

Implications for Local Labour Markets and Regional Development

ACTIVE LABOUR MARKET POLICY

Dr. David Freshwater, University of Kentucky



Rural Urban Interaction NL

Understanding and Managing
Functional Regions





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■ ACTIVE LABOUR MARKET POLICY ■

Implications for Local Labour Markets and Regional Development

SYNOPSIS Active Labour Market Policy (ALMP) refers to efforts by government to fundamentally alter the workings of labour markets. By contrast, passive policy approaches simply provide compensation to unemployed workers and rely upon market forces to bring about a new equilibrium level of employment and wages. Unlike these more common income replacement (employment insurance) programs that are geared to buffering cyclical unemployment, ALMP is most often used to address structural unemployment problems - where lost jobs are unlikely to come back. There are three broad approaches to ALMP: efforts to modify the supply of labour by job training and migration assistance, efforts to increase the demand for labour by subsidizing wages or stimulating business creation or expansion, and efforts to improve the functioning of labour markets by improving information about labour market conditions or by encouraging workers and employers to participate in matching programs.

The inherent nature of the ALMP approach suggests that locally oriented ALMP may be a useful component of regional development strategy. Enhancing employment is clearly a major task for regional development, because without adequate levels of employment it is unlikely that any community can survive. Further it is also clear that, while there are flows of workers from region to region, a large share of employment in any region reflects specific local labour market conditions. In addition, we know that even in peak employment times there are regions within nations that have persistently high unemployment rates, so more than cyclical support is needed. Neither firms nor workers have costless relocation decisions, so it is not surprising that even regions in close proximity can have disparate unemployment rates. Thus by integrating ALMP with more traditional regional development approaches there is an opportunity for stronger and more effective local development.

■ MAYOR GRAHAM LETTO ■

A message from the President of Municipalities Newfoundland & Labrador

Improving and expanding the labour market is the central goal of almost all economic development strategies in our province, including those prepared by municipalities. However, as we find in this report, labour markets are regional or local by nature - they extend beyond any single community and rarely match the boundaries of economic development agencies or government departments.

Municipalities have a legislated mandate for economic development and we are a key player in the existing regional economic development system. We are interested in any discussion of economic development at the local level. However, in this context, we are particularly interested in the implications Dr. Freshwater's findings may have for more collaborative approaches to regional governance.

Clearly, active labour market policies must have a strong regional and local component. However, most municipalities in this province do not have the capacity to accept such a role. If we expect to fully exploit the potential of active labour market policies, our system of municipal government must change.

I hope Dr. Freshwater's report encourages productive discussion and debate on the nature of economic development and the important role for municipalities, especially in rural regions.

FORWARD

The Canadian Rural Revitalization Foundation (CRRF) National Research on Governance of Rural-Urban Interaction

For over twenty years, CRRF has brought together rural Canadians, researchers, policy makers and rural and regional development practitioners to share lessons in advancing rural revitalization across Canada and internationally. This project began at a CRRF think tank in Prince George, B.C. in April 2004, at the same time as CRRF entered a partnership with the Federation of Canadian Municipalities (FCM). The New Rural Economy (NRE) project, led by CRRF Research Director, Dr. Bill Reimer, set the stage for this work with research in the thirty-two sites across Canada that composed the National Rural Observatory. This work led to recognition by the CRRF and FCM partners that more detailed research was required to delineate the interdependencies between communities in a region, and to spell out how these communities governed their shared relations.

More often than not, it has become clear that very few formal mechanisms are in place for neighbouring municipalities to assess their shared needs, make decisions and share resources. CRRF recruited Dr. Mark Partridge and Rose Olfert to the project and they succeeded in securing funding under the Peer Reviewed Research Studies Program (PRRS) of Infrastructure Canada with a proposal entitled “Mapping the Rural-Urban Interface: Partnerships for Sustainable Infrastructure Development”. This work mapped labour market areas for all Census Metropolitan Areas (CMAs) in Canada, with more detailed work in Saskatoon, Ottawa and St. John’s. Mark has since moved back to the U.S., but he and Rose continue to present at many policy and rural development conferences in Canada on their findings.

Understanding the linkages of rural communities in the “urban fringe” of CMAs is a major component of rural Canada, but the national project is extending well beyond this.

In Newfoundland and Labrador, CRRF has partnered with Municipalities Newfoundland and Labrador, Memorial University and Dr. David Freshwater from the University of Kentucky, to launch a province-wide study of “functional regions” – the collections of communities (rural and urban) which interact for various purposes. This can range from labour market areas, to service centres, to regions which have a distinct sense of shared identity. In some instances these functional regions coincide with existing administrative boundaries, but more often than not, they do not. To gain greater insight into these dynamics, the project is conducting in-depth analysis in three case study regions: one adjacent to St. John’s, one in rural Newfoundland, and one in a remote area of Labrador where there are a number of adjacent communities exploring ways of working together. Funding for the project has been received from the Canada-Newfoundland and Labrador Labour Market Development Agreement.

Dr. Alvin Simms in the Geography Department at Memorial is conducting geo-spatial analysis of the entire province, to delineate the range of functional regions. He is also developing a Regional Development Viability Index which will utilize quantitative and qualitative data to inform long-term planning for functional regions. Dr. Simms’ colleague in the Geography Department, Dr. Kelly Vodden, is assessing a range of governance and organizational characteristics cutting across functional regions. The first phase of this sub-project is focused on formal regional governance structures. This will be followed by research on informal governance and strategic planning within communities and regions. Several undergraduate and graduate students have participated in this research.

This report, by Dr. Freshwater, is the first product from this research to be publicly released. In addition to collaborating with Drs. Simms and Vodden, Dr. Freshwater has reviewed existing

literature on “active labour market strategies” with specific focus on Nordic countries, especially Sweden. This work will inform an understanding of labour markets and labour market interventions across functional regions in Newfoundland and Labrador and elsewhere. His findings highlight the need for local and regional development organizations to play a key role in advancing labour market interventions. Federal and provincial governments across Canada are wrestling with changing economies, global recession and evolving regional and rural-urban dynamics. Building local organizational capacity to engage effectively in meeting specific regional issues and opportunities will be critical for success in labour market development.

Municipalities Newfoundland and Labrador is leading knowledge mobilization work under the project, ensuring that municipalities and other stakeholders throughout the province are consulted while the research takes place, help ground truth the findings as the research proceeds, and debate the implications of the research on policy and practice. Most importantly, by engaging communities in the research process, research findings are not something that have to be “transferred” to practitioners. Practitioners are part of the process, and “own” the research with the research team.

The Leslie Harris Centre for Regional Policy and Development at Memorial University is also actively supporting the project. When Dr. Freshwater visited the province in March 2008 he presented on his active labour market research at a Harris Centre lunchtime “Synergy Session.” Over forty community, university and government stakeholders attended, including two provincial deputy ministers.

As the Newfoundland and Labrador project advances on multiple fronts, David Bruce with the Rural and Small Town Programme at Mount Allison University has completed research on the role of regional development organizations across Atlantic Canada in managing rural-urban interaction, and Dr. Doug Knight at the City Regions Study Centre, University of Alberta, is doing related research on regional development alliances in Alberta. Dr. Serge Gagnon at the University of Quebec in Gatineau, who is a member of the CRRF Board, also has an extensive research program on rural-urban interaction under way in Quebec.

Only CRRF has the national reach and the commitment to true knowledge mobilization practices - engaging stakeholders in rural research - to mount this type of national research program. The Rural Matters Conference in Edmonton, July 5-8, 2008 featured a national panel on the project, and CRRF will be hosting a national workshop in Quebec City on October 17, 2009, that will feature this research. The Newfoundland and Labrador project will continue to release findings this year, and the Regional Development Viability Index will be launched early in 2010.



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Active Labour Market Policy: Implications for Local Labour Markets and Regional Development

**David Freshwater, University of Kentucky¹
November 24, 2008**

Linking Labour Market Policy and Local Development Policy

Improving labour market outcomes is the single largest element of any successful local economic development effort. By improving labour market outcomes we mean change for the better in some or all of: wages, labour productivity, employment levels, and labour force participation rates. The focus on labour market outcomes is central to local development. First, without the ability to earn income the local population cannot continue to reside in the region, unless there are large and ongoing transfers of income from other places. Second, without adequate levels of employment there will be too small a tax base for the local government to carry out its basic functions of providing services to residents, especially if local revenue has to be used to provide benefits for the unemployed. Third, employment and earned income are the foundation upon which various other aspects of quality of life rest. High natural amenities are more attractive if you have the income to fully enjoy them. Fourth, a key way that individuals define themselves in society is by their occupation. In this context the unemployed are typically perceived by themselves, and by others, as bearing some social stigma. Thus, high rates of unemployment can contribute to social exclusion and a loss of social cohesion.

Local Development and Labour Market Policy

Policies to improve the level of local development can be thought of as falling into three broad categories: commodity/industry based approaches, people based approaches and place based approaches. Commodity or industry based approaches seek to enhance the competitiveness of a specific industry or industries and use these firms as an economic engine to propel the local economy. Underlying this type of policy is a belief that there are current impediments to expansion of the sector of interest and that policy interventions can remove these bottlenecks. By contrast, people based approaches start from the assumption that the critical impediment to further economic growth is some labour force gap. This may be a shortage of workers with specific skills, weakness in the matching function that links employers and potential workers, or some other labour market impediment. Finally, place based approaches start with a specific geographic territory and identify its opportunities and constraints. In a place based approach policies or projects to improve the community may focus on expanding specific types of industry or on improving human capital, but these actions always operate within a context of improving the performance of some specific community. However, all three approaches have the same basic objective of improving the level of economic activity within some locality, and

1. An initial version of the paper was presented at a Harris Centre Synergy Session at Memorial University in May 2008 and comments from participants are gratefully acknowledged. Financial support from Services Canada contract 5021167 with the Canadian Rural Revitalization Foundation is gratefully acknowledged. In the paper the terms unemployment insurance and employment insurance are used interchangeably. All opinions expressed are those of the author.

ultimately any of the three can result in improvements in the other two aspects.

Active Labour Market Policy (ALMP) refers to a diverse set of proactive actions by government to improve the functioning of labour markets (OECD, 2005). These actions can involve: efforts on the supply side such as, improving worker skills or requiring that workers who receive unemployment benefits demonstrate intensive efforts to search for a job; efforts on the demand side, such as, subsidizing wages or linking financial incentives for firms to the creation of net new jobs; and efforts to improve the functioning of labour markets, such as, computerized matching services to link workers and employers or support for the creation of private employment services.

The bulk of research on ALMP, and the main way the policy has been conceived, has been at the national level (Calmfors, 1994; OECD, 1994). Countries embark on active labour market policies when national unemployment rates are persistently high. In this situation of structural unemployment traditional passive approaches that provide temporary income replacement to offset seasonal or cyclical downturns are ineffective. With structural unemployment the chances of re-employment in the previous job are low, so new employment opportunities have to be created and the labour force has to adjust its skill set and expectations to deal with the new employment environment. Public policy is seen as means to speed this transition.

However a possibly more useful way to conceive of ALMP is as a part of local economic development policy (Lundin and Skedinger, 2006). Clearly ALMP is primarily a people based approach to economic development, but, if ALMP is conceived of as a local development strategy, it has both a strong link to place based approaches and, to a lesser extent, to sector based approaches. The link to place based approaches becomes clear if ALMP is implemented at a community level. In this context the interventions take place in local labour markets and local labour markets underpin the boundaries of functional regions and many notions of community. Secondly, because ALMP is concerned with enhancing the demand for labour, it must also address the creation and expansion of firms. Since every place has some sectors or industries where it is the most competitive the logical consequence for ALMP is to work on stimulating firms in these sectors. ALMP can be thought of as a way to unify the often conflicting economic development approaches based on sectors, people or places. Moreover the basic economic development problem of enhancing employment is conceptually identical to the basic labour market problem of reducing structural unemployment. In both cases the normal functioning of the labour market appears to be unable to restore a full employment equilibrium.

Unemployment and Labour Market Policy

The field of labour economics has largely ignored the implications of space on labour supply, demand and the functioning of labour markets. While there is a large academic and practitioner literature on local labour markets, segmented labour markets and spatial mismatches in sociology, economic geography and regional studies, there is very little recent literature on these issues in mainstream economics (Armstrong and Taylor, 2000; Martin, 2003). Much of the existing literature in other fields than economics focuses on the distributional consequences of incomplete labour markets, including issues of exploitation, disadvantage and exclusion. A major focus of this body of literature is a dual labour market structure where a core group of workers receive high wages and stable employment and a secondary group of workers are either unemployed, intermittently employed or employed at low wages.

Two characteristics of this “insider/outsider” literature are: that it in fact describes the situation facing a significant share of the rural labour force, and that the majority of the literature is essentially descriptive, in that it offers no practical solution to the problem described. Conversely, the main focus of mainstream labour economics remains on national labour markets, and the literature largely assumes that if pockets of persistent unemployment exist, they reflect an unwillingness of workers to either lower their reservation wage, relocate, or to undertake some other action that would result in their employment.

The main instrument used by most OECD governments for income stabilization is some form of “unemployment insurance” that provides those workers with a long enough employment history with income replacement for a specific period of time. The income replacement ratio, the amount of prior work history and the duration of benefits can vary markedly, across countries, within countries, and by stages of the business cycle. Nevertheless, the focus of this passive income support is to provide temporary relief until economic conditions rebound and employment opportunities improve.

But what if employment conditions do not improve? Workers, and the communities they live in, then face a period of structural shock for which passive employment approaches offer limited relief. Extension of benefits or more liberal qualifying standards, while they may provide additional income, do not of themselves offer a solution to the problem that employment opportunities have not improved (Adams, Greig and McQuaid, 2000). In a sense the problem of structural unemployment is identical to the classic problem of community and local economic development – how do you increase employment opportunity over its existing level, given some far from equilibrium starting point?

Extended Income Support

Extending the duration of eligibility for passive income support programs is the most common option employed by national governments when high levels of unemployment extend beyond the expected length of cyclical downturns. By adding additional benefits government recognizes that it may be impossible for all workers actively seeking work to find a job due to a slow economy. However the underlying premise of extending benefit duration is that the period of high unemployment is due to cyclical causes and that the demand for workers will eventually increase.

However, if high levels of unemployment reflect structural unemployment then extended benefits may provide relief to the unemployed, but the opportunity for employment is unlikely to improve. With extended benefits there is an opportunity for a more extensive search and this may lead to individuals turning down some jobs in the expectation that they will be able to find a better job before their benefits end. This is both a rational strategy for individuals, and for society, if the extended search results in a better match between worker skills and employer needs, but it can reduce short term progress to anew equilibrium.

Extended benefits may also allow time for adaptation of the local labour market. If labour market arbitrage processes work well, then extended benefits may lead to sufficient outmigration of workers from high unemployment regions to low unemployment regions to bring about a fall in unemployment in the region with extended benefits. Individuals may recognize that it will take a long time for the local labour market to clear and that extended benefits provide them with the resources to relocate to a region with better employment prospects. This could in turn improve job prospects for those still unemployed in the original region. Or, the presence of a large pool of unutilized labour may lead to firms relocating from regions where tight

labour markets contribute to upward wage pressure, to the region with high unemployment. This too would lead to an eventual convergence of unemployment rates.

However extended benefits may not be associated with convergence. If the region has a limited attraction to firms due to: remoteness, missing labour force skills, small local markets, or some other significant impediment, it may be difficult to attract new employers. Further, if prevailing wages are not much different than in regions with more favorable conditions, because of, minimum wage laws, pattern bargaining or other restrictions, then wage savings from firm relocation may be small. This is particularly important when another alternative for firms contemplating relocating from an economically thriving region in a country to one that is lagging, is to move off-shore to another country where wages and other costs may be an order of magnitude below those in the lagging region.

Moreover, extended benefits may reduce the incentive for workers to relocate if they provide a means for people to maintain an acceptable standard of living. This is more likely to be the case if employers also behave strategically. A local employer can rotate workers through employment, because labour needs are seasonal, or because it is advantageous to maintain a pool of available labour to deal with surges in output, or to limit pressure for wage increases. By re-employing individuals as their extended benefits expire for a long enough interval to allow them to requalify for benefits and then laying them off, employers both reduce the incentive for labour markets to find a new equilibrium and improve their bargaining position with workers (Jurajada and Tannery, 2003).

This suggests that extended benefits by themselves will not typically be an effective policy alternative in situations where structural problems are causing high levels of unemployment. This is especially likely to be the case in regions where there is limited opportunity for introducing major new employment opportunities, because of the presence of major impediments to introducing new firms. Where there are major problems with factors, such as, the mix of worker skills, business environment, transportation networks, basic infrastructure, or the absence of supporting industries, it will be important to address these impediments through ALMP or other means if the demand for workers is to grow.

Structural Unemployment and ALMP

In the context of labour economics the mechanism used by government to address structural unemployment is termed Active Labour Market Policy (ALMP). Unlike passive approaches, which provide income replacement with the condition that the recipient actively search for work, ALMP involves proactive interventions in labour markets by government with the intent of increasing employment levels (Boone and van Ours, 2004; Fertig, Schmidt and Schneider, 2006). Three main intervention paths are used by government to accomplish this objective. They are:

- Efforts to improve the efficiency of labour markets in matching job seekers with employers,
- Training programs to alter the skill sets of the unemployed to better match current job requirements, and,
- Subsidies for job creation.

ALMP has been a significant part of labour policy in virtually all OECD countries in the last fifteen years. However it has been most commonly used when national unemployment levels

have been well above normal and show little sign of imminent improvement. Yet, even when it has been most common, it has usually been only a small share of the total expenditure on unemployment relief. Passive programs always consume the largest share of outlays.

However in all countries, low national unemployment levels mask the fact that in some regions there are high and persistent levels of unemployment. It is in these regions that local development efforts are both the most challenging and necessary. It is also in these regions where ALMP if configured as a regional policy, instead of a national policy, can be most effective.

For ALMP to become part of the toolbox of local development strategies it requires that development strategies and ALMP both operate at the level of the local labour market. A simple definition of a local labour market is the commuting shed for workers. That is, how far are the majority of workers in a region prepared to travel in order to secure employment? Obviously this distance depends critically on the wage level that can be obtained, the cost of commuting both in terms of time and expenditure, and the reservation wage of the workers.

In terms of labour economics the concept of local labour markets is not conceptually difficult, but it is operationally challenging because the size of local labour markets vary markedly across: worker skill levels, social and community characteristics, and the range of alternatives to employment (Capello, 2007; Coomes, Green and Owen, 1998; Dicken and Lloyd, 1990. From a local development perspective the key problems are that labour markets are not commonly used to define regional boundaries, and that local labour markets have virtually no degree of coincidence with either formal administrative boundaries or the implicit boundaries set by the informal organizations engaged in local development.

Consequently integrating ALMP into local development requires a significant rethinking exercise about the appropriate geography by both labour market specialists and by local development practitioners. The obvious way for accomplishing the integration of the two approaches is through the use of functional regions that are built up from both labour market data and from the set of boundaries associated with various government agencies, community organizations and the informal organizations that are central to defining community.

Active Labour Market Policy

Background

Interest in ALMP strengthened in the early 1990s, especially in Europe where persistent high levels of unemployment contrasted unfavorably with the employment experience of the English speaking countries (OECD, 1994). High levels of unemployment were seen by some as reflecting rigidities in national labour markets and high levels of state support for the unemployed. But high unemployment also reflected significant structural adjustments in national, regional and local economies as a result of technological change, the shift to a service based economy and the rise of manufacturing in the rapidly developing countries of East Asia. While these impacts influenced a large segment of national labour forces, the effects were especially strong for the low skilled. Among the low skilled, two groups in particular stand out – youth and middle-aged workers.

Youth are an important group because the loss of jobs had a major effect on their school to work transition. In the case of youth obvious strategies are to encourage a longer school period, both to develop better skills and to reduce the excess supply of labour, and assistance

in relocation from regions of high unemployment to places where jobs are more plentiful. Middle age workers are a second important group, because they are often relatively difficult to retrain or relocate, but are too young to be offered early retirement.

Among the countries of Europe, Sweden was perhaps the most proactive in recasting labour policy in a way that continued to provide a high level of support for the unemployed, but that also created incentives for these individuals to upgrade their skills and to actively seek work. In addition, incentives were provided to firms to stimulate the demand for workers from the pool of unemployed.

What Do We Know About ALMP

Fundamentally ALMP starts from the presumption that there is some underlying demand for labour of various types and quality and works to adjust the supply of labour to better match the demand. It also acts to improve the matching process between employers and workers, and to create an environment that might attract the entry of new employers who could absorb some of the existing labour force. Thus the objective of ALMP is in bringing about a new, market based, full employment equilibrium. While subsidized public sector jobs may play a role in the process of moving to this new equilibrium, they are clearly seen as an instrument of ALMP and not a desirable final outcome. Thus the success of ALMP has to be judged on the take-up rate of workers in regular employment. Situations where workers regularly cycle through periods of unemployment, followed by periods of temporary employment in public sector jobs cannot be considered a successful application of ALMP (Boone and van Ours, 2004; Smith, 2000).

The main problem with this approach is that it assumes that the labour market is large and complex enough that in normal situations there is a full employment equilibrium that provides acceptable wages. While this may be a reasonable assumption for national analysis or for large population regions with a well developed economy it is problematic for small rural regions. In some of these latter places the labour supply exceeds any realistic employment level so equilibrium can only be reached if there is significant out-migration (Persson, 1992). In these regions ALMP will require additional types of policy to be implemented to deal with the surplus labour issue. Further, in rural regions there can be major mismatches between the supply and demand for subgroups of workers with different skills.

While there has been a relatively large theoretical interest in ALMP as an alternative to, or as a complement to, passive unemployment insurance, there is only a relatively weak analytical base that discusses the relative merits of different implementation decisions. Much of this evaluation literature originates in Scandinavia where the interest in and use of ALMP has been greatest (Hujer and Caliendo, 2000, Robinson, 2000, Smith, 2000). However even in these countries the resource commitment to ALMP compared to traditional income replacement programs, when taken over a complete business cycle, is fairly modest and sporadic. This makes it hard to fully understand the potential of the approach. Moreover the perceived success of various programs tends to depend on a number of external factors, including the state of the underlying economy, social conditions, and the nature of the specific population that is the target of the ALMP program.

Since the main application of the ALMP program has been at a national level to address aggregate structural unemployment issues the various evaluations also operate at the national level. This means that we have little direct knowledge of the potential for ALMP to bring about enhanced employment at a local level. For those interested in using ALMP as

a tool for regional policy it is important to recognize differences and similarities between national labour markets and local labour markets. In particular the magnitude of the effects of a specific program may be hard to detect at a national level but could be significant at the local level where the underlying economy is simpler and smaller.

As noted earlier ALMP programs are usually characterized as belonging to one of three basic categories: efforts to improve labour market matching, job skill training and subsidized employment.

Market Enhancement

These programs seek to improve the efficiency of the job matching process by reducing the time spent by the unemployed searching for a job, by reducing the search costs for employers and by general reductions in transactions costs. Of the three categories of ALMP programs, matching is the least controversial and has the most general support in the evaluation literature. Unfortunately it also appears to be the least effective in dealing with structural unemployment problems, because the root issue is not simply one of matching workers and employers, but is either a fundamental mismatch between labour force skills and employment opportunities, or a quantity mismatch between the number of workers and the number of jobs. Where supply and demand are significantly out of equilibrium reductions in transactions costs are unlikely to make much impact on employment levels.

From a national perspective a key benefit of matching programs is that they expand the horizon of both employers and job seekers by making them aware of candidates and openings that are outside the local labour market. By linking local labour markets in this way there is a greater chance that arbitrage can take place and reduce pockets of unemployment and worker shortages. However this obviously assumes that relocation is a low cost process. Further, to the extent that this leads to out migration, it creates a tension with place based rural development policies that first seek to retain the population of the community. But where surplus labour holds wages down and causes a drain on local government resources due to providing social assistance payments to the unemployed, it may well be better for the community to facilitate out migration of some individuals to increase the likelihood of the remaining unemployed finding jobs.

A key benefit of matching programs is that they produce important information on skill gaps between worker capacity and employer needs, and this information is used to drive the second category of skill development or training programs

Training Programs

The second leg of the ALMP process is skill development through training programs. These programs have the dual aim of increasing employment levels and of raising incomes by increasing the qualification of participants so their productivity is increased. The evaluation literature on training programs is divided, but with the preponderance showing low returns from training programs. From these studies it appears that government sponsored training does not in general reduce unemployment. However while the results may be discouraging at the national level, there may be grounds for more optimism if training is targeted and is introduced at a local labour market level.

Those studies that decompose training programs, instead of looking at them in aggregate, find that focused training efforts that are targeted to developing specific skills for which there is a clear current demand can be successful. This suggests that if in a region specific job skills

are in short supply it could be rewarding to train sufficient individuals to meet the excess demand. But to be successful only a limited number of individuals should be trained, and the training should be highly focused. By contrast, generic skills programs tend to lead to few employment increases, and if too many individuals are trained they exert downward pressure on wages, as well as leaving a large number of participants without jobs.

In particular, training programs that were coupled to requalifying for income replacement support were found to have very poor results. It appears that these programs largely serve to “warehouse” the long term unemployed. They remove people from the unemployment records for the period where they are receiving training, but large numbers return after the training interval is completed. This is attributed to two linked factors. The first is that many of the programs provide generic training that is not linked to specific careers or to specific employment opportunities, and so the participants do not really receive skills that lead directly to employment. Moreover, because participants understand that training provides a pathway to a renewal of income replacement there is a strong incentive to use training purely as a means to requalify.

Of particular interest to the application of ALMP to rural development, is the finding that training in entrepreneurship seems to be relatively successful. This opens the possibility of using labour market policy to strengthen what is now seen as a key rural development strategy. In many rural places developing locally owned small businesses is seen as having far more potential than efforts to recruit larger firms. Locally based business is considered to be more embedded in local communities and its labour demands better suit the limited size of a local rural labour force. But what is often missing in rural communities is the support mechanism to help individuals conceive, design and act upon an entrepreneurial opportunity. In small places the addition of a few firms, each employing a small number of workers, can make a significant difference in local unemployment and income. Thus stimulating entrepreneurship can be seen as a way to reduce unemployment and achieve rural development objectives.

Subsidized Employment

The third leg of ALMP involves subsidies to employers to increase the number of workers. By reducing the effective wage paid by a firm an incentive to increase employment is created, supposing available workers have the skills to create more value than their wage bill. Of the three approaches this one has the least empirical support from evaluation studies. For subsidized employment to be useful, net new jobs have to be created. If the employer uses the subsidy to hire workers that would have been hired anyway the program has no real value. It becomes a subsidy to employers and not to workers. Finding evidence of “additionality” has been difficult. Instead it appears that many of the subsidized jobs merely displace jobs that would have been created without a subsidy.

This is especially true in the private sector, where employers tend to see subsidies as a way to reduce their wage bill rather than as a way to create more jobs. In the public sector there is more evidence of additionality. This may reflect the fact that in the public sector there is no direct financial reward for management when the wage bill is reduced, and that in the public sector fixed budgets often create a hard constraint on the level of program activity. This leads to public sector managers being more likely to actually add new workers if the pool of money for wages is expanded through an employment subsidy. Moreover, if subsidized workers have specific attributes that make them either, more “socially deserving” of subsidy, or are perceived as having experienced previous discrimination, then there may be some modest additional benefit from a targeted subsidy program.

The main justification for employment subsidies is that they can open an otherwise closed path to regular employment. If employers have reservations about specific groups of individuals, say the long term unemployed or individuals lacking prior experience, and consequently are reluctant to hire them, then a subsidy may offset the negative perceptions. Once hired the individuals should be able to convince the employer that they provide sufficient value to justify ongoing employment once the subsidy ends. Even if the original firm does not continue the employment, it may be possible to use the accumulated job experience to move from being an outsider to an insider in the labour market and gain employment in another firm.

Employment subsidies are perhaps even less easy to justify in a local labour market context than as national policy. At a national level the main concern is the existence of a group or groups of individuals who are outside the main labour market. If these people remain outside then during periods of high potential employment the economy under performs because it hits a labour constraint earlier than it actually needs to. Thus integrating people into the main labour market is a valuable activity. However, at the local level, especially in small rural labour markets, it is not common that cyclical peaks lead to a shortage of workers. Instead the common problem is a persistent excess supply of workers. In this environment a wage subsidy is far less likely to lead to additional employment.

In a demand deficient environment, expanding the supply of workers is not likely to expand regular employment. Instead in rural areas employment subsidies often lead to labour churn, where employers cycle new workers through jobs as long as they are eligible for a wage subsidy, and replace them with other subsidized workers when the initial group's eligibility ends. This practice is clearly beneficial for the employer since it reduces the wage bill. And, if the employment interval allows the newly unemployed individuals to qualify for another period of income replacement, then those people who are not truly seeking full time work also gain.

National and Local Effects

Figure 1 provides information from Calmfors et.al. for Sweden on the effects of a number of training programs. It shows that although evaluations typically focus on national ALMP policies it is possible to extract some useful evidence on the regional implications of ALMP because of the way that some national policies were designed. From the figure we see that there is considerable variability in results for programs of the same general type. Differences in eligibility and location may be the cause of differences in outcomes. If national results reflect a blending of diverse regional outcomes we may legitimately conclude that a program or policy is ineffective at the national level, but it may still be effective in specific regional contexts.

Similarly Hujer and Caliendo. find from a review of a number of regional ALMP interventions in Germany that there is a variety of outcomes (pp. 18-20). For job training schemes there is often significant positive effects for short term training especially if it is provided by firms. Conversely, there is little evidence that job creation schemes, even at the local level, provide significant positive effects on employment or income. They conclude that data imperfections and the heterogeneous nature of the various programs make evaluation difficult and this may explain much of the diversity in results.

Two broad observations can be drawn. The first is that the same effect can have a different interpretation at a national than at a regional level. The most striking way to see this is through induced out migration. From a national labour market perspective out migration

Figure 1: Treatment effects of labour market training (LMT)

Study	Programme and timing	Sample	Dependent variable	Results
Edin & Holmlund (1991)	LMT, 1981-84	Register and survey data on 800 18-24 years old unemployed in the Stockholm area, 1981	Reemployment probability in subsequent unemployment spells	Significant, positive effect
Axelsson & Löfgren (1992)	LMT, 1981	Register and survey data on 2000 participants. Random selection and representative sample	(i) Yearly income 1982 and 1983; and (ii) income growth 1981-82 and 1981-83	Significant, positive effects
Korpi (1994)	LMT, 1981-84	Register and survey data on 800 18-24 years old unemployed in the Stockholm area, 1981	Duration of employment	Insignificant effect
Harkman, Jansson & Tamás (1996)	LMT, 1993	Register and survey data on 3000 20-54 years old participants. Random selection and representative sample	Regular employment 6 months and 2.5 years after programme	Positive effect only if potential selection is not considered
Harkman (1997)	LMT, 1994	Register and survey data on 3000 20-54 years old participants. Random selection and representative sample	Regular employment 2 years after programme	Significant, negative effect of training \leq 100 days; no significant effect of training \geq 100 days; the difference of 4 % between short and long programmes is significant
Regnér (1997)	LMT, 1989-91	Register data on 9000 participants. Non-participating comparison group through matching. Random selection and representative sample	Yearly income 1990-92	Significant, negative effect 1 year and insignificant effect 3 years after programme
Harkman, Johansson & Okeke (1999)	LMT & computer activity centres, 1996	Register and survey data on 3000 20-54 years old participants. Comparison group = unemployed who registered at employment offices at the time the programme ended	Regular employment 1 year after programme	Significant, positive effect of LMT; no significant effect of computer activity centres
Larsson (2000)	LMT, 1992-93	Register data on 600 20-24 years old participants. Non-participating comparison group through propensity score matching	(i) Yearly income; and probability to (ii) obtain a job; or (iii) proceed to regular education 1-2 years after programme	Significant, negative effects
Johansson & Martinsson (2000)	Swit, 1999	Register and survey data on 4000 Swit participants. Comparison group = 7000 participants in similar traditional IT training	Regular employment 6 months after programme	Significant, positive effect
Okeke (2001)	LMT, 1998-99	Register and survey data on a stratified subsample of participants. Non-participating comparison group through propensity score matching	Regular employment 6 months after programme	Significant, large positive effect
Richardson & van den Berg (2001)	LMT, 1993-2000	Register data on a 1 % random subsample of all who became openly unemployed 930101-000622 (5000 individuals of whom 665 participated in LMT). Bivariate duration model with individual heterogeneity	Unemployment duration	Significant, negative effect that vanished within two months after the training ended if unemployment duration is measured from the end of LMT; insignificant effect if unemployment duration is measured from the start of programme participation
Sianesi (2001b)	LMT, 1994-99	Register data on 30800 adult individuals, entitled to unemployment benefits, who registered at employment offices for the first time in 1994 (1387 in LMT)	(i) Employment rate; (ii) job attachment on the first job found; and (iii) benefit collection	(i) Significant, negative effect on employment rates up to 30 months, then insignificant effect; (ii) significant, negative effect on employment duration; and (iii) significant, positive effect on benefit collection. The comparison is between participation now and "waiting in open unemployment"

taken from Calmfors et.al. pp. 86- 87

from high unemployment regions to low unemployment regions is an unambiguous gain. Labour mobility leads to lower outlays on income replacement and higher GDP as newly employed workers add to output. At the regional level the results are typically perceived as less positive. The community not only loses an individual who may have found employment in the near future and created local value-added, but in the short run the community also loses the income associated with that person's transfer payments. To be sure in the longer run these short term adverse effects may be balanced by a better functioning local labour market that has higher wages if the excess supply of labour is reduced, but it may not.

Of course this does not suggest that money should be funneled by national government into ALMP and income replacement programs to maintain local populations in regions facing high levels of structural employment. But it does explain why there is strong local support for extended employment insurance benefits in any region that has a significant unemployment problem. It also explains why efforts to create local employment are far more popular than are efforts to move people. The conflict of interests provides a possible explanation for why national governments have largely been reluctant to introduce localized labour market policies.

The second observation is that programs that appear to have little effect at a national level may have a considerable effect at a local level. Focused training and support for new entrepreneurs both demonstrate positive results, but at a national level the benefits from these programs are relatively small because they occur in such a large labour market (Calmfors et.al., pp. 112-

113). By contrast, in a small regional economy a few workers with specific skills may be vital to a particular firm, or a few new business starts can make a significant contribution to the local economic base. The key difference is that from a national perspective all that is seen is the pure employment effect on labour markets, whereas from a regional perspective there are additional local economic development effects on the community that are of real value, including retention of population, the ability to continue to provide key social services locally and social cohesion.

Finally, a point made in most ALMP evaluations is that neither programs nor evaluation look very far through time. In particular, investments in human capital may take a long time before they have a payoff, and the payoff may come from completely unexpected outcomes. For example, skills acquired for one purpose or career may turn out to lead an individual into a very different direction, but only after a considerable interval of time has elapsed.

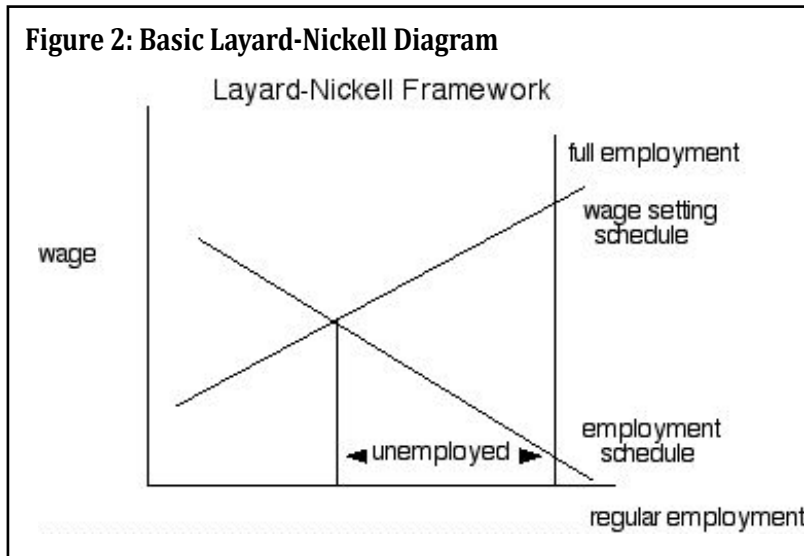
In addition ALMP is seen as providing a demonstration effect that extends beyond those who actually are enrolled in the programs. In a situation of structural unemployment individuals have to change their behavior if they are to improve their odds of finding employment. ALMP provides an incentive and a mechanism for participants to make this change. In the process others see what participants are doing, and especially if there is some visible evidence of positive outcomes from participation, then more people may be willing to make changes even without official enrollment in the ALMP process. In this way ALMP is consistent with the widely held belief that most individuals will change their occupation multiple times during their working age because it encourages the adoption of attitudes and skills that facilitate change. By contrast, passive employment policies have the implicit message that the appropriate response is to wait for a previous job to reappear.

To the extent that the real problem facing most rural communities is structural change, the ability to make use of employment policies that are focused on dealing with structural change could be a real benefit to the local development process. Since a large part of local economic development can be described as facilitating labour market adjustments and improving labour market outcomes, it is important that national labour market policies reinforce local efforts to respond to structural change.

Analytics of ALMP

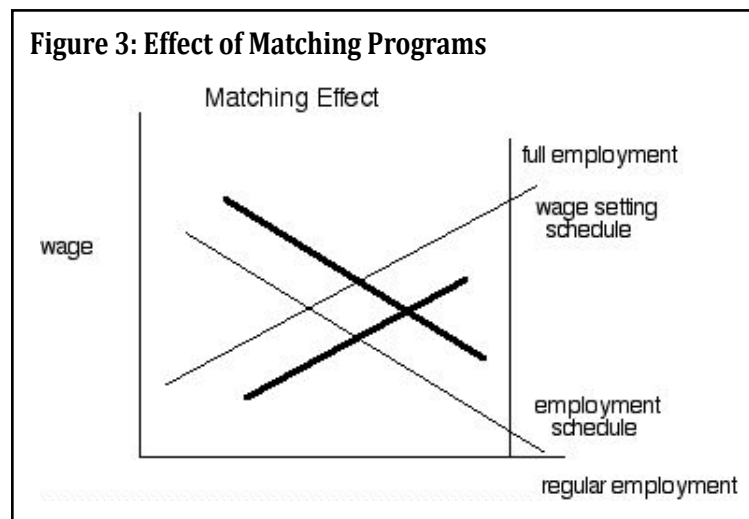
In this section some models of the analytical behavior of active labour market approaches are reviewed. The approach follows that used in Calmfors, 1994 and Calmfors et. al. 2001 by using Layard-Nickell diagrams of labour market equilibrium. The Layard-Nickell approach shown in Figure 2 employs a labour demand relationship, termed the Employment Schedule, and a labour supply relationship, termed the Wage Setting Curve. The Employment Schedule is determined by the willingness of employers to take on workers with the real wage as the primary determining factor. Thus the Employment Schedule measures the number of workers who will be employed at any given real wage. The Wage Setting Schedule provides a labour supply curve that is a function of the real wage, but also is influenced by the ability of the work force to push up wages, even in the presence of unemployment. For example, strong unions may be able to increase wages despite high levels of unemployment. Or, if significant numbers of the unemployed are not qualified for the jobs that are available, then wages could rise despite a high level of unemployment. The intersection of the two schedules determines the equilibrium real wage and level of employment.

The Layard-Nickell approach also includes a measure of the full employment labour force, where everyone who might want to work is employed. The difference between this level of employment and the actual equilibrium level is the level of unemployment. Calmfors recognizes that in the case of ALMP where individuals are involved in programs, for example training, they are technically somewhere between unemployed and employed. These individuals are not part of regular employment but are engaged in an activity that effectively removes them from open unemployment. To account for this the analysis modifies the Employment Schedule to only include those workers in regular employment – that is those workers whose employment is not influenced by a labour market program. This effectively shifts the Employment Schedule back from its previous location.



From this basic structure it is possible to examine the effects of different ALMP initiatives on employment and unemployment levels. In the analysis two types of effect are distinguished. The first is the intended outcome from each of the three major approaches. The second is the unintended effects that may either reinforce the intended effect or could act in an opposite direction. Obviously all the intended policy effects will reduce unemployment. However many of the unintended effects either greatly reduce the intended effects, or even overwhelm them in extremely perverse cases.

Matching Programs



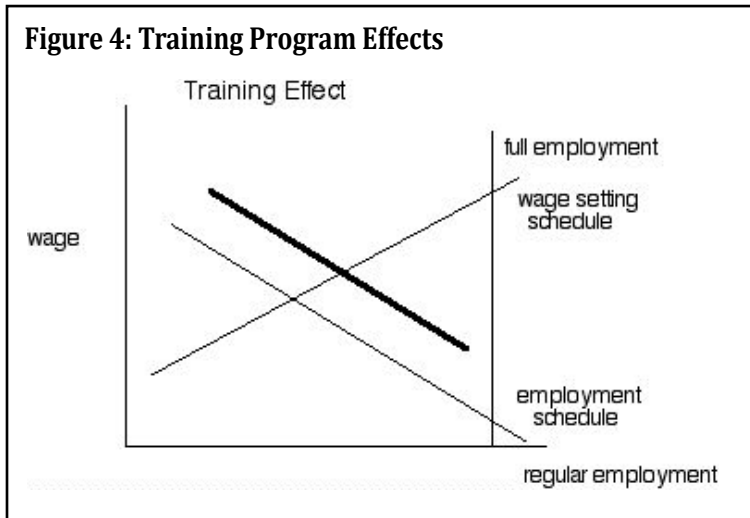
The main intended effect of matching programs is to shift the Employment Schedule out to increase the number employed at any given wage. This should happen because lower transactions costs make it easier for both workers and employers to find each other and this will expand the number of employment opportunities. A second level effect is that with better matching, employers will be

less likely to raise wages as a way to poach workers from other employers and will instead seek new workers from the unemployed. This causes the wage-setting schedule to shift down. Figure 3 shows that the intended effect of matching programs is an increase in employment, but the effect on wages is indeterminate and depends on the relative magnitudes of the shifts.

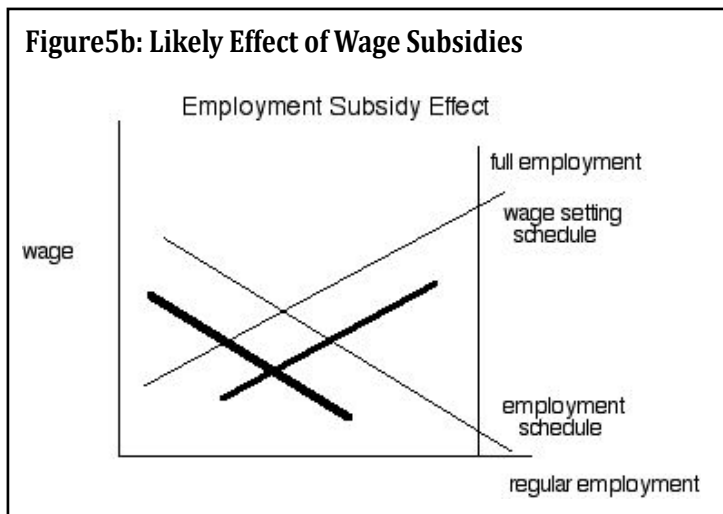
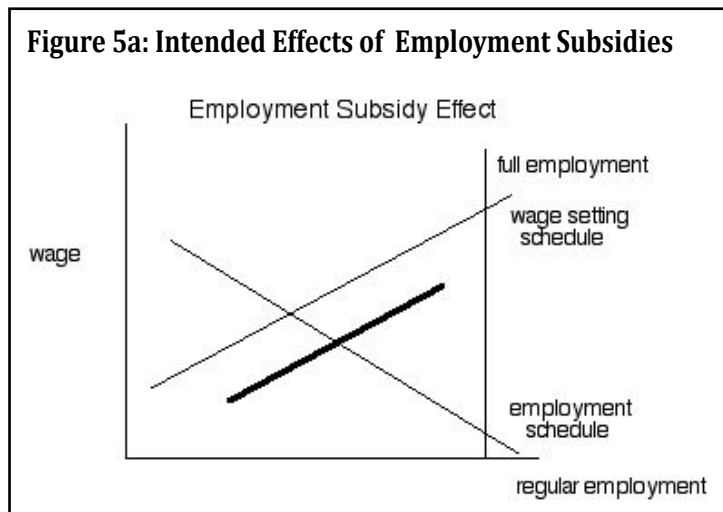
It is recognized that there may well be secondary effects with matching programs. The most obvious of these is that individuals in ALMP programs reduce their job search effort because they now have increased expectations that a search of short duration will lead to employment. Consequently, the increase in regular employment could be less than might be expected, because of potential difficulties in finding workers to match to jobs. This in turn may cause employers to continue to use higher wages to attract workers from other firms, which in turn reduces the downward movement of the wage setting schedule.

Training Programs

The intended effect of training programs is to alter the skill set of the unemployed so they are qualified for occupations where there are employment vacancies. If this process is successful it should lead to an outward shift in the Employment Schedule as employers take up individuals with enhanced skills. If this is the only effect then unemployment will decline and the equilibrium wage will increase, as shown in Figure 4.



There may however be unintended effects that mitigate the improvements shown above. If a smaller number of skilled workers are a substitute for a larger number of unskilled workers, the regular employment schedule may not move out by as much as is expected, or in extreme cases may move in the opposite direction than is shown. Further, if higher skills translate into greater worker bargaining power, then the wage setting schedule could also shift up, which would reduce the employment effect associated with training. Finally, if too many workers are trained for the available jobs, there is likely to be less effect on unemployment than was anticipated. And, there may be a downward shift in the Wage Setting Curve as the bargaining power of workers is reduced by the availability of replacement workers.



Employment Subsidy

The intended result from employment subsidies is an increase in employment. The mechanism by which this happens should be a shift down in the wage setting schedule as subsidized employees reduce the ability of regular employees to push up wages by increasing competition for jobs. This should lead to increased employment at a lower equilibrium wage, as shown in Figure 5a.

The perverse effect most commonly associated with a wage subsidy scheme is a shift back of the regular employment schedule, caused by employers substituting on a close to one-to-one basis a subsidized employee for a regular employee (Figure 5b). In this situation a new equilibrium is reached with a lower wage, but with an indeterminate effect on employment depending on whether the displacement effect or the wage effect is dominant.

Linking ALMP To Local Development

As noted earlier, local development efforts are almost always organized on the basis of administrative boundaries. The boundaries may be defined in terms of a single community or some aggregation of community boundaries, but political jurisdictions are the basic component for establishing the territory, and by extension the population, that will be included in the effort. This focus on political boundaries leads to a fundamental weakness in most local development strategies.

A common problem is that the administrative boundary of the organization charged with designing and implementing the development strategy doesn't correspond to the boundaries of the functional economic region the organization belongs to (Edwards, 2007). This creates a spatial mismatch between the planning region and the spatial area to which it is economically linked. Typically the organization region is smaller than the functional region. As a result the development strategy typically fails to consider spillover effects onto the other parts of the functional region. Or, more perversely, it recognizes that spill overs might occur and acts in a way that minimizes them in order to capture all program impacts within its territory. In other cases the administrative region is too large and strategies are developed at too large a spatial scale to be effective. Where a development region contains parts or all of a number of functional regions it is unlikely that any single development strategy will meet the needs of the majority of the component parts.

In practice it is impossible not to use administrative or political regions for local development purposes. These are the mechanisms by which people are organized, and local government units are a critical component of any successful development approach. The solution is to try to ensure that planning regions at least roughly correspond to the extent of the functional region. But since a functional region has many component elements it is necessary to choose some core economic activity as a proxy for defining boundaries for the functional region. While local labour markets are not the perfect proxy they can be a useful starting point.

The fact that most local development strategies are mainly defined in terms of increasing the number of jobs reinforces the validity of paying explicit attention to local labour market boundaries. While most local economic development strategies are not only about the creation of jobs, the creation or preservation of jobs is almost always one of the central objectives. Thus a first issue that must be resolved if ALMP is to be used as a component of local development strategy is the definition of the local labour market. While it is possible that local labour market boundaries will not precisely define the appropriate functional region if the two regions are not roughly contiguous, it is still likely that ALMP can be used effectively as part of the development approach. A crucial consideration in developing labour market boundaries is their potential to adjust. Recall that a minimum of three factors affect labour market boundaries. These are prevailing wages, commuting or transport costs and the workers' reservation wage. Since all three adjust through time, we must recognize that local labour markets are a dynamic concept.

Higher transport costs will shrink local labour markets, while a decrease in reservation wages that could be associated with increased pressure to accept a job can increase the size of the market and the number of participants. Similarly higher wages will also increase the market size, both in terms of geographic extent and number of job seekers. Moreover if a community is successful in increasing its level of economic activity it will almost certainly expand the geographic size of its local labour market. In addition, labour market boundaries vary significantly by type of job, primarily because of differences in skill levels that lead

to differences in relative earnings. Consequently, as the employment mix in a community changes, its labour market boundaries will also change.

Behavior

ALMP has an early history in Canada that reflected a strong federal government concern beginning in the mid 1980s that in specific parts of the country local labour markets did not appear to be functioning well (Sharpe and Smith, 2005). This was particularly true in more rural areas and especially true in Atlantic Canada. In these areas there were high levels of permanent unemployment that were exacerbated by additional seasonal unemployment. Most of these regions were in areas where the main occupations were related to natural resource extraction and processing, and the economic base of the regional economy was highly truncated. The combination of: thin labour markets, labour immobility and reduced labour demand by traditional employers pointed to a need for more than short term income replacement.

For an extended period in many natural resource dependent places there has been a decline in traditional employment opportunities, due to a loss of jobs in either initial extraction or first stage resource processing. In many places the employment decline began almost two decades ago. By now, in an efficient labour market one would expect that unemployment in these places should have been considerably reduced. Yet, despite relatively high rates of outmigration and the creation of some replacement employment in some expanding resource sectors, there are still very high rates of unemployment. What might explain this behavior?

Periods of extended unemployment in communities that depend upon resource extraction or first stage resource processing is not uncommon. These are typically cyclical industries that go through extended periods of boom and bust. In response the local labour force has learned to “wait out” the down period and take advantage of the up-turns. Income replacement and social assistance programs provide a buffer to families while they wait for conditions to improve. As long as these cycles continued, and the interval of decline was relatively short, the individuals and communities in this situation were able to cope with periods of high unemployment. Indeed given the high cost of relocation and the limited prospects for other employers relocating to the community, the behavior was highly rational. What changed in the 1990s in many of these communities was the decline was no longer cyclical, but structural. Consequently there was little chance of the jobs coming back. However recognizing the difference between cyclical and structural decline was not an easy task, especially for those people involved.

In a study of Appalachian coal mining communities Johnson and Stallman (1994) argue that the traditional behavior of children from families in coal communities of minimizing formal education was economically rational. They show that returns from education were low relative to the opportunity cost of taking a mine job. Early entrants into the mine started earning income earlier, there was no wage premium for additional years of schooling, mine owners were reluctant to hire people with too much education because they were perceived to be potential union advocates, and periodic layoffs that were based on inverse seniority, all made the return from finishing high school unattractive. However, once mining jobs disappeared permanently, this adaptive behavior was no longer appropriate, but decades later traditional values still minimize the importance of investments in education.

Weiler (2000) extends these ideas in his study of labour market queues in West Virginia. Weiler identifies a dual economy with an export oriented high wage sector that undergoes cyclical shocks, and a lower wage non basic sector with employment levels set by the health of the export sector. He demonstrates that in the presence of: high relocation costs, common, and low, worker skill requirements in both sectors, a strong informal economy and the possibility of future employment in either sector, it may be rational for workers to stay in the community during periods of high unemployment. Consequently one can observe persistently high rates of unemployment that in fact increase in periods when firms in either sector add workers. This surge in measured unemployment reflects the re-entry of discouraged workers into the group actively seeking employment, whenever the probability of finding a job increases.

Some of these conditions also apply to workers in traditional industries in Canada, but the key point, in both Johnson and Stallings and in Weiler, is that with careful analysis it is possible to show that behavior that superficially appears to be irrational is in fact very sensible, given the opportunities and constraints facing the individuals making those choices. Thus one must look at the situation in rural communities for explanations of human behavior under the basic assumption that people are largely rational in their choices. Why might people persist in staying in a place even after it is perfectly clear, at least to outsiders, that their old jobs will not return? Obviously in the case of cyclical downturns it is perfectly rational to wait for the cycle to reverse and employment to pick up again, but it seems apparent by now that what these places face is structural change, not a cyclical downturn.

A first explanation is limited opportunity cost. Many of those who stay are the least educated and are well into middle age. For them opportunities in any place are greatly diminished from what they were twenty years ago, both because the individuals are older and because there has been a relative decline in the share of employment available to low skill and low education workers. Thus relocation may not markedly increase the prospects of employment.

A second argument is based upon relocation costs. Relocation is expensive, both in terms of the costs of moving and the cost of living in a new community. People in rural areas typically own their own home, but housing in declining rural areas is an illiquid asset. Even if the house could be sold the revenue is unlikely to allow the purchase of a comparable place to live in another community where unemployment is low. Similarly, many individuals lack sufficient liquid assets to cover the cost of relocating to a new place and paying for living expenses during a job search period that could be extensive.

A third factor is the low, but visible, possibility of finding local employment. In many communities some local people have found new employment and some of these individuals are making more money that they did under the old economy. Moreover most of the individuals who found employment have no more skills than the rest of the people in the community. Given that there is some positive probability of a good local job, and evidence that relocation is both expensive and also uncertain to provide employment, it may still be rational to remain in place. This is especially true for individuals who overestimate their chances of finding local employment and underestimate the odds of finding employment if they relocate.

Fourth, one must consider the existing level of public support for remaining in the community. Most importantly a relatively short interval of employment requalifies an individual for extended government Employment Insurance payments. Thus the returns from episodic employment are much higher than the actual earned income suggests. Moreover if the individual has significant non wage activity that contributes to consumption, the total quality of life or standard of living can be considerably higher than money income suggests. For

example if there is an extensive barter system in place in a community, or there are self-supply opportunities from hunting, gardening or fishing, then people can live much better in their traditional community than in a new place where these opportunities are unavailable.

Finally, there are distinct sociocultural factors that impede relocation. For example, Newfoundland and Labrador are only weakly connected to the rest of Canada in terms of transportation access, so there is an inherent sense of isolation or distinctness. In addition most rural communities in the province are only weakly connected to each other or to larger urban centers. Road access is a relatively recent phenomenon and the road network is sparse by North American standards. Consequently there is a very strong sense of community bonding within many rural places that both provides support to people who desire to stay and acts as an impediment to people who contemplate leaving.

It is also important to recognize that ALMP is no more of a certain cure for the problems of rural development than any other program or strategy. It is a specific tool that operates on one dimension of the rural development problem. While ALMP can provide a mechanism to deal with labour market problems the ultimate success of ALMP programs will depend upon the existence of a number of related factors. If the local labour market is not far from equilibrium, in the sense that a supply-demand equilibrium is achievable, then ALMP is likely to be more effective. This will be the case in places that have a relatively strong economic base and good complement of workers with adequate numbers in a variety of skill categories. For places lacking these conditions the success of ALMP will hinge upon the success of other strategies that also influence the level of economic activity.

ALMP also operates within a social and cultural system. As noted earlier ALMP works to achieve a market based equilibrium. This presumes that the society is prepared to accept changes from its current status. In many rural places this is more difficult than it might appear to be from an outside perspective. Many of the social and cultural norms that define the community are built upon the past economic function. This means that accepting the end of the old local economy also means accepting the inevitability of significant social change.

Because local labour markets are likely to include multiple political jurisdictions the chance of local politics intruding on economic decisions is high. For example, even though one community in the region may be best positioned to be the site for a new investment it will still be difficult for officials from other communities to accept that they should support development in another place when all they have in return is the hope that the resulting employment will spread far enough so that their citizens benefit.

Implementing ALMP in Rural Local Labour Markets

As noted by Green and Hardill the idea of a local labour market is much more difficult to define in practice than to discuss as a concept. This reflects the fact that different occupations and different firms have individual spatial boundaries. Thus in any region the local labour market, say for fish plant workers, differs from the local labour market for long distance truck drivers, and in another region the two boundaries might differ significantly again. Consequently within any functional region there will be an imprecise, or fuzzy, boundary for the aggregate local labour market. Moreover, as commuting costs, earnings, employment levels and reservation wages change, the boundaries of the labour market will also change. Finally a crucial characteristic of a local labour market in rural areas is that it is limited,

both in terms of the number of occupations and also in the number of positions within each occupation (Persson, 1992).

This has important implications for: the persistence of mismatches between the supply of workers and the number of positions, the benefits from training, and opportunities for advancement within a firm or for changing occupations. Moreover, local labour markets are exceedingly open, in that individuals can enter and leave a local labour market relatively easily. Indeed from a national perspective facilitating inflows and outflows from local labour markets is an important policy goal.

Stylized Labour Market Characteristics

While there is a considerable amount of regional difference among local labour markets in rural areas, the majority of them have some or all of the following attributes.

- A strong dependence on manual skill occupations in natural resource industries, manufacturing, construction and tourism. Many of these occupations require a considerable degree of artisanal skill that is obtained through informal means, but these skills are often geographically specific and are not transferable to other occupations. For example, a highly skilled logger may have no formal training and low levels of formal education, but outside this occupation weak educational attainment is an impediment and skills in felling trees do not have much use outside the industry.
- A community demographic structure that is characterized by a large number of older workers, many of whom have weak formal educational backgrounds and a large number of retired people. Conversely, there are few young people in the school system and even fewer young adults in the labour force. Many local labour forces will confront a falling labour pool in the near future as older workers retire and there are inadequate younger workers to replace them.
- A large share of small firms and self-employed on the labour demand side. Neither of these groups are likely to be the source of a large number of net new employment opportunity without major interventions to stimulate their growth. Where a large private employer exists, it is typically managed from another place. As a result, local management has limited scope for making changes and is typically concerned with meeting externally imposed production targets at the lowest possible cost.
- Short supply and market chains that lead to small income and employment multipliers. As a result any new direct jobs create only a small number of new indirect jobs and income.
- A large service and government sector, but in both cases these sectors can be characterized as providing limited numbers of core management jobs. Employment opportunities are concentrated in the delivery of routine services with limited ability to expand the range or scope of the assigned functions. In particular there is limited capacity in finance, accounting, legal and other professional services.
- Weak and dispersed local governments that tend to view job creation outside their administrative boundaries with suspicion, despite the fact that local labour markets extend well beyond any specific local government boundary.
- A dualistic local economic structure comprised of one part that has a relatively small number of firms that are strongly oriented to external markets. These enterprises sell their output primarily to customers who are outside the community. Another group of

firms focus primarily on local demand. Resource industries, manufacturing tourism and branches of the federal and provincial government fall into the export-oriented category. Revenue associated with these firms provides the means to import all the goods and services that are not produced locally by the second group of firms.

This context has important implications for the design of ALMP. Some of the attributes of rural labour markets make it easier to design ALMP policies, while other make it more difficult. Perhaps the single largest issue that influences any policy is the open nature of the local labour market. Because labour mobility is far greater at the local level than at the national level, the potential for individuals to leave or enter the region can have major implications on employment outcomes.

Job Matching

Local labour markets in rural areas are often characterized by an insider/outsider phenomenon. When employment opportunities appear they are often not widely circulated so only a select few are aware of them. Moreover the combination of low density and large distances can lead to individuals being unaware of openings, even when the employment opportunity is not restricted. Conversely, employers may see the reduced search costs associated with employment based upon referral from current workers as an advantage.

A common problem in rural areas is a structural mismatch between the supply of workers and the demand. Generally this is a problem of excess supply, but as aging and outmigration shrink the labour force, the potential for excess demand is increasing. While matching programs do not alter these underlying structural issues they can help by increasing awareness of openings and by suggesting opportunities for career changes that can reduce imbalances. Where a large share of individuals have undocumented skills a crucial function for matching may be finding a way to assess skill levels so that potential employers can better assess the capabilities of various individuals. Matching functions may also play a role in facilitating flows into or out of local labour markets where imbalances cannot be resolved internally.

In those rural labour markets where an excess supply of labour remains a problem a crucial function will be facilitating out-migration. Some hope may exist for modest increases in local labour demand from efforts to create jobs, but realistically out-migration can provide a way for both the individuals who leave and those who stay to increase the probability of regular employment. Given the high barriers to out migration that are common in rural areas it will take a considerable effort to identify and persuade people that their employment prospects and future quality of life can be improved by leaving.

Job Training

Targeted job training may be the area where ALMP can offer the greatest benefit to local economies. Because rural economies are characterized by a truncated economy, where there are limited economic sectors and limited occupations, it is easy for there to be an imbalance between skill needs and availability. In particular, the absence of certain skills can preclude increased employment opportunity for those with available complementary skills. For example if a firm needs a small number of workers with specific skills that are not available locally, then it may not be able to offer jobs to other types of workers who are present and seeking work. A targeted training program could remove this obstacle to economic growth.

For these programs to be successful there has to be a high level of coordination between employers and the agency in charge of training. While this may be possible for existing firms,

a crucial issue for the local economy is understanding what potential new firms could be introduced if particular labour constraints were removed. This type prospective training is inherently speculative, but with careful assessment of the underlying potential it may be an effective tool. For example, if a region has a strong existing activity, such as tourism based upon kayaking, then it may be possible to develop a kayak production industry. The odds of this happening would be improved if there were individuals trained in plastic extrusion techniques.

A key potential focus for localized ALMP is the provision of training to entrepreneurs and small businesses. There is considerable evidence that both these groups under utilize existing large scale training schemes, because they are not compatible with their work schedules. Because a disproportionate share of economic activity in rural areas is associated with these two firm scales, efforts to make them more productive and efforts to improve their viability could play a large role in expanding the local economy.

Job Subsidies

In rural areas job subsidies can provide an important way for communities to fund public sector activities that are of real value to the community, and create an opportunity for local residents to requalify for an additional period of income replacement. Moreover, for a firm that is marginally profitable, the opportunity to take advantage of a job subsidy program that reduces its labour costs may allow it to remain in production and continue to provide regular employment to most of its labour force. Having recognized this, the potential for employment subsidies to provide a pathway to regular employment in the local labour market are probably quite limited.

Wage subsidies are most useful if the employer is unable to assess the ability of a potential worker and the subsidy becomes a mechanism to encourage the employer to take a chance on a worker who can then demonstrate an underlying ability to do the job. In rural areas this situation is atypical for two reasons. The first is that there are relatively few job opportunities that require skills that are difficult to assess in a short period of time. This means that employers can quickly determine whether an individual can do the work. Second, because the local labour force is relatively small, there is a considerable ability to determine, a priori, a given workers capabilities, even before the hiring decision is made.

Clearly there are outsider problems in this situation. Individuals who are not part of the system have considerable difficulty in gaining entry to it. This may be seen as creating an opportunity for targeted job subsidies. However given an environment that is largely characterized by an excess supply of both kinds of workers, it is unlikely that job subsidies can be restricted to outsiders, or even if they could that they could be made large enough to lead employers to take an outsider with a subsidy over an insider without one.

Practical Implications

Because the paper considers the role of ALMP in contributing to local economic development there are two distinct groups that might benefit from considering the implications of the analysis provided. The first is those government agencies responsible for developing and implementing workforce programs. Two key recommendations come from the analysis. The first is the importance of adopting a territorially sensitive approach to labour market programs. Even in time of high aggregate employment there are geographic pockets of

unemployment that do not seem to adjust. This may reflect market imperfections that can be resolved through more focused programs. The second is the importance of implementing specific programs that address the root problem rather than papering over the problem. Evaluation of ALMP shows that many programs fail to achieve their intended goals because the specific policies do not fit the specific nature of the local labour markets. For example, generic training programs may improve worker skills, but there may be no local demand for those skills. Similarly, wage subsidies almost universally fail to lead to full time employment, although they certainly provide additional income for the individuals enrolled in them.

The second group that could benefit from the analysis are the individuals, organizations and local governments engaged in economic development. A focus on improving labour markets as a basic building block for an economic development strategy has a number of advantages. They include recognizing that in most cases the local labour market extends beyond any single community both in terms of supply and demand. Another critical issue is the importance of matching skills to employer needs. Although the basic nature of the local labour force is not easily changed in the short run, it is possible to both search for employers who can use available skills and engage in targeted training that can expand the supply of those skills that could increase the attractiveness of the region. While most local development programs have a clear focus on job creation, too many fail to develop a clear understanding of: the attributes of their local labour force, the types of employers that could be attracted to a region with this set of skills, and, most importantly, how to structure development efforts in ways that build the human capital of the region.

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