The Role of Active Labour Market Programmes in Employment Policy

Hill, John and Halpin, Brendan

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John Hill†
Dept. of Economics
University of Limerick

Dr Brendan Halpin‡
Dept. of Sociology
University of Limerick

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1 Introduction

The aim of this chapter is to provide an overview of the Irish labour market since approximately 1980 with a particular focus on the central role of active labour market programmes in public policy. Active labour market programmes (ALMP) is an umbrella term for all measures aimed at increasing either the supply of or demand for labour. We will outline the theoretical rationale for labour market programmes and discuss their implementation and development in the Irish context. Specifically we will outline the levels of expenditure and throughput on labour market programmes and attempt to place Ireland in a comparative international perspective. Briefly we will examine some of the attempts which have been made to evaluate the effectiveness of labour market programmes in terms of the employment and income outcomes of participants. We will pay particular attention to long-term unemployment which was such a key feature of the Irish labour market throughout the 1980s and 1990s.

2 Ireland's Welfare State

Ireland is usually characterised as a *liberal* welfare state in the Esping-Andersen sense, aligned with the United Kingdom and (at the end of the continuum) the United States, providing a minimalist and means-tested safety net (Esping-Andersen, 1990, 1999). In many respects this is fair, but in certain respects Ireland deviates significantly from the liberal model. One respect is the relative importance of ALMP – policies that focus on improving the situation of the unemployed and lower-skilled workers by training and subsidy. In both levels of expenditure and institutional commitment to ALMPs, Irish practice has tended towards the higher end of the scale, average to above average in OECD and EU contexts, and substantially higher than the UK.

A lively debate attempting to characterise Ireland as either "developmental state" (along the lines of East Asian economies) or a "competition state" has arisen. Advocates of the former see government as not just responsible for, but also managing and directing development. On the other hand, Kirby and Murphy (2007) and others have characterised

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Table 1: Labour Force Trends

Year	Labour Force	Total Unemployed	Unemployment Rate	Long-term Unemployment	Long-term Unemployment Rate	Incidence of Long-term Unemployment
	'000s	'000s	%	'000s	%	%
1983	1321	183	14.0	69	37.9	5.3
1984	1321	204	15.6	97	47.4	7.3
1985	1331	220	16.7	146	66.3	11.0
1986	1331	226	17.1	149	66.2	11.2
1987	1336	225	17.0	153	68.0	11.4
1988	1328	215	16.4	146	68.0	11.0
1989	1308	197	15.2	137	69.4	10.4
1990	1332	172	13.0	122	70.5	9.1
1991	1354	198	14.7	129	64.8	9.5
1992	1372	207	15.2	117	56.6	8.5
1993	1403	220	15.8	123	56.0	8.8
1994	1432	211	14.8	129	61.0	9.0
1995	1459	177	12.2	103	58.2	7.1
1996	1507	179	11.9	102	56.8	6.7
1997	1539	159	10.4	87	54.6	5.6
1999	1688	97	5.7	46	48.1	2.8
2001	1782	65	3.7	22	33.1	1.2
2002	1838	77	4.2	23	29.5	1.2
2003	1873	82	4.4	29	35.7	1.6
2004	1919	84	4.4	29	34.4	1.5
2005	2018	86	4.3	29	33.8	1.4
2006	2114	93	4.4	31	33.7	1.5
2007	2202	100	4.5	30	30.0	1.4

Note: LTU missing in 1998 and 2000. Source: http://stats.oecd.org.

the Irish public policy strategies has pursuing competitiveness first and welfare second. By this reasoning, unemployment is an artifact of competitiveness, not a ring-fenced issue to be tackled separately or through more generous social policy. In the words of Boyle (2005, p. 16), "contemporary Ireland is an exemplar of the competition state, where social policy is subordinated to the needs of the economy."

A contrasting view is taken by Nolan et al. (2000, p. 3) who cautions, "there was a great deal more to Ireland's success than the liberalisation of markets. The state has been deeply implicated in the entire process, managing both economic development and the welfare state."

2.1 The Irish Unemployment Experience

Large-scale unemployment beset the Irish economy in the early 1980s. In the first half of that decade unemployment more than doubled – rising from 7 to 17% in five years.

Some 220,000 people were unemployed in 1985 and in receipt of social welfare payments. Subsequent analysis has placed the blame for Ireland's unemployment crisis directly at the door of the government. In particular, high levels of personal taxation raised the reservation wage of jobseekers where the reward for work was eroded through taxation.

High unemployment was far from a passing phenomenon, and levels of unemployment twice the OECD average persisted until 1995. With an average of 15% of the labour force out of work from the mid-eighties to mid-nineties, the corresponding problem of long-term unemployment also worsened. Long-term unemployment (LTU) refers to a cohort of the unemployed who have been out of work for one year or more. Rates of long-term unemployment were already high in Ireland, with almost two-thirds of all those unemployed in 1985 having been out of work for more than a year. Combined with an increasing number of lay-offs as the macroeconomic context deteriorated, levels of LTU peaked at 11% of the labour force by the mid to late 1980s (see Table 1).

By any measure, Ireland's problem was significant. Not only were levels of unemployment high, but outflows to new jobs were also low (so-called "exits" from unemployment). As people's attachment to the labour force weakened after long periods out of work, tackling LTU became a priority for government. While government may hope to remedy unemployment though sound macroeconomic management and economic growth, the profile of those long-term unemployed is often complicated by inertia. It was widely recognised that the paralysis associated with long-term unemployment was complex, potentially independent of improvements in the macroeconomy and unlikely to be resolved by a tightening of the labour market alone. With this in mind, the expansion of ALMP, and in particular subsidised employment, became a priority for public policy.

3 Measuring Unemployment

Perhaps surprisingly, the definition and measurement of unemployment is not entirely undisputed. Arguably the most intuitive method is to take the cohort of people claiming unemployment support through social welfare offices – known as the Live Register. The Live Register has established itself as a "headline" measure of unemployment though its short-coming are numerous. For instance, persons working a three-day week and lawfully claiming unemployment support for the remaining two days are counted on the register. Those engaged in home-duties or care for the elderly may appear on the register, while conversely a person who is effectively unemployed may be excluded on the grounds of eligibility/administrative requirements. It also includes those who because of their proximity to retirement age are deemed to be unemployed, but who have long-since withdrawn from active job-search.

An alternative measure of unemployment is based on information provided to the Quarterly National Household Survey, conducted by the CSO. Here respondants are asked for their Principal Economic Status (PES). Among the benefits of deriving unemployment statistics from labour force surveys, are that survey methodologies are similar across countries and classifications remain relatively constant over time. This is a contrast to the Live Register where eligibility criteria for social welfare benefits changes more frequently. Not least, labour force surveys accurately capture people who consider themselves to be unemployed – independent of their social welfare eligibility.

Finally, the so-called "ILO standard" from the International Labour Organisation adds the additional caveat of being, "available for work and actively engaging in job search". By this definition discouraged workers who cease their job-search are no longer strictly unemployed since they have voluntarily quit the labour market. Since the ILO standard

is a subset of PES – imposing only a stricter definition of active job search – it is normal for ILO unemployment to be lower than the level reported in labour force surveys.

4 Varieties of Unemployment

In the course of any person's career they may spend a brief period engaged in job-search, or find themselves "between jobs". Assuming they don't become discouraged and enter long-term unemployment, economists describe them as frictionally unemployed. While some level of frictional unemployment is inevitable as people move between jobs, a well functioning labour market requires effective mechanisms to aid job-search and speed up the matching process between employers and the unemployed. In Ireland, the state training and employment agency, FÁS, is the key actor in the matching process.

Seasonal fluctuation in demand for goods and services is common in many industries: tourism, ice-cream manufacturing and home heating oil distribution are some obvious examples. The annual cycle of layoffs and re-hires generates seasonal unemployment. Those working a three-day week (so called "short-time") during off-season are a good example of the seasonally unemployed.

Cyclical unemployment reflects changes in the macroeconomic business cycle. On the upside of the cycle, unemployment falls inversely with job-creation as the economy expands and firms hire additional labour. On the downside and during recession, a fall in orders and rising inventories may give rise to negative net job creation and rising unemployment.

Inherent in the process of economic development is the transition from labour-intensive manufacturing to high value-added services. While the majority of workers will reorientate their skills over time, a minority enter longer-term structural unemployment. Here the role of the public employment service in retraining these workers and matching them new employment opportunities is critical for individual welfare and more broadly, economic growth.

On the relationship between unemployment and the overall price level in an economy, economists frequently refer to the unfortunately-named concept of "natural unemployment" or the Non-Accelerating Inflation Rate of Unemployment (NAIRU). The NAIRU is the level of unemployment which would exist even if the economy was growing at its maximum potential – where all productive resources, including land, labour and capital were being optimally employed. If the skills set of part of the labour force is rendered obsolete owing to structural change, then the NAIRU will be above its natural level. Conversely, attempts by government to reduce unemployment below this optimum would spark a cycle of accelerating inflation.

4.1 The *self-clearing* market?

Classical theory predicts a self-clearing labour market where price (wages) adjust automatically to changes in demand. Unemployment, therefore, is primarily due to a mistmatch between the demand and supply of labour. If the unemployed were willing to return to work for a lower wage, this would put downward pressure on wages thereby encouraging firms to hire more workers. But wages are far from flexible. Collective bargaining on the part of unions, social partnership pay agreements, statutory minimum wage and even social welfare all conspire to prevent an unchecked fall in wages. What follows is an undesirable, albeit inevitable, increase in unemployment during recession.

Demand for labour is a *derived* demand – derived from how employers structure their production to meet the wants and demands of consumers. At the most basic level, com-

panies will hire more workers if wages fall. But other factors also contribute to demand for labour and among these are the extent of regulation in the labour market (for example employment protection regulation and minimum wages, or even employment subsidies).

An early tenet of the work of two Swedish economists (see 5.1 below) was to eliminate structural unemployment by reducing the *reserve army* a reference to Marx's "reserve army of the unemployed". For Marx, capitalism maintains a pool of surplus labour to remind employees of their good fortune and presumably to promote acquiescence. In the classical view of the labour market, maintaining a surplus of labour places downward pressure on wages by through competition for jobs.

5 Active Labour Market Programmes

5.1 Emergence

The notion of an *active* labour market policy came to fore in the 1970s as high inflation beset many of the world's industrial economies, including Ireland. Two Swedish economists, Gösta Rehn and Rudolf Meidner, had successfully brought inflation under control in Sweden using a double-edged approach of labour retraining and solidaristic wage bargaining. The former ensured a ready supply of skilled labour, while the latter forced inefficient and under-performing firms out of business. Rehn and Meidner's work influenced OECD thinking and was formalised as "manpower planning" by the late 1970s. Notably, Esping-Andersen (1985) classifies these measures as macroeconomic tools to counter rising inflation – not as a response to widespread unemployment directly.

In essence, manpower planning aimed to ensure that firms had an adequate pool of skilled labour to draw from, while also retraining the unemployed and returning them to work. It followed that retraining would facilitate structural change and ultimately achieve full employment.

Outside of Sweden, ALMP was embraced as a possible solution to high levels of unemployment and coincided with the recognition of long-term unemployment as a distinct policy problem. The shift from passively supporting the unemployed (i.e. through social welfare) to activation reflected an extension of the strongly interventionist Keynesian paradigm of the time.

Webster (1997, p. 4) dutifully reminds us that, "as a remedy for idleness, labour market programmes have a longer tradition than formal economic theory." She dates the emergence of "modern" unemployment to the transition from agrarian feudalism to industrial capitalism; and points out that sixteenth-century workhouses sought to achieve many of the same basic aims as modern labour market policy (training, employment and a "moderated" wage) – albeit with more stick than carrot.

5.2 What defines an *active* labour market programme?

Active labour market policy is a heterogeneous mix of supply and demand-side policy. On the supply side ALMP are responsible for training and retraining the unemployed, and may assist in matching candidates to vacancies through the public employment service. On the demand side, ALMP may involve employment subsidies to firms or even direct employment creation.

The fundamental goal of all active labour market policy is to reduce the number of people in open/passive unemployment. If training authorities respond quickly to changes in the composition of the labour market and tailor programmes to meet employer needs, then specific-skills training may address structural unemployment. Similarly, general training

may bring into the labour force those who, for a variety of reasons, maintained only a tangential connection to the formal education system. Without the intervention of adult education, even in the form of general skills training, these people may be at risk of entering long term unemployment.

The OECD (2000, p. 176) have set out seven distinct objectives of an active labour market policy:

1. **Job creation**, either to reduce the number of registered unemployed in the short-run or to generate jobs persisting beyond the period of intervention, such as jobs in the social economy.

2. **Job redistribution**, to re-order for equity reasons the job-seekers' ranks and to give the long-term employed a chance to enter into jobs which would otherwise be offered to others, and thereby maintain an attachment to the labour market for groups at risk.

3. **Skill and human capital acquisition**, which may not lead to a job immediately but enhances the employability and productivity of the unemployed, whose skills are otherwise eroded by long spells of inactivity.

4. **Attitudinal change**, combating the discouragement and alienation of job seekers, enhancing their motivation and willingness to work; but also encouraging employers to recruit and overcome prejudices and stigmatisation.

5. **Increase of earnings**, either in the long- or short-run; combating poverty and unemployment traps, particularly in low wage and low skill segments of the labour market.

6. **Increasing the potential labour supply**, or reducing structural unemployment without increasing wage push inflation.

7. **Addressing wider social objectives**, such as promoting health, combating criminality and enhancing the social cohesiveness of communities.

6 Theoretical Underpinning of ALMP

Two main schools of thought exist regarding labour market programmes. The first school believe a laissez-faire/unchecked market is characterised by myopia, uncertainty and imperfect information, and is incapable of producing efficient/equitable outcomes in the absence of intervention. A cycle of poverty may arise if individuals or groups are allowed to fall too far below socially acceptable standards. In the words of Webster (1997, p. 9), "failure breeds failure."

A second school – while acknowledging the desirability of a laissez-faire self-clearing approach to labour market management – also accepts that for reasons of equity or social justice, the achievement of a purely laissez-faire solution may not possible. Instead, interventions are justified where they reduce the disincentives to work or train. In this liberal perspective, high taxes on labour, high replacement rates and a high minimum wage are distortionary and act to disincentivise work.

The theoretical pedigree of active labour market policies has often been questioned, as many advocates focus on policy objectives without advancing a sound case for market failure, which would justify intervention. In fact ALMP has rarely made headway into

mainstream macroeconomic debate. Demand-side macroeconomics tends to view the unemployed as the tail-end of a homogeneous labour queue; while labour market programmes may rearrange this queue, but they will not resolve the basic causes of unemployment (Webster, 1997). Supply-side macroeconomists argue that government intervention itself contributes to unemployment and should be avoided. Not withstanding this, ALMP has received rigorous attention in the work of Layard et al. (1991) and Calmfors and Lang (1995) among others.

6.1 Effect on Employment & Wages

Calmfors and Lang (1995) analyse the effect of ALMP on wage pressure and equilibrium employment in a union wage-setting framework[1]. They investigate if ALMP (through raising the search effectiveness of the unemployed) leads to more competition for jobs, downward wage pressure and an increase in equilibrium unemployment. ALMP are often regarded as a mechanism for reducing unemployment without the inflation risks of traditional demand policies (Layard et al., 1991; OECD, 1993). Calmfors and Lang (1995) address the renewed interest in the search effectiveness of ALMP arising from debate on the "discouraged-worker effect" and negative duration dependence[2] among the unemployed.

In their rigorous model of labour market flows, Calmfors and Lang (1995, p. 607) focus on non-targeted labour market policies (with broad eligibility), targeted policies (with eligibility related to unemployment duration) and programmes targeted on new entrants. They conclude an expansion of programmes is likely to increase effective labour-force participation with positive employment effects. But they caution that where the risk associated with dropping out of the labour force are reduced (when layoffs become less dangerous) there is a simultaneous effect tending to weaken incentives for wage restraint if wage-setters are forward looking. They caution that loosely targeted programmes should be less well compensated so as to avoid adverse wage-setting effects. Since a loosely targeted programme not only aids (labour market) outsiders, but also improves the alternative employment opportunities of insiders, wage-raising effects may dominate.

More specifically, targeting the long-term unemployed is more likely to *reduce* wage pressure for two reasons. Firstly, the positive welfare effects for the unemployed are more heavily discounted the later programme placements occur. This means a worker potentially facing unemployment must discount more heavily benefits accruing from ALMP participation since eligibility into those schemes will not be reached until a certain period of unemployment duration has elapsed. Secondly, enabling the long-term unemployed (outsiders) means more competition for newly laid-off insiders. Similarly, targeting new entrants would reduce wage pressure since their only effect is to increase competition for jobs. Calmfors and Lang (1995, p. 617) identify a policy dilemma, where ALMP can increase regular employment only by reducing the expected *future* welfare of a laid-off worker [3].

If ALMP does succeed in raising the search effectiveness of the unemployed, demand for labour will be stimulated when hiring costs are reduced by a more efficient matching system. The result tends to raise both wages and employment at the same time, which we can illustrate with an inward shift of the Beveridge curve in Figure 1.

[1] See p.604 for underlying assumptions: firms are perfectly competitive in product market; labour is organised by a firm-specific union with monopoly power to set wages; unions seek to maximise the the rent from unionisation. p. 603 (Fig. 1) for a conceptual summary of labour market flows.

[2] Where re-employment rates for the unemployed tend to fall over time.

[3] Referred to as the "iron law of active labour market policy," the effect of which is weakened when job matching is factored-in to their model.

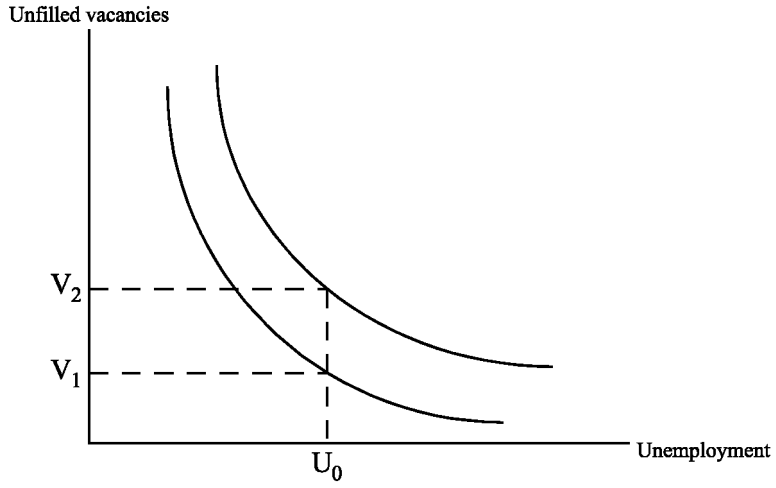

Figure 1: Beveridge Curve

Source: de Koning (2001)

6.2 Effects on the Matching Process

A fundamental goal of any active labour market policy is to facilitate the process of job matching. This is a term for the simultaneous process of job-search on the part of the unemployed and recruitment on the part of employers. Employee "mismatch" would arise if the pool of available labour are not sufficiently skilled to take up vacancies being offered by firms. ALMP influence the matching process through a variety of mechanisms:

1. by *adapting* the qualifications of workers, allowing them move between different sub-markets for labour;
2. by *encouraging* the unemployed to engage in more active searching; and
3. by acting as a *signalling device* to employers in the absence of regular work experience.

Effective placement services should have a positive impact on the matching process since they reduce the number of job seekers associated with any given number of vacancies. Calmfors (1994) notes that improvements in matching represent a reduction in the cost of hiring and lead to increasing demand for labour. In addition, he believes that to the extent improved matching efficiency (reduced lead-time to employment) and higher relative wages are substitutes for each other; firms will be less likely to attract labour by pushing up wages. In this scenario improved matching may increase overall levels of employment.

Importantly, since search-intensity maybe reduced during participation in ALMP, any robust estimate of matching efficiency must address both "locking-in" and treatment effects simultaneously. Simple comparisons of participants' re-employment chances relative to non-participants in open unemployment will be flawed, if they fail to take into account the *ex ante* selection bias arising from individual search behaviour and employment history (see Section 9 on evaluation).

Table 2: Typology of ALMP

	Market Orientation	
Labour Market Leverage	*Weak*	*Strong*
Supply	General Training	Specific Skills Training
Demand	Direct Employment Schemes	Employment Subsidies

7 Policy Response: ALMP in Ireland

O'Connell and McGinnity (1997) characterise Irish labour market policy during the 1960s and 1970s as mainly confined to the organisation of apprenticeship training and to matching supply and demand for labour. These policies were in line with the OECD's "manpower policy" aimed at achieving full employment and strong growth. However, with the onset of high unemployment and low growth in the 1970s, governments embraced the Swedish example by adopting a variety of active labour policies. These included employment subsidies, training schemes and temporary public job creation schemes. From 1975, the Youth Training Programme, Premium Employment Programme and Employment Incentive Schemes were all introduced. In 1976, the Environment Improvement Scheme, Temporary Grant Scheme for Youth Employment (Teamwork) and Community Workshops, all targeted the phenomenon of youth unemployment. According to O'Connell and McGinnity (1997), by the 1980s, active labour policies had taken centre-stage in the government's response to mass unemployment.

However, at that time it was a commonly held view that unemployment was a transitory phenomenon. Emphasis was placed on demand-side measures to generate new employment places, while retraining schemes frequently focused on finding employment for the (relatively) most employable candidates – to the neglect of the most disadvantaged.

7.1 Flavours of ALMP

ALMP's target constituency is diverse. Skills-specific training and apprenticeships may help those who received a formal school education and who now wish to specialise; whereas general training provides basic workplace skills to those who have been out of the labour force for some time, or those who did not benefit from formal schooling to certificate level. Finally, direct employment schemes and employment subsidies, may redress skills and human capital depreciation incurred during a longer term absence from the labour market.

O'Connell and McGinnity (1997) offer the following general typology of ALMPs based on the conventional classification of schemes and programmes (see Table 2):

General Training: Programmes in this category provide basic/foundational skills and are designed for those with poor educational qualifications. It includes programmes for second chance education, for women returning to work after child rearing, for long-term unemployed males, for young school-leavers, for people with disabilities and may also offer training to develop community resources. Unlike vocational training which enhances employability by teaching specific skills, general training teaches general subjects often covered during second level schooling.

Skills Specific Training: The courses are designed to meet specific skills needs in the economy and are usually targeted at specific industries and occupations. The FÁS

Table 3: Indicative Table of ALMP Participation, 1983–2002

Year	Training	%	Employment Subsidies	%	Direct Employment	%	Total
1983	29,958	65.2	11,000	23.9	5,000	10.9	45,958
1990	37,686	66.0	4,792	8.4	14,598	25.6	57,076
1992	30,600	58.8	3,831	7.4	17,642	33.9	52,073
1993	29,065	51.5	9,532	16.9	17,822	31.6	56,419
1994	33,682	38.2	17,420	19.8	37,038	42.0	88,140
1997	28,850	26.0	26,115	23.5	56,090	50.5	111,055
1998	14,238	14.9	41,859	43.8	39,520	41.3	95,617
1999	15,789	17.2	39,581	43.0	36,579	39.8	91,949
2000	15,510	18.1	36,686	42.8	33,549	39.1	85,745
2001	17,693	21.5	33,807	41.1	30,692	37.3	82,192
2002	17,533	22.4	32,862	42.1	27,718	35.5	78,113
Mean	20,471	22.6	32,619	36.6	37,312	40.8	90,402

Note: Direct Employment = Community Employment (Social Employment pre 1995), Teamwork (pre 1997), Part-time Job Opportunities Programme (pre 1997).
Sources: O'Connell and McGinnity (1997), Indecon (2002), ILO Laborsta Database.

apprenticeship programme is a good example of specific skills training.

Direct Employment Schemes: These programmes consist of subsidised temporary employment in the public or voluntary sectors – which O'Connell and McGinnity (1997, p.20) term a "variant of conventional public works programmes." While direct employment schemes may indeed lead to the provision of public goods/services, their over-riding purpose is that of employment generation. In Ireland, Community Employment (CE) is the largest direct employment scheme. CE, which replaced the Social Employment Scheme in 1994, is targeted at the long-term unemployed.

Employment Subsidies: These are subsidies to the recruitment or self-employment of unemployed workers in the private sector. They may be paid to either employer or employee and are designed to, "offset the relative unattractiveness," of a long-term unemployed candidate (O'Connell and McGinnity, 1997, p.21). The subsidy may be seen as compensation for the greater costs of recruiting and training the long-term unemployed. The subsidy comprises a lump-sum payable on recruitment, and continuing payment and/or exemptions from social insurance contributions. The Back to Work Allowance, launched in 1993, is paid directly to employees. Among those paid to employers are the Employment Incentive Scheme (1977-1994) and the Employment Subsidy Scheme (1992-1993).

8 Expenditure & Throughput

The pattern of expansion in ALMP participation from 1983 to 1997 reflected a deterioration of the Irish macroeconomy and a seemingly intractable rise in both the numbers unemployed and the incidence of long-term unemployment (see Table 3). In 1983 overall participation stood at almost 46,000 – comprising 65% training, 24% employment subsi-

Table 4: Scale of ALMP Participation, 1983–2002

Year	ALMP as a percentage	
	of Labour Force	of Unemployment
1983	3.5	25.1
1990	4.3	33.1
1992	3.8	25.2
1993	4.0	25.6
1994	6.2	41.8
1997	7.2	69.8
1998	5.9	75.6
1999	5.5	94.9
2000	4.9	115.1
2001	4.6	126.3
2002	4.2	101.4
Mean	5.5	89.3

Sources: O'Connell and McGinnity (1997), Indecon (2002), ILO Laborsta Database.

dies and 11% direct employment. Within seven years, overall numbers rose some 11,000, but more dramatic was the change in the composition of ALMP. Participation in training remained a constant 66%, but employment subsidy schemes lost significant ground to direct employment. Following the birth of Community Employment in 1994, the numbers engaged in direct employment schemes continued to grow until a peak of 56,090 in 1997. Employment subsidy schemes, on the other hand, peaked at 41,859 (or 44% of total participation) in 1999, remaining only slightly below this level thereafter.

Overall provision, which peaked at 111,055 in 1997, has fallen in response to a general tightening of the labour market. In a visible reorientation of public policy regarding ALMP in 1998, participation in training was halved and direct employment fell by some 6,500 places. This trend in the composition of ALMP was largely been maintained up to 2002, with direct employment schemes such as Community Employment shrinking to pre-1994 levels. By 2002, training accounted for just one-fifth of all ALMP participation. The die was clearly cast in favour of subsidised employment schemes with a supporting role for training and an ever-decreasing allocation of places to direct-employment schemes.

8.1 Expenditure Commitment & Intensity

When measured as a portion of GDP, Ireland's commitment to ALMP has always been generous. In the period where data is available from the OECD's Social Expenditure Database (1985-2001), Ireland typically spent 1.4% of GDP on labour market programmes – consistently above our European neighbours. The ratio of ALMP expenditure to GDP in these countries has been a remarkably constant 0.9%. The turnaround in Ireland's economic fortunes from the mid-1990s explains the dramatic decline in the ratio of ALMP to GDP, as the latter began to soar with the contribution of multi-national firms.

Even more remarkable has been the ratio of ALMP to Public Social Expenditure (health, education etc), which has consistently been twice the European average. This ratio peaked at 8% of total public social expenditure in 1995 (reflecting the expansion of places in subsidised employment schemes such as Community Employment) but fell

sharply thereafter. Again, this reflects the reorientation of labour market policy and the steady reduction in subsidised employment places.

The intensity of ALMP expenditure relative to European norms is highlighted by Figure 2*c*. Here we show gross government expenditure on ALMP per person unemployed[4]. We then express expenditure per head as a ratio of the Average Production Wage, which approximates the earnings of a single male production worker[5]. During the dark days of double-digit unemployment (mid-1980s to mid-1990s), government spending on ALMP *per capita unemployed* was just half of the European average. Expenditure intensity did not meet (or exceed) the EU15 average until the reversal of fortune in the Irish labour market and the ensuing fall in unemployment post 1998. The purpose of this illustration is to demonstrate that while Ireland is often cited has having devoted significant resources to ALMP (relative to both GDP and public social expenditure), in reality the intensity of this expenditure when expressed per capita unemployed, and relative to the average production wage, falls far short of the European average for the same period.

9 Evaluating Labour Market Programmes: What and How?

In the context of labour market programmes evaluation means to adjudicate on the effectiveness of a scheme in achieving specified measurable goals. These specified goals are the putative effects or desired outcomes which are expected to arise from participation in a programme – of which the simplest would be an end-state of employment. Other anticipated outcomes are related to income, job security and productivity. For evaluation to be feasible, outcomes must be measurable. Job status and changes in income are among the simplest to measure as they are easy to observe. Productivity improvements arising from training are far more difficult to measure and therefore more difficult to evaluate – without making some simplifying assumptions on the relationship between pay and productivity by allowing income (an observable) to proxy for productivity (an unobservable)[6].

9.1 Macro-level evaluation

The most immediate and desirable effect of increased participation in ALMP is a reduction in unemployment. However, if some entrants to ALMP are drawn from outside the labour market (programmes to facilitate school-leavers or homemakers seeking to return to work), then expansion in ALMP may not translate to a one-for-one reduction in unemployment.

O'Connell and McGinnity (1997, p. 10) identify three principal channels through which an ALMP may correct malfunctioning of the labour market and affect unemployment:

1. Improving the matching process between job seekers and vacancies;
2. Raising the productivity of the workforce; and
3. Maintaining the effective supply of labour by reducing withdrawals from the labour force

[4] A composite series of the total number unemployed, generated from Labour Force Surveys and augmented with local Employment Office Register data where LFS is missing (France: 1985-90, Official Estimates; Germany: no LFS data pre 1991; Luxembourg: Register Data Only; Netherlands: 1996 LFS missing; Portugal: 1998 LFS missing; UK: 1985/86 LFS taken from World Development Indicators.)

[5] Denominated in "national euro": an OECD term for the retrospective conversion of historical time-series to euro at the fixed euro-conversion factor.

[6] Assuming labour was always paid a wage equal to its marginal product, or contribution to output.

Firstly, training and employment programmes, as well as public employment services, may increase the efficiency of the matching process – thereby lowering the number of job seekers. Training will adjust the skills of job seekers; while the provision of temporary employment provides work experience for job seekers and reassures employers of their skills and capabilities. Secondly, training programmes are expected to contribute to national economic competitiveness and to increase overall employment through enhancing the skills and competencies of the labour force as a whole.

Thirdly, all forms of ALMP are expected to maintain labour force participation, increasing competition for jobs and ameliorating pressures on wage inflation. Specifically, O'Connell and McGinnity (1997, p. 11) contend that, "ALMPs targeted specifically at those disadvantaged in the labour market can have the effect of redistributing job opportunities to [labour market] outsiders."

Other studies have supported O'Connell & McGinnity's optimism. Specifically, Jackman, Pissarides and Savouri (1990) have shown that ALMP expenditure substantially reduced unemployment in fourteen OECD members during the 1980s. In addition, an OECD study (1993) found a negative correlation between ALMP expenditure and employment growth – which its authors explain as a counter-cyclical increase in labour market expenditure during recession.

Bellman (1996), in a study of seventeen OECD countries over the period 1975-1993, failed to find any relationship between various measures of ALMP expenditure (public employment services, training, subsidies for private sector employment, direct job creation measures) and employment growth. However, he found the ratio of expenditure between active and passive measures to have a significant and negative relationship with the unemployment rate.

Calmfors (1994, p. 38) cautions against considering the macroeconomic impact of ALMPs in isolation. Rather, ALMPs should be considered "one ingredient of many" in a general programme against unemployment.

O'Connell and McGinnity (1997) also identify some negative effects of ALMPs. Primarily, policy programmes may raise participant's wage expectations; and public investments/expenditure may suffer from deadweight and displacement effects[7]. In fact, in a study analysing the impact of wage subsidy schemes in 400 firms, Breen and Halpin (1989) found 68% of hirings were deadweight, while 21% represented a *substitution effect* to avail of the subsidy. Displacement of existing workers was also a feature of wage subsidy schemes, with 8% of new subsidised hirings removing an existing employee.

9.2 Micro-level evaluation

A simple and effective method of evaluation is a follow-up interview. In Ireland, FÁS have published nine waves of follow-up interviews for graduates of their programmes since 1994. This straightforward mechanism records the transition of ALMP graduates into work, unemployment, education/training or home duties approximately eighteen months following the completion of an ALMP. A number of obvious trends emerge from the follow up data, which is summarised in Table 5. Firstly, the post-treatment employment status of ALMP graduates is closely tied to economic performance overall. For example, in 1994 just three-fifths of training scheme graduates and less than one-fifth of Community Employment (CE) graduates were moving into employment. There was a marked improvement in employment chances from 1996 onwards, and by 2000 when unemployment

[7] Deadweight arises where a policy objective would have been achieved even in the *absence of* intervention. Displacement occurs where subsidised labour (or programme participants) undercut/circumvent the prevailing market wage and replace existing workers.

Table 5: Percentage of FÁS Follow-Up Survey Respondants in Employment, by Programme Type, 1994-2004

Programme	1994	1996	1998	2000	2001	2002	2003	2004
Skills-Specific Training	60	75	72	75	64	54	54	59
Community Employment	18	36	31	44	38	30	37	29

Source: FÁS (2005).

itself fell to almost 4%, some 75% of training scheme graduates and 44% of CE graduates were moving into jobs. Other changes reflect differences in the clientele of both training and employment schemes. Whereas an increasing number of (presumably younger) FÁS trainees are moving into further training or education (from 12% to 20% in the ten years from 1994), the number of coming off CE and entering home duties has more than doubled over the same period. If the focus of evaluation was on the relative outcomes of training and employment schemes alone, then it would surely conclude that both schemes have enjoyed increased effectiveness at moving people into jobs. While this is true, it neglects the very serious selection effects which act to push people with certain characteristics into either scheme.

Robust economic evaluation requires a wider starting point. To know the survival rate (or duration to re-employment) of those exiting employment schemes is of less value on its own than also knowing the corresponding duration to re-employment of those who remained passively unemployed in the same period. So much more so if we may match people exiting schemes with a passively unemployed pair (even multiple pairs), all on the basis of pre-treatment identifying information – their pre-treatment similarities. This method evaluates a scheme's efficacy relative to what *would have* occurred in the absence of participation/treatment. This "what would have happened" is termed a counterfactual and forms the the Achilles Heel of evaluation studies. Since we will never observe what would have happened had the person not participated in ALMP, our counterfactual must always be imputed. One recent and attractive remedy has been the emergence of pseudo-experimental techniques which aim to identify ex post an appropriate control group from non experimental data (for example, a longitudinal household survey).

Halpin and Hill (2007) undertook an evaluation of the income and employment effects of active labour market policy in Ireland for the Combat Poverty Agency. They used data from the Irish component of the European Community Household Survey Panel which provides income, employment, education, health and welfare information on each person in some 14,000 households across eight waves (1994-2001 inclusive). It also includes a self-report calendar for the twelve months preceding each wave. A household has a maximum of 108 longitudinal observations[8] – though the median number of observations are fewer due to attrition over time.

Halpin and Hill's methodology may be intuitively explained as focusing on three distinct time periods. In the "before" period (termed $t-1$), it is not yet known who from the available population will enter unemployment or accept participation in an ALMP. By the second time period (t) the events of interest have occured and the sample of unemployed may be split between those who remain passively unemployed and those enter training or employment schemes. Before moving onto the third stage and comparing the outcomes of both groups, adequate account of observed differences between the two groups must be

[8]Eight years by twelve months, plus an additional twelve months preceding the first wave.

taken with the help of variables drawn from the same dataset. Examples of useful covariates are: sex, age, education, geographic location, previous unemployment experiences, number of dependents, etc.

In the simplest case, members of the treatment and control groups are matched on all of their shared covariates. The practicality of this approach declines quickly as more covariates are added and ultimately it becomes unmanageable match on all the desired information – prompting applied researchers to refer to it as *the curse of dimensionality*.

To address this Halpin and Hill rely on the work of Rosenbaum and Rubin (1983), who demonstrated that matching on each and every covariate is not necessary. Rather it is sufficient to match on a propensity score (that treatment and controls would be equally as likely to participate based on what we knew about them at $t-1$). To estimate the scores a logistic model is fitted using as many covariates as may be justified[9].

Using each person's estimated propensity score (how likely they were to participate given their background), they pair off each person from the treatment group with a matched control. Instead of matching on all $t-1$ covariates, now we match on propensity score alone. To avoid inappropriate or spurious matches, many algorithms attempt to achieve balance across the available covariates. Realistically it may also not be possible to match each and every treatment observation. Consider a treatment observation with a propensity score of one (i.e., a certain probability to participate). Since none of the potential matches available in the control group opted to join an ALMP, there can be no control with a propensity score of 1. Instead, matching is restricted to an area of common support[10].

In this state of conditional independence, any difference in their post-programme outcomes (income, employment etc) may be attributed to a casual effect arising from participation in the labour programme[11].

Halpin and Hill found participation in training schemes to have no discernible effect on subsequent household poverty status (relative to a matched pair who remained passively unemployed), while participation in employment schemes had a potentially negative effect – though neither effect was statistically significant. In terms of employment outcomes, training scheme participants have an employment rate that is not significantly different from their matched control; whereas employment schemes appear to carry a significant employment penalty. Only 25 percent of employment scheme participants were found to be in employment in the subsequent year, compared to 45 percent of their matched controls.

In an earlier study, Breen (1991) analysed the effectiveness of training and employment schemes using a five-year follow-up survey of 1981/2 school-leavers. Comparing the outcomes of both ALMP participants and non-participants, he found labour market training schemes increased the short-term employment probabilities of young people, but was unable to distinguish any long-term from selection basis which may have motivated peoples' participation.

Denny et al. (2000) evaluated the employment and earnings outcomes of ALMP participants against a group of non-participants over the period 1994-96. Their methodology involved a comparison of ALMP participants from the time they left their programmes with a control group who remained in open-unemployment and chose not to participate in ALMP. Only persons who were unemployed during the first wave of the LIS, and at risk of participating in ALMP, were admitted to the final control group of 558. This first

[9] See Imbens (2008) for a stepwise algorithm.

[10] Visualise the area of overlap between two cumulative distribution functions; for example, two overlapping bell curves drawn side by side.

[11] An intuitive overview of the nonparametric difference-in-difference approach to evaluation is given by O'Neill (2000).

step in establishing a control group is based on employment status alone and does not take account of other factors that may influence selection into labour market programmes. Specifically, the control group in this study were (on average) older, more likely to hold no qualification and more likely to have been unemployed for two years or more.

When outcomes in 1996 are compared, ALMP participants where twice as likely as the control group to have obtained employment. The same is true of employment type, where ALMP graduates are more than twice as likely to have secured fulltime employment. Their report cautions of significant deviation in employment outcomes between the varieties of ALMP: recipients of specific training were the most likely to secure employment (75%), followed closely by those whose employment was subsidised (70%). The progression to employment from general training was less significant (47%); while only 36% of those engaged in direct employment schemes progressed to mainstream employment.

To obtain a more robust estimate of the differences accruing to both groups it is necessary to control for observable differences between them. Obvious candidates are age, sex, education and employment history. Denny et al. fit a logistic model of employment probabilities using the LIS control group as a reference category. They report the employment probabilities for participants in three flavours of ALMP (employment subsidy, specific training, general training) are significant and positive when compared to the reference category (the passively unemployed comparison group). Only those who completed direct employment schemes show no significant increase in employment probabilities compared to the reference category. The effects of having a secondary or tertiary education are positive and significant; while conversely, the effect of being out of work for more than one and two years are negative and significant.

Applying the same methodology to estimate the earnings effect of participation, Denny et al. repeat their finding of a significant positive effect of specific skills training (SST) on earnings – though the effect on wages is weaker than that reported for the probability of re-employment. Furthermore, by interacting SST with sex, age and unemployment duration, they find that SST is most effective at raising the earnings of women and those over twenty-five (though neither is strongly significant). The authors find the principal impact of ALMP is to raise the probability of employment (particularly for ALMP with strong labour market linkages, such as specific skills training), rather than to enhance the earnings of participants. These findings were later confirmed in the published analysis of O'Connell (2002) who concluded, "specific skills training are shown to have substantially greater employment chances than the comparison group, and indeed, than participants in the less market-orientated general training programme."

Very obvious and interesting questions arise where an evaluation of the income and employment effects of a labour market policy fails to identify significant positive improvements in either, despite the unprecedented employment and real wage growth witnessed under the Celtic Tiger? Intuitively, some of those treated under labour market programmes must have gained employment. Equally, some of those who were voluntarily unemployed due to a high replacement rate or reservation wage, must have been encouraged back to work by rising real wages. If both of these statements appear true, then why are they not supported by the findings of evaluations?

At least part of the answer is attributable to variations in the methodologies used to "evaluate" ALMP, including differences in the defining a counterfactual or control group and further differences in the time elapsed before follow-up observation. In all but a true experiment, these constraints are imposed on researchers by the structure of the data which has almost always been collected with a different purpose in mind.

Deloitte and Touche (1998) undertook an evaluation of CE for the Dept. of Enterprise,

Trade and Employment in 1998. In their study, they made use of FÁS follow-up surveys from the years 1996 and 1997. The surveys, which took place approximately eighteen months after completion of a FÁS programme, contain a range of conditioning variables including sex, age, education and income. The study estimates the conditional likelihood of employment eighteen months post treatment. Similarly, the authors draw a separate sample of those who were usually unemployed in the same year as the CE treatment group begun their labour market programme. Using a set of similar conditioning variables they estimate the conditional likelihood of the control group being in employment at the same time as the follow-up survey was conducted. By comparing these, they identify an average marginal employment effect of CE at 7.4% (11% in 1996; 3.8% in 1997). This is a dramatic contrast to the estimates of Halpin and Hill, who found employment schemes participants where 22% less likely to be employed at follow-up interview[12]. There are some important differences between both studies. Whereas Deloitte and Touche attempt to compare follow-up surveys with LFS data, Halpin and Hill draw their observations from the same dataset collecting using the same survey instrument. In addition, where Deloitte and Touche compares the conditional likelihood of employment overall (for the aggregate follow-up and control groups), Halpin and Hill attempt to match both groups based on pre-treatment conditioning variables. The benefit of this match means that differences in employment outcomes are benchmarked to a matched pair with with (almost) identical covariates.

10 ALMP and the Contemporary Labour Market

Since 1995 we have witnessed a dramatic decline in unemployment– absolute numbers were more than halved while the unemployment rate itself fell from 9 to 4 per cent. The swift decline was echoed in the number long-term unemployed which fell to 34,000 or 45 per cent of all unemployed by 2000. These trends are illustrated in Figure 1, along with the corresponding increase in the labour force. Economic growth in the ten years since 1995 has averaged almost 8 per cent per annum[13], fuelling a virtuous cycle of investment and job creation. While growth itself is undoubtedly responsible for returning vast swathes of the unemployed back to the labour force, the sustained fall in long-term unemployment is equally dramatic but, as argued by O'Connell (1998), distinct from the fall in regular unemployment. The first softening of LTU in 1994/5 coincided with the addition of 20,000 additional places on Community Employment schemes[14], while further reductions in LTU witnessed in 1996/7 also coincided with the introduction of measures allowing long-term unemployed to retain a portion of their benefits upon returning to work. As noted by O'Connell (1998, p. 39), "to the extent that the Back to Work Allowance Scheme resulted in a decline in long-term unemployment, this must be counted as a success of active labour market policy."

Whereas much of the academic discourse on the retrenchment of public social provision has centred on the rolling back of the Keynesian Welfare State, the Irish welfare tradition was rarely characterised as anything else but liberal – along with the UK, US and Australia (Esping-Andersen, 1990, 1999). Nevertheless, the capacity of our "liberal" model of public social provision has also been tested – particularly in regard to historic levels of unemployment and the scale of participation in labour market programmes.

The extent of state retrenchment (including welfare state) in Ireland in the recent past

[12] With a standard error of 3.8, or upper and lower bounds of 29 and 14 at the 95% confidence interval.
[13] 7.6%, measured as the change in real GDP. Source: OECD.
[14] Thereby accounting for 20,000 of the 25,000 observed reduction in LTU

is debatable. Kirby and Murphy (2007, p. 9) point to low levels of personal and corporate taxation limiting the state's capacity to fund social security; to increased female labour force participation forcing families into market-based solutions for child and elder-care; and a drift to targeted means-tested "ungenerous" social protection. They highlight moves to an "active, productivist" welfare state which simultaneously encourages and compels labour market participation. Notwithstanding this, many social welfare benefits have received large nominal increases and a welcome (though as yet arbitrary) trend towards indexation with consumer price inflation has emerged. This is not to say the level of many social welfare benefits is anything but subsistence or below.

Leaving retrenchment aside, a reorientation of the Irish welfare state towards supply-side intervention and feeding competitiveness though labour market flexibility has occurred. Jessop (1994) refers to this subordination of social policy as the Schumpeterian "workfare state". In fact, the scaling back of direct employment schemes, the redistribution of resources in favour of retraining, and the mandatory referral of newly registered unemployed to a public employment service (FÁS), have merely brought Irish practice into line with established EU/OECD norms.

This view of Irish welfare reform has been echoed by Taylor (2005, p. 94) who concludes its "principle motivation" has rested firmly upon enhancing the flexibility of the labour market and not upon extending social rights. Boyle points to FÁS as a ready-established (and therefore cheap and attractive) method of addressing labour market problems – bypassing other government departments and agencies. Boyle (2005, p. 113-4) continues, "this reflects the pragmatic-populist streak in Irish politics [...] favouring cheap flexible solutions [over] long-term commitments.'

Much of the academic debate over changes in the Irish welfare state is little more than ex-post commentary. If the die has been cast (globally) in favour of open markets and free movement for international capital, then protecting competitiveness is one of the few remaining areas of economic sovereignty for national governments. While we may justifiably expect a positive correlation between national income and public social provision, the arrival of truly global markets has put paid to aspirations for social democracy in Ireland. Its long wake in academic literature contributes little to debate how public policy might best respond to the realities of economic openness, globalised markets and the challenges of maintaining industrial competitiveness without even a monetary policy to call our own.

Further analysis in this area would address the nenewed importance of state-sponsored training schemes in the light of structural change in the economy (post-construction boom) and the role of life-long learning in maintaining and improving peoples' skill-sets. Recent government policy including the *National Skills Strategy* and FÁS' own programme, *One Step Up*, have firmly reorientated policy towards subsidised training and opened a new chapter in employment policy in Ireland.

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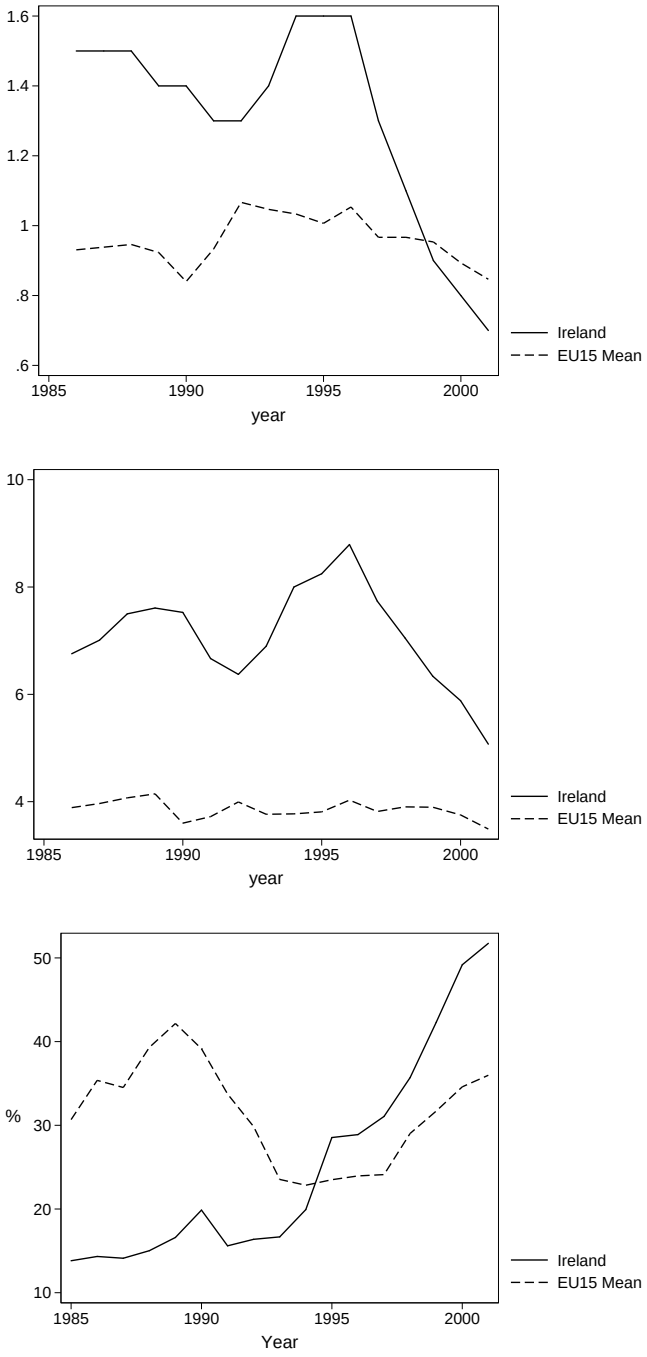

Figure 2: (a) ALMP Expenditure Relative to GDP; (b) ALMP Relative to Total Public Social Expenditure; (c) ALMP Expenditure per Registered Unemployed as a Percentage of Average Production Wage. Source: OECD (1994), OECD (various), ILO (Laborsta).