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Long-term Unemployment and Work Deprived Individuals : Issues and Policies*

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CONTENTS

	Page
Abstract	iii
1. Introduction	1
2. Dimensions of the problem	1
3. Australian labour market programs for LTU and VLTU	5
4. Problems with programs identified by evaluations	6
5. Problems with programs <u>not</u> identified by evaluations	11
6. What can the Government do?	12
Appendix	19
References	20

ABSTRACT

The incidence of very long-term unemployment has risen by nearly 1 per cent per annum since the late 1970s. Australian labour market programs were not specially targeted to the very long-term unemployed until the introduction of the Job Compact in 1994. Despite concerted active measures taken since then, along with highly favourable growth conditions, there remain nearly 100 000 people in Australia who have been unemployed for over 2 years. The majority of these people have been workless for a large portion of their working lives.

There is broad consensus that the net impact effects of programs for the work deprived are either small or very small. For all that has been tried, sadly we have not learnt a great deal as to what programs work for different people and why. We argue that this is due in part to deficiencies in past and ongoing evaluation efforts, including the lack of rigorous research designs and access to data for independent researchers. Second, labour market programs are regarded by evaluations as a 'black box' into which the unemployed enter and come out at the other end either employed or not, with little attention paid to the nature of the barriers faced by the work deprived and the appropriate treatments. An initial analysis identifies five different clusters of work deprived individuals. Policy suggestions include more targeted assistance for these clusters and enduring job creation programs, combined with an enhanced evaluation effort to guide future policy.

1. Introduction

A major concern with the presence of unemployment is its uneven dispersion across populations and, for given individuals, its persistence over time. The emergence and growth of long-term unemployment since the late 1970s and the concentration of unemployment across locations and families has been well documented in the domestic and overseas literature (Kelly and Lewis 2000, Dixon et al. 2001, Miller 1997, Dawkins et al. 2001). Policy makers have also been mindful of the detrimental effects on economic efficiency from allowing a substantial core of long-term unemployed to develop within the labour force (see Chapman 1993).

The major policy tool used to avert the build up of an entrenched component within unemployment is active labour market programs (LMPs). The downturn of the early 1990s saw an unprecedented expansion in LMP spending and placements under the *Working Nation* package followed by 7 years of output growth averaging in excess of 4 per cent per annum. Despite this, the paper presents evidence that there remains a persistent core group of work deprived. Much more needs to be done.

What then can be learned from the Australian experience thus far? The paper addresses two major elements in answering this question. One is to review Australia's experience in delivering LMPs and the available evidence on their effectiveness. The other is to assess how well the evaluation effort over this time has been able to inform us as to what does and does not work, and how this may be improved in the future.

While labour market programs are not the only generic policies which have been used over the last three decades to ameliorate the marginalisation of labour force members, early retirement plans and strategies to enhance school retention have also been employed, the paper only considers the former. The subject of aggregate unemployment is not directly addressed, even though it has a direct bearing on potential jobs for this population.¹

The following sections of this paper address these issues and suggest an alternate policy focus. Section 2 outlines the dimensions of the problem of long term unemployment (LTU) and very long term unemployment (VLTU), section 3 gives a brief history of the history of distinct programs for the LTU, section 4 discusses problems identified by the evaluation and section 5 discusses the problems not identified by the evaluations. Finally, section 6 concludes with what the Government can do today by suggesting actions based upon the best knowledge to date and actions that should improve our knowledge base.

2. Dimensions of the problem

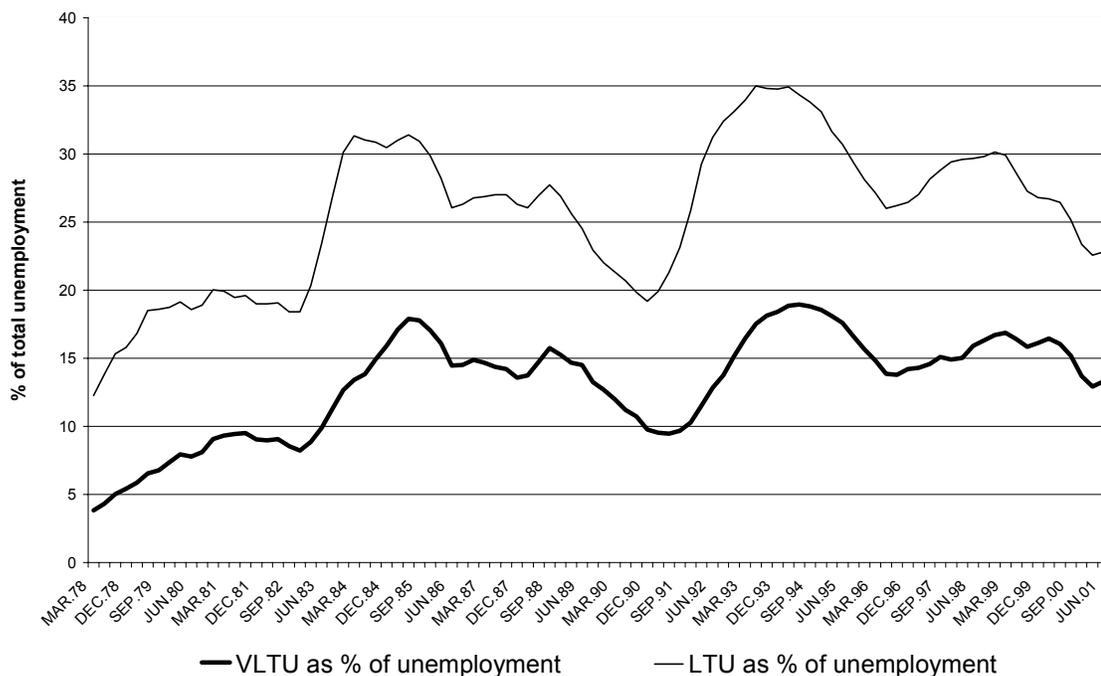
Aggregate time series stock counts of the incidence of long-term unemployment (durations over 1 year), shown in Figure 1, reveal that most of the growth in long-term unemployment has been driven by the numbers of people who have unemployment durations over 2 years - the very long-

¹ A rise in the proportion of VLTU in the labour force occurs because the rate of entry into VLTU exceeds members' exit rate to work or not in the labour force. Since 1981, the trend employment rate has been constant in Australia but the trend short-term unemployment rate (under 2 years) has fallen at the expense of the trend VLTU. The same pattern is apparent of the relationship between the corresponding full-time rates.

term unemployed (VLTU). By June 2001, the VLTU numbered 94 100. For some of these people, their spell of unemployment will have been once off and will have ended when they either retired from the labour force or obtained a long-term job. However, for others, there will have been alternating passages between long and short-term unemployment, short tenure jobs and non-labour force states.

Official measures of long-term unemployment only record the last continuous activity spell and cannot account for this churning between labour force states due to a person's short tenure in work and discouraged job seeking behaviour. There are very few data sets in Australia that record these work history variables and only a sketchy profile can be gauged. Nevertheless, the longitudinal ABS Survey of Employment and Unemployment Patterns 1995 to 1997 (SEUP), while dated, provides the richest source of information about the characteristics and transitions of the long-term unemployed (LTU).²

Figure 1: Incidence of long-term and very long-term unemployment, Australia, March 1978 to June 2001



Source: ABS Catalogue 6204.0 Labour Force Australia 1978-95

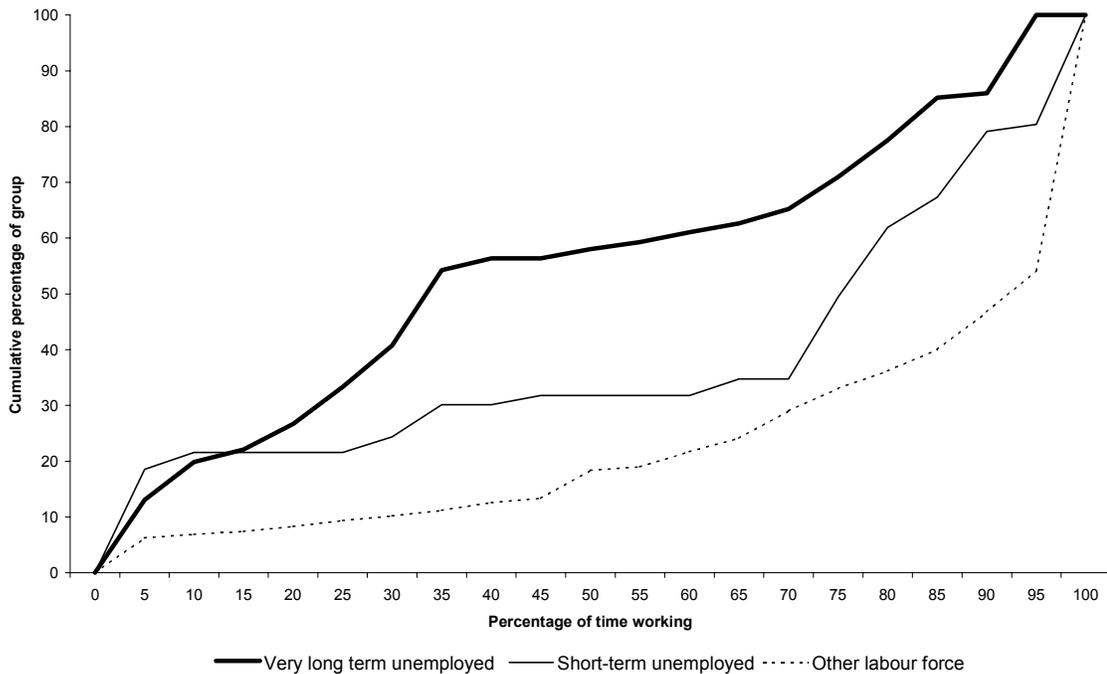
Figure 2 shows data on the proportion of time spent working since leaving full-time education, for the short-term (under 2 years), VLTU and other labour force groups. If all members of the groups spent 100 per cent of their time working, the line would follow the abscissa and then rise vertically at 100 per cent.

² The two populations Jobseekers and Population Reference group were used in this paper. Most of the data refer to the first wave and the weights for wave one were used. There were 1350 LTU in the persons unit record file.

Figure 2 clearly shows that compared with other members of the labour force, the VLTU are the most work deprived. More than half of the very long-term unemployed, as of September 1995, had spent less than 50 per cent of their time working compared with a third of the short-term unemployed and 18 per cent of the other labour force members. This difference is not due to their relative youth and thus their most recent spell of unemployment as the age profiles of the VLTU are not dissimilar to the whole labour force.

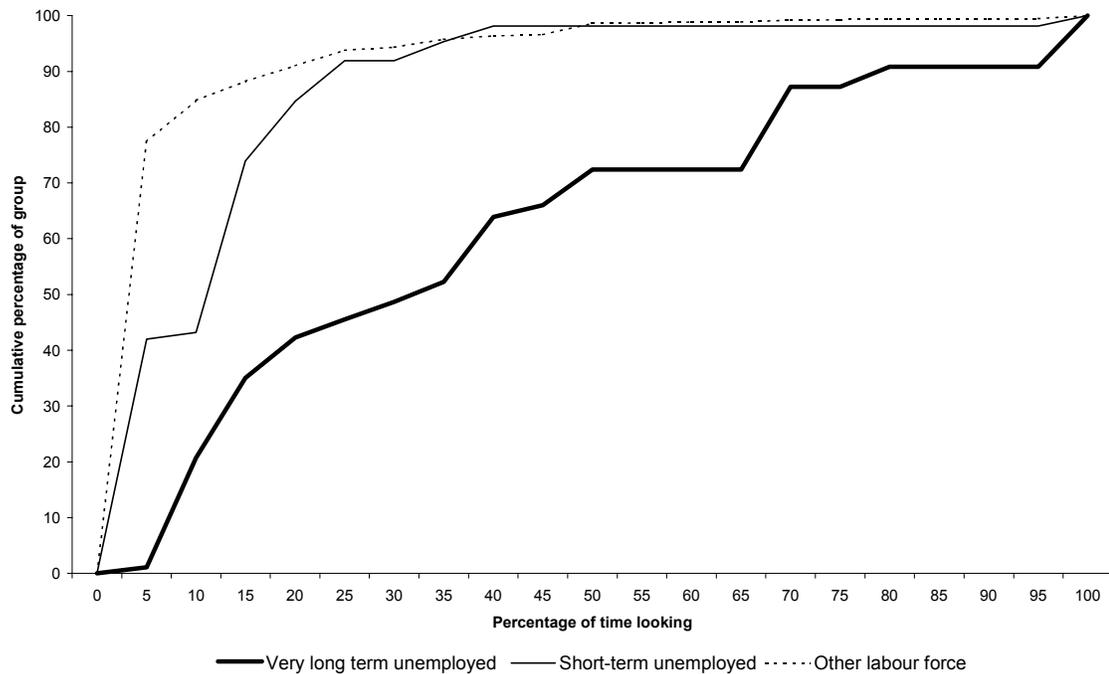
This picture of work deprivation is also reflected in comparable data on the proportion of time looking for work. Figure 3 shows that a quarter of the VLTU had spent more than half of their time looking for a job compared with 2 per cent for the short-term unemployed and other labour force members.

Figure 2: Cumulative percentage of time working since leaving full-time education for short & very long-term unemployed and Other labour force members, Australia, September 1995



Source: ABS Survey of Employment and Unemployment Patterns, 1995, Jobseeker and Population Control Group

Figure 3: Cumulative percentage of time looking for work since leaving full-time education for short & very long-term unemployed and Other labour force members, Australia, September 1995



Source: ABS Survey of Employment and Unemployment Patterns, 1995, Jobseeker and Population Control Group

This data captures a profile of the LTU during a period when the *Working Nation* programs were specially targeted at very work deprived job seekers. Accordingly, the profiles shown above may not be an accurate representation of current long-term unemployment if the labour market programs under *Working Nation* were successful in achieving a permanent change in participants' labour market fortunes. To gain a hint of the degree of recycling of the LTU since 1995, the labour force status of people who were LTU at September 1995 was compared with their statuses at September 1996 and September 1997.

Table 1 shows that a third of the original 1995 LTU were in employment a year later but 20 per cent of these had returned to unemployment a further year later. About a quarter had gained employment by 1996 and subsequently remained there until 1997. Nearly a third of the original LTU were still unemployed 2 years later. By contrast, 90 per cent of people who were employed in September 1995 were employed 2 years later. Exiting from the labour force was a one way trip for most long-term unemployed people with three quarters remaining there in the following year.³

If flows into (rather than out of) long-term unemployment are considered, four in five of the LTU in September 1997 were either unemployed or not in the labour force in September 1995. Only 4 per cent came from full-time employment as most came from part time employment.

³ The selected sample were all of working age.

Table 1: Destination of people who were long-term unemployed in September 1995, Australia^(a)

	Status at September 1997			Total
	Employed	Unemployed	Not in the labour force	
Status at September 1996				
Employed	55879	14566	0	70445
Unemployed	28452	32437	9445	70334
Not in the labour force	0	16052	50938	66990
Total	84331	63055	60383	207769

Note: ^(a) Only includes people in all 3 waves and thus the weights for wave 3.

Source: ABS Survey of Employment and Unemployment Patterns, 1995 to 1997

While this data reveals the presence of re-cycling and that spells of long-term unemployment (or premature exits from the labour force) are not once off for most people, the results look slightly more sanguine than the work history data presented above. There are several possible reasons for this. *Working Nation* may have enhanced the work opportunities for the LTU compared with the period pre-1995. Alternatively, the shorter time involved may mask further re-cycling in subsequent years. Finally, the work history variables may suffer from re-call error and people may bias their answers in favour of their current status.

The final source of the extent of recycling comes from social security administrative data for the period 1995 to 2000. According to Dawkins et al. (2000) over half of people who had received unemployment benefits during 1995 to 1999 had had more than 2 spells on benefits. Of the people who had been on continuous benefits for 6 months in the reference period, 75 per cent had received benefits at some time between 42 and 48 months later. Further unpublished work by Harris and Kalb (2001) has found considerable flows out of unemployment benefits to other Government payment types which reflects movement between unemployment and not in the labour force. Twenty-nine per cent of people on unemployment benefits in 1995 were still claiming that benefit in 2000, and a further 16 per cent had moved on to payments other than the age pension.⁴

The information presented above suggests that cross sectional stock counts of long-term unemployment may under estimate the extent of joblessness for a large minority or possibly a majority of LTU people. Accordingly, point in time counts of LTU will understate the true level of work deprived individuals.

3. Australian labour market programs for LTU and VLTU

There have been several overviews written of the history of labour market programs in Australia (see Stretton and Chapman (1990), Webster (1997) and Stromback and Dockery (1998)) however, none focus on the mounting problem of work deprived individuals. Australian LTU was not formally identified in journals until the mid-1980s (see Trivedi and Hui 1987) and a major financial commitment was not made by the Commonwealth Government until the Job Compact

⁴ Most of these went into disability pensions.

sub-program of *Working Nation* in 1994 although the problem had been recognised by practitioners for some time before then.⁵

Under the Job Compact, the Government was to guarantee the LTU with employment or training places of sufficient quality to significantly enhance their employment prospects while, on their part, jobseekers were obliged to accept such offers or forego social security benefits. Outlays on LMPs were to increase from \$1.4 billion in 1993-94, to \$2.4 billion by 1996-97, mainly targeted the LTU. There was an increase in the number of places and in the level of the wage subsidy for the LTU under JobStart; an expansion of existing brokered employment and training placements and the creation of a new direct job creation program called New Work Opportunities. Importantly, *Working Nation* included an evaluation strategy consisting of a longitudinal panel established in 1994. In the event, the *Working Nation* strategy proved overly ambitious, with both placement numbers and funding falling well below their targets (Stromback and Dockery 1998).

These programs lasted intact until the election of the Coalition Government in 1996 and, with economic recovery underway, the bulk of the *Working Nation* measures were dismissed as being expensive and ineffective. The wage subsidy program JobStart was temporarily retained as the major LMP on the basis of departmental evaluations that suggested it was the most effective form of assistance. Though New Work Opportunities was scrapped, a new direct job creation program Work for the Dole re-emphasised the reciprocal obligation philosophy, now rebadged as ‘mutual obligation’ and with the government’s obligation much reduced. The rhetoric of the time clearly suggested a ‘get tough’ stance on the unemployed, one that seemed to carry some favour with the electorate, and a distinction has been maintained between such mutual obligation measures and ‘true’ LMPs. Work for the Dole is expected to expand to 50,000 places in 2001.

Yet the most radical component of the new approach came in 1997 when the Government announced it would ‘cash out’ the funding for LMPs and called for tenders to provide designated employment services. The Commonwealth Employment Service was abolished and the new competitive market for employment services, the Job Network, came into effect in May of 1998. With the introduction of the Work for the Dole scheme just months before and subsequent expansion of the mutual obligation strategy, the new era of delivery of assistance through LMP can be seen to have three main planks: the Job Network, mutual obligation activities and a ‘safety-net’ Community Support Program for persons with severe barriers to employment and unlikely to benefit from mainstream assistance.⁶ A major issue of interest is whether or not employment services, particularly for the VLTU, are amenable to delivery through private markets rather than public institutions.

4. Problems with programs identified by evaluations

Most evaluations of Australian LMPs are microeconomic and aim to estimate whether the program has enhanced the employment rate of participants at some time after the program has finished. Ultimately, this may reduce the level of total unemployment if LMPs are either effective

⁵ This followed a spate of papers on the LTU in the literature such as Chapman (1994), Junankar and Kapuscinski (1991), McDonald (1993).

⁶ Overviews of the operational framework and reviews of the implementation and initial performance can be found in DEWRSB (2001a), DEWRSB (2001b) and OECD 2001.

supply side policies or effective anti-inflationary policies. Alternatively, LMPs may have no effect on total unemployment but may be valued because they re-allocate work from the work-rich to the work-poor. As such they may be a worthwhile means of improving labour market equity. The latter view has been gaining ground of late.

Webster (1997) provides an overview of the findings from LMP evaluations with a focus on Australian studies. A number of the earliest Bureau of Labour Market Research (BLMR) studies used non-completers as a control group to assess the impact of wage subsidy and training and employment placement programs. However, these evaluations also did not separately identify LTU or VLTU and nor did they attempt to cater for issues such as selection bias which are regarded as prime concerns today.

From around 1990, the Department also began to use ex post 'matched control groups' drawn from the register of unemployed persons to obtain estimates of what outcomes would have been in the absence of assistance, and thus estimates of the 'net impact' of assistance. Combined with data on placement costs, the 'cost per net impact' was calculated as a measure of the cost effectiveness of programs. Matching was on the basis of gender, age and duration of unemployment. Twenty to 30 per cent of the control group for wage subsidy programs were found to be in unsubsidised employment after three months, giving a net impact of about 30 per cent⁷. The prima facie interpretation - that 30 per cent of the participants in wage subsidy programs find work and would not have done so had they not participated – is an impact of considerable magnitude. However, since selection into the wage subsidy program is determined by employers, a large selection bias is expected and any evaluation which does not seek to control for this should be regarded with caution. For programs targeted at the VLTU, such as New Work Opportunities and JobSkills, the net impact was found to be of the order of 10 per cent or less and would have to be considered quite marginal.

Taking the estimate of the net impact on employment together with unit placement costs, the cost per net impact for programs was estimated to range from just over \$4,000 for wage subsidy and job search training programs to around \$10,000 for training programs, \$50,000 for the JobSkills training and employment placement program and almost \$150,000 for the New Work Opportunities direct job creation program (DEETYA 1997: 15). These findings contributed to the decision to scrap the Job Compact strategy of a guaranteed job placement for the long-term unemployed as being expensive and ineffective.

A major innovation of *Working Nation* was the embodiment of an evaluation strategy within the set of assistance measures of which SEUP was a key element. SEUP ran from September 1995 to September 1997 and the sample population included sub-samples of known participants of LMPs, jobseekers and a representative population reference group. Stromback and Dockery (2000a and 2000b) draw on this data to estimate the impact of participation in four main types of LMPs (training, brokered employment placements, job search assistance and wage subsidies) and to address some of the evaluation issues associated with the Departmental matched-control group approach.

⁷ DEETYA 1997 Appendix A provides a compilation of results from net impact studies from different years.

Using a duration framework, they find an unrealistically large and positive estimated effect of program participation on the exit rate out of unemployment, leading them to suspect a strong selection bias. However the relative order of programs in terms of the magnitude of their estimated impact was consistent with Departmental net impact studies with the exception that the brokered employment placements targeted to the most disadvantaged jobseekers were now estimated to have a greater impact than training programs or job search assistance. They also find that participation in LMPs extended the expected duration of subsequent working spells following a period of unemployment, contrary to concerns that programs tended to ‘recycle’ people into and out of short-term or dead end jobs.

Using transition analysis to replicate the *ex post* control group approach, Stromback and Dockery find broadly consistent results with Departmental evaluations. The scope for non-response bias is smaller in the SEUP data, and the introduction of a much wider range of controls for individual characteristics had little impact on the estimates of program effectiveness. However, when rudimentary efforts to control for selection bias were introduced, the results cast doubt over whether any programs except for the wage subsidy program had a positive impact.

There has been no independent evaluation of the Job Network because the Government has not permitted any data to be made available to external researchers. The Departmental findings are that the Job Network is at least as effective in assisting jobseekers as the LMPs it replaced, but does so at considerably lower cost. There seems to be general agreement on the efficacy of job search training for the short-medium term unemployed (see Eardley et al. 2001, Dockery 2000). However, this is not the case for intensive assistance (IA) services targeted to the LTU. Given the evidence above of the presence of a hardcore of work deprived persons within the unemployed, a critical test of the Job Network is its effectiveness in assisting the most disadvantaged jobseekers. For IA, placement costs have certainly fallen relative to the *Working Nation* programs targeted to the LTU, largely because of the expense of the Job Compact’s job guarantee measures. But while cost *savings* have been realised in IA, it is not clear that there has been an improvement in cost *effectiveness*.

The payment structure for IA, with an up-front component and further outcome-based payments, creates incentives for providers to minimise costs as well as to maximise employment outcomes. All previous evidence suggests that genuinely improving the employment prospects of the work-deprived requires a considerable investment. There is concern that the fixed schedule of payments for IA in the first contract period did not adequately reflect this cost⁸ (OECD 2001, Dockery 2000, Harding 1998). If this is so, the incentive for a profit maximising provider is to minimise the amount spent on each job seeker, and bank the up-front payments plus whatever outcomes are achieved through their clients finding work anyway with no or minimal active assistance (akin to deadweight loss from a social perspective). Indeed there is evidence that a significant number of IA clients have received little active assistance from their providers (DEWRSB 2001c, Dockery 2000, ACOSS 2000). This problem has been alleviated somewhat in the second contract period by the replacement of the fixed payment schedule with fees set

⁸ The initial contract period was for services delivered between May 1998 and February 2000. Contracts are now in place for the second period, covering services to be provided between February 2000 to March 2003.

according to the providers' tender prices, subject to a minimum. However, providers are still constrained to ensuring price competitiveness, particularly when the quality of their services cannot be readily observed.

The Department's claim of comparable performance with previous programs is again based on post assistance outcomes as determined by PPM surveys and administrative data on reductions in benefit claims (DEWRSB 2001a). Net impact estimates have been published for off-benefit outcomes using the ex post matched-control group approach to 'ensure compatibility with the department's previous studies'. For a cohort of IA clients who left assistance in August of 1999, it was found that 31 per cent were off benefits three months later compared to 21 per cent for the control group, a 'net impact' of 10 per cent points. The Department has argued that this is similar to the weighted average for the *Working Nation* programs that IA replaced (2001a). However, this ignores the fact that the less successful *Working Nation* programs were closely targeted and implemented in response to labour market conditions that were far less favourable than when the Job Network net impact study was conducted. By the Department's methodology, it is also significantly lower than the net impact of the Job Start wage subsidy program.

The same net impact methodology has been applied to off-benefit outcomes for Work for the Dole participants who left the program in August of 1999 (DEWRSB 2001b). The estimated net impact of participation in the scheme was 13 per cent, with 30 per cent of the participants remaining off benefits three months later compared to 17 per cent for the comparison group. It is a curious result that a program that explicitly makes no attempt to address the inherent employment barriers of the participants should return a higher estimated net impact than so many of the active programs that have preceded it.

A major concern with the delivery of employment services through a competitive market is that it creates incentives for providers to 'cream'. As IA providers are paid for successful outcomes, they may target assistance to those jobseekers already most likely to gain employment. The role of the government agency Centrelink in assessing the eligibility of jobseekers to the various levels of assistance and referring them to providers acts as a safeguard against providers creaming in terms of commencements. However, within their caseloads, providers may concentrate their efforts on those they believe most likely to achieve a paid outcome if they feel this is the optimal strategy from a profit perspective. These incentives may not only contribute to deadweight loss, but also exacerbate the degree of selection bias in net impact estimates when the targeting occurs on characteristics not fully controlled for. Hence, in the privatised market it is even more imperative that evaluations pay attention to selection issues and adopt best practice in ex post matching.

A more critical shortcoming of the current evaluation approach is the practice of measuring outcomes at a given time from the end of a program, rather than from the time of commencement. If Providers A and B are achieving the same post-assistance employment outcomes, but Provider A's clients are in assistance for an average of 6 months compared to 12 months for Provider B, clearly the former's performance is superior. In addition to ignoring the duration of assistance, this approach may now significantly bias upwards the net impact estimates. The reason is that persons will leave IA once they find work, and persons on both programs are expected to be actively seeking employment during participation. In contrast, the previous wage subsidy and

brokered employment placements were likely to continue for the designated period of assistance. This will have inflated the initial outcome measures for IA. As clients can remain on a provider's caseload for up to 21 months, for roughly the first 2 years after implementation those leaving assistance will have disproportionately been 'early leavers' for whom the most likely reason for leaving assistance was that they found a job.

That effect will wash out over time. However, a second source of bias will not. Some of the persons who exit assistance because they gained employment will re-enter unemployment, since jobs secured by such persons are often casual or short-term. Thus the point in time at which the outcome is observed is not an arbitrary reference point for both the participant and control group, but one that is biased towards measuring outcomes soon after persons in the participant group gain employment and have had limited time to re-enter unemployment. Thus measuring from the time of departure rather than commencement of assistance could significantly inflate estimates of the net impact, particularly where the evaluation horizon is short⁹. Consistent with this, the estimated net impact for IA was highest one month after leaving assistance, and declined steadily to just 6 percentage points in the proportion off-benefits 5 months after cessation of participation.

In their Job Network and Work for the Dole net impact evaluations, the Department also measured what they have variously termed the impact of referral, impact of compliance or 'deterrent' effect. This relates to the observation that a significant proportion of jobseekers referred to job search training and Work or the Dole placements leave benefits without ever commencing. Job seekers may increase their search efforts to find work because they place negative utility on program participation. Alternatively, they may have been inappropriately claiming benefits by failing to disclose income from other activities which would now be precluded by program participation. The compliance effect is not large for jobseekers referred to IA, but at 10 percentage points for job search training it is far larger than the impact of the treatment itself (DEWRSB 2001a: 10). For jobseekers referred to Work for the Dole, off benefit outcomes were similar for those who did and did not commence. In some cases it has been claimed that legitimate benefit recipients have been erroneously or unfairly denied benefits as a result of the tougher 'activity testing' component of the mutual obligation strategy. However, the apparent magnitude of these effects would suggest there has also been considerable social benefit from the compliance effects.

As with earlier LMPs, the available evidence and shortfalls in evaluation methods leaves considerable uncertainty surrounding the estimates of the net impact of current assistance measures for the work-deprived. The experience has perhaps only cast greater reservations on the effectiveness of active assistance measures. Although many IA providers appear to be offering little in the way of assistance that would remedy real barriers to employment, clients are by and large content with the level of assistance they receive and the measured outcomes are comparable to previous programs that offered extensive training and work experience at very high cost (see Dockery 2000). The same can be said for the Work for the Dole project, which makes no explicit claim to address the inherent labour market disadvantages of participants. And for traditional job

⁹ These same arguments apply to the Department's evaluations of the net impact of Work for the Dole.

search training, the referral effect vastly outweighs the treatment effect, though this is typically aimed at the shorter to medium term unemployed.¹⁰

5. Problems with programs not identified by evaluations

Many unanswered questions about why evaluations do or do not work and who are best treated by labour market programs still remain even after several decades of study in this area. Even the tentative conclusions that net impact for the LTU and VLTU are small and that creaming exists are not solid simply because the evaluation process has not followed international best practice. Evaluations in Australia have lacked the rigour in design and econometric sophistication that has been recognised as necessary by the international literature to provide robust estimates of either the micro- or macroeconomic impacts. When *Working Nation* was introduced in 1993-94, policy-makers had little real knowledge about what did and did not work in delivering assistance to the unemployed. The decision to scrap the Job Compact measures targeted to the most disadvantaged was also made before findings were available from SEUP, the longitudinal survey at the centre of the *Working Nation* evaluation strategy.

While the cause for more rigour in evaluations had been advanced somewhat with the formation of the BLMR in 1980, they unfortunately made a strategic decision at that time not to pursue random assignment evaluations (to achieve *ex ante* matching and thus control for a myriad of unobservable personal characteristics that are embedded in selection biases in other evaluation methods), which has marred the effectiveness of Australian evaluations since.¹¹ ‘It is often argued ... it is not morally or politically defensible to experiment with program delivery by allowing access for some individuals and not others’ (McKay and Hope 1986:13).

The *ex post* matched control group approach, which was adopted instead, has a number of important limitations. It conditions on only a handful of observable individual characteristics, makes no allowance for the possible effects of other individual characteristics that may effect both selection into programs and outcomes (selection bias), and there has been no attempt to apply more sophisticated matching techniques in constructing the control group as suggested in the literature. There are also a number of more specific limitations. As published, the various evaluations have ignored issues of non-response bias to the PPM surveys. The Department also adopted the curious convention of removing persons in further assistance from both the numerator and denominator when calculating the proportion with positive outcomes. Surely the alignment of outcome measures with policy objectives would dictate that those in further assistance should be

¹⁰ The Job Network Stage 2 evaluation found that high performing providers were less likely to offer jobseekers formal training, concentrating instead on job search skills and confidence building (DEWRSB 2001b: 58). This finding, however, does not take into account differences in caseload characteristics, which may affect the service strategy, and may be driven by selection or creaming processes. If a provider has clients with low barriers, then simply exposing them to vacancies is likely to be the optimal strategy, and they can also be expected to achieve high outcome rates.

¹¹ McKay and Hope (1986) stressed the BLMR’s commitment to ‘...the use of comparison groups because, despite the possible methodological limitations, this is the only basis on which the net effectiveness of program participation can be assessed.’ (p13). They provide what appears to be the first departmental acknowledgement of the problems of selection bias, the advantage of experimental research designs and the potential methods of retrieving the necessary conditions to obtain unbiased estimates of program impacts in their absence.

included as a negative outcome. Measurement of outcomes from the end of assistance abstracts from the duration of the program. In making comparisons across programs of different durations, outcomes at a given duration from commencement or referral would be more meaningful.

The *ex post* control group approach has been carried over to the Job Network, with surveys being used to measure jobseekers' labour market status at three months and twelve months after conclusion of assistance, and for a comparison group drawn from persons registered as unemployed. The evaluation strategy for the new employment services market acknowledged that 'a planned control group' would provide better estimates, but this was rejected in favour of *ex post* matched comparisons groups on the basis that it 'would raise serious legal and ethical difficulties.' (DEETYA 1998: 12). There is also now an added focus on outcomes used to determine providers' eligibility for an outcome payment, and these derive mainly from changes in the jobseeker's drawings on social security benefits as determined from administrative data. The evaluation strategy also proposed the use of a longitudinal cohort survey of persons registered as unemployed, combining administrative data and client surveys from late 1998 to mid 2001. This seems not to have been implemented.

Outside of the Department's ongoing monitoring and evaluation activities, there have been relatively few microeconomic or macroeconomic evaluations of LMPs undertaken in Australia, the former largely because of the unavailability of suitable data for independent researchers. Further, as this broad overview of the evaluation approach has suggested, there are significant limitations to the net impact estimates of the evaluations that have been undertaken. This review has concentrated on microeconomic evaluations which attempt to estimate the 'effect of the treatment on the treated'. A number of Australian macro-economic evaluations have attempted to include broader impacts: Webster and Summers (2000), Webster (1999), Leeves (2000), Connolly and Nicol (1997) and Webster and Johnson (2001) being rare examples. However, these tend not to differentiate between impacts on the VLTU from other unemployed. It is also difficult to disentangle any 'real' employment effect from reclassifications effects by which participation in a wage subsidy or employment program is deemed as a period of employment for the purposes of the labour force survey. It is fair to say that the macro-economic evaluations confirm the overall impression that the net effects are very small, and the real value of LMPs is more likely to lie in their equity effects.

6. What can the Government do?

Even though the information of the nature of the problem of work deprived individual and the effects of part treatments of this group is far from complete, the Government must still act to improve the problem. It should do two things: first, it should devise programs based on the best knowledge to date, and secondly, it should act to improve the quality of our knowledge.

Action based on our best knowledge

The general consensus of the finding to date suggest the net impacts for the LTU and VLTU are small, creaming is likely to occur among providers and the costs of assisting this most disadvantaged group are never going to be trivial. One corollary is that the greatest value from

labour market programs for the most work deprived, arises not from the permanent or after program effects, but from just being on the program.

Rising numbers of work deprived people is not confined to Australia and there have been over a decade of programs in Europe which try to address this problem and the ensuing social exclusion. The problem is frequently discussed as a human rights issue which incorporates the entitlement to be included in the workforce and the entitlement to ‘material, cultural and social resources that [enable one to have] a minimum acceptable way of life’ (Nicaise et al. 1995 p. 203).¹² Policies to address the exclusion of the VLTU, therefore, have social objectives rather than more immediately narrow economic efficiency ones.

In devising programs, considerable weight should be given to the main economic characteristics of the target group. The main labour market characteristics of the LTU vis-à-vis the rest of the labour force are fairly well known. They are less educated and qualified, their last job was on average less skilled, they reside in lower socio-economic locations, they are more likely to live with other non-working adults and are less likely to speak English well. Overall, the LTU have the same age distribution as the rest of the labour force except for a slightly higher prevalence of young and older people.

However, few individuals have all these characteristics. What is often missing from these descriptions is a sense of how correlated these characteristics are and whether certain types of LTU people exist. Accordingly, a cluster analysis of 1350 persons from the 1995 wave of the SEUP has been undertaken. Cluster analyses group individuals according to the correlation between their characteristics and how categories are defined depends on the implied weighting given to the selected variables and are clearly not objectively determined. They can be useful however, if they permit policy makers to identify systematic groupings in the data.

As an example of this, five clusters were identified from the data and details are presented in the appendix. The first cluster includes Australian and main English Speaking (MES) country born people who are mainly female, slightly older but less well educated compared with the other LTU. They appear to have had significant absences from the labour force, but as few have worked for more than 70 per cent of their time since leaving full-time education, none have spent more than half their time looking for work. Three quarters previously worked in a low or medium skill manual or service job.

The second cluster are Non-English speaking background (NESB) people, mainly males, half of whom do not speak English well. Compared with the other LTU they are more educated (in their country of origin) and have spent more of their working lives in a job, most likely overseas. Forty per cent were retrenched from their last job. Eighty per cent live in a capital city.

The third and most work deprived group are mainly male and mainly born in Australia or a MES country. None of their group have spent more than 70 per cent of their time working and all have spent over half their time looking for a job. They tend to be younger than average and most have previously worked in a low skilled manual or service job. Forty per cent were retrenched from this job. This is a group that should be of considerable concern.

¹² These are rights to positive values rather than freedoms from negative factors.

The fourth group has a slightly higher employment disability rate than for the whole population but, despite this, is the least work deprived group. It consists of mainly Australian and MES country born men with NESB parents. They are notably older than the other clusters and more likely to have worked in a skilled white collar job from which over half were retrenched. This group are also more likely to live in a rural area.

The final cluster are people looking for their first full-time job. They are younger than average and the least educated. Eighty per cent did not complete secondary school but relatively few claim any sort of employment disability.

A major limitation of this analysis, and the data it is drawn from, is the lack of information on the proximate causes of unsuccessful job search. There is no statistically reliable information on the social and health histories and circumstances that apparently lead over a quarter of people to cite an employment disability or cause employers to statistically discriminate against these people. Possible factors may include histories of prolonged physical and mental health problems (possibly work related), drug dependence, domestic violence, sexual abuse, homelessness, job instability and criminal records. Other more available information relates to illiteracy and learning difficulties as well as poor English and unrecognised overseas qualifications.¹³ It would be very difficult to obtain this information from job seekers by direct survey methods given the personally sensitive nature of the information. However, knowledge of these proximate courses can assist the development and mix of programs for this group.

While the SEUP data still constitutes the best available information on the LTU and VLTU, these data are several years old and the programs suggested below are valid to the extent that the characteristics of the work deprived have not significantly changed during their time. Bearing this caveat in mind, there are several directions the Job Network can be extended in order to provide greater support for different groups among the work deprived.

First, there is a large minority of older NESB people who, despite many State and national government programs, are excluded from employment partly because of the foreign qualification, lack of local work experience and poor English skills. Unemployed people in this group are not necessarily new arrivals and many have been in Australia for over 10 years. It is possible that programs focus too heavily on new arrivals at the expense of earlier arrivals whose problems do not emerge until they are retrenched. Efforts to analyse contemporary government data, especially data collected for the Job Network, should be made in parallel with program design.

Secondly, low educational qualifications is a common problem for the work deprived group, especially first job seekers. While the Australian National Training Authority has been addressing the problem of low school retention by (re)introducing vocational training into schools, more

¹³ Research in Belgium into the effectiveness of 'social economy projects' includes a detailed analysis of the profile of the target groups, based on a very extensive questionnaire survey. It found that 11.9 per cent of the target population (+12 months unemployed; less than upper secondary education) reported a physical or mental handicap; 4.9 per cent had addiction problems; 12.4 per cent had poor literacy levels; 13.8 per cent were single parents; 11.6 per cent had been placed in care during childhood (source: personal communication with Ides Nicaise). There is a considerable literature in Europe on the interdependent relationship between health and unemployment (see Cave et al. 2001 for a review of the literature). There

resources could be targeted towards the school weary and to encourage young adults who did not complete schooling to re-enter education. Programs could include additional subsidies for early school leaving adults and promotion campaigns to encourage these pathways.

A third cluster comprised mainly older but more disabled men who had often been retrenched from their last job. Anecdotal evidence suggests that often these people are ‘parked’ or overlooked in favour of the young and many are future candidates for the disability pension. Some of these may be assisted by employment service providers who specialise in placing these people with employers who appreciate their maturity and reliability. Finding such specialist providers through the Job Network should reduce the tendency to ‘parking’.

Finally, the creation of an Australia job creation program incorporating salient features of European programs is crucial for the many work deprived who do not benefit from the above three programs. Since the early 1990s, public sector employment programs have been used in most of the main EC countries as a means of assisting the most disadvantaged (see Brodsky 2000, Nicaise and Bollens 1998, Martin 2000 for recent summaries).¹⁴ These jobs are either guarantees (100 per cent coverage) or are compulsory for the VLTU. Most jobs last for between 1 to 3 years and some combine work with training. Most jobs involve public works, community or environmental work. Universal coverage was brought in to avoid creaming. Compulsory schemes have been found to de-motivate and often stigmatise participants and some countries have sought to circumvent this by offering a broad choice for participants (see Nicaise and Bollens 1998).¹⁵

Several countries have orientated their programs more to vocational training however, these can encounter high attrition rates if the target audience are ‘school weary’ or lack basic literacy and numeracy skills. However, the post-program employment success of training programs is highly variable and, unlike job creation programs, they cannot be generally held as a sure route to inclusion in the workforce.

There is a need for an Australian program along these lines. It should offer guaranteed employment (full and part-time) for between 1 to 3 years. Funding (over 100 per cent of gross wages) should be given to recognised community (non-profit) and government agencies to offer jobs in normal services and works. Participants should be employed along side the normal workforce rather than in an identifiable assistance program. Normal conditions of employment, including wages and superannuation, must be offered to preserve the dignity and feeling of inclusion by the participants. A wide variety of work is offered to avoid compulsion.

Importantly, participants should re-enter the Job Network at least 6 months before their job ends for counselling and placement services. Funding for the program should be an addition to normal Commonwealth Government expenditure to avoid substitution effects (participants gaining a job at the expense of other job seekers). This should be financed from a combination of

is evidence that health problems existed before unemployment and are exacerbated by long term unemployment.

¹⁴). During 2000, 0.06 per cent of Australian GDP was spent on creation or public sector employment programs for disadvantaged job seekers, compared with 0.14 for the whole OECD and around 0.4 per cent for Belgium, Germany, Ireland and the Netherlands.

¹⁵ As such many evaluations of compulsory schemes found that participation had a negative impact on a person’s post-program employability.

monetary expansion and public debt which has a neutral effect on domestic interest rate levels and structures.

Action to improve our knowledge base

There are three broad ways the Australian community could proceed to improve the knowledge base upon which to assist work deprived individuals. The first is to increase the rigour and heterogeneity of the evaluation process, especially through random assignment programs, the second is to use evaluation techniques that focus more on opening the back box of the program experience and less on measuring net impact and the third involves opening the evaluation process to independent researchers.

The first extension is to seriously consider random assignment programs. The use of *ex ante* control groups in Australia has been repeatedly and explicitly rejected on the grounds of equity and ethical considerations: by the BLMR in 1985, in the *Working Nation* evaluation strategy, in country submissions to the OECD (OECD 1991: 143) and most recently in the Job Network evaluation strategy. Two points should be made regarding the use of experimental designs, albeit fairly obvious ones.

First, for simplicity, assume the Government needs to decide between implementing or not implementing a program that may or may not be effective. Think of the potential costs if an *ex ante* control group cannot be used on the basis that it would deny access to the control group, such that it must be an all or nothing policy. Table 2 shows the potential outcomes of the policy decision.

Table 2: Policy maker’s decision – potential outcomes

	Introduce program	Don’t introduce program
Program is effective	√	X
Program is ineffective	X	√

The absence of a definitive evaluation increases the likelihood of both errors. That is, there is an increased likelihood of the policy-maker either:

- denying all of the target group access to a program that would have offered them assistance, when in fact following an evaluation period all could have had access to this assistance.
- subjecting all of the target group to a program that offers little return for money spent, thus consuming resources that could have provided better assistance, or that may even be detrimental to their labour market prospects.

In this light, it seems difficult to see the ethical dilemma in temporarily denying some randomly chosen group access to a program that may not even be of assistance to them, or that they may never get access to in the absence of the evaluation. The likelihood of the evaluation improving the policy decision may not be great, but the opportunity costs are potentially very large.

Ex ante assignment would be highly valuable for future Job Network evaluations. There is a significant proportion of persons who do not select a preferred provider and are assigned to a provider by Centrelink, so a cohort of these could be assigned on a random basis. The role of evaluation here is not just of academic interest, but should guide best practice, thereby improving the overall operation of the Job Network. It should also greatly improve the Department's ability to differentiate true performance from selection processes or deadweight loss, which is essential given that the essence of the competitive market is for performance to be rewarded in the granting of future tenders.

Secondly, it is not necessary to reduce access to conduct an experiment, it is possible to bring forward assistance and use the variation in the timing of the intervention to assess the impact of the program. Eligibility for the bulk of placements is based on duration of unemployment. So for a wage subsidy that kicks in after 12 months unemployment, why not bring forward eligibility three months for a randomly selected group, and allow the control group to continue on for three months before becoming eligible as per normal? There is a small loss of applicability of the results to the true target group, but nobody is denied assistance that they would have got in the absence of the trial. There is certainly ample scope to conduct experiments based on earlier eligibility under the Job Network model.

The second extension to the knowledge base seeks to find out what are the proximate causes (mentioned above) of people being repeatedly shunned by employers and why LMPs do not in the main appear to alter access by participants to open employment. Apart from categorising programs into a manageable typology, evaluations have largely treated programs as a 'black box', into which the jobseeker enters at one end and comes out at the other end either employed or unemployed. In both these areas the Job Network has the potential to greatly contribute to our understanding through data collection and more qualitative evaluation effort. Under the Job Network there is considerable variation in provider approaches and these can be readily matched to administrative data on individual characteristics of jobseekers, provider information and jobseeker surveys regarding the type and quality of assistance received in explaining outcomes. This could be supplemented by in-depth surveys of Job Network participants and, where relevant, employers to ascertain why jobseekers were or were not successful and whether this related to their proximate causes of work deprivation or their program experience.

As part of this much greater accounts needs to be taken of differences in impacts across the economic cycle. There has been a distinct pattern in Australian LMP delivery in which direct job creation measures are expanded in times of high unemployment and, not surprisingly, evaluations then show them to be ineffective and expensive. As the labour market improves, overall expenditure on assistance declines rapidly and the focus returns to wage subsidy programs which, not surprisingly, evaluations then show to be relatively effective. Certainly greater understanding of the mechanisms by which programs impact upon employment prospects would help to tailor the timing of assistance measures to the appropriate stage of the economic cycle. Equally, however, knowing how and why outcomes vary with aggregate employment demand would cast light on the design of programs and what should be expected from them at different stages in terms of employment outcomes versus other social benefits to the participant.

Finally, a major reason for important issues remaining unexplored has been the exclusion of independent researchers from the evaluation process. On the grounds of confidentiality, successive Ministers have refused to grant external researchers access to data from the PPM surveys or their administrative systems, though there have recently been some signs of that stance thawing. Though it is unlikely that the issues could be definitively resolved with greater openness, it would be of great benefit if estimates were available from a range of different methodologies and study specifications. There is also an obvious need for internal Departmental analyses to be subject to validation by independent researchers. There are of course greater costs involved in conducting more rigorous evaluations and to provide the necessary support for data to be made available in a confidentialised manner to external researchers. Equally, however, there is little value in repeating evaluations that add nothing more to the body of knowledge because of known limitations.

Appendix. Five clusters of long-term unemployed people

	All LTU	1 Less attached to LF older women	2 NESB	3 Most deprived men	4 2nd generation NESB men	5 First job seekers
Percentage	100	21	18	16	28	17
Sex	2/3 male	2/3 female	2/3 male	2/3 male	85% male	½ male
Birthplace	2/3 Aust, 7% MES, ¼ NESB	Australia & MES	Almost all NESB	90% Aust & MES	Aust & MES. 99% parents NESB	Same as all LTU
Language first spoken and English proficiency			Vietnamese Arabic. ½ not speak English well			
Age		Older then average	Older than average	More young people	More older workers over 55	More young people
Disability	28 % claim disability restricting employment				35 % employment disability	15 % employment disability
Work history (% time since leaving FT edⁿ in work)	42% have spent over 70% of time in work	Almost none spent > 70% working	2/3 spent > 70% working	None spent > 70% working	All spent > 70% working	Only 16% spent > 70% working
Job seeking history (% time since leaving FT edⁿ looking)	¼ spent over 50% looking for a job	None spent > 50% looking	Almost none spent > 50% looking	All spent > 50% looking	None spent > 50% looking	2/3 spent > 50% looking
Last full- time occupation	½ working in low skilled manual, service jobs	¾ in low and medium manual and service jobs	20% worked in skilled white collar	¾ worked in low skill manual and service jobs	20% worked in skilled white collar	No previous job
Reason ceased last job	1/3 retrenched 20% no previous job	¼ retrenched	40% retrenched	40% retrenched	Over ½ retrenched	No previous job
Location	Over half live in capital city		80% live in capital city		20% live in rural areas	
Education	5% degree + ¾ not complete 2ry school	Lower education than average	Best educated, 14% degree+ (97% NESB country)			Least educated, 80% not complete 2ry school

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