the differential effects on programme effectiveness of the type of programme (training, subsidies etc.), the institutional and national context, the macro-economic environment, and the decade in which the programme was implemented. Interestingly, the results suggest that the type of programme is by far the most important variable influencing the likelihood of finding a treatment effect (on post-programme employment probabilities). As far as the implications for the type of programme of interest to our discussion (training/skills interventions) are concerned, the meta-evaluation suggests that training measures are somewhere in the middle of the hierarchy – not the most effective measures, but certainly not the least. Subsidies along with job search support and incentives remain at the top of the league table of effectiveness. As Kluge puts it:

'Traditional training programs are found to have a modest likelihood of recording a positive impact on post-program employment rates. Relative to these programs, private

sector incentive programs⁶ and Services and Sanctions⁷ show a significantly better performance. Indeed, we find that evaluations of these types of programs are 40-50 per cent more likely to report a positive impact than traditional training programs. By comparison, evaluations of ALMPs that are based on direct employment in the public sector are 30-40 per cent less likely to show a positive impact on post-program employment outcomes. Also the target group seems to matter, as programs aimed specifically at young workers fare significantly worse than programs targeted at adults, displaying a 40-60 percentage points lower probability of reporting a positive effect. The general policy implications that follow from these findings are rather straightforward. Decision makers should clearly focus on the type of program in developing their ALMP portfolio: Training programs should be continued, and private sector incentive schemes should be fostered. Particular attention should be paid to Services and Sanctions, which turns [sic] out to be a particularly promising and, due to its rather inexpensive nature, cost-effective type of measure. A well-balanced design of basic services such as job search assistance and counselling and monitoring, along with appropriate sanctions for non-compliance, seems to be able to go a long way in enhancing job search effectiveness. Of further combined with other active measures such as training and employment subsidies, this effectiveness could be increased'

(Kluve 2006, p27) .

De Koning presents an even larger review than Kluve, covering some 130 evaluation studies, amounting to 161 measures being evaluated although, unlike Kluve, he undertakes only a descriptive comparison of the results of the different studies, with no meta-analysis of those results. His conclusions, however, broadly mirror those of Kluve, in particular:

- The evidence on the various incentives for job-seekers (job-search monitoring, sanctions, bonuses etc.) *'overwhelmingly points to a positive effect on job entry chances'* as does, to a slightly lesser extent, the evidence on counselling, placement and wage subsidies for regular jobs;
- The evidence on training is much more mixed, and *'the number of training studies that point to positive effects is more or less the same as the number of studies showing insignificant or significantly negative effects'*.
- Job creation measures come out very poorly from the evidence, with most studies showing insignificant or negative effects on job chances.

Once again, then, we are led to the conclusion that there may be a role for training interventions in a well-balanced ALMP portfolio, but they are clearly not a panacea,

⁶ Kluve is here referring mainly to subsidies to employers or to workless individuals.

⁷ In 'Services and Sanctions', Kluve includes all measures 'aimed at enhancing job search efficiency', including jobsearch advice and support, counselling and monitoring, as well as financial or other sanctions for non-participation in active job search measures.

nor universally relevant, and much depends on the type of training and the target group in question. Most evaluations of training measures relate to schemes targeted at young people, and De Koning's results suggest very clearly that training interventions are ineffective for workless young people, in particular. The results for adults are more ambiguous and diverse between the different studies. Although there exist examples of positive evaluations of training programmes for workless adults, when the different target groups are considered according to the age group or other personal characteristics of the participants, or according to the nature of the training, there are too few examples of each type to draw general conclusions. De Koning et al. 2005 does, however, cite earlier Dutch evidence from a range of studies suggesting that training interventions may be particularly effective for older unemployed adults.

4.4 Longer-term impacts

Finally, we need to consider the possibility (also raised by Bryson 2008) that, to a greater extent than other ALMP interventions, training measures for the unemployed or inactive are 'slow burn' interventions, and that it takes time for the impacts of human capital acquisition on employment rates or earnings to emerge. In this light, the relatively poor performance of training measures compared with shorter-term interventions like jobsearch support and advice, or benefit sanctions, could simply reflect the fact that most evaluations have not collected outcome data over a sufficiently long post-programme period to pick up the fuller effects. It is notable that, even from the earlier studies in the 1990s, some of those which do consider impacts over a longer period, do indeed pick up more positive effects. Thus, for example, Harkman et al. (1996) in their evaluation of Swedish labour market training programmes (using a matched control group methodology, with control for selection bias) found no clear impact six months after scheme participation, but a positive impact on both employment rates and wages, measured after 2.5 years (a 10 percentage point increase in employment rates, and a 1.8 per cent impact on wages, mainly affecting those with low initial educational backgrounds). Similarly, the UK evaluation of *Employment Training* by Payne et al. (1996) reported clearly increasing impacts over time from participation (the probability of employment was increased by scheme participation by 3 percentage points after one year, 15 points after two years, and 22 points after three years). More recently, Hotz et al., 2000 (as reported in Bryson 2008) similarly reported higher longer-term returns (over nine years) from a US skills intervention, and argued that some of the earlier conclusions drawn about the skills component of that intervention (the GAIN programmes in California) relative to the 'work-first' variants (emphasising incentives for early work placements) should be reassessed in the light of this more positive finding:

'We [...] find that the stronger impacts of Riverside County's work first program tend to shrink, whereas the weaker impacts for the human capital programs in Alameda and Los Angeles Counties tend to remain constant or even grow over time. [....] On a substantive level, our re-examination of the GAIN experiment leads us to conclude that although the work first programs were more successful than the human capital

accumulation programs in the early years, this relative advantage disappears in later years.'

(Hotz et al. 2000)

Kluve (2006) notes, from his review of more recent evaluation studies, that

'The more recent literature on the evaluation of training emphasizes the need to consider long-run impacts. Such an assessment has become increasingly possible due to extended data. There are indeed indications from these studies that positive treatment effects of training exist in the long run.'

(Kluve, 2006, p10)

And Kluve and other authors also note that such positive longer-run effects might be sufficient to outweigh the impact of negative 'locking-in' effects observed in the short-run on some training interventions. Despite Kluve's optimism, however, the number of studies which track participants for longer than a year after participation remains very small, and without further evidence, it is too soon to draw a strong generalisable conclusion from these studies, particularly because there are also some longer-term studies of training interventions which show that the results become increasingly negative with time. In this context, it is interesting, that de Koning (1997), drawing on a larger international sample of evaluations (but one which heavily overlaps with that of Kluve) comes to much less optimistic conclusions than does Kluve:

'... the relatively few studies that measure long-term effects of training do not point at more favourable long-term effects. In fact, most studies dealing with long-term effects find that the effects get smaller over time [...], while only one [...] finds that the long-term effects are larger than the short-term effects'

(de Koning, 2007, pp. 39-40).

The studies yielding negative longer-term returns to training-based ALMPs include:

- An evaluation of a Dutch training programme in De Koning et al. (1988)
- Hujer et al. (2001) who review a range of German microeconomic evaluations of training programmes for the unemployed, the majority of which do not find significant or better impacts in the longer-run than in short run estimations.
- Fitzenberger and Frey (2000), whose evaluations of vocational training programmes in East Germany show considerable 'locking in' effects (ie the measures prolong rather than alleviate unemployment), which are not offset in the longer run.
- Lechner (2000), also examining the impact of vocational training/retraining programmes in Germany, finds negative effects on the risk of unemployment in the short-run, and no positive long-term effects on either employment probabilities or earnings.

Bergemann, et al. (2004) undertake a more sophisticated analysis allowing for repeated participation in programmes, and over a longer period (again for East German schemes during the 1990s), but with only slightly more positive results:

'Overall, our results are not as negative as previous results in the literature and it is unlikely that training on average reduces considerably the future employment chances of participants. We also find noticeable differences among different treatment types. At the same time, it remains questionable whether on average training programs are justified in light of the large costs incurred.'

(Bergemann et al. 2004)

It is, of course, possible that the negative longer-term results from studies such as these, conducted at times of relatively high unemployment, and in countries (the Netherlands, Germany) with relatively extensive systems of initial and continuing vocational training, may be specific to those countries. Arguably if the main problem is extremely slack labour demand, and if the overall level of skills training in companies and within the workforce more generally is already relatively good, then it is not surprising if we find that training interventions do not increase employment rates, and may even reduce them (through the locking-in effect). Such results might not be generalisable to times and places with different circumstances (higher levels of skill deficiency and lower levels of company training, and/or tighter labour markets).

The more positive counter-example, cited also by De Koning is Larsson (2003) a study of a Swedish youth training programme (which is compared with another ALMP – the 'youth practice' programme), but even this finds only zero or 'slightly positive' effects in the longer-run, compared with negative short-run impact.

Overall, therefore, it seems that, as with the short-run findings, the results from studies of training interventions which look at impacts over a longer time frame are extremely mixed. On the basis of the evidence available, it would be clutching at straws to argue that training and skills measures can mainly be justified on the basis of their longer-term employability impacts. In this context, it should also be borne in mind that, given the typically much higher cost of training interventions than some of the other ALMP measures, the fact that a (small) impact may emerge after a number of years may still mean that such measures remain unattractive to policy-makers.

5 Concluding remarks

In the light of the task of the new UKCES to achieve a greater degree of integration between skills policy and employment policy in the UK, this paper has looked at what is known from the extensive international evidence about the role and effectiveness of training and skills interventions as part of a broader portfolio of active labour market policies (ALMP). Compared with our main competitors, the UK invests rather little in ALMP in general, and in training/skills measures in particular. As in other countries, moreover, the share of ALMP resources devoted to training/skills measures has been declining in recent years, and the share devoted to other kinds of interventions

associated with the 'work-first' model (particularly job-broking, job search support, advice and guidance, benefit incentives/sanctions) has increased. This changing balance has, it seems, been partly influenced by the wealth of evaluation evidence which emerged during the 1990s, suggesting that large scale, traditional training measures targeted at the unemployed or inactive were generally ineffective (in increasing employment rates or earnings), and might even have the perverse effect of keeping such people out of the labour market for longer than otherwise.

More recent evidence, often with more rigorous statistical methodologies, has yielded more nuanced findings, confirming that many of the traditional approaches were indeed generally ineffective, but that smaller-scale measures, targeted on particular groups (such as older workers) or on particular skills and occupations, might nevertheless yield positive results, particularly where such measures were delivered alongside 'real' work experience in a market-oriented context. Also while it does not generally seem to be the case that greater impacts from training measures emerge over a longer period after the intervention, as might be expected, again there are examples, where this has happened in particular programmes.

Overall, it would be hard, on the basis of this extremely mixed evidence, to justify a major shift towards training and skills measures as part of an overall welfare to work strategy, particularly given the much more unambiguously positive effects which are associated with the (significantly cheaper) measures delivered through the public employment services (job search support, advice and guidance, benefit incentives and sanctions). Rather, the evidence suggests that there may be more limited scope for highly targeted interventions for groups and circumstances where it is clear that (easily-remedied) skill deficiencies are the main barrier to labour market (re-)entry. Martin and Grubb (2001) in one of the many OECD reviews of ALMP evidence, set out six principles to guide policy-makers in their selection of active measures; in particular they promote an emphasis on in-depth counselling, job-finding incentives and bonuses and job search assistance (coupled with a tight monitoring and sanctions regime). Their second principle, however, relates to the use of training interventions and, I would argue, still remains valid today in the light of the evidence considered in this paper:

'Second, keep public training programmes small in scale and well targeted to the specific needs of both job seekers and local employers. Build in as much on-the-job content to training programmes as possible.'

(Martin and Grubb, 2001, p. 33)

Finally, it should be noted that this paper has been based on a discussion of *micro-level evaluations* of individual ALMP interventions. The picture becomes more complex when we look at aggregate evaluations such as those which look, with cross-country data sets, at the macro-level impacts of different ALMP regimes on aggregate employment outcomes. Usually such aggregate evaluations take single measures of overall ALMP participation or expenditure in a country as one of the key independent variables, and rarely separate out the effects of different types of ALMP intervention.

One recent study which does attempt this, however, Boone and van Ours (2004), shows, interestingly, that job training is the *most effective* intervention at an aggregate level in reducing the unemployment rate and increasing the employment-population rate. The impact is greater than that of public employment service-driven job search measures. This result contrasts very strongly with the findings emerging from the micro-level studies considered in this paper. This apparent paradox remains to be conclusively explained, but Boone and van Ours (2004) hypothesise on theoretical grounds that it may be because increased training levels improve matching between workers and jobs, thereby reducing labour turnover, and it is this reduction in labour turnover which by reducing *inflows* into unemployment generates the positive impact (whereas the micro-studies naturally pick up only any impact on *outflows* from unemployment).

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