

Active labour market policies in the UK: their evolution and evaluation

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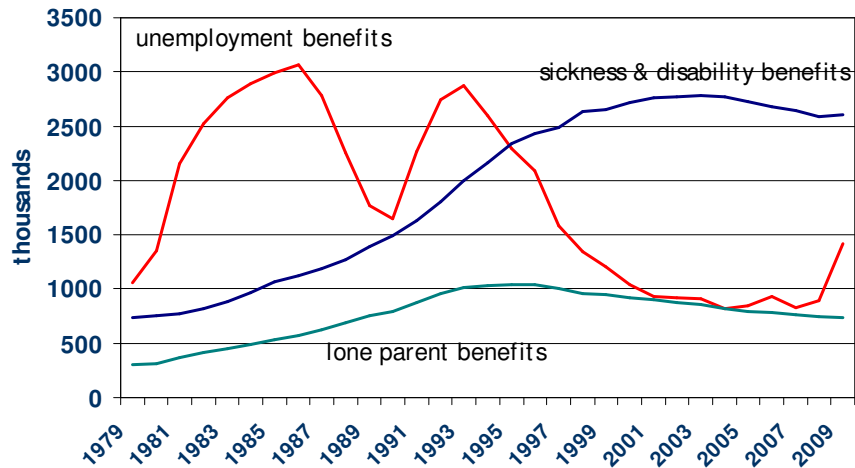
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Outline of talk

- Development of UK ALMP up to mid-90s
- New Labour and New Deals from 1997
- UK ALMP in international comparison
- Evaluation evidence on impact
- The current recession:
 - labour market developments
 - preliminary thoughts on ALMP performance in the recession
- Looking ahead: new developments in UK ALMP

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Historical trends in UK out-of-work benefits



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UK benefits and labour market policy up to the mid-1980s

- Breakdown of Beveridge welfare principles of rights/responsibilities
 - less frequent checking on benefit eligibility
 - less frequent attendance at Jobcentres required
 - separation of Jobcentres and benefit offices (1974)
- Demand-side labour market policies focused on:
 - Job retention subsidies
 - Job creation programmes for long-term unemployed
- Some demand/ supply side programmes (for youth)
 - Job-creation combined with training
- Hardly any purely supply-side policies, mainly focused on early exit
 - Subsidised early retirement

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Mid 80s-mid 90s: shift to supply side, and the emergence of 'activation'

- Demand side job-creation schemes for LTU shrunk, and now incorporate supply-side (training) elements
- Self-employment programmes for the unemployed
- Activation: 'stricter benefit regime'
 - Stronger links between benefits administration and PES (Jobcentres)
 - Job-broking/ counselling role of PES increased
 - Restart (from 1986): compulsory interviews for LTU at Jobcentre (after every 6months) + benefit sanctions
 - Jobseekers Allowance replaced UB in 1996
 - Strong active jobsearch requirements
 - Contributory JSA reduced to 6m duration (UB was 12m)
- But labour market withdrawal to disability benefits still (tacitly) encouraged to keep headline unemployment down

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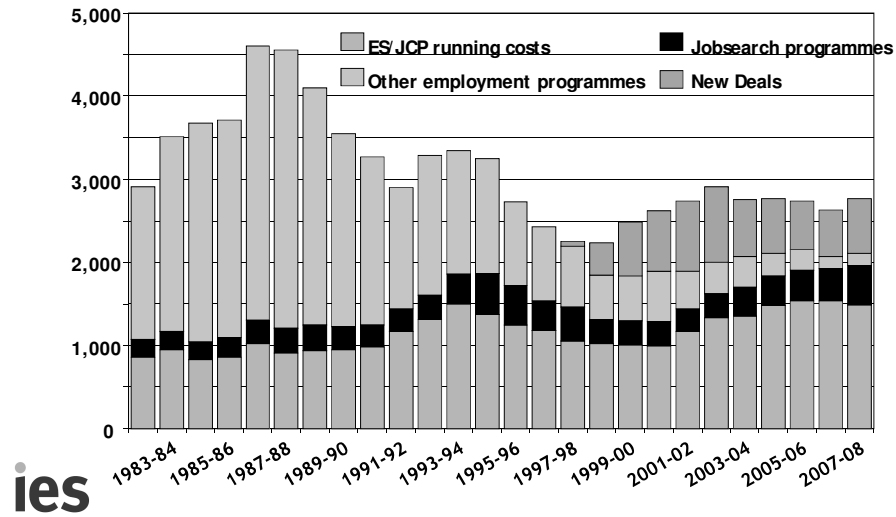
1997-2007: New Labour: more activation & dominance of the supply side approach

- increased emphasis on supply-side measures
 - disappearance subsidies, job-creation schemes etc.
 - within supply-side: less training, more placement/ advice/ counselling
- 'make work pay' (benefit reforms & tax credits)
- New Deals (for young people and LTU)
 - increased 'activation' and compulsion
 - individualisation: active case management
 - involvement of private & NGO sectors in ALMP delivery
 - some shift towards prevention/ early intervention ('inflows' not 'stocks')
- Shift to inactive groups (**New Deals**: lone parents, disabled, older workers -50+); **Pathways to Work** (Incapacity Benefits) driven by:
 - 80% employment rate target (from 2005. Emp rate in 2007 = 72%)
 - wish to reduce benefit costs (esp disabled + lone parents)
 - ideological commitment to 'work first' approach
- Jobcentre Plus (2001) = merger of PES and benefits agency
 - inactive benefit recipients face same regime as unemployed

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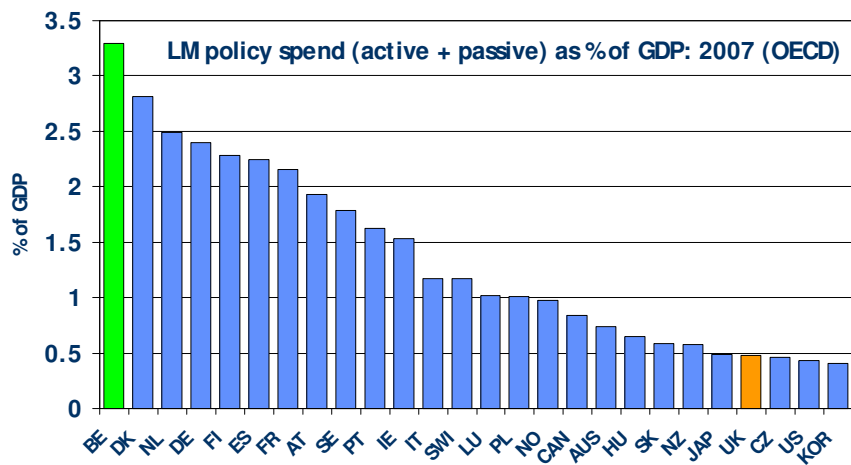
ALMP expenditure

£ millions (constant prices)



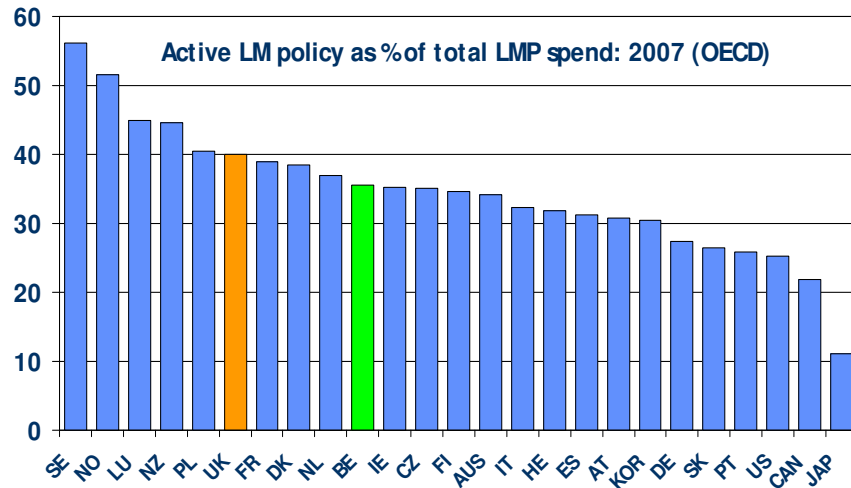
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The UK spends little on LM policy ...



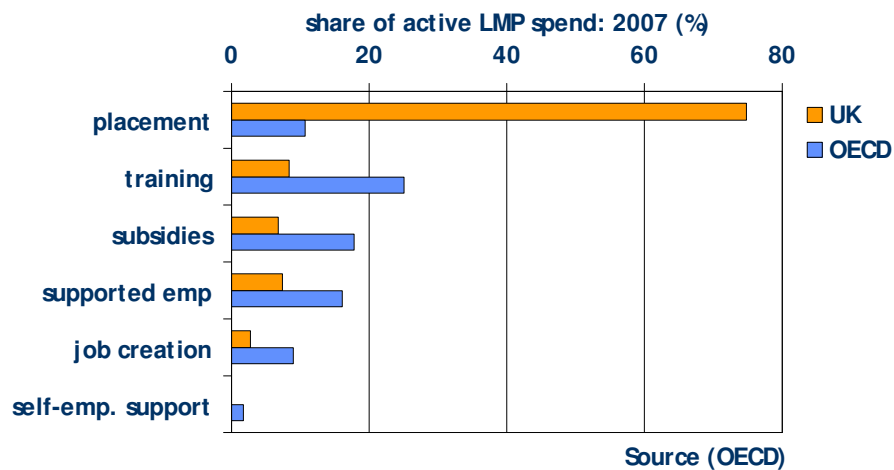
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...but a lot of it is 'active'



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...but 'active' policy looks very different in the UK



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What do we know about impact? Historical evidence from 80s and early 90s

- job creation schemes:
 - large undifferentiated programmes expensive, high deadweight, and risk 'locking in' effects
- wage subsidies:
 - recruitment subsidies have positive effects if carefully targeted, but risk high deadweight, and substitution/ market distortion
 - retention subsidies: reduce structural adjustment, and favour 'insiders' over disadvantaged groups
- training schemes:
 - targeted schemes can work, if lack of basic skills impairs employability
 - 'broad brush' schemes have low impact on employability (sometimes negative) and risk 'locking in' effects
- self-employment schemes:
 - high deadweight if not targeted, poor survival rates if targeted
 - no evidence of positive effect on subsequent employability
- PES-driven counselling/ advice, together with benefit reforms are cost effective, with positive impact on outflow rates from benefits:
 - random control group study of Restart (White and Lakey): increased outflow rates, and reduced LTU probabilities
 - admin. data show introduction of JSA in 1996 had positive effect on outflows

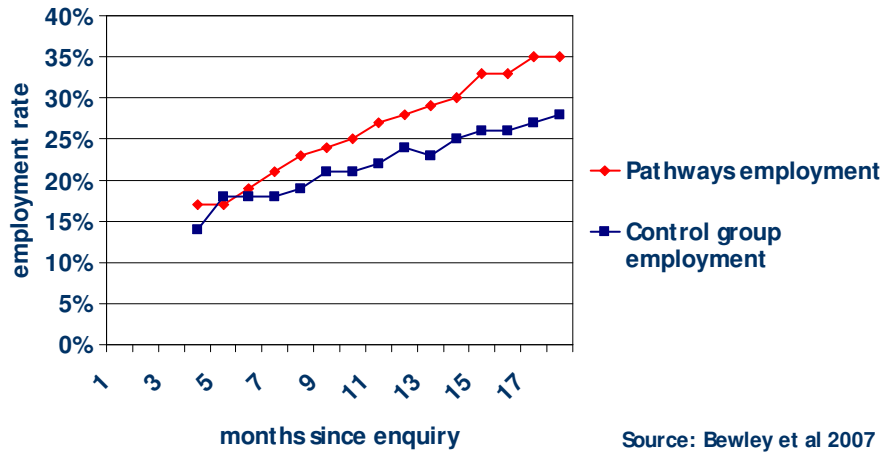
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What do we know about impact? New Deals etc

- New Deal for Young People
 - macro-impact: = fall of 40% in youth LTU + increase in unemployment outflow
- New Deal 25+ (for LTU)
 - hard to evaluate, because of frequent changes to scheme
 - little evidence that advice/ support has positive impacts on LTU
 - real job experience has some impact (Work Trials & Emp. Zone evaluations)
- New Deal 50+
 - no impact evaluation
 - selection effect (voluntary scheme)
 - qualitative evidence of positive impact from advice/ guidance on this group
- Lone parents
 - big increase in employment rate of lone parents since mid-90s
 - evaluation (Gregg et al., Dolton et al): both **tax credits** (with childcare subsidy) and **New Deal** had impact
 - Treatment effect of NDLP on benefit receipt is 14% Combined aggregate effect of NDLP and WTC is 4-5% point increase in employment rates
- Disabled People
 - New Deal for Disabled People: significant impact – reduced benefit receipt (13-16% points) + increased employment rate (7-11% points)
 - Pathways to Work: significant impact (6-8% points) on probability of working and not receiving benefit, 1.5 years after participation (Bewley et al. 2007)

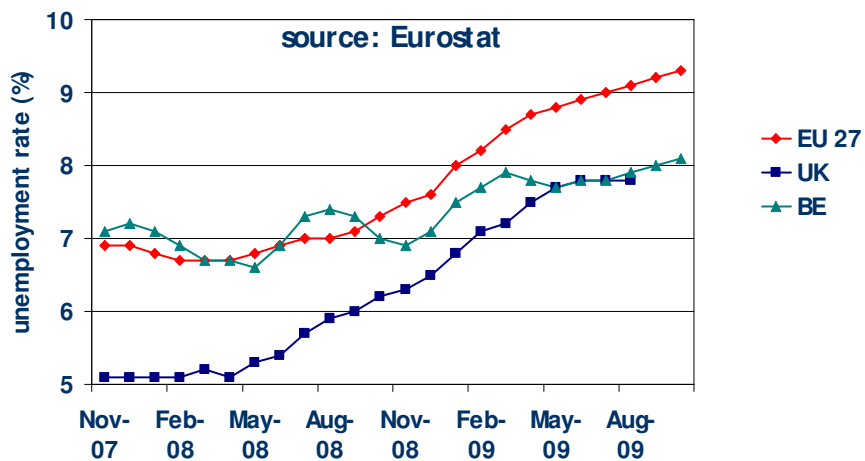
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Impact example: Pathways to work



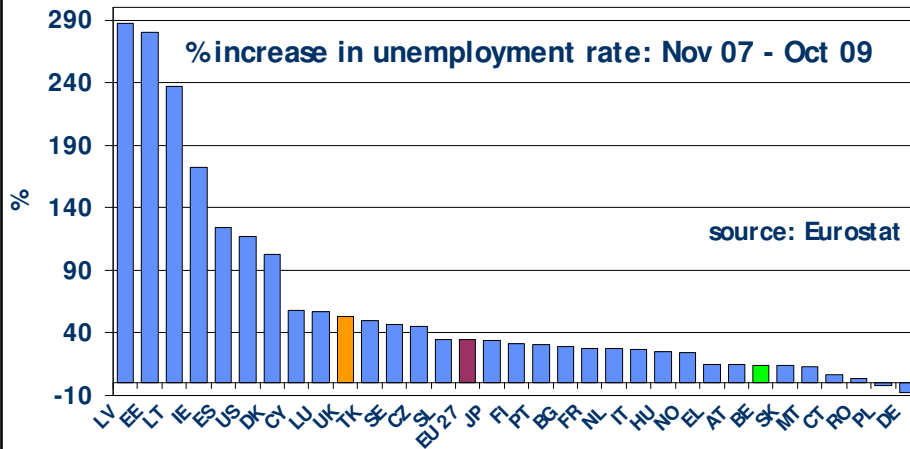
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UK unemployment in the current recession (1)



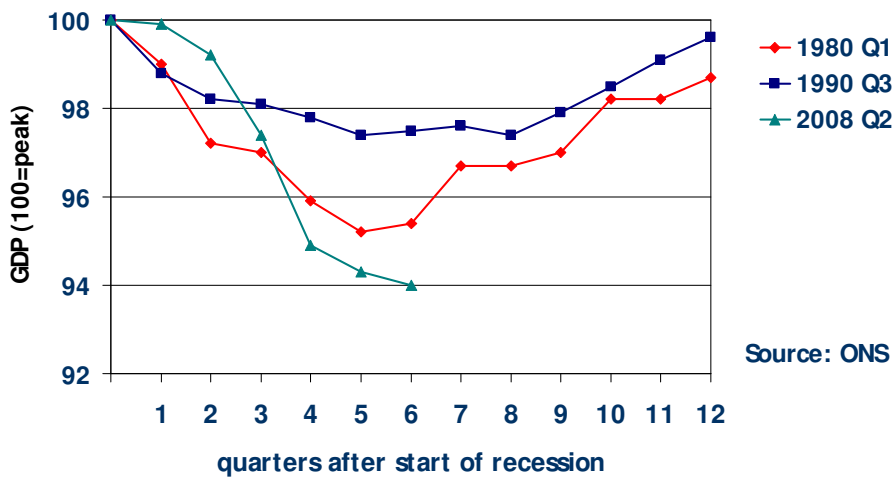
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UK unemployment in the current recession (2)



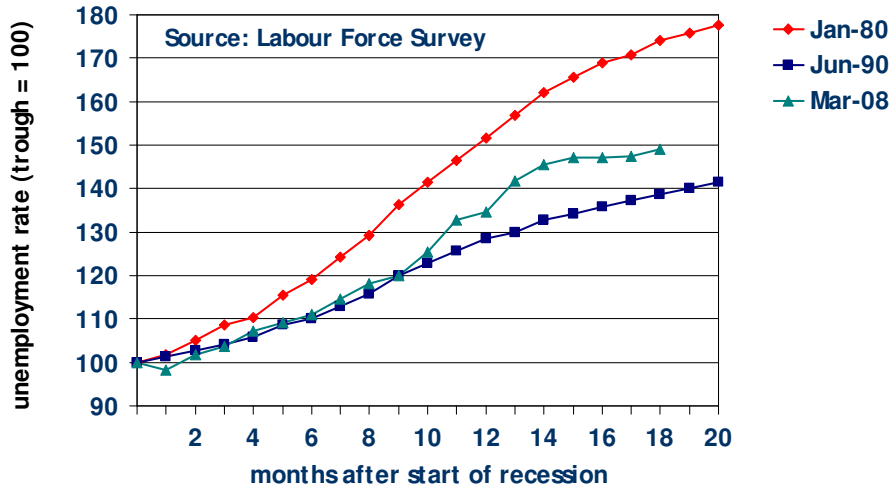
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This recession is deeper than the last two



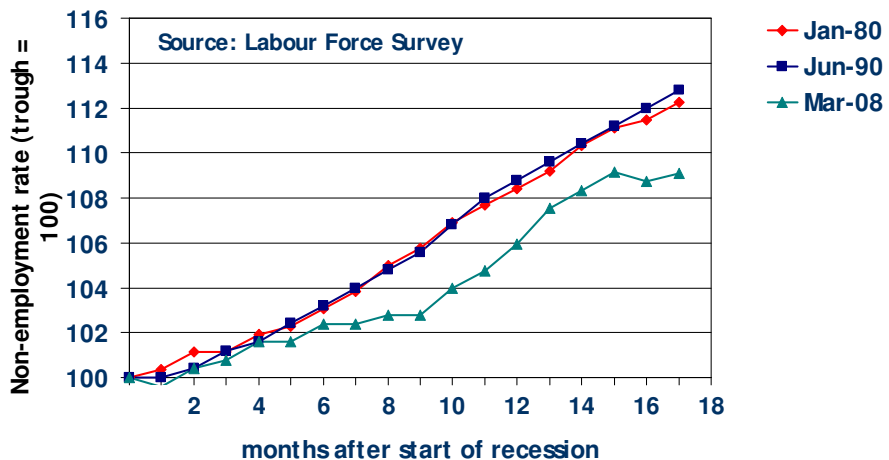
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Unemployment growth worse than 90s, but not as bad as 80s recession



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.. but total worklessness has not risen as much as in either of the last 2 recessions



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Issues for the recession and beyond

- New Deal system + benefits reform has (apparently) worked well (cost-effectively?) in growing labour market
 - core unemployment (incl. LTU) down: 12% in late 80s, 5% in 2007
 - lone parent employment has grown
 - some recent success in reducing disability benefit claimants
- but ...
 - major doubt about robustness of supply side approach, faced with big increase in demand-deficient unemployment in recession
- long-term issue in UK system is 'revolving door' and issue of poor matching:
 - 'work first' and targets for PES/ private providers based on short-term placement (13 weeks), rather than sustainable/ quality work
 - econometric evidence of 1996 JSA reform (Pertrungolo 2009) shows, despite positive impact on short-term benefit outflow, negative longer-term effects on employability and earnings

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Looking ahead: new policy landscape

- Freud proposals:
 - PES to concentrate on those closer to LM
 - increased contracting of provision for harder-to-help to private/ NGO sector
 - outcome-related funding (differential pricing?)
 - move towards single working age benefit
 - DEL/ AME switch: use benefit savings directly to pay ALMP providers for outcomes (being piloted)
- Gregg proposals:
 - more individualised support for job-seekers
 - intensified activation with hierarchy of conditionality – 3 groups
 - 'work ready' group (high level of benefit conditionality)
 - 'progression to work' group (intermediate conditionality)
 - support group (no conditionality)

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Looking ahead: new measures and initiatives

- Incapacity Benefit replaced by Employment Support Allowance (from Oct 2008, for inflow; Apr 2010 for stock):
 - ESA claimants will get work capability assessment:
 - ESA support group (no requirement for jobsearch): highest benefit
 - ESA work-related activity group (jobsearch requirements): lower benefit
 - rejected: 'fit for work' –go to JSA (lowest benefit)
 - so far over a third going into JSA, and <10% in support group
- Flexible New Deal (for JSA claimants –not lone parents, disabled):
 - PES delivers support for first year of unemployment in 3 stages with increasing intensity of support
 - after 1yr, intensive support is provided by specialist private/ NGO suppliers ('black box approach'), for a further year (voluntary 6m extra)
 - Pilot areas started Oct 2009; national rollout Oct 2010
- Local Employment Partnerships (started March 2007 –evaluation not complete)
 - contracts between PES and major local employers to recruit from workless groups, offering placements, work trial etc.
- Integrated Employment and Skills trials: re-emergence of emphasis on skills for unemployed
 - including skills assessments and short training interventions as part of support provided through PES
- Responses to the recession: re-emergence of (small scale) demand-side measure:
 - Future Jobs Fund (delivered through local authorities and NGOs) –aims at LTU youth, and offers work experience of community benefit: Oct 2009-Mar 2011 (£1bn, 150,000 jobs)
 - Youth job guarantee
- Conservatives will continue broad approach (but change the contractual detail)

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...dank u wel!

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