Labour market policy and what works: The UK experience

Lessons from the Work Programme
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Nigel Meager
Some observations on methods of LMP evaluation in the UK
Some history – the development of UK active LMP
Recent changes and the Work Programme
Preliminary reflections on the impact of the Work Programme
Labour market policy evaluation methodologies in the UK

- Despite UK ‘evidence-based policy-making’ tradition, very few ‘gold standard’ impact evaluations of LMPs (RCT)
  - RCTs mainly small, non-mainstream and/or local trials (questions about scaleability)
  - Some quasi-experimental evaluations (control groups, PS matching), difference-in-difference

- Main constraints on use of RCT
  - Political impatience: rolling out national programmes simultaneously to entire eligible population. No possibility of counterfactual or control group
  - Public/political concern about denying ‘treatment’ to individuals in control group
  - Concerns about contamination of control group in real-time evaluations

- But growing interest in RCT
  - Expect to see more RCTs applied to ALMPs in the next few years
  - E.g. current “Innovation Fund” trials: activation-type interventions for people with health conditions
Evolution of ALMP in the UK: 1

- Evolution in line with international consensus on what works:
  - ‘work first’/job-search assistance: cheap; generally good short-term impact; medium/longer impact more variable (matching issues, revolving door)
  - Human capital/training: more expensive; poor or negative short-term impact (lock-in); much better long-term impact (if well-targeted)
  - Subsidies: expensive; positive short-term effects (often smaller in long-term); high risk of displacement
  - Job creation in public sector: expensive; positive short-term effects (by definition); zero or negative long-term effects (stigma?); displacement risk

- Since 1980s
  - Public sector job creation and subsidies virtually disappeared from UK ALMP portfolio
  - Main exception self-employment subsidies (driven by ideology rather than evidence)

- Since 1990s
  - UK ALMP portfolio dominated by work-first/job-search assistance
  - Human capital/training programmes for unemployed greatly reduced
However, also worth noting:

- UK policy interest in ‘what works’ focuses not just on what interventions work but increasingly on which funding and incentive structures work in contracting for and managing programmes. Questions include:
  - Private/public/mixed approach to delivery?
  - Financing based on input cost or ‘payment by results’ (output/outcome)?
  - Government-prescribed interventions or ‘black box’ approach?
  - Relationship between annual ALMP budgets and a) wider public spending; b) longer-term public budgets?

- For most of recent history, (implicit) outcome variables for ALMP were benefit off-flows/savings, rather than labour market variables (employment probabilities, earnings levels)
Recent history of ‘out of work benefits’ in UK

Source: ONS Labour Market and DWP Benefit Statistics, February 2016, Great Britain
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Focus on benefit off-flows

- ‘Work-first’ approach, prioritises job-search support and placement, supported by tough ‘activation’ regime with benefit sanctions

- Advantages
  - Simple, clear target for PES and LM policy
  - Based on the main (short-term) source of cost to public purse of worklessness, plus…
  - Avoids 1980s problem where reductions in unemployment benefit followed by increases in disability benefits

- Disadvantages
  - No emphasis on interventions with ‘soft outcomes’ (health, confidence, social integration, wellbeing), which may have ‘hard outcomes’ (leaving benefit or entering work) only in longer-term
  - Benefit off-flows not necessarily positive outcomes
    - e.g. among 2.88m leaving unemployment benefit within 12 months of claim (Aug 11- Jul 12):
      - 23.2% flowed back to benefit or left active LM [No benefits saving, and some moved to more costly benefits]
      - 18.5% found work [benefits saved plus extra tax revenues]
      - 58.3% unknown destination. [benefits saved, but may generate other social costs]
Why does benefit off-flow model persist?

- Deficiencies of benefit-off flows emphasis long recognised
- Short-term approach reinforced by UK government budgeting:
  - LM policy spend part of ‘Departmental Expenditure Limit’ (DEL): tightly controlled by annual budget cycle.
  - Benefit spending part of ‘Annual Managed Expenditure’ (AME): unpredictable, varies with economic cycle.
  - DWP budget for AME is 10x higher than for DEL
  - Treasury doesn’t normally permit ‘DEL-AME switch’, i.e. allocate future AME spending to current DEL budget as investment to reduce future AME spending.
Recent changes and the Work Programme

- Work Programme is important shift in UK LM policy
  - First integrated national programme for all categories of out-of-work long-term unemployed/inactive benefit recipients
    - aiming to generate economies of scale and efficiencies in contracting processes
  - Programme delivered entirely through private/NGO providers, on an outcome-based ‘payment by results’ approach
  - Payments emphasise a) employment and b) sustained employment
    - aiming to shift emphasis from ‘work first’ to longer term outcomes
  - Differential payments for different groups
    - aiming to prioritise ‘hard to place’ & diverse support for needs of different groups
  - ‘black box’ model – no central prescription of service
    - aiming to encourage innovation in provision
  - First major programme for which a limited version of ‘DEL-AME’ switch was allowed, with funding for programme (partly) provided by savings from future benefits
Overall impact/efficiency of Work Programme (1)

- No robust estimates of overall impact: national programme introduced simultaneously for entire eligible population, so no control/counterfactual
- Some estimates of ‘provider’ effect possible, using random allocation of participants to providers within contract areas¹
- General conclusions from existing data/evidence:
  - Introduced in 2011 at trough of economic downturn
  - On average, seems to have performed (slightly) better than predecessor programmes
  - Overall, programme generated more job entries, and more sustained jobs than DWP target (adjusted for macro-economy): from mid-2011 to mid-2016, 1.87 million participants, of whom 26.7% secured “job outcome” (DWP adjusted benchmark = 24.5%)²
  - Total cost per participant = GBP £1,281 (approximately half that of previous programmes for similar target groups), so highly efficient by comparison (Similar outcomes for half the cost)
  - But at sub-group level, WP performed much worse than target for the most disadvantaged (especially disabled) participants

²: Learning and Work Institute, Work Programme Statistics, Sept 2016
Macro-econometric analysis\(^2\) (not impact evaluation) based on modelling off-flows from JSA (unemployment benefit) only (only part of WP target group), before and after WP introduction, shows:

- Of 1.5 million long-term unemployed WP entrants (June 2011 to April 2014), 107,000 more entered work than would have been the case without the programme. Approx 10\% of all job starts among LTU during the period

- Cost-benefit analysis (under conservative assumptions) suggests present value of lifetime wider benefits of programme:
  - Government - £140m p.a. (compares with £1.4bn cost of programme – including other participants - over the period)
  - Labour - £140m p.a.
  - Capital - £80m p.a

\(^2\): Economic Impact of the Work Programme, Europe Economics, Sept 2014
Other impacts of Work Programme: tackling the ‘revolving door’?

- WP evidence to date shows that for those who enter employment and trigger a ‘sustainment payment’, average duration in employment is c.65 weeks.
- No direct comparison possible with previous programmes (different statistical measures), but overall the WP data suggests higher durations of employment.
- Big variations in duration of employment by personal and labour market characteristics. More likely to secure sustained employment if:
  - Female
  - Young
  - No disability/health condition
  - Have recent work experience
  - In area of low unemployment
  - Received more intensive adviser contact (causality unclear)
Other impacts of Work Programme: ‘black box’ and emphasis on sustained employment triggers innovation?

- More innovation in contract design and administration than in service provision
- Provision still dominated by traditional ‘work-first’ and low cost interventions, but seems that black box has encouraged (limited) diversification compared with previous programmes

<table>
<thead>
<tr>
<th>% of participants receiving</th>
<th>Flexible New Deal</th>
<th>Work Programme</th>
<th>% pt diff</th>
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</thead>
<tbody>
<tr>
<td>CV, job application help</td>
<td>65%</td>
<td>75%</td>
<td>+10</td>
</tr>
<tr>
<td>Action plan</td>
<td>65%</td>
<td>68%</td>
<td>+3</td>
</tr>
<tr>
<td>Skills assessment</td>
<td>45%</td>
<td>57%</td>
<td>+12</td>
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<tr>
<td>Financial support for job search</td>
<td>37%</td>
<td>42%</td>
<td>+5</td>
</tr>
<tr>
<td>Motivation/confidence building</td>
<td>25%</td>
<td>38%</td>
<td>+13</td>
</tr>
<tr>
<td>Careers advice</td>
<td>20%</td>
<td>35%</td>
<td>+15</td>
</tr>
<tr>
<td>Skills training course</td>
<td>17%</td>
<td>27%</td>
<td>+10</td>
</tr>
<tr>
<td>Financial advice</td>
<td>?</td>
<td>23%</td>
<td>? + 23</td>
</tr>
<tr>
<td>Work experience/volunteer placement</td>
<td>28%</td>
<td>19%</td>
<td>-9</td>
</tr>
<tr>
<td>Basic skills support (literacy/numeracy)</td>
<td>11%</td>
<td>18%</td>
<td>+7</td>
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<tr>
<td>Health/disability support</td>
<td>7%</td>
<td>17%</td>
<td>+10</td>
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<tr>
<td>Self-employment support</td>
<td>6%</td>
<td>16%</td>
<td>+10</td>
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<tr>
<td>Support for caring responsibilities</td>
<td>?</td>
<td>8%</td>
<td>? +8</td>
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<tr>
<td>Housing support</td>
<td>?</td>
<td>7%</td>
<td>? +7</td>
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<tr>
<td>Support in relation to criminal record</td>
<td>?</td>
<td>4%</td>
<td>? +4</td>
</tr>
<tr>
<td>Help with drug/alcohol problems</td>
<td>?</td>
<td>4%</td>
<td>? +4</td>
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Other impacts of Work Programme: financial structure

- Innovative financial structure included:
  - Contracts 100% payment by results
  - Differential payments (higher for hardest-to-help groups)
  - Possibility of DEL-AME switch

- Contracting cycle led to ‘vicious spiral’ of under-spending with
  - lowest cost interventions prioritised
  - Significant evidence of ‘creaming’ and ‘parking’
  - Higher cost specialist providers rarely used
  - Differential payments failing to counter creaming and parking, as:
    - Payment categories based on crude benefit categories
    - No link to robust claimant profiling of ‘distance from labour market’
    - Providers used their own profiling tools, which reinforced creaming and parking

- Despite programme design, DEL-AME switch not really triggered
  - Rather than AME savings from future years being used to fund expanded DEL spending, DWP under-spend in DEL was returned to Treasury.
Concluding thoughts

- WP has moved away from simple benefit off-flow emphasis, supported by new financing and contractual arrangements (PBR, black box, differential outcome payments..)

- Some evidence of:
  - Improved cost-efficiency
  - More sustained employment
  - Innovation in provision (not all ‘work first’)

- But:
  - Disadvantaged groups still do much worse
  - Incentive structure has failed to prevent creaming and parking
  - Contracts still promoted short-term low cost interventions, and failed to trigger DEL-AME switch