LONDON DEVELOPMENT AGENCY

What works with tackling worklessness?

GLAECONOMICS

Review prepared for the London Development Agency and GLA Economics by:

Pamela Meadows
Synergy Research and Consulting

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Executive summary

London has a higher proportion of its working age population who are not in paid work than any other region of the country. This is a source of concern to central government, to the London Development Agency (LDA), to the Mayor of London and to others working to promote the health of the London economy and the wellbeing of Londoners.

Workless people vary in their characteristics and needs, although most worklessness is associated with disadvantage. Workless Londoners have more diverse needs than those in other parts of Britain. In particular they are more likely to be under fifty, to have children, to have been born outside Britain and to be of black or minority ethnic origin. Many workless Londoners face more than one barrier to work. Tackling one set of problems while ignoring others is unlikely to make much impact on the problem.

Interventions to help workless people get and keep work, or active labour market policies, have four different purposes.

- To increase the overall level of employment in the economy consistent with a given inflation target
- To reduce the mismatch in skills between the job opportunities available and the workless people who might fill them
- To mitigate the deterioration in skills that takes place during extended periods of worklessness
- To tackle poverty and social exclusion by helping disadvantaged individuals

Some interventions that are very effective in pursuit of one objective may be less effective in pursuit of others. Thus, a portfolio of different measures is generally necessary to cover all four objectives.

Those making decisions about active labour market interventions have to make trade-offs over the relative importance of the different objectives, over costs, and over timescales. As a general rule of thumb, short-term measures are cheaper and improve the immediate macroeconomic trade-off, but they are less effective for more disadvantaged groups and their impact declines over time. Longer-term measures, particularly appropriate training, ultimately have a larger and more sustained impact, but this is slow to develop and in the meantime upfront costs are high, and there is no immediate macroeconomic benefit.

The local labour market

The identification of the local labour market is more of a challenge in London than in most places. This is because the geographical area within which people look for work varies both by transport availability and by skill level. Nationally, those in elementary and personal service occupations have the lowest median travel to work distance (less than 3 kilometres) while those in professional occupations have the highest (around 7 kilometres). Distances are longer in London for all groups, but the same overall pattern prevails. Thus what constitutes the local labour market varies by skill level.

London also has a lower rate of local recruitment by employers, which may make it more difficult to secure their engagement in local training provision.

Individual needs

The evidence makes clear that there is no universal model of intervention that will help all workless people. Help and support needs to be tailored to the needs of the individual. Resources are wasted and opportunities to provide genuine help are lost if an intervention is not appropriate to the needs of an individual.

The different types of intervention also vary widely in their upfront costs (from around £250 to around £3,000 per person), and in the size and speed of their impact (from a few days or weeks to several years). The most effective programmes have a range of options including training, help with job search and presentation, and support with other potential barriers to work such as finding childcare and arranging transport. Individuals often need a combination of options rather than a single choice from a menu. In particular, training undertaken in isolation from help with job search and presentation may not help participants to find work.

Help with job search

Help in presentation and job search is very effective (and by some way the most cost-effective option) for people who already have recent work experience or some skills or qualifications. The cost per participant is likely to be less than £250. The gross cost per additional person in employment is likely to be around £7,500, with the net cost being considerably less once benefit savings are taken into account. Typically benefits to the Exchequer exceed costs with the first year.

Its main impact comes through speeding up the process of finding work for those who would have found it anyway. It is less useful on its own where people lack recent work experience or have no qualifications. Although it may lead to immediate work, a large proportion of those placed into jobs for which they do not have the necessary skills, or which do not fit well with their personal circumstances, will return to worklessness, often after only a few weeks or months.

Job subsidies

Subsidies encourage employers to recruit people who they would not normally consider because they might not have the immediate skills to justify normal wage rates, or appear to be risky in other ways. Job subsidies are only effective for jobs in the private sector. Where they are used in the public or voluntary sectors they have no impact on future employment prospects.

Subsidies rarely encourage employers to take on additional employees. Rather they fill existing vacancies with people other than those they would have recruited in the normal course of events. Thus, the overall short-term economic additionality of job subsidies is relatively low (typically around one net job for every seven to ten subsidised jobs). However, they enable people with greater disadvantages or barriers to work to take jobs that would otherwise be done by people who face fewer disadvantages. They are therefore a means of contributing to poverty and social exclusion objectives. In the longer-term job

subsidies are also likely to increase the supply of labour available to employers, which has positive macroeconomic benefits.

In terms of costs, job subsidies are relatively expensive. Direct costs per participant would typically be between £2,000 and £3,000. Gross costs per additional person employed would therefore be between £15,000 and £20,000 (although benefit savings and tax receipts would offset some of this). The period over which benefits to the Exchequer exceed costs is likely to be between two and three years.

Training

People who lack job-related skills or qualifications, or who have poor basic skills (including English language skills) appear to benefit from training which addresses deficits in basic skills or which is directly relevant to employers' needs in the local labour market. There is, however, evidence that inappropriate training, which is neither relevant to the available jobs in the local labour market, nor equips people to function in the workplace by improving their work-related language and literacy skills, can damage rather than help job prospects.

Moreover, it is important to recognise that all training is relatively expensive. It (including income maintenance payments) is likely to cost around £3,000 or more per participant for a six-month course. Moreover, the initial impact on worklessness tends to be negative, as learners focus on their course and not on looking for work. Any positive impact on worklessness tends to take at least two years (and often as long as four years) to emerge. In addition, although the impact grows over time (and the latest evidence suggests the impact is still increasing over nine years), it remains relatively small. Typically, after six years, around one in ten of those who have undergone training are in employment and would not have been otherwise. (The effect is smaller in earlier years and larger in later ones, so the six year point represents a reasonable average.) Thus the gross cost per additional person going into work would be around £30,000. Once obtained, this employment would need to be sustained for five years or more for the benefits to exceed the costs. Thus, because of the long time period before any benefits emerge, it takes around ten years (and possibly more) for the total benefits to the Exchequer to exceed the costs of the intervention.

The direct involvement of employers, either as providers of on-the-job training, or as providers of work experience to those receiving classroom-based training, consistently leads to better outcomes than purely classroom-based training options. Training to address English language or other basic skills deficits needs to be targeted on the type and level of skill necessary to function effectively in the workplace.

Job creation

Direct job creation in the public or voluntary sectors neither increases the likelihood that a participant will get employment afterwards nor adds to the overall number of jobs in the economy. There is some evidence that it may actually reduce subsequent employment prospects. This option generally represents exceptionally poor value for money.

Intermediate labour market interventions appear to be the main exception to this conclusion. These do not just offer work experience but combine it with intensive support in developing workplace behaviour, job search and presentation skills and help with other personal problems such as health and housing difficulties. However, it is important to ensure that interventions which describe themselves as intermediate labour markets do actually offer the full range of support, and are not essentially job creation projects.

Work first versus training

The consensus up until around 2000 was that programmes that emphasised work first were more effective than those involving training. The most recent authoritative evidence (including reviews of the data giving rise to the earlier findings) shifts the balance of this conclusion somewhat, not least by recognising that

different interventions are appropriate to different groups in the workless population.

Help with presentation and job search is the most effective option for those who have recent work experience or qualifications. This type of intervention is relatively cheap to provide (probably less than £250 a person or around £5,000 for each additional person moving into work). Because it speeds up the rate at which people move into jobs, it has an immediate impact on employment rates, and the costs are recouped through benefit savings relatively quickly (typically in under a year). The impact deteriorates over time, because those who are job ready, who are the group most likely to benefit from work first initiatives, generally get jobs eventually without any special help. The impact also tails off because some of those who get jobs subsequently lose them or leave because they are not suitable, or because they were only temporary in the first place. But because the payback period is so short, the fact that the employment gains may not be sustained beyond the first year or two, does not matter in terms of cost-effectiveness.

Help with presentation and job search is the most effective option for those who have recent work experience or qualifications.

By contrast, training programmes (as with other human capital investments) reduce employment rates in the short-term as people withdraw from job search while they are on their courses. The up-front costs are high (perhaps £30,000 per additional person moving into employment over the following eight or nine years). The benefits in terms of improved employment rates are relatively slow to emerge (four years is not untypical). It may be ten years or more before the benefits exceed the costs.

There are also high levels of risk. The benefits may never exceed the costs if training is provided for people who already have qualifications or work experience (since for that group the improvement in employment prospects provided by training is relatively small) or if the training provided does not both address the skill gaps of the individuals involved and the requirements of local employers.

Training for workless people can and does have a positive rate of return in the same way that other human capital investments do, but it is slow to emerge and the potential risks and opportunity costs are high.

Making work pay

Earnings supplements such as tax credits and in-work benefits have an important role to play both in encouraging people to take paid work, and in helping them to retain their jobs.

The purpose of these supplements is to ensure that people are better off in paid work than they would be by remaining workless. This both improves incentives to work, encouraging more people to come forward, with beneficial effects on productive potential and macroeconomic functioning and reduces poverty. They help people to remain in paid work, both by providing a financial cushion to cover emergencies and by the fact that family income would fall if people returned to worklessness. However, there is evidence that tax credits are less effective in this role in London than they are elsewhere, particularly because of high childcare costs.

Scale

The evidence suggests that smaller scale interventions are more effective than larger ones. It is not clear why, but may relate to the delivery challenge: larger scale programmes may require more commitment and talent among the delivery managers and caseworkers than is actually available. This variability in quality is likely to lead to greater variability in outcomes than is the case for smaller more carefully targeted programmes.

Engagement with employers

The most successful labour market programmes appear to be those which actively involve or engage employers, both in delivery and in design. In general, it is more effective to subsidise an employer to provide training to an individual, than it is to provide that training directly. Classroom-based provision is more effective if it has a work experience element that allows practice of the skills being learnt. Involving employers in programme design is an important way of avoiding training people in unsuitable skills.

Young people

Programmes for adults are generally more effective than those aimed at young people under twenty-five. Some European interventions for young people (notably those involving training or subsidised work with private sector employers) have been effective, but very few in North America. This may reflect the fact that young people who are neither in full-time education nor in employment have unusually high levels of disadvantage (and that this is more acute in North America than it is in Europe).

Long-term sick and disabled people

Most interventions for long-term sick and disabled people have not been shown to be effective. It is not clear what is likely to work for this important group, although the early indications from the Pathways to Work evaluation are encouraging.

Recent migrants

In addition to language training related to workplace usage, recent migrants benefit from advice and support on how the local labour market works, both in terms of recruitment methods and in terms of access to social networks as a source of jobs.

People of black, Asian and other minority ethnic origin

It is difficult to draw direct lessons from the experience of minority ethnic people in other countries who experience different local circumstances and cultures. The limited UK evidence suggests that labour market programmes are less effective for people of black, Asian and other minority ethnic origin than they are for the white population. Some of the explanation for this appears to be that people of minority origin are over-represented in the kind of provision (such as basic skills training) where the benefits are slow to emerge. Many of those of black, Asian and other minority ethnic origin on these programmes are relatively recent migrants who have limited English language skills, so their experiences may not be typical of those facing people who have been born or educated in Britain. However, there is some evidence of possible employer discrimination in access to the most advantageous options such as workplace-based training and subsidised work. This suggests an ongoing need for active engagement with employers by service providers.

Childcare

Childcare (in terms of both availability and affordability) is a central challenge for working parents, particularly where they have children of different ages, who need different provision. Entry-level jobs often require a start within a few days, which makes them difficult to access for those who need (or wish) to rely on formal childcare. Although informal childcare is often more flexible and available more quickly, it is more likely to break down than formal childcare, and this makes it less useful in terms of job retention.

Retention and progression

Retention and progression are helped by:

- having an initial job which is stable, full-time and pays above the minimum
- having come into work following training rather than just help in job search

- having access to training either inside or outside the workplace
- having a nominated mentor in the workplace
- having access to ongoing support in resolving problems inside the workplace (e.g. relationships with colleagues) and outside (e.g. childcare breakdowns)
- having a financial cushion to cope with crises (e.g. transport or childcare problems)

If promoting retention and advancement is a policy objective, it is important to ensure that training and employment support providers are given incentives and targets to encourage such outcomes. Otherwise the incentive structure means that they will focus on quick placements which may be of short duration. Intermediate targets are one option (e.g. qualifications or progression in training to encourage provision which supports longer-term progression). An alternative is to set out retention and progression targets. For example, the state of Oregon in the USA, gives all providers of employment and training services targets related to job duration and in some cases also lays down targets for initial wage rates. In the UK, Employment Zones receive large bonuses if people remain in their jobs for at least three months. The aim is to encourage appropriate placements rather than the first placement that becomes available.

Conclusion

Work first, that is job search assistance, is perhaps still the most effective, and certainly the most cost-effective, form of help for those who are job ready. But the more disadvantaged individuals are, the less effective is this approach and the more effective is training relative to such an approach. It is also important to ensure that training is properly designed with a work focus, including where possible an element of on the job training. In addition, subsidised jobs – a work first approach – can be effective for more disadvantaged individuals.

Ultimately there are trade-offs to be made. These relate to immediate costs, priorities in terms of number or type of people to be helped, and the timescale over which the benefits emerge. More intensive help to more disadvantaged groups is more expensive and generates longer-lasting improvements in outcomes. The returns take much longer to come through, than providing short-term help to those with fewer problems, which gets more people into work more quickly. What is clear is that if provision does not address the particular needs of the individual receiving it, it is unlikely to make a difference.

Issues for London

Some features of the London labour market are conducive to the success of active labour market interventions. Transport is generally good and the demand for labour is high. However, skill deficits are high among workless population, and a relatively high proportion of the working population do not have the English language skills to function effectively in the workplace. Wage rates in entry-level jobs are low relative to the cost of living and tax credits are less useful. Childcare availability is low and the costs are high. It can be difficult to engage employers who have less connection with their immediate area. There is also high turnover among Jobcentre Plus personal advisers in London, which makes effective programme delivery more difficult.

1. Background to this study

1.1 The labour market context in London

The London labour market is unusual. Demand for labour is high and employment is growing. At the same time London has a lower proportion of its resident population in paid employment than any other region or country in the UK and the gap has been widening. In the winter of 2004/2005 31% of the working age population in London was not in employment. This compares with 25% in the country as a whole.

Part of the explanation for this is that London has an unusually high proportion of its jobs occupied by people with higher level skills. Employers are able to fill their high level vacancies with skilled migrants from the rest of the UK and overseas (HM Treasury 2006). Six out of seven workless Londoners do not have qualifications at level 4 or above (Meadows 2006).

The challenge of reducing worklessness in London is increased by the fact that the workless population in London reflects the diversity of the people who live in the capital. In the rest of Britain workless people are overwhelmingly older, white and British-born. Only a third have dependent children. Around half are aged over fifty. Nine out of ten are white British and more than nine out of ten were born in Britain. By contrast, nearly half (52%) of the workless women in London were born outside the UK and more than four out of ten (42%) men were. Nearly a tenth of workless people in London were born in Africa, for example. Half the workless population in London are of black, Asian and other minority ethnic origin. More than two-thirds of workless women in London are under fifty as are more than half the men. Reflecting their age, more than four out of ten workless Londoners have dependent children (Meadows 2006).

London's workless population are, therefore, more likely than the British average to have characteristics which mean that they face overlapping disadvantages when it comes to finding, keeping and progressing in work (HM Treasury 2006). Migrants may face language and cultural barriers and lack understanding as to how employers recruit, even though they may be well qualified (Green 2005). People of black, Asian and other minority ethnic origin may face discrimination even though they have been born and educated in Britain. People with children have to find childcare at a cost that will enable them to be better off in work. A higher proportion of workless Londoners have children than those elsewhere, and childcare in the capital is more expensive. A full-time nursery place for a child under

two costs £197 a week in London, compared with £141 in the rest of the country (Daycare Trust 2005).

1.2 Policy background

There are four national and local policy agendas that point towards the need to tackle worklessness and its associated poverty and disadvantage in London.

- The need to increase productivity to levels closer to those found in other advanced countries
- The need to reduce child poverty (which is higher in the capital than in any other region of the country) and social exclusion
- The Mayor's economic development strategy with its central focus on tackling barriers to employment
- The need to reform the welfare system to make it more effective in helping people obtain and keep work, and to reduce long-term dependence on out-of-work benefits

Tackling child poverty remains a priority both for the Government, and for both the Greater London Authority (GLA) and the Association of London Government (ALG), who jointly set up the London Child Poverty Commission in February 2006. The productivity issue is central to the Mayor of London's economic development strategy (Mayor of London and London Development Agency 2005) and is currently being addressed by the Leitch Review of Skills, commissioned by the Chancellor of the Exchequer. The Review's interim report (Leitch Review 2005) recognised that the productivity issue needs to be seen in the context both of the problem of child poverty and of the complexity of the relationships between the institutions which are seeking to help and encourage people into work and those which are helping people to develop and improve their skills. Half of those with no qualifications or poor basic skills are workless. Worklessness of parents (particularly lone parents) is known to be a major cause of child poverty. Moreover, even jobs that require few formal qualifications often need skills such as customer handling, team working and communication skills. These skills are now an addition to the traditional basic skills of literacy and numeracy which are required in almost all jobs.

The Leitch Review concluded that although tackling the low skills problem Britain faces would not contribute very much to increasing output per worker, 80% of gain would come through in higher rates of employment, thus leading to higher output in the economy as a whole. Moreover, increasing skills both increases the probability of getting work, and also allows progression into better jobs. At present 40% of people leaving jobseekers' allowance make a new claim within six months. Simply placing people into jobs for which they are not properly equipped puts them at risk of the "no pay – low pay cycle" with periods of short-term work interspersed with periods of unemployment. Further, investing in basic literacy and numeracy has the highest ratio of benefits to costs of any training initiative (Leitch Review 2005).

The welfare reform green paper (DWP 2006a) stressed the importance of work as a route out of poverty. In cities (including London) in particular it stressed the need to:

- "deliver a significant improvement in employment rates among those of
- working age, with a particular focus on the most disadvantaged, especially benefits claimants, lone parents, older people and people from minority ethnic groups
- ensure that individuals within these client groups are better able to both find and remain in work
- improve the skills of individuals within these client groups to enable them to progress once they are in work" (DWP 2006a para 42)

The government, in partnership with the Mayor and other organisations in London, is currently developing a series of City Pilots to try and improve the delivery of support for workless people in the capital.

There is a high degree of consensus around the objective of tackling both worklessness and the "low pay – no pay" cycle in London. The challenge is to find the most effective means of doing so.

2. The role of active labour market policies in tackling worklessness

The aim of this review is to examine the evidence for the effectiveness of different types of interventions whose purpose is to help workless people find and keep work. These interventions are often referred to by the generic term active labour market policies.

Active labour market policies have both economic and social objectives. The idea was developed originally in Sweden in the 1960s with the aim of speeding up the process of adjustment to economic change and mitigating the impact of labour shortages on expanding industries. Other countries began to experiment with them in the 1970s, but they became more widespread from the late 1980s.

They can be thought of as having four underlying objectives.

- To increase the overall employment rate in the economy without adding to inflation by increasing the effective supply of labour, that is the pool of people who are available to fill any particular vacancy
- To reduce skill mismatches, that is the coexistence of unfilled vacancies due to skills shortages and workless people who lack the relevant skills
- To add to the productive potential of the economy by reducing the deterioration in skills that tends to occur when people are workless and not using the skills they have
- To mitigate the adverse social effects of worklessness on the individuals concerned, and in particular to tackle poverty and social exclusion

Broadly speaking active labour market policies tend to fall into four broad groups.

- Help in presentation and job search (sometimes known as a work first approach)
- Training both to address skill deficits and to meet labour market needs
- Subsidies to employers to take on new recruits
- Direct employment on special public sector projects

Interventions can and do serve more than one objective. Table 1 summarises the objectives served by each of the different types of active labour market intervention. Help with presentation and job search is primarily aiming to increase the effective supply of labour. Training to meet labour market needs (for example in information technology or construction skills) is usually aimed mainly at skill mismatches. Training to remedy skill deficits is usually aimed primarily at social exclusion. Subsidies to employers are usually a means of combating social exclusion by providing

opportunities for groups of people who would not otherwise be considered by employers as potential recruits. Direct employment is intended to keep people in touch with the labour market and prevent skill deterioration, and to reduce social exclusion.

Most interventions focus only on those who are in direct receipt of state benefits. There are relatively few evaluations which cover wider workless groups. In particular, there have been few interventions for mothers with working partners, for example, even though higher employment rates among this group would contribute to the overall anti-poverty strategy.

Table 1: Main and subsidiary objectives of different types of active labour market policy

	Effective labour supply	Skill mismatch	Productive potential	Social exclusion
Job search and presentation	✓✓✓		✓✓	✓
Training	✓✓✓	✓✓✓	✓	✓✓
Job subsidies	✓		✓✓	✓✓✓
Direct employment			✓✓✓	✓✓✓

✓✓✓ Main objective

✓✓ Secondary objective

✓ Minor objective

It is also important to recognise that the economy and the labour market are dynamic rather than static. Thus, it is possible that in the short term active labour market policies merely redistribute job opportunities between individuals, and do not add to total employment. However, the increase in the effective supply of labour can reduce upward pressure on wages, which, over the medium and longer term, leads to more job opportunities in the economy as a whole. It is also possible that employers are more likely to create job opportunities if they think that people will be available to fill them.

Some interventions offer help to those who come forward voluntarily, while others are mandatory for all those in a particular category. In the UK the New Deal for Young People is mandatory for people aged 18-24 who have been unemployed for six months or more, while most other interventions are or have been voluntary. In Sweden participation in active labour market activities has been mandatory for unemployed people since the 1960s. There are also mandatory interventions in a number of other countries.

In the USA there have been a wide range of mandatory programmes, in most states since Temporary Assistance for Needy Families (TANF) replaced Aid for Families with Dependent Children (AFDC) in 1997 following the welfare reforms of the Clinton Administration, but in a number of individual states before that. In the United States welfare payments (essentially equivalent to income support or income-related jobseekers' allowance) are only available to families with children, and now have a lifetime time limit of five years. Typically nine out of ten TANF (and previously AFDC) recipients are lone parents. It is important to bear this in mind when considering the extent to which lessons from the USA are transferable to Britain.

3. What this review covers

Active labour market policies seek both to have a direct impact on the individuals who are the subject of the intervention, and, indirectly on the wider economy. Most evaluations focus only on the impact on the individual, and many use the methods which are generally used in medical research: a comparison between a treatment group and a comparison group. Sometimes (more frequently in the US than elsewhere) the comparison group is selected by randomly assigning people who are directed to or who volunteer for a particular intervention into two groups, one of which will receive the help available under the programme (the treatment group) while the other does not (the control group). In Europe and Australasia it is more common for comparisons to be made with administrative data, and this sometimes happens in the US as well.

3.1 The limitations of evaluation

Evaluations which use comparison or control groups provide only a partial picture of the impact of an intervention. They provide evidence of the impact on the individual but not the wider economic or social impact. Thus, they do not measure three of the four objectives in Table 1. The focus of this review is the impact on the individual, but other impacts may enhance or offset this effect.

In its review of welfare to work programme evaluations in 2001, a US National Academy of Sciences panel concluded that the evaluations of welfare-to-work programmes, including those based on classic random assignment had inherent limitations, which meant that they were unable to answer some central and important questions. In particular, the lack of detail about the characteristics of participants, the kind of treatment they had received (if any), and the local labour market context means that they are not able to say what works, for whom and in what context:

“The experiments that have been undertaken over the past decade have generally been aimed at estimating the overall effects of a bundle of separate welfare reforms, including work requirements, sanctions, time limits, and other provisions, all enacted and tested simultaneously. With rare exceptions, there have been no experiments that have isolated individual broad components or detailed strategies, varying each while holding all the other features of welfare reform fixed. Although experiments of similar policy bundles have often been tested in more than one site, there has been no attempt to coordinate those bundles in a way that would permit isolation of broad components or detailed strategies (i.e., with two sites differing only in one respect). Thus, although it would be advantageous to examine the effect of broad components, experiments have not been designed to do so.” (Moffitt and ver Ploeg 2001, p.96)

What this means is that there are few clear cut answers available to guide those developing new interventions. Rather, there are a series of clues, which have to be pieced together.

Another important caveat relates to the issue of balancing costs and benefits. Very few evaluation studies include information about the costs of a particular intervention (either in terms of the costs of providing income maintenance to the participants or in terms of the direct cost of the provision of services). This means that although one form of provision may be more **effective** than another, it may not be more **cost-effective** (see Section 3.2).

Spillover effects

Although the medical random assignment model is increasingly used to evaluate social interventions, there are some important differences in the way in which the results need to be interpreted. In a medical intervention, whether or not a particular treatment helps an individual generally has no implications for the health of other members of the population. That is not the case for social interventions. There can be positive secondary effects, for example demonstration effects, where one person’s experience encourages someone else to try a particular approach to finding work. Another example might be where someone who would get a job in any case is trained in a skill shortage area. He or she then gets a job in the new skill area, but the job that he or she would otherwise have taken is available to someone else. There can also be negative secondary effects where a supported person gets a job that would otherwise have gone to someone else. And there can be indirect effects in the wider economy operating through wage rates, through overall productive potential and through competitive pressures. (See de Koning 2001 for a fuller discussion of this issue.)

The “black box” problem

A second problem of many evaluations is that they are designed to answer the question “Does it work?” and not the more useful question for those devising new interventions “Why does it work?”. Answers to this second question are often more tentative, qualitative and circumstantial than the answers to the first. It is unusual for evaluation studies to look in detail at the content of an intervention. Rather the approach, particularly with random assignment experiments is one of a black box: what goes in is compared with what comes out, but what happens within the box is not a matter of concern.

What is the alternative (counterfactual) to a particular intervention?

The other problem with many evaluations is that they are designed to measure the impact of a particular **programme** funded under a particular piece of legislation. Often the programme is operating in a context where alternative programmes are available. They are not trying to measure the impact of a particular **type** of intervention (Heckman et al 1999). In other words they are not trying to

establish whether or not active labour market policies or a particular subset of them work in general. Rather, they are implicitly comparing the provision available through one initiative with existing or alternative provision. In many random assignment evaluations, members of the control group actually receive services similar to those received by members of the treatment group, and many members of the treatment group do not receive any services at all. Ashworth and Greenberg (2005) revealed that across 51 US evaluation sites using random assignment only 54% of those assigned to the treatment group actually received any services. Moreover, around a third of members of the control group also received services (albeit under different programmes and with different funding sources).

It is inevitable that under these circumstances the impact of interventions (however they are provided or funded) on the labour market prospects of individuals will be understated. The more effective and widely available the alternative provision, the lower will be the measured impact of the provision which is being evaluated. During the 1980s this was not much of problem as there was only a limited amount of alternative provision available. However, over the last ten years opportunities to help people find and keep work have been growing. In the US there are a range of state-funded opportunities. In Britain in addition to the mainstream New Deal programmes there are often opportunities provided by the voluntary sector, by urban regeneration initiatives or by projects funded under the European Social Fund (ESF), or specialist area-based provision such as Action Teams for Jobs or Employment Zones.

In fact, meta-analysis[1] across 51 US welfare-to-work sites revealed that the main difference between the activities of members of the treatment groups and members of the control groups was in their participation in active job search. Over the twenty-five years or so covered by the review, the differences in participation in training in particular narrowed significantly, as a wider range of education and training opportunities become more generally available. Taking the 1994 to 1996 period, participation in job search was 16 percentage points higher in the treatment groups than it was in the control groups. However, participation in vocational training was only 1.6 percentage points higher, and participation in basic education was only 1.4 percentage points higher (Ashworth and Greenberg 2005). This has major implications for some of the more general conclusions that are often drawn from such evaluations. It is very likely that they will conclude that training is ineffective in improving job prospects, when they are really concluding that one type of training is no more effective than another, but both have an impact on helping people find and keep jobs.

One of the rare studies of the impact of investing in education among a low-income social assistance population is by the Social Research and Development Corporation in Canada (Riddell and Riddell 2006). This used the data from the evaluation of the Self-Sufficiency Project (SSP) income supplementation scheme to examine the effect of education and training on the prospects of members of both the intervention group and the control group. They found that those who upgraded their education to reach the equivalent of graduation from high school increased their employment rate after 54 months by 13 percentage points after taking account of the effect of other potential influences. However, among those who went to college or trade school, there was an impact on earnings but not on employment rates.

The institutional context

In addition to the major limitations outlined above, there may also be limits to the extent that lessons drawn from one context will work in another. For example, a number of evaluations report on the receipt of benefits after completion of the programme. But these findings depend on the eligibility rules for different benefits in

[1] Meta-analysis is a statistical technique that treats each programme or project as a single entity. The aim is to explain the differences in outcomes by identifying the impact of programme features, the characteristics of participants and the local labour market context.

different countries (not least the extent to which the rules allow benefits to be received by people who are in paid work). These lessons do not necessarily follow through in other countries with different benefit rules, and the review therefore only considers benefit receipt from UK studies. Similarly, like is not always being compared with like. Almost all US evaluations are based on the experience of female lone parents. Many European evaluations focus on the experience of unemployed people, a majority of whom may be men, and where the barriers to work they face do not include childcare and work-family balance issues.

3.2 The costs of different types of intervention

Interventions that are the most effective in terms of producing the best outcomes may be less cost-effective than others which produce less good outcomes, but which do so at a much lower cost.

Some indication of the typical costs of US welfare to work interventions is available in Bloom and Michalopoulos (2001) and Greenberg et al (2005). This showed that most work first initiatives cost around $1,500 (£800) per participant while training programmes cost around twice as much. By contrast, the Jobs Corps residential training for disadvantaged young people costs around $14,000 (£7,500) per participant (Lee 2005). The Dutch training programmes reviewed by de Koning (2002) cost an average of between €3,500 and €8,500 (£2500 to £6,000), but some technical courses cost as much as €30,000 (£21,000), while some word processing courses were very cheap.

The costs of British programmes are generally higher than US welfare to work interventions, but reasonably similar to the Dutch figures. The cost per person placed into work (around 45% of the total, DWP 2006b) of the New Deal for Young People is £2,770, while the cost per placement into work of all the New Deals taken together is £2,102[2]. The implication is that the cost of providing services to each participant is around £1,500 for the New Deal for Young People, and a little less for other New Deals. These figures do not differentiate between the costs of the different strands. Some of the participants in the New Deal for Young People receive just a limited amount of personal adviser support in presentation and job search during the Gateway stage, while others receive lengthy training.

Gardiner (1997) provides comparative costs for a range of earlier active labour market interventions in Britain, both in terms of direct costs per participant and net costs per person placed into work. Where no more detailed information is available, these costs combined with actual outcome rates have been used as a basis for estimating broad orders of magnitude for the costs for different types of current intervention. Help with presentation and job search should cost around £250 per person, or £7,500 for each additional person in employment. The payback period to the Exchequer in taxes and benefit savings is likely to be less than a year. Job subsidies cost around £2,500 per person (or between £15,000 and £20,000 per additional person in employment). The payback period is likely to be 2-3 years. Training has immediate costs per person of around £3,000, with a net cost per additional person in employment of the order of £30,000. But in addition, the impact is slow to emerge so that the payback period is likely to be ten years or more. The long-term rate of return of training interventions appears to be higher than that for other interventions, but the short-term rate of return is much lower and the upfront costs (and therefore the risks involved) are higher.

3.3 The impact on individuals

The main focus of this review is the evidence of the impact on individuals of interventions (whether by government, local public sector organisations or the voluntary or private sector) whose purpose is to help people who are not working to find and keep work. In most cases the measurement of impact is confined to those who participate in the intervention, but it is important

[2] House of Commons Hansard Written Answers, 28 March 2006, col 942W.

to bear in mind, as discussed in section 3.1, that in the case of labour market interventions (unlike medical interventions) there can be indirect effects (both positive and negative on non-participants), which are not usually measured by standard evaluations.

The review covers more than a hundred individual publications, which in turn examine a wide range of interventions from fifteen countries[3], dealing with a variety of population groups. The emphasis in this report is on measures that have been shown to have a positive impact on groups who are well-represented in the workless population in London, and in particular parents, people with few or no qualifications, people who were not born in Britain, and Britons who are members of black or minority ethnic groups. The emphasis is on evidence published after the year 2000, although a small number of specialist studies from the late 1990s are also cited. Evidence prior to 2000 has been extensively summarised in previous reviews (Martin and Grubb 2001, Robinson 2000, Bloom and Michalopolous 2001, Friedlander et al 1997).

The literature reviewed embraces a range of evaluation techniques, and exactly what is being measured also varies. There are ongoing methodological debates about the best methods to use. In the United States the emphasis is on random assignment experiments, while in Europe such approaches are still unusual and there is extensive use of administrative data or specially constituted comparison groups. In some countries such as France random assignment is illegal. In some circumstances, such as Sweden where some form of participation in active labour market measures is obligatory or the New Deal for Young People in Britain which is also obligatory, direct comparisons are impracticable as there is nobody available to form a comparison group (see Sianesi 2001, White and Knight 2002). Moreover, even in the US there are arguments about the interpretation of the evidence from random assignment experiments (see for example Heckman and Smith 1995, Heckman et al 1999). This review does not focus on those important issues, though they are often discussed in the publications considered. Rather, it concentrates on evidence which attempts by whatever means, to identify the net effects of interventions. It does not generally include evaluations which have simply compared the circumstances of participants before and after interventions (except where these are helpful in improving understanding of outcomes for particular groups). Virtually all the evaluations considered do attempt to estimate what would have happened to participants in the absence of the intervention.

The needs and skills of individuals taking part in active labour market interventions vary. At one end some participants are well qualified and have recent work experience, access to transport and no personal barriers such as health, childcare or housing problems. At the other end, people may have multiple disadvantages in the form of poor basic skills, lack of childcare, health problems, a criminal record or homelessness. The kind of solutions that are likely to work for the first group may be less appropriate for the second (and vice versa). Surprisingly few of the evaluations look separately or consistently at sub-groups with different needs, nor whether caseworkers recognise and are able to address the interaction of the complex and multiple disadvantages faced by some clients.

In the main the emphasis in the literature is on whether or not the supported person gained employment (or had higher earnings) typically some six to twenty-four months after completing (or in the case of many US studies, after starting) the intervention. It is rare for studies to consider subsequent job retention and advancement, and even rarer for them to look at important wider outcomes for the individual (on health, crime, housing status, substance use or family life, for example).

[3] The countries are: Britain, United States, Canada, France, Germany, Italy, Netherlands, Austria, Sweden, Denmark, Norway, Australia, Ireland, Switzerland and Belgium.

Some of the literature reviewed here is largely qualitative – that is it just focuses on the experiences of those who were the subject of an intervention. While this type of literature does not provide evidence of the net impact, it does provide important insights into what works and does not work for individuals, and is particularly relevant for the design of delivery packages. Knowing about interventions which are difficult to access and which provide inappropriate support may be just as important as knowing about those which seem to make a difference. The US National Academy of Sciences (Moffitt and ver Ploeg 2001) and the Cabinet Office (Cabinet Office 2003) have both argued that, in addition to quantitative evaluation, more qualitative evaluation is needed in order to understand more fully both how interventions fit into the lives and circumstances of participants, and what the intervention actually consists of.

3.4 Additionality and the wider economic impact

This review does not examine the macroeconomic evidence for an impact on real wages in the economy and on the equilibrium rate of unemployment or on overall productive potential. Martin and Grubb (2001) reviewing the literature up to that date concluded that the evidence was mixed, with some studies reporting a positive impact but others reporting zero or no impact.

It is rare for efforts to be made to identify all the secondary or spillover effects of an intervention. In active labour market policy measures the overall economic impact of the intervention depends both on the impact on the individual who has been helped and on the offsetting (or possibly reinforcing) impact on other people. The net economic impact (or additionality) of an intervention is the sum of the positive and negative impacts across all individuals and organisations (see HM Treasury 2003 and PA Consulting and SQW Ltd 2006 for more detailed discussion of this issue).

In the case of active labour market measures the net economic impact is not the only outcome of concern. Given that measures typically have social as well as economic objectives, there may be a trade off to be made between negative economic impacts and positive social impacts and vice versa. Ultimately these trade offs have to be a matter of political choice and depend on the relative priority attached to different objectives. For example, some interventions have low levels of economic additionality, but a major impact on social exclusion. Others may have high levels of economic additionality, but do little to help disadvantaged groups.

Active labour market measures have three potential effects which need to be taken into account when calculating economic additionality:

- **Deadweight**, where the person who received the intervention would have obtained a job without it
- **Substitution**, where the person who received the intervention gets a job which would otherwise have gone to somebody else, who in turn remains or becomes workless
- **Displacement**, or the extent to which an organisation that benefits from the employment of someone who was the subject of an intervention gains business from another organisation which has not enjoyed such support, and employment falls in the latter

All evaluations which aim to measure what would have happened in the absence of the intervention try to measure the impact of the intervention net of deadweight. Thus, most of the evaluation evidence discussed in this review is measuring the impact net of deadweight.

In traditional economic evaluation deadweight and substitution are treated as being equally undesirable. However, while deadweight clearly represents resources being used unnecessarily, the same is not true of substitution. Where policies have an equity objective, substitution

may be seen as a desirable outcome. Replacing a short-term unemployed person or someone from a household with other earners with a long-term unemployed person or someone from a workless household may be one of the outcomes an intervention is trying to achieve. In London, for example, a government policy objective is for a higher proportion of the available jobs to go to London residents rather than commuters or domestic or international migrants (HM Treasury 2006).

Moreover, substitution can have economic benefits as well. By maintaining greater contact with the labour market among people who might otherwise become long-term unemployed, it has the potential to increase both productive potential and the non-inflationary level of unemployment over the longer term by increasing the pool of potential recruits available to employers. If employers are willing to look beyond their normal recruitment targets, this increases the chance of other employers being able to achieve an appropriate candidate for their vacancies (see de Koning et al 2001 for a discussion of this issue).

In practice, evaluations rarely cover substitution, which cannot usually be identified by standard evaluation methods. Two exceptions are Blundell et al (2004), which attempted to measure substitution in the New Deal for Young People and the evaluation of the Earnings Top-Up (Elias 2001). Neither found any discernible evidence of substitution.

The measurement of displacement other than at a very local level is rarely possible in practice and it is not generally attempted other than as part of a macroeconomic evaluation (the only exceptions among the studies covered in this review are those by Elias (2001) and Behrenz et al (2002)). In reality it is a concept that is important theoretically, and should be taken into account when interventions are being planned, but is elusive and not very useful after the event. Even where a macroeconomic evaluation is undertaken, it is rare for displacement to be identified separately from the wider bundle of potentially offsetting or reinforcing effects (Friedlander et al 1997). The central difficulty is that displacement is invariably indirect, so that those who experience it are neither eligible for the intervention concerned, nor even necessarily similar in characteristics or location (although they are probably employed in organisations producing a similar range of goods and services).

Some indication of the uncertainty surrounding the measurement of additionality can be found in the case of the New Deal for Young People. In 2002 the National Audit Office, reviewing a wide range of evidence, concluded that the net cost per additional person in employment was between £5,000 and £8,000 (National Audit Office 2002). By contrast, the average direct cost of providing support and services to each participant was nearer £1,000.

4. The impact on individuals of different kinds of help and support

4.1 Are there general conclusions about what works and what does not?

The available evidence suggests that there is no universal panacea. Provision that works for some groups in the population does not work for others. What works in one area does not necessarily work in another. Many of the identified impacts are small.

A recent comprehensive overview of US interventions (Greenberg et al 2005) found that the average impact on earnings was around $500 (£265) a year (with the impact on household income being considerably smaller due to the loss of welfare benefits). The difference in employment rates was generally around 3-5 percentage points. These averages conceal substantial variation, and some programmes had a zero or negative impact. Earlier reviews (Bloom and Michalopoulos 2001, Freedman et al 2000 and Hamilton 2002) had come to similar conclusions.

Individual needs vary

There is no single intervention that is likely to be suitable for all workless people. Their individual backgrounds and needs vary. Interventions are more effective if they take into account the starting point of the individual. This requires personalised assessments prior to the start of an intervention, and an appropriately tailored package of help thereafter.

Workless people range from the well qualified with recent work experience to those with poor basic skills, physical or mental health problems, substance usage, homelessness, childcare needs and a history of offending. The most effective interventions are those which address the needs of the individual in an integrated way (Hirsch and Millar 2004, Meckstroth et al 2002, Griffiths et al 2006, Bloom and Michalopoulos 2001, Hamilton 2002, Walker and Greenberg 2005, Strawn and Martinson 2001, Sutton et al 2004, Marshall and Macfarlane 2000, Kirby et al 2002, Bloom et al 2001, Hirst et al 2006, 2005).

Mixed packages of support are generally more helpful than being assigned to a single route

Programmes often find it easier to offer participants one form of support (a training course, job search support from a personal adviser) because the referral processes and associated payment mechanisms are straightforward. However, this approach generally addresses only one of their many needs. Unusually the New Deal for Young

people, allows those who have completed the option stage and not found work to return for follow up help with job search. The Portland Oregon site of the Greater Avenues for Independence (GAIN) intervention was also unusual in stressing the need for a continued focus on job search among those who were receiving training (Michalopoulos 2001). More generally, it is quite common for those who are assessed as having training needs not to be offered subsequent help and advice in job search and presentation (Anderson et al 2004).

Work first is not necessarily better than training

Help with job search and presentation often has an immediate short-term impact. This seems to be because some participants are already highly employable and need only a small amount of help, and others are essentially reluctant to work, but would rather take a job than take part in the activities prescribed in the programme (Walker and Greenberg 2005, Theodore and Peck 2000, Martin and Grubb 2001, Blundell 2002, Hamilton 2002).

Previous reviews of the evidence (Martin and Grubb 2001, Robinson 2000, Bloom and Michalopoulos 2001) had concluded that interventions that emphasise job search assistance and immediate employment ("work first" strategies) were more effective than training programmes. However, closer examination suggests that much of this difference is accounted for by differences in the characteristics of those who use work first opportunities and those who use training programmes (Greenberg et al 2005, Hotz et al 2006, Lechner et al 2005a, Gerfin and Lechner 2002, Weber and Hofer 2003, Kluve 2006). This issue was identified as a central evaluation challenge by Heckman et al (1999) but many evaluations (particularly those based on experimental methods) fail to take account of participants' characteristics. Thus outcomes are attributed to the intervention which may in fact be explained by differences among individuals.

Closer examination of the evidence suggests that work first strategies are not necessarily appropriate for people who are less immediately employable. Although they may obtain jobs in the short term, if they are not properly equipped to do them, they are likely either to lose them or to leave them and end up cycling between low paid work and worklessness. Thus, although work first strategies can be more effective in the short term their impact declines steadily over time, while well designed and implemented training programmes are less effective in the short term, but more effective in the long term and the impact increases over time (Greenberg et al 2005, Hotz et al 2006a, Weber and Hofer 2003, Kluve and Schmidt 2002, Lechner et al 2005a, Lee 2005). This issue is discussed more fully in section 4.7.

Engagement with employers makes it more likely that training will lead directly to work

Employer-based training is generally more effective than classroom based training, but all provision (including classroom-based training) needs to be directly relevant to the needs of local employers or it will not lead to work. Involving employers directly in a programme appears to improve the probability of success (Martin and Grubb 2001, Johansson and Martinson 2000, Hird et al 2005, Steels and England 2004, Strawn and Martinson 2001, Bloom et al 2002, Clymer et al 2001).

Job subsidies can be effective

Subsidies to private (but not public) sector employers can be an effective means of securing access to work for disadvantaged groups who would not otherwise be attractive to employers at current wage rates. However, substitution rates are high, and additionality relatively low (Van Reenen 2001, Sianesi 2001, Dockery and Webster 2001, Schmid et al 2001, Gerfin and Lechner 2002, Calmfors et al 2001, Blundell 2002, Fougère et al 2000, Bonjour et al 2001, Dorsett 2004, Fougère et al 2000).

The local context influences outcomes

The local context and the way in which a programme is implemented matters and interventions which have been successful in

one area may not be successful under different labour market conditions or where the delivery mechanism is slightly different (Hotz et al 2006a, Greenberg et al 2005, 2003, Heckman et al 1999, Theodore and Peck 2000, Leahey 2001, Bloom et al 2001, Hird et al 2005).

Social skills and workplace behaviour

Disadvantaged young people and others who are unfamiliar with the world of work often need help and support in developing appropriate workplace behaviour. This includes dressing appropriately, personal hygiene, how to interact with colleagues and supervisors and understanding that receiving and following instructions is a normal part of working life and not a sign that the individual receiving the orders has been singled out (Martin and Grubb 2001, Griffiths et al 2006, Hird et al 2006, Hird et al 2005). Programmes do not always make provision for this kind of help, but without it some individuals will not be able to make progress.

Large scale programmes are less effective than smaller scale ones

Martin and Grubb (2001) concluded that large scale programmes are less effective than smaller ones. Recent evidence supports this. For example, Blundell (2002) (and Blundell et al 2004) found that during the pilot (pathfinder) phase of the New Deal for Young People, the Gateway stage of compulsory personal adviser support led to an increase in young men's exit rates of 42%. After the national rollout this had fallen to around 25% (that is an increase of around 5 percentage points on a baseline exit rate of around 25%), illustrating the effect of scale.

4.2 The impact of help in finding work

Helping workless people to find work involves providing advice and support on different ways of finding out about vacancies, how to complete job applications or write CVs, self-presentation, and how to deal with interviews. Usually it involves support from a caseworker (generally called a personal adviser in Britain), although some interventions can involve the traditional model of different people having responsibility for benefits, for organising training and for job placement. Sometimes interventions involve peer support in the form of job clubs, where workless individuals pool their developing skills and experience, and provide mutual encouragement. This form of assistance is also relatively inexpensive to provide (typically around £250 per person), and can therefore be offered quite widely.

An important part of the reason why this form of help works is that it encourages people to be more active in their job search activity, and makes it more likely that they will use formal rather than informal channels. It does this both by improving motivation, and also because there may be sanctions in the form of loss of benefits for those who fail to take part. More active and structured job search means that some people find jobs more quickly than they would otherwise have done, and this in turn shortens the period of benefit receipt.

Scale of the impact

The evidence from a range of countries (Britain, USA, Germany, Australia) and circumstances suggests that this form of intervention is both effective and cost-effective (Martin and Grubb 2001, Schmid et al 2001 Walker and Greenberg 2005, Kluve 2006, Michalopoulos 2001, Weber and Hofer 2003, Freedman et al 2000, Blundell et al 2004, Dockery and Webster 2001).

In the United States employment rates over the first two years after the support are generally around 5 percentage points higher than they would otherwise have been (Freedman et al 2000, Hotz et al 2006a, Greenberg et al 2005). In Britain the Gateway phase of the New Deal for Young People is estimated to add around 5 percentage points to the rate of exit into employment (Blundell et al 2004).

Evaluations of earlier initiatives provide similar evidence. Job clubs are estimated to have added 6 percentage points to the employment rate at

the end of the first year. Restart, the first system of compulsory activation interviews introduced in the UK in the 1980s, increased employment rates by 1.8 percentage points after a year and by 4.2 percentage points after a year and a half (Cebulla 2005).

Timescale

However, the effect of job search assistance is highest in the very short term, and then tends to decline. This happens because those who have not received help eventually catch up and manage to find work themselves. However, it also happens because some participants placed into jobs return to worklessness. They do this either because the jobs were always temporary, or because they were unsuitable (Dockery and Webster 2001). In California, employment rates that were 14 percentage points higher in year 1, had fallen to 7 percentage points by year 4 and were statistically insignificant by year 7 (Hotz et al 2006a). More typically, by the end of the fourth year employment rates are no higher than they would have been anyway. Nevertheless, because the services involved are inexpensive to provide, such interventions are cost-effective within a year, and show positive benefits to the Exchequer in the second and third years. These measures are therefore very cost-effective, particularly when targeted appropriately.

Earnings and income

The effect of job search assistance on earnings tends to be small. Meta-analysis of evaluations at 51 US sites suggests that a percentage point increase in the proportion of participants engaging in job search activities increases the average earnings of participants by only $2.66 (£1.41) a quarter, or just over $10 (£5.30) a year (Walker and Greenberg 2005). Moreover, the impact on earnings tends to decay over time, as members of the control group also move into paid work. By the end of the second year the impact is smaller than it was at the end of the first (Freedman et al 2000) and it is much smaller by the fifth (Hamilton 2002). Evaluations of other programmes have shown similar effects (Hendra et al 2001, Greenberg et al 2005).

Moreover, in the US the impact on net incomes is negligible, as the increase in earnings is offset by the drop in welfare payments (Bloom et al 2001, Freedman et al 2000, Hamilton 2002, Greenberg et al 2005). This is much less likely to be true in the UK where the availability of tax credits and housing benefit makes it more likely that those gaining work also gain in terms of income.

Client characteristics

There is increasing evidence that the apparent success of job search assistance may be due to the fact that the organisations providing help tend to refer only their most job-ready clients to job search assistance (Walker and Greenberg 2005, Weber and Hofer 2003, Hotz et al 2006a, Greenberg et al 2005, Lechner et al 2005a, Gerfin and Lechner 2002, Theodore and Peck 2000, Martin and Grubb 2001, Blundell 2002, Hamilton 2002). The evidence suggests that this is the most cost-effective option for this group, so this choice is entirely appropriate.

For those who have bigger skill deficits or other disadvantages job search assistance seems to lead at best to low paid short-term jobs (Greenberg et al 2005, Hotz et al 2006a, Weber and Hofer 2003, Griffiths et al 2006). People from the most disadvantaged groups tend to gain little from the standard short-term inexpensive injection of help. The evidence from the evaluation of Employment Zones (provision aimed at those who have been workless for very long periods) suggests that the clients that are hardest to help may need three to six months of intensive advice and support (Griffiths et al 2006).

The New Deal 25+ is for people over 25 who have been unemployed for two years or more. Participation is mandatory. The client group tends to have multiple disadvantages: they are older (many are over fifty) and tend to have poor skills. Histories of mental health problems and substance use are relatively common. Around a third of participants are on their second or subsequent spell on the programme. Participants experience a six-month Intensive Activity Period of work placement and training, or some

therapeutic intervention. Only a minority leave for a paid job (currently 31% – DWP 2006b) and almost half these return to out of work benefits. Even where it is successful in placing people into paid employment, the effect is relatively short lived. The initial increase in employment compared with the comparison group was around 12 percentage points in the first year. This fell to around three percentage points after two years (Lissenburgh 2001).

Labour market context

Help with job search and presentation is more effective where jobs in the local labour market are either plentiful or growing. It is less effective where there is stronger competition for the available jobs (Walker and Greenberg 2005, Bloom et al 2003, 2001, Greenberg et al 2005).

The identification of the local labour market is more of a challenge in London than in most places. This is because the geographical area within which people look for work varies both by transport availability and by skill level. Nationally, those in elementary and personal service occupations have the lowest median travel to work distance (less than three kilometres) while those in professional occupations have the highest (around seven kilometres). Distances are generally higher in London as a whole for all groups, but particularly for those with higher level skills. However, for lower skilled groups, this masks within London differences. In common with other large cities travel distances tend to be lower in inner London where workless people with low skill levels are concentrated (Green and Owen 2006).

This is mirrored by the diversity of the areas across which employers draw their workforces. In large cities outside London around 90% of the people working in the Learning and Skills Council area also live there. In the five London Learning and Skills Council (LSC) areas the proportion varies from 47 to 69%, averaging less than 60%. This is likely to reduce the extent to which employers feel a part of their local community and may make engagement more difficult.

Taken together, it is clear that labour market interventions for Londoners need to recognise that while the local labour market is not a neighbourhood, ward or borough, for people seeking and gaining entry-level jobs, London is not a single labour market. Good transport links make longer than average commuting distances feasible, but there are time and cost trade offs as well.

4.3 The impact of training programmes

Since 1994 when the Organisation of Economic Co-operation and Development (OECD) published its influential **Jobs Study** the conventional wisdom has been that large-scale training programmes contribute little if anything either to employment or to earnings. However, this view is challenged both by a careful reading of the evidence and by more recent studies which have followed up training participants over a longer period of time. In addition, there has been growing recognition that the methods of measurement used in many evaluation studies mean that the impact of training is understated because a larger range of training opportunities are now available to comparison group members.

This emerging evidence can be summarised as follows: training programmes reduce employment in the short term, as participants concentrate on their course and stop looking for work. In the case of longer-term courses (often those leading to qualifications) or courses (such as those in basic skills) which enable people to go on to more vocational provision, this effect lasts for longer. Thus, evaluations which take place less than two years after the start of training often find small or negative effects on the exit rate from unemployment. However, over longer periods of time, and particularly over a period of five years or more, the effect of training increases and continues to grow. Moreover, those who have entered employment after a period of training seem to have better rates of job retention than those who have entered from work first provision, probably because they are better able to match the skill requirements of the jobs they are doing.

These findings are in line with those from more general studies of the impact of school, college and university education on the employment and earnings prospects of the general population.

Thus, contrary to previous views, the emerging consensus is that training workless people can and does work. The note of caution has to be that it is expensive.

Thus, contrary to previous views, the emerging consensus is that training workless people can and does work. The note of caution has to be that it is expensive (usually at least £3,000 per person upfront costs). Given that in Europe the impact of training on long-term employment rates is around 10%, the cost per extra person gaining work is around £30,000 and the payback to the Exchequer in taxes and benefit savings takes around 10 years or more.

What type of training?

The "black box" evaluation methods widely used in the USA (unhelpfully) do not distinguish the type of training that participants receive. Training is frequently treated as a generic intervention, whereas the subject matter, setting, level, intensity and duration of training vary. For example, in Germany training durations under programmes for unemployed people vary from three days to three years (Lechner et al 2005a). It can often be difficult to establish exactly what sort of training contributes to successful outcomes.

In their update of the OECD **Jobs Study**, Martin and Grubb (2001) concluded that although there were doubts about the impact of many training programmes, successful ones appeared to:

- be tightly targeted on the requirements of the local labour market
- be small in scale
- lead to recognised qualifications
- have a strong on the job component
- have good links with local employers

There appear to be four additions to this list.

- Training should be appropriate to the level of capability that the individual has already reached. Training that is at too high or low a level represents wasted time from the point of view of the individual trainee
- Training courses need to be strongly focused on skills for the workplace even where they are covering subject areas which are relevant to other learners (for example English language training)
- Some evaluations suggest that placing people who are seeking education or training for work-related reasons into general classes means that the pace of their learning is too slow and too detached from the workplace
- Training in basic skills (literacy, numeracy and English) is important as a foundation for further, more vocationally focused, learning. However, the direct effect on job prospects tends to be small

These general indicators provide useful guidelines for the planning of provision, but they need to be interpreted within the context of the particular labour market. For example, Lechner et al (2005b) found that many unemployed men in East Germany had been trained in construction skills at a time when demand for such skills was falling. As a consequence male participants in many training programmes had poor outcomes.

The current state of knowledge would therefore suggest that the best outcomes are likely to be achieved if the training:

- takes place on employer premises
- takes place elsewhere, has a strong element of work experience with employers

- is directly relevant to the jobs which are available locally
- is appropriate to the skill levels that the individual trainee has already
- is combined with regular ongoing advice about looking for and finding work that builds on the newly learned skills

Appropriate time period

Evaluations of training programmes are often undertaken too soon for the effects to become apparent. Moreover, US evaluations often take as their starting point the date of entry to an intervention, while many European (and particularly UK) evaluations tend to start from the date of exit from an intervention. This difference is important in that the impact of time consuming activities (particularly vocational training) will almost inevitably be negative while people are doing their courses. Thus an evaluation measuring the impact at the six-month point might be in the middle of the course in one evaluation, or a year later in another.

All the evidence shows that while participants are on their courses they reduce their job search, and are less likely to find work than they would otherwise have been. This is sometimes referred to as the lock-in effect. Furthermore, the effect intensifies over the duration of the course. The more they have invested in a course, the more important it is to complete it. Drop out from courses tends to occur early on. Evaluations that take place at an early stage tend to pick up the negative lock-in effect, and may conclude that training is ineffective in improving job prospects (see for example Regner 2002, Larsson 2003, Richardson and van den Berg 2001, Schmid et al 2001, Gerfin and Lechner 2002, van Ours 2004, Kluve 2006).

In general, the longer the time period over which outcomes are measured, the more positive the outcome appears to be. Studies from a range of countries (including the US, Germany and the UK) find that although outcomes over a one to two year period may be small or even negative, outcomes over a five or six year period are usually positive with employment rates around 5 or more percentage points higher than would otherwise have been the case in the USA and around 10 percentage points higher in Europe. Moreover, the positive effects continue to increase over time. (Walker and Greenberg 2005, Hotz et al 2006a, Cebulla 2005, Sianesi 2001, Lechner et al 2005a, Lee 2005, Freedman et al 2000, Anderson et al 2004, Schmid et al 2001). The most recent evidence, looking over a 7-9 year period has revealed that it continues to grow (Hotz et al 2006a, Lechner et al 2005a).

A Canadian study found that those who upgraded their education to reach the equivalent of graduation from high school increased their employment rate after 54 months by 13 percentage points after taking account of the effect of other potential influences (Riddell and Riddell 2006).

Cebulla (2005) reviewed a wide range of evaluations of past and current UK active labour market programmes. These found, for example, that the Employment Training programme that ran from 1988 to 1993 increased the employment rate of the participants compared with the comparison group by three percentage points in the first year, but this had reached 22 percentage points in the third year. The Training for Work programme that followed it and ran from 1993 to 1999 also showed a 12 percentage point difference in employment rates by the third year, although there had been no difference in the first year.

A review of training programmes in the Netherlands by de Koning (2002) found that the net impact on employment was between 10 percentage points for more advantaged groups and 50 percentage points for the very long-term unemployed.

Counterfactual is often alternative training not no training

Evaluations typically aim to identify the effect of a particular programme compared with the alternative forms of help available to participants in the absence of the programme. Thus, rather than measuring the impact of training **per se**, they actually measure whether the training

available under the programme has better outcomes than the training which is otherwise available. This issue was not serious during the 1980s, when alternative sources of provision were relatively rare, but has become more so over time as a wider range of government and local opportunities have become available.

In recent US evaluations the proportion of control group members receiving training from other sources is often quite high. The consequence of this is that the differences in outcomes between programme participants and control group members for training-based schemes can be small and the evaluations report low impacts. Ashworth and Greenberg (2005) in a review of 51 US interventions found that 5% of participants in "training" programmes actually received any training, while 35% of control group members also received training. This meant that rather than measuring the impact of training on job prospects, the evaluations were measuring the effect of one form of training compared with another. If the two types of provision were essentially similar, the outcomes are likely to have been similar as well. In reality, training could be equally effective in improving the long-term job prospects for both groups, but the reported evaluation results could still be negative, leading to misleading policy conclusions.

This problem (sometimes referred to as substitution bias) was identified and discussed by Heckman et al (1999) but evaluators largely ignore it. Two exceptions are Lechner et al's (2005a) study of German training programmes which took account of the fact that around 11% of comparison group members received training, and Riddell and Riddell's (2006) study in Canada. Those responsible for commissioning evaluations generally want to know whether a particular programme makes a difference compared with what is otherwise on offer. But for those designing support for workless people, a more important question is whether or not training (or training of a particular kind) makes a difference to job prospects.

Employer involvement

Grubb and Martin (2001) concluded that training with some employer involvement (including work experience placements during the training, or training provided on the job) appears to be more effective than pure classroom based training. More recent evidence lends some support to this. For example, Johansson and Martinson (2000) found that an information technology training programme for unemployed people in Sweden, which had active involvement of employers in providing work experience and selecting the training, produced employment rates 20% higher than the regular IT training available to unemployed people under the standard active labour market programme. Moreover, where a work experience element was added to the standard programme the outcomes improved to a level closer to those for the special programme.

Course duration

Many evaluations do not provide details of either the content or the duration of courses. However, longer duration courses result in longer periods of lock-in where job search is depressed and participants are less likely to get a job than they would have been without taking the course. Training courses leading to a qualification are more likely to lead to locking in effects, since participants will want to complete the course and gain the qualification. Thus, the better the course in this respect, the more likely is it that positive returns will be slow to emerge (Calmfors et al 2001).

However, there is some limited evidence that longer, more in-depth courses have a larger impact on employment in the long run. Greenberg et al (2005) reviewing 51 US programmes concluded that more expensive voluntary programmes offering longer periods and higher levels of training are more effective than cheaper, shorter training programmes (Greenberg et al 2005).

Other studies support this conclusion. The evaluation by Anderson et al (2004) of Work-based Learning for Adults found that although

short job-focused training (up to six weeks) and basic employability training (up to 26 weeks) had no impact on employment rates, longer occupational training increased employment by 7 percentage points over a period of 12-15 months. The longer-term review of evidence from Germany (Lechner et al 2005a) found that two-year courses produced sustainable gains in employment rates of 10-15 percentage points over a 7-8 year period. Shorter courses showed smaller effects (5-9 percentage points). However, since the shorter courses were less expensive, they were more cost-effective over a seven year period (although the evidence suggests that longer courses might be more effective over a ten year period).

4.4 The impact of job subsidies

Martin and Grubb (2001) concluded that job subsidies were of limited value, not least because they have relatively high rates of deadweight and substitution, so that their economic additionality is poor. Evidence from Britain, Belgium, Ireland and the Netherlands has found that for every ten subsidised jobs, only one or two are net additions to employment. In other words, deadweight and substitution combined account for 90% of all such jobs (Martin and Grubb 2001, van Reenen 2001). The Swedish evidence suggests substitution rates of between 60 and 75% (Sianesi 2001, Calmfors et al 2001). Australian evidence suggests a similar figure (Dockery and Webster 2001).

This low additionality means that the costs are relatively high. The subsidies themselves typically cost around £2,500 per participant over a 6-12 month period, but with only one in every eight to ten jobs being additional, the cost per additional person in employment is between £15,000 and £20,000. This would require 2-3 years of sustained employment to secure higher benefits to the Exchequer than costs.

In spite of this relatively low rate of additionality, there is evidence from a number of countries that job subsidies (paid either to the employer or the employee) are effective if carefully targeted in the right circumstances. They appear to be most effective for the most disadvantaged groups, who might not be sufficiently productive to justify normal wage rates initially (Kluve 2006, Schmid et al 2001, Gerfin and Lechner 2002, Calmfors et al 2001, Blundell 2002, Fougère et al 2000). The duration of wage subsidies paid to employers is usually between six and 12 months in Europe (White and Knight 2002). However, some wage supplements paid directly to individuals such as the Canadian Self-Sufficiency Project last for several years (see section 4.8).

The evaluation of the UK New Deal for Young People has found that subsidised work appears to be more effective in increasing employment than the other options available (Bonjour et al 2001, Dorsett 2004). Evidence from Sweden has found that subsidised employment is the only active labour market option which reduces the probability of drawing unemployment benefits over the following five years. It had better outcomes than formal classroom-based training, work experience, employer-based training and direct public sector job creation. The probability of being employed was between 20 and 50 percentage points higher for those who had gone through a job subsidy programme compared with the other options available (Sianesi 2001). Evidence from Australia similarly found that wage subsidies increased employment rates by around 10 percentage points (or around 3.5 percentage points after taking account of deadweight and substitution (Dockery and Webster 2001).

The evaluation of the UK New Deal for Young People has found that subsidised work appears to be more effective in increasing employment than the other options available (Bonjour et al 2001, Dorsett 2004).

There is some evidence that defining eligibility criteria more tightly may help to increase the net effect by reducing deadweight (that is the employment of people who would have been

employed anyway) (Fougère et al 2000). However, against this, there is evidence that too much bureaucracy reduces employer involvement and targeting too narrowly risks stigmatising participants as unemployable on standard terms (Martin and Grubb 2001, Cebulla 2005).

However, as discussed in section 3.4, if the policy is aimed at tackling social exclusion and poverty as well as total worklessness, then the employment of someone from a disadvantaged group rather than someone from a more advantaged group could be regarded as a successful outcome. Moreover, there should be long-term benefits from keeping people more closely in touch with the world of work in order to avoid the attrition of skills and increase the effective supply of labour (Martin and Grubb 2001).

4.5 The impact of job creation programmes offering work experience to participants

Programmes offering work experience in sheltered labour markets (essentially job creation schemes usually in either the public or voluntary sectors) are generally ineffective as a means of helping people move into regular employment (although work experience in the private sector does appear to work). Evidence from the 1980s suggested that job creation programmes might be helpful for the most disadvantaged groups, but were of limited value to most workless people. For example, one former UK programme, Employment Action, offered work experience in the voluntary sector for up to six months. It was found to have a negative impact on employment in the first year, and a small (4 percentage points) positive impact in the third year (Cebulla 2005).

But the general conclusion of Martin and Grubb (2001) that sheltered work experience does not lead to jobs in the wider labour market, and most of the jobs concerned produce very little by way of output is supported by more recent evidence (Kluve 2006, White and Knight 2002). Moreover, results from Switzerland, Germany and France suggest that job creation programmes may in fact reduce employment rates by reducing job search, and not developing enough human capital to compensate (Gerfin and Lechner 2002, Schmid et al 2001, Hujer et al 2002, Brodaty et al 2001).

In the UK New Deal for Young People the Voluntary Sector and Environment Task Force options have been markedly less successful at moving people into regular employment than the subsidised work route offered by the Employment option. However, it is worth noting that many young people on these two options would have preferred to be on the employment or full-time education and training options (Bonjour et al 2001, Dorsett 2004).

It is also possible that direct job creation schemes are more likely to be developed in the most depressed labour markets. Hujer et al (2002) found that in Germany in regions where jobs are plentiful the emphasis is on training programmes to equip unemployed people to take up the vacancies, while in regions where jobs are scarce the emphasis is on the provision of temporary work.

Intermediate labour markets

However, although work experience schemes generally have poor outcomes, there have been rather more encouraging indicators from intermediate labour market interventions – social enterprise organisations producing socially useful goods and services employing disadvantaged groups facing multiple barriers to work (usually called transitional jobs in the USA). Their main focus is on getting work experience and developing work habits, although they also provide support with job search and some basic training. There is a strong emphasis on helping participants deal with all their problems, not just those that are directly relevant to their working lives and there is a high staff-client ratio.

Their outcomes (especially subsequent job retention and earnings), and cost-effectiveness compare favourably with other initiatives for the same target groups. The evidence suggests that it is important to focus on the need to prepare to move into the wider labour market and to

maintain links with other relevant agencies. However, the focus on intensive personalised support appears to be helpful for the most disadvantaged groups (Marshall and Macfarlane 2000, Kirby et al 2002).

However, there is a risk that provision which is essentially direct job creation, and which does not have the intensive personal support available in "true" ILMs, might be presented as being intermediate labour market provision in order to secure funding for an organisation's own objectives.

Work Trials

The previous UK interventions reviewed by Cebulla (2005) found that Work Trials increased employment rates by 34 percentage points after six months. These were short (maximum 15 days) periods of work experience which aimed at allowing both employer and employee to overcome potential recruitment barriers. Thus, although they are work experience interventions, their real objective is to place someone in a regular job quickly.

4.6 The role of the local context and variations in implementation

The consensus of those who have reviewed the evidence (Heckman et al 1999, Theodore and Peck 2000, Greenberg et al 2005, 2003, Bloom et al 2001) is that although some interventions have shown positive benefits, this has sometimes occurred at only one of several sites. Sometimes an intervention works for some groups but not for others. Overall, therefore, the details of what exactly the intervention comprised, and who appeared to benefit is important to understanding whether or not a particular intervention is likely to be effective in a different context.

What is the "treatment"?

Traditional "black box" evaluation methods, look at outcome differences between participants and controls, but do not often include indicators of differences in inputs, either of the type, quality or level of service received, or in terms of the local labour market context, or the way in which the project is managed or delivered. This makes it more difficult to draw conclusions about training for example. Typically an intervention is regarded as training if it offers remedial literacy classes, work experience or an intensive course in IT skills. It can therefore be difficult to establish whether one kind of training might be successful while another kind is not.

How is the project managed and delivered?

Where a programme is delivered at a number of different sites, there are generally marked differences in the outcomes achieved at local level. This suggests that the way in which a programme is organised and delivered makes a difference to how effective it is in producing positive outcomes for individuals (Bloom et al 2001, Greenberg et al 2003, 2005, Freedman et al 2000, Hotz et al 2006a, Behrenz 2001). Evaluations that have looked at the size of caseworker workloads have consistently found that smaller caseloads produce better outcomes (Bloom et al 2001, Hales et al 2000, Griffiths et al 2006, Hirst et al 2006, 2005). The definition of small varies in this context. In the US interventions reviewed by Bloom et al (2001) typical caseloads were around 95 people, while small caseloads were around 50. New Deal personal advisers have caseloads in the 40-90 range (House of Commons 2001). Typical caseloads in Employment Zones are 40-50, with some providers deliberately aiming for loads which are smaller still (Griffiths et al 2006, Hirst et al 2006). Some European Social Fund projects aimed at people with multiple disadvantages have caseloads of 40 or less (Hirst et al 2005).

Similarly, interventions where caseworkers provide more personalised solutions appear to be more effective than those with a more standardised approach (Hirsch and Millar 2004, Meckstroth et al 2002, Griffiths et al 2006, Bloom and Michalopoulos 2001, Hamilton 2002, Walker and Greenberg 2005, Strawn and Martinson 2001, Sutton et al 2004, Marshall and Macfarlane 2000, Kirby et al 2002, Bloom et al 2001, Hirst et al 2006, 2005). Inter-agency collaboration and partnership working is also crucial. Few organisations can themselves provide individualised solutions

to the wide range of problems workless people have, but by working effectively in partnership with other organisations they can ensure that individual needs are met (van Velzen 2001, Marshall and Macfarlane 2000, Randall and Brown 1999, Lakey et al 2001, Campbell et al 1998, Meckstroth et al 2002, Hird et al 2005).

One of the challenges to effective partnership working is that different agencies and organisations each have their own priorities and targets, and partnerships are often less effective where helping other organisations does not contribute directly to an organisation's own priorities. One Swedish experiment was designed to address this issue by requiring municipalities delivering active labour market programmes to contribute some of the cost from their own budgets, in exchange for greater local flexibility in delivery. The evidence suggested that co-operation at a local level was improved, but the constraints imposed by national rules aimed at national additionality objectives prevented the development of truly flexible local solutions. The outcomes were no different from those in other areas (Behrenz et al 2001).

Attempts to systematise analysis of variability in programme delivery and develop statistically testable models are rare. Greenberg et al 2003 and 2005 did this for US programmes. They found that a programme's emphasis on job search does not appear to explain the variability of a programme's impact. (The effect could be explained by demographic and labour market circumstances). This finding is important in that previous attempts to explain the positive outcomes at the California Greater Avenues for Independence (GAIN) programme at the Riverside site and not at the other sites, based on less systematic analysis of the data, had argued that it was the emphasis on job search which was the decisive factor (Bloom et al 2001). (This issue is discussed more fully in section 4.7 below.)

Labour market context

Another explanation for differences in outcomes between areas lies in the local labour market context. Heckman et al (1999) had argued that failure to take account of the local labour market context, and the range and nature of job opportunities available to programme participants might lead to misleading conclusions about programme effectiveness. However, local labour market circumstances are often ignored when programme effectiveness is being measured.

Evaluations that have taken account of the local labour market context have consistently found that active labour market programmes of all kinds are more effective in areas where labour demand is higher (or rising) and unemployment rates lower (or falling) (Walker and Greenberg 2005, Bloom et al 2003, 2001, Greenberg et al 2005, Hotz et al 2006a). Conversely, where labour demand remains depressed (as in the former East Germany) both short-term and longer-term outcomes can be negligible (Hujer et al 2002).

One feature of the labour market in London, which is much less common elsewhere, is the extent to which the employees of any individual employer are drawn from a wider area. Although London is not a single labour market, travel distances are higher than in the rest of the country, and the feasible area within which people could work within a relatively short travel time is quite large.

Caseworker discretion

It is frequently the situation that caseworkers (such as New Deal personal advisers) have a large degree of discretion over the kind of active labour market provision that a particular individual receives. Thus, the motivation and attitudes of individual case workers can determine whether the intervention received by a particular individual is the most effective one, taking account of both cost and needs. Some will be better at this than others. Moreover, some will place more emphasis on equity objectives (which might lead to more training) and others on short-term efficiency objectives (which might lead to more emphasis on work first).

Bloom et al (2001) argued that caseworker attitudes towards work first were the reason why the Riverside site of the California GAIN

programme had better outcomes than the other sites. (Although, as discussed in section 4.7, more recent analysis has challenged this conclusion.) Over the first two years most GAIN programmes had achieved increases in employment rates of around 10 percentage points, while Riverside had achieved increases of around 20 percentage points.

However, it is likely that there are interaction effects between caseworker discretion, client group mix and the local labour market context. Caseworker choices are likely to differ where clients are better qualified and have more recent work experience from what they would do with a more disadvantaged client group. Similarly, where jobs are more plentiful it is likely that caseworkers will place a bigger emphasis on job search, and where there are fewer immediate employment opportunities, they will emphasise activities that improve employability. This leads to a difficult attribution problem: is it the caseworker decisions that are leading to particular outcomes, or is it local circumstances and client mix (Heckman et al 1999, Lechner et al 2005a) The most recent evidence suggests that local circumstances and client mix are the most important influences (Hotz et al 2006a, Greenberg et al 2005).

Caseworkers' discretion can also lead to mistakes. Lechner et al (2005b) found that caseworkers in East Germany significantly over-predicted the future demand for construction skills, and as a consequence male participants in many training programmes had poor outcomes.

Scale

Grubb and Martin (2001) argued that the evidence up to that date supported the view that although small scale projects might be successful, large scale ones rarely were. More recent evidence suggests that scale does matter, although larger scale interventions can be successful provided they are delivered with individual needs in mind. Part of the reason for the lower success rate of large scale projects may relate both to client mix and to delivery capacity. A project which is found to be successful helping a small number of volunteers, may be less so once it is scaled up to embrace a wider population, and where the skills and commitment of those running the project may not be available on the scale required for major expansion.

White and Knight (2002) reviewing a range of evaluations from the 1980s and 1990s from both Europe and the USA concluded that larger-scale interventions had less impact than smaller ones. Blundell et al (2004) found that the impact of the Gateway phase of the New Deal for Young People was nearly halved from an increase in exit rates from benefit of 42% to an increase of 25%. Calmfors et al (2001) concluded that Swedish active labour market policies are on too large a scale to be effective.

4.7 The central debate: human capital development versus work first

In the late 1990s it was generally accepted that the balance of the evidence, particularly the US evidence, suggested that work first (that is help with job search and presentation) was more cost-effective than human capital development (Theodore and Peck 2000 and Heckman et al 1999, Hamilton 2002). This view was driven in part by the headline conclusions of the OECD **Jobs Study** (OECD 1994), although in fact the **Jobs Study** had concluded that training programmes could be effective provided they were well-designed and well-targeted.

The central arguments in the debate

It is important to be clear about the evidence supporting this conclusion and the nature of the arguments. Much of the evidence remains valid, but some of it has changed. The main arguments were:

- **Many people already have relevant job skills**

  Workless people who already have the skills or work experience necessary to move into work do not have higher employment rates if they move into a subsidised job or take a training course. Thus spending money on training or

subsidies for this group does not improve their outcomes in any way and is a waste of money. This conclusion remains valid for this group.

- **Work first interventions are cheaper**

  In the 1980s work first interventions typically cost between a tenth and a half the cost of training interventions. This is still true in the short term in direct cash terms. The immediate cost of work first interventions is around £250 per head, and the cost of training interventions is around £3,000. However, recent evidence suggests that for disadvantaged groups work first interventions do not lead to sustained employment. Thus, they may appear to be cheap, but for these groups the money is still wasted. There is also an issue of timescale. The net costs of work first interventions are lower than those for training interventions over ten years, but thereafter they are higher.

- **Training results in reduced job search during the course**

  Taking part in a training programme tends to reduce the intensity of job search for the duration of the course. This remains true, but as Kluve (2006) suggests, it is intrinsic to any intervention that is seeking to invest in future skills. But the consequence of the reduced job search is that employment probabilities are initially lower than those of the control group, and take some time to overtake them.

- **Much training is inappropriate to labour market and individual needs**

  It remains true that some of the training that has been made available to workless people is not directly relevant either to their needs or to those of local employers. However, part of the reason why training is so slow to have an impact on employment rates seems to be that people move on from their initial (often remedial) courses to courses that are more directly vocationally relevant.

Individual characteristics

The most recent evidence concurs with the original conclusion that work first remains the best option for those who have skills or recent work experience. However, those who need remedial training are both unlikely to obtain work with presentation and job search support alone, and if they do get jobs are unlikely to keep them. Moreover, evaluations which compare the outcomes of work first and training interventions do not generally recognise that those who are referred to training are those whose initial employment probability was already low. People whose characteristics put them at greater risk of longer unemployment durations are often routed into training programmes rather than job search programmes, thus depressing the potential outcomes for training (Greenberg et al 2005, Hotz et al 2006a, Weber and Hofer 2003).

The most recent evidence concurs with the original conclusion that work first remains the best option for those who have skills or recent work experience. However, those who need remedial training are both unlikely to obtain work with presentation and job search support alone, and if they do get jobs are unlikely to keep them.

Heckman et al (1999) pointed out the importance of differences in participants' characteristics in explaining some outcomes, but many evaluations (particularly those based on experimental methods) fail to do this. Thus outcomes are attributed to the intervention which may in fact be explained by differences among individuals. Those evaluations which do look at the assignment of individuals to different intervention streams (generally European evaluations based on microeconometric analysis of administrative data) do find significant differences in the characteristics of those assigned to job search, employment subsidy and training

programmes (Lechner et al 2005a, Gerfin and Lechner 2002, Weber and Hofer 2003).

Another possible disadvantage of training programmes is that taking part in a training programme might brand an individual as a low productivity worker, making it less likely that an employer will want to recruit them. There is some limited evidence from Sweden (Regner 2002) and Fougère et al (2000) found supporting evidence for France, where training programmes for young people that had no effect overall, actually reduced the employment probabilities of well-educated young people.

Timescale

Perhaps more importantly, the earlier conclusions relied on short-term outcomes (typically over the first year or two of a programme, but occasionally over a period of two or three months). Longer term follow-up is now revealing that although the short-term impact of training programmes tends to be low or negative, the longer-term impacts are positive, and they grow over time. By contrast, the impact of work first programmes tend to decay over time. Thus, the balance of emphasis on different approaches depends on the timescale over which benefits are sought. Benefits over one year point firmly to work first interventions. Benefits over ten years or more point to training.

US evidence suggests that over two to three years work first strategies appear to have much better outcomes (Bloom et al 2001, Hendra et al 2001, Hotz et al 2006a, Greenberg et al 2005). Moreover, because the payback period to the Exchequer is so short (measured in months rather than years) even small impacts over this sort of timescale are cost-effective.

However, over six years the gap between work first and training has narrowed, and over 7-9 years the impact of human capital development programmes is still increasing, while that of work first programmes is falling (Greenberg et al 2005, Hotz et al 2006a). Evidence from the UK and Europe suggests that after the initial lock-in period, training programmes are typically effective after three to four years and the size of the effect continues to grow (Lechner et al 2005a, 2005b, Cebulla 2005, Kluve and Schmidt 2002, Theodore and Peck 2000).

Figure 1: Stylised illustration of training and work first outcomes

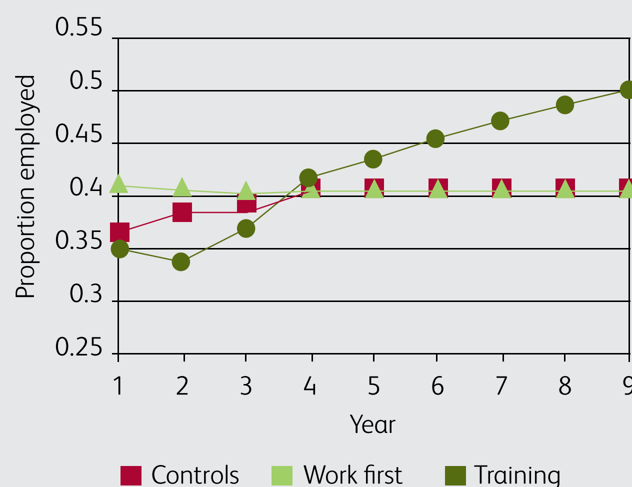

Figure 1 provides a stylised representation summarising the most recent evidence. It is based on combining the evidence from a number of recent studies into a "typical" conclusion. Generally comparison groups have employment rates of around 33-35% in the first year, which increases gradually to around 40-42% over subsequent years as people move into work of their own accord. Work first interventions essentially bring forward the point at which people find work to the first year, so that employment rates of 40-42% are reached initially. However, some of those placed into work are in jobs which are unsuitable (either because they do not have the skills to do them, or because problems arise which they are not able to resolve). As a consequence, employment rates in the work first group fall from their initial high position, so that by the third or fourth year they are essentially the same as those of members of the comparison group. Both groups have by this point found jobs that they can sustain.

By contrast, over the initial period, those who enter training stop looking for work as they do their initial course, and some progress to another course, lengthening their period without employment. Thus, the comparison group are generally more likely than the training group to be employed over the first few years. However, by around the fourth year, those who have received training move into employment in larger numbers than the comparison group, and the proportion continues to grow over time. There are no studies of employment rates beyond years 7-9, but the evidence shows that employment rates are still growing at that point. The increased (and growing) employment rates appear to reflect the greater capacity of those who have undertaken training to sustain their jobs, and to make progress. They are less likely to be cycling between employment and worklessness.

Timescale does have an important impact on the cost/benefit trade off. Costs of training are high (£3,000 per person typically), and are incurred immediately. Employment rates are lower in the short-term which adds to costs. Only in year four or thereabouts do employment rates rise above those of the control group, and even then employment rates are about 10 percentage points higher than they would otherwise have been (by no means everyone who is trained gets a job). Thus, the cost per additional person in employment after six years is around £30,000.

Only after ten years do the benefits (in terms of lower benefit expenditure and higher tax returns) exceed the costs. The benefits continue to accrue thereafter.

'Training or job search' or' training and job search'

Service delivery to individuals tends to offer them one type of support. Even under programmes such as the New Deal for Young People which offer a range of different types of support, those who are referred to training tend not to be offered job search assistance after they have completed their training, even though they are no more skilled in job search at the end of their training than they were at the beginning.

While the most effective US welfare to work strategies offer participants referred to education programmes help in job search (see discussion of Portland and Riverside in section 4.7), this is not always true. Anderson et al (2004) found that participants in Work-based Learning for Adults would have welcomed help with job search at the end of their training periods, and felt that the lack of it handicapped them in their search for work.

Local labour market context

Training programmes tend to be more important in areas where the labour market is more depressed, and this contributes to their apparent lower success. Programmes operating in areas of higher labour demand with many job opportunities are more likely to stress job search among those opportunities, whereas those in areas where competition for jobs is fiercer are more likely to stress the need for training to remedy skill deficits (Greenberg et al 2005, Michalopoulos 2000).

Substitution bias unfair to training

Section 4.3 discusses the problem caused by the fact that the evaluation of training programmes is distorted by the fact that a significant proportion of control group members take alternative training programmes.

Meta-analysis across 51 US welfare-to-work sites revealed that, in contrast to the position with training, relatively few members of control groups received job search and presentation assistance. Over the twenty-five years or so covered by the review, the differences in participation in training narrowed significantly, as a wider range of education and training opportunities become more generally available. Taking the 1994-1996 period, participation in job search was 16 percentage points higher in the treatment groups than it was in the control groups. However, participation in vocational training was only 1.6 percentage points higher, and participation in basic education was only 1.4 percentage points higher (Ashworth and Greenberg 2005).

These differences are important, in that in any comparison of work first and training outcomes this distortion makes it more likely to lead to the conclusion that training is less effective than job search in improving job prospects.

Institutional context

There is evidence from Sweden (Sianesi 2001, Calmfors et al 2001) that taking other factors into account, training options have worse outcomes than work first options. Part of the explanation for this appears to be that taking a training course allows someone to requalify for unemployment benefit. There is therefore a built-in incentive for those who are reluctant to work to take training courses, and that this may have depressed the outcomes for training.

Riverside and Portland: what does the evidence really tell us?

The view that work first is more effective than training has relied heavily on the findings of the two-year follow up of the California GAIN project, which began in 1986 (Bloom et al 2001) and the National Evaluation of Welfare to Work Strategies (NEWWS) project (Freedman et al 2001). These found that the local delivery programmes in Riverside County, California and Steps to Success programme in Portland, Oregon respectively were successful, while those in other sites were not. Bloom et al (2001) concluded that the main difference between the most successful sites and the others were programme leadership, the strong emphasis programme staff placed on job search, a personalised approach and small caseloads.

More recent evidence, including re-analysis of the original data, suggests that this conclusion cannot be sustained. First, as discussed in section 4.3 above, the current consensus is that two years is too short a time period for human capital development programmes to have a discernible effect. Training programmes that are deemed to be ineffective at the two-year point are often effective after four or more years and the size of their effect continues to grow (Greenberg et al 2005, Hotz et al 2006a).

Meta-analysis by Greenberg et al (2005) (also discussed in Walker and Greenberg 2005) found that both Riverside and Portland were working with populations that were older, predominantly white and non-Hispanic (which was not true at the other sites) and more likely to be male. Portland also had more favourable labour market conditions, which meant that there were more job opportunities available to participants. Hotz et al (2006) found that although the general labour market conditions in Riverside County were relatively depressed, they improved markedly over the period covered by the evaluation, which meant that there was a steady flow of job opportunities which accounts for a large part of the success of the programme.

Moreover, Riverside (unlike other sites) had a policy of admitting short-term unemployed people to the GAIN programme. These participants, having recent work experience, were more readily employable and hence able to benefit from the work first approach. In fact although Riverside is described as a work first programme, it provided training for those who were assessed as needing it, but had a much lower proportion of participants with training needs (Walker and Greenberg 2005, Strawn and Martinson 2001, Hotz et al 2006a).

It is also open to argument as to whether Portland is actually a work first site. Although the emphasis in Portland was on moving quickly into work, participants took part in a wide range of vocational training activities targeted on individual

needs. Portland participants were as likely to receive vocational qualifications or GEDs (equivalent to a high school diploma) as those taking part in many education-focused programmes (Walker and Greenberg 2005, Strawn and Martinson 2001). Michalopoulos (2001) in fact classified Portland as a "mixed" (i.e. training and job search combined) programme rather than a work first programme.

In addition, Portland encouraged participants not to take just any job, but to wait until they could find a "good" job (Walker and Greenberg 2005). Thus, its better outcomes might relate to more appropriate job matching, and better retention and progression. By contrast, although the Riverside scheme was very good at placing people into jobs, very few former participants make progress while in work, and many of the jobs they go into are temporary, and participants appear to be subject to the low-pay no-pay cycle (Theodore and Peck 2000, Michalopoulos 2001).

4.8 Making work pay

People's motivation to look for and find paid work (and to stay in their jobs once they have started work) is influenced by the extent to which they are better off working than not working. This, in turn is influenced by the incomes which are available to them when they are out of work and those which are available in work. The latter is a mixture of earnings, non-income related benefits such as child benefit, and income-related benefits such as tax credits and housing benefit. In addition, many people taking jobs are confronted with immediate cash flow problems which can be difficult to manage when budgeting from week to week. Wages may be paid monthly, but even if paid more frequently might be paid a week or more in arrears. Housing benefit claims can take some weeks to process. In the meantime working clothes and equipment and travel to work costs have to be paid for up front. Easing these problems makes taking a job becomes less risky, and staying in it a more attractive proposition. Making work pay therefore has a contribution to make to both recruitment and retention.

The transition to work

Back-to-work or re-employment bonuses have been shown to reduce unemployment duration in several countries (Martin and Grubb 2001). They appear to work through two routes: they contribute towards the transitional costs of going back into work (transport, clothing, equipment and sometimes living costs where wages are paid in arrears), and they encourage people to take jobs that might not otherwise be acceptable. However, they also carry a potential risk of encouraging dubious claims, where an employee and employer collude to make an employee redundant, and thereby eligible for the bonus on re-employment. They therefore need close monitoring and tight eligibility rules, which makes them somewhat bureaucratic.

The pilot In-Work Emergency Fund operated by Jobcentre Plus was intended to deal with some of these bridging issues. Qualitative evaluation suggests it was useful in a small number of cases, particularly where people were paid monthly in arrears. However, personal advisers in the pilot areas were not supposed to promote its availability, they could only offer help from the fund to those who faced a financial bridging problem which risked them returning to Income Support. It was also only supposed to be available for one-off, individual financial emergencies, and not for relatively common problems such as a delay in receiving tax credit payments or the need to pay for initial travel to work costs, and this was thought by advisers to make it less useful to them (Thomas and Jones 2006).

Earnings supplements

Earnings supplementation schemes aim to work both on the demand side and on the supply side of the labour market. That is they aim to bridge the gap between the wages employers are willing to pay for recently workless employees (whose

potential productivity is unknown and may be low, at least initially) and the wage levels that are sufficient to encourage workless people into paid work. They may be paid either to the employer or directly to the employee. Subsidies paid to employers are discussed in section 4.4. The evidence suggests that wage subsidy schemes work, although not necessarily for all groups, and they often have high deadweight and substitution.

The other form of earnings subsidies are those paid directly to participants. They are often of longer duration than subsidies paid to employers (and may continue indefinitely where they are universal entitlements such as tax credits). Among the many welfare to work programmes that have emerged in the USA since 1996, some both have earnings supplements as part of the package of support and have been evaluated. In the UK there was an experimental scheme (the Earnings Top Up) aimed at long-term unemployed people who were not eligible for the Working Families Tax Credit. In Canada, there has been a scheme which has been extensively evaluated: the Self-Sufficiency Project.

The US welfare to work programmes that offered earnings supplements to participants were more likely than other programmes to raise the number of people in employment, to increase the number of people who were employed for a year or more, and to reduce the numbers in poverty. The subsidy schemes which favoured full-time work were markedly more effective than those which rewarded part-time work. However, not all the impacts were positive. In some cases parents who received wage supplements reduced their working hours. Moreover, people who received wage supplements were no more likely to progress to jobs with higher earnings than those who did not receive a subsidy (Michalopoulos 2005, Berlin 2000).

The evaluation of the experimental Earnings Top-up scheme in Britain found it had no impact on the employment rate of the participants and did not have discernible deadweight or substitution effects either (Elias 2001).

The Self-Sufficiency Project in Canada provided generous earnings supplements for work of more than 30 hours a week for up to three years to lone parents who had been on benefits for at least a year. Those who received the supplement received on average CDN $20,000 (£9,600) over the three-year period. The evaluation findings showed that around 3% of benefit claimants delayed starting work in order to qualify for the supplement, but thereafter the proportion of control group members claiming welfare was consistently higher than the proportion of those eligible for SSP payments. At its peak (a year and a quarter after eligibility to receive the payment) employment among those eligible for the supplement was more than 12 percentage points higher than among control group members. Although the size of the impact diminished over time, the effect was still positive, although no longer statistically significant, after six years. Moreover, all the impact came through parents receiving the supplement being more likely to take and remain in full-time work. There was no impact on temporary employment, nor on the proportion of people who had two or more jobs over the lifetime of the evaluation. The average net gain to the participants over six years was around CDN $7,500 (£3,600), the net gain to the rest of the community was around CDN $6,800 (£3,280), while the net cost to the government was around CDN $600 (£290) (Tattrie and Ford 2003).

It is also worth noting that measures to improve incomes while in paid employment (such as the US Earned Income Tax Credit (EITC) and UK Working Tax Credit) have the effect of increasing the incentive to work improving job retention, even though they are generally regarded as anti-poverty measures rather than labour market measures. The most recent research in the US (Hotz et al 2006b) suggests that the EITC both increases income and increases the employment rate of parents who might otherwise be welfare claimants. At least a tenth of the increase in employment among disadvantaged lone mothers can be attributed to the EITC, although the full effect can take a year or more to emerge.

Previous estimates have suggested even larger impacts for the EITC. Meyer and Rosenbaum (2001) concluded that 60% of the increase in lone mothers' employment rates from the mid 1980s to the mid-1990s could be attributed to the EITC, while around a third of the increase since the mid-1990s could be. Grogger (2003) also suggested that most of the increase in employment rates could be attributed to the EITC.

In the UK the evidence to date suggests that the overall impact of tax credits have been modest. The evaluation of the original Working Families Tax Credit estimated that there had been an increase in the employment rate of lone parents, but a reduction in the employment of mothers with low-earning partners. Moreover, it is not clear what the impact on progression might be, as higher earnings would not necessarily lead to higher incomes, so that the incentive to progress to higher earning jobs is reduced (Blundell 2002). However, there is some evidence to suggest that tax credits are less effective in London than they are elsewhere in the country. One of the main reasons for this is the high level of childcare costs people face in work (Bivand et al 2003).

4.9 Help in becoming self-employed

Previous evidence from the US, Australia, Ireland, Norway and the UK suggested that support to individuals who want to start new businesses of their own can be effective. Those whose businesses were most likely to survive were well-educated men in their thirties (Martin and Grubb 2001). However, more recent studies have identified high rates of deadweight, particularly among businesses that survive the initial period, which casts doubts on the cost-effectiveness of programmes of this type.

An Italian study compared the survival chances of new supported businesses compared with those of matched businesses which had been developed without support. This found that although subsidised businesses survived for longer than non-subsidised businesses, this extra survival was solely due to the existence of the subsidy, and that once the subsidy was removed the death rate of the subsidised firms increased month by month (Battistin et al 2001).

The evaluation of the Prince's Trust support for young people starting businesses found that the financial support was crucial in terms of start up in around a quarter of cases. However, once businesses had started, the funding did not make a difference to survival rates. The businesses of those towards the upper end of the eligible age range (in their late twenties and early thirties) and those with better levels of education were more likely to survive than those of younger or less well-educated people. Deadweight businesses (that is those that would have been established without support) were more likely to survive than other businesses (Meager et al 2001).

4.10 The role of compulsion

Compulsion to take part in interviews, job search, training or other activities has become a more common feature of active labour market policies. Compulsion has been a feature of Swedish policy for forty years or more. There have been compulsory features of the UK benefit regime for more than twenty years. Many US states (most notably Wisconsin) introduced compulsion in the 1980s and it has become universal for welfare recipients since 1996. The underlying philosophy behind compulsion is essentially one of "tough love": providing help but requiring people to help themselves by making use of the opportunities available to them.

The consensus of the evidence is that compulsion to take part in interviews with caseworkers and in job search or face loss of benefits does seem to have an impact on worklessness, although it is not found consistently, and may not be large. The evidence on the role of compulsion in training activities (including basic skills training) is much weaker and suggests that this is unlikely to be cost-effective as a strategy.

In essence the evidence suggests that programmes with better outcomes tend to be

drawn from those using compulsion, although not all compulsory programmes are effective. The mechanism by which compulsion works is not always clear, but several studies have concluded that it is probable that workless benefit recipients increase their job search in order to avoid mandatory participation in other activities or sanctions in the form of loss of benefits. This more active job search results in some people (particularly those who are the most job ready) obtaining jobs sooner than they would have done in the absence of compulsion (Greenberg et al 2005, Theodore and Peck 2000, Martin and Grubb 2001, Bloom and Michalopoulos 2001, Freedman et al 2000, Hamilton 2002).

There is some evidence that compulsion is more effective for those who have been dependent on benefits for some time and those who lack recent work experience. Both these groups are more likely to suffer from loss of motivation and self-esteem, and therefore may benefit from being obliged to take part in activities. There is also evidence that compulsion is more effective for older than for younger age groups. However, younger participants tend to have younger children than older participants, and also have generally had less labour market experience. It may therefore be that compulsion does not help them to overcome these inherent disadvantages, while it is effective for those whose children are older and who have more to offer employers (Greenberg et al 2005). There is general evidence that where both young people and slightly older people are participating in the same or similar initiatives, the positive effect seen for older people are not replicated for young people (Walker and Greenberg 2005).

There has been some concern that the obligation to take part in work-focused interviews makes it less likely that benefit claimants will develop constructive relationships with their personal advisers. However, there is also recognition that the advantage of compulsory interviews is that they draw the attention of interviewees to the advice and support available to them (Millar 2000).

Martin and Grubb (2001) found that evidence from Australia, Denmark, Switzerland and the UK suggested that the requirement to report on job search and attend regular interviews tended to increase exits from unemployment by 15-30%. This is in line with the findings of Blundell (2002) and Blundell et al (2004) for the Gateway phase of the New Deal for Young People, where exit rates were 25% that is 5 percentage points) higher after the national roll out (although the rates were higher during the pilot phase).

For lone parents in Britain, where the obligation is only to attend interviews, not to engage in job search, the evidence suggests that attendance at compulsory interviews increases the proportion of lone parents who volunteer for the New Deal for Lone Parents, which offers them more intensive advice and support (Thomas and Griffiths 2004). It also leads to an increase of around 1.5 percentage points in the rate of exit from income support, with some variation depending on the age of the youngest child (although not all IS exits are into paid work) (Knight and Thomas 2006, Knight and Lissenburgh 2005).

Meta-analysis of a large number of mandatory programmes in the USA by Greenberg et al (2005) led to the overall conclusion that compulsory programmes lead to higher employment and earnings, and lower benefit receipt up to seven years later, although the effect begins to diminish after the first two or three years. However, they concluded that the evidence suggests that for training programmes voluntary participation is more effective than mandatory. For those compulsory programmes where cost-benefit calculations had been made (which tended to be the more successful interventions) the net returns over five years were small (averaging $500 (£265) to society as a whole, $400 (£215) to the government and close to zero for the participants themselves as their earnings gains were typically small and offset by lower welfare benefits).

5. Getting into work: evidence related to specific barriers to work

For some people worklessness is a transitory stage in their lives. They may have recently lost or left a job, but their experience and skills make them attractive to employers. Similarly, young people leaving full-time education with good qualifications and people returning to the labour market after a break are likely to be able to find appropriate new jobs with relatively small amounts of help and support. Evaluations rarely distinguish between the impact of interventions on these relatively advantaged groups and on those who face more barriers to work.

Most US welfare-to-work programmes are aimed at lone parents, as they form 90% of those on welfare rolls. Ashworth and Greenberg (2005) found that historically 93% of participants in welfare-to-work programmes evaluated by random assignment were lone parents, 45% of whom were black. Thus, the overwhelming majority of US evaluation evidence relates to disadvantaged lone parents.

The conclusion of the meta-analysis conducted by Greenberg et al (2005) was that the programmes had more additional impact for disadvantaged lone parents (that is those who had failed to graduate from high school and who had little or no work experience) than for groups that were better placed to find jobs without help.

Thus, even where the employment rates and earnings of a sub-group seem to be relatively low, the difference between the outcomes for participants and the outcomes for those in the control or comparison group may be considerably greater for disadvantaged groups than they are for groups with apparently more successful outcome indicators. But more successful groups are likely to have higher rates of deadweight than disadvantaged groups.

This is perhaps illustrated in the discussion in section 4.7 about the impact of the California GAIN programme in Riverside County. Here the success of the programme had originally been attributed to the work first philosophy of the programme, whereas subsequent analysis suggested that the fact that the client group included those with only short periods of worklessness, more men, fewer people with children, and fewer members of minority groups than other GAIN programme sites, were important contributors to its success.

Much of the evidence on the impact of programmes for groups with particular barriers to work comes from the evaluation of special programmes, some of which is purely qualitative.

5.1 Distance travelled

One of the central challenges for projects which are providing help for people who are some distance from the labour market, or who have overlapping barriers to work, is how to measure progress. Where programme participants are likely to take some time overcoming their disadvantages, using only a limited range of indicators such as entry into paid employment does not necessarily give any recognition to what interventions have done to improve employability. However, there is a balance to be struck: giving too large a credit to small steps may mean that someone takes an unnecessarily long time before they are ready to move into work.

Hirst et al (2005) stressed need for intermediate measures for European Social Fund projects for people with multiple disadvantages, although Dewson et al (2000) and Lloyd and O'Sullivan (2003) had covered the same ground and both had produced guidance for ESF projects and their evaluators.

Lloyd and O'Sullivan (2003) suggested that projects should develop their own indicators focusing on their individual client needs but that these should:

- identify barriers to learning /personal development
- focus on variables that can lead to changes in behaviour
- have valid measures (perhaps involving scales)
- be reliable – so that the similar results can be produced in similar situations
- include multiple variables and multiple sources of information to get an even balance of indicators
- be part of a wider evaluation process, building on existing assessments and information and contributing to existing plans
- be relatively simple and cheap to administer

Dewson et al (2000) produced more specific recommendations suggesting that intermediate indicators should be in four groups.

- Basic work related skills such as language and communication
- Attitudinal indicators such as motivation and self-esteem
- Personal skills such as timekeeping, attendance and personal hygiene
- Practical skills such as completing application forms and managing money

They also included some examples of the indicators that individual projects have used in their own self-assessment processes.

The evaluators of a local project for disadvantaged young people, the Youth Life Chances project, developed its own set of intermediate indicators in consultation with the participants and staff. The main ones were:

- asking for advice
- accepting and acting on advice
- making a decision for themselves
- increase in self-confidence
- undertaking day-to-day activities alone
- participating in voluntary work (Pitcher 2002)

Employment Zones

Employment Zones offer a flexible individualised approach to helping workless people in disadvantaged areas. They originally provided support for long-term unemployed people over 25 (for whom they were mandatory for those living in the relevant area), but in 2004 their responsibilities were extended to include younger people, lone parents and those with health problems. They operate in stages.

- **Stage One: A maximum four week introductory period to identify clients' needs and employment barriers**
- **Stage Two: Up to 26 weeks of intensive support to implement the action plan and place the client into work**
- **Stage Three: EZs receive outcome payments when clients move into work and a further payment if clients remain in work for at least 13 weeks**
- **Follow on: A maximum of 22 weeks follow-on support is available for mandated clients who remain unemployed at the end of Stage Two. EZs are not paid for this stage but can claim outcome payments if clients secure work**

Having a clearly defined set of intermediate indicators (perhaps including a job readiness index) is likely to be particularly important for interventions working with people with multiple disadvantages. If people are going to take several months or even years before they are established in regular jobs, then monitoring progress is an essential responsibility.

5.2 Disadvantaged young people

In most advanced countries the majority of young people stay in full-time education at least until the age of eighteen, and in many cases into their twenties. The young people who enter the labour market at younger ages are disproportionately drawn from those who have few or no qualifications, and who have limited family support. Workless young people under twenty-five are disproportionately drawn from this group of early education leavers.

Grubb (1999) identified five features of successful interventions for disadvantaged young people (generally those under twenty-five, although sometimes referring to those under twenty).

- Effective programmes have a close link to the local labour market and target jobs with relatively high earnings, strong employment growth and good opportunities for advancement
- They contain an appropriate mix of academic education, occupational skills and on-the-job training, ideally in an integrated manner
- They provide young people with pathways to further education so that they can continue to develop their skills and competencies
- They provide a range of supporting services, tailored to the needs of the young people and their families
- They monitor their results and use this information to improve the quality of the programme

New Deal for Young People

The New Deal for Young People is targeted at those aged 18-24 who have been unemployed for six months or more. In addition young people with higher levels of need such as those leaving custody and those with basic skills problems are allowed to join earlier. It has four main steps:

- **the Gateway lasting four months during which a personal adviser works with the young person to improve their employability via intensive job search assistance delivered by a personal adviser and some short basic skills courses where appropriate**
- **follow through for those who have been through one of the four options and returned to unemployment**
- **those still unemployed at the end of the Gateway are offered one of four options:**
  - **subsidised work with an employer for up to six months**
  - **full-time education or training for up to twelve months**
  - **work experience in the voluntary sector for up to six months**
  - **a direct job creation option known as the Environmental Task Force for up to six months**
- **follow through for those who have been through one of the four options and returned to unemployment**

In Britain the disadvantages that are common among workless young people include lack of family support, having been looked after by a local authority, homelessness, problematic drug use, or a criminal record (Lakey et al 2001, Pitcher 2002, Hirst et al 2006, Randall and Brown 1999).

In these circumstances, short-term programmes that attempt to address training or job search needs without also tackling some of these other disadvantages may not succeed.

Training programmes

The balance of the evidence from both the US and several European countries suggests that public training programmes do not appear to help disadvantaged young people either to get paid work or to keep it (Heckman et al 1999, Martin and Grubb 2001, Larsson 2003, Caroleo and Pastore 2001, Fougère et al 2000, Kluve 2006).

In the case of the New Deal for Young People the full-time education and training option has been less successful than job subsidies at moving people into regular employment. Taking account of differences in characteristics, around 32% of those who went through the full-time education and training option were in paid employment fifteen months after entering the New Deal, compared with 50% of those who had gone through subsidised employment (Bonjour et al 2001). However, as discussed in section 4.7, it is clear that the benefits of training take longer to emerge than those of work first options, so the apparent disadvantages of the full-time education and training option may not be as great over time. One of the features of the New Deal for Young People is that full-time education and training is not blanket provision, but is supposed to be tailored to the needs of participants.

What is not entirely clear is whether it is the quality and length or the training or the wide range of problems facing disadvantaged young people which contributes to the generally poor results. Fougère et al (2000) found that in France although most training for young people was ineffective, high quality training did have the effect of improving the job prospects of disadvantaged young people. They suggested that perhaps the content of other training programmes was not sufficient to improve their job prospects.

Some recent US evidence is also consistent with this view. Although earlier evidence suggested that the Jobs Corps programme in the United States had a very limited impact on the job prospects or earnings of participants (Martin and Grubb 2001), more recent evidence has found a positive impact, suggesting that it does increase participants' human capital by adding the equivalent of a year of high school in the form of social, academic and vocational skills. The Jobs Corps is unlike any European intervention for disadvantaged young people. It is residential and intensive, lasting around eight months. Moreover, it does appear to have led to reduced involvement in criminal activity, which has contributed to its cost-effectiveness. However the cost is high at around $14,000 (£7,500) per participant (Lee 2005).

Wage subsidies

There is some evidence from Ireland (Denny et al 2000), the UK (van Reenen 2001, Bonjour et al 2001, Dorsett 2004), Sweden (Larsson 2003) and Denmark (AM 2000) that wage subsidy schemes can be an effective way of helping disadvantaged young people. In the case of the UK New Deal for Young People those who had gone through the subsidised employment option were 18 percentage points more likely to be in employment after 15 months than if they had gone through the full-time education and training option, and 26 to 28 percentage points more likely to be in employment than if they had gone through the voluntary sector or environmental task force options, taking account of differences in characteristics (Bonjour et al 2001).

However, wage subsidy schemes for young people do not appear to have the same effect in the US (Heckman et al 1999). It is possible that the client group for US interventions aimed at young people is more disadvantaged than the client groups for equivalent schemes in Europe, so that the ability to draw conclusions about what works differs. In particular the client group for policy interventions in Europe is less likely to be drawn from young people with a criminal record (Martin and Grubb 2001, Blundell 2002).

Mentoring schemes

There is some evidence that mentoring programmes and other interventions designed to overcome the negative attitudes towards work and inappropriate behaviour displayed by some young people can make an important contribution to the success of other schemes (Martin and Grubb 2001, Hirst et al 2005). However, there is also evidence suggesting that continuity of staffing and the development of a relationship based on trust is central to the success of mentoring interventions, and that some disadvantaged young people are reluctant to engage with mentors (Pitcher 2002, Sarno et al 2000).

Holistic schemes

Most evaluations of holistic schemes, which aim to provide help with other issues in young people's lives such as health, housing or relationship difficulties as well as support for finding work, have been mainly qualitative. They have tended to assume that participants would have remained workless in the absence of the intervention. This almost certainly exaggerates the position. However, they do concentrate on people with multiple disadvantages. Berthoud (2003) found that more than half those with three or more disadvantages are workless, and the outflow rate into employment from those who are workless is likely to be much lower than this. Thus, although it is an exaggeration, it may not be large.

Pitcher (2002) reported on the Youth Life Chances project based in a single county which was funded under the Single Regeneration Budget prior to the introduction of the New Deal. The project had different strands aimed at job search, support for young people with physical disabilities and learning difficulties, and an introduction to the adult work environment. Outreach activities for young people who were hard to reach were also included. There was an emphasis on life skills (relating to others, making and keeping appointments for example). Project staff were also willing to help with health, housing, childcare and benefits

problems. Although direct placements into work were relatively low, many young people made clearly measured progress along the path to employability.

Randall and Brown (1999) discussed a number of projects working with young homeless people in London. They found that helping young people develop a work-focused lifestyle was important. They also suggested that finding a job could provide the impetus to young people to tackle some of their other problems.

Young people who have been through the New Deal but have returned to unemployment can be referred to Employment Zones (EZs) provision if they live in the relevant area. Here the support is more holistic than that available under the New Deal. EZs have found that the young people who the New Deal has not helped are often challenging to place into sustained work, and need regular ongoing support. In particular, they have found that even when placed into employment young people have particular problems in retaining their jobs, and some have begun to offer financial incentives and other rewards (for example driving lessons) to those who keep their jobs for at least thirteen weeks (Griffiths et al 2006, Hirst et al 2006).

5.3 Long-term illness and disability

Until recently, relatively few interventions have focused specifically on sick or disabled people, and it is rare for evaluations of general programmes to report the outcomes for people with health problems or impairments. The general conclusion is that there have been relatively few interventions that have enjoyed anything other than limited success with this group.

Corden and Thornton (2002) reviewing range of interventions for disabled people found only six evaluations that considered both outcomes and process issues. They found that:

- there is not enough evidence to determine whether or not targeting works, but in any case the provision of support at the point of initial claim for disability-related benefits is not effective, since at this point health conditions are often unstable
- client motivation and relationships with caseworkers are critical to success but often fragile
- in-work support is a valuable means for integrating disabled workers into the workplace and equipping them with skills for advancement; but this is not widely available
- the evidence is not sufficient to determine which types of service are most effective

New Deal for Disabled People

The New Deal for Disabled People is a voluntary scheme for incapacity benefit claimants who would like to return to work. It is delivered through job brokers who provide advice and support drawn from the public, private and voluntary sectors. Participants register with a job broker organisation which then has responsibility for developing and delivering a support package.

More recent evaluations confirm these general conclusions. The New Deal for Disabled People evaluation has so far published some evidence related to the follow-up of participants but this has not involved comparison with the outcomes that might have been achieved in the absence of the programme (Corden et al 2004, Ashworth et al 2004).

A British experimental programme for people who had been ill for between six and 22 weeks, the Job Retention and Rehabilitation Pilot offered support for either workplace problems, health problems (for example physiotherapy or counselling) or both. However, the return-to-

work rates were almost identical for the three intervention groups and the control group (Purdon et al 2006).

Aakvik (2003) evaluated an education programme for disabled job seekers in Norway and found that it did not increase the probability of being in paid employment three years later.

There have been two recent evaluations of interventions for long-term sick and disabled people that have shown positive results. Heshmati and Engström (2001) found that a vocational rehabilitation programme in Sweden has a positive effect on both the health (6% better than the comparison group) and the re-employment probabilities (9% better than the comparison group) of people who had been sick for a month or more. The rehabilitation programme included both medical and social elements, and was tailored to individual circumstances. The programme had three strands: evaluation of health status and work capacity, education in preparation for a new type of job, and workplace-based training. The programme appeared to have high levels of substitution, but the social benefits of higher employment levels for a very disadvantaged group outweighed the lack of an economic impact.

The second positive evaluation is the recent report published by the Department for Work and Pensions evaluating its pilot Pathways to Work programme for people on incapacity benefit. The programme comprises:

- a series of mandatory work focused interviews
- new specialist teams of trained personal advisers
- a Choices package of interventions to support return to work
- new work-focused condition management programmes developed jointly with local NHS providers
- a 52-week Return to Work Credit of £40 per week

The initial evaluation suggests that the package has increased flows out of incapacity benefit by around 8 percentage points (Blyth 2006)

5.4 Recent migration

There are relatively few programmes or research studies that have focused on interventions to help recent migrants integrate successfully into jobs in the host society.

The evaluation of Work-based Learning for Adults (Anderson et al 2004) found that a high proportion of those taking part in the Basic Education and Training option were relatively recent migrants for whom English was a second language. In reality participants' needs were for language training rather than literacy training, and the provision available under the scheme may not always have been appropriately tailored to their needs. Although many participants reported that their basic skills had improved, and their attachment to the labour market had grown, this did not translate into higher employment rates. It is worth noting, however, the research evidence generally suggests that improvements in basic skills do not lead directly to higher rates of employment. Rather, improvements in basic skills are a necessary first step in a lengthy process. In particular, they enable people to undertake education and training courses which do lead to improved employment chances in due course. But this does mean that any positive impact on employment rates may take several years to emerge (Meadows and Metcalf 2005).

A more general review of English for Speakers of Other Languages (ESOL) provision (mainly but not entirely focused on refugees) found that the standard 26 weeks model of providing ESOL training was not always effective in moving participants towards the labour market at their chosen level. Qualifications were not being achieved at the expected rate, and participants felt that they had not gained enough language skills to be confident in their chosen area of work. The research concluded that a variety of teaching formats and methods is needed, which take into

account the wide diversity found among refugees in terms of their educational backgrounds, work experiences and ambitions. This varied approach would provide the group with the opportunity to combine work and different types of language and vocational training (Steels and England 2004).

Mixed ability classes caused problems for participants at all levels (being beyond the capacity of some and offering no enhancement to current levels of skill for others). An experimental 13-week intensive course had outcomes similar to those for the standard Basic Education and Training option in Work Based Learning for Adults, but the evaluators concluded that they would have benefited from more training about the UK labour market and employers more generally. A limited work experience element was valuable for some participants, and with better planning could have a wider impact. Interviews with employers suggested that they were not always properly briefed about the role of the work experience element, and would have offered a rather different set of opportunities if its purpose had been clearer. The intervention had included a role for employers but had not actively involved them or engaged with them. The evaluation concluded that the course was only suitable for those whose English was already at a relatively high level (Steels and England 2004).

Interestingly, an experimental project in Sweden addressed these points and did report positive outcomes (Delander et al 2005). The project combined classroom learning of Swedish with work experience, which required the participants to put their new language skills to practical use in a work context. Each participant was assigned a mentor in their workplace who was chosen by the local trade union confederation. The aim of this was to enhance the social networks available to the immigrants, as these are known to be an important influence on the success of job search. The programme did not lead to participants obtaining a job more quickly than comparison group members. However, they were more likely to leave unemployment for a mainstream labour market programme or for mainstream education. In line with the findings for training programmes generally, the outcomes for the comparison group were initially better than those for participants. However, gradually the difference narrowed and in the later stages the participants overtook the comparison group. The evaluators argued that this suggested that an evaluation over a longer timescale might have found a positive effect on employment as well.

5.5 Black, Asian and other minority ethnic backgrounds

The United States evidence tends to show that programmes are more effective in helping white and Hispanic people than they are at helping African Americans. However, it is not immediately evident that evidence drawn from a different social and cultural context should have immediate implications for black, Asian and minority ethnic people in Britain[4].

However, there is some evidence that the impact of the various New Deal programmes have generally been smaller for participants from minority ethnic backgrounds (Cebulla and Greenberg 2005). A similar result has been found for training programmes in the Netherlands (de Koning 2002).

Part of the explanation for this appears to be that black and minority ethnic young people taking part in the New Deal for Young People were less likely than white young people to be on the most effective option (subsidised employment), and more likely to be on one of the three less effective options (full-time education and training, voluntary sector or environmental task force). Young people of minority origin were as likely as white young people to be put forward by their personal advisor for vacancies, but they were less likely to be accepted by employers

[4] It is also important to be aware that terminology may differ. In the USA, Asian usually refers to people of Far Eastern origin (a group which is successful in the labour market in the USA), not Indian sub-continent, as it does in the UK.

(Dorsett 2004). This suggests the need for more active engagement with employers in order to overcome any possible discrimination.

The proportion of Work-based Learning for Adults participants who obtained paid employment following the completion of their course was lower for people of minority ethnic origin than it was for white people. The evaluation by Anderson et al (2004) also found that nearly half of those in the basic education and training option were relatively recent immigrants for whom English was a second language. It is possible that their barrier to work was not poor literacy or numeracy, which are what most basic skills courses address, but language difficulties, which might need more appropriately tailored provision. The evaluators suggested that the lack of effectiveness in terms of employment outcomes for this option might be due to the fact that the provision did not properly meet the needs of the participants.

5.6 Childcare needs

For workless parents, the availability and cost of childcare are one of the most important barriers to work that they face. Many evaluations recognise that childcare is an important barrier to work, especially for lone parents, but few consider its impact separately from other components of interventions.

The New Deal for Lone Parents is a voluntary programme aimed at lone parents whose youngest child is aged at least five. Participants are offered intensive advice and support in finding work, arranging childcare and claiming in-work benefits and tax credits. The evaluation evidence for the prototype suggests that it reduced the number of lone parent benefit claimants by around 3.3%. Each lone parent placed into work cost around £1500. The evaluation estimated that around 20% of job placements were additional (in other words, four out of five job placements would have taken place without the programme). The benefit savings achieved over the evaluation period were not sufficient to cover the costs (although they probably would have been given a longer evaluation period) (Hales et al 2000).

More recent administrative data suggests that 54% of those leaving the programme go into paid employment, but around a third of those taking jobs return to benefits within three months (DWP 2006b).

For some groups – particularly those whose relationship has recently broken down, those whose children are under a year old, and those whose children have health problems – there may be no acceptable substitute for non-parental care. For others, however, the childcare which is available may not operate during the hours that parents need, or it may require a commitment to particular sessions which would not be practical for parents whose working hours vary. People with two or more children of different ages are also confronted with the logistical and financial challenge of finding suitable and affordable arrangements for children with differing needs and ensuring that travel arrangements for both children and the parent are both practical and affordable (Knight and Thomas 2006, Bell et al 2005).

One specific attempt to address this barrier, Childcare Assist, was launched in April 2005. It provides funding for childcare for the week before a lone parent on the New Deal for Lone Parents starts paid work. However, take up has been negligible, and parents have suggested that they would prefer to have funding for the fees they have to pay in advance for their childcare once they actually start work rather than funding for a settling in week. Personal advisers argued that many lone parents who find work are required to start within a few days, which does not allow time to arrange formal childcare, and that only those who can turn to family members are really in a position to look for and accept jobs (Thomas and Jones 2006).

5.7 Substance users

Sutton et al (2004) reviewed a wide range of interventions from several countries to help substance users get into paid employment. Although few had been formally evaluated, they

concluded that there were some lessons about programme effectiveness. They concluded that:

- many interventions underestimate the time it takes and the resources that are necessary to help substance users into work
- more successful interventions work closely with other local support services, particularly employment service providers
- more effective programmes offer intensive one-to-one support which continues after service users have moved into paid work.
- employer involvement is critical to programme success
- many substance users have other problems as well: low skill levels, poor health, criminal records and behavioural problems are the most common. These need to be addressed alongside their substance use

They summed up their findings as follows:

"Effective interventions, thus, appeared to have focused on slowly but deliberately re-building the confidence and self-esteem of drug and alcohol users; improving their life skills; training them in basic, but essential job-search skills to help them prepare for the routines of regular employment; and carefully introducing substance users to employers. Their aim has been to encourage clients to achieve realistic goals, backed by the provision of a diversity of support services to address individual needs." (p.25)

5.8 Offenders

Projects aimed specifically at offenders tend to have both a reduction in reoffending and improved employment rates as targets. Evaluations are usually qualitative. One study reporting on the evaluation of two separate projects for offenders under the supervision of the probation service compared the outcomes for those who had gone through the project with those for people who had been referred but had not joined. This means that the results should be interpreted with caution, given the probably differences in motivation between the two groups (Sarno et al 2000).

Both projects provided support on employment, training and housing issues. They were valued by the probation service and by service users for their specialist expertise, however, detailed records of outcomes were limited, and participants were not followed after leaving, so there is no information about retention. Although placements into employment fell below target, offending rates were around 12 percentage points lower among those attending both projects than among those referred but not taking up a place, although differences in motivation may account for this. One of the projects had close links with employers which produced 90 jobs. However, offenders were reluctant to engage with mentors. Only two accepted the offer of support from a mentor.

6. Making progress at work what influences retention, promotion and progression?

The issues of retention and progress are central to the debate on work first versus human capital development. Work first strategies are based on the theory that having any kind of job is a potential route into a better job. Human capital development strategies are based on the idea that having access to a wider range of initial job opportunities offers a greater chance of advancement.

It is also worth remembering that retention is the first step on the road to progression. Retention increases work experience and also helps develop the social networks that are an important way of finding a better job. One recent overview of the evidence on retention concluded that the key influences on retention are:

- ensuring that income in work is sufficient to support a family
- encouraging employers to provide and support training and ensure that the opportunities for lifelong learning are available to individuals who want to progress while remaining employed
- offering the kind of support that increases job retention, and hence develops human capital via work experience (including childcare, transport and in-work income support) (Kazis 2001)

Although the literature on the evaluation of labour market interventions is large, relatively few studies consider the issues of retention or advancement (or even the broader issue of how to escape in-work poverty). Many evaluations are based on snapshots: are people employed six or 12 months after completing their period on an active labour market intervention. However, the policy objectives are often not just immediately finding a job, but of staying in work and progression as well. Longer-term follow-up studies tend to find that the initial impact of work first programmes tends to decay somewhat, but the impact of training programmes, particularly longer-term training with relatively high skill content tends to improve over time (Greenberg et al 2005, Hotz et al 2006a, Lechner et al 2005a, 2005b, Cebulla 2005, Kluve and Schmidt 2002, Theodore and Peck 2000).

People who have come into paid work through a labour market intervention (or a long period on state benefits) often bring with them a range of problems which affect their ability to keep their jobs. Studies in both the US and Britain have found that the reasons why such people subsequently leave their jobs relate to problems both inside and outside the workplace. These include childcare or transport difficulties, substance abuse, physical or mental health problems or a history of incarceration. Work-

related problems include temporary jobs, unrealistic expectations of what the job involves, disagreements over hours of work and shift patterns, and problems in relationships with colleagues and supervisors (Rangarajan 2001, Johnson 2002, Paulsell and Stieglitz 2001).

6.1 Specific interventions targeted on retention and advancement

Relatively few interventions have retention and advancement (as opposed to placement into employment) as their objective. Those that have been evaluated have not had high success rates.

The kind of services that support job placements are useful in job retention and advancement (and could in principle be provided by the same organisations). These include training in soft skills and job search techniques and help in developing a work-focused lifestyle (Rangarajan 2001, Bloom et al 2002, Johnson 2002, Hirst et al 2005, Walker and Kellard 2001). Such support is particularly important for people who have little or no recent experience of paid work. Some Employment Zones which were concerned about the extent to which people who were placed into work returned to unemployment within thirteen weeks have restructured their services to provide greater in-work support (Griffiths et al 2006).

However, one challenge facing programmes is overcoming the reluctance on the part of people who have moved into work to engage with the help that is available to them. They do not see it as relevant to their needs in their new situation, and may regard it as a threat to their new-found sense of independence, even when they are struggling (Bloom et al 2002, Griffiths et al 2006, Hall et al 2005, Paulsell and Stieglitz 2001, Johnson 2002, Hay and Breuer 2004, Walker and Kellard 2001, Clymer et al 2001). This reinforces the need for staff to be well trained, both in understanding labour market needs and in providing personal support. Placement and careers advice services are also more effective where there are close and continuing relationships with employers (Strawn and Martinson 2001, Bloom et al 2002, Clymer et al 2001).

Often people moving from benefits to work are unaware of the kind of help and support they can get in terms of childcare or in-work income support. Providing ready access to advice on these issues and help in claiming may increase retention. For those with more complex needs, case managers need to have access to range of more specialist support services (for example to deal with health, housing or substance misuse issues) (Rangarajan 2001, Strawn and Martinson 2001, Walker and Kellard 2001).

Sometimes an employer will find it difficult to cope with a disadvantaged new employee, but rather than dismiss the employee, would prefer to have access to help and advice in how to deal with things (Hirst et al 2005).

The Post-Employment Services Demonstration programme in the US involved a case management approach offering support for the first six months after starting work. The programme operated in four states (Texas, Illinois, Oregon and California) and offered counselling and support, help in job search, advice on benefits and other in-work income support, and help with work-related expenses. The evaluation found that although the clients liked and appreciated the services offered, the programme did not have statistically significant effects on advancement. Some of the features that may have contributed to the lack of success included the universal availability of services rather than targeting on those most in need of help, the related issue of high workloads for case managers, and the lack of interaction with employers over workplace difficulties (Rangarajan 2001).

The Pennsylvania Retention, Advancement and Rapid Re-employment Initiative also confronted problems, and only 11% of participants who had obtained employment were still in the job a year later. Part of the difficulty related to the reluctance of employers to reveal information

about employees wage rates and terms and conditions to the project operators. Another related to the outcome-based payment system, which when outcomes were below target led to a lack of resources, which in turn led to lower staffing levels (Paulsell and Stieglitz 2001).

A subsequent intervention, the Employment Retention and Advancement programme sought to build on some of the lessons of the earlier intervention. It sought to help lone parents overcome some of the barriers that made it difficult for them to stay in work. Some sites targeted all lone parents, while others concentrated on those who were least employable, and who faced multiple barriers. However, the evaluation found that many of those selected for the programme were reluctant to use its services. Overall over the first two years of the programme there was little effect on employment rates, earnings, retention or advancement (Scrivener et al 2005).

An equivalent intervention in Britain (the Employment Retention and Advancement Demonstration – ERAD) is currently under way, and the evaluation so far only covers the first year of operation. The programme offers ongoing support for up to three years by a personal adviser once the client has entered work. Clients may also receive a retention bonus if they remain in work beyond thirteen weeks, and have access to financial help to cover emergencies which might threaten job retention and for training. At present it is too early to say what impact it is having, but as in the US the evaluation has identified high caseloads as a problem in providing ongoing support, and a reluctance to engage with employers. They also found a much stronger emphasis on retention than on advancement (Hall et al 2005).

6.2 Factors known to influence retention and advancement

Start with the right job

Jobs that offer few prospects for retention do not offer the basis for further progression. Thus, the jobs that people enter from active labour market interventions often determine whether they are on an upward path or face a revolving door of alternating short-term jobs and worklessness (Rangarajan 2001, Strawn and Martinson 2001). Former programme participants are more likely to make the effort to keep a job if they find it interesting, it is reasonably well paid and the location and hours are convenient (Rangarajan 2001, Strawn and Martinson 2001). The evaluation of Employment Zones (Griffiths et al 2006) also found that retention was helped by trying to find the most appropriate job for an individual.

It is possible that the unusually successful outcomes of the Portland Oregon site of the National Evaluation of Welfare to Work Strategies initiative, discussed in section 4.7, could be due to the emphasis the programme placed on finding a job which was a suitable match for the individual rather than taking the first job which was available (Walker and Greenberg 2005, Michalopoulos 2001). By contrast, perhaps the most successful work first scheme in Riverside, California, found that although it was very good a placing people into jobs, very few former participants made progress while in work, and many of the jobs they went into were temporary (Theodore and Peck 2000, Michalopoulos 2001).

However, this confronts those delivering active labour market interventions with a conflict of objectives. Organisations may be paid on the basis of snapshot outcome indicators. There is therefore sometimes a financial incentive to ensure that a particular participant meets an outcome target by taking a particular job opportunity even though it is a short-term job with no prospects. The longer-term interests of the participant (and of the wider economy) might be better served by helping them to find a

better job, but the incentives to do so are negative. One possible solution is for at least part of the goal of interventions should relate to retention and advancement (and some US states have job retention at twelve months as a performance indicator) rather than initial placement (although that this should recognise that for some groups of people this may not be realistic) (Rangarajan 2001, Clymer et al 2001).

Interestingly in the case of the Portland programme referred to above the state had set a wage target for the placement of participants into employment which was well above the minimum wage. Oregon requires providers of employment and training services to welfare recipients to spend 25% of their budgets on retention and career advancement activities (Clymer et al 2001). However, an outcome-funded Pennsylvania experiment produced cash flow and resource problems for providers which led to a deterioration in the kind of support they were able to offer (Paulsell and Steiglitz 2001), which suggests that the incentive structure needs to be carefully targeted.

In Britain providers of Employment Zones services receive large bonuses if participants retain a job for at least 13 weeks (Griffiths et al 2006, Hirst et al 2006).

Financial incentives

US welfare to work programmes that offered earnings supplements had higher retention rates for participants than those that did not offer such supplements. This is probably because the supplements provided a financial cushion to deal with temporary childcare or transport problems (Bloom and Michalopoulos 2001, Michalopoulos 2001). The Employment Zones evaluation in Britain also stressed the importance of financial support once in work as a means of aiding job retention, both in terms of generally available support such as the Working Tax Credit and in terms of providing direct incentives such as providing driving lessons for those who stay in their jobs for 13 weeks or more (Griffiths et al 2006). The pilot In-Work Emergency Fund operated by Jobcentre Plus addresses the issue of the need for a financial cushion for emergencies, and qualitative evaluation suggests it has been useful in a small number of cases, particularly where people are paid monthly in arrears. However, personal advisers in the pilot areas were not supposed to promote its availability. They could only offer help from the fund to those who faced a financial bridging problem which risked them returning to Income Support. It was also only supposed to be available for one-off, individual financial emergencies, and not for relatively common problems such as a delay in receiving tax credit payments or the need to pay for initial travel to work costs (Thomas and Jones 2006).

Generally available measures to improve incomes while in paid employment (such as the US Earned Income Tax Credit and UK Working Tax Credit) have the effect of improving job retention, even though they are generally regarded as anti-poverty measures rather than labour market measures (Blundell 2002, Blundell and Meghir 2001, Michalopoulos 2001). However, such incentives are likely to be ineffective unless people are aware of their availability and understand what impact a successful claim is likely to have on their income (Rangarajan 2001).

Basic skills training

The evidence suggests that although training in basic skills can promote sustained employment, the effects tend to be small and not always discernible. Part of the explanation may be that very few people with poor basic skills are working at all, so that progression or lack of it is not really an issue (Michalopoulos 2001, Strawn and Martinson 2001).

Full-time work

Full-time work appears to offer more opportunities for advancement than part-time work (Michalopoulos 2001, Strawn and Martinson 2001, Tattrie and Ford 2003).

6. Making progress at work what influences retention, promotion and progression?

Reliable and affordable childcare

Childcare problems (availability, flexibility and cost) are one of the most important reasons why parents leave their jobs. The evidence suggests that informal childcare is more likely to break down than formal arrangements. However, informal childcare costs considerably less (and is often free). Thus, parents have a strong incentive to use informal arrangements if they are available to them. Moreover, parents tend to place a high level of trust in informal arrangements (Knight and Thomas 2006, Johnston 2002, Meckstroth et al 2002, Bell et al 2005, Walker and Kellard 2001).

Information about better opportunities

There is some evidence that changing jobs (although not too frequently) is an effective way of obtaining higher wages and making progress more generally. This implies that helping people make and keep contact with better job opportunities, including engaging employers in the process, may be an effective means of helping progression (Strawn and Martinson 2001). Job placement services are generally geared to the needs of the workless rather than those looking for new jobs who are already working (Walker and Kellard 2001).

Opportunities to develop skills while working

Opportunities to take part in employer-supported training and to engage in independent study are an important way of securing advancement. This includes ensuring that training opportunities are available at evenings and weekends. Modular training courses with flexible year-round start and finish dates can also be helpful (Strawn and Martinson 2001). However, it does need to be recognised that people who are both employed and responsible for families have limited time to undertake developmental training beyond that provided by their employers (Walker and Kellard 2001, Clymer et al 2001).

Mentoring and peer support

Workplace mentors can help new employees develop a sense of belonging to their employing organisation, and the mentor can help them to negotiate problems in the workplace, including relationships with colleagues and supervisors. Peer support groups can provide a sense of social support and reinforce the transition in lifestyles involved in keeping a job (Rangarajan 2001, Johnson 2002, Hirst et al 2005).

However, more general mentoring schemes may not be appropriate. Often people are reluctant to be referred to a mentor, and those who are referred may have problems which mentors cannot help with (Hay and Breuer 2004, Sarno et al 2000).

7. Conclusion

Labour market interventions to help individuals into work can be divided into four types; job search assistance, training, direct employment placements in the public or voluntary sectors and subsidised jobs. This review of the latest evaluation evidence finds that job search assistance is effective for those who have skills or recent work experience which make them fit the immediate requirements of employers. This form of help is also relatively cheap and so the most cost effective for these individuals. Job search help by itself is less effective for more disadvantaged individuals. Many disadvantaged individuals moving into work via such programmes often return to worklessness quite quickly, and may become trapped in the low-pay no-pay cycle. The impact of job search programmes also dissipates over time. Initially the impact is large and positive but this declines and typically no longer has a significant impact on an individual's chances of being in employment after 2-4 years over what they would have been anyway.

Direct employment or job creation schemes are found not to be an effective at helping people back into work, and there is some evidence that they worsen job prospects. They represent poor value for money.

Subsidised jobs suffer from having high rates of substitution, that is the people to whom subsidies are attached tend to replace unsubsidised workers. Typically only one net additional job is produced for every seven to ten subsidised jobs. Therefore they are relatively expensive. However job subsidies targeted on the more disadvantaged can be successful and will tend to substitute such workers for more job ready workers. This both helps to tackle poverty and social exclusion, and has economic benefits as it expands the effective supply of labour available to employers.

Successful training programmes have a strong work focus with a content relevant to the local labour market and employer needs. Classroom based training without an associated work experience element is much less effective. In contrast with job search assistance, the impact of training programmes on an individual's chance of being in employment (over what they would have been anyway) tends to increase with time. Initially, the impact of these programmes is negative as individuals effectively withdraw from the labour market to undertake training (and may take a further course after their original supported course) but then the impact tends to increase and become more positive over time.

7. Conclusion

This review of the evaluation literature reaches rather more positive conclusions about the effectiveness of training programmes than the consensus that came out of similar reviews in the 1990s, particularly with regard to training with a strong work focus aimed at more disadvantaged, less job ready individuals. However, training programmes have large initial costs, and the returns are slow to emerge. They therefore have higher levels of risk than work first programmes.

This raises a key question about what is more effective, a work first strategy or one focusing more on training? The answer is not straightforward. Work first, that is job search assistance is perhaps still the most effective, and certainly the most cost-effective, form of help for those who are job ready. But the more disadvantaged individuals are, the less effective is this approach and the more effective is training relative to such an approach. But it is also important to ensure that training is properly designed with a work focus, including where possible an element of on the job training. In addition, subsidised jobs – a work first approach – can be effective for more disadvantaged individuals.

Ultimately there are trade-offs to be made. These relate to immediate costs, priorities in terms of number or type of people to be helped, and the timescale over which the benefits emerge. More intensive help to more disadvantaged groups is more expensive and generates longer-lasting improvements in outcomes. The returns take much longer to come through, than providing short-term help to those with fewer problems, which gets more people into work more quickly. What is clear is that if provision does not address the particular needs of the individual receiving it, it is unlikely to make a difference.

8. Issues particularly relevant to London

8.1 A high-skill economy

The Leitch Review of Skills and the Mayor's and LDA economic strategy for London have both emphasised the extent to which London is a high-skill economy. At the same time a large proportion of the workless population lack the skills that would enable them to gain access to these jobs. Bridging this gap is likely to have two components: effective programmes to help people move into work; and then encouraging those who have the potential to acquire higher level skills to progress in work, thus freeing up lower-level job opportunities for others.

8.2 Client group

Programmes that tailor their provision to the needs of individual participants seem to be more effective than those which offer a standardised service. The workless client group in London is unusually diverse. It is younger than the workless population in the rest of the country, with a much lower proportion of people over fifty. It includes a high proportion of migrants, many of whom do not have English as their first language, and whose language skills may not be good enough to function effectively in the workplace. It also includes a large proportion of people from minority ethnic groups. This group has some overlap with the migrant group, but many workless people from minority groups were born or grew up in London.

The client group mix significantly affects the outcomes of interventions. The limited evidence available suggests that current interventions have been less effective for minority ethnic groups than for the white population. The English language provision which is available is not always suitable for those who need to use it in their work. It does not reach a high enough level or make fast enough progress for those who need sufficient language skills to function effectively in the workplace. But there is some evidence that people of black and minority ethnic origin do not have equal access to the most successful forms of provision – workplace-based training, and subsidised employment. This is likely to require ongoing engagement with employers to ensure that discriminatory practices do not adversely affect outcomes for minority groups.

8.3 Scale and capacity

The scale of the workless population in London is similar to that in a small country such as Sweden. The population is diverse in its characteristics and geographically scattered, although there are some concentrations. Given that smaller scale

programmes appear to be more effective than larger ones, it is worth considering developing interventions focused on particular areas and groups.

A related issue is delivery capacity. Currently the capacity to deliver effective interventions for workless people in London is limited. This is true both of learning provision (which is focused on initial full-time education for young people and on part-time provision for those already in employment), and of help with job search and presentation. Part of delivering an effective mixture of opportunities is likely to be encouraging and facilitating the development of delivery capacity.

8.4 Local factors

Local factors have an impact on the effectiveness of interventions. In London many of the local factors are positive: the labour market generally shows high levels of demand, for example, and transport is good. However, some factors are less promising: wage rates for less skilled work are low once housing costs are taken into account, childcare is less readily available and is expensive, and part-time work is relatively scarce, especially in inner London where worklessness is concentrated.

In addition, employers draw their staff from a wider geographical area than do those in other parts of the country (including other large cities). This may mean that they have less connection with their immediate localities than they do in other parts of the country, which may make it harder to engage them. However, the existing LDA City Fringe Pathways to Work Programme is using the approach that the evidence reviewed here suggests is the most likely to be successful: employer-led training for workless people in skill areas where there are immediate jobs available to them.

8.5 Personal advisers

The evidence suggests that the quality of personal adviser support has an impact on the outcomes for individuals. In London the turnover of Jobcentre Plus personal advisers is higher than it is in the rest of the country, which means that they will on average be less experienced, and have had fewer opportunities to develop their skills on the job than those elsewhere. Without some offsetting factors in terms of caseloads or additional training, it is probable that outcomes for similar clients would be worse in London than in the rest of the country.

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Glossary

AFDC
Aid for Families with Dependent Children, USA

ALG
Association of London Government

CDN
Department for Work and Pensions

EITC
Earned Income Tax Credit, USA

ERAD
Employment Retention and Advancement Demonstration, UK

ESOL
English for Speakers of Other Languages

GAIN
Greater Avenues for Independence, USA

GLA
Greater London Authority

LSC
Learning and Skills Council

NEWWS
National Evaluation of Welfare to Work Strategies, USA

OECD
Organisation for Economic Co-operation and Development

SSP
Self-Sufficiency Project, Canada

TANF
Temporary Assistance for Needy Families, USA

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London Development Agency
Palestra
197 Blackfriars Road
London SE1 8AA

T 020 7593 8000
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