

Employment opportunity for all: tackling worklessness in London

March 2007



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EXECUTIVE SUMMARY

Since 1997 the number of jobs in London has increased by 700,000, and the number of Londoners in work by 400,000. This 12 per cent rise in the employment *level* was the fastest increase of any UK country or region during this period. But despite this strong growth, there has been little change in London's employment *rate* since 1997 as London's working age population has also increased over the same period. At just under 70 per cent, London's employment rate is lower than the national rate and lower than that of every other UK country and region.

As a result, many Londoners are not sharing the gains generated by the capital's economic strength. Household incomes are more unequal than in other regions, parental employment rates are low, and consequently, at 24 per cent, child poverty rates are high.

Economic growth provides the essential foundation to address poverty and worklessness. The continuing strength of London's economy, along with unique opportunities such as hosting the London 2012 Olympic Games and Paralympic Games, should therefore offer plenty of scope to make progress. The challenge for London is to take these opportunities and to combine economic strength with greater economic inclusiveness.

This will require concerted and co-ordinated action from across all levels of government – national, city and local – and beyond. But it will also require a specific approach to policy. This document aims to initiate the process of change: helping to develop a consensus about the challenges facing London, and the directions in which effective policy solutions lie.

The first challenge arises from the high level of need in London. The capital is home to a large number of people whose circumstances would put them at risk of labour market exclusion wherever in the country they lived. For example, compared with the national population, London's population contains a higher share of lone parents and people from Black and Minority Ethnic groups with lower employment rates on average. In addition, many Londoners face multiple barriers to work.

London's lower overall employment rate can be largely understood as a result of these individual level differences in employment chances attributable to personal circumstances. Since 1997, improvements in the employment rates of many previously disadvantaged groups have been faster than those of the general population – in London and in the rest of the country – but a gap still remains. In this respect, the capital is simply reflecting national factors and highlighting the importance of making further progress everywhere, including in London.

The second challenge is that the characteristics of London itself worsen employment chances for some groups of workers – particularly the young, those with lower skills, and mothers. The capital's unique attractions – both as a city and a labour market – mean that competition for entry-level jobs is more intense than elsewhere. London's size, complexity and constantly evolving nature allows the more skilled and adaptable to thrive, but it can expose the less skilled and more constrained to greater risks of labour market exclusion.

The third challenge is addressing low parental employment rates in the capital, and the high rates of concentrated poverty that result. This is partly a consequence of the first two problems identified above, but also results from specific additional childcare barriers facing parents in London.

These challenges have made London a fertile ground for innovative approaches to service delivery. Flexibility at the local level will always remain fundamental to addressing the diversity and intensity of needs in the capital.

There have been substantial recent improvements in Jobcentre Plus performance in London. Where possible, delivery can and should be improved further. But improvements alone will not solve employment problems in London if the underlying labour market causes are left unaddressed.

A key argument of this document is that policy can and should play an active role in countering the city-wide dynamics that drive worse labour market outcomes in London. The document applies theoretical approaches used to understand how labour markets function in spatial contexts to the particular situation in London. In addition, it considers the particular factors behind low employment outcomes among parents in London.

For good reasons, policy tends to concentrate on the individuals, groups and areas facing the greatest labour market challenges. This requires more engagement with those who are currently furthest from the labour market, assisting people to move from inactivity to labour market participation, and strengthening the balance of rights and responsibilities which underpins the welfare reform agenda. However, the next step in tackling worklessness in London lies in combining this with a broader approach, both geographically and at all levels of skill.

Without diminishing the support offered directly to those with the greatest needs, current policy must be reinforced by a wider focus on efforts that improve the operation of the labour market as a whole. For example, encouraging outward-looking job search towards the periphery of London, particularly by those living in Outer London, would help those living closer to the centre who are looking for work. Similarly, developing and recognising the potential of those in work to enable progression would also improve the employment chances of those seeking entry-level jobs.

The document makes clear recommendations as to the areas where future policy should be directed to meet these objectives.

First, **the labour market:** there should be an explicit focus on policies to relieve congestion in London's low-skilled labour market that is responsible for worsening the employment chances of many Londoners, specifically:

- better co-ordination at the city level to improve the connections between the low-skilled labour markets in Inner London, Outer London and the surrounding region;
- concerted efforts to increase occupational mobility including investment in skills to enable people in entry level jobs to progress at work through investment in ESOL¹ provision, renewed efforts to organise and certify qualifications gained in other countries, and practical approaches to tackling discrimination in employment;
- better co-ordination between employment and other services across boroughs, districts and at the city level. Improving the links between employment, social housing and transport will be essential to ensuring that the support offered across different policy areas is both compatible and complementary.

Second, **employment programmes:** a more strategic London-wide approach would help in identifying the most effective delivery solutions to the capital's problems, along with the control and operational flexibility at the appropriate levels to implement these approaches systematically.

Third, **parents:** in line with the findings of the Harker Report² policies should have a clearer focus on the employment needs of parents in London, including efforts further to improve the functioning of the capital's childcare market.

Fourth, **institutional arrangements:** local autonomy is important to allow the flexibility to address area-specific problems. A strategic, London-wide approach, bringing together all levels of government and other partners, is important to coordinate policy in line with the recommendations made here. The institutional arrangement that would be best suited to implementing these changes should now be considered.

¹ ESOL is English for speakers of other languages.

² *Delivering on Child Poverty: what would it take?* A report to the Department for Work and Pensions, Lisa Harker, November 2006.

INTRODUCTION

Since 1997, the Government has promoted employment opportunity for all through macroeconomic stability and sound public finances, measures to make work pay, active labour market policies, and investments in skills and childcare. These measures have had the largest impact on groups who have, historically, had low rates of employment. As a result, employment is high by historical comparison.

However, by contrast, at less than 70 per cent, London's employment rate is now the lowest of any UK country or region. Worklessness is particularly prevalent in Inner London, where rates of child poverty are also higher than elsewhere in the UK.

In common with residents of other cities, many Londoners have characteristics that put them at risk of labour market exclusion. This is a significant factor in explaining London's relatively low employment rate, indicating a high level of need at the individual level. However this is not the full explanation. There may also be underlying problems in the functioning of London's labour market, that increases the level of exclusion for some.

This document builds on the progress that the Government has already made in increasing employment in the capital. By strengthening the analytical base, it takes the next step towards establishing a common understanding of the remaining problems facing London. The document provides a context for understanding the relative priority that should be given to addressing London's problems, considers the dynamics that are driving them, and sets out a clear direction for future policy.

Employment opportunity for all

I.1 The Government is committed to achieving employment opportunity for all, the modern definition of full employment. Extending employment opportunity is important for economic growth, and also for ensuring that the fruits of that growth are widely distributed. For those who can, work provides the best form of security and independence. Extending employment opportunity is important for this generation and the next – work is the best insurance against poverty both for individuals and, where those individuals are parents, for their children too.

I.2 Since 1997 the Government has made significant progress towards its goal of employment opportunity for all. Macroeconomic stability, sound public finances, and flexible labour markets, along with policies to support people into employment and to ensure that work pays for everyone, have been largely successful in raising employment across the country. This is true both of the overall employment rate for the whole population and particularly for groups who have, historically, had low rates of employment.

I.3 As a result of this policy framework, employment has increased by 2.6 million jobs since 1997 to stand at 29 million today, the highest figure since comparable records began in 1971. The working age employment rate in the UK has risen from 72.7 per cent in 1997 to 74.4 per cent today. The Government has also made good progress towards improving employment rates amongst previously disadvantaged groups. For example over the same period employment among lone parents in the UK has risen from 44.7 per cent to 56.5 per cent.

I.4 This success has been instrumental in the progress the Government has made towards meeting ambitious child poverty objectives. Since 1996-97, 700,000 children have been lifted out of relative poverty, compared to a doubling of child poverty over the previous 20 years. In addition there are now over 1.8 million fewer children in absolute low income compared to 1996-97 on a before housing costs basis. Raising employment rates further, particularly among previously disadvantaged groups, will be fundamental to meeting the Government's objective of reducing child poverty by half by 2010.

I.5 The Government has set a long-term aspiration of an employment rate equivalent to 80 per cent of the working-age population. This will require more engagement with those who are furthest from the labour market, assisting people to move from inactivity to labour market participation, and strengthening the balance of rights and responsibilities that has underpinned the welfare reform agenda. As London accounts for 13 per cent of the working age population, 18 per cent of unemployed people, and 12 per cent of the economically inactive, policy in London has a crucial part to play in meeting this long-term aspiration.

London I.6 Despite strong employment growth, the London employment rate has persistently lagged behind the national rate over the last decade and a half. It currently stands at 69.7 per cent, almost 5 percentage points below the national rate. This is illustrated in Chart 1.1.



I.7 Over the same period, there has been rapid growth in the number of jobs in London, and the capital has seen the largest absolute and proportionate increase in the number of residents in work of any region. London is a vibrant and diverse capital city, comparable with any in the world. It benefits from a long history of trading links across the world, excellent business connectivity, well-developed infrastructure. With a highly skilled and flexible workforce supporting knowledge intensive economic activity, London makes a critical contribution to national wealth.

I.8 As an important measure of how well residents have shared in the economic success of the capital, the employment rate shows there is still much work to be done. In particular, parental employment rates in the capital are relatively low, meaning that the proportion of children in workless households is higher in London than in the rest of the UK. This is a significant driver of the child poverty rate in the capital.

I.9 The challenge for government at national, city and borough levels, and engaging with other relevant partners, is to support and encourage London’s vibrant economy, while combining it with opportunity for all. The London 2012 Olympic Games and Paralympic Games will present new opportunities to show the world that the nation’s capital is not just a successful city, but also an inclusive one. Making the most of this, and other opportunities,

will require coordination at all levels of government and beyond, shaped around a common understanding of the challenges facing London. This is particularly important in the context of the Comprehensive Spending Review which is providing an opportunity for a fundamental and long-term review of the Government's priorities and expenditure.

I.10 A year ago HM Treasury published *Employment opportunity for all: Analysing labour market trends in London*¹ alongside Budget 2006. That document clarified many of the employment challenges for London:

- first, it identified the **size of the challenge at the individual level**. London has large numbers of people with characteristics associated with higher risks of labour market exclusion. But despite greater need, some nationally successful policy responses have proved to be less effective in the capital;
- second, it found that while differences in the characteristics of Londoners accounted for much of the difference in employment rates, it did not account for all. The precise reasons for this unexplained '**London factor**' remained unclear, although the evidence at that stage suggested that underlying problems in London's labour market were most likely to be responsible; and
- third, **worklessness in London is concentrated: at the household level**, driving high rates of child poverty; **and spatially**, reflecting the fact that a marginal position in the labour market frequently translates into a marginal position in the housing market. Concentrations of worklessness are higher in Inner London, and particularly in the Boroughs, forming an eastern 'horseshoe'.

I.11 Building on the foundation provided at Budget 2006, the current document is intended as another step towards establishing a common understanding of the problem and the direction future policy should take. By strengthening the analytical base of knowledge, the document offers guidance as to the type and mix of policy interventions that are likely to be effective in London. By properly locating the capital's problems within a national context, it can ensure that future policy is based on evidence of London's needs and not unfairly distorted by the capital's size or prominence.

LONDON IN A NATIONAL CONTEXT

I.12 London's employment and child poverty outcomes are challenging when set against national or regional benchmarks. However, focusing only on those benchmarks risks missing the insights that might come from comparisons at other levels of geography.

I.13 Looking at spatial variations in employment and child poverty more generally can help identify the relative seriousness of the outcomes observed in London, as well as help to understand the dynamics that drive them. In particular, this document draws on city-level comparisons to provide context for understanding the outcomes observed in the capital.

I.14 London is much larger than other UK cities and is unique in the UK in its global significance. This makes comparisons with other cities imperfect. However, some common themes still emerge. In particular, although the capital's employment rate compares unfavourably badly compared with other regions, its performance is more typical of other cities.

¹ HM Treasury, 2006.

I.15 This is not coincidental. Common residential patterns mean that UK cities frequently have lower employment rates than their surrounding regions. This is partly because of the way employment rates are measured based on residence, not job location: commuters count towards the employment rate of the surrounding region even though they work in the city. But it also reflects economic realities. Housing choices are conditioned by an individual's position in the labour market. Within obvious limits, higher-skilled workers will typically have greater flexibility than lower-skilled workers about the area they choose to live relative to the area where they work.

I.16 Their proximity to large labour markets requiring many workers with less specialised skills, along with the availability of socialable housing means that cities are likely to contain more people with characteristics that put them at greater risk of labour market exclusion. This, along with suitable housing translates into a lower employment rate at the city level compared with the surrounding region.

I.17 In its relationship with the region that surrounds it, London is similar to other cities. To a large extent, London's employment rate is reflecting the population characteristics of its resident population arising from these common residential patterns. London is home to more people who would be at risk of labour market exclusion regardless of where they lived, and more people facing multiple barriers to work.

I.18 As a result the capital's overall employment rate is, in part, simply reflecting national problems of labour market disadvantage that many face. Since 1997, employment rates have risen faster for many groups facing labour market disadvantage than for the population as a whole. However, the national employment problems that London is highlighting clearly show the need to make further progress in extending employment opportunities.

I.19 In some cities, compositional differences can fully explain why their headline employment rates are lower than those elsewhere in the UK. However in other cities, including London, but also Birmingham and Glasgow, compositional differences are only one part of the explanation. In these cities, factors at the local level are also playing a role. These factors are likely to differ from city to city. Although there may be lessons for other cities, this document is concerned with understanding the particular local factors driving the observed outcomes in London, the impacts they have on particular groups, and the policy solutions they require. At the heart of this lies London's labour market.

LONDON'S LABOUR MARKET

I.20 Over the past three decades London's economy has seen large and fundamental changes in its industrial and occupational structure. In recent decades almost all of the job growth in London has been in high-skilled occupations. There was a significant decline in the number of low-skilled jobs in the London area in the decade between 1981 and 1991, although in the decade to 2001, there was a slight rise. Over the same period, the service industries' share of total jobs has increased, while manufacturing and other industries have seen a significant decline in the share of total jobs.

I.21 Despite these changes in industrial and occupational structure, the geography of employment within London and the commuter belt² surrounding it has remained relatively stable. From 1981 to 2001, the largest share of jobs at all occupational levels has been in the commuter belt. Over the same period half of all low-skilled jobs in the London area have been in the commuter belt, with the other half shared quite evenly between Inner and Outer London. Central London has continued to be an important location for jobs at all occupational levels.

²The commuter belt is the counties of Kent, Surrey, Berkshire, Buckinghamshire, Hertfordshire and Essex.

I.22 The changes described above provide an important context for understanding employment outcomes in London today. However, the explanation set out in this document is not a simple story of a direct relationship between changes in patterns of labour demand and employment outcomes. Rather, it is a story in four parts.

I.23 First, it is a story about people movements: to London, out of London, and within London; permanent migration and commuting; in response to labour market changes, and irrespective of them. It is about why these movements are made, who makes them, and who does not.

I.24 Second, it is about the effects that these movements have on the employment outcomes of those who move, as well as on the employment outcomes of those who do not. London's size, complexity, and constantly evolving nature allow the more skilled and flexible to thrive, but exposes the less flexible and less skilled to greater risks of labour market exclusion. In addition, this labour market exclusion can itself undermine the capacity of individuals to respond flexibly in the future. And because this distribution of labour market outcomes is far from random it can have consequences for other important outcomes such as child poverty. In particular, the impact of these labour market dynamics do not divide evenly across gender if caring responsibilities reduce a worker's commuting range, for example, or limit opportunities to particular hours of work.

I.25 Third, the continuities in London's labour market are as important as the changes. The number of job opportunities in London's centre means that it will long continue to be an area of focus for job searches of people locally, regionally, nationally and internationally. For highly-skilled people this is observed in patterns of migration and commuting to London, which are responsive to job growth in the capital. Should growth in high-skilled jobs weaken, or should preferences for commuting change over the lifecycle, commuters have other employment options outside London, and mobile high-skilled workers can exit the capital. By contrast, for low-skilled Inner Londoners, the magnetic attraction of central London to other job seekers is an unhelpful force concentrating labour supply on their local labour market. The employment consequences of this highly competitive labour market are reinforced by the fact that alternative labour markets are some distance away.

I.26 Finally, in pursuing other objectives, policy can sometimes further reduce the capacity of individuals to respond flexibly to labour market dynamics, for example through inflexibilities in social housing or childcare provision.

THE RIGHT APPROACH FOR LONDON

I.27 At national level a stable macroeconomic framework, sound public finances and a flexible labour market have led to a large expansion in labour demand. At the same time, labour supply has increased as the Government has ensured that work pays more than benefits. Practical assistance, given to workless individuals to help them move into work, has also been instrumental in raising labour supply. These provisions have taken the form of active labour market programmes, help with the costs of working, and support to develop people's skills. This has sometimes meant a more intensive focus on individuals living in areas of higher worklessness. Continuous improvement has been sought through many pilots at local level, the findings from which have been fed back into mainstream policy.

I.28 The diversity of the capital's population and the particular challenges of its labour market have made London an ideal location for innovative approaches to service delivery. Recently there have been substantial improvements in Jobcentre Plus performance in London against targets. New innovations such as Cities Strategy pilots in west and east London have created an opportunity for closer working at the local level. This should do much to improve local delivery, by ensuring that services can be tailored to problems that have their origins at the local-level.

I.29 However, the case set out in this document is that more can be achieved in the future if policy is approached in a way that takes greater account of the specific challenges London faces. This requires meeting three challenges:

- addressing the higher level of need in London that arises from a population with more characteristics associated with labour market disadvantage, including high levels of inactivity;
- dispersing competition for entry-level jobs in London that is too concentrated in the centre. This congestion in Inner London increases the disadvantage faced by workers with low-skills or high costs of working, particularly young people and mothers; and
- improving low parental employment rates, which drive high child poverty rates. This is partly a consequence of the two problems above, but it also results from additional barriers facing parents in London, particularly in the form of low childcare availability and higher costs.

I.30 In developing a framework for future policy to meet these challenges this document draws on an understanding of how labour markets function in a spatial context, as well as other specific factors that may be behind some of the outcomes observed.

I.31 The rest of this document is structured as follows:

- Chapter 2 sets out more details on the problem of worklessness in London and the consequences for child poverty;
- Chapter 3 puts the capital's employment problems in a national context, considering the similarities and differences between London and other regions and cities;
- Chapter 4 develops some key theoretical ideas that provide a way to think about how urban labour markets work;
- Chapter 5 considers the labour market dynamics that drive the outcomes observed in London;
- Chapter 6 examines in more detail the employment outcomes of parents in London;
- Chapter 7 explains where current policy in London needs to be improved; and
- Chapter 8 summarises the main findings from the document and makes recommendations for the direction of future policy.

2

WORK AND WORKLESSNESS IN LONDON

London has experienced strong employment growth over the last decade and a half, but a simultaneous increase in the working age population had meant this has not translated into an increase in employment rates.

In addition, aggregate trends conceal important and divergent trends in the London labour market. In particular, London's status as a 'global city' means it is a magnet for high-skilled workers. From 1981 to 2001, the number of high-skilled jobs in London has grown by nearly a million. In contrast, the number of low-skilled jobs has remained relatively static.

Characteristics that put individuals at risk of labour market exclusion are more prevalent among Londoners, and more Londoners face multiple barriers to work. This explains a large proportion of the lower employment rate in London relative to the rest of the UK.

Worklessness is concentrated in particular London boroughs (forming an eastern 'horseshoe'). This geographic pattern of worklessness is closely correlated with measures of deprivation and exclusion, particularly child poverty, which show considerable persistence over time. In particular, while the proportion of children living in poor households nationally has declined significantly since 1996-97, in London rates of child poverty are broadly unchanged.

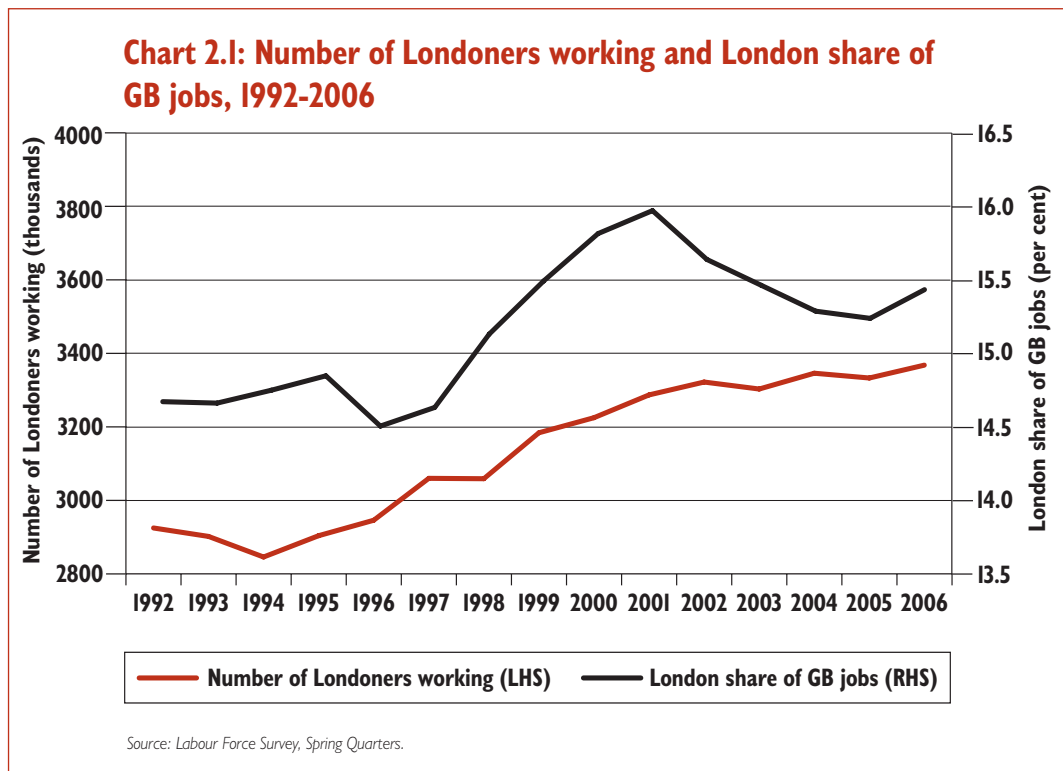
2.1 Chapter 1 showed that the capital's employment rate is well below the national average and has been persistently so since the early 1990s. Indeed, London's employment rate is the lowest of any UK country or region, and is the only region where the current employment rate is little different to the rate in 1997.

2.2 The headline employment rate is an aggregate measure, concisely capturing important information about the relative distribution of employment opportunity across different regions. However, because it is a relative measure, its individual components may need to be unpacked to understand what is driving any trends observed; and because it is an aggregate measure, it may be obscuring important distributional or spatial differences.

2.3 This chapter unpacks the factors lying behind recent trends in London's employment rate, and considers the distributional and spatial variations that lie hidden beneath the aggregate measure. The chapter also considers the child poverty consequences of the distribution of employment outcomes observed.

MORE LONDONERS, MORE JOBS, AND MORE LONDONERS IN JOBS

More jobs in London 2.4 Over the last decade and a half, London has experienced strong employment growth, both in absolute terms and relative to job growth in the rest of the country. As Chart 2.1 shows, the number of jobs in London has risen from 3.9 million in 1992 to 4.6 million in 2006, an average increase of 50,000 per year. Since 1997, the number of jobs has risen in every UK country and region, but in London the growth has been faster. Jobs in London rose as a share of jobs in Great Britain from around 14.5 per cent in 1996 to a high of 16 per cent in 2001. After declining slightly in the years to 2005, the current level is 15.5 per cent, but the trend is rising.



More commuters to London 2.5 The increase in jobs in London has led to a large increase in commuting from surrounding regions. The number of commuters has risen from 670,000 in 1997, to over 720,000 today. Two-thirds of these commuters to London are working in high-skilled occupations.

More Londoners are working 2.6 As well as an increase in the number of commuters, the increase in jobs in London has also led to a sharp increase in the number of Londoners working. The number of Londoners working has increased by around a third of a million from around 3 million in 1996, the largest proportional increase of any UK country or region.

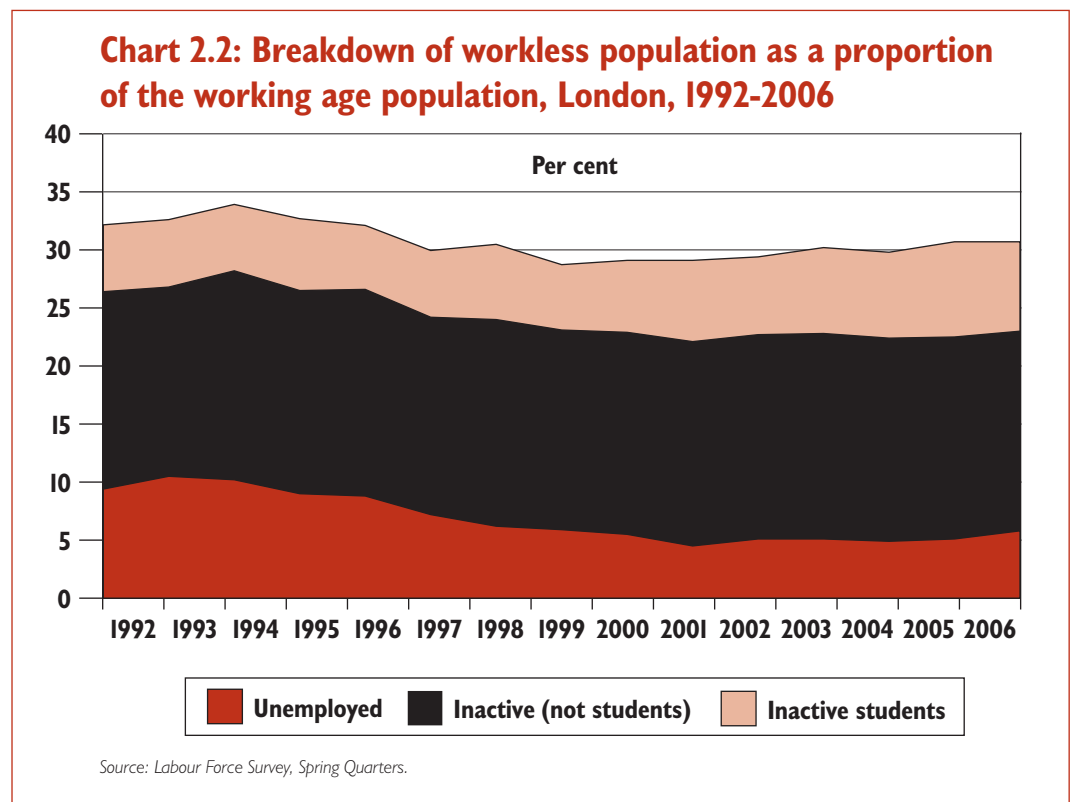
But there are also more Londoners 2.7 London's working age population has also grown substantially. Since 1994, the number of working age Londoners has increased from 4.3 million to over 5 million, a rise of 18 per cent over this period and an average of almost 60,000 people per year. By contrast, growth in the working age population at the national level over the same period was less than 7 per cent. The increases in the capital were largest around the turn of the century, but have slowed since. The working age population rose by about 100,000 people between spring 2000 and 2001, but current growth is more in line with the trend since 1994.

Summary 2.8 The increase in the number of working age Londoners has meant that the increase in employment in the capital has not translated into an increase in employment rates. This suggests that London’s relatively flat employment rate could be masking other trends in the capital’s labour market. The remainder of this chapter explores these trends in more detail.

TRENDS IN LONDON’S LABOUR MARKET

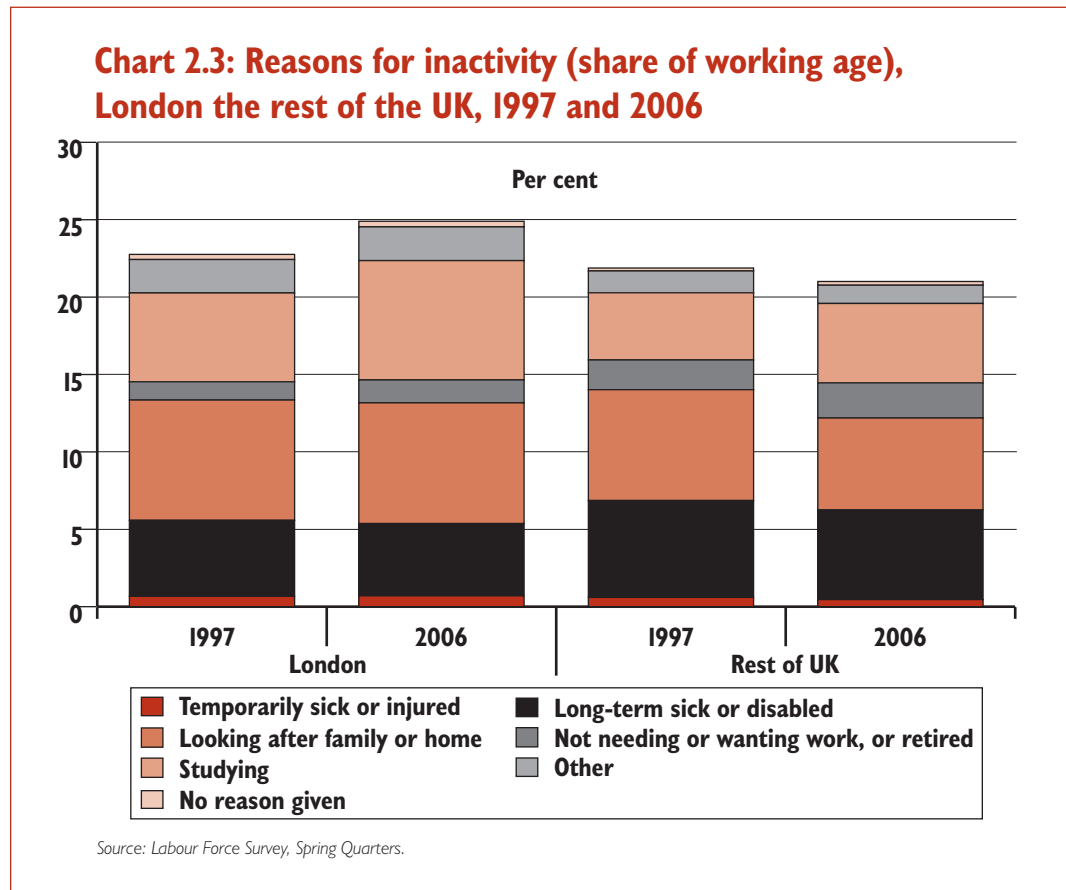
Unemployment, inactivity and inactive students

Worklessness in London has been rising 2.9 After falling consistently through the mid and late 1990s, the rate of worklessness in London has been slowly rising since 2000 to its current level of around 31 per cent. Chart 2.2 shows this trend, broken down to show the shares that are unemployed, inactive students, and those inactive for other reasons.



This increase has been driven by a rise in inactive students 2.10 Chart 2.2 shows that, in the period between 1994 and 2000, the observed fall in the rate of worklessness in London was being driven by a fall in the share of the working age population that was unemployed. Since 2001, the unemployed share has remained fairly constant at around 5 per cent. Secondly, the share of the working age population that is inactive for other reasons –described as ‘inactive (not students)’– has remained remarkably constant at between 17 and 18 per cent throughout the period shown. Finally, the increase in the rate of worklessness observed since 2001 has been driven by a rise in the share of inactive students. This share of inactive students had remained constant at around 6 per cent of the working age population until 2000, but has been steadily increasing since then to around 8 per cent in 2006.

2.11 Chart 2.3 goes a step further, breaking down the reasons for inactivity. The rise in inactivity seen in London between 1997 and 2006 can be largely attributed to an increase in the numbers inactive because they are studying, with other groups remaining about the same as a share of the working age population.



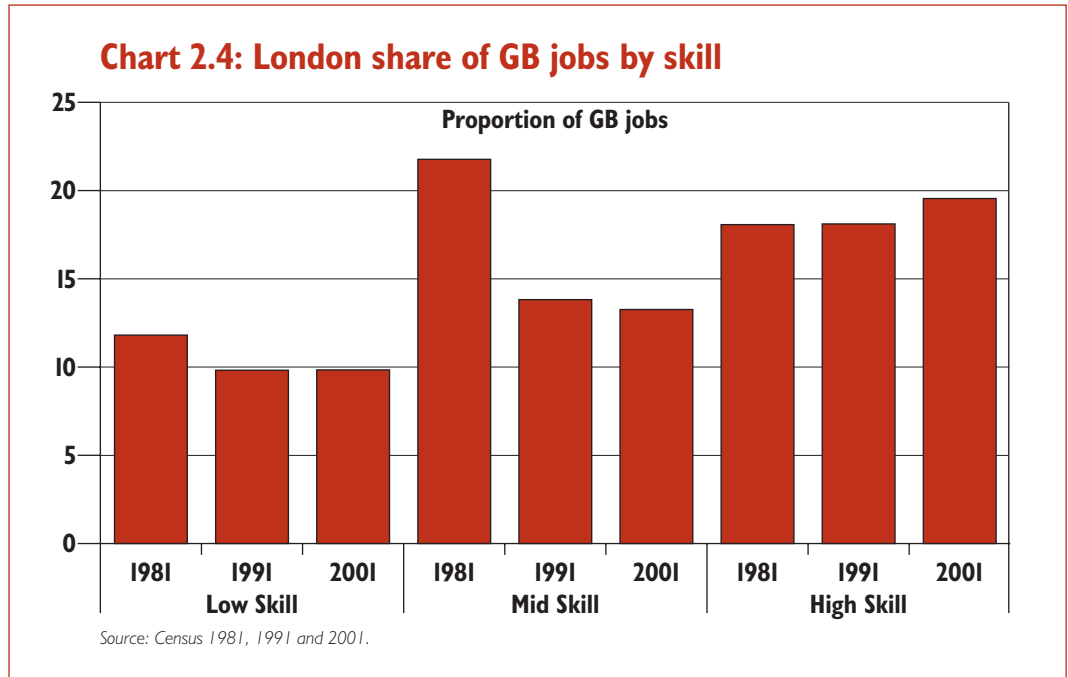
2.12 Almost half of the increase in the size of the working age population in London since 1994 can be accounted for by a doubling in the number of full-time students. There are now more than half a million full-time students in London, rising from one in twenty Londoners of working age in 1994, to one in ten today.

2.13 In the rest of the country, the share of the working age population who are students has risen from around 4.5 per cent in 1994, to almost 9 per cent today. As a consequence, over this period the proportion of UK full-time students who live in London has remained fairly constant at around 16 per cent. However, in the rest of the UK this increase in the number of students has not driven an increase in inactivity to the same degree, as more students elsewhere in the country are working.

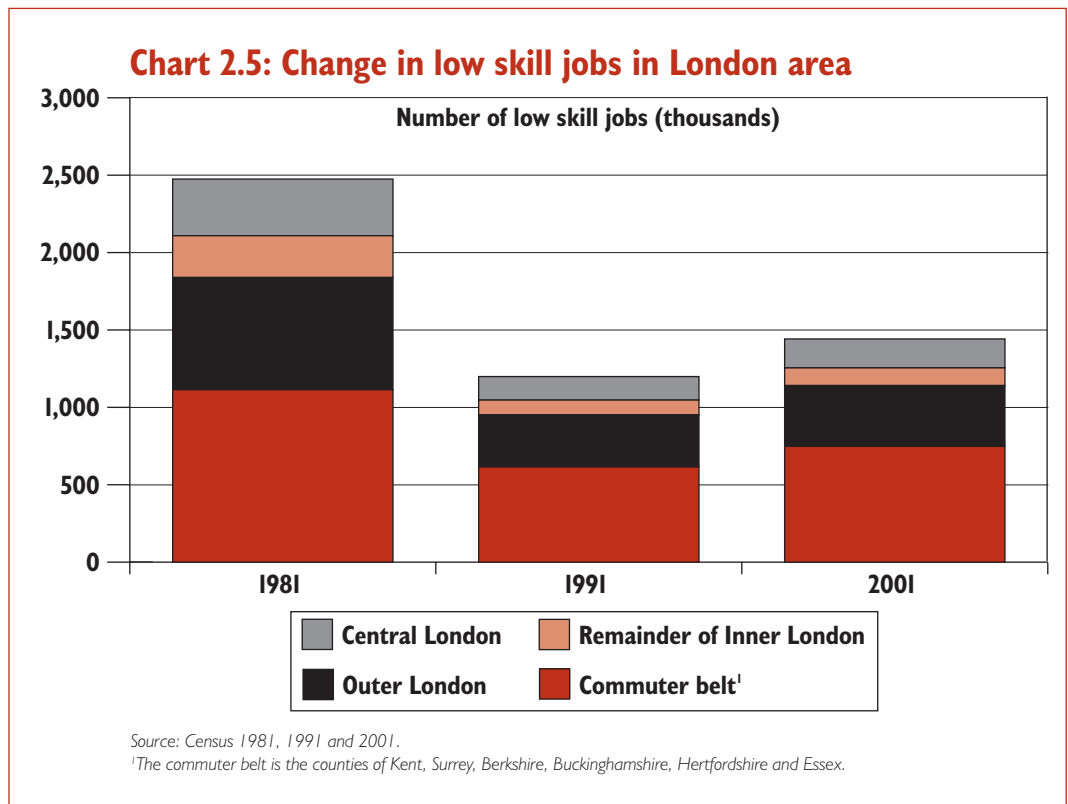
Industrial change

Increased numbers of high-skilled jobs

2.14 In recent decades almost all of the job growth in London has been in high-skilled occupations. Chart 2.4 illustrates that over the period 1981 to 2001, London's share of high-skilled jobs has increased from 18 to 20 per cent. This represents an increase of nearly a million in the number of high-skilled jobs in the capital. In contrast London's share of low-skilled jobs has declined from 12 to 10 per cent; and its share of mid-skilled jobs has declined from 22 to 13 per cent. However, the significant changes in London's share of low- and mid-skilled jobs occurred during the 1980s and the position has been broadly static since then.



Low-skilled jobs 2.15 Chart 2.5 goes a step further by looking in more detail at the changes in low-skilled jobs in the London area. This illustrates that, whilst the number of low-skilled jobs in the London area fell sharply in the 1980s, it increased by nearly a quarter of a million between 1991 and 2001. This trend has been largely driven by changes in the commuter belt, where the number of low-skilled jobs increased by over 20 per cent between 1991 and 2001. Similarly, in 2001, there were 110,000 more low-skilled jobs in Inner and Outer London than ten years before.



2.16 The picture for mid-skilled jobs has been more mixed. In 2001 the number of mid-skilled jobs in central London, and the remainder of Inner London, was lower than in 1981 whereas in all other areas the number had increased. Over the period 1981-2001 the number of high-skilled jobs increased significantly in all areas.

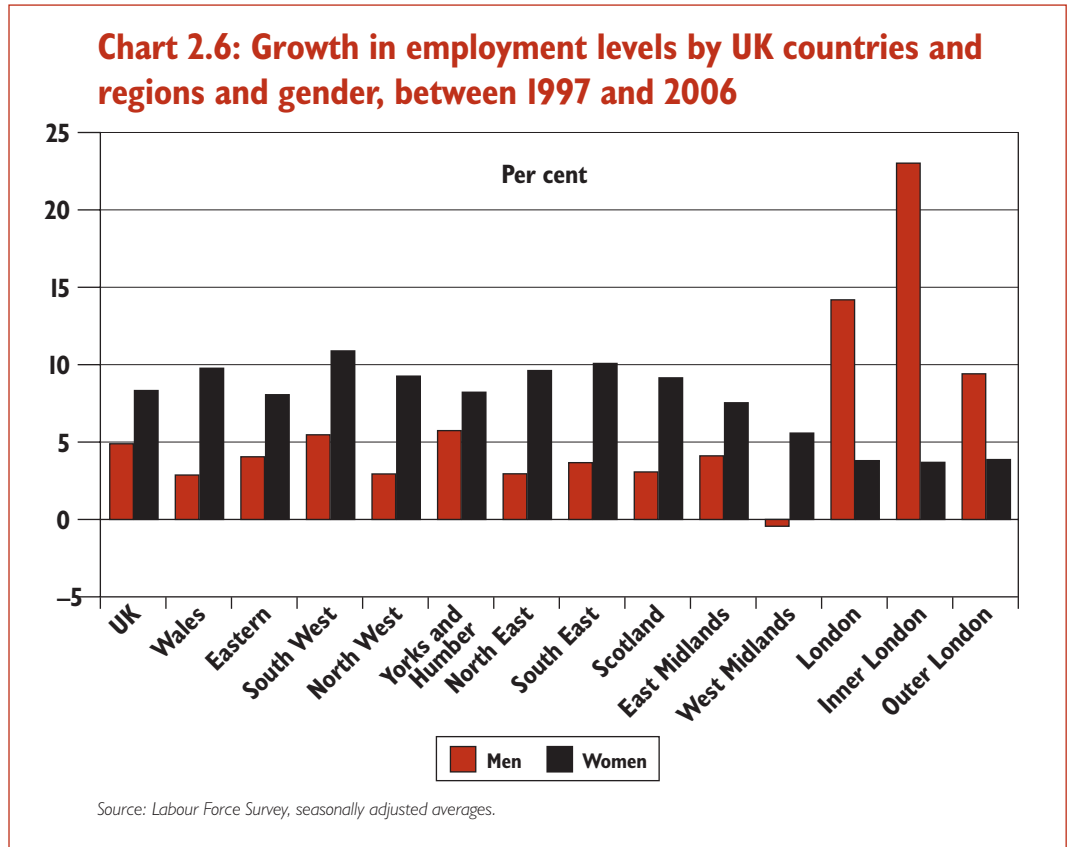
London's industrial structure 2.17 Over the period 1981-2001 there were substantial changes in the industrial structure of jobs in London. The share of service sector jobs in London increased from 42 per cent in 1981 to 60 per cent in 2001, and close to 70 per cent in Inner London. This compares to a rise from 30 to 45 per cent in the rest of the UK over the period. In contrast, the manufacturing and construction industries have seen the biggest decline in jobs share, from 24 per cent of London jobs in 1981 to 12 per cent in 2001. This compares to a fall from 32 to 24 per cent in the rest of the UK. While the trend away from manufacturing sector towards service sector jobs was broadly similar in London and the rest of the country, the starting level was different, as was the timing of the transition. London saw stronger growth in service sector jobs in the period 1981-91 than between 1991 and 2001. The rest of the UK, by contrast, saw higher percentage growth in jobs in these industries in the latter decade.

Summary 2.18 While London has experienced strong employment growth over the last decade and a half, a simultaneous increase in the working age population had meant this has not translated into an increase in employment rates. The headline employment rate also obscures other important and divergent trends in the London labour market. In particular, the number of high-skilled jobs has increased significantly. The following section explores in more detail the consequences for individuals of these trends in the London labour market.

EMPLOYMENT AT THE INDIVIDUAL LEVEL

Increases in employment by gender

2.19 While in every other UK country or region, women have benefited disproportionately from the growth in jobs over recent years, chart 2.6 shows that in London male employment has increased at a much faster rate than female employment.



London’s population and the employment rate

2.20 London’s population is very different from the national population in its mix of people. At the individual level, more Londoners have characteristics associated with lower employment rates. Collectively, this means that the headline rate is likely to be lower. Table 2.1 illustrates that across the country there are some individual characteristics or household circumstances – such as being low-skilled or being a lone parent – that are associated with lower employment rates.

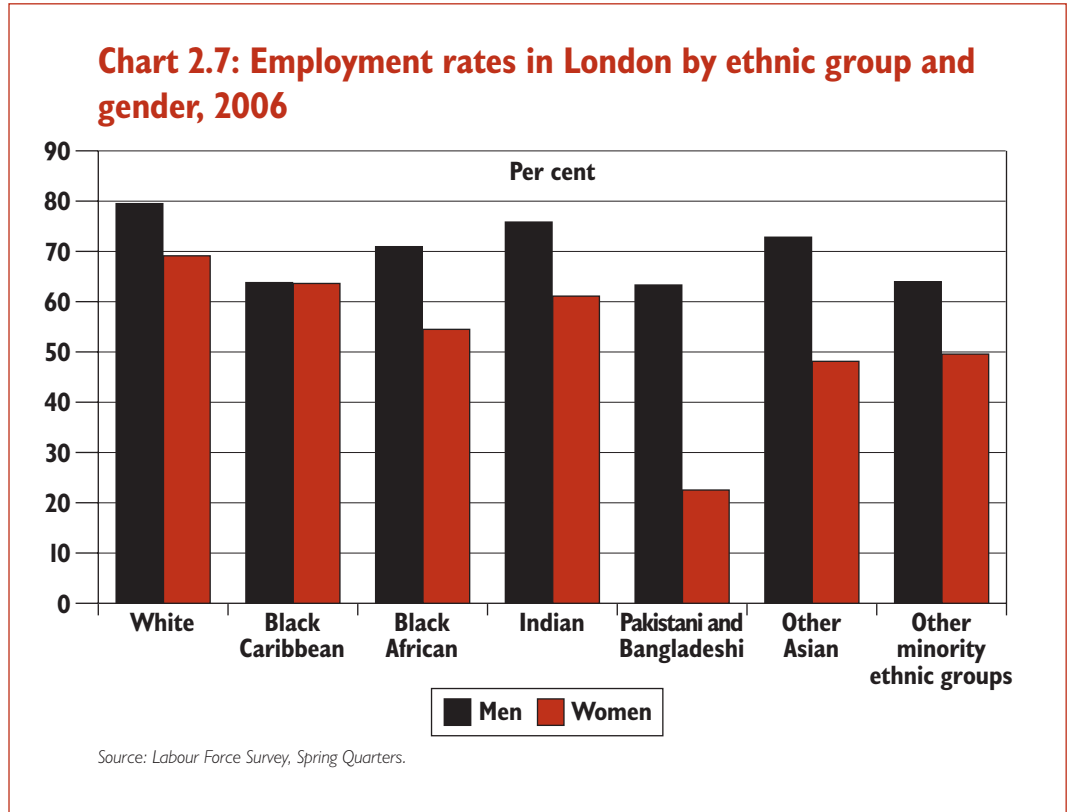
Table 2.1: Worklessness by selected characteristics, London and the rest of the UK, 2006

Characteristic	Rate of worklessness		Unemployed		Inactive		Students	
	London	Rest of UK	London	Rest of UK	London	Rest of UK	London	Rest of UK
Working age	31	25	6	4	17	16	8	5
Men	24	21	6	5	11	12	7	5
Women	37	29	5	3	24	20	8	5
Parents (including lone parents)	39	27	6	4	21	15	11	7
Fathers	26	18	7	4	8	6	11	8
Mothers	49	34	6	4	33	23	11	7
Lone parents	55	41	8	6	43	33	4	3
White	25	24	4	4	15	16	6	5
Black or minority ethnic	41	38	9	7	21	20	11	12
Born in the UK	28	25	5	4	14	16	8	5
Born abroad	36	30	7	5	22	18	7	7
16-17	85	63	10	9	5	5	70	49
18-24	48	34	11	8	12	9	25	17
50+	31	29	3	2	28	27	0	0
High skill (NVQ4+)	13	13	4	2	7	9	2	2
Mid skill (NVQ3)	31	22	4	3	12	11	15	8
Low skill (NVQ2 or less)	44	33	8	5	27	22	9	6
Owner occupiers	21	19	4	3	11	12	6	4
Rent	43	44	9	8	24	28	10	8
Social rent	38	30	8	4	19	19	11	7

Source: Labour Force Survey, Spring 2006. Note: Unemployed, Inactive and Students given as a proportion of total working age population.

2.21 Table 2.1 illustrates that, in particular, rates of worklessness tend to be higher amongst lone parents, young people, black or minority ethnic individuals and those with low-skills than they are for the working age population as a whole. These characteristics are more prevalent among Londoners.

2.22 There can be significant variations between employment rates within population groups. Chart 2.7 illustrates, for example, that male employment rates vary from nearly 80 per cent for White males, to less than 65 per cent for Black Caribbean and Pakistani and Bangladeshi men. With the exception of Black Caribbeans, female employment rates are lower than male employment rates for every group. There is also more variation between female employment rates for each group, with nearly 70 per cent of White females employed, compared to under 50 per cent of other Asian females, and 23 per cent of Pakistani and Bangladeshi women.



2.23 Table 2.1 also showed that worklessness rates among groups facing labour market disadvantage nationally are frequently even higher in London. For example, 55 per cent of lone parents are workless in London, compared with 41 per cent in the rest of the UK.

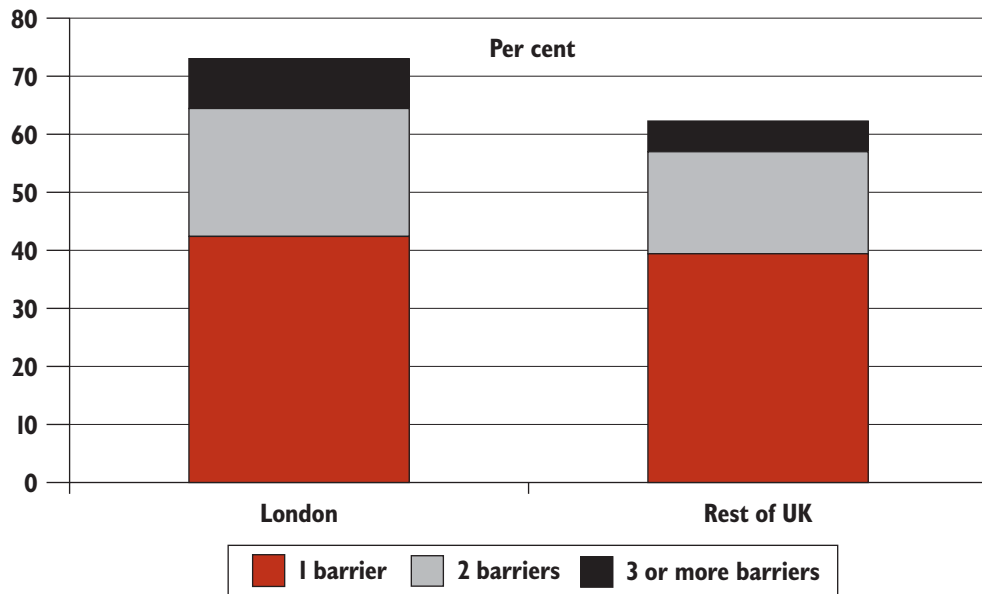
Multiple disadvantages

2.24 Table 2.1 showed employment rates measured against a single characteristic whereas any one individual could have more than one of these characteristics. Differential outcomes in London compared to the rest of the UK could therefore occur as a result of other differences in the population composition of people with that characteristic.

2.25 This is consistent with chart 2.8 below which illustrates that London has more individuals facing multiple barriers to work relative to the rest of the UK. The chart shows that, while in the rest of the country 23 per cent of individuals face two or more key barriers to work, in London this proportion rises to just over 30 per cent.

2.26 For some people facing several barriers to work, the chances of finding employment can be very low indeed.

Chart 2.8: Share of working age population facing multiple barriers to work, London and the rest of the UK, 2005



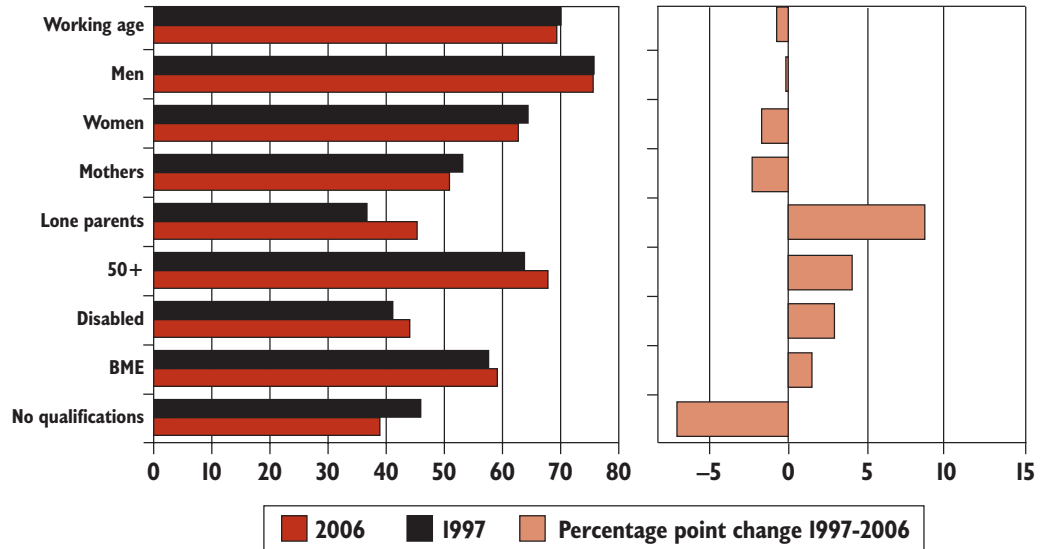
Source: Labour Force Survey, Spring 2005

Note: Barriers include lone parenthood, lack of qualifications, black or ethnic minority status, disability and being aged 50 or over..

2.27 For example, HM Treasury analysis suggests that being a lone parent is associated with a 14 percentage point reduction in employment chances compared to a single person with no children and Level 3 qualifications. Having no qualifications reduces a lone parent's employment chances by a further 20 percentage points. If this person was also disabled the combination of lone parenthood, no qualifications and disability would reduce employment chances by a total of 63 percentage points. The additive effect of disadvantage can therefore make the risk of labour market exclusion for some groups very high indeed. Chapter 5 looks in more detail at the impacts of particular characteristics on employment chances.

2.28 The Government is making good progress towards addressing these problems; with employment rates increasing among many groups disadvantaged in this way. This is true both for the UK as a whole and in London. Chart 2.9 below shows that while the overall London employment rate is currently similar to the rate in 1997, employment rates for priority groups have increased in this period. For example, the lone parent employment rate in London has increased by nearly 10 percentage points. Employment rates for those aged 50 plus, the disabled, and individuals from Black and Minority Ethnic groups have also increased. More needs to be done as these rates still lag behind national rates. The employment rate for individuals with no qualifications has declined by over 7 percentage points in this period, along with employment rates for women and mothers.

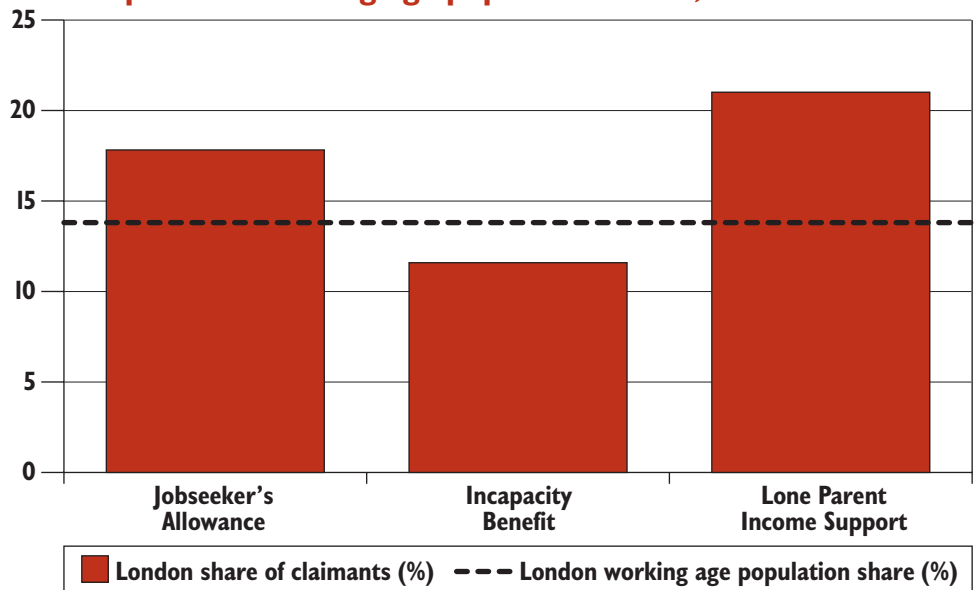
Chart 2.9: Employment rates for selected groups, London, 1997 and 2006



Source: Labour Force Survey.
 Notes: 1997 disabled people value is from 1998, as data is available from Spring 1998 only.
 Minority ethnic group values are not directly comparable due to classification changes in 2001.
 Data is from the spring quarter of the year shown.

2.29 London also has a larger share of claimants of some types of benefits than its share of the working age population. Chart 2.10 shows that, relative to its share of the working age population, London has a higher proportion of individuals claiming Jobseeker’s Allowance (JSA) and Income Support but a lower share of Incapacity Benefit claimants.

Chart 2.10: London share of benefit claimants by benefit type compared to working age population share, 2006



Source: DWP benefit claimant figures, May 2006, Labour Force Survey, spring 2006.
 Note: Incapacity benefit claimants includes those claiming Severe Disablement Allowance.

Income Support 2.30 Chart 2.10 illustrates that lone parents in London make up over 20 per cent of those claiming Income Support, substantially above London's share of the working age population. Since 1997, there has been a significant fall in the number of lone parents claiming Income Support. However, while there has been a national reduction of around 16 per cent in the number of lone parents claiming Income Support, there was only a 4 per cent reduction in London. In addition, lone parents in London are characterised by longer Income Support claim durations than elsewhere in the UK. In London, 44 per cent of lone parents have claimed for over five years, compared to 38 per cent of lone parents outside of London.

Jobseeker's Allowance 2.31 Chart 2.10 shows that, at 18 per cent, London's share of JSA claimants is also above its share of the working age population. In common with the national trend, the number of JSA claimants has declined significantly since 1997 although, with the exception of a short period of time in late 2000 and early 2001, the claimant rate in London has been above the national rate.

Incapacity Benefit 2.32 Finally, chart 2.10 shows that under 12 per cent of Incapacity Benefit claimants live in London, below London's share of the working age population. This amounts to 313,000 Incapacity Benefit claimants in London, which is equivalent to 6.1 per cent of the working age population, below the national average of 7.3 per cent. In common with the national trend, the number of Incapacity Benefit claimants in London has fallen slightly since 2004.

2.33 In most respects the characteristics of London Incapacity Benefit claimants are similar to the rest of the UK. However, there are some indications that the London Incapacity Benefit caseload may have a relatively poor work history. Some 55 per cent of London Incapacity Benefit claimants are ineligible for contributory Incapacity Benefit as they lack adequate National Insurance Contributions, compared to an average of 34 per cent outside London.

2.34 There is also some evidence that London Incapacity Benefit claimants have poorer employment prospects than elsewhere. Research conducted by the Department for Work and Pensions¹ found that London had the lowest proportion of sick or disabled benefit leavers, entering or returning to work, at 16 hours or more: 35 per cent compared to 63 per cent in the South East.

Summary 2.35 Characteristics that put individuals at risk of labour market exclusion are more prevalent among Londoners, and more Londoners face multiple barriers to work. This is a significant driver of the lower employment rates in London relative to the rest of the UK. This presents a significant challenge for employment policies.

SPATIAL VARIATIONS WITHIN LONDON

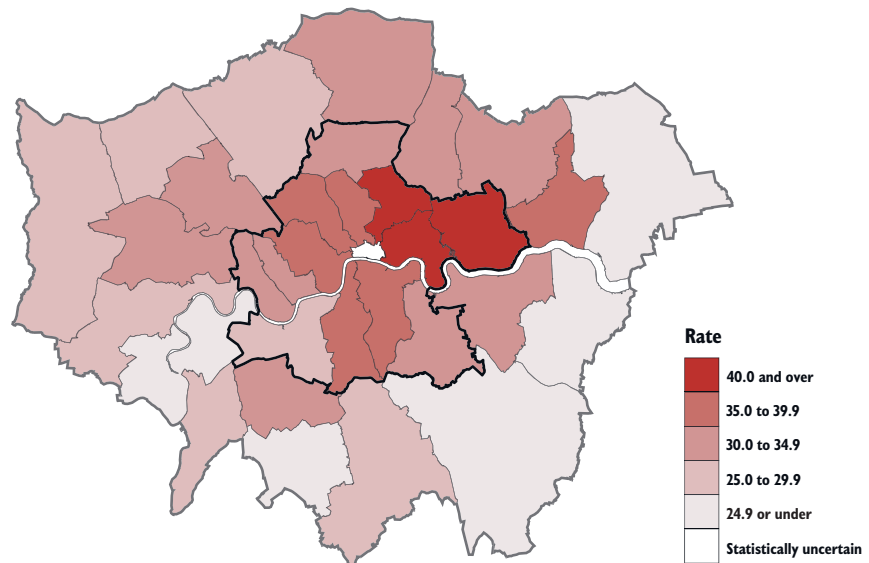
Concentrations of worklessness 2.36 There are significant spatial differences between levels of worklessness in different London boroughs. Comparing the Inner London boroughs to their Outer London counterparts shows that worklessness in London is concentrated in Inner London. Even within Inner and Outer London there are significant spatial variations in unemployment and inactivity. Chart 2.11 illustrates that worklessness is concentrated in particular London boroughs (forming an eastern 'horseshoe'). This geographic pattern has become even more pronounced in the past year and is closely correlated with measures of deprivation and exclusion, which show considerable persistence over time.

¹ Destination of Benefit Leavers, Department for Work and Pensions, 2004.

2.37 These patterns largely reflect the close relationship between an individual’s labour market status and their position in the housing market. Concentrations of worklessness need not be problematic, providing there are no feedback effects from residential location, on an individual’s chances of employment or on the outcomes associated with living in poverty.

2.38 Gibbons et al² find that living in a concentration of worklessness does not have an effect on employment chances, but living in areas of concentrated deprivation may be worse for child outcomes and crime. The Secretary of State for Communities and Local Government asked John Hills to undertake a wide-ranging review of social housing in England. His report³ found that the employment rates of those living in social housing with particular disadvantages or with multiple disadvantages are substantially lower than those of people with similar disadvantages but living in other tenures. Hills suggests that there are several potential explanations for this effect, though he finds little evidence of the existence or relative impact of some of these factors. First the financial incentives of moving into work may be less clear to those living in social housing compared with other tenures; second, tenants may have difficulties in moving between social housing impairing labour mobility; third, the concentration of social housing in disadvantaged areas may lead to ‘neighbourhood effects’ which reduce individuals’ employment chances; and finally, and most controversially, the way social housing is provided may lead to dependency effects. Chapters 4 and 5 discuss in more detail the impact of residential location on employment chances in London.

Chart 2.II: Worklessness rates¹ by London Borough, 2005-2006²



¹ Worklessness rate is defined as the number of people of working age who are unemployed in an area divided by the number of people of working age resident in that area.
² Based on four quarter averages April 2005 to March 2006.
 Source: Annual Population Survey.

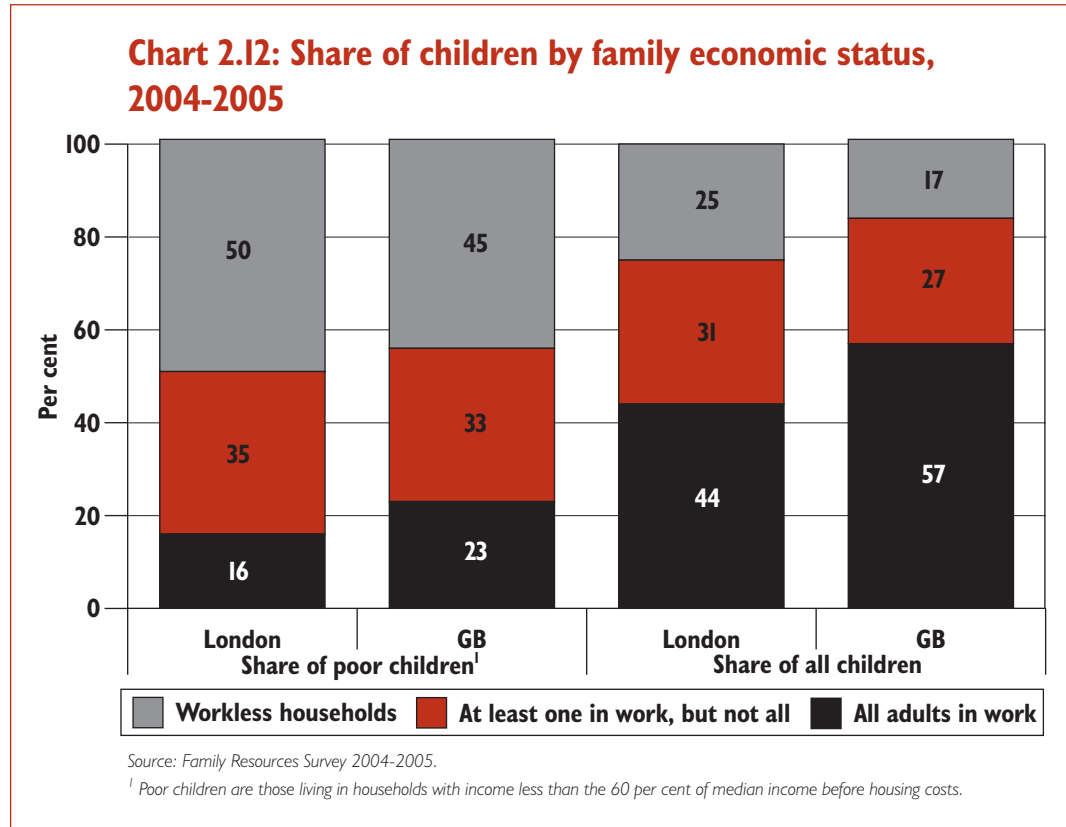
² *Is Britain pulling apart? Area disparities in Employment, Education and Crime*, Gibbons, Green, Gregg and Machin, June 2005.

³ *Ends and means: The future roles of social housing in England*, John Hills, February 2007.

PARENTAL EMPLOYMENT AND CHILD POVERTY

2.39 This section compares rates of child poverty in the capital with other regions and cities, both before and after housing costs⁴.

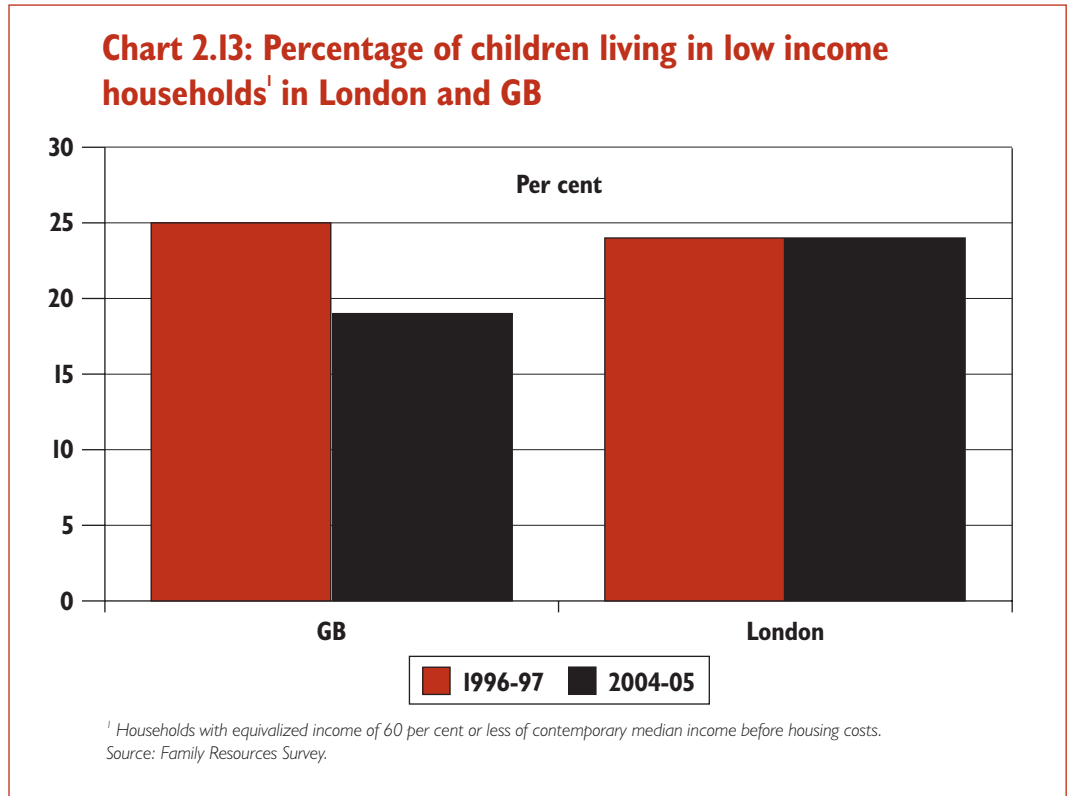
2.40 Chart 2.12 demonstrates the close relationship between parental employment rates and child poverty outcomes. It shows that half of children living in poverty in London live in households where the parents are not in work.



Child poverty rates in London

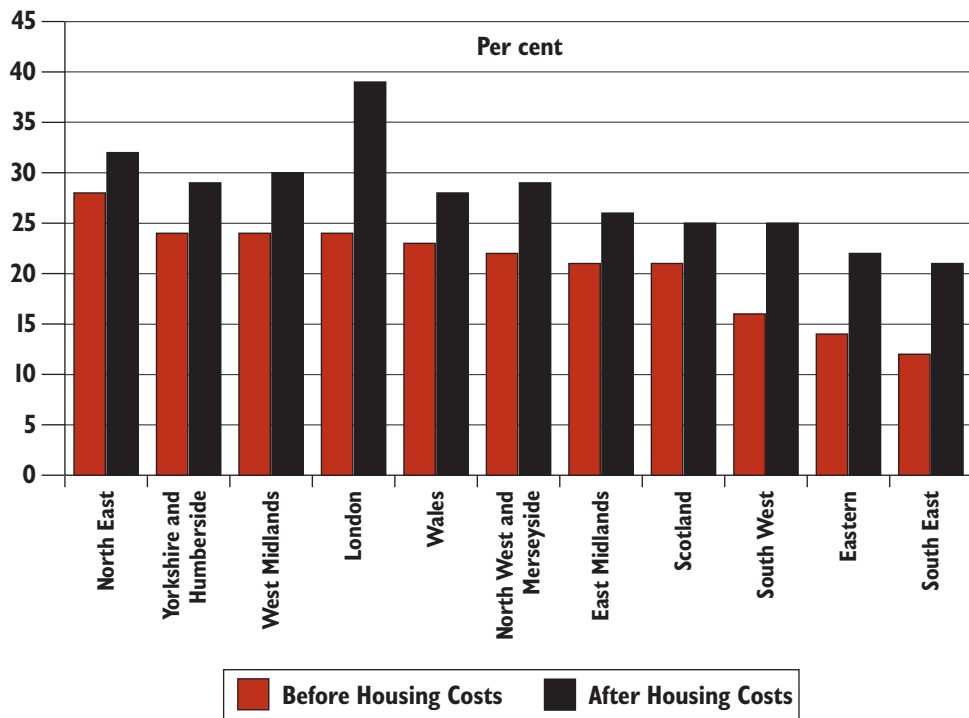
2.41 While only 13 per cent of children living in Great Britain live in London, 17 per cent of poor children live in London. In addition, chart 2.13 illustrates that, while the proportion of children living in poor households in Great Britain has declined from 25 per cent to 19 per cent since 1996-97, rates of child poverty in London have been static at 24 per cent.

⁴ Housing costs include the following: rent (gross of housing benefit); water rates, community water charges and council water charges; mortgage interest payments (net of tax relief); structural insurance premiums (for owner occupiers); and ground rent and service charges.



2.42 Chart 2.14 compares the rate of child poverty by region. On a before housing costs basis rates of child poverty, at 24 per cent, are relatively high in London. The West Midlands and Yorkshire and Humberside have child poverty rates that are comparable to London on this basis, but only the North East, at 28 per cent, has a higher rate. On an after housing costs basis, London’s rate of child poverty is higher than any other region, with nearly 40 per cent of children living in households with less than 60 per cent of median income. On both measures, these trends are particularly pronounced in Inner London.

Chart 2.14: Percentage of children living in low income households¹ by region, 2002-2005 averages



¹Households with equivalised income of 60% or less of contemporary median income before housing costs.
 Notes: Estimates are expressed as three-year moving averages.
 Source: FRS.

2.43 However, there may be limitations to comparing child poverty rates in London, a city, with these other regions. If child poverty is more concentrated in cities than elsewhere then child poverty problems in other smaller cities might also be obscured by regional level comparisons. These city level concentrations could arise as a result of common residential patterns seen between cities and their surrounding regions. These were noted in Chapter 1 and are considered in more detail in Chapter 3. In London, for example, migration patterns show net outflows of families with dependent children are concentrated among those in higher socio-economic groups. Lower-skilled parents, those at greater disadvantage in the London labour market, tend to remain in the city.

Table 2.2 Local authorities ranked by the Income Deprivation Affecting Children index (IDACi) in England

Rank	Local authorities and London	Share of children income deprived
1	Derby	58
2	Liverpool	44
3	Manchester	43
4	Knowsley	41
5	Nottingham	40
6	Inner London	38
7	Middlesbrough	36
8	City of Kingston upon Hull	35
9	Salford	32
10	Newcastle upon Tyne	32
22	London	28

Source: *The English Indices of Deprivation 2004*, DCLG.

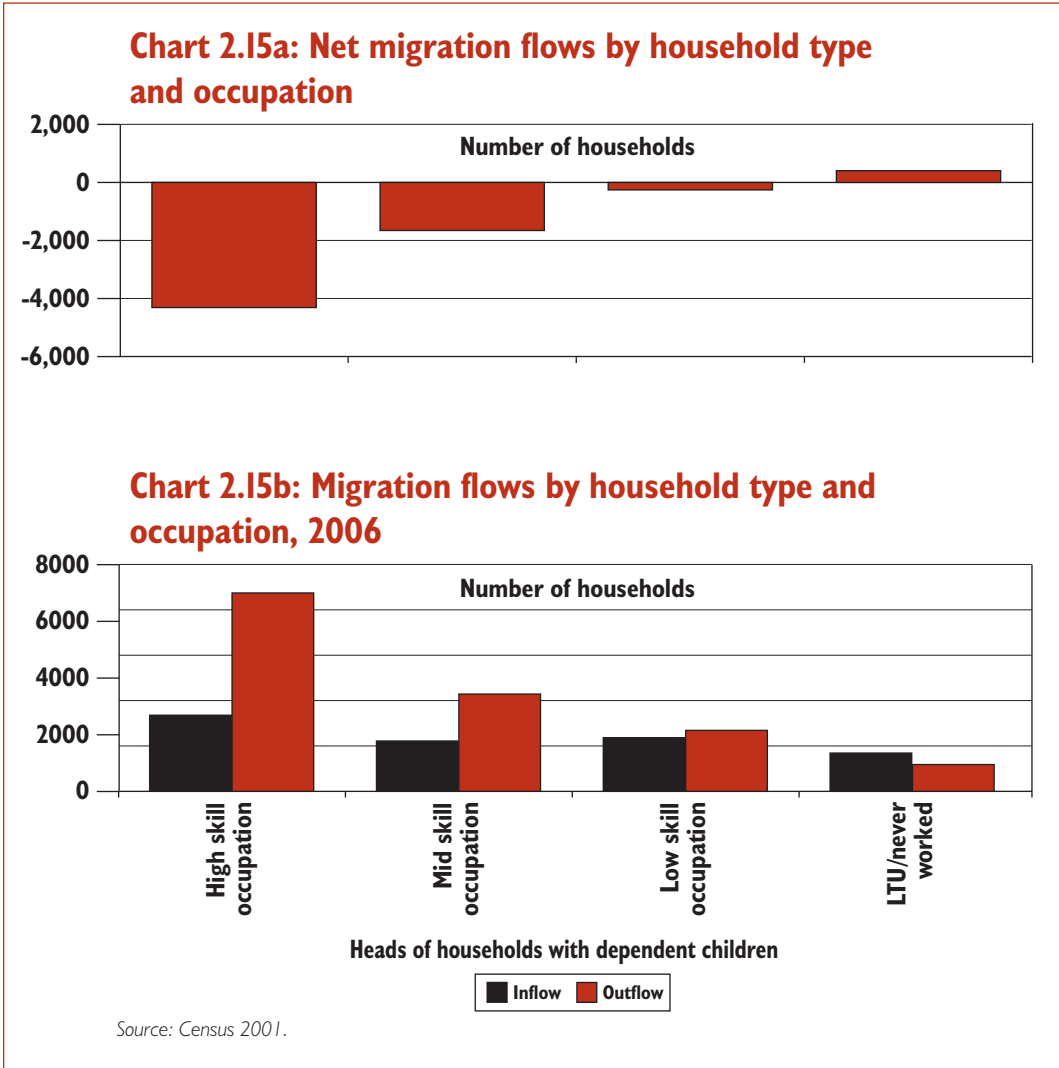
Note: The table is based on the ranking of all English local authorities, excluding those in London, by share of children within the local authority who are income deprived on this measure. Shares in London Boroughs were aggregated to form equivalent measures for Inner London, Outer London and London.

2.44 An alternative to comparing child poverty rates across regions is to compare at the local authority level. This can be done using data from the Income Deprivation Affecting Children index (IDAC), a sub-set of the 2004 Index of Multiple Deprivation.⁵ Comparing the rates of child deprivation at the local authority level, the data shows that many in London are among the worst in the country. Along with Derby, Tower Hamlets, Hackney, Islington and Newham are the five local authorities with the highest rates of child deprivation in the country. Of the 20 local authorities with the highest rates of child deprivation 12 are in London. These local authority level comparisons show that there are serious problems of concentrated child poverty to be addressed in London.

2.45 Comparisons between London and other regions are different because London is the only city in the group. In the same way there are difficulties with comparisons between local authorities in London and those outside. This is because similar residential sorting patterns occur between cities and their surrounding regions as are evident within cities. In London these patterns are evident at the local authority level and in the comparisons between Inner and Outer London. However, in other cities, defined by local authority boundaries, they will occur within those local authorities.

2.46 Table 2.2 compares London with other local authorities. On this basis it shows that 20 local authorities across England have higher child deprivation rates than London. Five have higher rates than Inner London, the area where child poverty is most concentrated in the capital.

⁵This analysis uses data from the Income Deprivation Affecting Children index, which is a sub-set of the Index of Multiple Deprivation, compiled by the Office of the Deputy Prime Minister in 2004. While this is not a direct measure of child poverty, it estimates the proportion of children in an area that suffer from 'income deprivation' by finding the number who were in families in receipt of either Income Support; Jobseeker's Allowance; Working Families Tax Credit; Disabled Persons Tax Credit; or National Asylum Support Service support.



CONCLUSION

2.47 London’s relatively flat employment rate is masking some other important trends in the London labour market including changes in the capital’s population composition and differences in the rate of change of employment rates among different groups. In addition, London has a high concentration of individuals with characteristics that may expose them to labour market disadvantage. These concentrations in London have two consequences. Firstly, the London employment rate will be reduced, reflecting national problems experienced by disadvantaged groups. Secondly, London would benefit significantly from national efforts to address these causes of labour market disadvantage and, to the extent that these problems are amenable to local solutions, London could be a good place to focus future efforts. Child poverty rates in London are high, especially when measured after housing costs. Rates are particularly high in Inner London, and child deprivation is especially concentrated in some local authorities.

3

LONDON IN A NATIONAL CONTEXT

Although London's employment rate is low compared with that of other regions, it is more comparable with that of many other UK cities. The effects of common residential patterns and commuting flows mean that nearly all of the UK's major cities, including London, have lower employment rates than their surrounding regions.

This is, in part, due to employment rates being calculated on the basis of residence, rather than job location. Normal commuting patterns mean that commuters contribute to the employment rate of the surrounding areas where they live rather than the cities where they work. In addition, common residential patterns driven by factors such as housing availability, and the need to be close to large labour markets and services, mean that cities frequently contain more people with less favourable labour market characteristics. In aggregate, these patterns reduce city employment rates. The distributional effects of this residential sorting may mean that cities require special attention from services designed to improve labour market participation.

In most urban areas, lower employment rates can be entirely understood as a consequence of these residential sorting processes. However, once the different characteristics of their populations have been taken into account, employment problems remain to be explained in a handful of cities: Liverpool, Birmingham, Glasgow and London – specifically in Inner London and for some groups across the capital.

These cities may have in common the fact that their low employment rates are not solely driven by population composition. The causes in each case, however, are likely to be as different as the individual histories and particular contexts of each city, and need to be understood as such. Although there may be lessons for other cities, this document is concerned with understanding the specific local factors driving the outcome observed in Inner London.

3.1 The motivating force for this document has been to understand the reasons underlying the comparatively poor employment and child poverty outcomes observed in London in order to inform more effective policy making in the future. Chapter 1 showed that the capital's employment rate compares unfavourably with the national rate, and Chapter 2 considered these problems in more detail.

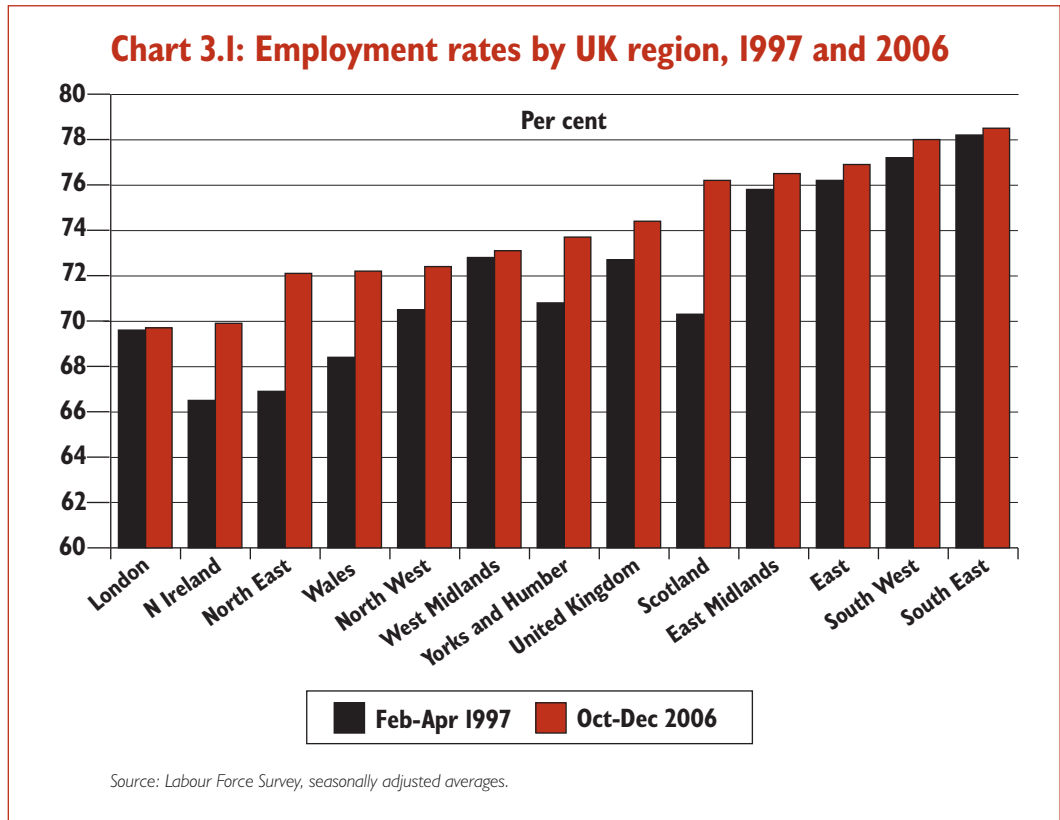
3.2 These comparisons yield important insights into the outcomes observed in London. This chapter considers the limitations of such analysis and the additional insights that can be gained from considering other levels of geography.

3.3 Comparisons at other levels of geography are useful for two reasons. First, they can help identify the relative seriousness of the outcomes observed in London. The capital's size makes problems more readily observable than any similar problems elsewhere would be. This ease of identification could lead to policy being distorted in ways that are inefficient and unfair to other areas. Second, they can offer insights into the dynamics of the capital's problems.

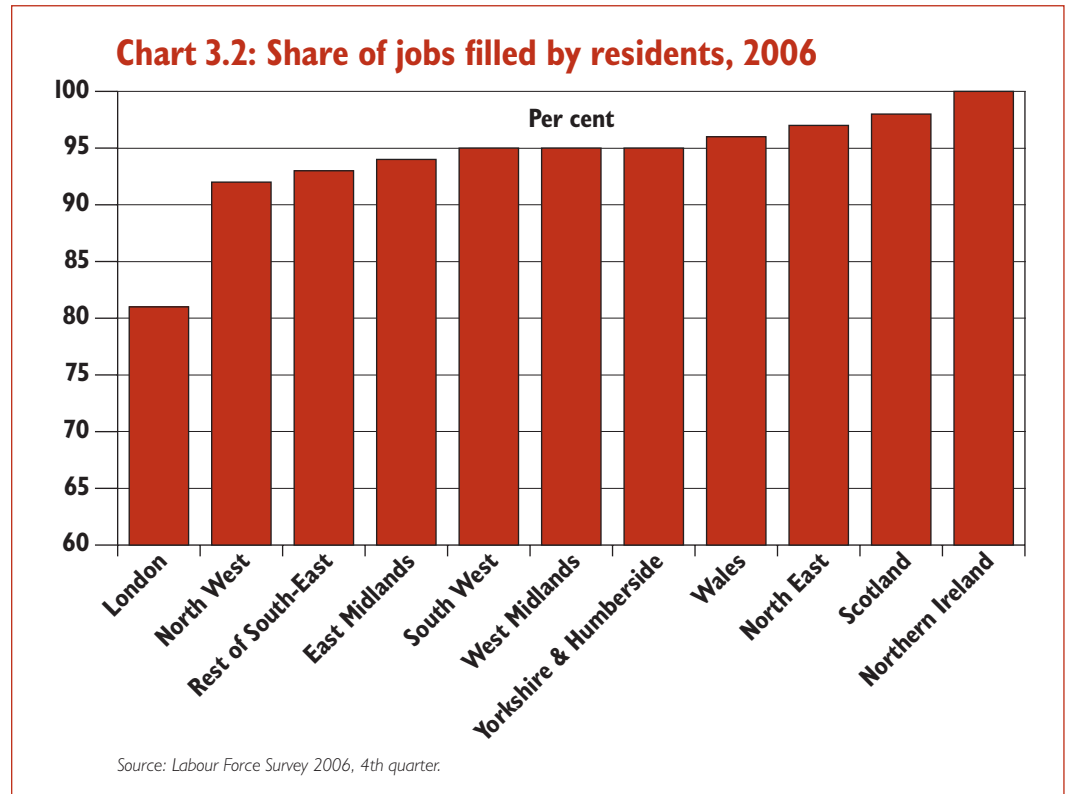
EMPLOYMENT RATES

London compared with other regions

3.4 Chart 3.1 shows that London's employment rate is among the lowest of any UK country or region, and it is the only region where the current employment rate is little changed from 1997.



3.5 Chart 3.2 illustrates that London is also the Government Office Region (GOR) with the lowest share of its jobs done by residents, or 'closure score'. The closure score of an area is largely driven by the tendency of one part of the labour market – the high-skill part – to live a substantial distance from where they work. This suggests that London's labour market is more integrated with the surrounding areas than is that of any other GOR. This relationship between residential location and work location is important when comparing regional employment rates. The implications of these strong patterns of commuting to the centre are explored in more detail in Chapter 4.



Greater South East **3.6** At this level of integration between the three GORs of the Greater South East¹, looking at the employment rate in any one region in isolation from that of the other two will give a distorted picture of labour market opportunities at the economically relevant level. The level of geography chosen to compare employment rates is therefore very important. To make a meaningful comparison it is necessary to get above the level at which residential patterns are driving the employment rates in the areas under consideration. With this in mind, one solution is to compare employment rates between areas that incorporate most commuter movements. This produces a more economically complete and relatively closed entity for comparison, an area that is referred to here as the ‘functional labour market’.²

3.7 To a large extent London’s relatively low employment rate may simply reflect residential patterns across the Greater South East region. Indeed, taken as a whole, the Greater South East has a similar employment rate to the rest of the UK, and then compares favourably with other GORs. However, such a high level of aggregation may obscure important within region variations in individual employment chances.

Low-skilled labour market **3.8** Across a region with a given closure score, the labour market may be less well integrated for people with different levels of skills. While the Greater South East may represent a single integrated labour market for higher-skilled workers, it is likely to conceal a number of relatively isolated low-skilled labour markets. From an individual’s view point this is clearly true: employees may think it less worthwhile to commute long distances for a job that pays low wages.

3.9 Unevenness in intra-regional employment rates at different skill levels therefore occurs as the result of variation in local labour market conditions below the level of the functional labour market. In particular, the employment chances that individuals face are more likely to vary for low-skilled people due to less integration between spatially constrained low-skilled labour markets.

¹ The Greater South East is defined as the Government Office Regions of East, South East and London.

² Chapter 4 explores the idea of the functional labour market further.

3.10 How isolated low-skilled labour markets are at the level of the functional labour market is an issue of much academic debate. This document argues that low-skilled labour markets can be smaller in size than the functional labour markets within which they are located. As a result employment options for low-skilled workers can be constrained within quite small geographical areas reducing employment chances. These issues are discussed in more depth in Chapter 4.

3.11 For these reasons, a regional basis for comparing employment chances can sometimes miss problems that may exist within them. The following section compares areas that might be considered to be more similar in their dynamics. This involves contrasting London's employment rate with that of other UK cities.

London's employment rate compared to that of other UK cities

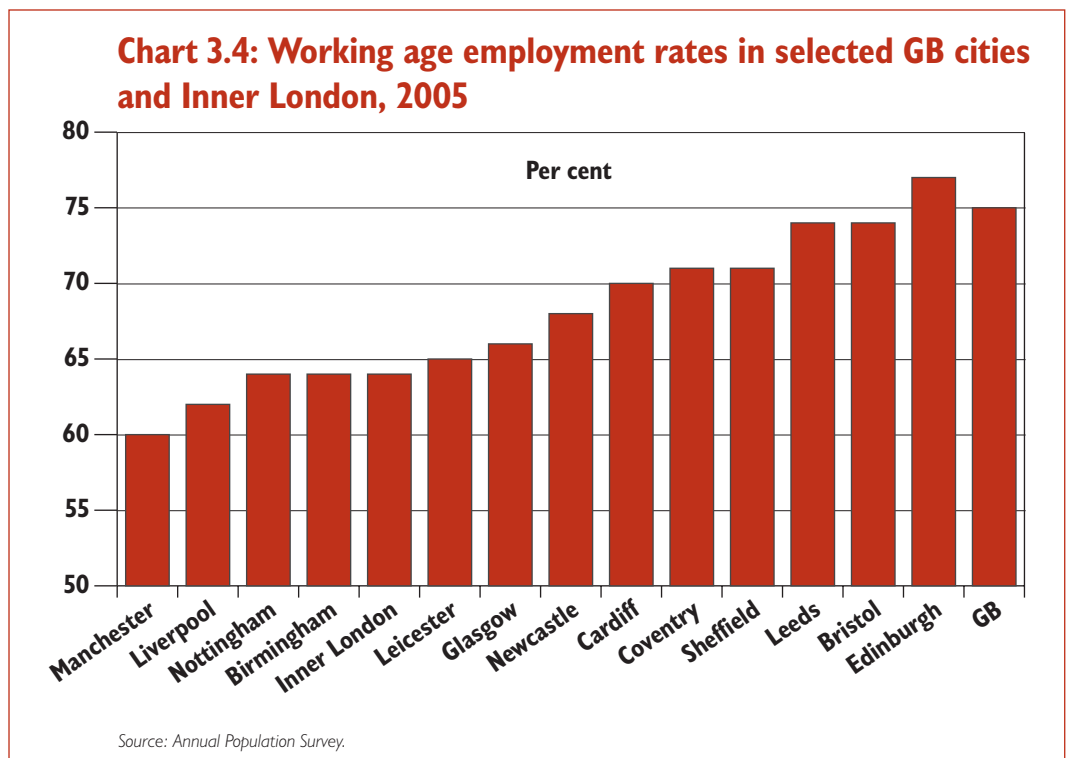
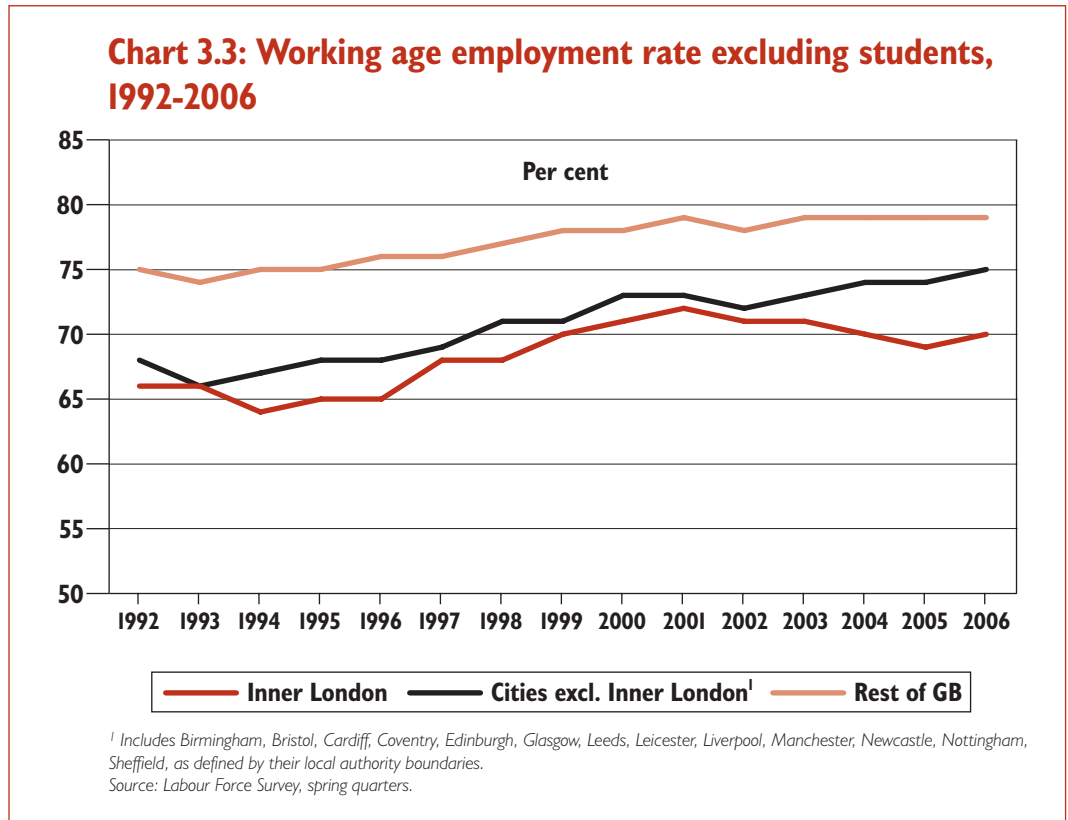
3.12 Since London is a city it may be fairer to compare its employment performance with that of other cities³ rather than with other regions.

Employment rates are lower in cities

3.13 Chart 3.3 shows that if the employment rates of the central areas of the major British cities are aggregated, they have remained persistently below those in the rest of Great Britain over the last decade and a half. Inner London conforms with this pattern. In fact, its performance has lagged behind that even of other British cities.⁴

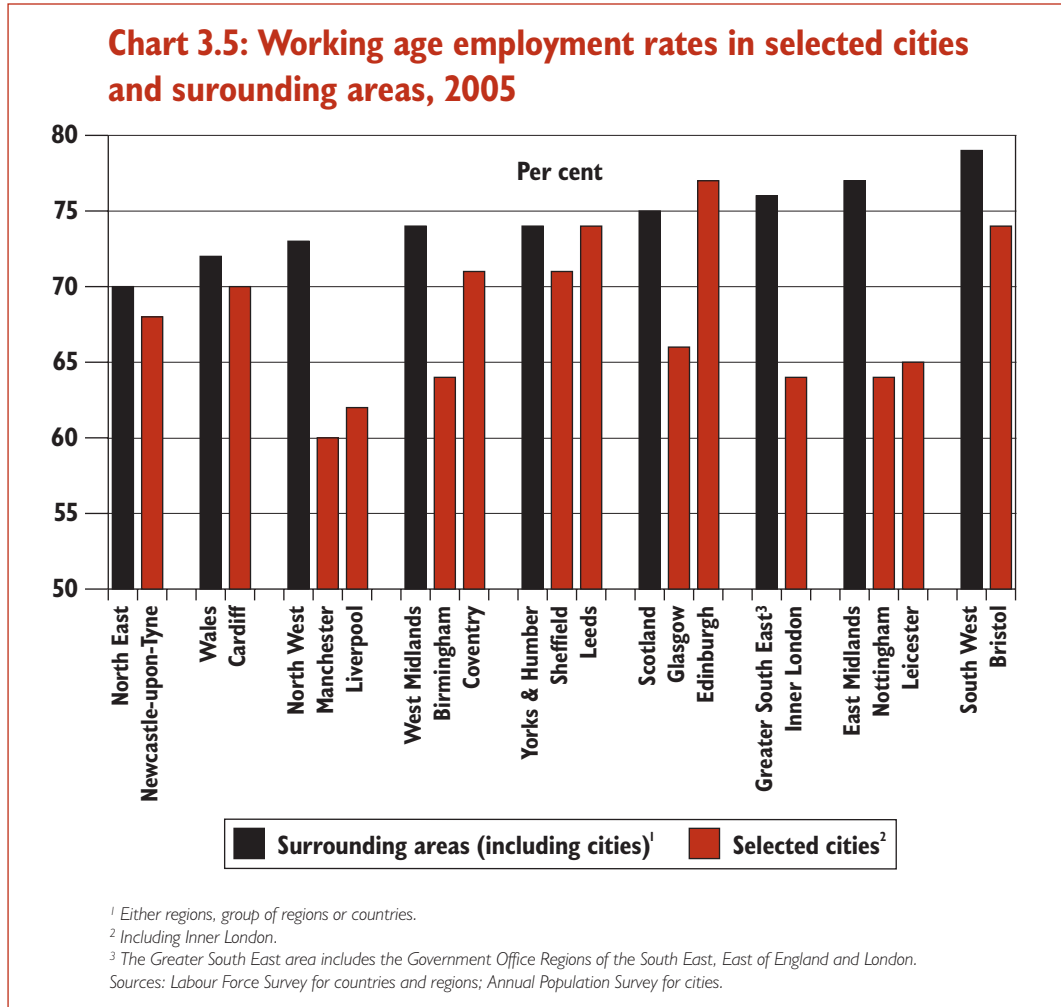
³ With the exception of London, reliable data is not available at the UK city level. In this section, cities are defined by their local authority boundaries. On this more restricted definition, cities are smaller than the administrative city boundaries and can therefore be thought of as inner city areas.

⁴ Since students tend not to be employed, but usually gravitate towards cities, they have been excluded from this chart to allow a fairer basis for urban-rural comparison. Doing so demonstrates that urban-rural differences are not the result of student residence.



Inner London 3.14 Chart 3.4 compares Inner London’s employment rate with that of selected other British inner cities, showing that it is almost 10 percentage points below the Great Britain average. Only the cities of Liverpool and Manchester have substantially worse unemployment rates than Inner London.

3.15 Chart 3.5 shows how the employment rates of selected cities compare with the areas in which they are embedded. This reveals a large amount of variation in this relationship. However, in each city, with the exception of Edinburgh, employment rates are lower than in the surrounding region.



3.16 This pattern of urban and surrounding area employment rates has a common cause in similar patterns of net in-commuting to all cities. The theory behind this conclusion is explored in more detail in Chapter 4.

3.17 Patterns of commuting mean that comparisons between cities can be problematic because urban employment rates are very sensitive to the assumed boundaries of the city. Over such relatively small geographical areas, population composition can vary sharply. This makes it impossible to know with certainty whether any given comparison of city employment rates is fair.

The right basis of comparison

3.18 Both regional and city employment rate comparisons are therefore problematic. Comparing the Greater South East's employment rate with that of other regions and countries conceals important intra-regional differences. Contrasting London with other cities may be misleading, given sensitivities to the assumed boundaries of a city. To overcome the shortcomings of comparing employment rates in this way, an alternative approach is needed to capture differences in the chances of employment between areas.

London employment chances compared with those of the rest of the UK

Employment chances **3.19** An approach that focuses on individual chances compares employment outcomes of similar people in different places to see whether those chances vary by location. This can be achieved by using regression analysis to control for differences between the characteristics of the populations to be compared.

3.20 In this approach a regional indicator is used to capture any systematic differences in employment probabilities between similar individuals in different areas. The regional indicator can therefore be interpreted as measuring any unexplained difference between employment chances in the regions being compared. While this is the right approach, the question of the appropriate level of comparison remains to be decided.

3.21 This focus on individual chances, by employing a regression analysis, means that employment outcomes for Inner Londoners can be considered without residential patterns distorting the comparison. As Chapter 5 explains for Inner London, local labour market conditions in inner cities justifies the focus at a lower geographical level. A similar analysis can be carried out for other cities, providing an illuminating comparison of individual employment chances between people in those cities and the rest of the UK.

Impact of population characteristics on employment chances **3.22** HM Treasury analysis applied the regression approach to 13 large British cities and Inner London. The cities considered were Birmingham, Coventry, Manchester, Leicester, Newcastle, Liverpool, Nottingham, Bristol, Leeds, Glasgow, Edinburgh, Coventry and Cardiff, and Inner London.

3.23 The results indicate that, for similar individuals, employment chances are lower for those living in Inner London, Liverpool, Birmingham, Glasgow and Sheffield, but not significantly different in any of the other major UK cities considered. In Leeds, population characteristics would predict an employment rate lower than the national average. In fact the employment rate is the same as in the rest of the UK, suggesting that a given resident of Leeds faces better employment chances than if they lived elsewhere.

3.24 Interpreting this regression analysis requires some caution. Differences between the employment rates in different cities, that cannot be explained by differences in population characteristics, indicate the possibility of different employment chances for otherwise similar people. To be more certain that this is the correct conclusion to draw, it is important to identify the dynamics at work in each place that make employment chances in specific locations lower than chances elsewhere.

Summary **3.25** The prevalence in urban areas of characteristics associated with labour market disadvantage mean that the workless population of all cities deserve policy attention appropriate to their levels of need. For some cities, and Inner London, however, it appears that an additional factor adds to the problems faced by traditionally disadvantaged groups. Chapter 5 looks deeper into the dynamics of the whole London labour market, which lead to problems that appear at the Inner London level. Chapter 5 also reports in more detail on the results this analysis for London.

CONCLUSION

3.26 As a 'global city' London differs from both the other GORs and other British cities. This makes it difficult to understand its employment performance comparatively. Regional comparisons mask important variation in employment opportunities below the level of the functional labour market. While comparisons of city employment rates are very sensitive to the assumed boundaries of the cities under consideration, making comparisons unfair. But if both comparisons are imperfect the factors driving London's employment outcomes have more in common with those of other, albeit smaller, cities than they do with other GORs. Most of the reason for this is the impact that common residential patterns have on compositional differences between cities and their surrounding areas. This means that comparisons of employment rates are mostly just revealing where workless people live. This is important for distributional reasons, but not for economic ones.

3.27 To understand real differences in employment opportunities it is necessary to strip away the effects of composition. This allows consideration of whether individual employment chances differ between local labour markets in the wider region.

3.28 Doing so reveals that, while only five UK cities appear to have problems with lower employment chances, London is not unique in this regard. That five cities share a labour market problem does not, however, mean that the causes of their problems are the same. It is likely that the reasons for such city-specific effects vary from one city to another. Although there may be lessons for other cities, the focus of this document is London, and Chapter 5 explores in more detail the unique dynamics driving poorer employment chances there.

4

URBAN LABOUR MARKETS

The residential patterns described in Chapter 3 make it possible to see why employment rates vary between cities and their surrounding areas. ‘People’ effects explain the gap between urban and rural employment rates for many cities.

For Inner London and some other cities, however, there is evidence of additional ‘place’ effects that result from something about the city itself. Analysis by HM Treasury suggests that Inner Londoners face employment chances that are around 3 percentage points lower than those for similar people elsewhere in the UK. To understand how ‘place’ effects can arise it is helpful to develop a theoretical framework to clarify how labour markets function in a spatial context.

This chapter explores some of the key theoretical ideas that provide a framework for understanding how the geographical and skill distributions of workers and jobs interact and the impact this has on employment chances for individuals. This is important for those already in the labour market, but also for the expectations and aspirations of those who currently are not actively looking for work.

It outlines how weak occupational and geographical mobility among workers can lead to segmented labour markets resulting in disparities between the employment chances of similar individuals over relatively small areas. It also explains why such uneven employment chances are most likely to affect those with lower skills.

Improving the links, or ‘vacancy chains’, between different local labour markets, reduces their isolation from one another and consequently helps to equalise employment chances between them.

Policy has the potential to nurture these vacancy chains. But in pursuing other important objectives, it may also sometimes inadvertently constrain people movements, with negative consequences for employment chances.

Policy of all types should be aligned to extend the boundaries of the local labour market, particularly for low-skilled workers, through initiatives that improve both the skills and spatial mobility of workers.

4.1 Chapter 2 noted that the characteristics of Londoners are an important factor behind the capital’s lower employment rate. Chapter 3 discussed the residential sorting dynamics that give rise to the component of lower urban employment rates that are attributable to ‘people’ factors. Chapter 3 also set out an approach to determine whether there is something beyond the ‘people’ effects, and about London itself, that contributes to the lower employment rates there.

4.2 Inner London along with a few UK cities appears to face significantly lower individual employment chances. After taking account of differences in population characteristics, Inner Londoners are 3.1 percentage points less likely to be in employment than people elsewhere in the UK. As a result of something beyond the characteristics of the people, these lower employment chances can be referred to as a London ‘place’ problem.

4.3 The idea of residential sorting therefore makes it possible to see why employment rates vary between cities and their surrounding areas. However, it does not help to explain why employment chances vary in the way the above analysis suggests. To understand how ‘place’ effects can arise it is helpful to develop a theoretical framework to clarify how labour markets function in a spatial context. This chapter sets out some fundamental concepts upon which much of the debate about urban labour markets is built.

4.4 The theoretical understanding points the way for Chapter 5, which digs deeper into London's 'place' problems, showing that where problems appear is not necessarily where they are caused.

SPATIAL LABOUR MARKETS¹

4.5 Urban worklessness has become an important issue over the last 30 years. During this time geographers and economists interested in understanding this phenomenon have tended to divide along two views of the dynamics of spatial labour markets. One approach sees the labour market as being highly segmented, with pockets of labour vulnerable to localised worklessness where local demand and supply are mismatched. Analogous to this spatial mismatch, a mismatch of skills can mean that even where there are sufficient local employment opportunities, low-skilled people are not able to take advantage of those vacancies.

4.6 By contrast, the second approach paints a picture of a labour market that is well-connected across urban areas and beyond, in which an individual's particular place of residence makes little difference to good employment outcomes overall. On the second view, concentrations of worklessness are nothing more than a result of residential sorting. These processes cause people who are at greater risk of labour market exclusion to gravitate to certain areas, and those in work to others.

4.7 This division of opinion also leads to different views as to the appropriate geographical area for analysis. Those who see the spatial labour market as highly segmented tend to consider the appropriate level of analysis to be defined by the area over which employment chances for similar individuals are equal. Here, that area is described as the '*local labour market*'. This is typically a smaller area than the one of interest for the advocates of integration, who focus instead on the fact that employment shocks echo around the labour market.

4.8 This second group determine the appropriate level for analysis to be the area within which labour market adjustments have some impact on employment chances of all people living within it. This, usually much larger area is referred to as the '*functional labour market*' and can be thought of as being an area that is relatively economically self-contained in commuting terms. Since this document is concerned with addressing differential employment chances for individuals across relatively small areas, its central focus is the local labour market.

4.9 Although these represent stylised versions of the range of viewpoints on the functioning of labour markets, they serve to identify the main fault lines in the debate. The segmentation and integration approaches imply radically different policy prescriptions to address spatial variations in worklessness. This is therefore an important dispute to tackle analytically before drawing any conclusions about the appropriate policy approach.

One urban labour market, or many?

4.10 According to the view that sees labour markets as spatially constrained and segmented, the best way to reduce worklessness would be to address the mismatch between people and jobs by creating new local employment opportunities. However, on the countervailing view, local residents do not necessarily have first refusal of the new jobs. Rather, these can be taken by other workers, who commute or migrate into the area in response to the new opportunities. Targeting resources to boost local labour demand would therefore have little or no impact on the local employment rate. On this view, policy should

¹ This section draws on work by a number of authors, particularly Paul Cheshire, Ian Gordon, Donald Houston, Philip S. Morrison and Ivan Turok

aim to ensure stable growth across the functional labour market, and strengthen the links between local labour markets in order to smooth employment chances between them.

4.11 Despite these differences, the theoretical bases of each approach have much in common. Both recognise that the limits of a person's commuting range and occupational mobility vary according to their skill levels and other attributes. At the heart of the dispute is a disagreement about how, and the extent to which, these individual limits overlap to form the wider spatial and occupational boundaries of the local labour market.

4.12 It is therefore a disagreement about whether there is one labour market that links workers in the urban centre with those in the surrounding region; or multiple local labour markets that operate within the functional labour market but which are, to some degree, occupationally or spatially isolated from one another.

The commuting range of workers

4.13 In considering the geographical determinants of the labour market, it is helpful to begin by thinking about the spatial constraints facing individuals and firms. These ideas are captured in the concepts of the 'labour shed' and the 'employment field':

- the **labour shed** describes the area from which a firm, located in a given place, draws its employees;
- the **actual employment field** describes the distances employees are willing to commute to take up employment; and
- the **effective employment field** or search field, describes the area across which workers search for employment.

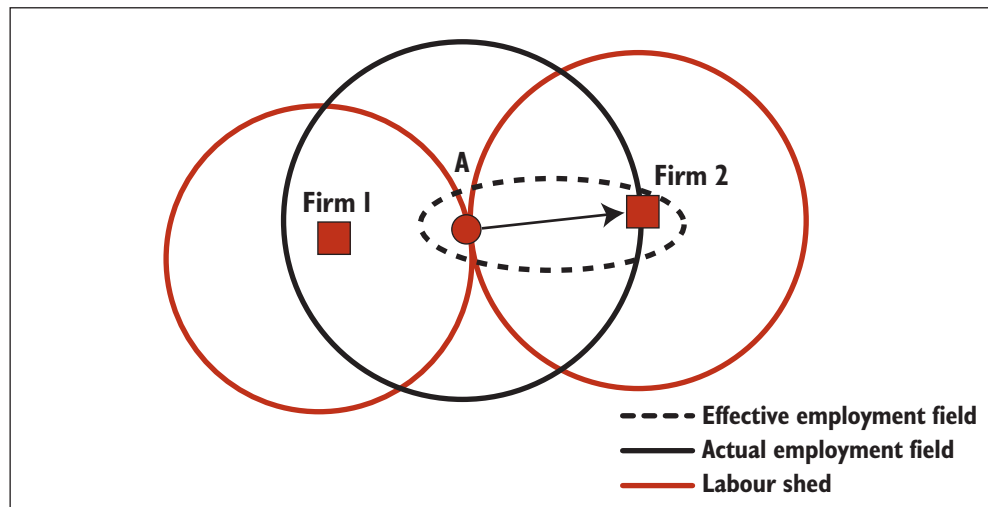
4.14 A firm's labour shed is determined by the wages it offers. The firm must offer sufficiently high wages to attract people with appropriate skills from the surrounding area. As wages rise the span of the labour shed increases. The wage offered therefore has direct implications for workers' actual employment fields.

4.15 As an alternative to offering higher wages that attract people from further afield, firms can expend resources on advertising job vacancies. Overcoming information barriers in this way has implications for workers' effective employment fields.

4.16 The distance a person is prepared to travel, both in terms of time and direct transport cost, determines the geographical extent of their actual employment field. For people facing additional monetary or time costs of working, resulting from childcare requirements for example, actual employment fields will be smaller for a given wage. Higher wages may compensate workers for some of the costs – direct, indirect and perceived – of longer commuting and therefore permit broader actual employment fields.

4.17 A worker's effective employment field, by contrast, is delimited by the spatial distribution of actual or potential employment opportunities the worker is aware of. While a job opportunity may be within commutable range at the wage on offer, it will not be within the person's effective employment field or search area if he or she is not aware of its existence.

Figure 4.1: The interaction of employment fields and labour sheds



4.18 The areas covered by the actual and effective employment fields are rarely the same. The extent of the overlap is determined by the availability of information about employment opportunities. Figure 4.1 shows that for a person living at point A both firms 1 and 2 pay sufficient wages to make it worthwhile for her to commute to either firm. However, since this person is only aware of the vacancy at Firm 2, she takes a job there despite Firm 1 being closer, and therefore cheaper to get to. The importance of information to the difference between actual and effective employment fields has significant implications for the dynamics of work search between Inner and Outer London. This is explored further in Chapter 5.

4.19 Beyond commuting, migration represents a way in which people can take advantage of employment opportunities in other labour markets. As such, migration plays an important role in equalising employment opportunities within, as well as between, areas.

4.20 For high-skilled people, who may have access to information about jobs in other parts of the country or world, migration possibilities extend employment opportunities. For people with small effective employment fields however, migration to a new area involves substantial uncertainty about the employment opportunities that may exist there. The risks of migration are consequently much larger than for others. This information barrier reduces mobility that might otherwise benefit low-skilled workers.

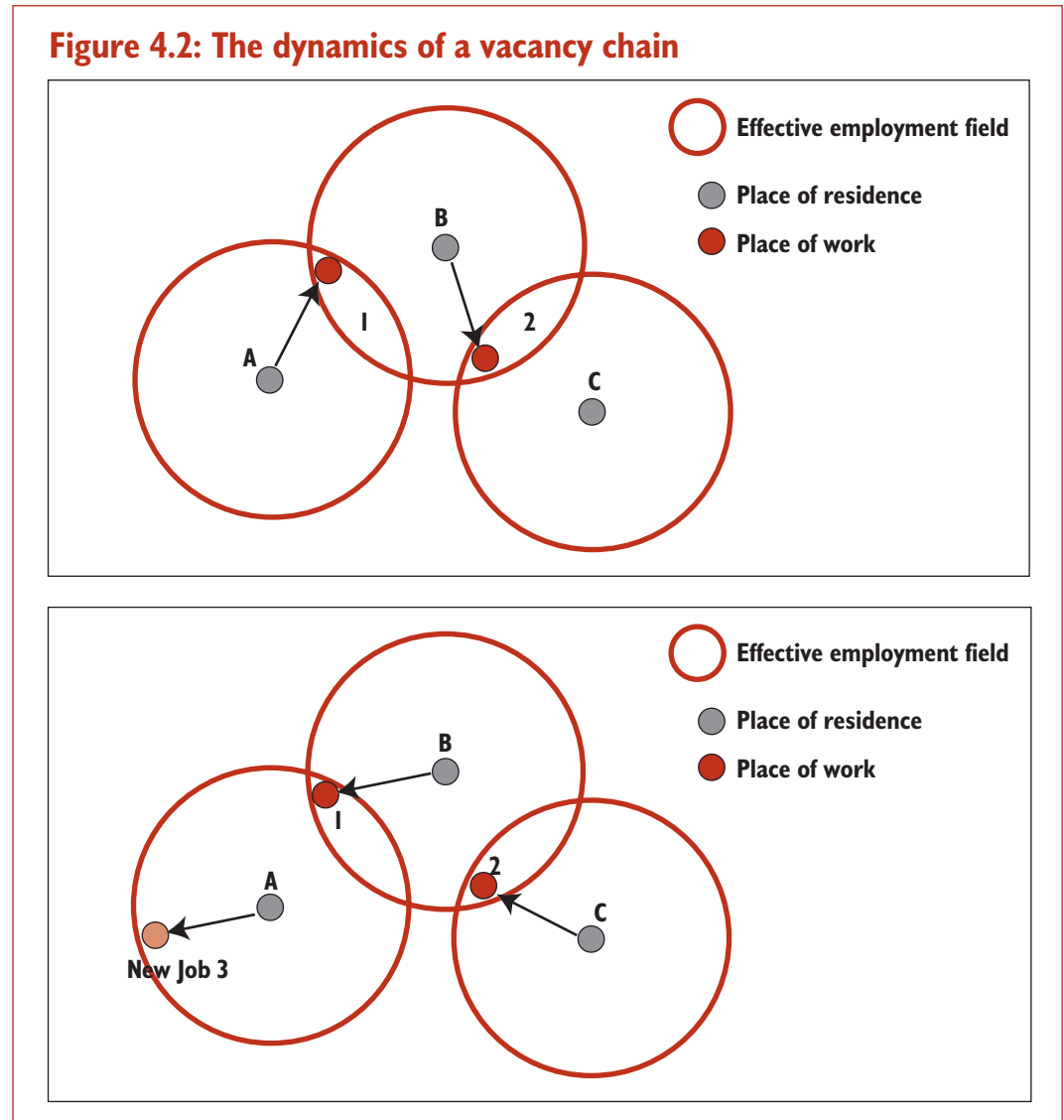
4.21 Moreover, migration is costly. While for high-skilled people migration may be considered worthwhile, for workers with only basic skills the costs are less likely to be outweighed by the benefits of better employment chances. As the Hills report² on social housing makes clear, policy can further reduce mobility if it constrains the residential choices of those who rely on the local authority for housing provision.

4.22 Together, the concepts of the labour shed and employment fields, described above, provide a way to think about the employment opportunities available to a given individual. However, all viewpoints agree that the 'local labour market' in which those employment opportunities are determined is likely to be a larger than the individual's horizon. The issue is how those individual fields interact to form the relevant local labour market; and the key to understanding that is the concept of the vacancy chain.

² Hills, J. (2007), 'Ends and Means: the Future Roles of Social Housing in England', CASE Report 34.

Vacancy chains and the ‘local labour market’

4.23 Where the effective employment fields of two different workers overlap, with employment opportunities that are common to both fields, the labour market for one individual is bigger than the limits of that person’s effective employment field. This incidence of effective employment fields is likely to be more frequent in densely populated urban areas.



4.24 Figure 4.2 shows how a vacancy chain works over a geographical area. Initially there are three workers with overlapping effective employment fields, but only two jobs available, at firms 1 and 2 respectively. Consequently worker C is workless.

4.25 In the second panel, a new employment opportunity is created at firm 3, attracting worker A. As a result of the new job, worker A vacates his previous job at firm 1. Where the newly vacated job is in an area common to another worker’s effective employment field, the same dynamic can be repeated. This is the case for the job at firm 1, which attracts worker B away from her previous job at firm 2. Worker B, in turn, leaves behind a vacancy of her own at firm 2.

4.26 These incremental shifts in individuals' places of employment induce a ripple effect, or 'vacancy chain' through the labour market. The final stage in the chain occurs when the vacancy at firm 2 becomes available to worker C, who was previously without a job, even though the initial vacancy was far beyond her effective employment field. In practice, such a chain could involve any number of employee movements.

4.27 As vacancy chains like this extend, they propagate job opportunities across geographical areas much wider than the limits of any one individual's effective or actual employment field. By this mechanism, a vacancy can arise a substantial distance from the location of the first job that set the chain in motion. Consequently, someone who lives too far away to take advantage of the newly created job indirectly benefits from it nonetheless. The vacancy chain mechanism therefore binds workers in different geographical locations into the same labour market, equalising employment chances across individuals.

4.28 In practice employment chances vary between individuals and across countries. This implies that vacancy chains do not necessarily operate smoothly and can easily be broken. In spatial terms, breaks in the vacancy chain can occur for four reasons, which are developed below:

- sparsely populated areas;
- insufficient information about employment opportunities;
- job incumbency; and
- new entry to the labour market.

4.29 Vacancy chains cannot pass through **sparsely populated areas** where actual employment fields do not overlap. The overlap of actual employment fields is a necessary but insufficient condition for vacancy chains to exist, however. Employment opportunities must also arise in these areas of overlap. Where this does not happen, vacancy chains cannot pass through the space, since the changes in one person's place of work will not induce changes in another's.

4.30 The overlap of effective employment fields is just as important as that of actual employment fields. Where **information** about job opportunities is weak, workers' effective employment fields are reduced. The result is that it becomes less likely that vacancies will arise in these smaller areas of overlap. Poor employment information networks can therefore compound the problems created by relatively sparsely populated areas.

4.31 Where vacancies do occur in areas of overlapping effective employment fields, **job incumbency** acts as a frictional drag on the vacancy chain process. Unless workers are seeking new employment, they will not be induced to change jobs by new employment opportunities. Consequently the chain will break down.

4.32 A final friction that can disrupt the ripple effect of job creation occurs when **new entrants** to the labour market – either from education, inactivity or migration – take up new vacancies. While this is a positive outcome for the economy and for the individual, it ends the propagation effect of the vacancy chain and therefore reduces labour market integration across space.

4.33 These barriers to the smooth operation of vacancy chains across geographical areas should not, however, limit the equalisation of employment chances between people living in close proximity to each other. In densely populated areas, many effective employment fields overlap in terms of space. However, proximity is not enough. The substitutability of workers,

or lack of it, is important to understanding why employment chances fail to equalise in practice.

Workers as substitutes

4.34 Up to this point, this chapter's consideration of the spatial dynamics of the labour market have treated labour as being of one type, or perfectly substitutable. In reality, of course, this is not the case, and skill differentiation has important effects on the dynamics described above.

Skill levels and residential patterns **4.35** Firms involved in high-skill sectors need to attract skilled labour that is, by its nature, highly specialised and therefore relatively scarce. The wages these firms offer to attract the appropriate employees consequently make actual employment fields for high-skilled individuals relatively large.

4.36 Through advertising and other means, information networks for high-skilled jobs are usually strong. The result is that the effective employment fields of higher-skilled workers are likely to be at least as big as their actual employment fields.

4.37 For firms operating in low-skill sectors, by contrast, the low-skill requirements mean that potential employee substitutes are likely to be in abundant supply in any one location. Consequently the wages that such firms need to offer to fill their vacancies are low, with the effect that actual employment fields of low-skilled individuals are geographically small.

4.38 For the same reason that firms pay low wages for low-skilled workers, they invest less in the information network for these occupation levels. As a result, and in contrast to high-skilled workers, the effective employment fields of low-skilled workers are likely to be smaller than their actual employment fields.

4.39 Addressing the failure of the market to provide such information for low-skilled workers is a key role of institutions like Jobcentre Plus.

4.40 Information aside and all else being equal, workers will find it less worthwhile to travel significant distances for low-paid jobs, while those who command high wages will find it more worthwhile to commute much further. As noted in Chapter 3, the outcome of these dynamics is useful in understanding the residential choices of low- and high-paid workers. Among other reasons, the former have greater need to live in close proximity to an area of dense employment opportunities in order to find financially worthwhile employment. The latter can achieve the same objective while living much further from their city centre workplace, should they chose to do so.

4.41 The existence of a labour market stratified by skills has important implications for the equalisation of employment chances across the occupational dimension. But it also has consequences for employment chances across space. This interaction between occupational mobility and employment chances across geographical areas is considered further below.

Skill levels and employment chances **4.42** In a population stratified by skill, where low-, mid-, and high-skilled workers are not considered substitutes for one another (but those within a skill level are) three labour markets effectively operate in parallel, and do not interact. Under these assumptions employment chances can vary between people of different skill levels despite their living in the same place. In reality, there will be additional frictions where there is a lack of substitutability within a skill range also.

4.43 Since the size of actual and effective employment fields increases with skill level, it is likely that vacancy chains at higher-skill levels operate well, equalising employment chances

across wide areas. Those for low-skilled workers, on the other hand, are more likely to break down across relatively small geographical areas. The result is that employment chances can vary across both skill level and space.

4.44 It is, of course, too simplistic to see a labour market stratified by skill as completely rigid in this way. In reality, occupational progression occurs as result of employees' acquisition of more skills or experience. Allowing the idea of mobility between the different levels in the occupational hierarchy in this way yields the possibility of uniform employment chances across that hierarchy and, by extension, across space.

Occupational mobility

4.45 While occupation level provides another segmenting force in the labour market, as with space, employment chances can adjust through occupational mobility. These kind of movements within the labour market can occur both vertically – through movements up and down the employment hierarchy – and horizontally – between different types of occupation. Horizontal mobility declines with specialisation, consequently more highly-skilled people tend to have low mobility in this direction. The scarcity of specialised skills offsets reduced occupational mobility for this group, however. Here the focus is on the vertical movements, which are more interesting for the dynamics of urban labour markets.

Vertical occupational mobility **4.46** Vertical occupational adjustment occurs when people move up or down in work, leaving vacancies behind them to be filled by others. Most movements are, of course, upward as younger workers progress as older workers retire.

4.47 In a highly competitive labour market, high-skilled workers unable to find an appropriate job can temporarily drop down the occupational hierarchy in order to find work. This is often referred to as 'bumping down'. It explains why unemployment tends to be concentrated among those with the lowest skills, even if jobs are being lost at every level of skill. These people can then jump back up to an occupation commensurate with their skill level when appropriate opportunities arise.

4.48 Bumping down can occur with new migrants to a labour market, who may be high-skilled, but enter the labour market at the bottom of the occupational hierarchy. This might be because they initially lack information about appropriate jobs, or because their qualifications are not recognised by employers.

4.49 This occupational range provides a safety valve for high-skilled workers, which enables them to equalise their employment chances. Such range is not available to their low-skilled counterparts, however, whose employment opportunities are constrained to just the lower occupational levels of the labour market.

4.50 Improving the vertical mobility of low-skilled people, by tackling the market failures that prevent individuals and employers from investing in training, is a major focus of Government skills policy. For example, the Government provides an entitlement for free tuition up to a first, full Level 2 qualification for any adult without one; and free training in literacy, language and numeracy skills.

Occupational vacancy chains

4.51 Similar dynamics link individuals across the occupational dimension as those that link individuals across space. When people progress up the occupational hierarchy, their movement out of the lower echelons tightens the labour market at that occupational level. This in turn draws other people up the hierarchy behind them, who therefore benefit

indirectly from the creation of a job they would not, themselves, have been able to do. By contrast, when bumping down occurs, intense competition for lower-end jobs can have the opposite effect, leaving some low-skilled people marginalised.

4.52 This theoretical understanding gives a picture of individuals who, particularly at low-skill levels are relatively constrained in their spatial and occupational employment range.

4.53 That employment chances vary from person to person is evidence that in open and heterogeneous labour markets, vacancy chains are imperfect transmitters of employment opportunities.

4.54 In efforts to understand and address problems of urban worklessness, the boundaries of the labour market that are considered relevant are likely to be determined by the position that is taken on one side or other of the academic fault line discussed above.

4.55 Those who view spatial labour markets as requiring only relatively weak links between different categories of labour and across different areas in order to remain cohesive, will tend to draw those boundaries expansively. Consequently they focus on the area of the functional labour market.

4.56 Those who consider that only strong links are sufficient to define a viable 'local labour market', will tend to draw the boundaries more restrictively. Both will agree, however, that strengthening occupational and spatial links across an urban space can only improve the way that a 'local labour market' disperses employment opportunity.

Conclusion and implications for policy

4.57 This chapter has explored some of the key theoretical ideas that provide a framework for understanding how the geographical and skill distribution of workers and jobs interact, and the effect this interaction has on the distribution of employment chances at the individual level.

4.58 It outlines how weak mobility across each dimension can lead to a segmented labour market, resulting in disparities between the employment chances of similar individuals over relatively small areas. This theoretical understanding also explains why these uneven employment chances are most likely to affect those with lower skills.

4.59 Despite divided views among academics on the dynamics of labour markets in a spatial context, all can agree that strengthening occupational and spatial mobility will only improve the way that a functional labour market disperses employment opportunity. Doing so would improve the links, or vacancy chains, between different local labour markets, reducing their isolation and equalising employment chances between areas.

Policy implications 4.60 Policy has the potential to nurture these vacancy chains. But in pursuing other important objectives it may also inadvertently constrain people movements, with negative consequences for employment chances.

4.61 The theoretical building blocks presented above have clear implications for the appropriate direction of policy, which remain true under both views of the world described above. As a general approach, policy should aim to extend the boundaries of the local labour market through initiatives that improve both skill and spatial mobility of workers at all levels of the labour market. After considering the unique, London-wide dynamics that give rise to 'place' problems and the distributional implications of them, the conclusion to Chapter 5 draws out what these principles mean in practice.

5

LONDON'S LABOUR MARKET

As Chapter 4 explained, Inner Londoners appear to face employment chances that are around 3 percentage points lower than those for similar people living elsewhere in the UK. The theoretical ideas discussed in the last chapter describe how in well-functioning labour markets, transmission mechanisms can equalise employment chances between people of similar characteristics and across large areas. It also suggests that those mechanisms are most likely to fail for low-skill people. This chapter finds that employment chances for low-skilled people in Inner London are 5.8 percentage points lower than for similar people living elsewhere in the UK. 'Place' problems similar to those seen in Inner London appear in some cities in the UK, although the exact causes of such problems may not be alike.

Lower employment chances in Inner London are not the result of poor regional economic performance: when compared to the surrounding region, employment chances of low-skilled Inner Londoners are 10.9 percentage points lower. The problem is that the mechanisms that might equalise employment chances across this larger region break down within, but particularly beyond, the boundaries of the capital.

One unique feature of London is its attraction to young people, from both the UK and overseas, who come to London for employment as well as for reasons unrelated to the labour market. Most of the migration to London is by highly skilled workers. Large in-flows of people with low qualifications add to the competition for entry-level jobs. In addition, relatively well-qualified people come to London and many begin by doing low-skilled jobs while waiting for opportunities to leverage their skills.

These dynamics intensify labour market competition for the least qualified and least mobile people who live close to the centre. The result is higher levels of worklessness for those with characteristics less favoured by the labour market.

The radial nature of London's transport and information structures, and the large number of jobs in the centre, encourages job search in the heart of the city among those who live in Outer London. Consequently local low-skilled commuting from Outer to Inner London compounds the labour market congestion in the centre.

Transport and information structures as well as the costs of commuting mean that, despite adverse labour market conditions in the centre, Inner London residents may not have access to alternative employment opportunities that may exist in Outer London and beyond. In addition, their choices may be further constrained by housing issues.

The result of these dynamics is a city where, despite significant growth in the number of low-skilled job opportunities over the last fifteen years, people most marginal to the labour market suffer substantially higher worklessness than similar people elsewhere. One key marginal group is young people, for whom employment chances are 23 percentage points lower than for similar young people elsewhere. Other groups, such as lone parents and mothers in couples are considered in Chapter 6.

London's competitive labour market is good for the productivity of its economy. However congestion for low-skilled jobs in the centre has negative outcomes for some. Policy can act either to reinforce these pressures or to relieve them. Employment and skills policy should try to spread competition for lower-skilled jobs away from the city centre and up the occupational scale, evening out employment chances across the urban area and beyond. Other policies, such as housing policy, should be aligned with this goal.

5.1 For some time, conventional wisdom about London's labour market has been that its relatively low employment rate has been, and continues to be, attributable only to the characteristics of the people who live there. On this viewpoint, those who live in the city tend to have characteristics associated with poor labour market outcomes, while many of those who are employed there commute from surrounding areas and therefore do not contribute to the London employment rate.

EMPLOYMENT CHANCES IN LONDON¹

5.2 The argument of this chapter is that there is more to London's employment problems than just 'people' effects. As described in Chapter 4, Inner Londoners appear to be 3.1 percentage points less likely to be in employment than similar people elsewhere in the UK, indicating the existence of additional 'place' problems. The theory set out in Chapter 4 provides a way to understand the mechanisms that can equalise employment chances for similar people across geographical areas, as well as pointing to reasons why they may fail. It establishes the reasons why worklessness is more likely to be concentrated among certain groups, due to factors including the occupational and spatial constraints those groups face.

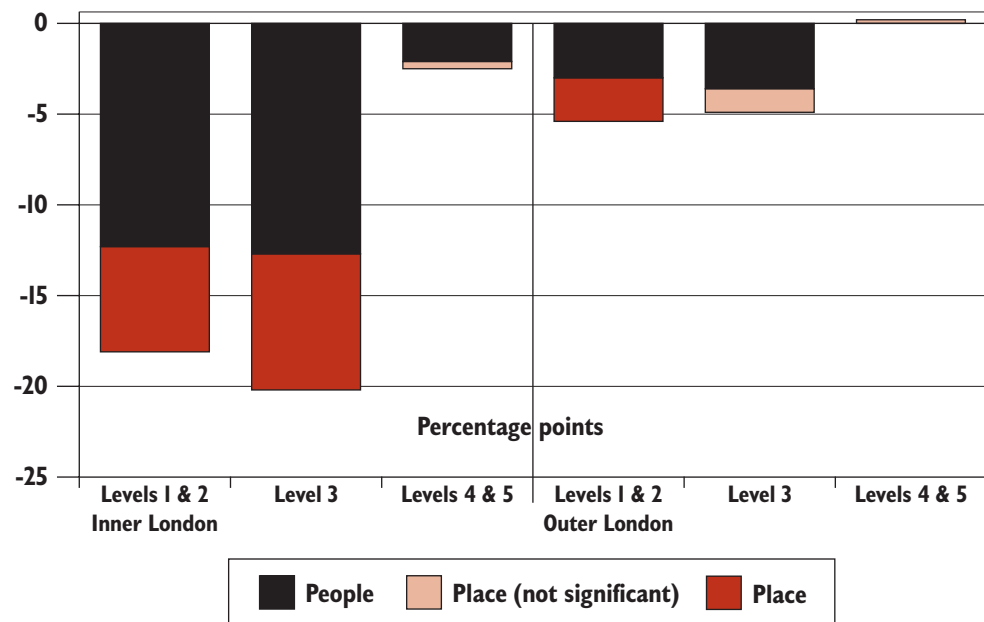
5.3 This chapter discusses how employment problems that arise primarily in Inner London have their causes in the dynamics of London's labour market as a whole. It also explains why, in Inner London particularly, efforts to tackle individual-level employment problems will not be as effective as they are elsewhere, unless policy first addresses these 'place' problems.

5.4 Chart 5.1 shows the results of HM Treasury work, applying regression analysis to people of different skill levels in Inner and Outer London. Despite controlling for a range of characteristics of Londoners, there remains evidence of a substantial 'place' residual among the lower-skilled half of the population², particularly in Inner London but also in Outer London.

¹ HM Treasury would particularly like to thank Declan Gaffney, Ian Gordon, Paul Gregg, Donald Houston, Alan Manning, Duncan Melville and Philip S. Morrison for their advice and guidance on aspects of this work, as well as Nick Buck, Steve Fothergill and Ivan Turok.

² Interpreting these residuals as resulting from London's labour market can be problematic. Some of the London 'place' residual may be attributable to unobserved differences between low-skilled Londoners and those living elsewhere in the UK, if those differences are correlated with employment chances. To check whether this is the case, the regression approach was tested on a variety of sub-samples of the London population with differing preferences for work, as determined by their responses to Labour Force Survey questions. In each case the residual remained, suggesting that unobserved differences in Londoners' attitudes to work are not driving the results. This does not preclude the possibility that unobserved preferences for living in London are behind the residuals. The impact would be indirect and through the labour market. This idea is developed further in the remainder of this chapter.

Chart 5.1: Difference between London and rest of UK employment rates, by skill level, 2006



Note: Pink bars indicate non-significance at 5 per cent.
Source: HM Treasury; Labour Force Survey 2006.

Employment chances for low-skilled Londoners

5.5 In line with expectations based on the theory outlined in Chapter 4, there is no significant difference in employment chances for high-skilled people who live in London, compared to similar people in the rest of the UK. For mid-skilled workers there is some indication of poorer employment chances in Inner London but no similar effect in Outer London. For the low-skilled however – those with qualifications at Level 2 or below – 6.6 percentage points of the 18 percentage point employment rate gap between Inner London and the rest of the UK cannot be explained by the population's observed characteristics. In Outer London the picture is similar, if less severe, with low-skilled employment chances 2.2 percentage points lower than observably similar people elsewhere in the country.

5.6 These differing employment chances between London and the rest of the UK have persisted over time. People in Inner London have continued to face worse employment chances than similar individuals elsewhere since at least the mid 1990s, the earliest date at which data allows the above analysis to be replicated.

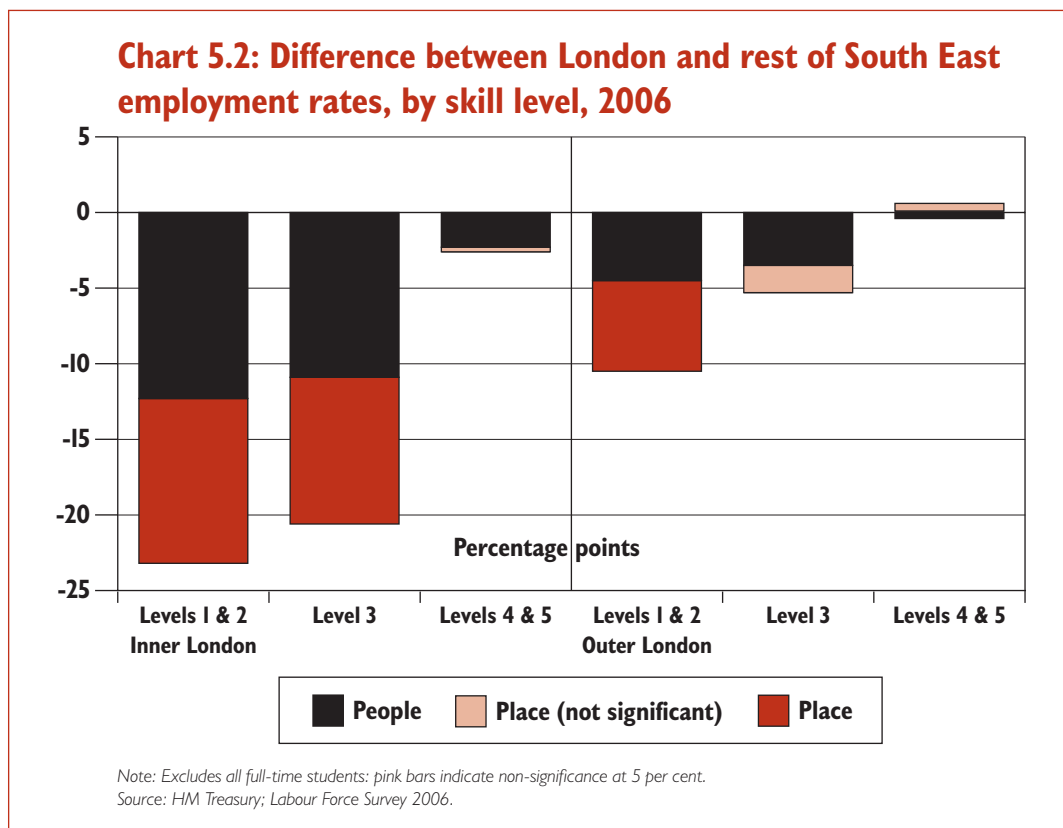
5.7 Labour market competition brings important productivity benefits to the economy. However, the contention of this document is that the nature of competition in the market for low-skilled jobs in Inner London is reducing the employment chances of local residents, particularly as they have little access to alternative labour markets. The population dynamics of the capital are instrumental in creating the competitive conditions in the centre. These are discussed further below.

REGIONAL LABOUR MARKET DISPARITIES

5.8 For labour market congestion to result in these negative consequences, the mechanisms that equalise employment opportunities across regions must break down across relatively small geographical areas. Focusing on differences between employment chances in London and the rest of the South East region is therefore illuminating.

Labour mobility 5.9 In showing that low-skilled people are likely to face more segmented local labour markets, the theoretical dynamics provide the focus for investigation on low-skill workers. Theory also suggests an appropriate geographical scale for analysis. If segmented labour markets are behind London's 'place' problems then it is likely that employment chances will fail to equalise over relatively small geographical areas.

5.10 Chart 5.2 gives the results of similar analysis to that shown in chart 4.1, comparing employment chances of Londoners with those for people in the rest of the Greater South East region. Strikingly, the employment rate gap between London and the surrounding region is substantially higher for low-skilled people than the London-UK gap. Taking the population's characteristics into account explains only about half of the employment rate gap with the surrounding region. This implies that employment chances for low-skilled Inner Londoners are 11 percentage points lower than those for their counterparts in the rest of the South East. By contrast, there is no evidence of different employment chances for high-skilled people with similar characteristics.



5.11 Such a wide disparity in intra-regional employment chances suggests differences between Inner London and the wider regional labour market that either cannot or will not adjust. It could be the case that lower employment chances are the result of competition between fully mobile people who choose to live in London in spite of the difficulty of finding work. Alternatively it may be the case that the vacancy chains that equalise employment chances for high-skilled people fail to do so for others across the Greater South East.

5.12 The impact of this adjustment failure for relatively immobile people on the margins of the labour market can be severe. The negative distributional consequences for young people are explored below, while Chapter 6 looks at the impact on employment chances for mothers in couples. To understand what causes the persistent Inner London 'place' problem, it is necessary to take a closer look at the whole of London's low-skill labour market

LONDON'S LOW-SKILLED LABOUR MARKET OPPORTUNITIES

5.13 As discussed in Chapter 3, some UK cities, including Inner London, demonstrate evidence of an additional 'place' problem that causes employment to be lower than would be predicted on the basis of population characteristics. But the drivers of 'place' problems are likely to vary from city to city. The key to understanding London's specific problems lies in an explanation of the capital's particular people dynamics.

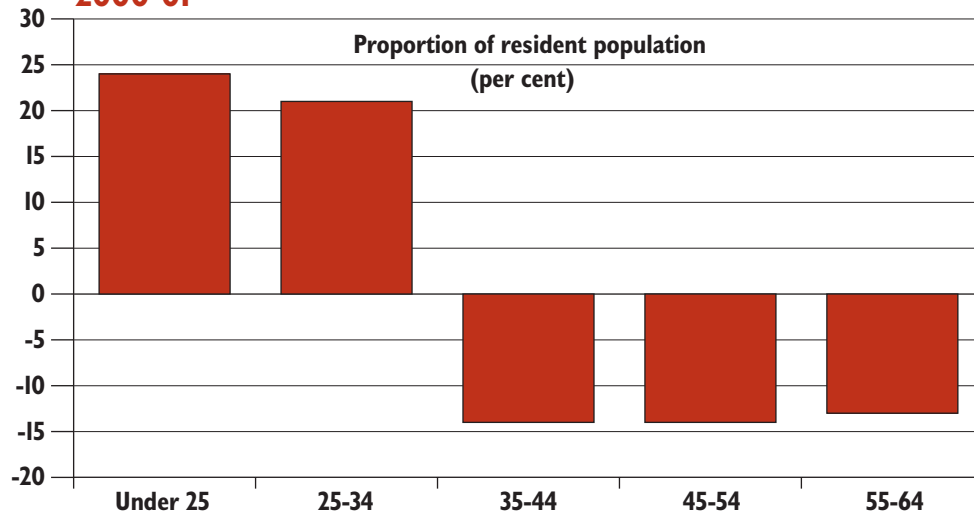
5.14 London is unique as a labour market, as a place to live and as a cultural centre. These differences are to be celebrated and they are the reasons why the flows of people to and from the capital are also exceptional. Migration flows to the capital, both domestic and from overseas, add to the dynamism of the London economy and better matches between employees and jobs yield productivity benefits. However when some people are constrained in their mobility and job search is concentrated in the centre the result can be reduced employment chances for Inner London residents.

Population flows and London residents

Population flows 5.15 The mix of people and the effect this has on labour market competition in Inner London is the key to London's uniqueness. It is the size of the domestic and international people movements to the capital that drives its unusual composition. One example of this is the demographics of London.

Young people 5.16 Chart 5.3 shows that in 2000-01, migration to London was primarily among young people, while net migration of over-35 year olds has been away from the capital. This trend has persisted over recent years, resulting in a disproportionately young workforce in the capital.

Chart 5.3: Net domestic migration to London by age group, 2000-01

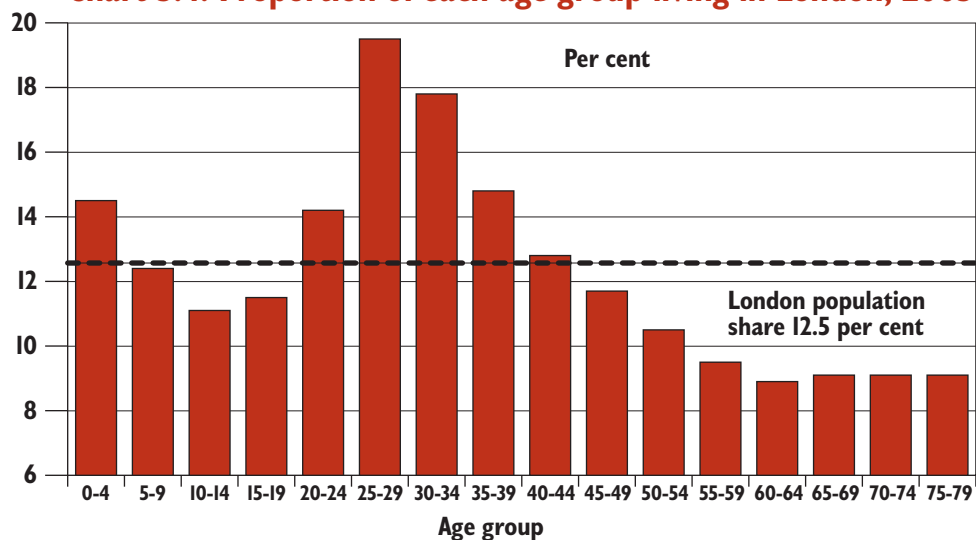


Source: Census 2001.

5.17 As Chart 5.4 shows, persistent in-migration of younger people, and out-migration of older people, has resulted in a working age population that is disproportionately young. London has about 12.5 per cent of the UK population, but nearly 20 per cent of 25 to 29 year olds in the UK live there.

5.18 Younger workers have less employment experience than older workers so typically compete for entry-level job opportunities at all levels of skill. The impact of such a disproportionately high stock of people, with only limited employment experience, contributes to the competitiveness of the labour market at entry level, with consequences for other groups at the margins of the labour market.

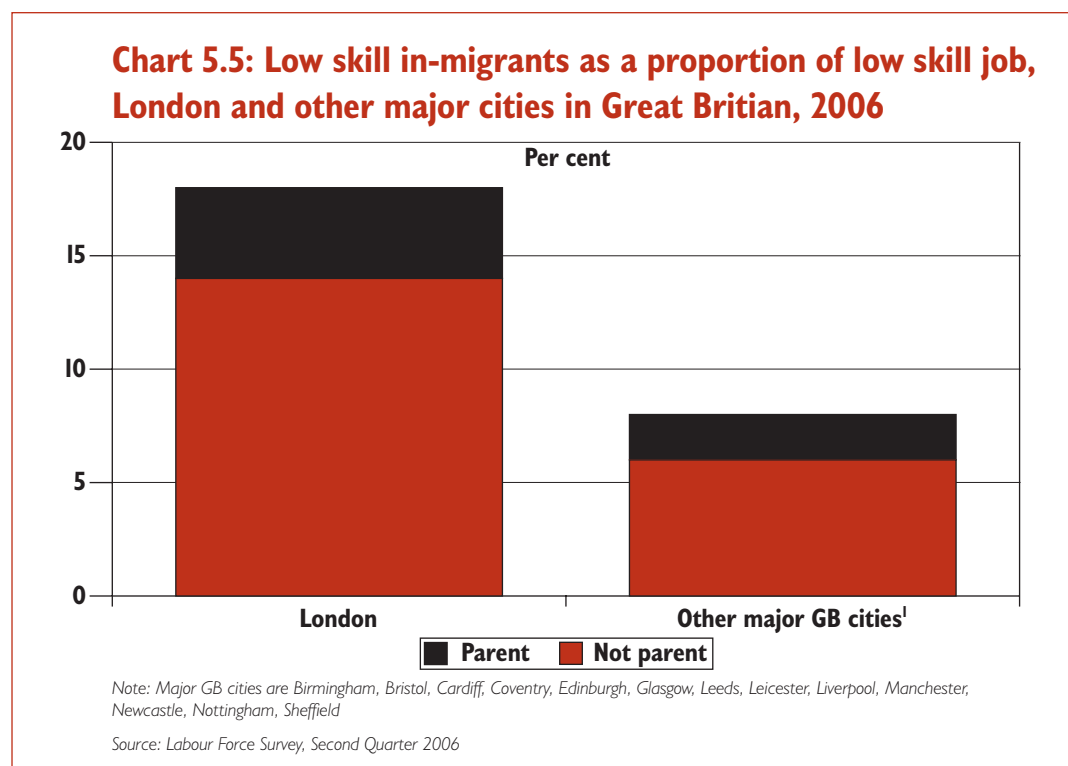
Chart 5.4: Proportion of each age group living in London, 2005



Source: Office for National Statistics Population estimates.

Parents 5.19 The unique character of London that draws people in, also determines the type of the people who decide to leave. The premium on space, in Inner London particularly, means that many families move out of the city. The need to pay more for accommodation, childcare and other attendant costs of having children, mean that higher London costs fall disproportionately on families. This puts parents at a disadvantage in the competitive London labour market. Those who remain in London therefore compete for jobs in a labour market that is constantly being resupplied with young workers, unencumbered by similar costs. All else being equal, these asymmetric costs mean that the work incentives for a childless Londoner will be higher than for a London parent.

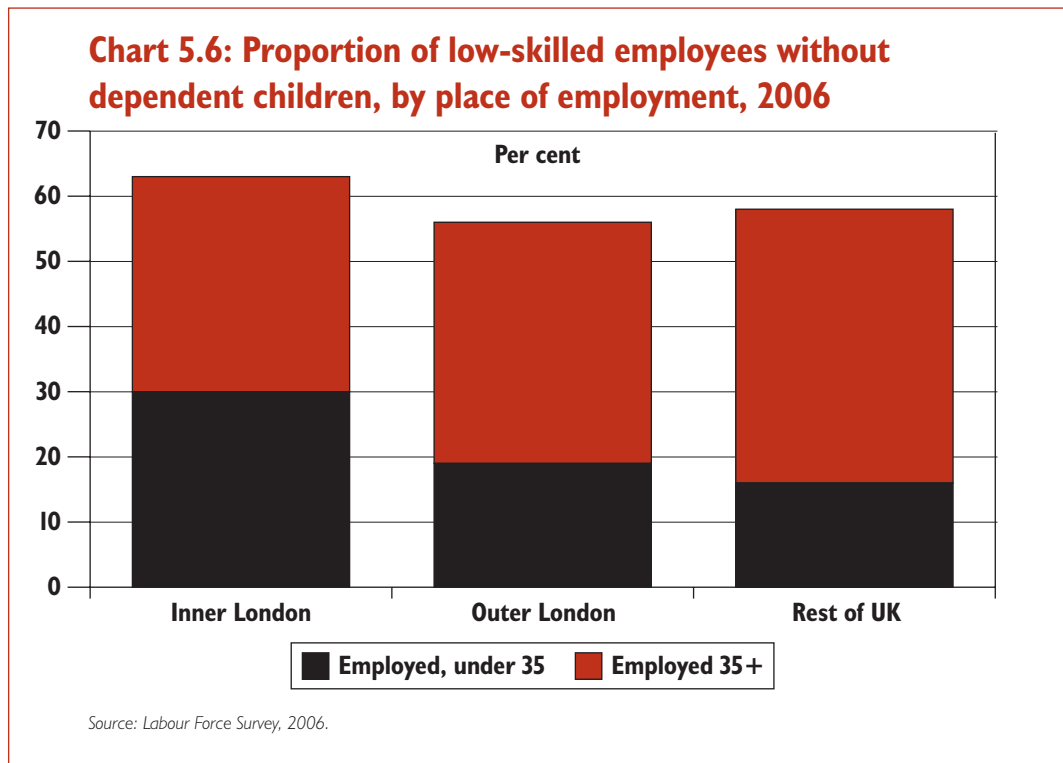
5.20 Consequently the pattern of out-migration from the capital is the inverse of that for in-migration. While childless people move into the capital, those with families tend to move out. As noted in Chapter 2, the much greater mobility of higher-income London families has important implications for London's child poverty rates.



Low skilled 5.21 Chart 5.5 shows the number of low-skilled in-migrants to London and other major British cities as a proportion of the number of appropriate jobs there. Between spring 2005 and spring 2006, that proportion was 18 per cent for London compared with only 8 per cent for other British cities. In addition more than three quarters of low-skilled in-migration to London over the period was from people without dependent children, a higher proportion than that for other British cities.

5.22 These powerful migration flows of relatively young people without children, while not unique to the capital, are certainly at their strongest in London. The result is a substantially different stock in the London workforce compared to that in the rest of the UK.

5.23 Compared to people working elsewhere, Inner London has a much higher proportion of employees without dependent children. Chart 5.6 shows that 63 per cent of Inner London employees do not have dependent children compared with only 58 per cent of employees elsewhere in the UK. Chart 5.6 also shows that over 30 per cent of Inner London childless low-skilled employees are under 35, compared with only 16 per cent employed elsewhere in the UK.

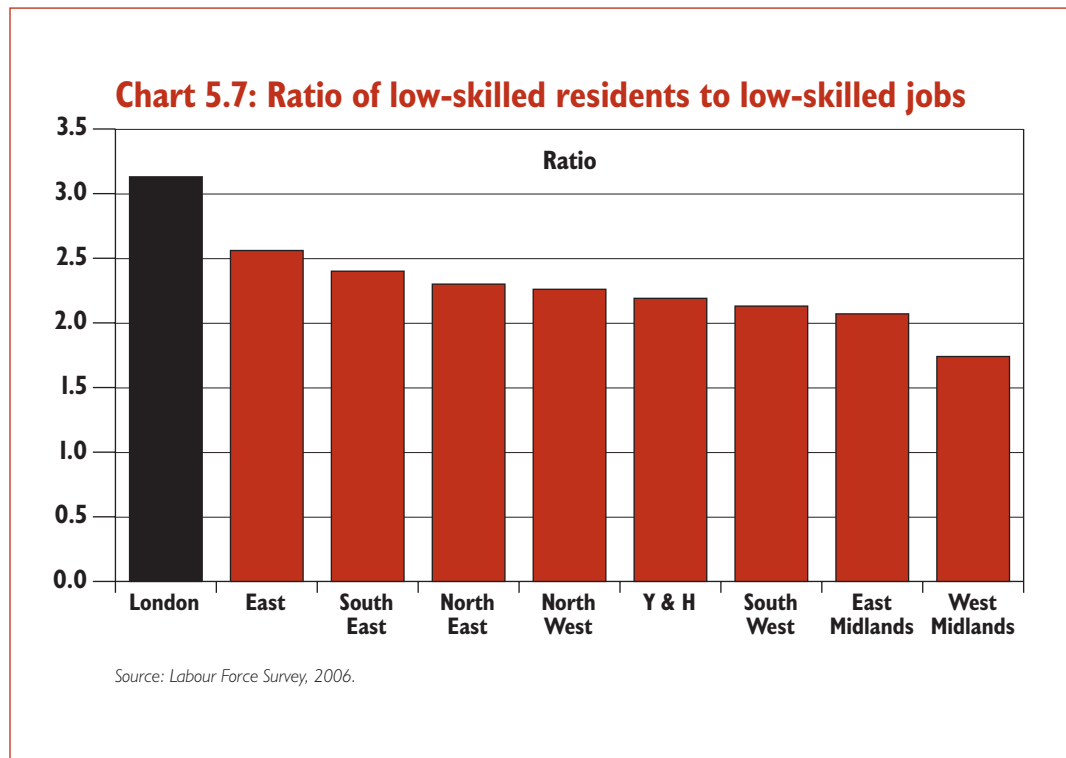


5.24 Finally, in a city with large migration flows, it is not surprising to find evidence of apparently high-skilled people involved in relatively low-skilled occupations. The theory presented in Chapter 4 explained why ‘bumping down’ can occur, and the effect it has in intensifying competition for low-skilled jobs. There is some evidence that bumping down occurs more in the capital than elsewhere in the UK. The proportion of highly qualified Londoners working in low- and mid-skilled occupations is 37 per cent compared with only 24 per cent in the rest of the country.

Resident-to-job ratios

5.25 That Inner London workers are disproportionately young reflects the fact that many are attracted to the city by the prospects it holds for career progression, and the fact that migrants tend to come from younger adult age groups. However, segmenting the whole London population by skill levels reveals a large disparity between the number of low-skilled jobs and the number of low-skilled people living in the urban area.

5.26 Data from the Labour Force Survey suggests that there are 3.1 low-skilled people in London for each low-skilled job. This ratio is significantly lower in the rest of the UK, at 2.3. In the rest of the South East the ratio stands at 2.5. Chart 5.7 illustrates how London's low-skilled people to low-skilled jobs ratio is substantially worse than that of any other UK region.



5.27 Among high-skilled workers on the other hand, there appear to be relatively few workers living in London for the number of appropriate jobs that the capital has to offer. There are only eight high-skilled people in London for every ten high-level jobs.

5.28 Since these people-to-job ratios are based on place of residence, commuter movements have the potential to resolve local labour imbalances. In the absence of such commuter flows, the result will be lower employment chances for low-skilled groups than elsewhere in the UK and relatively higher employment chances for the more scarce high-skilled workers.

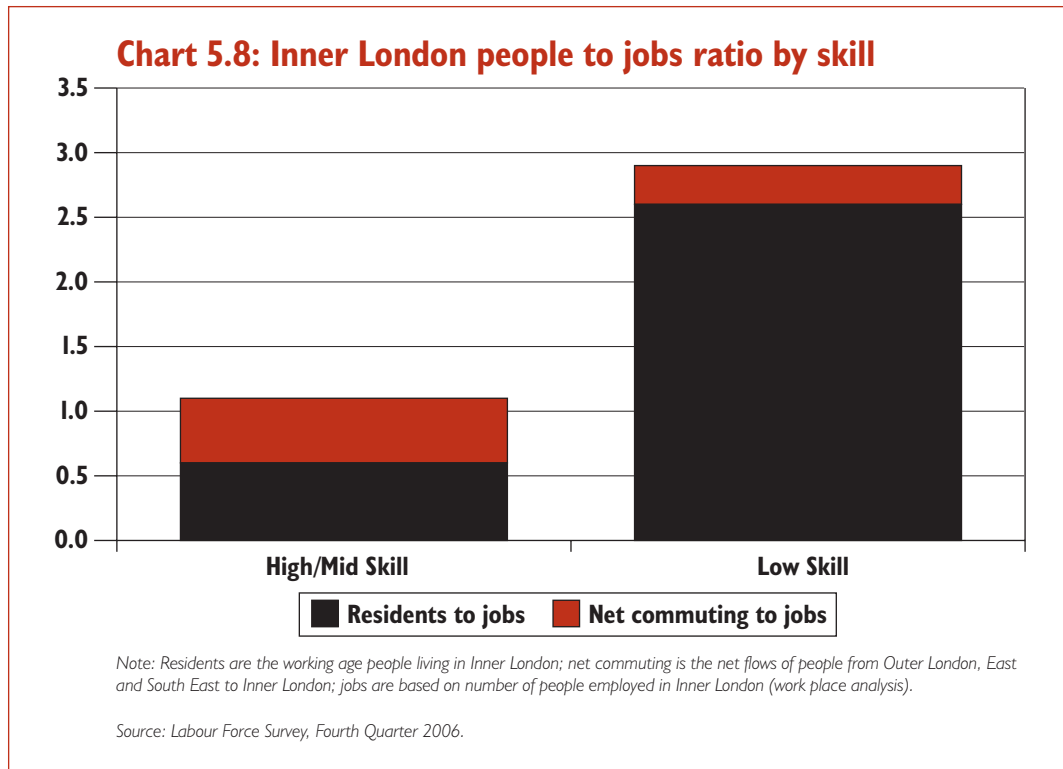
Commuting patterns

5.29 As the idea of actual employment fields implies, workers in high-level occupations tend to commute to London, and particularly Inner London, in large numbers from the rest of the South East. Daily migration of over 300,000 high-skilled workers into London raises the ratio of people to jobs to just above 1:1.

5.30 However, among the low-skilled, very low levels of out-commuting prevent similar adjustments occurring. Even quite short-range commuting among low-skilled workers, from Inner to Outer London, is small at around 25,000 people each day.

5.31 In fact, far from easing the adverse ratio of people to jobs, commuting strengthens congestion in the centre. Low-skilled net commuting from the rest of the South East region adds 50,000 people to the labour market, who do not live in London.

Congestion in Inner London 5.32 Commuting patterns within London also help to explain why the 'place' problems persist in Inner rather more than in Outer London. Net low-skilled commuting to Inner from Outer London adds over 70,000 people into the already congested centre. Chart 5.8 shows how commuting to Inner London from surrounding areas resolves the dearth of high-skilled workers, but exacerbates the excess of low-skilled labour there. When low-skilled Inner London residents are added to the net number of people who commute in for low occupation level jobs, the ratio of people to jobs deteriorates rather than improves.



5.33 The structure of transport links to Inner London means that the centre falls within even the shortest commuting range (in terms of time) of people who live in Outer London. In addition, the high density of jobs there means that job search in the centre is easier. The result is that transport links and the normal flow of information draw people to employment opportunities in Inner London, even when they live in Outer London or beyond.

5.34 The density of job opportunities in the centre biases effective employment fields away from the periphery of London. This inhibits job search in Outer London, even for many people who live there. It is for this reason that the dynamics of London as a whole give rise to problems that are primarily seen in Inner London.

5.35 This concentration of job search in the centre is not the result of declining levels of employment in London. In fact the numbers of low-skilled jobs in both Inner and Outer London over the last decade and a half have increased as have those in the surrounding regions.

5.36 If policy only addresses effective employment fields it can tend to reinforce existing problems by adding more workers to the already congested centre. Instead, policy, should focus on broadening people's actual employment fields in order to spread job search across the urban area.

Preferences for living in London

5.37 The above analysis shows that London, and particularly Inner London, is home to disproportionately high numbers of young, childless people. It has been argued that due to their characteristics and commuting patterns, they contribute to a more highly competitive labour market for the low-skilled. However, as mentioned above, competitive labour markets bring productivity benefits since they can better match people's skills with job vacancies. If those who live in Inner London choose to do so in full knowledge of the tougher job market, then the London 'place' issue ceases to be a problem, since they are the product of freely made choices. In this case lower employment chances are simply the price people pay for the other benefits London offers.

5.38 Many people drawn to the capital may be motivated by their preferences for London-specific job and career opportunities. Other people might come to London for non-monetary reasons, perhaps because they have family in the capital. Preferences such as these provide reasons for people to remain in London of their own volition despite lower employment chances.

5.39 However, the decision of those with more flexibility to remain in London out of choice, is not without consequences for others who live in the centre and who may be more constrained in their residential choices. Since the attractiveness of Inner London to a wide variety of people contributes to the competitiveness of its labour market, those who live there and cannot move out are liable to be at a disadvantage.

5.40 Furthermore it may be that the labour market consequences of the congested centre are felt not by those who move into the city out of choice. As explained above, these people are likely to be relatively young and without dependent children. Rather the spillover consequences of tougher labour market competition are likely to be felt by the more disadvantaged groups among those who cannot move out.

VULNERABLE GROUPS

5.41 To the extent that individuals choose to trade off the benefits of living in London against the higher rates of worklessness, there may not exist an economic problem to be solved. On the other hand, if groups of people traditionally at the margins of the labour market have limited opportunities to change where they live or improve their skills, it is likely that lower employment chances will be concentrated among these more vulnerable groups. This has important distributional implications.

Employment chances of vulnerable groups

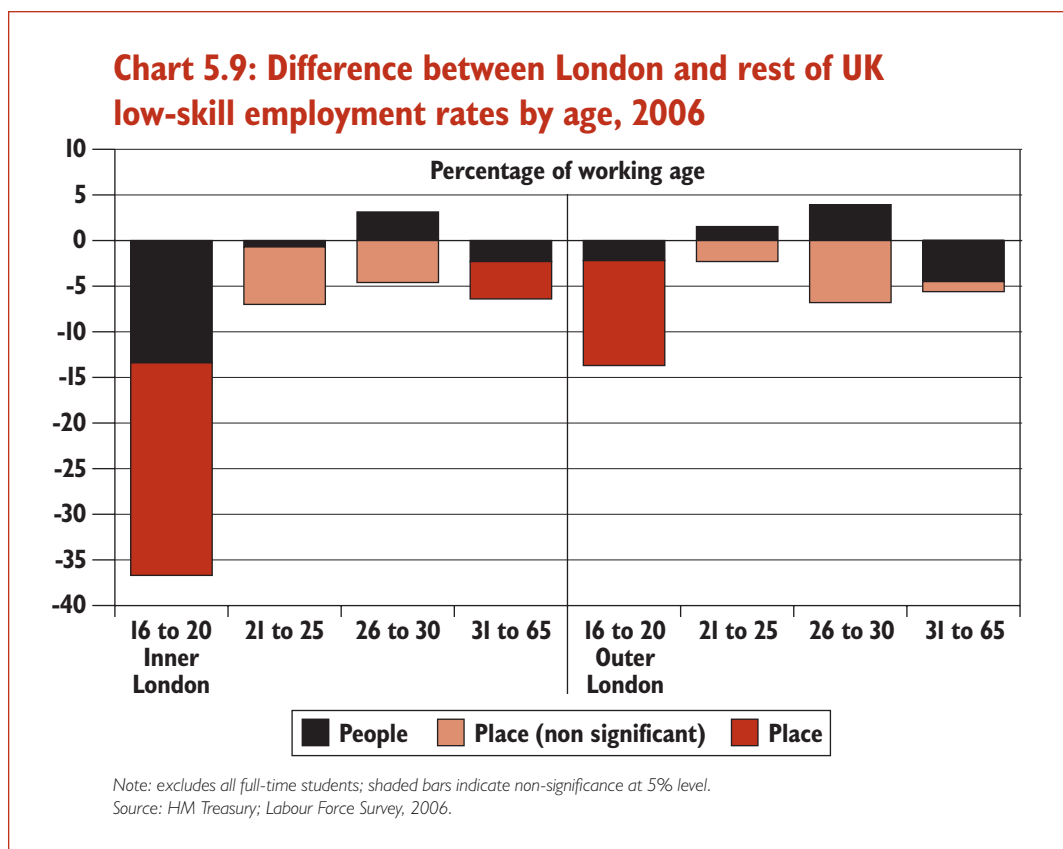
Parents 5.42 Parents are often marginal participants in the labour market for two main reasons. Firstly paid employment away from the home imposes substantial costs in terms of childcare, extra travel, and lost time spent with one's children. Secondly, financial support for workless parents is more generous than for those without children. For these reasons, poorer employment chances that result from the competitive low-skilled labour market in Inner London might be expected to fall disproportionately on second earners and lone parents. The labour market outcomes of London's mothers are explored in more depth in the next chapter.

Young people 5.43 Lower employment chances are likely to have their effect on those seeking work rather than those in steady employment. Consequently groups that are identifiable as relative newcomers to the workforce are liable to suffer lower employment rates in a competitive environment.

5.44 Moreover, newcomers with little or no employment experience will lose out in a market where employers can opt for others who can better signal their quality as workers through their employment histories.

5.45 Young people, as a group, suffer from both of these problems. If it is true that the 'place' effect identified above is the result of an unusually competitive labour market it is likely that young people face worse employment chances in London than their counterparts elsewhere.

5.46 Chart 5.9 shows that, excluding full-time students, young people living in Inner London have substantially worse employment chances than their peers in the rest of the UK. While their other characteristics account for a proportion of the gap with the rest of the UK, this analysis suggests that the London labour market reduces their employment chances by 23 percentage points.



5.47 As some of the people most marginal to the labour market, young people suffer substantially more in London than elsewhere. It is therefore likely that these people would be better off if the functioning of the London labour market more closely resembled that of other regions.

Conclusions

5.48 Much of London's lower employment rate is the result of the residents having characteristics that are associated with labour market disadvantage throughout the country. The argument of this chapter has been that the operation of London's low-skilled labour market also contributes to the lower employment rate.

5.49 Subject to large flows of people who come to and leave London for a wide variety of reasons, the Inner London labour market is unique in its competitiveness. That competitiveness is compounded by information and transport networks that concentrate job search by Outer Londoners in the centre. This generates commuting in-flows that exacerbate an already congested low-skill labour market there.

5.50 Strong labour market competition is, on the whole, a good news story: it improves the dynamism and productivity of London's economy. For those who are not equipped to compete successfully and are restricted in their mobility, however, employment chances in Inner London are relatively poor as a result.

5.51 This 'place' effect of London presents problems for tackling the 'people' issues: faced with such an inauspicious labour market, policy to help people find work is unlikely to be as successful in London as it is elsewhere. In order to tackle 'people' problems effectively, policy should act to spread labour market competition away from, rather than allowing it to concentrate in, the centre.

5.52 Insights from the theoretical understanding of spatial labour markets outlined in Chapter 4 and the analysis presented above suggests directions in which policy should move to resolve the 'place' problems in Inner London. Policy should aim to link up local labour markets across the functional labour market by strengthening vacancy chains. This can be done in the following ways:

- expand low-skilled people's effective employment fields, through better employment information networks that direct job search towards the periphery of London, rather than towards its centre;
- expand low-skilled people's actual employment fields, by subsidising commuting or providing collective solutions to commuting needs; and
- remove obstacles to mobility due to housing, allowing people to leave an area where employment chances are low, and move to another where they are higher.

5.53 Each of these measures would ease congestion in Inner London and spread labour market competition across the urban area and beyond. This would yield benefits for the people seeking work as well as for employers and other workers in the local labour market.

5.54 For these efforts to improve job search, the concentric nature of employment fields is important. It means that doubling the distance people can travel for financially worthwhile employment, quadruples their search area for employment opportunities. In dense urban labour markets this could make a big difference to the strength of vacancy claims, and therefore to employment chances.

5.55 However, there is more that can be done to improve Inner London's labour market by expanding occupational mobility. By encouraging progression in work such measures can create entry-level opportunities for others. This can be done through policies to:

- provide opportunities for low-skilled people to acquire more recognised skills;
- improve skills recognition, particularly for workers whose qualifications were acquired overseas;
- address labour market discrimination; and
- unlock existing skill, such as English language training for migrant workers for whom English is not their first language.

5.56 For good reasons, current labour market policy tends to focus on groups or areas in which problems are observed. However, as this chapter has demonstrated, where problems appear and where they are caused is not necessarily the same. The key to tackling worklessness in London therefore lies in focusing on individuals in areas of need, but also in taking a broader approach. That approach should coordinate policy across a bigger geographical area, so that interventions that help the individual also improve the operation of the labour market as a whole.

6

FOCUS ON PARENTS

Parental employment rates in London are low. This is a problem for employment opportunity at the individual level, but also because of the close relationship between parental employment rates and child poverty outcomes.

For the most part, worse outcomes for parents in London are driven by differences in individual characteristics arising from the residential patterns discussed in Chapter 3. This explains all of the difference between the employment rate of London fathers, and those elsewhere in the UK. While the size of the challenge in London is large, this means that there are few reasons to offer London fathers different types of support to help them move into work than are offered elsewhere. However, to address child poverty, there may be a good case to give London fathers greater attention.

For mothers, worse employment rates in London are not fully explained by differences in individual characteristics. Nor are they properly explained by differences in work preferences. What is driving this outcome is not absolutely clear but one very important factor seems to be that, where London mothers depend on paid childcare, their incentives to work are weaker than for mothers in the same situation elsewhere. This is a particular problem in London where mothers are more dependent on paid childcare than mothers elsewhere in the UK.

This is driven by two factors. Firstly, greater competition for low-skilled jobs in London means the market is less willing to pay the additional costs faced by low-skilled mothers who must pay for childcare. Second, more mothers in London depend on paid childcare, and the costs of paid childcare in London are higher.

Together these two factors mean that, in order to have equivalent gains to work as mothers elsewhere, mothers in London have to compete for jobs higher up the earnings distribution. Those who cannot do so cannot work.

This problem is particularly pronounced for London mothers who would like to work part-time. If the availability of part-time work is partly due to the degree to which workers demand it, this 'supply' factor may be one reason why the employment gap between mothers in London and elsewhere is mostly in part-time work. These findings have implications for policy particularly for support with childcare.

6.1 Chapter 2 showed that the child poverty rate in London is higher than the national rate. It also highlighted the link between child poverty and parental employment status: a quarter of children in London live in workless households compared with a sixth of children nationally. This chapter goes a step further, looking in more detail at employment outcomes for London parents.

PARENTAL EMPLOYMENT IN LONDON

6.2 Table 6.1 shows that parents in London have lower employment rates than parents in the rest of the country. The gap between London parents and those elsewhere is particularly pronounced for lone parents, whose employment rate is 44 per cent compared to 59 per cent elsewhere in the UK, and mothers in couples, whose employment rate is 60 per cent, compared to 73 per cent elsewhere in the UK.

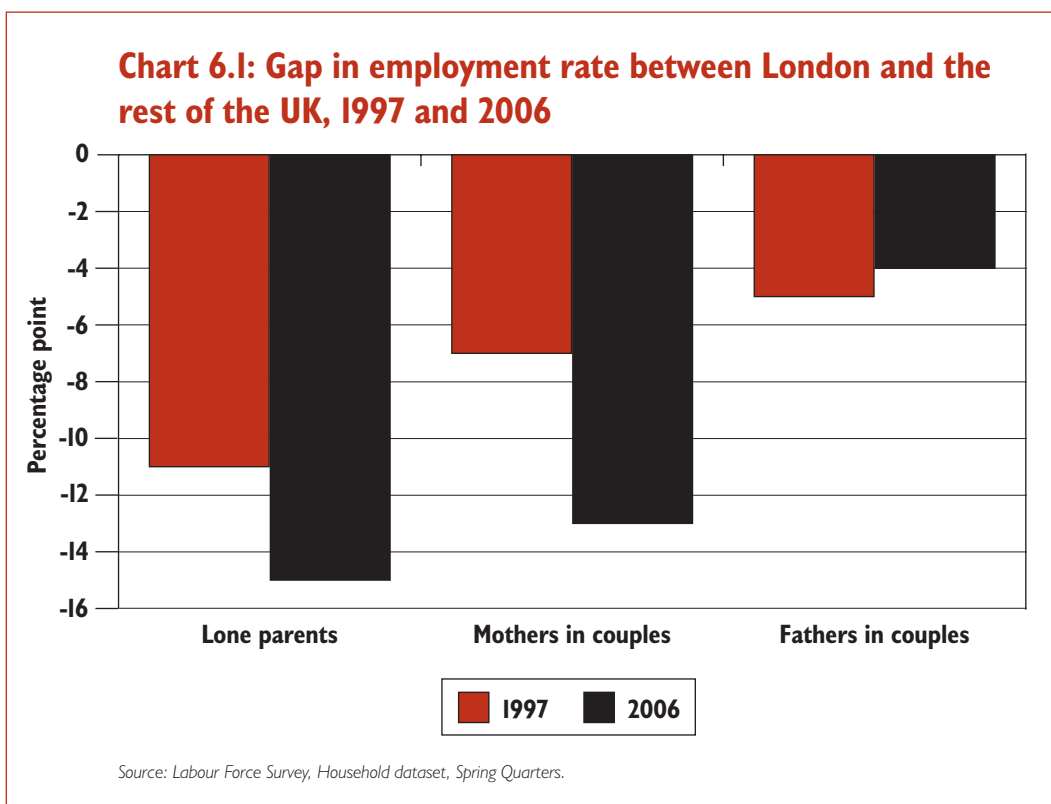
Table 6.1: Employment rate by family status, 2005-06

		Employment (per cent)				Gap with the rest of UK		
		London	Inner London	Outer London	Rest of UK	London	Inner London	Outer London
Couple with children	Male	87	79	91	91	-4	-12	0
	Female	60	43	69	73	-13	-29	-3
Couple no children	Male	84	86	82	81	2	5	1
	Female	77	76	78	79	-2	-3	-1
Single with children	Male & Female	44	41	46	59	-15	-18	-12
Single no children	Male	74	73	74	69	5	4	5
	Female	73	71	76	71	2	0	5

Source: Labour Force Survey Households dataset Second Quarter 2005-06.

The gap in employment rates is increasing for lone parents and mothers

Chart 6.1 shows that, since 1997, the gap between employment rates for London mothers in couples and their counterparts elsewhere in the country has nearly doubled since 1997. This is because employment rates for mothers in couples outside London have increased significantly, while in the capital they have remained broadly flat. For lone parents a gap that was large in 1997 has increased further. While lone parent employment rates have risen rapidly in London and the rest of the country, the increase has been larger in rates outside London. By contrast the gap for London fathers in couples was relatively small in 1997, and has declined further since.

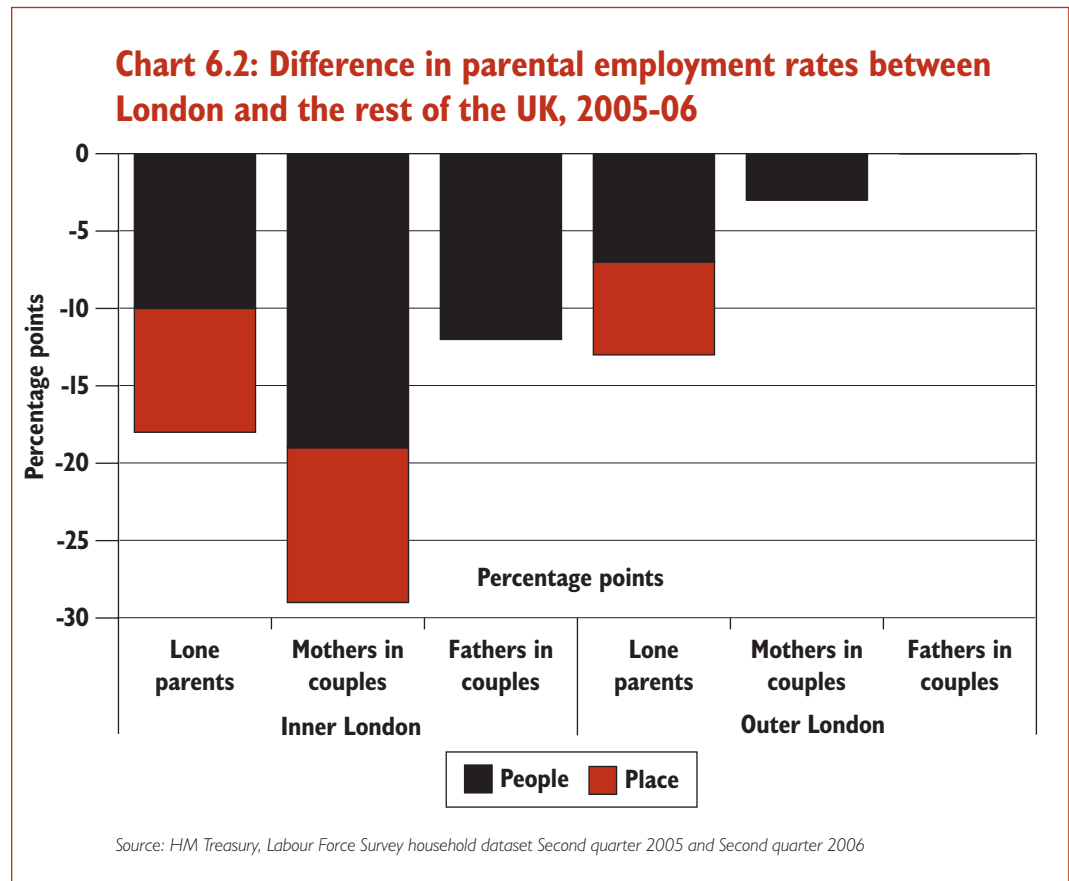


Personal characteristics

Chapter 2 explained that certain individual characteristics are associated with a higher risk of labour market disadvantage, and that this disadvantage is pronounced in individuals who face more of these risks. As a result, comparisons of employment rates between populations in two areas which only look at one characteristic can be misleading if there are other differences in the two populations.

6.5 More parents in London have characteristics that are associated with labour market disadvantage at a national level. For the most part, worse outcomes for parents in London compared with parents elsewhere are being driven by these differences.

6.6 Chart 6.2 reports the results of regression analysis on the employment chances of parents in London compared with parents elsewhere, once differences in population characteristics are taken into account. The part of the employment gap that is not explained by differences in population characteristics can be thought of as ‘place effects’ that are reducing parental employment chances in London.



Fathers employment 6.7 Chart 6.2 illustrates that fathers in couples have the same employment chances in Outer London as in the rest of the country. While there is a gap between the employment rate of fathers in Inner London and those elsewhere in the UK, this is explained in full by differences in individual characteristics.

6.8 This means two things. First the degree of support to London fathers needs to be sufficient to address the size of the task in London. Second, strictly for reasons of equalising employment opportunity, there is little justification for giving fathers more help to move into work in London compared to those moving into work elsewhere. However, for child poverty reasons, there may be a good case for offering fathers more support generally, and particularly in London. This was a point made in the Harker Report¹.

¹ *Delivering on Child Poverty: what would it take? A report to the Department for Work and Pensions*, Lisa Harker, November 2006.

Mothers and lone parent employment **6.9** For London mothers the picture is more complex. Chart 6.2 illustrates that differences in individual characteristics between London mothers and those elsewhere account for a large part of the difference in employment rates. However, individual characteristics cannot explain this gap in full: London mothers have worse employment outcomes than similar mothers elsewhere. In Inner London, for example, lone parents are 8 percentage points less likely to be in employment than similar lone parents elsewhere, and mothers in couples 10 percentage points less likely.

Summary **6.10** Most of the gap between employment rates of London parents and those elsewhere in the country can be understood as resulting from other differences in the population characteristics of the two groups. However, for mothers in couples and lone parents, part of the gap in employment rates appears to be the result of London specific ‘place effects’.

FOCUS ON MOTHERS

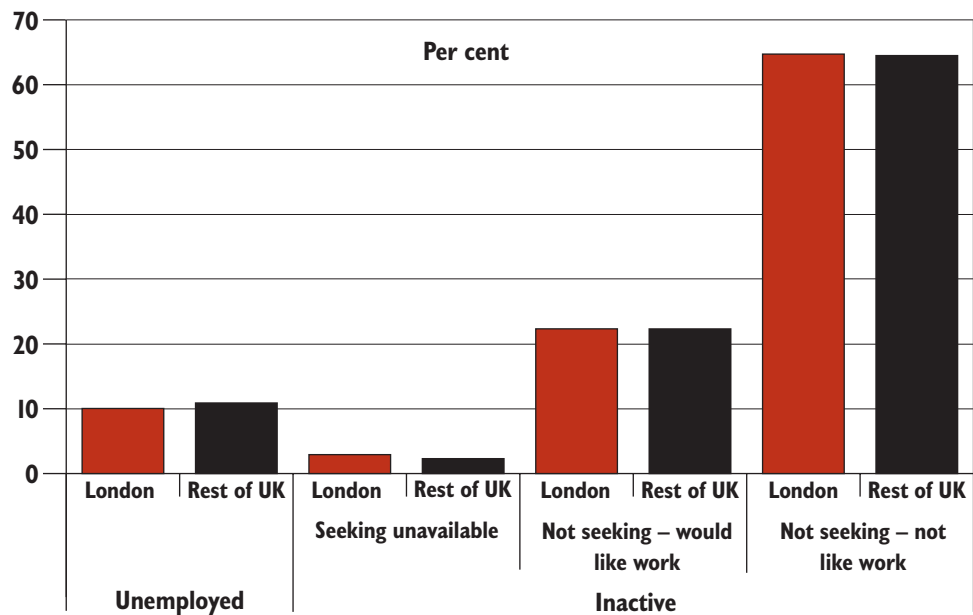
6.11 Deciding whether, and how much, to work can often be a complex decision for those with caring responsibilities. The precise decision is likely to depend on a range of factors that overlap and interact in ways that will differ from person to person, and from place to place. The task is to identify whether there are systematic differences in some of these factors in London that might suggest reasons for the differences in employment outcomes. In this section, three plausible factors are considered, namely the existence of any differences in:

- expressed preferences for work among workless mothers;
- the availability of part-time work; and
- the cost, availability of, and reliance upon childcare services.

Preferences for work

6.12 Chart 6.3 shows there is little difference in the preferences of workless mothers in London compared with workless mothers elsewhere. In both London and the rest of the UK around 65 per cent of workless mothers are not looking for a job and do not want a job. In both areas, the proportion of workless mothers who would like to work (and are either looking for a job or not looking) is significant but broadly similar at around 35 per cent. This is an indication that, across the country, a significant group of women are not reaching their preferred employment status.

Chart 6.3: Workless mothers by worklessness status, London and rest of UK, 2006



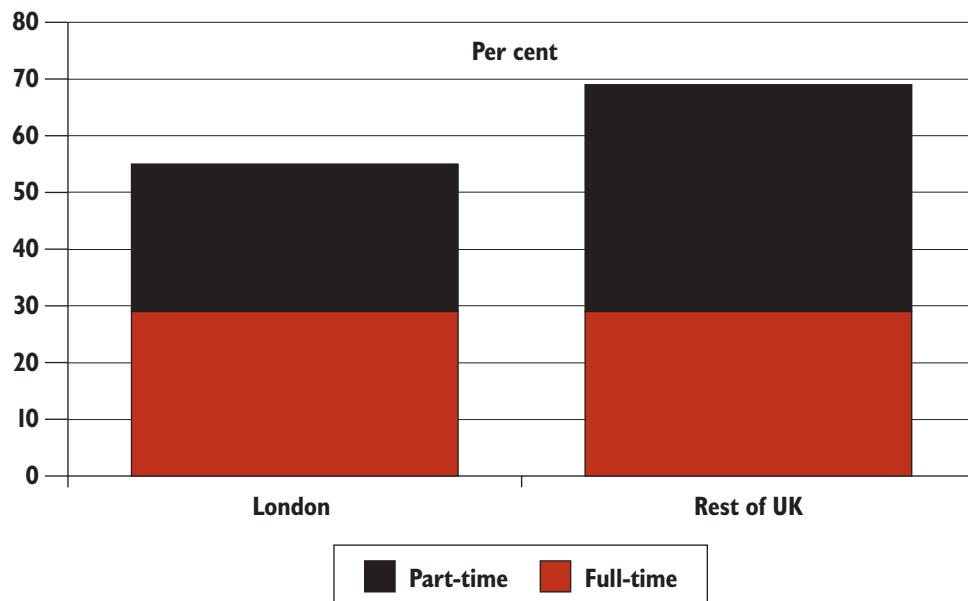
Source: Labour Force Survey Household dataset, Second Quarter 2006.

Part-time work

6.13 Having children typically reduces the number of hours that women are able or willing to work. At national level, the majority of women with children work part-time, 57 per cent, whilst the majority of those without children work full-time, 73 per cent.

6.14 Chart 6.4 shows that the gap in employment rates between London mothers and those in the rest of the country is being driven by a lower rate of part-time work in London. Full-time rates are the same in London as in the rest of the country.

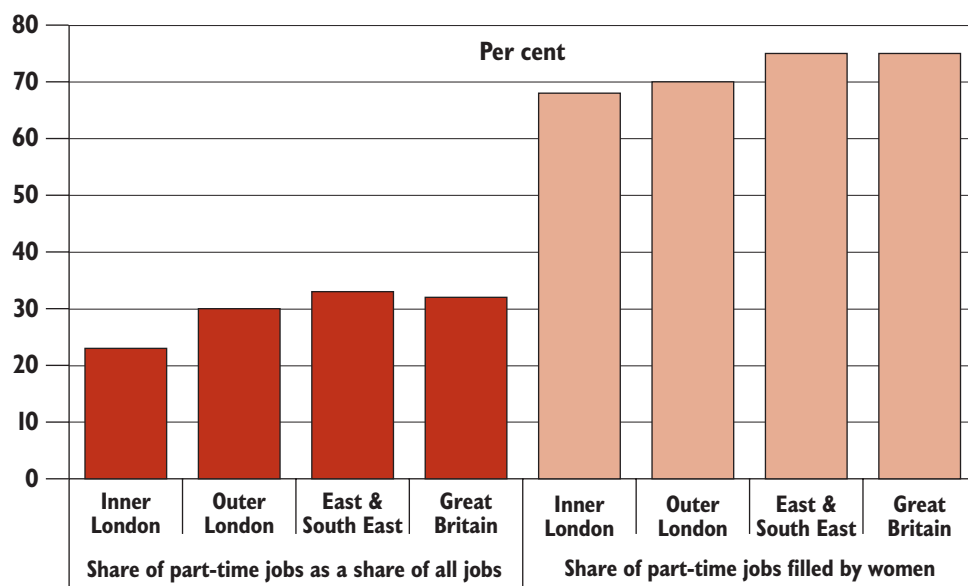
Chart 6.4: Percentage of mothers working part-time and full-time, 2006



Source: Labour Force Survey Household dataset, Second Quarter 2006.

6.15 Chart 6.5 below shows that the part-time jobs as a share of total jobs is lower in London (particularly in Inner London) than in the rest of Great Britain. It also shows that the share of part-time jobs filled by women is relatively low in London.

Chart 6.5: Shares of part-time jobs and shares of part-time jobs filled by women, 2005



Note: Self-employed jobs and jobs in the agriculture sector are excluded.
Source: Annual Business Inquiry.

6.16 Across the country, some individual characteristics are more strongly associated with a decision to work part-time or full-time. For example, mothers with larger families or younger children are more likely to work part-time, as are those with lower qualifications. It is therefore possible that the lower rate of part-time work in London can be explained by differences in population characteristics.

6.17 However, HM Treasury analysis shows that even when differences in population characteristics are taken into account, mothers in London still have a lower probability of working part-time than full-time, compared with similar mothers elsewhere. For lone mothers, the unexplained difference is 14 percentage points in Inner London, and 10 percentage points in Outer London. For mothers in couples the unexplained difference is 13 percentage points in Inner London, although there is no unexplained gap for Outer London.

6.18 Across the country part-time jobs are more available in some industries and occupational levels. The industrial and occupational structure in London is quite different from elsewhere in the country. However analysis by GLA Economics² finds that, although these differences are relevant, they cannot fully account for the relative scarcity of part-time jobs in the capital.

Summary 6.19 The gap in part-time employment rates between mothers in London and the rest of the country cannot be understood simply as the result of differences in the individual characteristics of the two populations; or as the result of differences in London's industrial and occupational structure. However, if employers sometimes offer part-time jobs in response to employee demands, then other factors that affect the decisions of mothers to work part-time may be relevant. One such factor may be the availability of, and cost of, childcare.

Childcare

6.20 Lack of suitable, high quality, affordable childcare has been recognised by the government as a potential barrier to the labour market participation of parents with caring responsibilities. The Government's Ten Year Childcare Strategy,³ built on investments made by the Government since 1997.

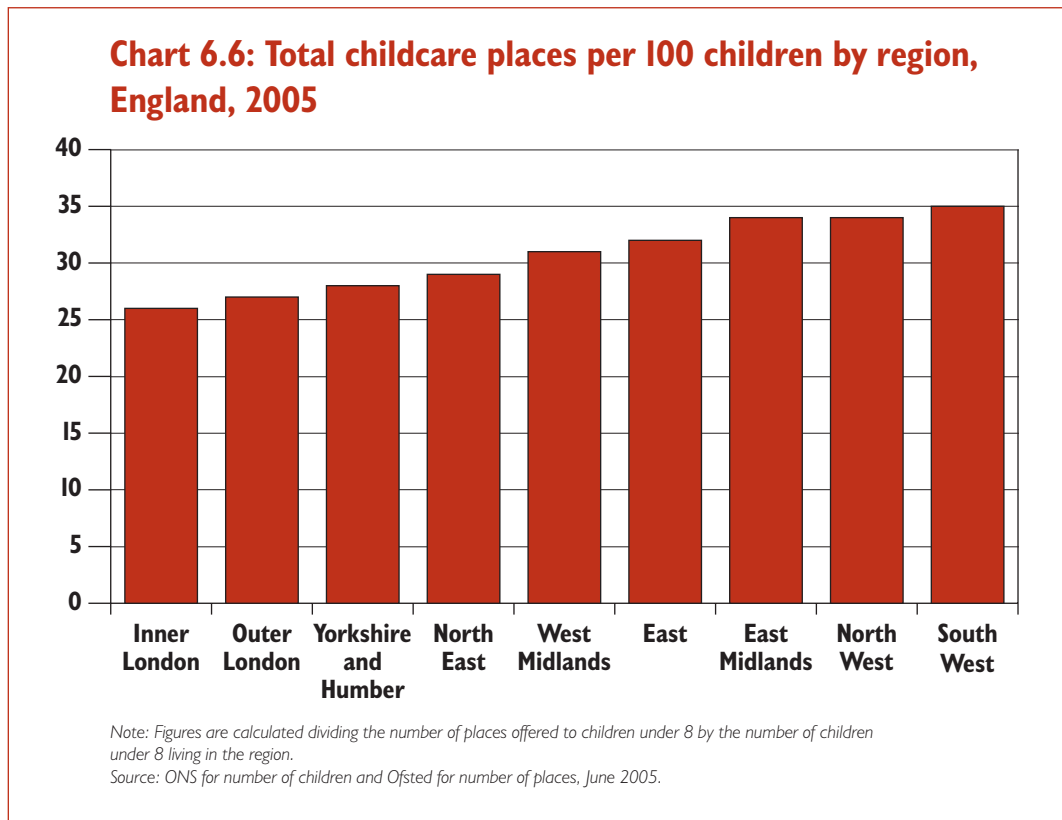
6.21 The aim of increasing the quality of childcare without compromising affordability is a particular challenge in London, where childcare is already expensive. Although most of the measures in the Ten Year Strategy will benefit parents across the country, some of the measures are likely to be of greater benefit to Londoners and London is already benefiting from the changes proposed by the strategy:

- the Government is contributing £11 million to a £33 million set of three year joint London Development Agency and Department for Education and Skills Childcare Affordability Pilots;
- changes in the childcare element of Working Tax Credit have extended the amount of eligible childcare that can be claimed and raised the percentage of eligible childcare costs that can be claimed from 70 to 80 per cent; and
- an increase in the tax and national insurance contributions exemption for employer-supported childcare, by 10 per cent to £55 per week.

² *Why are there so few part-time jobs in London?* Andrew Harker. Published by the Greater London Authority, February 2007.

³ *Choice for parents, the best start for children, a ten year strategy for childcare*, HM Treasury, Department for Education and Skills, Department for Work and Pensions, Department for Trade and Industry, December 2004.

6.22 Although the number of childcare places has almost doubled since the 1997 level, London has the lowest number of childcare places per 100 children of any region in England as shown in Chart 6.6.

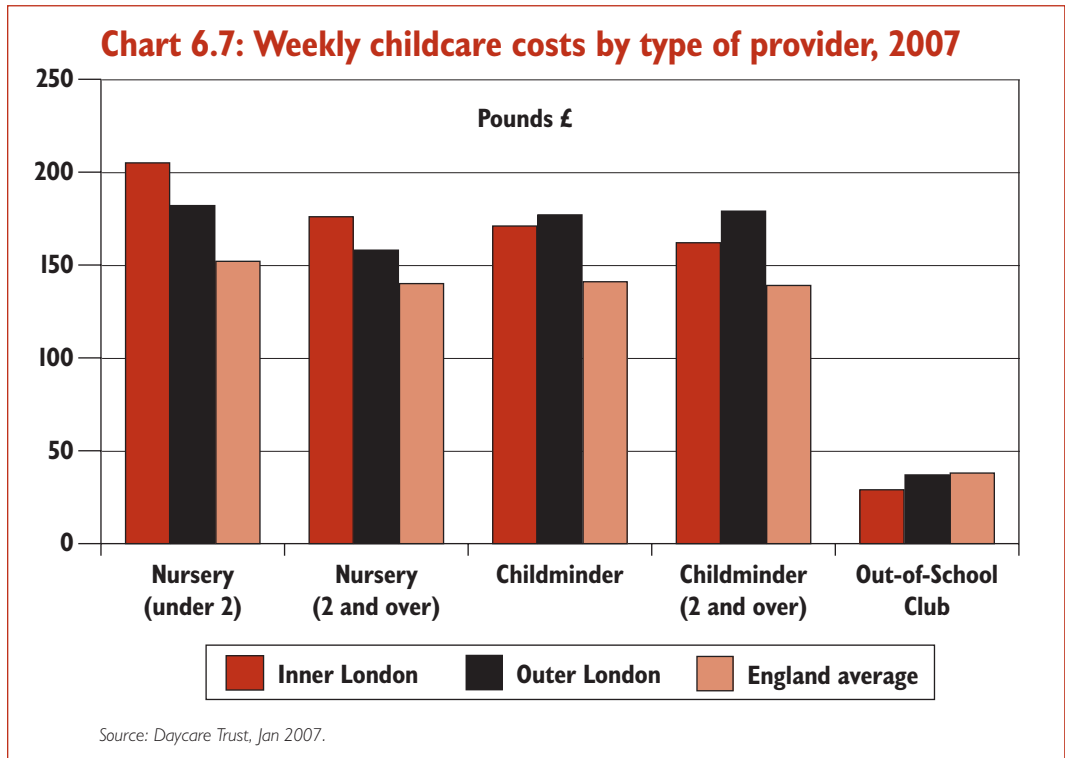


Impact of childcare on the ability of mothers to work

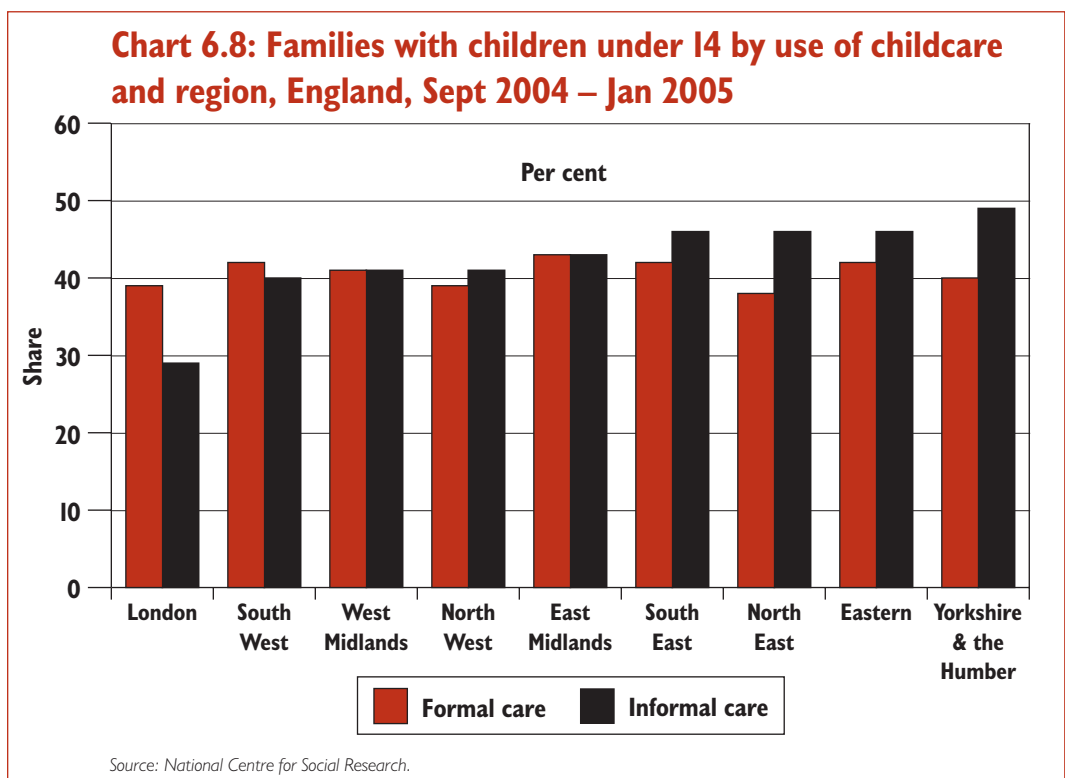
6.23 Paull and Taylor⁴ analyse the relationship between mothers’ propensity to work and the availability of formal childcare at the local authority level. They find a positive correlation between mothers’ employment rates and local availability of formal childcare. However, they warn that the direction of causation in the relationship is not clear. On the one hand, low levels of working mothers could reduce demand, and therefore provision, of paid childcare. On the other, it could be that low provision of childcare in certain areas is acting as a barrier to work for mothers.

6.24 Chart 6.7 shows that, excluding out of school clubs, London has higher childcare costs than in the rest of England.

⁴Mothers employment and childcare use in Britain, Gillian Paull and Jayne Taylor with Alan Duncan, 2002.



6.25 Finally, to the extent that the relative cost and availability of formal childcare services has an impact on mothers’ work decisions, then this impact is likely to be magnified in London where a greater share of families rely on paid childcare. Chart 6.8 illustrates that London families are less likely to use informal childcare than families in any other region, perhaps because London families are more likely to be geographically distant from other relatives, than families elsewhere.



Summary 6.26 Mothers' employment outcomes are worse in London than they are for similar mothers elsewhere in the country. This employment gap is being driven by the lower part-time employment rate in London. One possible explanation for the lower level of part-time work in London is that mothers are less willing or able to work part-time in London. This could be driven by childcare provision. Despite the number of childcare places in London having almost doubled since 1997 childcare in London remains less available and more expensive, even so it is important to more mothers in London than those elsewhere.

ENTRY WAGE

Gains to work 6.27 If childcare costs are higher in London, and if the labour market in which mothers are looking for jobs is more competitive, this may be reducing gains to work for London mothers compared with mothers elsewhere. If this is the case it might help to explain differences in work decisions of mothers in London compared with those in other regions.

6.28 Chart 6.9 summarises the results of HM Treasury analysis to answer this question. First, the wage distributions of eight categories of mothers were compared. These were wage distributions for all mothers working full-time and part-time, both with and without childcare costs, in both London and the rest of the UK. The chart also shows comparisons between the 'entry wage' for each distribution, taken to be the wage at the 10th percentile. The 'entry wage' is taken to be the lowest wage at which a mother in a particular category is willing to accept work.



6.29 Chart 6.9 illustrates that, for mothers in London, there is a difference between the entry wage for mothers, depending on whether or not they face childcare costs. This gap exists, regardless of whether the mother works part or full-time.

6.30 The picture is different for mothers in the rest of the UK. There remains a difference in the entry wage for mothers working full-time, depending on their childcare costs. However mothers working part-time with childcare costs have the same entry wage as mothers without childcare costs. This suggests that in the rest of the UK the level of the wage available for entry-level jobs that mothers choose, combined with the support available through the tax and benefit system, is broadly sufficient to counter the additional costs incurred by mothers who must pay for childcare to work, particularly for mothers who work part-time.

6.31 This analysis suggests that mothers with childcare costs in the rest of the UK can choose between working full- or part-time depending on what suits their circumstances better. However for similar mothers in London there is no advantage to working part-time. Whether they wish to work full or part-time, mothers must be able to compete at higher wages to meet their childcare costs, or not work at all.

6.32 This analysis does not control for characteristics and it may be that there are systematic differences between mothers inside and outside of London and between those who do not use paid childcare. However, inferences can be drawn from the charts. First, differences between mothers in London and those elsewhere are not observed in large differences in the entry wage for mothers without childcare costs. This suggests that mothers in London are similar to mothers elsewhere. Similarly, differences between mothers who use childcare and mothers who do not are not observed in the difference in the entry wage for mothers who work part-time in the rest of the UK, with or without getting childcare costs. This suggests that mothers who use childcare are similar to those who do not.

CONCLUSION

6.33 Parental employment rates in London are low. For fathers this is driven by differences in individual characteristics, however for mothers this is not the full explanation. For London mothers, incentives to work are weaker than for mothers in the same situation elsewhere. This is driven by two analytically distinct factors which act – individually, but also in way that reinforce each other - to disadvantage mothers in the London labour market.

6.34 The first mechanism that disadvantages mothers is the greater competition in the labour market facing workless Londoners described in Chapter 5. The result of this greater competition is that the labour market in London is less willing to bear the additional costs faced by low-skilled mothers who must pay for childcare. Employers can fill their vacancies without paying a premium to attract mothers who must pay for childcare to work. The second disadvantage reflects the higher cost of childcare in London. Together, these two factors mean that mothers in London have to compete for jobs higher up the earnings distribution than those elsewhere to have equivalent gains to work. Mothers who cannot compete at this higher level often remain workless.

6.35 A greater proportion of mothers in London must also pay for childcare services to be able to work. This greater reliance increases the impact of the disadvantaging factors explained above. There is a gap between the number of mothers who would need to rely on paid-for childcare if they moved into work and the number of mothers who actually do pay for childcare. There is a gap therefore between latent demand (of those who would use childcare if they could afford to do so), which is high and the market demand (of those who can actually afford to do so), which is much lower.

6.36 The implications for policy are that:

- composition issues for fathers and mothers should be addressed in ways that are consistent with the findings in Chapter 5;
- policies to tackle the labour market problems in London identified in Chapter 4 would raise gains to work for mothers, addressing the first reason for ‘place’ related disadvantage facing mothers in London;
- higher in-work support in London would particularly benefit those workless mothers who must rely on paid-for childcare services in order to work. But although this will address the symptoms of the problem there is also a need to address the underlying labour market causes in order to avoid displacing one group of vulnerable workers with another; and
- getting the relative cost of childcare in London closer to the national average and expanding supply available at that price would help to address the second issue identified as disadvantaging mothers, but not the first. To be effective, it should be done only in concert with efforts to address the first problem identified.

7

POLICY RESPONSES IN LONDON

Since 1997, the Government has promoted employment opportunity for all through macroeconomic stability and sound public finances, measures to make work pay, active labour market policies and investment in skills and childcare. Programmes such as the New Deal and Employment Zones have had a significant impact on the employment outcomes of many previously disadvantaged groups across the country.

Previous chapters have set out how London's population differs from that of the rest of the country. It is more ethnically and socially diverse, and more people have characteristics associated with labour market disadvantage. But even after these characteristics have been taken into account, the chances of employment in Inner London and for certain groups across the capital, appear to be lower than for similar people living elsewhere in the UK. This chapter looks at the effectiveness of policy in responding to the challenge.

The New Deal, which provides a national policy framework, is supplemented in London by a number of area-based initiatives. The challenge posed by London's labour market has also made it fertile ground for innovative approaches to service delivery in some of the city's most deprived areas. Initiatives such as City Strategies and the Deprived Areas Fund provide flexibility at the local level to address area-specific problems.

However, the impact of active labour market programmes in London, where large numbers of people move into and out of work, has been less pronounced than elsewhere. London fares less well in terms of employment outcomes from the New Deal. This could be due to the greater challenge presented by the complex needs of Londoners and issues of 'place' identified as the different dynamics of London's labour market.

7.1 Previous chapters have discussed the greater diversity of London's population but, as Chapter 5 has shown, the chances of employment in London appear to be lower than elsewhere even after individual characteristics have been taken into account, due to the unique features of London's labour market. This chapter looks at the effectiveness of policies in London in responding to the challenge.

Strategy 7.2 Since 1997, the Government has taken positive action to tackle the problems of long-term unemployment and inactivity. The Government's overall approach to promoting employment opportunity for all has been based on a strategy of:

- promoting macroeconomic stability and growth through a new monetary and fiscal framework, operational independence of the Bank of England, and the application of rigorous fiscal rules;
- a labour market that is sufficiently flexible to encourage job growth but which also guarantees basic employment rights;
- measures to ensure that work pays more than benefits through the introduction of a National Minimum Wage, a series of reforms to the tax and benefit systems, and the introduction of tax credits;
- active labour market policies to help people move from welfare to work, ensuring that everyone is able to share in economic success, while also contributing to overall economic stability by expanding the effective supply of labour; and

- a range of other policies and programmes to help individuals overcome barriers to work by investing in skills and childcare.

7.3 This policy framework has been successful in helping people back into work. The employment rate has increased in every UK region since 1997, particularly for many previously disadvantaged groups, but London and London's labour market policies have performed less well overall.

WORK INCENTIVES

Tax Credits and the National Minimum Wage

7.4 The Government believes that work is the best route out of poverty and is committed to making work pay by improving incentives to participate and progress in the labour market. The key national policies for achieving this are the Working Tax Credit, introduced in April 2003 alongside the Child Tax Credit, and the National Minimum Wage. These policies work together to boost in-work incomes, improve financial incentives to work and tackle poverty.

7.5 The National Minimum Wage guarantees a fair minimum income from work. The rate is currently £5.35 per hour for adults, and will rise to £5.52 in October 2007, with lower rates for 18-21 year olds and 16-17 year olds. The Working Tax Credit provides financial support on top of earnings for households with low incomes, ensuring a minimum income in work. For example, in April 2007, a family with one child and working full time (35 hours) can expect a minimum income of £275 per week as a combined effect of wages, tax credits and Child Benefit.

7.6 The tax credits income disregard was increased from £2,500 to £25,000 in April 2006, further improving work incentives. It means that someone receiving tax credits and moving into work can get Working Tax Credit (including extra help with childcare costs) immediately, but does not see any reduction in their award as a result of the higher income until the next tax year.

7.7 It is sometimes argued that national policies aimed at improving work incentives fail to alleviate lower gains to work in London because they are less effective in London than elsewhere. While higher housing and childcare costs, which are common in London, can affect incentives to work, the picture is not straightforward. This is because Housing Benefit and the childcare element of Working Tax Credit provide in-work support for housing and childcare, helping to maintain work incentives.

7.8 To the extent that work incentives are lower in London, this is not the result of policy. Rather it is driven by the operation of the labour market, in which prevailing wages are only sufficient to fill firms' vacancies. Efforts to improve work incentives should be addressed with this in mind. The additional problems related to childcare discussed in chapter 6, by putting mothers at a cost disadvantage with other workers, raises their entry wage. Chapter 6 suggests ways in which this might be addressed.

Take-up 7.9 Historically, take-up of tax credits, and in particular the Working Families' Tax Credit, has been lower in London than elsewhere. There is evidence that the situation has improved considerably with the Child and Working Tax Credits. Statistics published in March 2007 by HMRC showed that although 63 per cent of eligible working families in London claimed tax credits, 82 per cent of the money was claimed through the Child Tax Credit. This means that those who were not claiming were on average those with lower entitlements. While the proportion of families claiming is lower in London than elsewhere in the UK, the proportion of money claimed is closer to the national average. This is consistent with low-income families in London being no less likely to claim tax credits than those in similarly prosperous regions, and possibly the UK as a whole.

ACTIVE LABOUR MARKET POLICIES

7.10 As elsewhere in the UK, London's labour market programmes aimed at supporting unemployed and inactive people back into work are provided by the Department for Work and Pensions through Jobcentre Plus, with services commissioned from the private and third sector (voluntary and community sector). In London there are six Jobcentre Plus districts, which coordinate and, with the private and third sectors, deliver employment services.

7.11 Through its offices, personal advisers and contact-centre network, Jobcentre Plus provides an integrated work-focused service to people of working age who are either unemployed or economically inactive¹. For most jobseekers, unemployment is short-term; over 60 per cent of people who make a claim to Jobseeker's Allowance, move off benefit within the first three months. The financial support offered by JSA is conditional on claimants taking responsibility for moving back into employment quickly, and the intervention regime is designed to ensure that claimants fulfil this responsibility by monitoring their jobsearch activity, offering support and, if necessary, imposing sanctions. Personal advisers provide a frontline service to deliver work-focused interviews aimed at supporting people in their job search, identifying support required, and making referrals to employment programmes.

New Deals 7.12 The mainstay of labour market programmes is the New Deal, introduced in 1998. The New Deal is available across all regions of Britain and provides mandatory support for young people aged 18-24 who have been on Jobseeker's Allowance (JSA) for over six months through the New Deal for young people (NDYP) and for adults who have been claiming JSA for 18 months through the New Deal 25+. There are also a number of voluntary New Deal programmes for lone parents, partners, those over 50 and people with a health condition or disability. Box 7.1 provides further detail on the New Deal programmes.

Box 7.1 Welfare to Work Support – The New Deal

New Deal for young people is for 18 to 24 year olds claiming Jobseeker's Allowance (JSA) for at least six months. A four-month Gateway period is followed by a choice of 4 full-time options: subsidised employment; full-time education or training; a job in the Environment Task Force; or a job in the voluntary sector. There is "no fifth option" to remain on benefits.

New Deal 25+ is for 25-49 year olds claiming JSA for 18 out of the previous 21 months. The Gateway period of 4 months is followed by a period of intensive activity consisting of individually tailored packages of support such as work experience, work placements, occupational training, and motivational skills, underpinned by intensive job search.

New Deal for lone parents provides wide-ranging support delivered through trained personal advisers, including help with job search, skills, childcare, or training opportunities.

New Deal for disabled people provides support for people in receipt of a disability or health-related benefit through a network of job brokers delivered primarily by private and third sector organisations.

New Deal 50+ helps unemployed and economically inactive people, aged 50 and over and their dependent partners who have been claiming key benefits for more than six months.

New Deal for partners is available for partners of people who are claiming key benefits, and offers similar support to the New Deal for lone parents.

¹For an overview of active labour market policies, see 'A new deal for welfare: empowering people to work,' Department for Work and Pensions, January 2006; and Budget 2007, Chapter 4, 'Increasing Employment Opportunity for All'.

New Deal Plus 7.13 New Deal Plus for lone parents (NDLP+) is currently being piloted in seven areas across the country including two in London.² It offers an integrated package of support combining good and affordable childcare with a work focus and strong financial incentives to both look for, and to stay in, work. The pilot builds on the proven success of Work Focused Interviews, the New Deal for lone parents and Tax Credits, and includes a Work Search Premium, an In-Work Credit, and an In-Work Emergency Fund. This is discussed in more detail below.

Private and Third sectors 7.14 The private and third sectors can bring innovative and distinctive approaches to service delivery based on their specialist knowledge, skills and experience. Since 2000, the Government has been systematically testing the impact of opening up the design and delivery of labour market support to competition.

Employment Zones 7.15 In April 2000, Employment Zones were introduced in fifteen (now thirteen with the mergers of four London Zones into two) areas of the UK with the highest concentrations of long-term unemployment.³ They have provided a more flexible, personalised approach, working without central prescription to tailor support for individuals through the contracting out of services to the private and voluntary sectors. Jobcentre Plus refers individuals to Employment Zones, who are long-term unemployed such as JSA claimants between 25 and 49 who have claimed for more than 18 months, or 18-24 year olds who become eligible for NDYP for a second time.

Pathways to Work 7.16 Pathways to Work pilots have been successful in providing additional support to Incapacity Benefits claimants to get back to work through a programme of mandatory work-focused interviews for new claimants and high quality employment, health and financial support. Existing claimants also have voluntary access to Pathways to Work support. Based on positive evaluation evidence from the pilots, Pathways to Work will be rolled out nationally by 2008. The existing Pathways to Work pilots are Jobcentre Plus led, but by national rollout Pathways to Work will be delivered by the private and third sectors in the majority of the country, including the whole of London.

Other Area-Based Initiatives 7.17 There are a number of other area-based initiatives which have been piloted in deprived areas. The Deprived Areas Fund combines the funding from earlier initiatives such as Action Teams, Ethnic Minority Outreach and Working Neighbourhood pilots. It can be spent flexibly by Jobcentre Plus district managers, or City Strategy consortia, where these operate.

7.18 There are also a number of area-based initiatives, aimed at supporting employment, funded by other partners, such as Local Authorities, Regional Development Agencies and Local Strategic Partnerships, through European funding and through the Department of Work and Pensions Cities Strategies Pathfinders.

City Strategies 7.19 The Cities Strategies seek to address localised pockets of worklessness requiring strategic coordination and joined-up working across a range of agencies and employers to enable individuals to overcome multiple barriers to work. They bring together local partners – local authorities, private businesses, third sector organisations, Jobcentre Plus, and Learning and Skills Councils – to form consortia located in 15 cities or city regions across the UK. These consortia are working with Jobcentre Plus to ensure best use is made of flexibilities available to personal advisers to provide tailored support to individuals. They are also pooling funding streams, rationalising and joining up services and commissioning additional services tailored to meet local needs.

² NDLP+ areas are: London South East (Greenwich, Lewisham, Bexley), North London (Barnet, Enfield, Haringey), Bradford, Leicestershire, Dudley and Sandwell, the former Cardiff and Vale sites within the new South East Wales district, and Edinburgh, Lothian and Borders.

³ Employment Zones are located in Birmingham, Brent and Haringey, Brighton and Hove, Doncaster and Bassetlaw, Glasgow, Heads of the Valleys, Liverpool and Sefton, Middlesbrough Redcar and Cleveland, North West Wales, Nottingham, Plymouth, Southwark, Tower Hamlets and Newham.

Box 7.2 Area-Based Welfare to Work Support in London

Employment Zones Three Employment Zones cover five boroughs in London in Tower Hamlets and Newham, Brent and Haringey, and Southwark. Brent and Haringey form one Employment Zone although they are not contiguous and in different Jobcentre Plus districts.

Deprived Areas Fund Previous initiatives including Action Teams, Ethnic Minority Outreach and the Working Neighbourhood pilots have been combined into one new Deprived Areas Fund.

City Strategies There are two City Strategy pilots set up in East and West London. The West covers Brent, Ealing, Hammersmith & Fulham, Harrow, Hillingdon and Hounslow. The East spans Greenwich, Hackney, Newham, Tower Hamlets and Waltham Forest.

New Deal Plus for lone parents is being piloted in two areas in London in the South-East (Greenwich, Lewisham, Bexley) and in North London (Barnet, Enfield, Haringey).

Employment Retention and Advancement Pilots one pilot is running in North East London.

Additional Financial Incentives

7.20 The barriers to work can vary in different areas of the country, and work incentives can be particularly affected by the higher cost of living in areas such as London. To address this the Government has introduced a range of additional financial incentives and support to encourage the move into sustainable employment. These measures aim to encourage work-search while engaging with Jobcentre Plus prior to a move into work; offer support during the transition to work; and promote retention following a successful move into employment. Some are offered solely in the New Deal Plus for lone parents areas (detailed above) but others are available to all Londoners. They include:

- Work Search Premium, paying £20 per week for 26 weeks to encourage lone parents who have been on Income Support for over a year to undertake intensive work search;
- In-Work Credit, which provides a 12 month £40 per week payment to lone parents to aid the transition to work. The In Work Credit pilot was extended to cover the whole of London⁴ from April 2005;
- the In-Work Emergency Fund, aimed at helping lone parents remain in employment by meeting the costs of emergencies during the first 60 days in employment;
- Advisers Discretionary Fund – a national initiative enabling Personal Advisers to provide funding for eligible customers to remove barriers that would prevent that customer starting work;
- flexible funds, which are also being piloted to enable Personal Advisers to tailor support targeting specific barriers faced by lone parents;
- Employment Zone contractors offering flexible in-work assistance to customers who require it;

⁴ Except in the North London Employment Retention and Advancement pilot area.

- Job Grant, available nationally, which is a one-off payment to help with the transition to work and available to people who have claimed working age benefits for 26 weeks or more and start full-time work;
- the childcare subsidy for lone parents working less than 16 hours a week. This is a nationwide incentive where the lone parent can claim most of the registered childcare costs whilst they are working; and
- the Employment Retention and Advancement (ERA) project which tests the benefits of additional retention and advancement support to certain groups of jobless individuals as well as those currently in work. It is testing two new interventions: personalised pre-and post-employment support from an Advancement Support Advisor working with the participant for up to 33 months; and a range of financial incentives to promote full-time employment and work-focused training. The incentives include a retention bonus, up to six payments of £400, tuition fees of up to £1,000, a training bonus and an Emergency Discretionary Fund.⁵

IMPACT OF LABOUR MARKET PROGRAMMES IN LONDON

7.21 As elsewhere in the country London has seen significant falls in the numbers of long-term unemployed. Long-term unemployment has fallen in London from 284,900 in April 1997 to 156,800 in February 2007. The number of 18–24 year olds claiming JSA for over six months has fallen from 30,000 in April 1997 to 8,500 in February 2007. The number of 25 year olds and over claiming JSA for over 18 months has fallen from 83,000 in April 1997 to 16,000 in February 2007.

7.22 Jobcentre Plus in London has made a significant contribution to the reduction in long-term unemployment. Jobcentre Plus London was the top-performing region in 2005-06, and exceeded its target for job outcomes by 20 per cent, one of only two regions in the country to do so.

Performance of the New Deals

7.23 The impact of employment programmes is a further reason for the significant improvement in employment rates. Since its introduction in 1998 the mandatory New Deals have helped 1.7 million people into work. The New Deal for young people has helped over 710,000 young people move into work, and over 99,000 of these were from the London region. Similarly, the New Deal 25+ has helped over 278,000 adults into work, over 49,000 of whom were from the London region.

7.24 Independent evaluations of the New Deal have also demonstrated its positive impact. In 2000 the National Institute of Economic and Social Research concluded that without the NDYP the level of long-term unemployment would have been twice as high.⁶ Further studies have shown the benefits of the NDYP outweigh the costs⁷ and there is evidence that it has significantly boosted the exit rates of young people from unemployment in all regions. Evaluations of the New Deal for lone parents suggest that the programme doubles the employment chances of participants.⁸

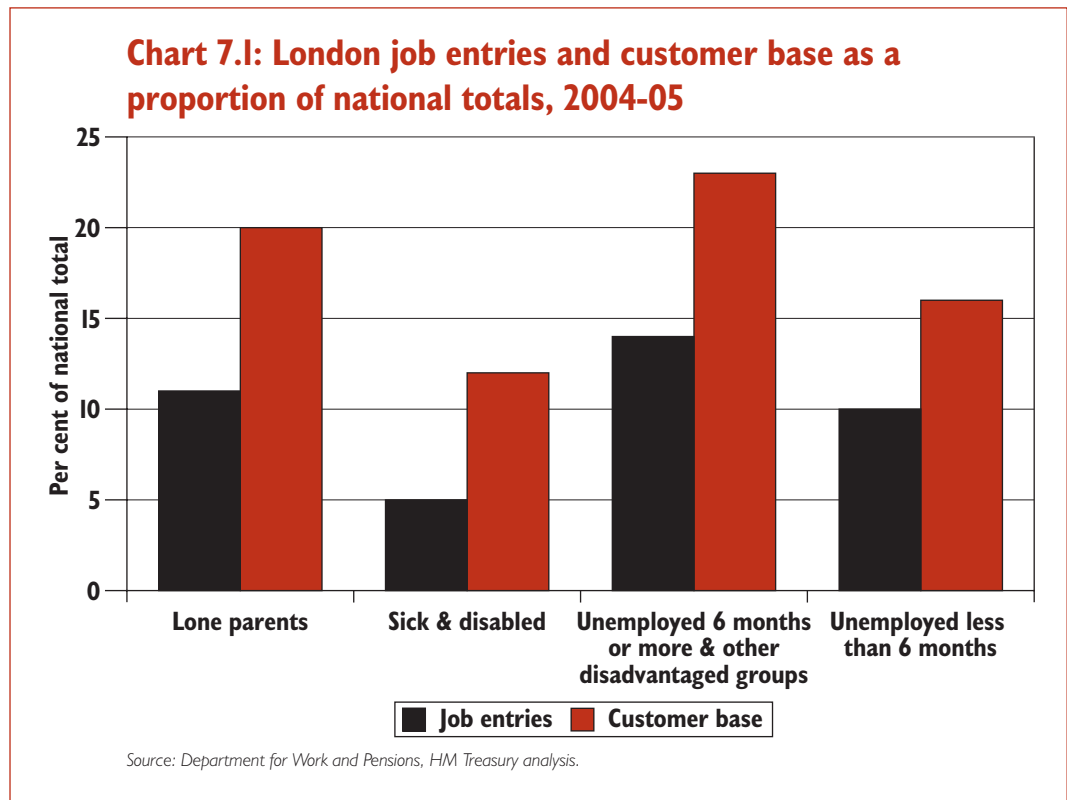
⁵ ERA pilots are running in Jobcentre Plus districts in the East Midlands, North East London, North East England, North West England, Scotland and Wales.

⁶ The New Deal for young people: implications for employment and the public finances. NIESR, 2000.

⁷ New Deal for young people: evaluation of unemployment flows. Wilkinson, D, Policy Studies Institute, 2003.

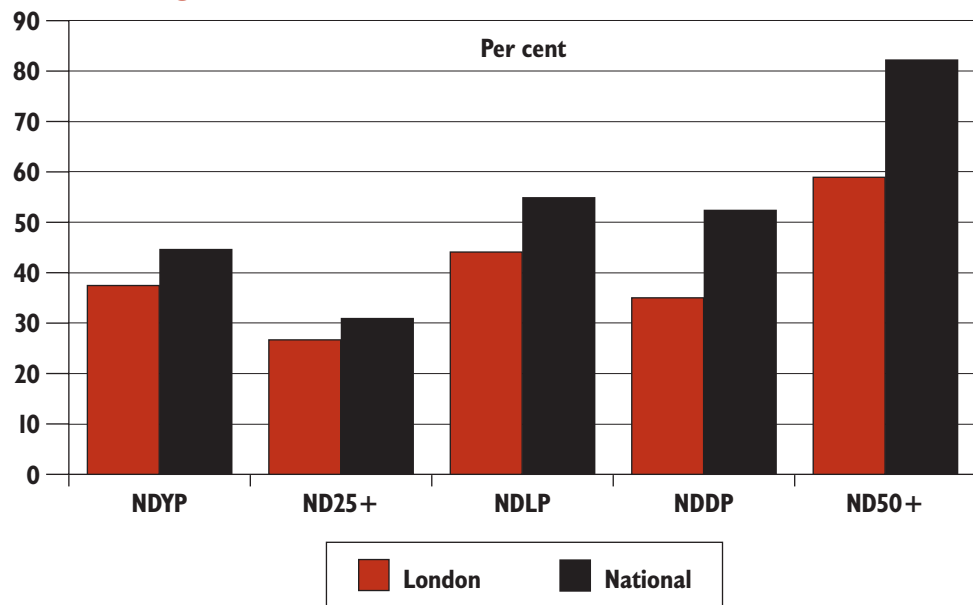
⁸ New Deal for lone parents: second synthesis report of the national evaluation, Centre for Analysis of Social Policy, University of Bath, Evans, Eyre, Millar, Sarre, June 2003.

Performance in London 7.25 Although London has seen a decline in long-term unemployment, it still has a relatively low employment rate compared with other regions. London has poorer outcomes in terms of job entries and, as chart 7.1 shows, London's share of job entries through Jobcentre Plus is significantly lower than would be expected given its share of the national caseload. Job entries for sick or disabled people in London, for example, are at 5 per cent of the national total and do not reflect London's share of the customer base. This effect can be seen across client groups.



7.26 Individual level problems, reinforced by the competitive Inner London labour market, mean labour market programmes might be expected to be less effective. The evidence suggests that this has been the case. The proportion of New Deal leavers in London who find work through that programme is significantly lower than the national average, as chart 7.2 illustrates. The proportion of leavers moving into jobs in London, for example, is 11 percentage points lower for NDYP clients; 12 percentage points lower for NDLP clients; and 30 percentage points lower for ND 50+ clients than nationally.

Chart 7.2: Proportion of New Deal leavers London and UK entering work, cumulative to 2005



Note: NDYP, ND25+ and NDLP as a proportion of total leavers into employment from total leavers. NDDP and ND50+ as a proportion of total jobs gained from total starts.
Source: Department for Work and Pensions.

Performance of Employment Zones 7.27 Employment Zones have trialled more individualised approaches and there is now a wide body of research from these pilots, which suggests that the greater flexibility in these areas may lead to improved outcomes. Job starts in Employment Zones are 6 percentage points higher than their Jobcentre Plus-led comparators. For job sustainability the gap with Jobcentre Plus is even larger with Employment Zones achieving 34 per cent of claimants moving into a sustained job, an improvement of 9 percentage points on the New Deal. Employment Zones are, however, more expensive, meaning there is little to choose between the two approaches in terms of cost-effectiveness.

7.28 Outcomes from the London Employment Zones (Brent and Haringey, Southwark, and Tower Hamlets and Newham) show performance in London is also closer to the national average for Employment Zones than London's New Deal performance is to the national New Deal average. Around 38 per cent of participants find work from London's Employment Zones, compared with 39 per cent in Employment Zones outside London. In other words, London's performance penalty with respect to the New Deal is not seen with respect to Employment Zones.

7.29 This better relative performance of Employment Zones should, however, be treated with some caution, since there may be other factors at play. Employment Zone populations may, for example, be more comparable than those for the New Deal. Alternatively the improved performance of Employment Zones could reflect delivery issues within Jobcentre Plus or among its New Deal providers, which affect New Deal performance but which Employment Zones are able to overcome due to their greater flexibility. Employment Zones may also be more successful at recruiting and retaining staff, since they are able to offer higher salaries: something that is more important in London where living costs are higher.

WHY LONDON PERFORMS LESS WELL

7.30 The previous section showed that labour market policies, specifically the New Deal, perform less well in London than in other regions, while Employment Zones, although based on a smaller share of the market, appeared to do better. This section explores the reasons for this lower level of performance and considers whether the delivery structures and the employment services in place meet London's needs.

Population

7.31 The current structure of labour market programmes targets client groups by age or by benefit type. NDYP and ND25+ categorise individuals by age and the requirements on individuals to participate is dependent on duration on benefits. For those on NDYP this is six months and those on ND25+ this is 18 months. The New Deal for lone parents is available on a voluntary basis to all lone parents on Income Support.

7.32 But London's population differs from the rest of the country in many ways. More people in London have characteristics that put them at risk of labour market disadvantage, and more face multiple barriers to work.

7.33 This has potentially significant implications for London's employment programmes. Given the diversity of London's population, employment programmes in their current form may not be fully able to meet the challenges of dealing with the wide range of barriers to work faced by its workless population.

7.34 The case is not clear cut, but, the better relative performance of Employment Zones in London could signal that programmes based on type of benefit claimed might be less effective in meeting the more diverse needs of Londoners. However, there is little to choose in cost effectiveness between the Employment Zone and New Deal approaches. There may be a case for greater individualisation and flexibility of services, as outlined in the recent report by David Freud,⁹ operating within a strategic London-wide framework.

Labour Market Conditions

7.35 Findings from Chapter 5 show that even when 'people' issues and the characteristics of London's population have been taken into account, London still has relatively high rates of worklessness. Worklessness remains high in Inner London because competition for low-skilled entry-level jobs is more intense than elsewhere. Moreover, those who cannot compete in this market are geographically distant from alternative labour markets. This is driven by forces that may be common to other cities but which are particularly strong in London.

7.36 A key rationale for Jobcentre Plus, and other private and third sector-led delivery agents, is to correct market failures through providing information about employment opportunities to those with low-skills. They are therefore well placed to work with others to address the problems of London's labour market and to encourage outward work-search with the aim of linking the low-skill labour market in Inner London to labour markets in Outer London and beyond.

⁹ Freud, D. (2007), 'Reducing dependency, increasing opportunity: options for the future of welfare to work', Department for Work and Pensions, 2007.

Delivery of employment services

7.37 Improved employment outcomes in London might also be found through a more strategic, London-wide approach to the delivery of employment services. This would identify problems in a more systematic way, to enable services to be designed and delivered in ways that are appropriate to the local context and need.

7.38 The coordination of services across districts and boroughs can also widen effective and actual employment fields. If an individual finds a job outside a reasonable commuting distance, he or she might, for example, find themselves constrained by insufficiently flexible social housing, as John Hills has identified in his report on Social Housing.¹⁰ Jobcentre Plus, other employment delivery agents, and services such as housing and transport should work in conjunction with each other. This will ensure greater coordination, improved links with other services and that the range of support provided is both compatible and complimentary.

7.39 Box 7.3 sets out examples of the employment opportunities that can be achieved through the cooperation and cross-working of services.

¹⁰ Hills, J. (2007), 'Ends and Means: the Future Roles of Social Housing in England', CASE Report 34.

Box 7.3 Examples of the Co-ordination of Services in London**London Stansted Employment Partnership**

The London Stansted Employment Partnership established in 2006 builds on the best practice derived from the North London Stansted Partnership, managed by Urban Futures, and the Thames Gateway London Stansted Partnership.

The overall aim of the project is to promote employment and training opportunities at Stansted Airport within the north and east of London, which constitutes the London boroughs of Haringey, Enfield, Waltham Forest, Newham, Tower Hamlets, Hackney, Havering and Redbridge.

The project seeks to offer a career pathway for residents with real opportunities for development, training and career progression. Candidates enrol on a four-week training course, which covers issues such as interview techniques and job applications. At the end of the course participants are guaranteed an interview for a position at Stansted Airport.

Fair Cities

Fair Cities pilots were established in 2005 in Birmingham, Bradford and Brent. The pilot aims to increase the number of disadvantaged ethnic minority residents who gain steady work, and so help reduce the employment gap for ethnic minority groups.

It aims to do this through a 'deal' between the public and private sectors: employers offer jobs in return for qualified candidates. In practice, this means joining up Jobcentre Plus and Learning and Skills Council (LSC) services, and commissioning new provision, to ensure candidates are 'job-ready' with the skills that employers demand.

The Fair Cities pilots in the three areas have developed 'pipe-lines', each focused on a specific employer: starting with outreach in low income neighbourhoods; continuing with case management, work experience, basic skills and occupational training to ensure individuals are job-ready and prepared for interviews with the employers involved; and extending to career development and workplace support once the individual has been recruited. They became operational in late 2005.

Olympic Jobs

The 2012 Games will play an important role in stimulating economic activity across the host boroughs in a number of ways. A number of Olympics related training programmes are planned, with a particular emphasis on developing sporting and leisure-based skills. The underlying theme of the approach is to use the 2012 Games to help tackle unemployment.

The Government expects that the development of the Olympic park and the surrounding Lower Lea Valley will support up to 50,000 jobs over the next 20 years. Local unemployed people will be helped to access these jobs through provision of employment support and industry relevant training directly linked to the Olympic project in fields such as construction, hospitality, media, tourism, sport and leisure. A key initiative is the Employer Accord, "a deal" in which employers will commit to offer their job vacancies in return for the delivery of better-qualified and prepared candidates through the public sector and skills industry.

CONCLUSION

7.40 London has benefited from national policies to promote macroeconomic stability and sound public finances; measures to make work pay, active labour market policies such as the New Deal, and investments in skills and childcare. However London has lower employment rates and fares less well in terms of employment outcomes from the New Deal, when compared to other regions and countries in Britain. Improvements have been seen as a result of innovations such as Employment Zones, which have narrowed the gap in performance between London and elsewhere. The individualisation of services may be one reason why these programmes demonstrate improved performance although the case is not clear-cut although there is little to choose in cost effectiveness between the Employment Zone and New Deal approaches.

7.41 In addressing the problem presented by London's labour market, Jobcentre Plus and other labour market programmes are well placed to play an active role in alleviating the labour market congestion in Inner London. This can be done through encouraging job search away from the centre, a more strategic London-wide approach to identify the best solutions to the capital's problems, and through a coordinated London-wide approach to service delivery.

8.1 The Government is committed to achieving employment opportunity for all, the modern definition of full employment. Extending employment opportunity is important for economic growth, but also for ensuring that the fruits of that growth are widely distributed. Since 1997, the Government's policy framework, combining macroeconomic stability and microeconomic flexibility, has been successful in raising employment rates in every region of the country except London.

8.2 London's employment rate has remained persistently below the national average for a decade and a half, and is low compared with other UK countries and regions. However, the capital's performance compared with other cities is less exceptional. What is unique about London, however, is that its employment rate has remained lower than in the rest of the UK, despite strong employment growth within the city and the surrounding region in recent years.

8.3 The consequences of this for child poverty have also been serious. While child poverty rates have declined significantly across the country over the last decade, in London they have fallen by far less. Measurement issues make comparisons with other cities difficult, but it seems that low parental employment rates – the main driver of high child poverty rates – are a common feature across many UK cities.

8.4 At the local authority level, concentrations of child poverty in some parts of north and east London are worse than anywhere else in the country. This is partly due to the sheer size of London. Concentrations of child poverty that result from where people live might be limited to particular wards in some cities, but due to London's size, they are evident at the local authority level. These concentrations may increase the negative consequences of being raised in poverty in London, as may the greater costs of housing and other goods and services, and greater polarisation of household incomes. However, considered at the city level, child poverty may be more acute in other cities.

8.5 If poverty and worklessness are easier to address in the context of economic growth than decline, then the continuing strength of London's economy should offer plenty of opportunities to do so in the future. The London 2012 Olympic Games and Paralympic Games offers a once-in-a-generation opportunity to create new employment opportunities for the local population. The challenge is to take these opportunities and to combine economic strength with economic inclusiveness.

8.6 To achieve this objective will require concerted and co-ordinated action from all levels of government and beyond. The purpose of this document has been to assist in this process: to help to build a common understanding of the problems facing London, as a basis for future action. By strengthening the analytical base of knowledge it can help to make future policy in London more effective. By properly locating the capital's problems within a national context it can help to prevent policy being distorted by London's size and prominence, as well as perhaps offering insights for solving problems in other cities.

8.7 Despite clear signs of recent and continued improvement in the performance of services like Jobcentre Plus in London, the clear message of this document is that there is more that can be done. Future policy responses should be tailored to address the three key problems identified in this document:

- higher competition for low skilled jobs in Inner London;
- the high level of need in London; and

- low parental employment rates driving high child poverty rates. This is partly a consequence of the first two problems above, but also results from specific additional childcare barriers facing parents in London.

8.8 The analysis presented in this document recommends areas where future policy should be directed to meet these objectives, and the necessary first steps towards doing so.

8.9 First, there should be an explicit focus on policies to relieve the congestion in London's low-skilled labour market that is responsible for worsening the employment chances of many Londoners, specifically:

- **better coordination at the city level to improve the links and connections between the low skilled labour market in Inner London with Outer London and beyond.** Policy should encourage and facilitate wider job search particularly away from the centre of London;
- **concerted efforts to increase occupational mobility including investment in skills to enable people in entry level jobs to progress at work.** The Leitch Report signalled the importance of joining up jobs and skills to create sustainable employment. Investment in ESOL provision, renewed efforts to recognise and certify qualifications gained in other countries and effective practical approaches to tackling discrimination in employment are all crucial components of helping people to get and retain jobs, and to progress at work; and
- **closer alignment of housing and transport policies with efforts to tackle worklessness, and coordination in the delivery of employment and other services.** Coordination of employment services across districts and boroughs, and improved links to social housing and transport are key to ensuring that different services provide compatible and complementary support. The Multi-Area Agreements signalled in the White Paper on Local Government Reform provide new opportunities to co-ordinate activity across groups of London Boroughs to address worklessness and child poverty.

8.10 Second, a more strategic London-wide approach should be adopted. In London, services need to be designed and delivered in ways that are appropriate to the context. This means identifying the most effective solutions and allowing sufficient control and operational flexibility at the appropriate levels to implement these approaches systematically. Cities Strategy Pathfinders have been helping cities develop tailored approaches to addressing unemployment, inactivity and child poverty in their areas, including in east and west London. Similar approaches at the pan-London level would benefit the capital.

8.11 Third, a clearer focus on the employment needs of parents in London is required. These efforts should follow the recommendations of the Harker Report¹, improving the functioning of the childcare market in London to address the particular barriers of cost and availability faced by parents in London who want to work. This will build on the Ten Year Childcare Strategy and the lessons from the Childcare Affordability Pilots, while the In Work Credit will help make work pay for parents with higher childcare costs.

8.12 Local autonomy is important to allow the flexibility to address area-specific problems. A strategic, London-wide approach, bringing together all levels of government and other partners, is important to coordinate policy in line with the recommendations made here. The institutional arrangement that would be best suited to implementing these changes should now be considered.

¹ *Delivering on Child Poverty: what would it take?* A report to the Department for Work and Pensions, Lisa Harker, November 2006.

Chart A2: United Kingdom: Government Office Regions and Countries



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