Issue 8 Summer 2009

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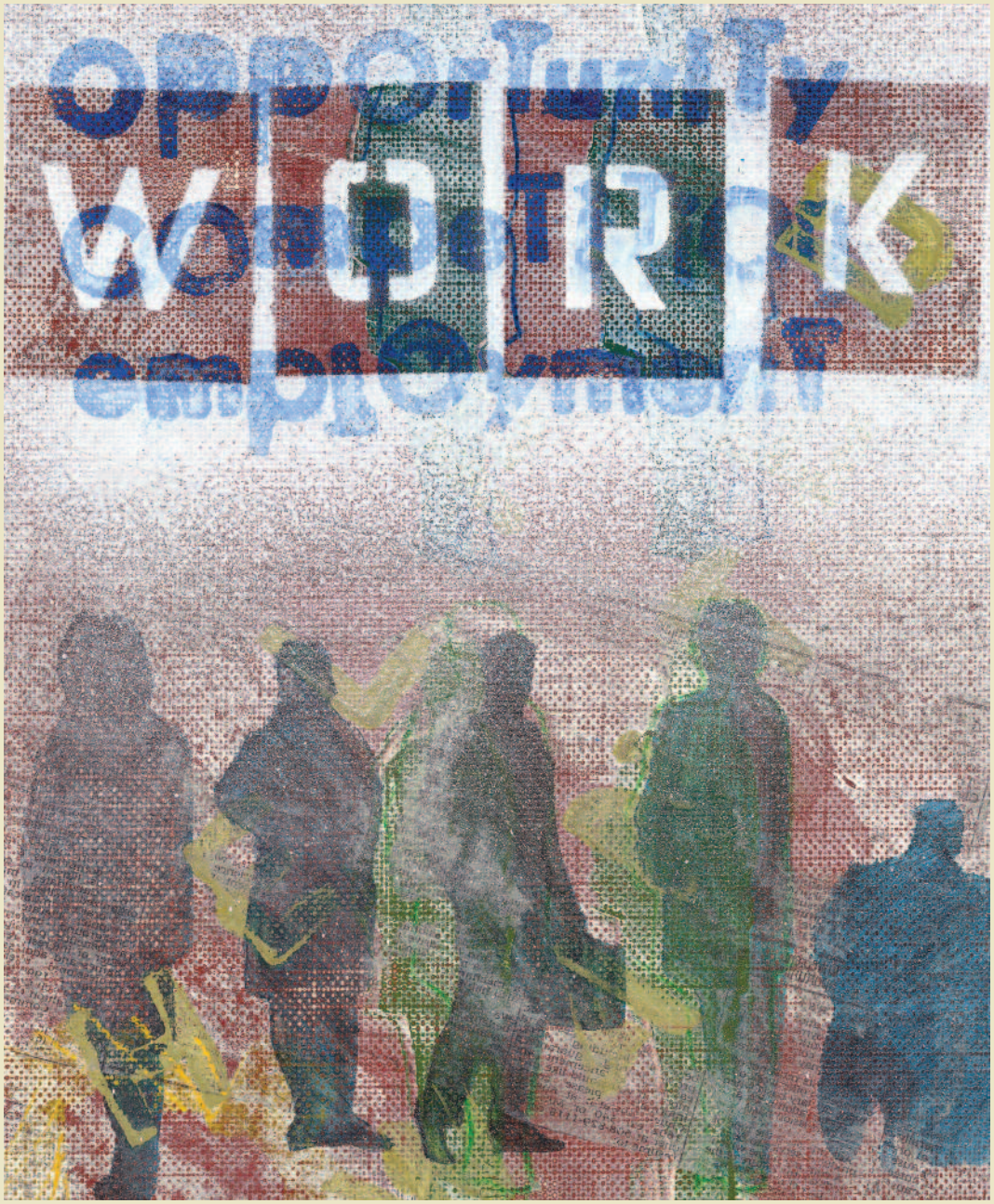
Bulletin of the Centre for Market and Public Organisation



JOB GUARANTEE

Research evidence on policies to tackle youth unemployment

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Page 10 Contracting out welfare-to-work: lessons from the Netherlands In the previous issue of *Research in Public Policy*, Dan Finn presented some lessons from the Netherlands on 'excellent customer experience' in the provision of welfare-to-work services. *Pierre Koning* responds.

To listen to an audio interview with the author, visit: http://www.bristol.ac.uk/cmpo/audio/

Social mobility and the professions

How much is access to a career in law, medicine, education, finance or the media influenced by the income of your parents and how much by your own ability? *Lindsey Macmillan* investigates the family background and childhood cognitive test scores of two generations of people in Britain's top professions.

The white paper on social mobility, published in January this year, established a panel on 'fair access to the professions', which aims to examine potential barriers that prevent fair access to the best paid jobs. Panel chair Alan Milburn MP singled out a number of professions for criticism, stating in the *Sunday Times* that 'too few youngsters from comprehensive schools were becoming lawyers, doctors or army officers'.

This research aims to inform the panel's work by examining the family income and cognitive ability in childhood of those who go on to a number of different professions in adulthood, drawing on data from two birth cohort studies – the National Child Development Survey (NCDS), which tracks a representative sample of the population all born in 1958, and the British Cohort Study (BCS), which follows people born in 1970.

Analysis of these cohorts can provide an indication of whether different professions are 'socially graded' (with the likelihood of someone entering them being more or less influenced by their family background), whether these 'social gradients' have changed over time and whether this may be driven by differences in ability across individuals.

The findings suggest that professions such as law and medicine have large social gradients compared with other professions such as teaching and nursing. What's more, these gradients have grown over time.

And although people in highly socially graded professions show higher ability than in other professions, the gradient in ability appears to decline over time. There seems to be a widening social gap in entry to the top professions regardless of the ability of the individual.

Family income and the professions

I begin by taking the occupation of all individuals in the NCDS and BCS who are in a profession in their early 30s and calculating the average monthly income of their families when they were 16 years old. Table 1 indicates that all professions comprise individuals from families whose average monthly incomes when they were 16 were higher than the average for the whole cohorts.

Individuals who went on to become doctors and lawyers in the NCDS cohort came from families with an average income of just under £600 more than the average. In the BCS, the average family income of those who became doctors or lawyers was £900 more than the average. In contrast, individuals who became nurses came from families with an average income of under

Table 1: Average monthly net family income at age 16 by destination profession at age 33/34

Profession	NCDS (Born 1958)		BCS (Born 1970)	
	Monthly net family income	Percentage difference from average	Monthly net family income	Percentage difference from average
Doctors	£1,939.60	42.52%	£2,322.50	62.70%
Lawyers	£1,902.35	39.78%	£2,345.93	64.34%
Lecturers and professors	£1,642.79	20.71%	£1,588.10	11.25%
Teachers	£1,610.27	18.32%	£1,671.04	17.06%
Bankers	£1,536.59	12.90%	£1,880.88	31.76%
Artists, musicians, writers	£1,532.84	12.63%	£1,541.88	8.02%
Stockbrokers and traders	£1,513.88	11.24%	£1,623.50	13.73%
Engineers (civil/mechanical)	£1,483.40	9.00%	£1,670.81	17.05%
Scientists and other medicine	£1,467.48	7.83%	£1,653.04	15.80%
Journalists and broadcasters	£1,436.02	5.52%	£2,033.11	42.43%
Nurses	£1,411.31	3.70%	£1,573.46	10.23%
Accountants and actuaries	£1,364.82	0.28%	£2,002.10	40.26%
Other professionals	£1,558.51	14.52%	£1,671.90	17.12%
Whole cohort	£1,360.96		£1,427.46	

£100 or roughly 4% more than the average in the NCDS, and £150 or 10% more than the average in the BCS.

Those who went on to become scientists, dentists or vets came from families with income much less than those of future doctors in both cohorts: average monthly incomes of £450 less than doctors' families in the NCDS and £700 less in the BCS. Doctors who were born in 1958 came from families with incomes 42% greater than the average compared with only 7% more for scientists and other medical professions. For those born in 1970, this had increased to 63% and 16% respectively.

Law and medicine have large social gradients compared with other professions, such as teaching and nursing

Those born in 1958 who went on to become accountants came from families with incomes no different from the average. But those born in 1970 who went on to become accountants came from families with around £600 or 40% more a month than the average family. Similarly, those born in 1958 who went on to become journalists came from families with incomes less than £100 more than the average. But for those born in 1970, this difference had increased to over £600.

Figure 1 illustrates the differences in the average monthly family incomes at age 16 of each profession compared with the average. The income gradients across the professions are clearly large and pronounced. Those born in 1958 who became lawyers had 40% higher family income at 16 than the average individual. Those born in 1970 that went on to become lawyers had family income 65% higher than the average individual, an increase of 25 percentage points over time.

Journalists, bankers and accountants born in 1958 came from families with average family incomes only 0-10% higher than the average compared with those born in 1970 who had incomes 30-40% above the average, an average increase of 20-30 percentage points. These professions appear to have become highly socially graded over time from a base of being relatively equal to the average for those born in 1958.

Out of all of the professions, lecturing, teaching and art are the only professions that exhibit a small decrease in the family income gradient between the two cohorts. In the case of teachers, this is possibly due to the rewards offered in the past decade to attempt to increase the number of teachers in the labour force, including help with training costs and bursaries for living expenses while in training.

Ability and the professions

The next question is whether this income gradient can be explained by the fact that individuals from higher income families have higher ability and are therefore more likely to train in more skilled professions.

Figure 2 illustrates the percentage differences from the average IQ test score at age 10-11 of all individuals in the NCDS and BCS who are in a profession in their early 30s. This shows that, unlike the trend in income where the differences between the incomes of the professions and those of the average were growing over time, the differences in IQ test scores decreased over time.

Those who went on to become lawyers and doctors looked more similar to the average in terms of IQ scores for those born in 1970 than those born in 1958. For journalists, bankers and accountants, which saw the largest increases in family incomes compared with the average across the two cohorts, journalists fared marginally better in IQ scores over time but not to the extent the income gradient suggests, while bankers and accountants also saw decreases in their IQ scores compared with the average. This effect is particularly pronounced for accountants.

This seems to suggest that while the income gradient was rising for the top professions, the ability gradient was declining, so that those entering some professions were increasingly from better off families but with ability closer though still above the average. These patterns are repeated when using maths and reading test scores instead of IQ.

Figure 1: Percentage differences from the sample average monthly net family income at age 16 by destination profession at age 33/34

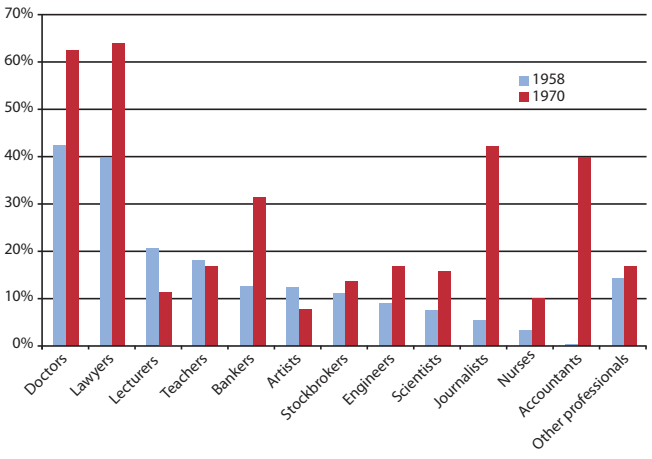


Figure 2: Percentage differences from the sample average IQ test score at age 11/10 by destination profession at age 33/34

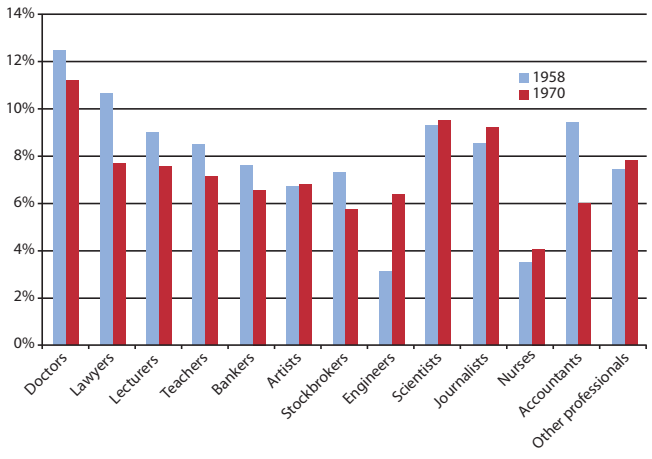


Figure 3: IQ income gradients from the NCDS by profession

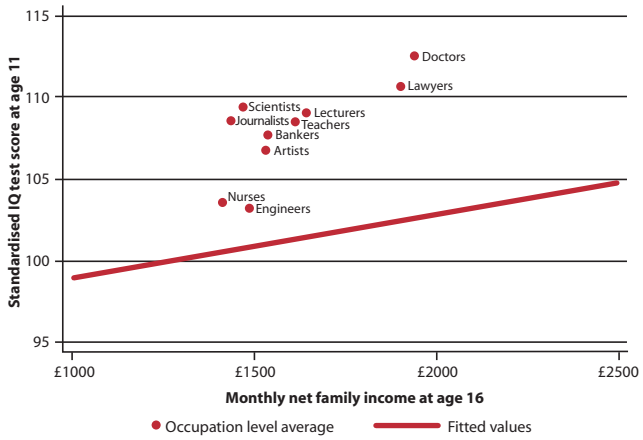
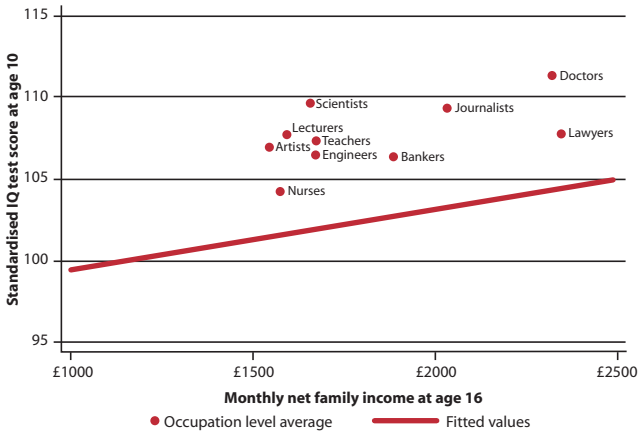


Figure 4: IQ income gradients from the BCS by profession



Those who became engineers and nurses – two professions with the lowest average family incomes across the groups and the lowest IQ scores for those born in 1958 – appear to buck this trend with the average IQ scores for these two professions increasing over time. 'Other professionals' in each cohort also appear to have increasing IQ scores compared with the average across cohorts, suggesting that the professions not discussed here are less unequal.

Figures 3 and 4 combine the information on income and ability by plotting the income gradients of the IQ test scores in the NCDS and BCS respectively for the entire sample. The separate points show the average ability scores and family income by some of the professions considered. All individuals who entered these professions exhibited higher than average IQ test scores. Perhaps unsurprisingly, those who went on to become doctors and lawyers also score higher than those who became artists or nurses.

The social gap in entry to the top professions is widening, regardless of people's individual abilities

Although the overall income gradient of IQ changes very little across the two cohorts, the positioning of the individual professions do change over time. As Table 1 shows, all professions came from better off families in the BCS than in the NCDS, indicated by a shift to the right of all professions in Figure 4 compared with Figure 3.

But when considering the IQ levels of the professions, there is a clear trend towards the average line moving from Figure 3 to Figure 4. Those who went on to become doctors, lawyers and bankers born in 1958 had higher IQ test scores than those who entered the same professions who were born in 1970. Somewhat reassuringly, doctors and scientists and other medical professions exhibit the highest IQ test scores over time.

Conclusions

The evidence suggests that those who went on to become lawyers and doctors were from substantially richer families compared with the average than those who went on to become engineers or nurses.

More worryingly, this trend appears to have worsened for many of the professions for those born in 1970 compared with those born in 1958, with the gaps in family income between the top professions and the average increasing over time.

The average family income of a future lawyer went from being 40% more than the average in the older cohort to 65% more than the average in the younger cohort. Evidence on the ability levels of these individuals suggests that while those who became doctors and lawyers were of higher ability than the average, this trend appears to have decreased over time.

Similarly, those who entered the professions with the largest increases in social gradients over time – journalists, bankers and accountants – experienced at best only small marginal increases in IQ test scores compared with the average.

This would suggest that there is a widening social gap in entry to the top professions. Some of the top professions are increasingly being filled by individuals who look less different to the average in terms of ability and more different to the average in terms of family income.

This article summarises 'Social Mobility and the Professions' by Lindsey Macmillan, a report, a submission to the Panel for Fair Access to the Professions: http://www.bristol.ac.uk/cmpo/publications/other/socialmobility.pdf

The white paper – 'New Opportunities: Fair Chances for the Future' is available here: http://www.hmg.gov.uk/newopportunities.aspx

More information on the panel is here: http://www.cabinetoffice.gov.uk/strategy/work_areas/accessprofessions.aspx

Are league tables any use for choosing schools?

Each year, the government publishes league tables of GCSE results to help parents choose their children's secondary school. But as *George Leckie* and *Harvey Goldstein* explain, the past performance of schools is an imprecise guide to how they might perform in the future.

Secondary school league tables are published annually in England by the Department for Children, Schools and Families (DCSF). A principal aim of publishing these tables is to help parents choose a school for their children who are about to enter secondary education.

Implicitly, the government is promoting the past performance of schools as an accurate guide to their future performance. But no recognition is made of the uncertainty that arises in making such predictions.

In this article, we show that this uncertainty is considerable and when it is properly taken into account, the performances of only a handful of schools can be separated from one another with an acceptable degree of precision.

A brief history of school league tables

The government introduced school league tables in the early 1990s. These tables ranked schools based on a simple school average of pupils' exam results: the percentage of pupils achieving five or more GCSEs with grade A* to C (5+A*-C).

The tables were much criticised: not surprisingly, the schools that received the highest scores were largely those that recruited the highest achieving pupils when they entered secondary education.

The government responded to this criticism in 2002 by moving to a 'value-added' system in which the league tables would explicitly take account of any differences in pupils' test scores at the time they entered secondary education. This allowed schools to be compared in terms of the extent to which they improved the performance of their pupils rather than simply on their pupils' final performance.

In 2006, the value-added system was extended to the present 'contextual value-added' (CVA) system. In addition to achievement prior to entering secondary education, this takes account of any differences in aggregate pupil and family background characteristics, such as gender and eligibility for free school meals. Research has shown that these characteristics are also linked to pupil achievement.

Publishing league tables to inform parental choice of secondary schools is a meaningless exercise

The government argues that the CVA system provides a fair measure of a school's performance and leads to more meaningful comparisons between schools. Yet the 5+A*-C measure is still published alongside the CVA measure. Inevitably, it is the simpler – but misleading – measure of performance that is the focus of media coverage.

Contextual value added versus simple school averages

Our research begins by comparing the government's preferred CVA measure of school performance with the traditional 5+A*-C measure. We analyse pupils from a representative sample of 266 schools, who took their GCSEs in the summer of 2007.

Figure 1 plots the ranks of schools' CVA scores against the ranks of their 5+A*-C scores. Higher ranks indicate better school performances and thus better positions in the league tables. The figure shows little relationship between the two measures: whether a school is ranked high on the 5+A*-C measure says little about whether it improved the achievement of its pupils by more than other schools. Inevitably, it is tempting for

Figure 1: Rankings of schools' performance based on their CVA scores plotted against ranks based on their 5+A*-C scores

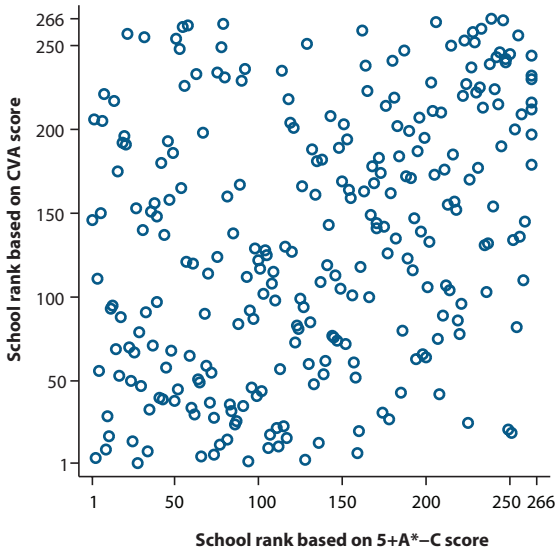
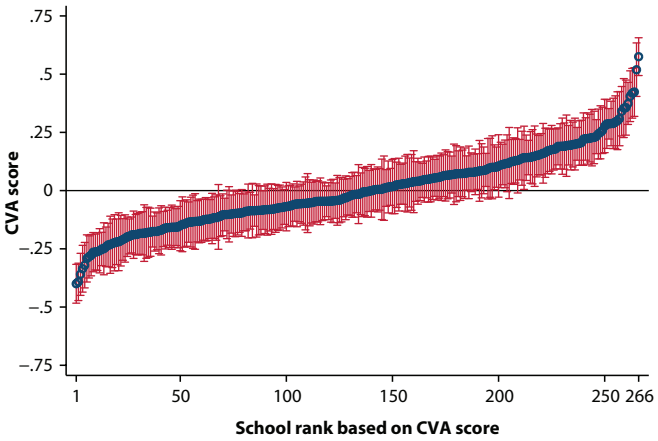


Figure 2: Rankings of schools' performance (with 95% confidence intervals) based on their 2007 CVA scores



schools to report the measure of performance that makes them look best.

Confidence intervals are essential

Figure 2 plots schools' actual CVA scores in rank order. On the vertical axis, a CVA score of zero corresponds to an average school, as shown by the horizontal line.

The DCSF publishes CVA scores with 95% confidence intervals. These confidence intervals measure the reliability of the CVA scores as an indicator of school performance. They are therefore essential in the presentation and interpretation of CVA scores. The wider the confidence intervals, the less reliable the scores and the less confident we can be in stating that one school is better than another.

Parents are implicitly encouraged to use the schools' past performance as a guide to future performance

The confidence intervals in Figure 2 allow each school to be statistically compared with the average school. Schools where the entire confidence interval lies above the zero line are judged to be (statistically) significantly better than the average school, while schools where the entire confidence interval lies below the zero line are judged to be significantly worse.

Figure 2 shows very wide confidence intervals, indicating that CVA scores are estimated very imprecisely. Indeed, almost half of all schools' confidence intervals cross the zero line, implying that we are not able to separate statistically the schools' performances from the average school or from each other. This result is typical in the research literature on league tables, and it is inevitable since each CVA score is based on very little information, typically fewer than 200 pupils' GCSE grades.

The future performance of schools

Figure 2 allows parents to compare how schools performed for pupils who did their GCSE exams in the summer of 2007. But the relevant information for parents choosing schools now is how schools will perform in the future when their children take their GCSE exams.

Consider the parents who chose schools in the autumn of 2008. Their children will enter school in the autumn of 2009 and will take their GCSE exams in the summer of 2014. Thus, the relevant

Figure 3: Rankings of schools' performance in 2007 plotted against their performance in 2002

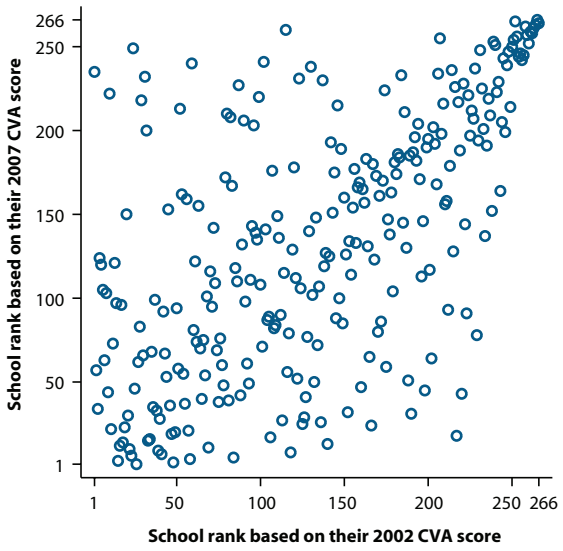
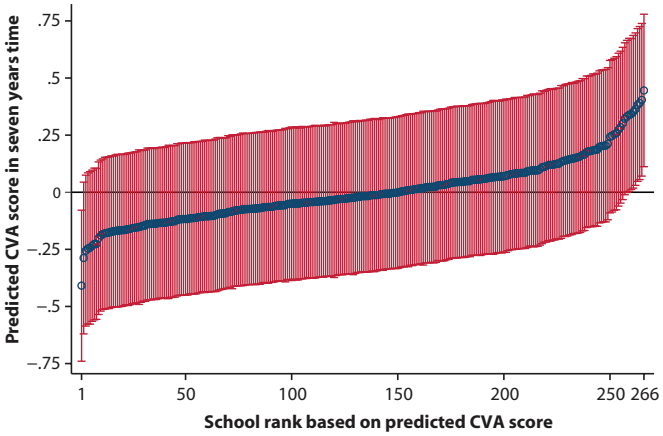


Figure 4: Rankings of schools' performance (with 95% confidence intervals) based on their predicted CVA scores in seven years time



information is how schools are predicted to perform in 2014, but the available information is how schools performed seven years earlier in 2007. In other words, the information provided is effectively seven years out-of-date.

Parents are implicitly encouraged to use the past performance of schools as a guide to their future performance. Yet crucially, the league tables make no statistical adjustment for – nor do they warn about – the uncertainty that arises from making such predictions.

The performances of only a handful of schools can be separated from one another with an acceptable degree of precision

Clearly, schools' performance changes over time and the more it changes, the greater the uncertainty associated with using past information as a guide to future performance.

To illustrate the additional uncertainty that arises from predicting several years into the future, Figure 3 compares the ranks of schools' CVA scores in 2007 against their ranks in 2002. This compares two cohorts that are five years apart – the furthest apart for which we have data – and therefore provides a conservative picture of the extent to which schools' performance changes over a seven-year period.

Figure 3 shows that there are many schools with high ranks in 2002 but low ranks in 2007 and vice versa. Hence, predicting schools' performance into the future results in many highly inaccurate judgements.

Finally, Figure 4 plots the CVA scores that schools are predicted to have in 2014 based on their CVA scores in 2007, seven years earlier. These predictions explicitly incorporate any additional uncertainty into the confidence intervals.

The confidence intervals are considerably wider than those in Figure 2. Thus, the 2007 league table provides a far less reliable guide to how schools are predicted to perform in 2014 than it does to how schools performed in 2007.

We see that nearly all confidence intervals cross the zero line. Hence, only a handful of schools are predicted to differ significantly from the average school in 2014. Similarly, the performance of only a very small number of schools can be separated from one another with an acceptable degree of precision.

Conclusions

We argue that relying on league tables to inform school choice leads to highly misleading judgments since these tables ignore the uncertainty that arises from predicting schools' future performance based on their past performance.

We have shown that, when taking account of this uncertainty, the comparison of schools becomes so imprecise that, at best, only a handful of schools can be separated from the average school or from one another with an acceptable degree of precision. This implies that publishing league tables to inform parental choice of school is a meaningless exercise, as parents are using a tool which is not fit for that purpose. This is especially so since the media coverage rarely features confidence intervals.

It is worth noting that Scotland, Wales and Northern Ireland have either never had or have abandoned publishing school league tables. Now seems a good time for England to follow suit. Meanwhile, parents need to be aware that the tables contain less information than official sources imply and that this necessitates a lower weight being placed on them as compared with other sources of information available to parents.

Our discussion has been in the context of parental choice in secondary education. But the arguments and conclusions clearly apply equally to parental choice of primary and post-16 education. What's more, they are also relevant to other public services, such as health and social services, where attempts are made to inform individual choices of institution based on past performance.

This article summarises 'The Limitations of Using School League Tables to Inform School Choice' by George Leckie and Harvey Goldstein, *Journal of the Royal Statistical Society: Series A*, 172(4).

For the CMPO working paper version of the paper, see: http://www.bris.ac.uk/cmpo/publications/papers/2009/wp208.pdf

DCSF league tables are available here: http://www.dcsf.gov.uk/performancetables

George Leckie is a research associate and Harvey Goldstein a professor at the Centre for Multilevel Modelling (CMM), Graduate School of Education, University of Bristol.

Contracting out welfare-to-work: lessons from the Netherlands

In the previous issue of *Research in Public Policy*, Dan Finn presented some lessons from the Netherlands on 'excellent customer experience' in the provision of welfare-to-work services. *Pierre Koning* responds.

In 2004, the Dutch Institute for Employee Benefits Schemes (UWV) introduced the option of individual reintegration agreements (IROs), a voucher system for clients outside the regular contracting system. As the support for the IROs in the Netherlands is widespread, Professor Dan Finn argues that user-driven alternatives may be an option in the future provision of welfare-to-work services in the UK.

There is no doubt that service users, reintegration coaches and providers all embrace the flexibility and customisation that comes with the IROs. Still, from this alone we cannot conclude that the IROs have been successful. In this respect, the picture that Finn presents may be biased, from both a theoretical and empirical perspective.

The economics of vouchers

Vouchers like the IROs are often associated with improved market functioning and tailor-made solutions. But within the context of welfare-to-work services and vouchers, the standard arguments for such freedom of choice do not apply.

First, as in any market, tailor-made solutions are more costly than standardised products that exploit scale advantages. As there is public provision of the IROs, clients are not (fully) aware of these costs, causing excessive diversity. UWV case managers may of course reject IRO applications if these are not appropriate, but such a monitoring system is costly as well. So far, it seems almost all applications are approved, and there is anecdotal evidence for services that seem far beyond the scope of reintegration.

Second, unemployed clients are not likely to be well informed about the large and diverse supply of services. If successful, the use of welfare-to-work services is a once-in-a-lifetime experience. Clients therefore will have only limited information. As the costs of the services are borne by the taxpayer, the risk of choosing a provider with a low quality of service is substantial.

Third, the interests of the client and the UWV will not always be aligned. For unemployment recipients, the income gains from reintegration may be small, particularly compared with the benefit savings for society as a whole. These clients may gain satisfaction from following courses that are interesting rather than providing them with the shortest way to employment.

Empirical evidence

Whereas the (conventional) economic arguments for the IROs are seemingly weak, more convincing arguments can be found in the psychological literature. In particular, if clients can freely choose their own services, their intrinsic motivation and feeling of responsibility to make it a success may increase. In the end, we therefore have to assess empirically the net impact of the extrinsic and intrinsic incentives of the vouchers on the job placement rates.

Finn does so by comparing the outcomes of the IROs and the tender system in 2004-07, and finds job placement rates to be substantially higher for the IROs. But this is not likely to be a fair comparison between the two categories. In particular, the tender system was still dominant in 2004 and 2005, when business cycle conditions were worse than in the next two years. This causes the impact of the IROs to be biased upwards. This bias is aggravated by selection effects at the individual level – that is, highly motivated clients with better job prospects are more likely to choose the IROs.

Thus, more advanced methods are needed to assess the impact of the IROs. Unfortunately, such an evaluation has not yet been carried out.

Pierre Koning is at CPB Netherlands Bureau for Economic Policy Analysis.

Welfare reform: outcomes for lone mothers and their children

Starting nearly a decade ago, in October 1999, the UK government began a massive expansion of financial support to families with children. Research by *Paul Gregg*, *Susan Harkness* and *Sarah Smith* explores its impact on the employment of lone mothers and the well-being of them and their children.

Over the period 1999-2003, per-child government spending on child-related benefits rose by more than 50% in real terms, a change that was unprecedented over a 30-year period. The increases were targeted at low-income families, the majority of whom were lone parents. The share of all families with children headed by lone parents had risen to 22% by 1998, but this group comprised 55% of families with children in poverty.

Low rates of employment were a key factor. Whereas employment among women in couples with children had steadily increased, especially for those with young children (Gregg et al, 2007), the employment rate of lone mothers was lower in the early 1990s than in the late 1970s. In 1995, it was just 42%, 24 percentage points lower than the employment rate of married mothers, and far below the employment rates for lone mothers among most other OECD countries.

A key element of the 1999 reforms was an improvement in work incentives, particularly for lone parents. The Working Families Tax Credit paid in-work tax credits (and a contribution to childcare costs) to families where at least one partner worked 16 hours a week or more. The New Deal for Lone Parents and other welfare-to-work schemes introduced active case management for lone parents. The generosity of means-tested benefits for non-working families with dependent children also increased.

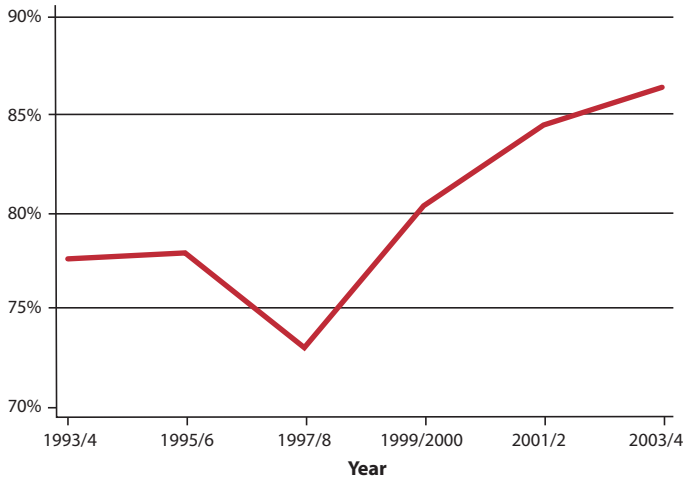
Previous research has shown that these reforms were effective in raising employment among lone parents (Gregg and Harkness, 2003; Blundell et al, 2005; Brewer et al, 2006; Francesconi and van der Klaauw, 2007; and Leigh, 2007). All the studies show that there was a significant increase in lone parent employment rates. The estimates offer a fairly tight range of around four to five percentage points over five years, which translates into an additional 65-80,000 lone parents in work.

In recent research, we have extended the analysis to consider the underlying dynamics behind the overall increase in employment and a broader range of outcomes for the parents and their children. The research points to two main findings:

- First, the reforms cushioned some of the adverse effects of entry into lone parenthood. There was a significant increase in the proportion of women staying in employment through the transition into lone parenthood. This was accompanied by a reduction in the negative financial impact of becoming a lone parent and in the negative impact on mental health.

- Second, since the introduction of the reforms, there has been a marked improvement in a range of outcomes for children of lone parents compared with children with partnered parents, including measures of self-esteem, happiness, relationships with their mothers, risk-taking behaviour and aspirations.

Figure 1: Proportion of (partnered) women retaining their job on becoming a lone parent



Note: Data are from the five-quarter Labour Force Survey Panel, measuring change in status between Q1 and Q5.

Transition into lone parenthood

The rise in employment among lone parents was driven mainly by a reduction in job exit rates among working lone parents and a reduction in job separation on entry into lone motherhood. There is less evidence of any significant increase in job entry rates.

Following the reforms, the rate at which lone parents left employment fell significantly relative to single women with no children and partnered mothers – by nearly four percentage points (to 8%). Most of this appears to be explained by lone parents moving into jobs with longer hours, which have lower rates of job exit.

As Figure 1 illustrates, there was also an improvement in the rate at which women retained employment on becoming a lone parent. Prior to 1998, around one quarter of those in employment left work on becoming a lone parent, but by 2003/4, this proportion had fallen to 14%. Taking account of the women's other characteristics, this rate of job exit was no different to that of mothers who remained partnered.

UK welfare reforms have cushioned some of the adverse effects of entry into lone parenthood

As discussed in Jenkins (2008), this change in employment on becoming a lone parent has helped to reduce (but not eliminate) the financial penalty for women associated with relationship break-up. It may also have helped to reduce the negative effect of lone parenthood on mental health (as measured by the General Health Questionnaire).

Lone parents have long been identified as a group with relatively poor mental health compared with partnered mothers. But the raw data show a significant improvement in mental health among lone parents after the reforms compared with both single women with no children and partnered mothers (see Table 1). Further analysis reveals that most of the negative impact of lone parenthood – and the subsequent improvement after the reforms – is concentrated around the point of break-up.

Table 1: Women's well-being

	Lone mothers	Women in a couple with children	Single women, no children
Mean GHQ score, range 0-36, 36 = poor health			
Before (1991-97)	13.07	11.81	11.93
After (1999-2003)	12.45	11.79	11.88
Change	-0.62	-0.02	-0.05

Note: Data are from the British Household Panel Survey. GHQ scores range from 1 to 36, with higher numbers associated with a worse outcome in terms of mental health. The GHQ is a screening device designed to detect both temporary disorders and more permanent conditions such as schizophrenia and psychotic depression. It comprises twelve measures, covering concentration, loss of sleep, whether individuals feel they play a useful role, whether they are capable of making decisions, whether they are constantly under strain, whether they have problems overcoming difficulties, whether they enjoy day-to-day activities, their ability to face problems, whether they are unhappy/depressed, whether they are losing confidence, their belief in their self-worth and their general happiness.

There is also evidence of improved levels of mental health in the year prior to separation. This could be explained either by an improvement in employment and financial circumstances among those who go on to become lone parents, or by people leaving relationships at a less unhappy (earlier) point.

Children's outcomes

The data also show significant improvements in a range of outcomes for children (aged 11-15) of lone parents after the reforms. These include indicators of (low) self-esteem, unhappiness and risky behaviour. Table 2 compares the change (before and after the reform) in a number of outcomes for children of lone parents with the change for children with two parents present.

The difference between the two (known as the difference-in-differences) gives a simple estimate of the effect of the reforms, treating the change among children with two parents as a proxy

Table 2: Self-esteem, unhappiness and risky behaviours, youths aged 11-15

	Lone mother families			Couple families			'Diff-in-diff' (III)
	Before	After	Change (I)	Before	After	Change (II)	= (I) – (II)
Low self-esteem score (0-15)	5.162	4.654	-0.508	4.705	4.488	-0.217	-0.291
Unhappiness score (0-30)	6.702	6.224	-0.477	5.906	5.845	-0.061	-0.416
Hardly ever talk to mother (0/1)	0.380	0.315	-0.065	0.265	0.260	-0.005	-0.059
Argue with mother every day (0/1)	0.159	0.140	-0.019	0.089	0.113	0.024	-0.043
Played truant (0/1)	0.380	0.316	-0.064	0.265	0.260	-0.005	-0.059
Smoked in last week (0/1)	0.195	0.135	-0.060	0.123	0.103	-0.021	-0.039
Expelled/suspended from school (0/1)	0.084	0.093	0.009	0.038	0.035	-0.003	0.012
Fought with someone in last month (0/1)	0.297	0.299	0.002	0.306	0.294	-0.012	0.014
Intend to leave school at 16 (0/1)	0.189	0.138	-0.051	0.136	0.120	-0.016	-0.035

Note: Data are from the British Household Panel Survey, 1994-2003. Sample sizes are 474 and 771 for lone parents in the before and after periods respectively; for couples, 2,425 and 3,758.

for the change that otherwise would have occurred over the same period, for reasons unrelated to the reforms, among children of lone parents.

There has been a significant improvement in mental health among lone parents after the reforms

The results indicate significant improvements in self-esteem, in happiness and in relationships between the children and their mothers, and large and significant declines in truanting, smoking and in the intention to leave school at the age of 16.

Further analysis shows that these effects are typically far greater for boys than for girls. This is in line with research by Walker and Zhu (2005) showing that lone parenthood has a strong and significant adverse impact on happiness for boys but no significant effects for girls.

These results are broadly comparable to findings on the effects of welfare reform from the United States. Chase-Lansdale et al (2003) find improvements in adolescents' mental health resulting from transitions from welfare to work, with statistically significant reductions in anxiety and psychological distress of between 0.10 and 0.15 standard deviations. The UK results suggest similar or slightly larger improvements.

We find two other factors are important to young people's esteem: maternal employment and depression. To the extent that policy reforms have raised maternal employment, young people's outcomes will have improved. Unlike in the United States, the majority of lone parents in the UK work part-time and policies have broadly encouraged this. (It is worth noting, however, that raising working hours among lone parents may be detrimental: boys in particular are less happy and more likely to engage in risky behaviour when their mothers work full-time.)

The increases in incomes and employment associated with the reforms have profoundly changed the quality of life of children in lone parent families

The magnitude of the changes arising from the reforms is quite large. Half of the gap in self-esteem and unhappiness scores and in truanting, smoking and planning to leave school at age 16 are eliminated after the policy reforms. This strongly suggests that the increases in incomes and employment associated with the reforms have profoundly changed the quality of life of children in lone parent families.

This article summarises 'Welfare Reform and Lone Parents in the UK' by Paul Gregg, Susan Harkness and Sarah Smith, *Economic Journal* 119(535): F38-F65 (February 2009.)

Paul Gregg and Sarah Smith are at CMPO. Susan Harkness is at the University of Bath.

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In-work tax credits: the impact on employment and divorce rates

In the past two decades, a number of industrialised countries – including Canada, New Zealand, the UK and the United States – have used tax credits and work-conditioned transfers as a means of alleviating poverty without creating adverse incentives for participation in the labour market. In-work benefits achieve this goal by targeting low-income families with an income supplement that is contingent on work.

Eligibility is based on family income and typically requires the presence of children, reflecting that there are higher out-of-work welfare benefits for families with children, that such families have higher costs of working (childcare) and, perhaps, that such families respond more strongly to wage changes than those without children.

Following the introduction of the Working Families Tax Credit, married mothers in poor households had a greater likelihood of entering or remaining in employment – and of getting divorced

As part of this new architecture of public policy intervention, in October 1999, the UK government introduced the Working Families Tax Credit (WFTC). Although the WFTC was replaced by new tax credits in 2003, many of its key principles remain operative today.

In a recent study, we use longitudinal data on a large panel of British families to examine the impact of the 1999 tax credit reform on married couples. We find that it had strong employment and divorce effects on married mothers in poor households, increasing both their likelihood of entering or remaining in employment and their likelihood of getting divorced.

We suggest that the increased risk of divorce for married women in poor households may arise from the improved employment position of single mothers as a result of the reform. This could have generated a valuable 'outside option' to mothers married to low-earning men.

The analysis is based on the first 12 waves of the British Household Panel Survey (BHPS), covering the period 1991-2002. The BHPS is a large representative sample of households, whose members are interviewed annually. The sample we analyse includes 3,235 couples, of which 1,430 had dependent children during the sample period and the remaining 1,805 did not have children.

We find that:

- Overall, the financial incentives of the reform had virtually no effect on many aspects of the behaviour of married mothers: eligible and full-time employment, employment transitions, use of child care and divorce rates.
- But women's responses were very diverse and depended on their partners' labour supply and earnings.
- Women with middle- and high-income partners were unaffected by the reform.

The UK's Working Families Tax Credit, introduced nearly ten years ago as the main package of in-work support for low-income families with children, has had strong employment and divorce effects on married mothers in poor households, according to *Marco Francesconi* and colleagues.

- But mothers married to low-income men showed larger positive responses in employment, especially if they had younger children (of the order of five extra percentage points). They were more likely to remain in the labour force and had higher rates at which they entered it.

- While more likely to receive the tax credit (a three percentage point increase), mothers married to low-income men also increased their use of paid child care (by about two percentage points, a relative increase of 30%) and experienced a greater risk of divorce (a two percentage point increase, a relative increase of 160% in the divorce rate for these women).

- There were no significant responses among married men, regardless of their income.

The result that the WFTC had strong employment and divorce effects on married mothers in poor households is very important. These women are similar to single mothers and, as these findings indicate, they are more vulnerable to becoming single.

Indeed, the better employment position of single mothers as a result of the reform, in part through its more generous child care provision, could have generated a valuable 'outside option' to mothers partnered with low-earning men. This response could have been an unintended consequence of the reform, which may turn out to be important for the evaluation of the longer-term success of the reform itself.

An improvement in the relative economic position of single mothers may have reduced the overall gains from marriage for poorer women – resulting in a greater risk of family disruption

An interpretation of this result is that the childcare component of the WFTC might not have been strong enough to induce more couples with children into eligible employment and marriage. This is because both husband and wife had to work 16 or more hours per week in order to receive the childcare credit of the WFTC.

This additional requirement may help explain why the estimated employment effects for married women with low-income partners are smaller than those estimated for single mothers. Moreover, while the improvement in the relative economic position of single mothers may have led to an increase in bargaining power of married women (especially those in poorer households), it also reduced the overall gains from marriage, resulting in a greater risk of family disruption.

This article summarises 'The Effects of In-work Benefit Reform in Britain on Couples: Theory and Evidence' by Marco Francesconi, Helmut Rainer and Wilbert van der Klaauw, *Economic Journal* 119(535): F66-100 (February 2009).

Marco Francesconi is at the University of Essex. Helmut Rainer is at the University of St Andrews. Wilbert van der Klaauw is at the New York Fed.

Job Guarantee: evidence and design

In his April budget, the Chancellor announced plans for a Job Guarantee for the young unemployed. The core proposal is to provide six months full-time activity for everyone aged 18-24 who has been unemployed for over a year. The activity will include paid part-time work, job search and any support services that individuals need.

The work, to be paid at the minimum wage, will be made up of transitional jobs in the private, public or voluntary sector. Since the numbers getting work in the private sector are likely to be modest, delivery on the scale that is likely to be needed implies a crucial role for local authorities and the social enterprise/community sector.

At its heart, the proposal is a return to the principles of the New Deals for the unemployed but with some design differences. It is not dissimilar to the proposals laid out in the Gregg review last December (Gregg, 2008) to put paid work at the heart of the 'work-for-dole' concept – except that the two years unemployment duration for all claimants is being brought forward to one year for young adults; the plan is to start this autumn rather than with pilots in 2010; and Job Guarantee is a better name.

Potential benefits

The first argument for such schemes is simple common sense: if there is work needing to be done and people wanting to work, the government should organise it (if the market fails). This argument does not depend on the subsequent benefits for participants, but on the benefits now: useful work will be done; and young people will have a wage and the satisfaction of making a contribution.

There is a wider social benefit in the likely effects of the scheme before people reach month 12 of unemployment. All the evidence suggests that compulsory full-time activity encourages some to find other solutions before they are obliged to take a part-time minimum wage job. Very few will be affected the other way and wait until month 12 for an assigned minimum wage job.

The third potential benefit is the subsequent activity of people who have gone through a guaranteed job. The argument here is that work experience and full-time activity will help people get work more easily.

The proposed Job Guarantee is a return to the principles of the New Deals for the unemployed but with key design differences

One major criticism made of past job creation schemes is that they have produced rather little in the way of useful output, partly to prevent them 'crowding out' other jobs. Another is that they have, in some cases, actually delayed job entry rather than enhanced it. The main aim of this article is to assess the evidence in this area of employment effects.

Policy evidence and policy evolution

Following the economic 'shocks' of the 1970s, most OECD countries introduced temporary job creation programmes. The important difference from the 'public works' programmes of the 1930s was that the new generation of programmes was usually, though not always, targeted at the long-term and young unemployed. Their core aim was explicitly counter-cyclical, seeking to reduce unemployment by providing meaningful work experience that created 'socially useful' outputs.

The challenge was to provide temporary jobs but in a way that did not undermine the regular labour market. Most were

In this recession can anything be done to avoid the permanent 'scarring' that past UK recessions inflicted on many young people as they found themselves facing long-term unemployment? *Paul Gregg* examines the evidence on the employment effects of active labour market policies that include work experience, and draws lessons for the design of the proposed Job Guarantee.

therefore designed to be 'additional' jobs – jobs that would not have occurred without the programme. Those given jobs would usually be employees paid at the minimum wage or 'going rate'.

Early evaluation evidence typically focused on the delivery of programmes, their relative costs, their impact in reducing the unemployment count and their contribution to local services and communities. But as employment levels improved, attention turned to the role the programmes played in assisting participants to get regular jobs. By 1994, the OECD Jobs Study noted an increase in evaluations concerned with establishing 'deadweight', 'substitution' and 'displacement' effects, usually through a microeconomic assessment of the impacts of programmes.

The evaluations were generally negative about the impact on future employment, a view confirmed by David Card whose recent study suggests that public job creation programmes were among the least effective in helping people's future job chances, although they did create incomes for the unemployed and some socially useful output.

Work experience combined with job search is at the heart of the Job Guarantee proposal

Barbara Sianesi of the Institute for Fiscal Studies (IFS) concludes that 'all the programmes initially reduce their participants' employment probability in the short term' through a 'lock-in' effect, whereby people delay looking for an alternative job. 'Relief work' was associated with lower employment rates and more time spent claiming benefits than if the person had been unemployed and searching for regular work. Only private sector job subsidies had long-term employment effects (Sianesi, 2002).

By the mid-1990s, the OECD reported that many member states were 'abolishing' or 'scaling back' their programmes, concluding that 'job creation in the public sector has not been successful'. This finding was reinforced by John Martin in an influential survey, where he suggested that the evidence 'showed fairly conclusively that this measure has been of little success in helping unemployed people get permanent jobs' (Martin, 1998).

Subsequently, however, Melvin Brodsky, the OECD coordinator of the US Department of Labor, reported that a panel of experts representing 11 OECD countries had examined the effectiveness of measures to assist the long-term unemployed and found that there was evidence to show that 'the direct creation of jobs through public service employment programmes may be the only way to help many of the unskilled and less well educated long-term unemployed' (Brodsky, 2000).

Brodsky reviewed a broad range of public service employment programmes in OECD countries and concluded that while the evidence indicated that public service employment programmes had 'not been effective in reducing the general level of adult unemployment, they appear to help severely disadvantaged labour market groups stay economically active, and they can be effective as part of an overall strategy against social exclusion'.

Past job creation programmes often reduced participants' subsequent employment – but they did provide a wage and alleviate hardship

A possible reconciliation of these views is to note that Martin was reflecting the finding that programmes were generally ineffective for the bulk of the unemployed who are more or less 'job-ready', while Brodsky was arguing that for the severely disadvantaged, work experience measures are potentially useful.

The reform of temporary employment programmes

The emerging evidence of a lock-in effect, whereby temporary job creation led to reduced job search and hence job finding, resulted in moves away from such schemes. The first wave of reforms that tried to reduce lock-in effects did so in two very different ways. One direction was to reduce the 'comfort' factor of working on temporary jobs by reducing pay below minimum wage levels, at benefits plus a small allowance or in 'workfare' programmes, just at benefit levels.

For example, in Germany, wage levels were set below the minimum available in regular jobs. In Denmark and Finland, participants were precluded from re-qualifying for unemployment benefits. And in programmes such as France's Contrats Emploi Solidarité and the UK's Community Programme, wages were restricted by limiting the number of hours that participants worked to be only just above benefit levels.

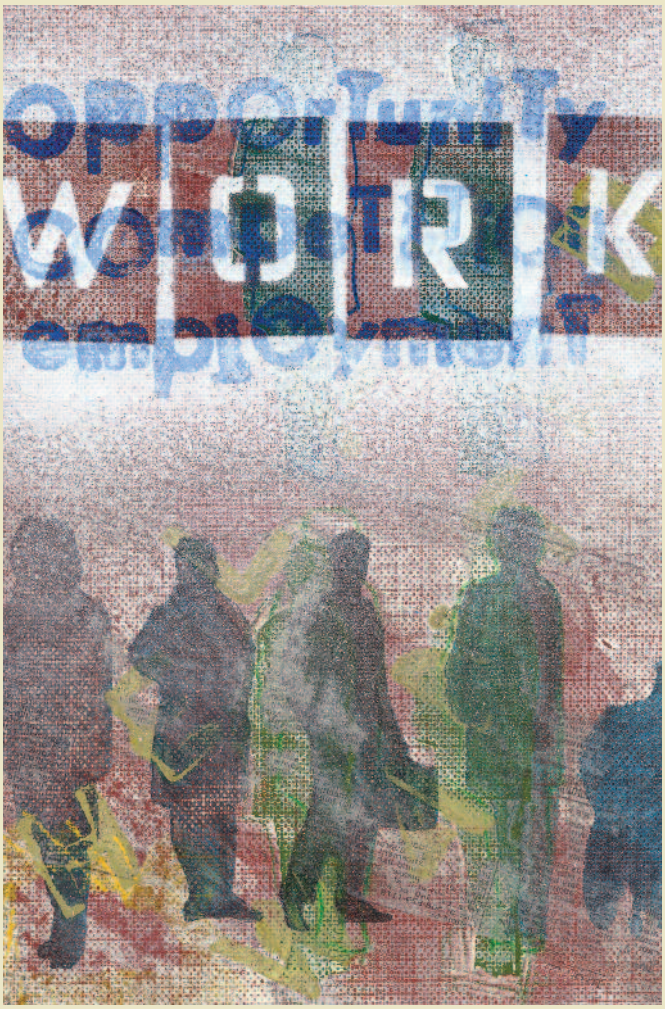
These reductions in the comfort factor often have been linked to increased requirements for groups of long-term benefit recipients to engage in employment programmes. Frequently, these are in the form of 'last resort' jobs, where claimants are required to work in return for their benefit payments. Community Programme, Employment Action and Project Work were UK schemes of this kind.

Some active labour market policies result in a 'lock-in' effect, in which temporary job creation leads to reduced job search and hence job finding

This direction of redesign for temporary employment programmes was evident too in the implementation of workfare programmes. In the United States, Australia and New Zealand, these eclipsed conventional temporary job creation programmes, at least until recently.

Workfare is often used to describe a broad approach to welfare reform. But originally it applied to those US programmes where mandated individuals were required to 'work off' any benefit payments received, normally in marginal public or community sector activities. In Australia and New Zealand, this has taken the form of 'work-for-dole' programmes, where many of the long-term unemployed have been required to fulfil their 'mutual obligation' by undertaking unpaid part-time work in the community.

Evaluations of workfare or 'work-for-dole' show that the requirement can 'shake out' people from claiming benefits, some of whom will get jobs, but the overall programmes provide little



or no direct impact on employment. In New Zealand, for example, a large-scale 'work-for-dole' programme was terminated when evidence confirmed it was 'locking' unemployed people into longer unemployment durations.

The Job Guarantee builds on the broadly successful New Deals but with more focus on participants' continued job search and incentives for job providers

The other very different approach to tackling lock-in was to emphasise job search. Participants were given more job search assistance and data were collected on provider and programme job entry performance. By contrast with workfare, work incentives were often increased by reforms through extra financial support when a person got a job in many experimental programmes (for example, the Minnesota Family Income Program and the Welfare Restructuring Programme in Vermont). The work experience or temporary job element here was usually marginal.

In the United States, a sizable number of randomised controlled trials of welfare-to-work policy in the 1990s were evaluated by the Manpower Demonstration Research Corporation. In a synthesis report on 29 such schemes, eight were both work-focused and contained mandatory activity periods and as such were close to the UK's New Deal for Young People (NDYP). All of them led to increased job outcomes with average magnitudes similar to the NDYP. Of the broad set of US search assistance programmes, standouts were in Riverside, California and Portland, Oregon.

A couple of early US schemes – the Work Incentive Demonstration in Chicago and a similar scheme in San Diego – used randomised controlled trials to compare a regime of job search support with mandatory work experience against a job search support only regime for lone mothers. The comparison with job search alone suggested that the combined approach proved effective in terms of raising incomes for the families and actually produced a net saving to the public purse in San Diego. Participants saw earnings gains from work but employment itself was not recorded.

US schemes show encouraging evidence for programmes that mix work experience and job search

In these schemes, the work element was unpaid: people just got their benefits. So the cost of the UK's proposed paid work regime would be more costly. But these schemes show encouraging evidence for a mixed work experience and job search programme.

Work trials

Formerly part of the Job Interview Guarantee scheme (which started nationally in 1990), 'work trials' became a separate national programme in the UK in April 1993. Work trials encourage employers to take on unemployed and inactive benefit claimants for a trial period of up to three weeks. Applicants on a work trial continue to receive benefits and get travel and meal expenses. The programme is available to people aged 25+ who have been unemployed for more than six months, including New Deal clients.

Evaluation of work trials has serious limitations, but the evidence suggests that they are both effective and cost-effective. The Department for Work and Pensions (DWP) believes that the work trials programme was its most cost-effective. Despite the very low cost, evaluation evidence suggests that a relatively high proportion of the job outcomes are 'additional'. The problem has always been securing enough private sector job placements.

The New Deal for Young People

In 1995, Gordon Brown's team (which consisted of three future cabinet ministers) started working on the design of the New Deal programme for the unemployed. The intervention was driven by emerging evidence of the future 'scarring' effects of long-term unemployment (a research literature that has only grown stronger since and includes health effects). But there were two other objectives: first, to address the sense of abandonment and alienation that young unemployed felt; and second, to highlight the social waste of long-term unemployment.

The programme was designed to incorporate evidence of previous poorly achieving programmes and best international practice. The design was to mix intensive job search and work experience in a sequenced pattern. First, there was a four-month period of intensive and supported job search – the Gateway period. This was followed by one of four options: placement with an employer; self-employment start-up; education or training; or charitable sector-led Taskforce placements. There was to be 'no fifth option' of continued benefit receipt. After that, a follow-up period of intensive job search was undertaken again.

The NDYP was built to avoid the poor results from the Community Programme and training schemes such as Employment Training in the 1980s. It was felt that these schemes suffered from low expenditure on training, inhibited job search (lock-in) and reduced outflows in the short run. Owing to poor reputation effects, they also failed to raise employability with employers later.

The NDYP has been evaluated using a number of approaches, the most convincing being a 'regression discontinuity' design around the feature that the NDYP applied to those aged 19-24 at six months duration, whereas the New Deal for people aged 25+ (ND25+) applied from 18 months. The small age difference between those just under or over 25 at six months unemployment creates a convincing comparison group for what would have happened if the scheme had not been introduced.

Job Guarantee participants must come to understand the crucial importance of looking for a sustained job

Studies by John Van Reenen and more recently Giacomo De Giorgi, which use this approach, find that the NDYP raised outflows into work by five percentage points (a 20% increase) and that the costs (net of benefit payments) were more than justified by the savings (Van Reenen, 2004). The net cost was around £4,000 per market job and this does not include any value from the activities undertaken or long-term benefits from reduced scarring effects.

Later adaptations to the NDYP saw three problems being addressed: first, too many people with Level 2+ qualifications were taking the education option; second, 'no fifth option' was not tightly enforced early on; and third, the Taskforce option performed poorly. The third problem was addressed by giving incentive payments to the placement providers for job entry both during and after the placement, which led to a small but significant increase in job entry rates.

The NDYP assessments do not distinguish between the effects of the Gateway intensive search, the threat of mandation and the impact of the option placements. The impact of work experience option placements alone can be seen in pilots for the ND25+, where for those aged 50+, the Intensive Activity Period (IAP, akin to options for the NDYP) was initially voluntary, then became compulsory in pilot areas on a random basis, before finally going compulsory nationally. Pilots in 14 Jobcentre Plus districts in 2004-06 comparing the outcomes of the two groups provides a robust estimate of the effect of making the IAP compulsory.

The main findings were that the requirement to participate in the IAP caused a sustained increase in employment and, in the longer run, a similar sized reduction in claimant unemployment. Two years after ND25+ entry, those over-50s required to participate in the IAP had an employment rate of 27.3%, five percentage points higher than the rate for similar people in areas where no such requirement existed.

The evaluation also provides evidence on option effectiveness, concluding that the private employer option was more successful even after adjusting for the fact that more job-ready people went into this option (that is, they had less previous unemployment).

The ND25+ was always more flexible, so that people could pass through more than one regime rather than a fixed option. This lack of flexibility was seen as a problem with the NDYP. Along with evidence from Employment Zones (EZs), this has led to the new Flexible New Deal (FND) approach that is coming into force this autumn. This move implies that the mandatory full-time activity has been pushed back from ten months in the NDYP and 18 months in ND25+ to two years, apart from a four-week guaranteed work experience period in the 1-2 year window.

The highly flexible Employment Zones were trailed in a number of areas and have been compared to normal New Deal programmes. The result suggest that EZs were more successful in moving people into work than the NDYP by about 4% and 2.5% for ND25+ but at higher cost. This improvement in outcomes encouraged the move to the FND, although with lower cost inputs.

But these gains are eroded after about 30 weeks with New Deal placements gaining jobs after the options have been completed faster than under EZ. This is consistent with the New Deal options reducing search while people are on them, the common lock-in finding, but search resumes more intensely during the follow through phase and hence they catch up.

The move to the FND and delaying full-time activity to 24 months was a judgement on the balance between the benefits of a mandatory work regime (threat and work experience) on one side and full-time job search on the other. This balance in a tight labour market was judged to be in favour of more job search, which is likely to be most effective in good labour market conditions. The balance is not as clear in a time of mass unemployment when successful job search is less common.

The Gregg review proposed that the full-time activity 'work-for-dole' proposals should adopt a transitional jobs model of compulsory full-time activity, split between work (at the minimum wage), job search and support. This proposal has been provisionally accepted and pathfinders start at the end of 2010.

Intermediate labour markets

It was within this overall programme context that the concept of creating 'intermediate labour markets' (ILMs) emerged and was developed by local providers and partnerships in the UK. In contrast to the marginal economic activities that characterised conventional temporary employment programmes, ILMs sought to provide more realistic work experience by integrating their projects with local regeneration programmes and initiatives seeking to stimulate job creation through an expansion of the 'social economy'.

ILM participants were usually paid wages and employed for up to a year. Providers suggested that the experience of 'real work' and personal support was a more effective way of tackling the employment barriers of the long-term unemployed. Early case studies suggested that although their costs were greater, their job entry and job retention rates were also higher than those of mainstream programmes.

Job providers – including private, public and social organisations – should have incentives to move participants on into full-time work

In the early phase, ILMs characteristically were small scale. By the mid-1990s, however, a viable network existed in the UK bringing together a range of providers sharing some key features: they recruited long-term unemployed people on temporary contracts; paid wages to participants for at least part of their stay; gave

access to off-the-job training and personal development activities; and provided assistance with job search and placement.

They are thus a hybrid between job creation and job search focused schemes. While the New Deals were also hybrids, the difference is that under the New Deal, the search came in a phase before the placement, rather than running alongside. Thus, the claimant was not required to search and providers were not incentivised to secure jobs for participants in the early versions.

Although ILMs typically relied on various forms of government funding, they were unlike traditional temporary employment programmes as they were usually city or area specific, often initiated, developed and delivered by non-governmental bodies in the voluntary sector.

A key element of these initiatives was the combination of providing jobs for disadvantaged people with the delivery of socially useful goods and services for low-income communities. Many also aimed to develop new markets in the social economy, which, it was suggested, would themselves generate additional jobs.

US transitional jobs

A direct equivalent of ILMs emerged in the United States where a number of community-based initiatives and foundation-funded demonstration projects continued to explore the potential of wage-paying programmes during the early phases of welfare reform. These gradually became known as 'transitional jobs' initiatives and after 1996, several cities and states began to implement 'transitional employment' programmes (TEPs), seeking to extend the job entry results that seemed to be secured by the early transitional jobs projects.

During the first phase of post-1996 welfare reform, however, few individual states used public sector employment creation and those that did introduced conventional workfare programmes. The need to generate more work slots for welfare recipients directly has since grown in significance as the economic situation has deteriorated and as administrators have struggled to find work in depressed labour markets for participants who have significant employment barriers and/or who are approaching the end of their entitlement to time-limited cash benefits.

Much of this provision takes the form of conventional workfare. But by the late 1990s, individual state and city governments started to implement more extensive TEPs, aiming to provide and use the incentive and job preparation effects of waged work experience. By 2003, the Transitional Jobs Network estimated that there were about 17,000 participants in TEPs operating in

Transitional jobs lead to permanent work

According to Margy Waller of the Brookings Institution:

'Workers have a good chance of getting a permanent job in the regular labour market after a short period in a wage-paying transitional job. Programs have proven to be successful at finding permanent jobs for 50-75% of all targeted hard-to-place participants who begin the program. A review of the literature regarding earlier publicly funded employment programs indicates that participation can raise future earnings for workers with low skills, and is more likely to lead to this outcome than subsidizing wages in existing job slots. The transitional jobs program in Washington State, Community Jobs, provides evidence of the promising nature of this welfare-to-work strategy. Community Jobs workers spend 20 hours a week in paid employment at public and non-profit agencies. They are provided mentoring and training, as well as access to educational opportunities for another 20 hours per week. A University of Washington evaluation of Community Jobs found that it increased the employment rate of participants by 33 percentage points over the rate they would have achieved without completing the program. An examination by Mathematica Policy Research of six transitional jobs programs in both rural and urban areas found that about 50% of the participants completed the programs, and between 81-94% of the completers got an unsubsidized job by the end of the program. There is also evidence that transitional work increases earnings prospects.' (Waller, 2002)

This apparent success is getting backing from Barack Obama in his budget proposals. According to the US Department of Labor:

'The President's Budget provides strong support for Federal workforce training programs to help Americans prepare for, find, and retain stable, high-paying jobs. Building on the significant support in the recovery Act for training in 'green jobs', the Administration will direct existing programs to find ways to prepare workers for jobs associated with products and services that use renewable energy resources, reduce pollution, and conserve natural resources. The President's Budget will support new transitional jobs and career pathway programs, testing innovative approaches to helping low-income Americans grab hold of and climb the career ladder.' (US Department of Labor, 2009).

more than 30 cities. TEPs have since been joined by programmes developed by Wisconsin and New York, states previously most closely associated with the extensive use of 'unpaid' workfare.

UK ILMs

The most substantial and best-evaluated UK ILM project was StepUP, the pilot of which provided a guaranteed job and support for up to 50 weeks. It was available for those in the 20 pilot areas who remained unemployed six months after completing their New Deal option or IAP for the ND25+. An independent managing agent sourced jobs from employers in the private, public or voluntary sectors, and Jobcentre Plus placed participants into the jobs.

Employers were paid a wage subsidy for 50 weeks of at least the minimum wage and a fee to reflect their additional costs. The subsidised job was for 33 hours a week – less than normal full-time work to enable job search within a normal working week. Support for participants was provided through a Jobcentre Plus personal adviser, a support worker from the managing agent and a workplace buddy.

Delivery on the required scale implies a crucial role for local authorities and the social enterprise/community sector

A StepUP job constituted a job offer under the Jobseeker's Agreement, and sanctions could have been applied if a job was refused without good reason. Support during the job was split into two phases: the first 26 weeks was the 'retention phase', which aimed to maximise retention; the final 26 weeks was the 'progression phase', which aimed to increase job search so that employees go on to a job in the open labour market.

Of those who became eligible for StepUP, 60% commenced a StepUP job and the remainder did not participate. The main reasons for non-participation are not fully understood. This non-participation creates some ambiguity of programme effects. The intention to treat covers all potential participants but actually treated are only those who actually participated.

Overall, for young people, job outcomes were 3.2 percentage points higher in StepUP areas. Thus, StepUP narrowly outperformed the base of redoing the New Deal, including the job search only phase. As this is a programme for New Deal participants that failed to secure a job, they are a very disadvantaged group. The scheme was more successful for those aged 25+ with a six percentage point employment gain.

StepUP was only partially successfully in mixing the message of 'work now but you need to secure work by the end of the programme'. The evaluation of the programme suggests that many expected to be taken by the StepUP employer, which often did not happen (Bivand et al, 2006). The long 50-week period in which, over the first half of the period, progression was not mentioned might lie behind this. Certainly, the cost of StepUP can be greatly reduced.

Design features

The above analysis suggests a set of desirable design features of the Job Guarantee. Work experience combined with job search is at the heart of this proposal. The greater search role should mean there are better outcomes that existing New Deals. It is essential that claimants understand the crucial importance of looking for a sustained job. Job providers, including private, public and social organisations, should have incentive payments to get participants into work on completion of the programme. The role of 'golden hellos' in supporting job entry should also be considered.

The value of the output is important in terms of the value of the programme but also the value to participants. The more that work is seen as valued by the community the better. This will be enhanced if local jobs banks are created where social enterprises and local community groups – from scout groups to tenants' associations plus OAPs and the disabled – bid for the time of the Job Guarantee participants.

The bid is not about money but social value (although a contribution for volunteer time and materials could be requested). This should obviously be as unbureaucratic as possible, but where there is excess demand, prioritising will be needed. But it is vital to the participant, a future employer and the community as a whole for there to be clear social value and community involvement in this is very powerful.

Finally, the jobs need to have all the properties of real jobs: a wage and all that comes with it, a duty to the employer to show up on time, to work rather than mess about, etc. If participants breach their contract, they should be sacked as with any other job. The reference for future employers is key too: future employers must be convinced that this is work and that references are valuable insights into the qualities of the participant.

Summary

The history of welfare reform has seen positive evolution as new ideas are developed from previous limited success or even outright failure. Job creation programmes were not a major success in terms of future employment among participants, but they did provide a wage and alleviate hardship while on the created job. Workfare failed on all counts except the threat effect, which was modest. The problem for these programmes and similar education-based ones was the lock-in effect of reduced job search and no incentives for the employer to help the participant move on into work.

The New Deals mixed search and placement but in sequence rather than together and the employer incentives were only developed later. As such the lock-in effects were reduced but probably not eliminated. The FND moves away from placement to use job search and support apart from a four-week work experience phase.

The government's Job Guarantee proposal can be viewed in a number of ways. First, that it is building on the broadly successful New Deals of 1998-2008 but with more focus on the claimants' continued job search and incentives for providers. It is also waged but, as it is part-time, the extra cost is just £25 a week or so per person. If the greater job search and search support while on the placement proves helpful, as it generally has been in other settings, then the new scheme could be seen as an improvement on the New Deals.

It is vital for participants, future employers and the community as a whole that the Job Guarantee has clear social value

A second view is to see this as the 'work-for-dole' proposals turned into waged transitional jobs (as proposed in the Gregg review) brought forward to 12 months for younger people.

Certainly, the new programme should perform better than old job creation or workfare schemes. But will it outperform the FND, which only has job search and support? This is not easy to answer definitively. But as shown with StepUP, the Job Guarantee should outperform the current ND25+ for the hardest to help, the only group involved in StepUP.

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Offshoring low-skill jobs?
The effects of outward investment into low-wage economies

The closure of a UK manufacturing plant as a firm relocates production to a low-cost country has been a common news headline in recent years. Research by *Helen Simpson* investigates whether low-skilled workers face a particularly strong threat of having their jobs 'offshored'.

Understanding how multinational firms structure their operations globally is of great importance to governments concerned with employment and income inequality. Not least because, these firms make up a substantial proportion of employment in many economies.

What's more, the opportunities to relocate production to relatively low-wage economies will only increase as barriers to inward investment in such countries as China and the newer members of the European Union are reduced. For example, the OECD highlights China as a major destination for foreign direct investment outside the OECD area, with estimated inflows of $72 billion in 2005.

There is much debate about whether outward investment from countries like the UK implies 'offshoring jobs' – that is, whether firms' employment overseas displaces domestic employment. International restructuring can certainly affect large numbers of workers and its impact is often felt by particular groups of workers. My research examines whether low- and high-skilled workers in the UK face a differential threat of their jobs being offshored when the firms they work for invest in low-wage economies.

The analysis focuses on the location of overseas investment and on plant closures. Multinational firms may choose to locate activities, or stages of the production chain, globally according to the characteristics of the workforce in different countries. For example, they may produce goods made predominantly by low-skilled production workers in countries where low-skilled labour is abundant. They may locate skill-intensive activities, such as research and development, in countries where there is substantial technological expertise.

More specifically, my research investigates whether investment abroad in relatively low-skill-abundant, low-wage economies is associated with plant closures in relatively low-skill, labour-intensive industries in the UK. That is, I look for evidence indicating that low-skill-intensive production is being relocated to low-wage economies.

To do this, my study makes comparisons across industries of differing skill intensity and across different types of firms. It demonstrates that in low-skill industries in the UK, plants that are owned by multinationals investing in low-wage economies are more likely to be shut down compared with (1) plants in the same industry owned by firms that are not investing in low-wage economies, and (2) plants in high-skill industries owned by the same group of firms.

Within low-skill industries in the UK, plants owned by UK multinationals that invest in low-wage economies are more likely be closed than those owned by other firms

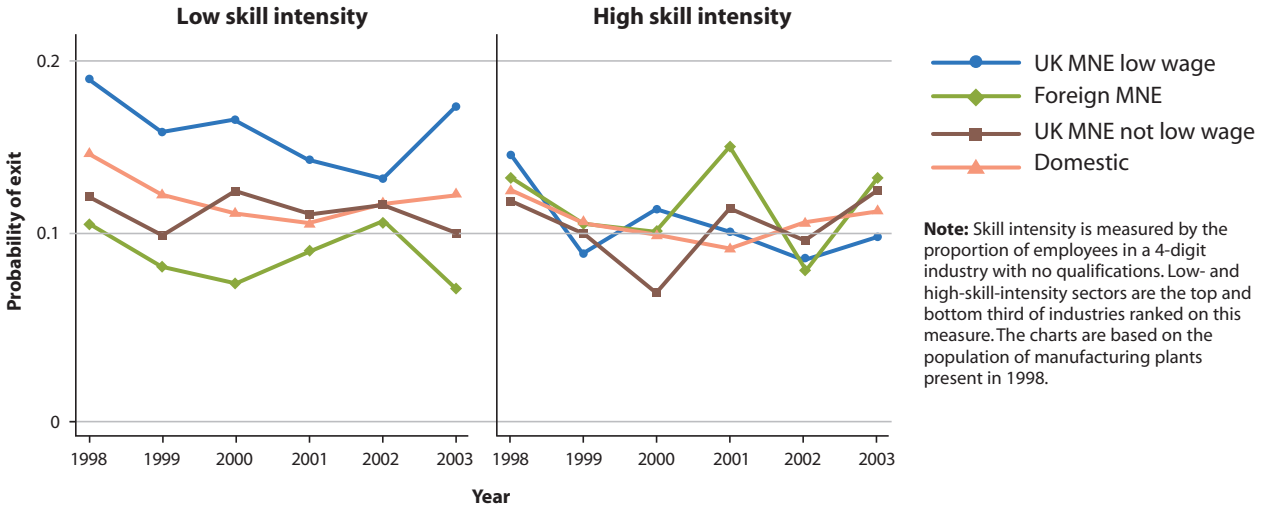
Figure 1 shows some descriptive evidence that, within low-skill industries, plants owned by UK multinationals investing in low-wage economies have a higher propensity to exit than those owned by other firms.

For each group of industries, Figure 1 shows the probability of exit for four different types of plants: domestic-owned; plants owned by a foreign-owned multinational; plants owned by UK multinationals that are investing in low-wage economies; and plants owned by UK multinationals that are not investing in low-wage economies. This is based on the group of plants active in the UK manufacturing sector in 1998, and plants are categorised on the basis of their characteristics in that year.

The left panel shows the relatively high probability of exit among plants in low-skill-intensity industries owned by UK multinationals investing in low-wage economies (labelled UK MNE low wage). To demonstrate that this is not simply the result of a generally higher propensity to exit among plants owned by this type of firm across all industries, the right panel shows exit propensities among plants in high-skill industries. Here there is no marked difference.

My research findings imply asymmetric effects of investment in low-wage economies for workers in industries of differing skill intensity. The results suggest potentially adverse effects for

Figure 1: Probability of plant exit by industry skill intensity and firm type



Note: Skill intensity is measured by the proportion of employees in a 4-digit industry with no qualifications. Low- and high-skill-intensity sectors are the top and bottom third of industries ranked on this measure. The charts are based on the population of manufacturing plants present in 1998.

workers in low-skill industries employed in plants owned by UK multinationals investing in low-wage economies.

But there is also some indication of potentially beneficial effects for workers in high-skill industries within the same firms. These might arise because firms invest abroad to increase profits and survive. Relocating low-skill activities to relatively low-wage economies could enable a firm to reduce costs and expand, with potentially positive effects on investment and employment in the firm's high-skill activities in the UK.

Focusing on firms that invest in China, my research finds that a worker in a plant in a relatively low-skill industry that is owned by a firm investing in China faces a *higher* probability of their workplace being closed compared with a worker in a plant in the same industry owned by a different type of firm. But a worker in a plant in a relatively high-skill industry owned by a firm investing in China has a *lower* probability of the plant being closed compared with a plant in the same industry owned by a different type of firm.

The skill intensity of employment is increasing within the UK operations of firms that invest in low-wage economies

Although firms investing in low-wage economies own a relatively small proportion of manufacturing plants in the UK economy, these plants are typically large. Over the period 1998-2003, the average number of workers in a UK manufacturing plant owned by a firm investing in China was around 150 compared with around 10 in a plant owned by a domestic, non-multinational firm.

The overall effects of outward investment into low-wage economies on employees with different skills and on the income distribution will depend in part on re-employment opportunities for displaced workers. One possibility is that low-skilled workers facing plant closures are redeployed within the same firm. But descriptive evidence suggests that the entry and expansion of surviving plants within these firms is unlikely to offset the effect of plant exit, and that investment in low-wage economies is associated with an overall increase in the skill intensity of employment within these firms' UK operations.

Given increasing internationalisation of economic activity and the fact that multinational firms make up a significant fraction of employment in economies such as the UK and the United States, these research findings have potential implications for the industrial composition of employment in OECD economies. Firms investing in low-wage economies are shifting the balance of their domestic employment towards high-skill industries at a greater rate than other types of firm.

From a policy perspective, this suggests that retraining opportunities for workers with low-level qualifications – particularly training in general, transferable skills – may be important for ensuring that displaced individuals remain attached to the labour market and have a better prospect of gaining employment in other industries.

Finally, in the light of increasing service sector employment, a natural next question would be to investigate the effects of outward investment on internationally mobile service sector activities.

This article summarises 'Investment Abroad and Adjustment at Home: Evidence from UK Multinational Firms' by Helen Simpson, CMPO Working Paper No. 08/207. The research is financed by the ESRC (RES-060-25-0033).

For the full paper, see: http://www.bristol.ac.uk/cmpo/publications/papers/2008/wp207.pdf

Earnings mobility in Europe

How much do people's positions in the income distribution change over time in the UK and other European countries? And is 'earnings mobility' more prevalent among low- or high-income individuals? *Paul Gregg* and *Claudia Vittori* use a new technique to address these fundamental questions about inequality.

Measures of earnings or income mobility assess the extent to which individuals or families are moving in the income distribution between two periods. The degree of movement over time has an absolute component – how much income changes for an individual – and a relative component, reflecting how far the individual has to travel to be on average earnings.

Hence mobility is affected by the level of inequality, reflecting the distances between individuals. When mobility takes place, the contribution that an individual makes to overall inequality will change. So although inequality and mobility are quite distinct concepts, they are closely related to one another.

One way of measuring mobility (proposed by Shorrocks, 1978) acts as a natural bridge between inequality and the mobility framework. Here the extent of mobility is measured by looking at how income measured over several years leads to reduced inequality.

While this index is widely used, it suffers from a lack of 'decomposability' to show where in the income distribution and for whom there is mobility. A recent advance (made by Schluter and Trede, 2003) allows the measure to be expressed continuously so that it becomes possible to observe the contribution to the index from each part of the income distribution. This means we can explore if countries have greater mobility but also whether this occurs among low or high-income people.

Our study analyses the impact of mobility on the earnings distribution of four European countries – Denmark, Germany, Spain and the UK – using data from the European Community Household Panel. We also explore the underlining story of mobility by depicting the picture of the distributional change in absolute and relative terms.

Table 1: The impact of six years mobility in reducing inequality in four European countries, comparing an initial period of 1994/5 with 2000/01

	Denmark	Germany	Spain	UK
Long-run mobility	11.23%	5.47%	6.33%	6.29%

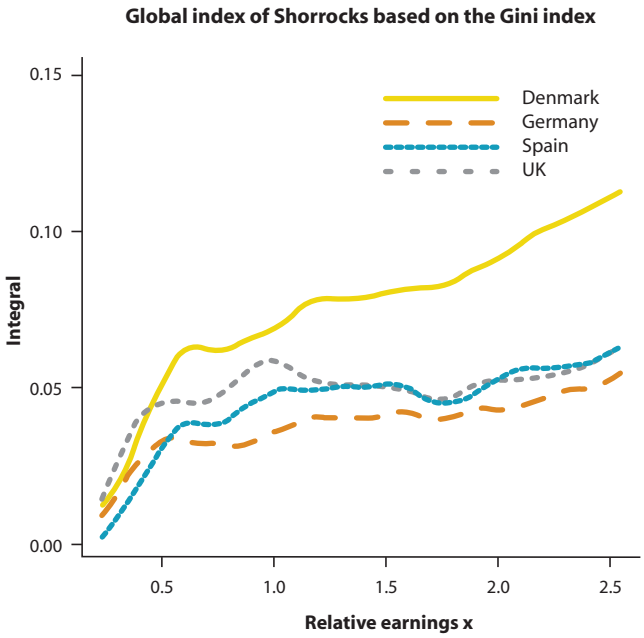
The choice of countries is partly driven by data limitations and partly as a way of assessing the impact of the range of labour market regimes in the pre-accession European Union. The focus is on the income of people of working age who have been working over all the months of the last calendar year for more than 15 hours per week – so that earnings mobility is measured in the absence of periods of unemployment. The analysis is focused on mobility over six years to allow a clearer signal to emerge against the 'noise' of measurement error or quickly reversed transitory mobility.

Earnings mobility in Europe does little to reduce inequality

Table 1 reports the impact of six years mobility in reducing inequality comparing an initial period of 1994/5 with 2000/01. Although mobility is clearly reducing the level of inequality in each country, the extent to which inequality is reduced is small, varying from 5% in Germany to 11% in Denmark, which already has low inequality.

Figure 1 shows the underlining story of mobility in our four countries. It shows the change in inequality resulting from mobility as we move from lower to higher incomes. The chart plots the cumulative contribution to the inequality reductions in Table 1 as we move from low earnings (below half of average earnings) through average earnings and up to three times the average for high earnings.

Figure 1: Changes in inequality resulting from mobility, moving from lower to higher incomes in four European countries



All the countries have reasonably rapid mobility at the lowest incomes (below half the national average) and this is strongest for the UK and Denmark. Moving through the middle of the income distribution, Denmark starts to pull away and Spain catches the UK. At the higher incomes, the UK shows no further mobility: it is narrowly overtaken by Spain and even Germany starts to catch up.

It is clear that the UK's low mobility stems from the upper half of the earnings distribution being very immobile. The lowest earners do converge with middle earners to a degree but high earners largely remain high earners. The UK and Spain have similar overall mobility but in different parts of the distribution, with the UK showing higher mobility at the bottom but weaker mobility in the middle.

There is very low mobility among the UK's high earners: the highest paid stay the highest paid

Hence it is not possible to make a single definitive statement as to whether the UK or Spain has the higher mobility in total, as there is no clear dominance over the entire range. But there is a pattern of dominance for the UK over lower parts of the distribution, up to around half of average earnings, and dominance by Spain from half to one and a half times average earnings.

The overall picture tells us first, that mobility does relatively little to reduce inequality. Second, there is no clear correlation between mobility and inequality levels. Denmark has the lowest inequality and the UK and Spain the highest inequality. But Denmark has the highest mobility and Spain and the UK follow.

Third, in general, it is the bottom fifth of the income distribution that makes the largest contribution to mobility. But only Denmark sees substantial mobility among high earners – that is, becoming more like everyone else. The UK especially has very low mobility among high earners: the highest paid stay the highest paid and this is what leads to the UK having such low mobility.

This article summarises 'Exploring Shorrocks Mobility Indices Using European Data' by Paul Gregg and Claudia Vittori, CMPO Discussion Paper No. 08/206. For the full paper, see: http://www.bristol.ac.uk/cmpo/publications/papers/2008/wp206.pdf

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