Earnings Top Up Evaluation: Synthesis Report

Alan Marsh

A report of research carried out by the Policy Studies Institute on behalf of the Department of Social Security
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The Research Teams

This Synthesis Report brings together five years’ work by three teams of researchers. The programme of research was designed to evaluate the experimental introduction of Earnings Top-up (ETU) in 1996 until its end in 2000. It was at the time the largest research contract awarded by the Analytical Services Division of the Department of Social Security. Proposals from three research institutes were joined to form a research consortium, as follows:

The Institute for Employment Research (IER), University of Warwick, carried out studies of the 12 local labour markets chosen to participate in the ETU experiment either as ‘pilot’ or ‘control’ areas, using a variety of secondary statistical sources. The IER team was led by Peter Elias and included Anne Green, Chris Hasluck and Abigail McKnight, who is now at the Centre for the Analysis of Social Exclusion, London School of Economics and Political Science.

The Centre for Research in Social Policy (CRSP), University of Loughborough, carried out in-depth qualitative interviews with key actors in the ETU experiment: employers, Benefits Agency and Employment Service staff, recipients and ex-recipients of ETU, self-employed people, and so on. The CRSP team, under the overall direction of Bruce Stafford, was led by Jill Vincent and included David Abbott, Claire Heaver, Sue Maguire, Adrienne Miles and Simon Roberts.

The Policy Studies Institute (PSI) carried out large-scale quantitative surveys with employers, low-paid workers, unemployed people and recipients of ETU. The PSI team was led by Alan Marsh, who also took overall responsibility for coordinating the work. The PSI team included Claire Callender, Richard Dorsett, Louise Finlayson, Reuben Ford, Steve Lissenburgh, Alison Smith, Augusta Stephenson and Michael White. Claire Callender is now at South Bank University, Reuben Ford is at the Social Research Demonstration Corporation in Vancouver, Canada, and Louise Finlayson is at the Scottish Executive. The fieldwork for the PSI surveys was carried out by National Opinion Polls (Social and Political) Ltd. (NOP) directed by Nick Moon with Elaine Winter.

The above three institutes were the contractors for the ETU evaluation but the consortium had a fourth member in the staff of the Analytical Services Division at DSS. At various times Nicola Croden, Sharon Jones, Elaine Squires, Rebecca Stanley, Daphne White and Juliet Whitworth all contributed hugely to the project. Everyone in the research teams was at one time or another deeply grateful for their help.


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**LIST OF ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>DWA</td>
<td>Disability Working Allowance</td>
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<tr>
<td>ETU</td>
<td>Earnings Top-up</td>
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<tr>
<td>HB</td>
<td>Housing Benefit</td>
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<tr>
<td>IS</td>
<td>Income Support</td>
</tr>
<tr>
<td>JSA</td>
<td>Jobseeker’s Allowance</td>
</tr>
<tr>
<td>NMW</td>
<td>National Minimum Wage</td>
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<td>UB</td>
<td>Unemployment Benefit</td>
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Earnings Top-up (ETU) was an in-work benefit available to low-paid workers without children. ETU was piloted from October 1996 to October 1999 in eight areas across Britain. This volume is part of a set of seven final reports from the evaluation of the ETU pilot. (Baseline statistics were published in 1999, in DSS Research Report No. 95, and interim evaluation findings were published in March 2000, DSS Research Reports Nos.112 and 113).

The evaluation was conducted by researchers at the Policy Studies Institute (PSI), the Centre for Research in Social Policy (CRSP) at Loughborough University and the Institute for Employment Research (IER) at the University of Warwick. Outline details of the evaluation are provided in this report. Further information on the evaluation can be found in the six other final reports from the ETU evaluation:

**Earnings Top-up Evaluation: Effects on Unemployed People** (Smith, A., Dorsett, R. and McKnight, A., 2001, Department of Social Security Research Report No. 131). This report is in two parts. The first presents the findings of surveys of unemployed people conducted by PSI throughout the ETU pilot. The report considers unemployed people’s experiences of ETU, benefits, their income, contact with the labour market and labour market outcomes. The second part presents findings from econometric analysis, carried out by IER, to assess the overall impact of ETU on unemployment and the effect on individual groups of unemployed people.

**Earnings Top-up Evaluation: Employers’ Reactions** (Lissenburgh, S., Hasluck, C and Green A., 2001, Department of Social Security Research Report No. 132). This report is in two parts. The first presents findings from the surveys with employers carried out by PSI during the ETU pilot. It explores employer’s experiences of ETU focusing on wage effects and hours worked. The second part is econometric analysis, undertaken by IER, which considers the effects of ETU on employers’ behaviour and the recruitment process.

**Earnings Top-up Evaluation: Qualitative Evidence** (Heaver, C., Roberts, S., Stafford, B. and Vincent, J. 2001, Department of Social Security In-house Research Report No. 133). This report presents the findings of qualitative research conducted by CRSP as part of the evaluation of ETU. The report has three parts focusing on ex-recipients of ETU, self-employed recipients and unsuccessful ETU applicants.

**Earnings Top-up Evaluation: Effects on Low Paid Workers** (Marsh, A., Stephenson, A., Dorsett, R and Elias, P., 2001, Department of Social Security Research Report No. 134) This report is in two parts. The first section, by PSI, presents findings of the surveys conducted with low-paid workers and ETU recipients throughout the pilot. It explores the characteristics of these workers and the effect that ETU had on their lives and examines the reasons for non take-up of ETU among eligible workers. The second part, by IER, analyses the same data to explore the wider labour market and potential long-term effects of ETU.
Earnings Top-up Evaluation: Staff Views (Vincent J., Heaver, C., Roberts, S. and Stafford, B., 2001, Department of Social Security In-house Research Report No. 74). This report presents the findings of the staff panels drawn from the eight pilot areas, and from central administrative/processing staff from the Benefits Agency and Employment Service staff over the three years of the pilot. The report focuses on staff’s views of ETU and the way in which it operated within the pilot areas. It also considers changes over time from the beginning of the pilot to its end in 1999.

Earnings Top-up Evaluation: Labour Market Conditions (Green, A. 2001, Department of Social Security In-house Research Report No. 75) This report, by IER, draws out the contrasts and similarities in labour market conditions across local areas included in the ETU pilot.

Previously published research in the ETU series include:

Low Paid Work in Britain, (Marsh, A., Callender, C., Finlayson, L., Ford, R., Green, A and White, M., 1999, Department of Social Security Research Report No. 95) This report presents the findings from the first surveys conducted prior to the introduction of Earnings Top-up, with employers, low paid workers and medium-term unemployed people. Baseline data on the characteristics of these groups are presented, including health and education, wage expectations, earnings, wage setting behaviour and recruitment. Preliminary information on the labour market profiles of the evaluation areas is also included.

The First Effects of Earnings Top-up, (Finlayson, L., Ford, R., Marsh, A., Smith, A. and White, M., 1999, Department of Social Security Research Report No.112) This report presents the findings from surveys conducted in 1997, almost one year after the introduction of ETU with employers, low paid workers, medium-term unemployed people and ETU recipients. The report presents interim analysis of the first effects of ETU over this period.

Piloting Change, (Vincent, J., Abbott, D., Heaver, C., Maguire, S., Miles, A. Stafford, D., 1999, Department of Social Security and Research Report No. 113) This report presents the interim findings from three components of the ETU qualitative research: two group discussions with Employment Service and Benefits Agency staff; face-to-face interviews with ETU recipients; and telephone interviews with employers.

This report draws together the main results of the evaluation in one volume. The aim of this report is to provide a relatively short and non-technical overview of the evaluation’s conclusions drawn from all strands of the evaluation. It is intended that this will help readers identify the sources to which they can turn for fuller information on the evaluation.
ETU and the Evaluation Programme

Earnings Top-up (ETU) was introduced in October 1996 as a three-year pilot scheme. It provided cash payments to low-paid people working at least 16 hours a week and who had no dependent children. ETU was the first new social security benefit to be piloted in this way and its aims were stated as follows:

“To improve the incentives for unemployed singles and couples without dependent children to take work of 16 hours or more each week, without worsening incentives for others.

To improve the incentives for those on low incomes to stay in work by raising their incomes relative to out-of-work support, without reducing their hours of work.” 1

Two versions of ETU were piloted, Scheme A and Scheme B. Each provided typically £20-30 to single people and £35-45 to couples but differed in their range of qualifying incomes. Scheme B was available at higher incomes, ending for older single people at about £140 and for couples at £180 a week. Scheme A ended at about £130 and £170, respectively, but at just over £100 a week for single people under 25.

Schemes A and B were each piloted in a large urban area, a large town, a seaside town and a rural area. Four corresponding areas were selected as control areas. For some areas, like Southend, Scheme A was set too far below local wage levels and few workers qualified.

The evaluation study focused on three main questions:

• What was the effectiveness of the benefit in terms of take-up among eligible workers and its effects on the people who claimed it?
• Did ETU improve employment for low-paid workers?
• Did this lower the wages paid to low-paid workers in these areas?

Consequently, the evaluation study was designed to measure:

• The speed of movement from unemployment into work;
• The numbers of claimant unemployed people;
• Employment duration;
• Employment volumes;
• The wages earned by the lowest paid workers; Its visibility and popularity among its intended customers;

1 Piloting Change in Social Security: Helping people into work, DSS/COI, 1995
• Its ease of access and take-up rate among eligible workers;
• Its effects on their incomes, especially if they were getting other benefits; and
• The effects of claiming or not claiming on opportunities and welfare, particularly among those who were eligible for ETU.

These measures were then compared:
• during the pilot period in the Scheme A and Scheme B areas, compared with control areas; and
• during the pilot period compared with the period before the introduction of ETU.

Four approaches were taken to the evaluation of ETU:
• To study trends in administrative data;
• To carry out local labour market analyses;
• To carry out quantitative face-to-face, telephone and postal surveys with ETU recipients, potential recipients (in work and unemployed) and employers; and
• To carry out in-depth qualitative interviews with samples of recipients (including the self employed), ex-recipients, unsuccessful applicants, and employers; and discussion panels among staff.

These studies were carried out in 1996, before the introduction of ETU and, in varying combinations, in each succeeding year of the pilot.

Baseline studies of the local labour markets of the eight pilot and four control areas found no differences between them that would seriously bias subsequent comparisons between the two versions of ETU and the controls. No differences were found that would account for the very wide differences in the take-up of ETU that subsequently appeared.

The performance of ETU

A target of 20,000 claims for ETU in payment was exceeded in the first year, peaking at 24,500 in the beginning of the third year and falling back after the introduction of the National Minimum Wage in April 1999.

Four out of 10 recipients were single people aged 24 and under and almost half (46 per cent) were single people aged 25 and over; 14 per cent were couples.

Recipients divided evenly between those working 16-29 hours and those working 30 or more hours and receiving an additional bonus for doing so.

The pilot design aimed to have equal numbers in each version of the benefit, but Scheme B attracted more customers than Scheme A: 57 per cent compared with 43 per cent of the total caseload at the end of three years.
Take-up was much higher in the industrial North and North East compared with the seaside towns and rural areas. There were six times more recipients in Sunderland than in Southend, for example.

Eighteen per cent of recipients had claimed ETU directly from a spell on out-of-work benefits, usually Jobseeker’s Allowance (JSA). Most of the rest had had their jobs for some while.

Wages were spread well below the maximum qualifying levels and about four in 10 had wages low enough to attract a maximum award. ETU recipients averaged £2.90 an hour.

Surveys of ETU recipients showed that:

The men were often working in transport, warehouse work, or as messengers, labourers and gardeners, or they were mates and apprentices to craft trades.

The women were found more in cleaning, catering, shop work, hairdressing, routine cashier and data-entry work, and most especially in care work in the private care industry.

Recipients had few educational or other qualifications. Eight out of 10 left school at the minimum age. One in ten had problems with literacy or numeracy.

Half the ETU recipients had no formal housing costs, usually because they were living with their parents. A third were tenants and half these got Housing Benefit. This means that ETU rarely replaced entitlement to Housing Benefit.

ETU met need, though substantial numbers of recipients continued to experience financial difficulties. Otherwise, many recipients said that ETU allowed them to work shorter hours while releasing them to follow other pursuits, including caring for a relative or other socially useful activities. It helped many to cope with poor health that limited their employment or to recover from difficult times in their lives. The few self-employed recipients found ETU especially useful in getting a start in business or shoring up failing enterprises until prospects improved.

Recipients were not well informed about ETU and knew little of how it worked.

Surveys of the customer base for ETU – low-paid workers in work – showed they had much in common with recipients. They were predominantly young, female, in unskilled or basic service and clerical occupations. Only a minority of them had heard of ETU, falling from 34 to 29 per cent over the course of the pilot, and only a handful of them had ever claimed it.
Though unaware, many workers were eligible for ETU, which means that the take-up rate among eligible workers was low: just 18 per cent in 1997, rising to 23 per cent in 1999.

The take-up rate for Scheme B was much higher than for Scheme A: 30 per cent compared with 14 per cent.

Although they lived in the same areas and earned similar wages, ETU recipients and eligible non-claimants (ENCs) differed widely. The take-up rate among single people was four times higher than for couples (37 versus 10 per cent). Otherwise:

- recipients were young, lived in the North East, claimed other means-tested benefits from time to time, and had histories of unemployment; while
- eligible non-claimants were older couples, dual-earners, homeowners, sometimes living with a disabled partner, rarely claimed other benefits, were homeworkers, self-employed, lived in Scheme A areas, had remained in their low-paid jobs a long while and were used to coping on small incomes.

These differences revealed five underlying causes of low take-up:

- **Geography**: eligible workers were too scattered to support networks that would prompt widespread claiming.
- **Social isolation**: ENCs were not members of the same social networks inhabited by claimants.
- **Critical mass**: geographical scatter and social isolation combined to reduce the density of eligible workers, in most places, well below the critical mass that would form an active customer base for the new benefit.
- **Skill transfer**: recipients were the very lowest-paid of eligible workers sensitised to news of a subsidy by the experience of hardship and by earlier or current contact with the benefit system.
- **The lack of publicity**: far too few unemployed people and low-paid workers were aware of ETU.

The Impact on Employment

Studies of local labour markets found no clear evidence for more favourable local labour market trajectories in ETU areas compared with control areas that might be attributable to the operation of ETU. In particular, there were no differences in:

- total employment volumes or the percentage changes in these;
- the percentage change in low-paid employment;
- trends in job vacancies;
- overall volumes or rates of unemployment; or
- trends in the duration of unemployment.
Multivariate analysis of employment spells among the three surveys of workers, unemployed people and ETU recipients confirmed that there were no differences in these histories that were attributable to the operation of the ETU pilot.

However, these three groups had different work histories. ETU recipients had suffered disrupted work histories since 1990, spending less time in work in the previous few years than had the low-paid workers who did not claim ETU. Their record was similar instead to the medium-term unemployed. Nothing in this analysis directly implicated ETU in changing the course of people’s job histories. Rather, people with ‘scarring’ experiences of early unemployment were more likely to be open to wage subsidy. Those staying in low–paid work would have been more insulated from news of the introduction of ETU.

The ETU workers showed signs of maintaining this recovery, with rates of labour market participation on a par with existing workers and few returns to JSA. This was unlike the continuing problems of the unemployed sample. For those who claimed it, ETU may have helped to combat the effects of ‘scarring’ of earlier unemployment.

In the ETU areas, flows into claimant unemployment slowed and, allowing for these, flows out of unemployment increased, compared with the controls. ETU therefore caused a small but significant improvement in labour market participation.

These marginal employment gains from ETU were greater among the unskilled, though they may have been offset a little by losses among the low–skilled workers just above them in occupational ranking.

The JUVOS² data also suggested that the more generous Scheme B terms allowed workers to take jobs at lower wages and then to keep them longer without, as so common among the very lowest paid workers, lapsing back into unemployment.

The JUVOS data included all unemployment spells. It was also hoped that ETU would assist the medium-term unemployed – people who had had trouble finding work but who had not stopped looking. Surveys of medium-term (6-18 months duration) unemployed people showed that:

- Barriers to work, such as low human capital and poor health, were considerable among medium-term unemployed people in these areas.
- These barriers intensified among the unemployed people who failed to benefit from a rising market in the three years of the ETU pilot. As a result, few found work.

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² Joint Unemployment and Vacancy Operating System at the Office for National Statistics.
There was no evidence that medium-term unemployed people moved into work faster in the ETU areas compared to the controls. This was true in the surveys in 1996 to 97 and in 1998 to 99, and for both versions of ETU.

The role of ETU was difficult to assess because so few medium-term unemployed people seemed aware of it. This was a serious obstacle to the effectiveness of the new benefit. Their job-search activity was anyway low and many of those still looking were holding out for a better job, beyond the scope of ETU.

There were small signs of an indirect effect via changes in wage expectations, which were forced upward by the higher number of rent-paying tenants among the later unemployed sample.

ETU would be equally effective if it helped workers remain in jobs.

Comparing the surveys of workers in ETU pilot and control areas:

- There was no evidence overall that ETU significantly improved workers’ chances of staying in work, either by working in an ETU area or by directly claiming the new benefit.
- Workers over 40 interviewed in ETU areas may have remained in work longer, on average, compared to equivalent older workers in control areas, though this was not due directly to their claiming ETU.
- Recipients, though, said they found ETU helpful in getting the type of work they wanted and keeping in work in difficult circumstances. This was especially true among the minority of self-employed ETU recipients.
- There was a high deadweight cost. The later surveys confirmed the earlier findings. There was little in the data to oppose the view that most of the expenditure on ETU went to people who would anyway have carried on doing the jobs they did, or who took the jobs they would have taken, working the hours they would have worked for the wages they would have otherwise accepted.

There was little evidence from employers that they had modified their recruitment practices in response to ETU.

- Few employers were aware of ETU or its rules.
- Employers generally had not engaged with ETU as a contribution to recruitment practice, though a few had.
- There was no overall impact of ETU on recruitment or retention.
- There were some signs that ETU was encouraging employers in recruitment to shorter hours working among low-paid workers.

Did ETU lower wages? ETU recipients experienced no wage growth prior to the National Minimum Wage. Wage offers to new recruits grew significantly more slowly in both ETU areas compared to Controls. The main points were:

- Employers said they evolved no conscious strategy to use ETU in wage setting.
• There was mixed evidence in trends in low-paid employment reported by employers, some favouring an ETU effect, others not. Scheme B did seem to reduce wage offers made to new low-paid recruits, especially among employers who were aware of ETU.

There was some evidence from the surveys of unemployed people, based on small numbers, that older unemployed people in ETU areas, especially those who had been unemployed a long while, took up work at lower entry wages. This was not due directly to their having received ETU but it ties in with the finding above that older workers may have remained in work longer in ETU compared with control areas.

If ETU had had a large effect on the wages of the lowest-paid workers, Family Credit recipients in the same areas would have felt its effects, as their wages came under pressure from ETU workers. But the analysis of administrative data showed that ETU had no influence on the wages received by Family Credit recipients.

**Conclusions**

The overall conclusion was that ETU had caused some marginal improvement in employment opportunities for the lowest-paid workers at the cost of small reductions in entry-level wages, especially for older workers. There may have been a very small additional cost in diminished employment for low-skilled (compared to the lowest-skilled) workers.

ETU offered a number of advantages:

• ETU raised workers’ incomes.

• The benefit was well targeted on very low-paid workers; four out of ten were paid so little they qualified for the maximum award.

• Few claimed other income-tested benefits to the extent of forfeiting existing income against new entitlement to ETU. Where this did happen, however, it was a problem and it severely reduced incentives.

• The additional income met need and reduced hardship. It allowed some workers more choice in distributing their time between working for money and working for voluntary and personal caring responsibilities. It lessened pressure to face more demanding work among people recovering from personal crises or who had chronic health problems. Others were able to stop working very long hours or doing two jobs. If ETU maintained or increased the supply of unwaged work that might otherwise have been supported from public resources, it represents a hidden benefit to be placed against its cost.

• Some need and hardship remained and few young ETU recipients could maintain their own households. Compared with the support now available under Working Families’ Tax Credit, a question of equity now arises for low-paid workers without children.

• Over time, the small improvement in employment should grow larger as take-up improves.
There were some disadvantages too:

- The deadweight cost, expected at the beginning of the pilot period, did not appear to diminish over the following three years. This, again, might well be offset to some extent by the value of unwaged work allowed by the 16-hour rule for ETU.
- There were small secondary effects that reduced employment opportunities among other workers.
- Where they were observed, the impact on entry-wages was large and statistically significant, but the evidence was based on perilously small sample numbers. And if ETU is to work by increasing flows into the lowest-paid work, a reduction in entry-wages is inevitable. Or at least it was until the National Minimum Wage. The most likely effect now is to turn the National Minimum Wage into the maximum wage for unskilled job entrants.

If a modernised version of ETU, called Earnings Tax Credit (ETC) is to be set alongside WFTC, the lessons for future policy are clear and helpful:

- **Welfare**: If ETU met need then ETC will meet a lot more of it. Younger workers, for example, will start to command a net income in work that will allow many more of them to leave their parents’ homes and start living more independently. One drawback to this development would be the re-introduction of the problem of a clash with Housing Benefit. More rent-paying tenants among ETC recipients will mean more duplicated entitlements and, consequently, reduced incentives.

- **Incentives**: ETC will provide unmistakably large incentives to work, as ETU in a smaller way provided significant positive cash incentives for most low-paid workers. But ETU remained invisible to the majority of them. In addition, the low take-up rate for ETU was largely a function of the low density of eligible workers in most of the selected areas. In some areas not enough people qualified because of the rules. In others, more people qualified but they lived too far apart and occupied thin social and occupational networks that did not connect. In contrast, ETC will have many advantages that will overcome these problems.

- **Take-up**: the very low take-up rates for ETU have little predictive value for the take-up of ETC and should not discourage its use. The following factors are the most important:
  - **Density**: The qualifying rules for ETU thinned out eligible workers to a point where, especially in Scheme A and the geographically more scattered Scheme B areas, they vanished from common view and conversation. Workers who qualify for ETC will be far thicker on the ground than they were under ETU. They will be set up alongside all the families with children who qualify for the same ETC plus their Child Credit and Child Benefit. Wage supplementation for low-paid or relatively low-paid workers will become universally visible and universally expected.
• **Publicity:** The clear lesson of ETU was that media publicity is indispensable first to kick-start and then to maintain take-up of an in-work income-tested benefit or tax credit. A national publicity campaign for the new integrated system would succeed, as the campaigns promoting Family Credit have succeeded in the past.

• **Employment:** The small signs of gains in low-paid employment under ETU should grow stronger under ETC.

• **Wages:** The impact on wages may also grow but will remain small. But if it remains in proportion to the effects of ETU it will be confined to a reduction in entry-wages and will anyway be underwritten by the National Minimum Wage. Most of the new money will stay with the workers.
1.1 Introduction

Earnings Top-up (ETU) was introduced in October 1996 as a three-year pilot scheme. It provided cash payments to low-paid workers who had no dependent children. ETU was the first new social security benefit to be piloted in this way and its aims were stated as follows:

‘To improve the incentives for unemployed singles and couples without dependent children to take work of 16 hours or more each week, without worsening incentives for others.

To improve the incentives for those on low incomes to stay in work by raising their incomes relative to out-of-work support, without reducing their hours of work.’

ETU built on the existing policy of adding to the wages of working parents through Family Credit (now Working Families’ Tax Credit) by extending wage supplementation to workers who had no dependent children. The pilot operated in eight areas covering together between six and seven per cent of the working population. There were two versions of the new benefit, called ‘Scheme A’ and ‘Scheme B’ each offering differing amounts of extra cash to younger and older single workers, and to couples. Typically single workers would get about £15-20 a week added to their wages, couples about £30-35, though by the end of the scheme single people were receiving about £24 in extra cash and couples nearly £40.

A programme of research was carried out over five years to evaluate the effectiveness of the new benefit in improving the lowest paid workers’ incentives to get and keep paid work and what effects this might have on the local labour market. The research was designed to measure any impact on low-paid workers in the eight pilot areas compared with four matched ‘Control’ areas. Surveys were carried out with low-paid workers, unemployed people and employers using both face-to-face and telephone interviews. Qualitative studies included in-depth interviews and staff discussion panels. Local labour market studies were also carried out for the eight pilot and four control areas.

This Synthesis Report brings together the outcomes of this programme of research and assesses the performance of the new benefit in achieving the aims set for it. As well as assessing the likely gains from ETU, the research also looked at possible costs, especially for signs of a decline in wages among the lowest-paid workers that might have followed the

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Piloting Change in Social Security: Helping people into work, DSS/COI, 1995:
introduction of a wage subsidy. The concluding chapter assesses the effectiveness of the evaluation, the balance of the gains and costs of ETU and estimates the likely place for a similar wage subsidy in future.

1.2 Making work pay

Wage supplementation in one form or another is needed when significant numbers of people become financially better off out of work and relying on benefits than they would be in work. From the 1960s onwards, quite large numbers of British parents were left in this position because of increases in the benefits available for families with dependent children and lower tax thresholds. Subsequently, policies were developed that relied on a system of ‘in-work benefits’ to supplement the wages of low-paid workers. For parents, Family Income Supplement was introduced in 1971, succeeded by Family Credit in 1988 and by Working Families’ Tax Credit (WFTC) in 1999. Each provided increasing amounts of extra cash and other benefits. For disabled people, Disability Working Allowance provided similar help. Housing Benefit and Council Tax Benefit remained available in work to anyone with high housing costs, high local taxes and small wages.

The amounts of entitlement can be large. For example, from April 2001, the new system will deliver a guaranteed minimum income of £214 a week to any family with children in scope of WFTC.

The design of in-work benefits, ETU included, is influenced by a number of problems:

- Unless everyone is to benefit, the extra cash must be reduced as workers’ wages rise. The point at which payments cease is determined by this rate of withdrawal.
- If the withdrawal rate is steep (typically 80p in the pound) the benefit is well-targeted on the lowest earners. But they may be discouraged from earning any more because they lose so much benefit when they do. This problem is known as ‘the poverty trap’.
- If the withdrawal rate is shallow, people will be more encouraged to look for improvement because they keep more of their extra earnings. But benefit will become available at wages nearer to the average, which starts to bring in very large numbers and includes some who may not think of themselves as people in need of public assistance.
- The system is unavoidably complicated because entitlements are worked out on a household basis and include all sources of income. This, and other reasons, can raise the fraction failing to claim. Non-take-up of income-tested in-work benefits among eligible families can be much higher than those typical of other more straightforward benefits, such as Child Benefit.
Research on Family Credit indicated that the extra cash helped many families get work, typically lone parents, and helped others to stay in work, typically couples. Few were discouraged from earning more when they could, while non-take-up tended to be concentrated amongst those who needed the least help.

The system has recently been underpinned by three other measures:

- The introduction in April 1999 of a National Minimum Wage of £3.60 an hour.
- Adjustments to National Insurance payments that remove the lowest paid from liability but protects their benefits.
- The introduction of higher tax thresholds and a 10p in the pound tax rate for the lowest paid.

Thus, the Earnings Top-up Pilot itself passed through a change in the policy climate from its conception in 1995 to its completion as the last repeat-claims were ended in 2000. This change was one of emphasis, as the incentive to work was increased. It was accompanied by the introduction of active case management though various New Deal schemes that provided Personal Advisers to many benefit claimants, especially to younger claimants, the long-term unemployed, disabled people and lone parents. This combination of increased cash incentives and active case management forms the basis of the Government’s Welfare-to-Work strategy.

The switch to tax credits was also significant. If Earnings Top-up is to be followed by a similar system of cash incentives to work for people without dependent children, it will have to fit alongside WFTC. It will also have to accommodate the National Minimum Wage.

1.3 The introduction of Earnings Top-up

In assessing the effects of ETU, there were two main issues: employment and wages.

1.3.1 The effects on employment

Who would move into work because of ETU?

The case for Earnings Top-up as a labour market instrument depends on there being, actually or potentially, a supply of low-paid jobs. These are jobs whose wage rates are below those at which a limited share of the total pool of unemployed people was normally willing to come forward to take them. Without a subsidy, such vacancies are hard to fill or may remain conjectural. Where low-paying jobs are taken, it is often by secondary earners such as married women and students in households where other people are employed already. Their households provide their ‘wage supplementation’. These groups are rarely entitled to out-of-work benefits, either directly or indirectly, so the problem of their work incentives is less urgent.
So in terms of the social distribution of the potential customers of Earnings Top-up, introducing the new benefit looked in 1995 like an exercise in niche marketing. There were a few concentrations of people who would benefit a lot and have a high incentive to claim. For example, women with disabled partners or other household members receiving some of the insured disability benefits would gain considerably. There might also be increased numbers of disabled workers who did not qualify for DWA but would be in line for ETU following the change from Invalidity Benefit to Incapacity Benefit. Earnings Top-up would also be attractive to families on Family Credit whose youngest child aged out of the qualifying range, especially former lone parents. On the other hand ETU would reduce the incentive for the non-working partner of a single-earner couple to go to work.

In addition, Redmond and Sutherland (1995) suggested that ETU could encourage into work:

- single people who had low housing costs, or none; and
- people with small mortgages.

Probably the largest group of people in scope of ETU would simply be young workers with few qualifications, especially those in low-wage areas away from the South East of England. Unemployment among this group was already the focus of policy and became a priority from 1997 for the first of the New Deal case management programmes.

Incentives and the problem of rent

A criticism made of the design of ETU was that like most poor people, potential recipients would be tenants. This meant that those paying even small rents and earning very small wages might not benefit much even if they claimed ETU. The extra cash would simply offset their existing in-work subsidy received from Housing Benefit and Council Tax Benefit. This was one fear that vanished quickly, at least for the majority of ETU recipients. People earning wages as low as those qualifying for ETU can rarely afford rent. They live with their parents, own their own homes outright or have some other way of reducing their housing costs to a minimum.

The expected improvements to employment, and possible costs

In summary the employment effects of ETU were not expected to be large, since only a small fraction of workers would qualify. However, on the positive side:

- unemployment duration would fall as jobseekers found it easier to accept low wage offers;
- those who were finding it the most difficult to get a job would have a new incentive to work, or at least to look harder;
workers, especially perhaps the youngest workers, would find it easier to remain in the lowest-paid jobs, at least until they moved on to better things;

non-employed people with only small incentives to work, such as carers, would also benefit significantly from working short hours and claiming ETU;

stocks of unemployed people claiming benefit would fall in the pilot areas compared to the control areas. They may be joined in work by other non-claimant unemployed people who needed extra money but previously had only small incentives to work.

On the negative side, there were fears that:

too many workers would receive ETU not as an incentive but simply as a state-subsidised bonus to do jobs they would have done anyway. This is otherwise known as a ‘deadweight cost’;

workers might reduce their hours and so use their new benefit to buy new leisure, with an accompanying loss to productivity;

employment opportunities for other low-paid workers might be reduced;

wages might fall, which is the issue dealt with in the following section.

1.3.2 The effects on wages

By increasing the number of people willing to come forward for relatively low paying jobs, ETU would make it less likely that employers would need to increase wages in order to attract labour. Wages might actually fall in real terms. Individual employers need not know about the existence or operation of the new benefit for it to have such an effect on their wage-setting or on other aspects of the conditions they offer, such as hours of work. They would just respond to changed conditions.

This means that the effects of ETU would be a benefit only if new low-paid jobs were supplied by employers in response to larger numbers of newly-subsidised workers stepping forward to accept them. It would not be a benefit if the acceptance of lower wages by ETU recipients displaced existing or competing workers from the same jobs. Or if new enterprises sprang up offering new products or increased services of one kind that found customers only at the cost of their buying fewer existing products and services and the consequent lowering of employment in those existing enterprises.

There is a sense in which ETU could only achieve its employment goals of increasing the numbers leaving (or avoiding) unemployment, at the expense of a wage effect, as the volume of the lowest-paid employment increased as a result.
On the other hand, two factors might dampen a likely wage effect in the case of the ETU pilot:

- Some local employers might have little autonomy in wage-setting. Nationally agreed wages would not respond to a pilot scheme of Earnings Top-up in eight areas; and
- 25 years of wage supplementation for the other half of Britain’s low-paid workers through FIS and Family Credit, and support for housing costs, might already have lowered wages. This might leave little scope for further adjustment in response to ETU, especially in low-paid industrial areas like the North East.

Two versions of ETU were introduced: Scheme A and Scheme B. Their rules differed for each of three groups of clients: couples, single people aged 18 to 24, and single people aged 25 or over. Table 1.1 shows the payments and starting thresholds for ETU as they were in the last months of the pilot.

ETU was available to employed and self-employed people who worked 16 or more hours a week in jobs lasting at least five weeks. Like Family Credit, it was paid at a fixed rate for a period of 26 weeks and an additional amount was payable to those working 30 or more hours a week (£11.05 per week). The amount of benefit payable was reduced by 70 pence for each pound of income above the threshold. It was not available to full-time students or people with savings of more than £8,000. Eligibility for couples was based on the incomes of both, excluding certain social security benefits. Only one member of a couple could claim.

Table 1.1 ETU payments and thresholds – 1999/2000

<table>
<thead>
<tr>
<th></th>
<th>Single 18–24</th>
<th>Single 25+</th>
<th>Couples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scheme A</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum ETU payment¹</td>
<td>£24.40</td>
<td>£30.00</td>
<td>£49.85</td>
</tr>
<tr>
<td>Earnings threshold</td>
<td>£51.70</td>
<td>£62.45</td>
<td>£80.65</td>
</tr>
<tr>
<td><strong>Scheme B</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum ETU payment</td>
<td>£24.40</td>
<td>£30.00</td>
<td>£60.15</td>
</tr>
<tr>
<td>Earnings threshold</td>
<td>£80.65</td>
<td>£80.65</td>
<td>£80.65</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Single 18–24</th>
<th>Single 25+</th>
<th>Couples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scheme A</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum ETU payment</td>
<td>£35.45</td>
<td>£41.05</td>
<td>£60.90</td>
</tr>
<tr>
<td>Earnings threshold</td>
<td>£51.70</td>
<td>£62.45</td>
<td>£80.65</td>
</tr>
<tr>
<td><strong>Scheme B</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum ETU payment</td>
<td>£35.45</td>
<td>£41.05</td>
<td>£71.20</td>
</tr>
<tr>
<td>Earnings threshold</td>
<td>£80.65</td>
<td>£80.65</td>
<td>£80.65</td>
</tr>
</tbody>
</table>

¹ The maximum ETU payment was payable up to the earnings threshold and then reduced by 70 pence for each pound of income above the earnings threshold.
It was clear from the outset that the range of qualifying incomes for ETU would be narrow, particularly in the case of single people who would lose all benefit at quite low wages (Figure 1.1). Even those benefiting from the extra £11.05 for working more than 30 hours departed the Scheme at £102.34 a week. Couples departed Scheme A or Scheme B at £168 and £180 respectively.

In some areas such as Southend, the narrow band of qualifying wages for Scheme A severely restricted the customer base for ETU. Too few workers would be paid less than the maximum earnings qualifying for ETU, especially at longer working hours.

Figure 1.1 Amounts of ETU and earnings, by type of claimant in Scheme A or Scheme B, working 30 hours a week or more.

1.4.2 The pilot areas

The pilot scheme and its programme of evaluative research was designed to compare the eight test areas (four were assigned Scheme A and four Scheme B) with four more areas chosen as control areas of corresponding type. Research in these 12 areas was carried out at different points from 1996, prior to the introduction of ETU, to 1999 when it ended (Table 1.2).

The areas were constructed by combining ‘travel-to-work’ areas, which are areas of at least 3,500 people, 75 per cent of whose workers also live in the same areas and vice versa. These were then converted to postcode area so that people could identify whether they were eligible. The areas were selected because they had high levels of unemployment, especially male unemployment, but also a high number of job vacancies, especially a high proportion of low-paid vacancies. These were among the areas where ETU was expected to have the most impact. Four types of labour

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4 Strictly speaking, the four ‘Control Areas’ were comparison areas since they were not selected randomly and nor, of course, were workers randomly assigned to them.
Earnings Top-up Pilot Areas

Earnings Top-up
- Control Area
- Scheme A
- Scheme B

- Perth and Sterling
- Newcastle
- Sunderland
- Middlesborough
- Barnsley, Castleford and Wakefield
- Doncaster
- Rotherham and Worksop
- Southend
- North Wales
- South Wales
- Bournemouth
- Southampton and Isle of Wight
markets were selected: major urban areas, large towns, seaside areas, and rural areas.

Scheme B was designed to capture a larger proportion of the low-paid because workers remained eligible at higher wages than under Scheme A. Thus, the pilot areas selected for Scheme B were about half the size of Scheme A areas. By this means, the expected caseload for the two versions of ETU would be about equal. In fact, Scheme A areas contained about 4.5 per cent of the working population of Britain, Scheme B areas about two per cent and the control areas about three per cent. Unemployment rates ranged between nine and 14 per cent overall and between 12 and 20 per cent for men. But combined rates for the pilot and control areas varied less. Male unemployment was 14.5 per cent in Scheme A, 13.7 per cent in Scheme B and 16.2 per cent in control areas.

Table 1.2 ETU pilot area groups and types

<table>
<thead>
<tr>
<th>Area</th>
<th>Scheme A</th>
<th>Scheme B</th>
<th>Control Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major urban area</td>
<td>Newcastle upon Tyne</td>
<td>Sunderland</td>
<td>Middlesborough,</td>
</tr>
<tr>
<td>Large town</td>
<td>Castleford</td>
<td>Doncaster</td>
<td>Rotherham and Worksop</td>
</tr>
<tr>
<td>Seaside area</td>
<td>Southend and South East Essex</td>
<td>Bournemouth; South East Essex</td>
<td>Southampton and the Isle of Wight</td>
</tr>
<tr>
<td>Rural area</td>
<td>North Wales</td>
<td>Perth</td>
<td>South Wales</td>
</tr>
<tr>
<td></td>
<td>(Bangor and Caernarfon, Conwy</td>
<td>and Crieff</td>
<td>(Hay on Wye, Brecon,</td>
</tr>
<tr>
<td></td>
<td>and Colwyn, Denbigh, Dolgellau</td>
<td>Dumbarton,</td>
<td>Llanwrtyd, Wells, Tredegar,</td>
</tr>
<tr>
<td></td>
<td>and Barmouth, Holyhead,</td>
<td>Stirling</td>
<td>Ebbw Vale, Pontypool,</td>
</tr>
<tr>
<td></td>
<td>Porthmadog and Ffestiniog,</td>
<td></td>
<td>Monmouth, Abergavenny</td>
</tr>
<tr>
<td></td>
<td>Pwllheli, Shotton, Flint,</td>
<td></td>
<td>Cricklehowell, Cwmbran,</td>
</tr>
<tr>
<td></td>
<td>and Rhyd, Wrexham)</td>
<td></td>
<td>Llanelli, Burry Port,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Llandeilo and Llandovery</td>
</tr>
</tbody>
</table>

These areas are illustrated on the map opposite.

1.5 The design of the evaluation

1.5.1 The main aims

The evaluation had three main aims:

1 To measure five things:
   - The speed of movement from unemployment into work
   - The numbers of claimant unemployed people
   - Employment duration
   - Employment volumes
   - The wages earned by the lowest-paid workers

2 To compare these five measures as they were observed:
   - during the pilot period in the Scheme A and Scheme B areas compared with control areas; and
   - during the pilot period compared with the period before the introduction of ETU.
To assess the performance of the new benefit in terms of:
- its visibility and popularity among its intended customers;
- its ease of access and take-up rate among eligible workers;
- its effects on their incomes, especially if they were getting other benefits; and
- the effects of claiming or not claiming on their opportunities and welfare, particularly among those eligible for ETU.

Four approaches were taken to the evaluation of ETU:

- **To study trends in administrative data.** These included tracking trends in ETU records and tracking parallel trends in Family Credit records.

- **To carry out local labour market analyses.** This work involved the analysis of a wide range of data sources to compare trends in the pilot and control areas, including the 1991 Census, JUVOS data\(^5\), the Labour Force Survey (LFS), the Annual Survey of Employment, and vacancies recorded by the Employment Service.

- **To carry out quantitative face-to-face, telephone and postal surveys with ETU recipients, potential recipients and employers.** These surveys are illustrated in Figure 1.2 and involved interviews with more than 7,000 employers and 10,000 workers and unemployed people.
  - **Unemployed people** were sampled from those who had spent between six and 18 months on the unemployment register.
  - **Low-paid workers-in-work** were sampled from National Insurance Records.\(^6\)
  - **ETU recipients** were sampled directly from ETU records but included a larger share of those who entered ETU directly from unemployment benefits, mostly from JSA.
  - **Employers** were taken from British Telecom’s Connections in Business database.

- **To carry out in-depth qualitative interviews with samples of recipients (including the self-employed), ex-recipients, unsuccessful applicants, employers and discussions among panels of local and central processing staff.** The staff panel discussions were held with those administering the new benefit, both from Employment Service and Benefits Agency Norcross offices. The employers were known to have ETU recipients on their payroll. This work is illustrated in Figure 1.3. The qualitative elements provided a coherent and comprehensive process evaluation. Whilst the quantitative analyses concentrated on determining whether

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\(^5\) Joint Unemployment and Vacancy Operating System at the Office for National Statistics.

\(^6\) The definition of low pay was set to capture workers who qualified for ETU, whether or not they were getting it. To these were added those earning somewhat above ETU-level wages who might come into scope of ETU if, say, they were put on shorter hours, lost overtime or bonus payments, or in the case of dual-earner couples, became single earners. The people selected on the doorstep for interview from the previously low-paid returns to the NIRS file, earned up to £145 a week for single people in 1996 (£160 a week in 1999, allowing for the likely impact of the National Minimum Wage). Couples could earn up to £200 each.
policy met its stated goals, the process evaluation aimed to explain these outcomes and to offer insight into ways that policy might be adjusted or fine-tuned.

Figure 1.2 ETU evaluation surveys with potential customers, recipients and employers

Figure 1.3 The programme of qualitative studies

1996

Low-paid workers

1997

Re-interview low-paid workers

1998

ETU recipients

Postal/telephone follow-up

1999

New sample low-paid workers

New sample ETU recipients

Unemployed people

1997

Re-interview unemployed people

1998

New sample unemployed people

1999

Re-interview unemployed people

Employers

1997

Employers

1998

Employers

1999

Employers

ETU claimants

1997

ETU recipients

40 interviews

March 98 – August 98

1998

Ex-recipients of ETU – 64 interviews including 20 self-employed:
32 claimed up to March 98
32 claimed after March 98

March 99 – August 99

1999/2000

Unsuccessful ETU applicants

30 interviews including 9 self-employed

Employers

1997

Qualitative study of employers

23 interviews

March 98 – August 98

1998

Self-employed recipients

30 interviews

October 99 – April 2000

Staff

1997

Panel of BA/ES staff (1)

March 97 – May 97

1998

Panel of BA/ES staff (2)

January 98 – March 98

1999

Panel of BA/ES staff (3)

January 99 – March 99
In this way an evaluative matrix was formed. This is summarised in Figure 1.4. It shows the intersections between the strands of research undertaken and the three main themes of the evaluation: what topics were investigated by which methods. Not all these intersections were covered in the research programme, but most were.

**Figure 1.4 Evaluative design matrix**

<table>
<thead>
<tr>
<th></th>
<th>Performance</th>
<th>Employment impact</th>
<th>Wage effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative statistics</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Local labour market studies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Surveys of...</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...Workers &amp; recipients</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>...Unemployed people</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>...Employers</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Qualitative studies</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>

The remainder of this summary report will follow the vertical course of this matrix design, looking first at the performance of the new benefit, then at its likely impact on employment and then to search for evidence of any impact on wages.

**1.6 Tests of equality between areas**

The pilot and control areas were chosen on the basis of social and economic similarity and comparability. They each had higher than average unemployment rates but also higher vacancy rates too, especially for low-paid work. If ETU could not succeed in these places, if it could not speed unemployed people into low-paid jobs while slowing down their rate of return here, then it was unlikely to do better elsewhere. It is important to check, on the other hand, that this similarity was achieved. The importance of this comparison grew as it became clear that take-up of ETU differed widely from area to area. These differences are examined in detail in the next chapter, but take-up in the major urban areas, for example, was about four times higher than in the seaside towns.

Overall, there was a good match between Scheme A, Scheme B and control areas. This was achieved despite some differences associated with some of the individual areas that made up the three aggregate areas. Most striking of these was Southend, which included a lot of South East Essex and so had more the character of a sub-dominant area of London than a seaside town. Wages were higher, unemployment lower, and so on. But Bournemouth and Southampton also participated to some extent in the wage gradient that favours London and the South East. South Wales by contrast, and to an extent Sunderland too, had low wages and a higher level of non-employment among people of working age.

Total employment rates among people of working age were very similar in pilot and control areas, respectively 69, 68 and 67 per cent in the Scheme A, control and Scheme B areas. But each of these figures was
significantly lower than the 74 per cent found in work in Britain as a whole. So ETU was addressing an employment gap in the pilot areas. However, among those who did have jobs the proportions employed in the least skilled work were very similar in the pilot and control areas and were a little higher than those in the rest of the country (Figure 1.5).

Among those without jobs, the time spent looking for work was very similar in pilot and control areas and again quite similar to the country as a whole (see also Figure 4.4).

Another indicator that suggested the right areas had been chosen for the ETU pilot arose from an analysis of Family Credit claims. The wages paid to Family Credit recipients were the same in pilot and control areas but they were significantly lower than the wages paid to Family Credit recipients elsewhere in Britain. The difference between the pilot and control areas combined and the rest of Britain ranged between £3 and £7 a week over the period from October 1995 to August 1999, or between about 10p and 25p an hour.

**Figure 1.5  Proportion of workers employed in partly-skilled and unskilled occupations in 1991**

**Figure 1.6  Proportion in social tenancy and owner-occupation in 1991**
It was also important that the basic demographic structure matched reasonably well because entitlement to ETU was structured around differences in age and marital status. Although higher proportions of older people were found in the seaside and rural areas, as you would expect, the combined pilot and control areas shared very similar demographic profiles and these differed little from the rest of the country.

Consistently over recent years social tenancy has been a marker for disadvantage, decreasing labour market participation. Figure 1.6 shows that the proportion in social tenancy or in owner occupation was very similar in pilot and control areas and similar again to the rest of Britain.

Anne Green’s report describes fully the range and complexity of the differences, area to area (Green 2001). These meant that some variations in the take-up of ETU among the eight pilot areas were to be expected. The contrast between Sunderland and Southend is the clearest example. But this local diversity was not sufficiently great, or of such a nature, to account for the wide variations that soon appeared in the take-up of ETU from area to area.

Differences between the eight ETU areas did not account for the great variation in the take-up of ETU among them. Aggregate differences in take-up between Scheme A and Scheme B were not due to differences in the labour market characteristics of the areas. Differences between the three area types - Scheme A, Scheme B and controls - were small, despite some striking differences in a few of the 12 areas they comprised. None of these differences would disrupt the intention of the pilot to compare the performance of ETU with similar areas without the new benefit.
This chapter is in three parts:

- The first looks at administrative statistics describing the growth of the ETU caseload, the wages and hours worked by those who received ETU and the numbers claiming ETU after a spell on out-of-work benefits.
- The second looks at the effects of ETU seen in the sample surveys of ETU recipients, including:
  - the recipients’ circumstances, qualifications and employment;
  - the uses made of ETU; and
  - the extent to which they were better off with ETU
- The third part widens the analysis to the effects of ETU on the actual and potential customer base, using data from the sample surveys of low-paid workers in work including workers interviewed in 1996 before the introduction of ETU, including:
  - eligibility for benefit
  - the knowledge and awareness of ETU; and
  - the problem of non-take-up among eligible workers.

ETU had a target of 20,000 awards to be in payment at some point before the end of the three-year pilot scheme. From October 1996 onwards, the number of awards rose rapidly (Figure 2.1) and the target was reached in a single year.

This early achievement of the projected caseload had an important effect. Publicity for the new benefit, already suspended during the general election of May 1997, was not resumed. The caseload then increased at a slower rate until mid-1998 when it leveled out at around 24,000.

The highest caseload was reached in March 1999 immediately prior to the introduction of the National Minimum Wage when 24,500 people were receiving ETU. It fell back to 21,500 by the end of the pilot in September 1999.

The great majority of ETU recipients were single people. Four out of ten were single people aged 24 and under and almost half (46 per cent) were single people aged 25 and over; 14 per cent were couples.
Over the three years of the pilot scheme just over 50,000 people received ETU, 22,000 in Scheme A and 28,000 in Scheme B. These are respectively just under two per cent and almost five per cent of the two working populations.

Overall, claims were evenly divided between those who worked 30 hours a week or more, and so benefited from the bonus payment and those who worked 16–29 hours. The lower qualifying wages in Scheme A resulted in a narrow majority of 53 per cent working the shorter hours compared with 42 per cent in Scheme A areas. But these are high figures for short hours working among people without children, suggesting that the rules encouraged part-time terms.

Scheme B attracted many more customers than Scheme A: 57 per cent compared with 43 per cent of the total caseload at the end of three years (Figure 2.2).
As Figure 2.3 shows, much of the difference between Scheme A and Scheme B in September 1999 was accounted for by the numbers receiving ETU in Sunderland (the Scheme B major urban area), nearly twice as many as in the corresponding Scheme A area of nearby Newcastle. Only in the two rural areas did the Scheme A area (North Wales) attract more ETU recipients than the Scheme B area (Perth).

**Figure 2.3 ETU awards in payment by pilot area in September 1999**

![ETU awards chart](chart.png)

The numbers receiving either version of ETU differed greatly by type of area. Compared to the major urban areas of the North East, for example, the seaside areas of the South – Southend and Bournemouth – had very few ETU customers. Fewer than 2,000 workers in Southend received ETU in three years. While in Sunderland more than 12,000 people received ETU at some point (Figure 2.4).

The predominance of ETU in the North East on the other hand, occurred independently of the type of scheme. Newcastle was a Scheme A area but had more ETU recipients in total over three years than any other Scheme B area except nearby Sunderland (Figure 2.4).
ETU established a customer base. By September 1999, 62 per cent of awards were renewals and only 27 per cent were new. Sunderland, as well as having the highest number of awards, also had the highest percentage of renewals (68 per cent) and, overall, Scheme B had a larger proportion of renewals than Scheme A.

2.1.2 Wages

The new benefit found its intended market among the lowest paid, who averaged well below what later became the National Minimum Wage of £3.60 an hour. In 1998, for example, Scheme B wages averaged about £92 for an average 30 hour week, while those in Scheme A averaged £75 for a 28 hour week. This gap between Scheme A and Scheme B wages increased over the period of the ETU pilot scheme, from £7 in November 1996 to £21 by January 2000 (Figure 2.5).

Source: DSS ETU Statistical Enquiry.
Average wages for all single people remained well below £100 a week throughout the three years of the pilot while those for couples remained level at about £110 throughout. We will return to these figures when wage effects are discussed in the last section.

2.1.3 Recruitment from out-of-work benefits

The aims set for ETU were mainly to encourage people to leave Jobseeker’s Allowance sooner by making it easier for them to accept low wage offers. In this respect, the administrative data told a more disappointing story. It would be expected that most early claims would come from people in work. But by August 1999, still seven in 10 ETU recipients had been working in the job on which they based their claim (69 per cent). Just 17 per cent moved onto ETU directly from JSA and a further one per cent from Income Support.

This final figure of 18 per cent moving into ETU from claimant unemployment had fallen since April 1998 when it was 25 per cent, though this fall may reflect only a drop in the stock of unemployed people over the same period. It is also possible that ETU assisted more people to move from one job that ended to another job, without a spell of claimant unemployment in between. Or it may have helped some workers stay in their jobs longer.

2.2 Evidence from the studies of ETU recipients

Two large field surveys of ETU recipients were carried out, one following the first year of the ETU pilot in 1997, the second in the final year in 1999. Qualitative studies were carried out in 1998 and 1999 with recipients and ex-recipients, including special interviews with self-employed recipients. The following section makes use of each of these sources, together with reference to interviews with some of the Benefits Agency and Employment Service staff involved in delivering ETU and encouraging its use.

2.2.1 Characteristics of ETU recipients

More than half were women except those coming to ETU directly from claimant unemployment, the majority of whom were men. The great majority were single and half these single workers were under 25.

Like many low-paid single workers, their relationship to the labour market could be unstable. For this reason, the surveys showed that eligibility for ETU could be short-lived. Even among those selected as recipients, about a third in both the 1997 and 1999 surveys had moved out of eligibility a few weeks later when they were interviewed. Such departures were divided evenly between those earning more, usually through working longer hours, and those who had lost their jobs. The proportion no longer eligible was higher among those who had been recruited from JSA (43 per cent in 1999) because of higher job losses.
2.2.2 Tenure and housing costs
About four in ten ETU recipients (and low-paid workers generally) shared a home with their parents (but no partner), a quarter lived alone and only about one in seven lived with just their partner. Half had no formal housing costs at all, mostly because they lived in their parents’ home, though a minority owned their home outright or lived in some informal setting which did not appear to cost them anything. Half of young people living in their parents’ home thought they would find it difficult financially to manage their own household. ETU recipients who did have housing costs often struggled with them, which at these wage levels is not surprising. About one in three were in arrears of rent and half had had difficulties with housing costs when moving into work.

These findings on housing tenure were of great importance, dismissing fears that ETU would simply replace large volumes of Housing Benefit. Just over a third of ETU recipients were tenants and half these were receiving Housing Benefit (HB). In the 1999 survey of ETU recipients 38 per cent of those who were tenants and who had remained eligible recipients of ETU, were also eligible for HB, though not all of these received it. Without their ETU, the proportion entitled to HB would have risen to 51 per cent. This finding is also important because CRSP studies indicated that, when entitlement to ETU and Housing Benefit and Council Tax Benefit all occur together, the withdrawal rate was a real discouragement and many said, rightly, that they were little better off in work.

2.2.3 Human capital
Human capital was sparse among ETU recipients, especially older workers. Eight out of 10 had left school at the minimum leaving age, a fifth had continued their full-time education beyond school or sixth form college, though a third had attended a non-qualification based course to improve their work skills. Younger recipients were better qualified than older ones. Overall though, one in 10 had problems with literacy, numeracy or both, and only 48 per cent had a driving licence, which often serves as a passport to slightly better wages for the least qualified workers.

2.2.4 Current employment
Nearly all the ETU recipients were employees rather than self-employed, and few worked in any kind of managerial, professional or technical job. A fifth were in protective or personal service occupations, especially the women. Other recipients were concentrated into partly-skilled or unskilled occupations.

The men were often working in transport, warehouse work, or as messengers, labourers and gardeners, or they were mates and apprentices to craft trades.

The women were found more often in cleaning, catering, shop work, hairdressing, routine cashier and data-entry work, and most especially in care work in the private care industry.
A fifth of ETU recipients were hoping to move to better things and were actively looking for a new job. The rest were typically satisfied with their work and seven out of ten expected to go on doing the same kind of job. Those hoping to move were seeking hours and wages considerably higher than their current averages.

**2.2.5 The Uses of ETU**

Many employees who managed to claim ETU said they found it useful, especially since in many cases it allowed them to work short hours. The qualitative interviews found that ETU assisted many of them by:

- relieving pressure on their small budgets (see also below, Section 2.2.6);
- allowing them to combine work with caring for a relative;
- allowing them to combine work with a vocational activity such as voluntary work or spiritual pursuits;
- allowing them to do poorly-paid but interesting or socially valuable work, or to develop a creative career of the kind that pays almost nothing on entry. One such was a dancer, for example;
- helping them into undemanding work to recover from difficult times when they had been ill, or struggled with learning difficulties, depression, or other disability or chronic complaint like arthritis, or had had a tragic event in their lives. Others had partners who had lost their jobs.

The self-employed workers also found ETU useful, even though they remained a small minority of recipients. Some were unskilled or service workers re-classified as self-employed for the convenience of their employers. But others were starting up a fledgling business, or they were going through a difficult time and had little surplus income, or ran businesses that were in precipitous decline. They ran garages, shops, decorating businesses, one-van transport firms, repair services, beauty salons, and so on. Some had worked as tradesmen before ‘going it alone’. All were very glad of ETU and said they could hardly have managed without it.

**2.2.6 Hardship**

ETU recipients included many who needed help to maintain their living standards in work. A quarter of recipients had problem debts, 34 per cent were still worried about money ‘….almost all the time’ and 15 per cent said they had financial difficulties or were in financial trouble. Forty-nine per cent experienced little or no hardship, but 29 per cent were in severe hardship, scoring high on a composite scale (See Appendix A for full details of the scale). Despite some continuing problems among ETU recipients, those who had lost their jobs were considerably worse off again, while those who stayed in work and improved their incomes beyond a new claim for ETU were much better off. Young single recipients were better off than others, probably because they tended to live in their parents’ home. So ETU was helping those in work who needed extra support and some continued to experience financial difficulties, probably because most people had not claimed it for long enough to make a
difference. Even with ETU, final incomes were still typically about £120-£130 a week.

Low wages and continued financial difficulty cause some scepticism. Though they were glad of ETU, the interviews with recipients and with members of the staff panels too, detected a general resentment towards the underlying reasons that ETU might be necessary to supplement wages. Some staff were quite scornful of employers who paid so little and felt self-conscious about being part of a process that guided people into positions where their work was unfairly exploited. Others among the ETU recipients, often older men, remembered when ‘proper jobs’ were available that paid a living wage to adult men.

Issues of knowledge and awareness have an obvious importance for the introduction of a new benefit. In this case, these issues assumed a special importance, for two reasons:

First, because publicity ended six months into the three-year pilot and was anyway confined to local newspapers, except in North Wales where advertisements on local radio could not be heard in another ETU area. Second, a large fraction of apparently eligible workers failed to claim the benefit (as we examine closely in the next section).

Even early in the pilot, the media hardly figured in ETU recipients’ sources of information about ETU. Direct information was more important and 36 per cent had been told about ETU in a DSS office or Jobcentre (60 per cent among the formerly unemployed). Informal networks were a factor and word of mouth was particularly important, especially among the younger respondents. Nevertheless, knowledge levels about the inner workings of ETU were low even among those still receiving it.

The most common reason for applying for ETU was that they had only just found out about it, often having been in their jobs for a long while. Others had had a fall in their wages or had got a new job. A quarter delayed an application usually because of uncertainty about their entitlement. Only two-fifths of those applying had any idea of how much they might get and those who guessed were as often wrong as right in even approximate amounts. Among the minority coming from unemployment, however, awareness had been much higher as a result of their being guided to ETU by ES and BA staff.

The previous section looked solely at ETU recipients and ex-recipients. This section widens the focus to the population of workers within scope of ETU and includes those eligible for ETU but who did not claim, and those earning a little above the ETU limit, who might become eligible through small changes in their circumstances. The sample surveys referred to are those described in Section 1.5.
Workers selected in this way had very similar social and occupational profiles in 1996 and in 1999 and differed little in the pilot and control areas. They also shared many of the characteristics of those who had claimed ETU. For example, there were more women than men, though still four out of 10 were men. They were either young, single and living with their parents or were older couples who had either bought their homes or still had a small mortgage. Again it is important to note that few had high housing costs that might have got in the way of the effectiveness of ETU as an incentive to work. Less than a fifth of the workers sampled paid rent and only a third of these received Housing Benefit.

More than half the workers had no qualifications rising to eight out of ten among the older workers while young low-paid workers rarely had more than basic or vocational qualifications.

Many had lost their jobs by the time we found them for an interview: just 61 per cent of men and 68 per cent of women remained in full-time work in the 1999 sample; 12 per cent had had no work in the previous two years.

Among those still in jobs, their median pay rates rose during the course of the ETU pilot from £3.15 an hour to £3.82 among the workers-in-work but hours of work fell sharply from 36 to 32 hours a week. This may be associated with the introduction of the National Minimum Wage, and if it is, it is an important finding. On the other hand, one in six workers in 1999 appeared to be receiving less than their due. Net weekly wages were typically between £100 and £140 a week. The wages of couples were surprisingly low, averaging only £109 for single earners despite a £200 admission level to the sample.

The majority of the workers interviewed had never heard of ETU. The proportion who had heard of ‘….a new benefit for working people without dependent children...’ fell from 34 per cent in 1996 to 29 per cent in 1999. Even in places where ETU recipients were more common, such as Sunderland, two thirds were unaware of in-work benefits for people without children and fewer could name ETU. Among the minority aware of ETU, few had any knowledge of how it worked. The effects of the absence of publicity were clear.

If ETU B had been available in Scheme A, B and Control areas, about half the sample would have qualified for benefit in each area, underscoring the all-important similarity between them. The proportion of eligible workers claiming ETU in 1999 - which is called the take-up rate - was 23 per cent overall: 14 per cent in Scheme A and 30 per cent in

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7 Eligible workers who had claimed ETU and were waiting to hear the outcome were counted as claimants along with the current recipients.
Scheme B. This was higher than the take-up rate of 18 per cent found in the 1997 sample, but must be counted low by anyone’s judgement.

There were many differences between eligible low-paid workers who claimed their ETU and eligible low-paid workers who did not claim. The widest difference was in their marital or relationship status. Eligibility for ETU was as common among couples as it was among single workers. But their take-up rate was only a quarter of the take-up rate among singles: 10 per cent of eligible couples claimed their ETU compared with 37 per cent of single people. In Scheme B single people had a take-up rate of 43 per cent.

Many other factors were also important. In summary:

- **Eligible workers who took up their entitlement to ETU** were young single workers, many of them living in Sunderland and Doncaster. They worked shorter hours and so had lower earnings, higher entitlements and they felt hard up. Often they had experience of claiming other income-tested benefits such as Housing Benefit and Family Credit or came from families who did. ETU recipients also had histories of persistent unemployment since 1990.

- **Eligible workers who failed to take up their entitlement to ETU** were older couples, especially dual-earner couples, who either owned their own homes or lived in some other arrangement rather than as homebuyers or tenants. Additionally one of them might be receiving a disability benefit. They lived in a Scheme A area or in Bournemouth. They had little or no experience of claiming other income-tested benefits. They had slightly higher earnings and so were entitled to slightly smaller amounts of ETU. Being older, many were used to managing on a low income. Compared to recipients, they had maintained much higher levels of employment over the same period.

Five factors determined the take-up rate among eligible workers: geographical density, social isolation, critical mass, skill transfer, and the lack of publicity.

- **In geographical terms**, eligibility under Scheme A was confined to too small a band of the lowest incomes. This meant that eligible workers were too sparsely scattered to support adequate networks of informal information that would prompt others to claim.

- **In social terms**, the lowest-paid older couples, dual earners, homeowners, homeworkers, people with disabled partners and so on were all groups isolated from streams of information that would prompt a claim for a new in-work benefit, even in the more dense claimant populations of Scheme B.

- **There is a critical mass** for an in-work income-tested benefit (or tax credit). Geographical scatter and social isolation interacted in at least six of the eight pilot areas to lower the density of eligible workers to the point when it vanished from common view.
Skill transfer was also important. It was highly significant that claiming ETU was both need-driven and associated independently with prior experience of claiming income-tested benefits, especially in claiming Housing Benefit and Family Credit. Those picking up their entitlements, as well as being young, single and connected to information sources, were the very lowest-paid of eligible workers. They were sensitised to news of a subsidy by the experience of hardship and by earlier or current contact with the benefit system.

The role of publicity and awareness was crucial. In the two months before the introduction of ETU and in the six months following, publicity was limited to non-electronic media, though some of it was ingeniously targeted at workers and employers in the selected areas. Then it vanished altogether, leaving it to official and informal networks to inform workers of ETU. Local staff interviewed in the qualitative surveys were suspicious of the lack of publicity and felt that it indicated a lack of seriousness of intent about ETU. They were aware how much their customers had relied on word from relatives, friends and colleagues. ‘Word-of-mouth’ was particularly important at first in the urban regions like the former mining communities in Yorkshire and became progressively more important in other areas as publicity ceased. As a result few workers or unemployed people, and very few eligible non-recipients were aware of the benefit, or even vaguely aware such help was available.

2.4.4 The role of employers

Employers interviewed in the qualitative surveys too were only generally aware of in-work benefits usually through involvement with Family Credit. Few had got to grips with ETU, despite early efforts by BA and ES offices to inform them. Those that had tried were often confused about the benefit system and a significant fraction thought that workers would be discouraged from working more than 16 hours a week, resulting in new labour market rigidities. Other employers though saw opportunities in ETU, especially for low-paid recruitment. There were isolated pockets of employer-awareness, among, for example, hoteliers in Bournemouth and retailers in the Lakeside shopping centre in Thurrock, Essex, who were said by the staff panels to have generated discrete groups of recipients.

2.4.5 Networks

Eligible workers were left to rely on official sources or their workmates, friends or relatives for any access to the news that a wage subsidy was available to them. If they worked for a typically unaware employer, had no reason to talk to BA or ES staff, had no workmates who claimed or knew of anyone who did, or had no relatives or friends who knew of anyone either, then it would probably not have occurred to them to claim. Others had poor advice from some local staff. Respondents to the CRSP studies said they were sometimes given an application pack and left to their own devices. This led to unsuccessful claims. On the other hand, many applicants and local staff praised the help given by central processing staff and those who staffed their telephone helpline.
This then was the position of the majority of workers during the pilot. It was true, as we shall see in the next chapter, of the majority of unemployed people, who had much more reason to speak to BA and ES staff. From a policy point of view, though, the interesting thing about these four factors – density, isolation, claimant skills and awareness – is that they can all be changed. We will return to this point in the final part of this summary report.

The payments met need and reduced hardship, but only for small groups who claimed it.

• ETU allowed short-hours working, which helped some workers to balance work and other demands or interests in their lives.

• The qualifying wages of Scheme A were set too low to be effective.

• The take-up rate was low: more than three quarters of eligible workers failed to claim ETU.

• The differences between recipients and eligible non-claimants of ETU were very wide: the take-up rate among single workers was four times higher than among couples (37 versus 10 per cent). Recipients were also concentrated in B areas and worked shorter hours and had experienced past unemployment. Eligible non-claimants were homeowners, dual-earners, and quite often had a disabled partner.

• There was a critical density for the effectiveness of ETU, which was approached only in the urban areas of Scheme B where there were sufficient eligible workers.

• ‘Skill transfer’ in claiming benefits was important among customers as well as staff: those who had previously claimed Housing Benefit or Family Credit were much more likely to claim ETU, for example.

• Awareness of ETU was too low: the withdrawal of publicity damaged the effectiveness of the pilot, leaving socially isolated groups like older home-owning couples beyond the reach of official and informal information networks alike.

2.5 The performance of the benefit: conclusions
The evaluation programme looked for evidence of an impact on employment from the introduction of ETU, comparing pilot and control areas in six studies:

- A study of local labour market trends, comparing trends in unemployment, vacancies, movement into low-paid work, employment volumes and earnings over the period of the pilot.
- A study of work histories.
- Studies of net marginal movements into and out of unemployment using JUVOS data.
- An analysis of the workers-in-work surveys to detect any more favourable trend in the rates of job retention in pilot compared with control areas.
- Analysis of the two panel studies of unemployed people, to detect any faster rates of return to work in the pilot compared to control areas.
- A search for any evidence of ‘substitution’ or ‘displacement’ effects – did ETU help some people get or keep low-paid work only at the expense of job losses among other workers?

These studies looked at three main outcomes: employment, unemployment and job vacancies – both notified and unfilled vacancies. None of these statistical series was custom-built for the study. Each relied on data available from central databases and has some limitations. Not all vacancies for example are notified to the Employment Service, but those that are notified are more likely to be low-paid.

### 3.1 Local labour market trends

#### 3.1.1 Employment

**Total employment**

ETU was introduced at a point of recovery in employment. Growth in employment volumes continued throughout the pilot period, as losses in manufacturing industry were more than offset by gains in other sectors. There was evidence of labour market tightening in each of the twelve areas selected and, promisingly for ETU, the largest gains were in ‘part-time’ employment for both men and women.

Figure 3.1 compares total employment rates in the combined pilot and control areas, and in Great Britain as a whole. Employment rates rose by a similar fraction in each area. It rose by a slightly larger amount in Scheme B areas, from 66.7 to 68.8 per cent of the working age population in paid work, compared with a smaller rise of 1.2 per cent in the Scheme A and control areas. This is not overall a significant difference and the aggregate figures conceal some anomalies that would not suggest that total employment volumes had responded to ETU. For example, in
Sunderland, the Scheme B areas where ETU found the largest number of customers, employment rates began at the lowest point of all twelve areas (at 68 per cent) and then fell. In Southend, which had outstandingly the fewest ETU recipients, employment volumes began at a rate higher than the national average, and then rose from 79 to 82 per cent.

No consistent differences emerged between Scheme A, Scheme B and control areas, in total employment or when the focus of the analysis was shifted slightly to the percentage change in total employment.

Figure 3.1  Total employment rates in pilot and control areas in 1996 and 1998

Employment in the low-paid sector.

Another approach to the analysis of employment volumes looked solely at employment in low-pay sectors. An analysis of the amount of change in the total numbers employed in these sectors is shown in Table 3.1.

Table 3.1  Percentage change in employment in low-paid sectors

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<tbody>
<tr>
<td>Scheme A</td>
<td>-1.9</td>
<td>6.8</td>
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<tr>
<td>Scheme B</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Control areas</td>
<td>5.4</td>
<td>6.3</td>
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<tr>
<td>Great Britain</td>
<td>5.6</td>
<td>4.1</td>
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* Ideally, low pay sectors would be defined by occupations but these are not coded in the Annual Employment Survey. Instead, four codes from the Standard Industrial Classification were combined:
  • Hotels and restaurants
  • Retail trade
  • Health and social work
  • Other community, social and personal services.
The control areas followed the national pattern, increasing low-paid employment in the three years before the introduction of ETU and continuing a similar increase in the three years of the pilot. Scheme A areas saw a small decrease before ETU and strong growth afterwards. But Scheme B had a different pattern again, showing the same smaller than average increase before and after ETU equally.

3.1.2 Vacancies

A second series of data indicating movement in local labour market trends concerned the vacancies notified to local Employment Service offices by employers. Differences in the number of vacancies notified, or in the length of time they remain unfilled, for example, might betray the effect of ETU.

The volumes of notified vacancies fluctuated by wide margins from month to month and were affected by seasonal variations. Nevertheless there was a clear trend in all areas associated with the general improvement in local labour market conditions during the period of the ETU pilot. Figure 3.2 shows the trends in vacancies but includes only vacancies for jobs in the low-pay sectors. The number of unfilled vacancies for low-paid work rose and, correspondingly, the average time that vacancies remained unfilled lengthened. Nor was there any sign of changes in the occupational composition of vacancies in pilot areas compared with the control areas. That is to say, there was no shift in ETU areas compared with control areas towards a greater scarcity of unskilled vacancies and more vacancies of other kinds, which might indicate a selective impact of ETU.

Overall, there was no evidence of any ‘break’ or discontinuity in vacancy trends that could be associated with the introduction of ETU.

Figure 3.2 Trends in notified vacancies for low-pay jobs Jan. 1996 to Jan. 2000
The third series looked at unemployment. All 12 areas in the study began the pilot with higher than average rates of unemployment. This was especially true in the major urban areas and large towns selected. As employment volumes grew during the pilot period, so the corresponding stocks of claimant unemployed people fell. Some areas, Southend for example, ended up with unemployment rates below the national average. Figure 3.3 traces claimant unemployment in the pilot and control areas and in Great Britain as a whole, between January 1996 and November 1999.

Unemployment rates, in terms of registered unemployed, halved in Great Britain as a whole from eight per cent to four per cent, following a steady downward path throughout the ETU pilot. In the pilot and control areas, rates fell in exactly the same way, starting from a higher base of between 10 and 11 per cent and ending between five and six per cent.

Looked at within each type of area – rural, seaside, town and urban – the control areas appeared to show shallower declines in unemployment rates during the period of the pilot compared with their matched Scheme A and Scheme B areas. This was the first discernible hint of an employment effect.

*Taken together, there were no discernible differences in the trends in unemployment between pilot and control areas that could be attributed to the impact of ETU.*

Scheme A areas had the smallest range of unemployment rates during the pilot, though Newcastle had consistently the highest rate. Again, the ‘best performing’ area among the pilot areas, which had the most precipitous decline in unemployment from 10 to less than four per cent, was the one with the smallest take-up of ETU: Southend. By contrast, the two areas maintaining rates of unemployment appreciably above the national average were the two areas where ETU most flourished: Sunderland and Doncaster.

It seems likely that ETU did well in those areas where the persistence of high unemployment continued to hold down pay rates and maintained a larger customer base for the new benefit. In Southend, almost no-one was under pressure to look for work at the kind of wages that attracted help from ETU.
3.1.4 Unemployment duration

The analysis shown in Figures 3.4 and 3.5 presents figures for unemployment duration in 1996 and in 1998, dividing the unemployed by the length of their current claim into four categories:

- Up to six months unemployed;
- Six to 12 months;
- One to two years; and
- More than two years.

Long spells of unemployment were more common in the towns and major urban areas while shorter durations were typical of seaside towns, reflecting their seasonal fluctuations in employment.

The overall decline in unemployment drained numbers from each of these four duration categories, but unemployed people also spent less time out of work during these first two years of the ETU pilot. The proportion unemployed for at least two years fell from more than 20 per cent down to just over 11 per cent, while the proportion spending six months or less out of work rose from 42 to 58 per cent.

The shifts towards shorter duration on unemployment benefits occurred almost uniformly in pilot and control areas alike, more or less in line with national trends. There were no differences that could be due to ETU.
The studies of local labour market analysis of trends in employment, vacancies and unemployment supported the following conclusions:

- ETU was launched into a tightening labour market, experienced in all areas of the pilot. This resulted in:
  - increases in employment, including low-paid work
  - increases in unfilled vacancies, including those for low-paid work
  - reductions in unemployment rates and in the duration of unemployment

These overall improvements, though, were shared equally in the Scheme A, Scheme B and control areas. Thus: “…there was no clear evidence for more favourable local labour market trajectories in ETU areas compared with Control areas that may be attributable to the operation of ETU.” (Green, 2001.)
This section uses longitudinal data collected on the three samples of workers, recipients and unemployed people. The workers and unemployed people were interviewed in 1996, 1997 and further data collected from them in 1998. The ETU recipients were first seen in 1997 and they too were followed up in 1998. The data collected allowed the construction of month-by-month work histories all the way back to December 1990 for all three samples.

Figure 3.6 traces the proportion in employment among the workers, recipients and unemployed people in each month since December 1990, through to mid-1997. It is clear from the figure that:

- People selected as medium-term unemployed had, as you would expect, very uncertain job histories. Between 1990 and 1994, only half of them were in work at any one time.
- People selected as low-paid workers-in-work were typically 20-30 percentage points more likely to have been in employment during the previous five or six years, compared with the unemployed sample over the same period. These trajectories were identical for the low-paid and for the very lowest paid workers. They had had steady, if poorly paid work.
- People selected as ETU recipients had work histories that far more closely resembled those of the unemployed sample than those of the low-paid workers.

This last point was true:

- when compared with the very lowest-paid people in the workers sample who earned wages similar to those of the ETU recipients, and
- among different kinds of workers, men and women, younger and older workers, and so on. This means that the difference was not due to the larger number of ETU recipients under 25 years old, for example.

It is not possible to say from this descriptive analysis that ETU brought into work people who had found it more difficult than others to get and keep paid work in the past. In Chapter 2 we noted that the proportion entering directly from JSA or Income Support was quite small (18 per cent). And multivariate analysis of these work histories found no evidence that previously unemployed people had any more or any less difficulty in entering work in the Scheme A and Scheme B areas compared to control areas.

Therefore:

*Multivariate analysis of employment spells confirmed that there were no differences in these histories that were attributable to the operation of the ETU pilot.*
It is possible, on the other hand, simply to draw attention to the clear employment deficit experienced by ETU recipients over the past ten years compared to people doing very similar work and paid the same money.

If ETU was conceived as a possible antidote to the ‘scarring effect’ of unemployment, especially among the young unemployed, it seems fair to conclude that substantial numbers who claimed it were scarred in the early 1990s. Fewer of those non-claimants sampled as low-paid workers had had this experience.

The ETU recipients also showed every sign of maintaining their gains and of overcoming their earlier weak attachment to the labour force. High proportions of those who left ETU remained in work. A further analysis of cross-benefit records showed that they were not more likely than others to claim JSA.

For the time being at least, the ETU recipients, compared with the unemployed sample, showed no tendency to return to the high unemployment rates that had blighted their earlier experiences.

3.2.2 Take-up rates
This analysis also sheds further light on the question of take-up rates among eligible workers. Many of the workers were eligible non-claimants. They had far more stable job histories than the ETU recipients. This means that ETU recipients may have been prompted to claim by their earlier difficulties and their greater experience of unemployment. Those who simply continued for years in their low-paid jobs had less reason to become aware of a new in-work benefit. People in and out of work for ten years might be far more alert to a wage subsidy.

3.2.3 Other workers
The data also show that:

ETU did not act to the detriment of the existing low paid workforce.

Their rates of employment held up perfectly well after the introduction of ETU (at month 70 on the figure). Some evidence that existing workers did better in the control areas was due solely to higher rates of employment in the years before ETU.
Figure 3.6 Proportion in employment in each month since December 1990 by type of sample

3.2.4 Work histories: conclusions

- ETU recipients had suffered poor work histories since 1990, much poorer than the experience of low-paid workers who did not claim ETU, and were similar instead to the medium-term unemployed.

- Nothing in this analysis directly implicated ETU in changing the course of people’s job histories. Rather, people with ‘scarring’ experiences of early unemployment were more likely to be open to wage subsidy. Those staying in low-paid work would have been more insulated from news of the introduction of ETU.

- The ETU workers showed signs of maintaining this recovery, with rates of labour market participation on a par with existing workers and few returns to JSA. This was unlike the continuing problems of the unemployed sample.

3.3 Movement at the margins of employment: flows into and out of claimant unemployment

3.3.1 Total flows

A further analysis of JUVOS data looked in greater detail at flows into and out of unemployment. This kind of analysis is possible with JUVOS data because it is a census of every claim made for unemployment benefits over a period of time. The period chosen was 21 months before the introduction of ETU in October 1996 and 27 months afterwards. During these four years 1.85 million records accumulated in the 12 pilot and control areas.8

During this four-year period, inflows to unemployment fell, just as the stock of unemployed people fell (Figure 3.7). Inflows slowed after the introduction of ETU in October 1996, marked by the vertical line. But it does so in a similar way in pilot and control areas and is far more likely to be due to the introduction of Jobseeker’s Allowance, which occurred at the same time in all areas.

8 This may seem a very large total in a working population of about 2.6 million, but it contains records of repeated entry and departures to and from unemployment by the same workers over four years. In areas such as those chosen for the ETU pilot, quite a large fraction of the working population could expect to sign on at least once and in many case several times during a four year spell, especially the younger men.
The people who made up Figure 3.7 were typical of claimant unemployed people everywhere. The majority were male (73 per cent), single (56 per cent) and concentrated in low-skilled or unskilled occupations (58 per cent among men, 80 per cent among women).

The analysis compared movement into and out of unemployment during the 21 months before the introduction of ETU with movement in and out during the 27 months afterwards, and then compared these differences in ETU pilot areas with the same differences in control areas (see Appendix B).

The first procedure, examining inflows, detected small but statistically significant changes in favour of a positive employment effect in the ETU pilot areas. Scheme A, for example, compared with control areas, recorded 44 per cent more inflows prior to the introduction of ETU. After ETU, this difference had decreased to 41 per cent - a gain of three percentage points, though this gain shrank to one per cent when the seaside towns were disregarded. In Scheme B, the improvement amounted to two percentage points.

The second procedure, examining outflows, found a similar effect. Over and above the small reduction to the rate of inflow (which would itself cause a decrease in outflows), pilot areas showed slightly better ratios in favour of greater outflows from claimant unemployment after ETU than before, compared to the controls.

*ETU therefore caused a small but significant improvement in labour market participation.*
The same analyses of movement in and out of unemployment were carried out separately for the groups of unemployed people most likely to become ETU customers. These were young single men and women, especially the unskilled group who tended to be numerous both among those moving frequently in and out of unemployment and among those who ended up on ETU.

The ratio of inflows of unskilled workers to unemployment in the pilot areas, relative to the control areas, fell compared with the same ratios in the 21 months prior to the introduction of the new benefit. The significance of this result in Scheme A areas relied solely on the inclusion of the seaside towns. Without them, it disappeared. But the result in Scheme B areas was clearer, where the gain due to ETU amounted to six percentage points.9

Similar results were found for outflows from unemployment: the unskilled workers gained most. But it is possible they gained partly at the expense of the low-skilled group just above them in occupational ranking. Here we are comparing unskilled labourers, drivers, messengers, packers, cleaners, waiters, basic care assistants and so on with low-skilled non-manual clerical and service workers and manual assembly and plant operatives, construction workers and so on. This hints at a small substitution effect, as unskilled workers with the advantage of a wage subsidy gained more favourable local labour market positions compared with the somewhat better paid in low-skilled jobs.

Therefore:

\[
\text{The employment gains from ETU were greater among the unskilled, though they may have been offset a little by losses among the low-skilled.}
\]

Further analysis of this kind found that the gains to the unskilled workers tended to be most prevalent:

- among the young workers and among older workers, compared with those in the middle of the age range;
- among single women compared with men; and
- among those living in the rural areas where low pay is particularly prevalent.

More of the women than the men moved into ETU, though the large majority of men among the unskilled unemployed stock meant that men still held a reduced majority among ex-JSA ETU recipients. These transitions among the lowest skilled unemployed people from unemployment to ETU were more common in Scheme B areas than in Scheme A. More importantly, these former JSA (and a few former Income

\[9\] Smith A., Dorsett R. and Mcknight, A., (2001), Table 11, col. 1, line 3. These gains remained statistically significant differences despite the much smaller (though still very large) samples among these sub-groups.
Support) workers then went on to apply for a greater number of renewals, and so remained on ETU much longer than did other recipients.\textsuperscript{10}

This suggested the mechanism by which ETU produced more favourable rates of entry and exit from unemployment:

\begin{quote}
The more generous Scheme B terms allowed workers to take jobs at lower wages and then to keep them longer without, as so common among the very lowest paid workers, lapsing back into unemployment.
\end{quote}

If this is additional evidence of an antidote to unemployment scarring, it is a welcome one. Other research has shown that workers, especially young unskilled workers who get caught up in this revolving door to and from employment suffer a ‘scarring effect’ that can undermine their position in the labour market for years (Gregg, 1999). If, even in a small way, ETU can widen the gates to employment and narrow the path back to unemployment for these vulnerable workers, then an important policy aim will be supported. These effects were concentrated among the intended ETU customer base and they were more pronounced than they were even among the general body of people moving on and off the unemployment register.

3.3.4 Movement in and out of unemployment: conclusions

- ETU caused small decreases in the rate of inflow to unemployment and, in addition, caused small increases to the rate of departure from unemployment.
- These effects were larger among those most affected by the introduction of ETU: younger and older single workers looking for unskilled work.
- Some of the gains to unskilled workers may have been at the expense of the better-paid low-skilled workers.
- The former JSA recipients who went onto ETU stayed on the new benefit longer than other recipients and may have been protected from subsequent unemployment, though we do not have direct evidence for this.

3.4 The medium-term unemployed

The findings in the previous section suggested that ETU may have quickened the pace of exit from unemployment. This section uses interview data from the unemployed themselves. Whereas the previous section relied on the JUVOS records of everyone claiming out-of-work benefits, the people interviewed in these surveys had been unemployed for between six and 18 months.

The research strategy outlined earlier (Figure 1.2), relied on a ‘two-cohort two-wave’ approach. Medium-term unemployed people were interviewed before the introduction of ETU in 1996 and again a year

\textsuperscript{10} This finding is not inconsistent with the earlier finding that ex-JSA customers of ETU lost their jobs more often than others. Those applying from a position in employment left ETU even more frequently to other destinations, usually to better earnings.
The main aim was to see if they were sped into work faster in the ETU pilot compared with the control areas. In 1998 this survey was repeated with a new sample of unemployed people who were re-interviewed in 1999 to see if any effects of the introduction of ETU had grown stronger or weaker since its initial impact.

These two two-wave panel surveys provided a remarkable portrait of unemployed people seeking work in Britain in the late 1990s. Overall, the most striking thing was the persisting scarcity of work for them, despite the rising market for low-paid labour documented above. Only minorities of them found work and this picture became worse for them in the 1998-99 surveys.

In 1996, 17 per cent of respondents had found work in the time between their selection into the sample of unemployed people and the arrival of the interviewer. A year later, in their 1997 follow-up interviews, the proportion in work more than doubled to 38 per cent.

In 1998 interviewers arrived no more promptly, but only 11 per cent had found work since they were sampled as unemployed. A year later this figure had crept up to only 15 per cent in 1999.

The smaller numbers of unemployed people by 1999 contained more among them who had found the search for work more difficult than others had found it. Many respondents seemed likely to experience continued difficulties getting and keeping work. The great majority of the medium-term unemployed were men and half were single. More than a third (37 per cent) were over 45 and this proportion rose to nearly half (47 per cent) in the 1998 sample. Typically they were poorly educated and some had little recent work experience, especially the women among them. By 1998, 44 per cent had had little or no work in the past five years and another 14 per cent had never had a paid job. Significant numbers reported health problems or caring responsibilities that restricted their participation in paid work. In 1996 36 per cent said they had health difficulties and this rose to 43 per cent in the older 1998 sample. Few of these went on to work.

A reduction in claimant unemployed totals over the two years separating the two surveys of medium-term unemployed people had left the more disadvantaged behind.

For those who did get work, on the other hand, wage progression could be quite brisk. In 1997 wages had risen a third from their 1996 entry values, taking most of them beyond the scope of ETU. A few of those in the pilot areas had also claimed ETU when entering work, but too few to be counted as an influence on people’s rate of return to work. In each of the surveys, in 1996 to 97 and in 1998 to 99, multivariate analysis indicated that, holding all the important predictors of work-entry constant:
3.4.2 Looking for work

Overall rates of job search were low. The majority had not looked for work in the four weeks before interview. Poor health was the most common explanation given and those unwell said that they did not want a job. Most of these had been selected as receiving IS, rather than JSA and this difference between recipients proved crucial. ETU was intended to help everyone who could work, not just to give an added boost to those receiving JSA. But many of the IS sample (more than one in four of all respondents) seemed to be losing touch with the labour market altogether.

On the other hand, the majority of those who were looking for work had previous experience in low-skill, low-paid jobs. They sought wages of around £3.50 per hour, which would have left single people on the margins of eligibility for ETU at much more than 30 hours work a week. However, among these medium-term unemployed people:

Most of those who were looking for work were the kinds of people who would have qualified for ETU if they found it.

3.4.3 The effects of housing costs

A second crucial distinction lay between those paying or not paying for their accommodation. For people without significant housing costs even working 16 hours a week in a low-paid job supplemented with ETU could have given a significant boost to their income. For example, people working 16 hours at £3.60 per hour would be between £25 and £40 per week better off claiming ETU than if they had continued to receive only JSA. But people paying rent usually stood to lose Housing Benefit if they entered work, leaving them with little additional income in total. In the 1998 sample of unemployed people, 44 per cent of respondents were tenants (most receiving HB) and another one in ten had a mortgage to pay. This was much higher than in the corresponding 1996 survey, again reflecting the older age profile of the 1998 unemployed and the greater numbers no longer living with parents. Thus:

Compared with the workers and with the ETU recipients, many more of the medium-term unemployed had a potential entitlement to Housing Benefit in work which clashed with their entitlement to ETU, reducing their incentive to work and claim ETU.
By 1997, 34 per cent of the 1996 sample of unemployed people said they were aware of ETU, though only a tiny number had claimed it. By 1998 awareness had fallen: 29 per cent of respondents in the ETU areas said they had heard of the introduction of an in-work benefit for people without dependent children and only 16 per cent could name this benefit as ETU. These seem low figures among a sample comprised of people with experience of claiming benefit for at least six months and living in areas where ETU had been available for around two years. Awareness in 1999 was still no higher among those few who had got jobs, discounting the minority (one in eight of them) who had claimed ETU. Thus:

A serious obstacle to ETU helping medium-term unemployed people back into work was their lack of awareness of the benefit itself.

Moreover, not everyone liked the idea of a top-up to potential wages in work even when such a scenario was put to them. Two-fifths of unemployed people preferred to hold out for a job paying the minimum wage they felt they could live on, rather than accept a lower paid job with a top-up. On the other hand, they had now been unemployed so long that the idea of ‘holding out’ for anything must have begun to seem unrealistic. There may be many reasons for this. Qualitative research indicated that some unemployed people felt that there should be no need for a benefit top-up as employers ought to pay a ‘decent wage’ in the first place (Vincent et al, 1999). Thus:

Another obstacle was the determination of a large minority of medium-term unemployed people to avoid the lowest-paid jobs altogether.

Unemployed people with lower wage expectations were more likely to find work. There was some indication in the 1996-97 surveys that wage expectations had moved downward in the ETU pilot areas compared with the control areas, but this was not sustained in the 1998-99 survey. However, the concept of expected wages is, to some extent, notional and the level of expected wages may get revised during the job search process, particularly if people become aware of in-work benefits while looking for work. In contrast, the reservation wage is the minimum wage that someone will accept at the point of job offer. In the context of low levels of awareness of ETU, the result that ETU had no effect on expected wages should not be interpreted as evidence that it did not, or could not have, lowered reservation wages.

The relationship between ETU and reservation wages might be indirect. The effect of the greater entitlement to Housing Benefit discussed above was to raise their reservation wages beyond the scope of ETU. This of course occurred equally in pilot and control areas and so does not count as an effect of ETU. But it will need to be taken into account if a new version of ETU is to be effective as an incentive to work for the current stock of medium-term unemployed people. Thus:
ETU had no direct impact on the wage expectations of medium-term unemployed people, but these may have already been influenced by their higher housing costs.

From the point of view of the likely introduction of a new version of ETU higher up the wage distribution, this is a particularly important finding.

- Barriers to work, such as low human capital and poor health, were considerable among medium-term unemployed people in these areas.
- These barriers intensified among the unemployed people who failed to benefit from a rising market in the three years of the ETU pilot. As a result, few found work.
- There was no evidence that medium-term unemployed people moved into work faster in the ETU areas compared to the controls. This was true in the surveys in 1996 to 97 and in 1998 to 99, and for both versions of ETU.
- The role of ETU was difficult to assess because so few unemployed people seemed aware of it. Many of them were anyway still holding out for a better job, beyond the scope of ETU.
- There were small signs of an indirect effect via changes in wage expectations, which were forced upward by the higher number of rent-paying tenants among the later unemployed sample.

3.4.6 Medium-term unemployed people and ETU: conclusions

3.5 Job recruitment and retention

3.5.1 Recruitment

The 1997 and 1999 samples of ETU recipients were asked how important a role the new benefit had played in helping them get and keep paid work.

By 1999, about half the ETU recipients entering employment after October 1996 recalled being aware of ETU at the time. The majority of those aware of ETU at recruitment had not discussed it with their employers and only a handful of recipients actually thought ETU had made a difference to whether they got the job or not.

This too was the view of ETU recipients and ex-recipients interviewed in the qualitative surveys. They had decided to get back to work and would have taken the job anyway, though others among them added that ETU made the decision easier and broadened their choices. This is certainly consistent with the JUVOS findings that ETU speeded people into work at the margins. It also helped focus people’s minds on work they had not previously considered because of low pay prospects. Some recipients were also aware of the introduction of JSA at the same time and linked them. They saw ETU as the ‘sweetener’ – the carrot to JSA’s stick. One employer had packaged cleaning jobs into 16-hour-a-week lots so they might attract ETU supported applicants.
There was no evidence from the surveys that ETU had played a decisive role in allowing people to be recruited into new jobs.

Staff saw a role for ETU as a complement to JSA and the New Deal. They felt it was a genuine attempt to attack the cycle of unemployment and give people a taste for earning and spending their own money.

3.5.2 Job retention

A wage supplement like ETU would prove just as effective as an incentive to work if it helped people to stay in work longer than they might otherwise have stayed. This is important in this context because, as discussed earlier, churning rapidly through jobs and back to unemployment is both a common and a damaging feature of low-paid work in Britain.

The qualitative studies explored this job-retention aspect and found that most workers receiving ETU felt they would continue in their jobs without ETU, if they could. Many felt they would anyway struggle to find another job, often because of age or lack of skills. Recipients again emphasised the value of ETU to them. The majority said they would cope financially without it only by cutting down on expenditure. Others said that they would have to ask for more overtime or even start looking for a job with better money. In this context, the value of the chance to work shorter hours was stressed again, either to pursue an interest or to look after someone else. This a positive side of what is sometimes thought a disadvantage of wage supplementation. Lone parents used Family Credit to work shorter hours that allowed them more time with their children. What seems a financial disincentive can be instead a socially-useful opportunity.

Conversely, some had given up second jobs, such as evening work, they had taken to make ends meet, which in most cases was a great relief to them as sometimes they clashed. Among those who had started to earn more and been refused a new claim for ETU, few said they were making any special effort to reduce their hours, for example, in order to re-qualify for benefit. This finding allayed fears that ETU would encourage shorter-hours working.

ETU recipients made points about the lack of stigma associated with working and claiming ETU, certainly compared to their experience of claiming JSA or Income Support. Other groups interviewed in the qualitative studies, BA/ES staff and employers, were aware of the dangers of becoming too dependent on ETU and getting stuck in low-paid work. They felt that people were being encouraged to do ‘just enough’, though the workers themselves rarely thought this. But there was a widespread view, especially in Scheme A areas, that the benefit levels had been set too low and people would still find it hard to manage, especially if they paid high travel costs to reach their jobs.
Among those interviewed as workers-in-work before October 1996 about a quarter had left their jobs by September 1998. These job losses occurred more rapidly in the ETU pilot areas than in the control areas but this was due largely to differences in the composition of the samples. When all the relevant background factors such as age, sex, health, and similar things that cause people to leave work were accounted for, there were no overall differences in the speed at which workers left their jobs in ETU areas compared with controls. Nor did the small number who had managed to claim ETU hang on to their jobs significantly longer than others, other things being equal. Thus:

There was no evidence from the surveys of workers that ETU caused them to hang on to their jobs longer.

However, simply dividing the sample in half at age 40 and carrying out the same multivariate analysis, showed that among the older group, being in the Scheme B pilot areas significantly reduced the chance of leaving employment, even though actually receiving ETU in 1997 had no effect. The labour market for those aged over 40 may have been strengthened a little in the Scheme B areas. This may have been a result of the introduction of ETU under Scheme B or it may not: this cannot be seen directly in the data. It may be the case that, although the effect of claiming ETU at the time of the 1997 interview was not significant, those aged over 40 in Scheme B areas had an increased tendency to claim in later months.

3.5.3 Self-employment

Self-employed recipients were rare among ETU recipients. But they were far clearer about ETU’s role in helping them work. Several said they could not have begun their business without it. It allowed them to make simple but essential investments in tools, new phone lines, and so on. It also opened up self-employment to those who had made no headway looking for employed work and some said they had had good advice about this possibility from Jobcentre staff. Others working in the Black or, at least, in the Grey Economy accepted ETU as a means of signing off and operating legitimately. And some saw self-employment with ETU as a way of meeting the new conditions under the JSA regime.

Just as it helped them start, so ETU helped many self-employed recipients keep going. It helped them through ‘rough patches’, they said. Some enterprises that were barely surviving or in severe decline were being propped up by ETU and the ‘extra’ cash was sometimes almost the sole source of domestic income. Self-employed people were also aware that

11 This does not necessarily contradict the findings of the JUVOS study which showed that workers flowed on to unemployment a little slower in ETU areas compared to control areas. People leaving work did not all sign on. A large minority returned to unwaged work in their homes or into education and so on. More significantly perhaps, the JUVOS study detected net differences in flows so small that they were well beyond the power of field surveys of workers to detect.
increasing the supply of people who could drive cabs, put up wallpaper or fix washing machines might only drive down the rates they could get.

On the positive side, self-employed recipients doing better with the help of ETU said how much it had raised their self-esteem to make a go of self-employment and felt they had gained new skills and confidence which would stand them in good stead in the future. One gardener had started alone and then developed a business employing others.

There was evidence that the small numbers of self-employed people who claimed ETU had improved their opportunities and well-being.

3.5.4 Job retention analysis: conclusions

- There was no evidence overall that ETU significantly improved workers’ chances of staying in work, either by working in an ETU area or by directly claiming the new benefit.
- Workers over 40 interviewed in ETU areas may have remained in work longer, on average, compared to equivalent older workers in control areas, though this was not due directly to their claiming ETU.
- Recipients, though, said they found ETU helpful in getting the type of work they wanted and keeping in work in difficult circumstances. This was especially true among the minority of self-employed ETU recipients.
- There was a high deadweight cost. The later surveys confirmed the earlier findings. There was little in the data to oppose the view that most of the expenditure on ETU went to people who would anyway have carried on doing the jobs they did, or who took the jobs they would have taken, working the hours they would have worked for the wages they would have otherwise accepted.

3.6 Evidence from the employers surveys

The 23 employers in ETU areas interviewed in the qualitative survey stressed the need for a flexible workforce and subordinated all their other views about recruitment and retention of staff to this goal. If ETU promoted flexibility, it was to be welcomed though only one or two seemed actively to have promoted the new benefit to their staff. Employers were aware of in-work benefits but few knew about them in detail. Their main source of information appeared to be their own workers. Quite often they confused different benefits and there was uncertainty about the 16-hour rule. Some thought it was a maximum figure and workers would be discouraged to work more. Others knew more and some said they were aware that employees restricted their hours of work when renewal claims were due. Despite a tightening labour market, half these employers said they had little difficulty in filling vacancies except for unpopular shifts, which some felt ETU would make more attractive without their having to offer premium rates.
The quantitative surveys of employers interviewed a representative sample of 2,400 firms in the 12 areas in 1996, 1997 and 1999. The method oversampled low-pay sectors, particularly catering, hotel trades, cleaning, local authorities and employers in health care. Many were small firms that did not survive from year to year but a core of 800 firms were interviewed in all three years, including most of the large firms sampled in 1996.

Nearly all employers were aware of in-work benefits, particularly Family Credit. The proportion who could name ETU was smaller, though in the three surveys between 1996 and 1999 it rose from 30 to 40 and then to 60 per cent. Again, though, the qualitative interviews found that what employers thought they knew about an in-work benefit was often incorrect. Even in control areas, 43 per cent had heard of ETU – which probably was not hard if you had a firm in Middlesborough or Rotherham but harder in South Wales perhaps.

Very few firms in either the qualitative or the quantitative surveys said they had discussed the implications of ETU, or had any expressed policy towards the new benefit or its likely impact on their business opportunities, recruitment or pay policies. By 1999, still eight out of 10 among those who had heard of ETU said they did not feel equipped to advise an employee on the qualifying rules. A small minority of them (five per cent of all employers in ETU areas) recalled direct experience of dealing with ETU–related matters for staff.

Among the three-year panel of 800 firms, six out of 10 reported no recruitment difficulties throughout the pilot and only one in ten reported persistent difficulties. There was no evidence that firms’ reports of recruitment difficulties eased in favour of the ETU areas compared to controls over the three years of the pilot.

Multivariate analysis indicated some small but significant growth in Scheme B areas in the proportion of firms saying they employed semi-skilled and unskilled workers for 16–29 hours a week that was not seen in the control areas, or for Scheme A areas. This would be consistent with ETU encouraging recruitment at lower hours. The average hours worked by ETU recipients were barely more than 30, and fell to 28 under the impact of the National Minimum Wage.

Other evidence for employment effects was mixed. The levels of semi-skilled and unskilled employment rose significantly more strongly among firms in ETU areas compared with controls, again consistent with a boost to recruitment from ETU. But the other low-paid area of employment – clerical and sales work – grew more strongly in the control areas compared with the ETU areas. Termination rates were lower in ETU areas compared to controls, again in line with ETU helping people stay in their low-paid jobs. But recruitment rates were lower too.
3.6.1 Employment effects seen by employers: conclusions

- Few employers were aware of ETU or its rules.
- Employers had not engaged with ETU as a contribution to recruitment practice, though a few had.
- There was no overall impact of ETU on recruitment or retention.
- There were some signs that ETU was encouraging recruitment to shorter hours working among low-paid workers.
By 1999 the answer to this question was “yes” there was some evidence of a small effect of ETU on wages. This was particularly noticeable in Scheme B areas, where the wages offered by employers and accepted by recently recruited workers appeared significantly lower compared to the controls. Like the effects on employment, wage effects were small and occurred at the margins of work.

But there is also a sense in which ETU had to have a wage effect, at least on those recruited to low-paid work during the pilot scheme. If it were to be effective in reducing unemployment by increasing the volume of low-paid work being done, new low-paid work would have to be provided at new low wages to match.

It is also right to be reminded at this point of a number of factors that will have dampened both a wage effect itself and the capacity of the pilot to demonstrate one:

- Wage supplementation, in amounts larger than ETU payments, had long supported parents in low-paid work in Britain through Family Credit and FIS and to a lesser extent through Housing Benefit and local authority subsidies for all working tenants, since 1971. A wage effect may already have been established and ETU could add to it only a little.

- The additional amounts of wage supplementation, both in numbers of recipients and the amounts given, were small relative to the working population: typically between one per cent of workers in Scheme A, and two to three per cent in Scheme B. The impact could never be large, even among the low-paid.

- Employers in pilot areas may have had little autonomy in wage setting and be bound by Head Office decisions or more generally by national agreements.

- The introduction of the National Minimum Wage, and some employers’ anticipation of it in the months before, disrupted pilot observations of wage trends to the extent that will have masked underlying trends in pilot and control areas. Beforehand, ETU recipients earned an average of £2.90 an hour compared with the NMW of £3.00 for younger workers and trainees and £3.60 for everyone else.

4.1 Trends in ETU wage rates  The last point above is seen clearly in Figure 4.1. Scheme B wage rates rose only a little while Scheme A wages actually fell from £2.90 to £2.70 an hour. Both these movements were probably due to compositional changes – more young singles entered Scheme A as time progressed. But this average of £2.90 remained very flat until November 1998 when it
lifted in anticipation of the NMW. A year later it was averaging close to what you would expect, given the mix of young and older workers and only about 12 per cent had been left earning below the amounts they ought to have received. This increase had the effect of forcing those working longer hours beyond scope of ETU, especially the older single workers, so the average hours worked by ETU recipients fell from 32 to only 26 a week.

**Figure 4.1 Gross mean wage per hour of ETU recipients excluding the self-employed by ETU area**

It seems reasonable to guess that ETU wage rates would otherwise have continued along their flat trajectory for the remainder of the pilot. Yet, during the same period, the wages of Family Credit recipients (see Figure 4.2 below) rose steadily. Whether it is right to expect ETU wages to have risen in the same way is debatable. For single people the qualifying wages were low enough to allow any wage growth to carry them beyond ETU. Couples, though, could earn £180 a week and remain eligible. Yet they averaged only £114 a week on both schemes throughout the pilot.

Given that towards the end of the pilot the majority of claims were renewals (62 per cent) it suggests that continuing ETU recipients were failing to secure any wage progression at all. Others, though, will have done better and moved swiftly beyond scope of the benefit. It is fair to stress that:

*ETU recipients experienced no wage growth prior to the National Minimum Wage.*
The employers interviewed in the qualitative surveys were dubious about the likelihood of wages being influenced by ETU. Tightening market or not, they felt protected by higher than average levels of unemployment. And, rightly as it turned out, they doubted whether many employees would be sufficiently well-informed to claim.

Eight out of ten employers enjoyed local autonomy in that they made their decisions for themselves. But still four out of ten said they were bound by national agreements one way or another, which placed significant limits on the effects ETU might have.

Employers acknowledged the potential of ETU to reduce wages but doubted that what they saw as ‘local experiments’ could have that much impact. They too were conscious of the lack of local autonomy among some key employers, though they also suggested that Head Office managers sometimes responded to information about local conditions. A retail chain paid more to city centre staff than to those in out of town locations, for example.

All agreed that they set rates just high enough to maintain local labour supply. Wage setting was dominated by consideration of other local wage offers and the scarcity of supply. Six out of ten said the most important thing was the pay individual workers were willing to accept. Those with local autonomy said they used a rule-of-thumb approach to wage fixing, keeping a keen eye on what they knew of wage rates in similar local enterprises. Some still used out-of-date wage council scales and uprated them for inflation. One hotel manager speculated about the likely end of ETU and said that if the top-up were lost and he were desperate to fill vacancies then he would probably have to increase his rates. Another, though, had been forced into increasing his rates for valued workers who lived outside ETU postcodes because they had discovered that workmates living within ETU areas were getting the subsidy.

As with the employment effects, the evidence for wage effects was mixed. Even in these low-pay areas, many employers paid no-one less than £4.00 an hour. The proportion recruiting someone at less than £4.00 an hour during the previous year fell between 1996 and 1999 from six out of 10 to about four out of 10. Among those staying in the panel survey, a quarter recruited no-one at these rates during the whole period. However, firms who employed anyone below £4.00 an hour usually employed the majority of their workforce at those rates. Again, these proportions did not differ between pilot and control areas throughout the pilot period, suggesting no gross effects on the structure of the lower end of the wage distribution attributable to ETU.

The wages said by employers to be paid to unskilled workers in the pilot areas grew by 14 per cent between 1996 and 1999, though there cannot have been many ETU recipients among them. In control areas, they
grew only 6 per cent, which speaks against any wage effect. But among clerical and sales workers no wage growth was reported in Scheme B areas during the pilot period whereas their equivalents in Scheme A and control areas earned more.

The key findings, however, related to the pay said to have been offered to the most recently-recruited workers in low-paid jobs (those in the under £4.00 an hour range) though these too were not entirely consistent. Three findings stood out:

- Comparisons of the cross-section surveys showed that these amounts started at parity in 1996 in pilot and control areas but grew significantly more slowly in Scheme A than in control areas.
- The panel data showed, crucially, that wage offers to new recruits grew significantly slower in both ETU areas compared to controls.
- Multivariate analysis of these findings identified a clear wage effect in Scheme B areas where entry wages for recent low-paid recruits grew significantly more slowly than elsewhere. In this analysis, awareness of ETU was an independent factor determining lower wage offers to the most recently recruited low-paid worker.

Employers said they evolved no conscious strategy to use ETU in wage setting.

- There was mixed evidence in trends in low-paid employment reported by employers, some favouring an ETU effect, others not.
- Scheme B did seem to reduce wage offers made to new low-paid recruits, especially among employers who were aware of ETU.

The surveys of workers were designed to detect any relative movement in wages in ETU areas compared to controls that may have occurred before and throughout the pilot, especially among those who received ETU. While the sampling strategy was, in the end, successful in identifying persistently low-paid workers, this last aim was frustrated somewhat by the small numbers of those who claimed ETU.

Overall, workers’ wages and wage rates per hour stayed the same throughout in ETU pilot areas compared to control areas. In the follow-up survey of the 1996 sample in 1997, there was some evidence that workers in Scheme B had significantly lower wages, and these corresponded to significantly lowered wage expectations too. This would be consistent with a wage effect caused by the more valuable version of the benefit, but the effect was spread across the whole wage range in the sample. By 1999 though, wages were, if anything, slightly higher in ETU areas compared with controls (£150 versus £144). This was true overall and within most of the ETU ‘target groups’ of younger and older, single and married workers, men and women alike.
On a household basis, since most members of the workers sample had only their wages to rely on, a good test of equality was simply the proportion that would have qualified for ETU Scheme B had it been available in all areas (Table 4.1). When compositional differences in the samples were accounted for, there were no statistically significant differences.

Table 4.1 Proportion of the workers-in-work who would have qualified for Scheme B had it been it available in all areas

<table>
<thead>
<tr>
<th></th>
<th>Scheme A</th>
<th>Scheme B</th>
<th>Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 1996</td>
<td>64</td>
<td>68</td>
<td>66</td>
</tr>
<tr>
<td>In 1997</td>
<td>43</td>
<td>44</td>
<td>45</td>
</tr>
<tr>
<td>In 1999</td>
<td>56</td>
<td>54</td>
<td>47</td>
</tr>
</tbody>
</table>

4.3.2 Unemployed people

The evidence seen so far in this report pointed to ETU having an effect at the margins, particularly on the net transition from unemployment to work and on the wages employers offered to new low-paid recruits. It is appropriate then to look closely at the two panel surveys of unemployed people. Did those moving into work in the ETU areas settle for less money than those in control areas did?

It was significant that these medium-term unemployed people who did get jobs tended to settle for low ‘entry wages’. But then they experienced quite good wage growth in the first year with their new employer. This was true at least of those who kept their new jobs. In 1996 to 1997 this amounted to an increase of about a third. This suggests that workers who had had a hard time finding work were given a start at the very bottom and then rewarded for persistence. This chimes both with common sense and with an opportunity for ETU to lessen these entry wages further.

Early evidence in the 1996-97 surveys that ETU depressed the wage expectations of unemployed people in Scheme B areas was not sustained. Multivariate analysis of the 1998-99 surveys showed no clear impact on wage expectation associated with ETU, or at least expectations co-varied with awareness of ETU in ways that were difficult to separate.

There was, however, a significant impact on the wages of medium-term unemployed people who found work. These were a minority of the 1998 sample: only 13 per cent were in work as employees by 1999. But, as Table 4.2 shows below:

*The differences in the wages achieved by the 1998-99 job entrants in the two ETU areas were significantly lower than in Controls.*
Table 4.2 Weekly Wages achieved by job entrants from the unemployed sample, 1998 to 1999.

<table>
<thead>
<tr>
<th></th>
<th>Scheme A</th>
<th>Scheme B</th>
<th>Controls</th>
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</thead>
<tbody>
<tr>
<td>Wages</td>
<td>£129</td>
<td>£123</td>
<td>£152</td>
</tr>
<tr>
<td>Base</td>
<td>97</td>
<td>81</td>
<td>86</td>
</tr>
</tbody>
</table>

The differences were large both in the actual amounts reported in Table 4.2 and in the differences predicted by multivariate modeling. The latter predicted entry wages 19 per cent lower in Scheme B areas compared to controls and 14 per cent lower in Scheme A. These differences remained after controlling for some powerful structural factors that determined entry wages. More importantly, the effect was strongest when analysed separately for job entrants over 40 years old. These differences also remained the same when wages were analysed as hourly rates. So, unlike the effect on wage expectations, the findings in the 1998-99 surveys tended to amplify the findings of the 1996-97 surveys. This is a valuable confirmation.

There are three important qualifications to stress:

a. None of these findings apply directly to ETU recipients but apply only to workers and work-entrants generally.

b. Very few ETU recipients anyway entered work and claimed ETU having spent more than six months unemployed. By 1999 the proportion entering from JSA had fallen back to 18 per cent and most of these had had relatively short spells out of work.

c. The finding, though statistically significant, is based on very small numbers entering work from the unemployed samples.

4.3.3 Wage effects analysis of workers and unemployed samples: conclusions

- Early signs that workers in ETU areas were being paid less and that the unemployed expected less were not sustained by the end of the pilot, but

- There was some evidence, based on small numbers, that older unemployed people in ETU areas, especially older unemployed people who had been unemployed a long while, took up work at lower entry wages.

4.4 Neighbourly effects: the wages of Family Credit recipients

During the ETU pilot, there were typically more than 20,000 claims in payment at any time and over 50,000 workers claimed ETU during the three years allowed. They were just under three per cent of the working population: about two per cent in Scheme A areas and approaching five per cent in B Areas. Small changes in their pay rates were never likely to have noticeable effects on the wages of the other 95 per cent, or even on the existing lower-paid workers generally. But there was one group of workers who might be especially vulnerable to the effects of more ETU-subsidies – Family Credit recipients.
The child premiums allowed them to earn rather more than ETU recipients, typically a whole pound an hour more. But there were many among them earning wages very similar to the earnings of ETU recipients, including the many lone parents among them. If ETU had an effect on wages, they would be the first to feel these effects. If such an effect were found, this would be evidence for a serious impact on local wage levels.

The method used was to track the wages reported by applicants for Family Credit in the 12 areas of the ETU pilot from October 1995 to the end of 1999 – that is, from a year before ETU through all three years of the pilot. Added to these was a sample of five per cent of all applicants elsewhere in Britain. If ETU had the effect of depressing the wages offered to Family Credit recipients, we would see steady increases in Family Credit wages over the four years in the ‘rest of Britain’ sample and in the control areas. In Scheme A and Scheme B areas, on the other hand, we should see a downward deflection in the same line. This may amount to no more than slower growth, for example. But any deflection occurring consistently in ETU areas that was not visible in the control areas or elsewhere would betray the impact of ETU. It could not be anything else.

In addition, any increase in low-paid employment of people without children could be achieved at the expense of displacing existing workers with children claiming Family Credit. Young single women, for example, could replace young single mothers. This effect would be seen in reduced numbers of FC claimants in ETU areas compared with controls. Again, if this happens consistently in the eight ETU areas compared with the four controls, it could not be anything else.

Figure 4.2 provides the required information for wages, combining all Scheme A, Scheme B and control areas. This result is clear, including the upward move associated with the minimum wage. There was no deflection in ETU areas. This was true for all areas individually and for all kinds of workers. Lone parents returned exactly the same unwaveringly similar pattern. They did so even in Sunderland where an ETU effect would been visible if it was going to be visible anywhere. Thousands of young people in Sunderland had taken up ETU alongside the many Family Credit recipients already working there. But their wages increased steadily just as they had elsewhere. These results were equally clear when wages were calculated as wage rates per hour.
Figure 4.2  Mean wage per week of Family Credit recipients

Source: Family Credit administrative statistics.
This chapter is in three parts:

- A brief note on the effectiveness of the evaluation. Did the evaluation work and how do we assess the findings?
- An assessment of the gains and losses associated with ETU, its advantages and disadvantages; and
- A look forward to proposals to extend wage supplementation nationally. What are the lessons of the ETU evaluation that will inform future policy?

5.1 The effectiveness of the evaluation

The Earnings Top-up pilot scheme was an experiment, the first of its kind in Britain. During its life, it became more of an experiment than it was designed to be. It was always an experiment in what would happen when wage supplementation for low-paid workers became universal in the pilot areas compared to the control areas. It became an experiment in how people manage to claim a wage supplement when it is not advertised or promoted. It also became an experiment in what happens when a wage supplement meets a National Minimum Wage. ETU moved through a changed policy climate, especially the introduction of the active case management approach of various New Deals. It is also worth bearing in mind that ETU was introduced at the same time as Jobseeker’s Allowance.

There were other outcomes of the ETU pilot that were not part of the original brief.

- It showed, for example, the extraordinarily small incomes that many people in these areas of Britain earned and lived on in the late 1990s. For them, the National Minimum Wage was long overdue, as everyone now seems to agree.
- The evaluation also showed in these same areas just how difficult it was for people who had been out of work for more than a few months to regain a position in work. As the pilot went on, the market for low-paid labour improved everywhere. So paradoxically it became more difficult for those fewer workers remaining unemployed to get work. An increasing proportion of them had problems with working, including poor health, age and sparse human capital that were beyond the range of ETU to assist.

This latter point affected the evaluation by making the choice to study medium-term unemployed people one of fast-fading effectiveness. Other evidence suggested that employment effects of ETU were probably limited to short-term unemployed people, helping them into jobs they might otherwise have passed up. But a survey design that would interview a sample from the flow of short-term unemployed as they went back and
forth between jobs and the unemployment register in the 12 areas of the pilot was always impractical. It took a study of every single movement over four years (the JUVOS data) to detect differences associated with ETU.

The strategic role of the 1997 and 1999 surveys of ETU recipients was to act as a booster sample to increase the numbers of recipients found among the corresponding samples of workers-in-work and unemployed people, who would have taken up ETU meanwhile. As it turned out, so few workers and unemployed sample members claimed that the recipients became the sole source of reliable information about the business of claiming and its effects on the recipients themselves. Both the field surveys were affected by overall low take-up rates and found few recipients. In addition:

- the workers surveys found few recipients because eligibility for ETU proved unstable. There were so many doors to leave from, such as moving in with a partner or spouse, having a child, losing a job (as many did before we got to them), increasing income, and so on. This was especially true for the first 1996-97 follow-up surveys;
- the unemployed samples found few recipients because so few of them found jobs. This problem got worse in the 1998-99 survey.

This loss appeared to thwart a key aspect of the evaluation: to track workers as they claimed. But, not for the first time, we learned as much about the workings of an in-work benefit from people who failed to claim it as we did from recipients themselves. The findings on non-take-up of ETU among eligible workers will have considerable relevance for policy.

There was no single verdict on ETU – that it was a good or a bad thing. The evidence was mixed and none in either direction was strong enough to support a one-sided conclusion.

- **Improved incentives**: ETU raised workers’ incomes. Amid all the concern for employment and wage effects, this is a simple advantage easily overlooked. In Scheme B average payments in June 1998 before the National Minimum Wage started to influence rates, were £24 to older single workers and £34 to couples, on top of gross wages of £88 and £114 respectively. People were getting ‘wages increases’ typically of the order of 30 to 40 per cent. A total in-work income for a single person of about £110, for example, compares favourably with the £50 a week most of them would receive on JSA.

- **Targeted incentives**: There was a good spread of incomes well below the maximum earnings thresholds, which were encountered at net earnings below £140 and £180 respectively for older singles and couples in Scheme B, lower in Scheme A. More than that, the average earnings of single employees 25 years and older in Scheme A, for example, were £74 a week in June 1998 for a 25 hour week. This
was not much more than the point (£61) at which a maximum award was still payable, hence an average payment of £23 that was almost 80 per cent of the maximum award of £29. People did not qualify narrowly for ETU. The new benefit reached a customer base that, before the National Minimum Wage, had very low wages.

- **Preserved incentives:** The survey evidence also dismissed concern that ETU would simply replace other benefits. The majority of ETU recipients had no other income-tested benefit entitlements that would be reduced by income from ETU, though when this did happen, it was the problem it was expected to be.

- **Improved welfare:** ETU had a positive welfare impact on those who managed to claim it. The additional income met need and reduced hardship. It also allowed some workers more choice in distributing their time between working for money and working for voluntary and personal caring responsibilities. It lessened pressure to face more demanding work among people recovering from personal crises. Others were able to stop working very long hours or doing two jobs. If ETU maintained or increased the supply of unwaged work that might otherwise have been supported from public resources, this represents a hidden benefit to be placed against its cost.

- **Equity:** This extra money and the increased welfare it caused also met a case for improved equity for people without children compared to parents. By 1996 the advantages of Family Credit had grown to a point where low-paid workers without children were left well behind, even without the need to provide for children. But a large proportion of the workers who qualified for ETU and more of those who claimed it, failed to maintain a household of their own at all, indicating a reserve of unmet need. The research showed an extent of in-work poverty that ETU only partially addressed.

- **Less unemployment:** There were positive signs of improved employment that were attributable at least to the presence of ETU. People entered the unemployment register in ETU areas a little less often and, independently of this, they left a little more quickly than they did in the control areas. Those passing through the register who most closely resembled the target groups of intended ETU customers (young, single, unskilled) seemed to do this more – to enter that much slower and leave that much faster. Employers in ETU areas also reported brisker recruitment to the lowest paid work compared to employers in control areas. Over time, these trends persisting could add up to a considerable advantage.

- **Employment recovery:** There were also positive signs that ETU might act as an antidote to the ‘scarring effect’ of recurrent unemployment, especially among those who experienced it young. ETU recipients had poor work histories, much more like those reported by the medium-term unemployed, compared with even the lowest-paid workers who remained more securely in steady, if poor work. Despite
the medium-term concerns that workers, especially young workers should not spend too long in very low-paid jobs, it is a large improvement in life prospects for people who do not have anything else to do. That is, they have in many cases only limited capacity to respond to higher and further education and they have, for the moment, no small children to care for. Such an effect also reduces concern for the deadweight cost if, after all, it keeps recipients themselves in work a lot longer than they have been accustomed to stay.

5.2.2 Disadvantages

- **Deadweight cost:** The assessment repeated in this and earlier volumes bears restating once more. There was little in the data to oppose the view that most of the expenditure on ETU went to people who would anyway have carried on doing the jobs they did, or who took the jobs they would have taken, working the hours they would have worked for the wages they would have otherwise accepted.

Some of the advantages cited above would contest this verdict in the longer run. Improvement in employment would reduce the deadweight cost. In addition, if people mixed paid work with unwaged but socially important work, that would be a valuable return on the money. If in the longer run they really did spend more time in work than they would have done without a wage supplement, that would be a larger return.

- **Substitution effects:** There was some small evidence that ETU had depressed employment among the low-skilled-but-slightly-better-paid workers just above them in occupational ranking. But if the positive employment effects discussed above were small, these secondary negative effects that followed them must have been vanishingly small.

- **Wage effects:** What little evidence was found in favour of a wage effect never matched the size of the initial concern. Like the employment effects, any depression of wages we may have observed occurred at the margins of work, particularly at the point of entry from unemployment. The evidence comes from two sources – the employer surveys and the surveys of unemployed people. In the latter, work entrants seemed to experience a shortfall in wage offers in Scheme A areas of 14 per cent and in Scheme B areas of 19 per cent. These gaps do seem considerable. They were statistically significant and were controlled carefully for all the other influences that determined the entry wages of people leaving medium-term unemployment. On the other hand, these estimates were based on perilously small samples and conclusions based on them must remain tentative. They should not be used to predict the impact of wage supplementation in future. It also bears repeating that no general wage effects were observed among the population of low-paid workers in pilot compared with control areas and people entering work from medium-term unemployment were increasingly rare in 1999.
5.3 The future of wage supplementation: lessons from the ETU evaluation

It is interesting to speculate how the lowest-paid workers are now coping without ETU in the former pilot areas, especially in places like Sunderland where so many said they came to rely on it. For those working standard hours, the amounts they received, or at least were entitled to receive, have been more or less replaced by increases caused by the National Minimum Wage. Those working shorter hours have seen an actual or potential shortfall in income. These were numerous among ETU recipients who were averaging just 28 hours a week by the end of the pilot.

A recent paper in the Treasury series explaining the modernisation of Britain’s tax and benefit system (Number Six: Tackling Poverty and Making Work Pay – Tax Credits for the 21st Century) sets out clearly the future of wage supplementation. By 2003 Working Families’ Tax Credit will be divided between its child and adult components. The latter will be given as an Employment Tax Credit (ETC) which will be available to low-paid workers without children. It will be the modernised equivalent of ETU. It will share the shallower taper of 55 per cent adopted by WFTC and so extend further up the income distribution than ETU, which had a 70 per cent taper. This is illustrated in Figure 5.1.

Figure 5.1 Benefits and Tax Credits in 2003

No decisions have been made about rates or thresholds for the ETC. Nor do we know whether different terms will apply to older or younger workers, single or couples, as was done for ETU. But the illustration appears to answer the point that ETC will have to be generous enough to improve incentives beyond those established by the National Minimum Wage. Maximum payments will be similar at about £50 and, at least according to the graph, no reductions from that £50 will be made before earnings exceed about £120. This is a level of earnings well beyond the point when many single people lost all entitlement to ETU, though it is hard to imagine that single people will share the same rules of eligibility as couples under ETC. But payments of reducing value will remain available up to earnings of at least £240, well beyond the £180 ceiling set for couples under ETU.
5.4 What does this research tell us about the likely impact of Employment Tax Credit?

The Treasury document signalled a continuing shift in policy emphasis. Wage supplementation is now concerned equally with welfare and wage incentives. Two objectives are stated:

- to increase work incentives, together with the National Minimum Wage, for low paid workers; and,
- to relieve in-work poverty in working households without children, as the Working Families’ Tax Credit helps families with children. (Ibid pp15).

Welfare: If ETU met need then ETC will meet a lot more of it. There was clear evidence that independently of many other important factors that encouraged or discouraged take-up of ETU, need played an important role: avoiding debt and improving financial security in work. An additional need that ETC will begin to meet - one that ETU could not - is the need to leave home. Younger workers will start to command a net income in work that will allow many more of them to leave their parents’ homes and start living more independent lives. Since so many of them on ETU were still living at home in their late 20s and early 30s, this is not before time. One drawback to this development would be the re-introduction of the problem of a clash with Housing Benefit. More rent-paying tenants among ETC recipients will mean more duplicated entitlements and, consequently, reduced incentives. But the shallower taper will protect them from ‘losing’ most of their ETC against any additional support they need for their housing costs. The combined withdrawal rates for ETC, Housing Benefit and Council Tax Benefit will not exceed 70 per cent, which was the withdrawal rate for ETU received on its own.

Incentives and take-up: It is easy to confuse an incentive to work with an incentive to claim. ETC will provide unmistakably large incentives to work, as ETU in a smaller way provided significant positive cash incentives compared to the small amounts of out-of-work benefits that was the only alternative for most low-paid workers. But ETU remained invisible to the majority of them. The low take-up rate for ETU was largely a function of the low density of eligible workers in most of the selected areas. In some areas not enough people qualified because of the rules. In others more qualified but they lived too far apart and occupied thin social and occupational networks that did not connect. In contrast, ETC will have many advantages that will overcome these problems.
The very low take-up rates for ETU have little predictive value for the take-up of ETC and should not discourage its use. The following factors are the most important:

- **Density**: The qualifying rules for ETU thinned out eligible workers to a point where, especially in Scheme A and the geographically more scattered Scheme B areas, they vanished from common view and conversation. Workers without children who qualify for ETC will be far thicker on the ground than they were under ETU. They will be set up alongside all the families with children who qualify for the same ETC plus their Child Credit and Child Benefit. Wage supplementation for low-paid, or relatively low-paid, workers will become universally visible and universally expected.

- **Publicity**: The clearest lesson of ETU was that media publicity is indispensable first to kick-start and then to maintain take-up of an in-work income tested benefit or tax credit. The only Scheme A area that did better than its equivalent (rural) Scheme B area was North Wales. This is probably because the Scheme A area in North Wales was unique in having the use of radio publicity in its first few months and this tapped into Welsh-speaking networks. A national publicity campaign for the new integrated system would succeed, as the campaigns promoting Family Credit have succeeded in the past.

- **Employment**: The small signs of gains in low-paid employment under ETU should grow stronger under ETC. A larger customer base and a much higher take-up rate among them is likely to increase the impact on employment, slowing entry to unemployment and speeding exits. It is likely, on the other hand, to encourage more short hours working. But short hours working will also have the benefit of spreading work among more workers and reducing unemployment, and of allowing more non-waged socially useful work.

- **Wages**: The impact on wages may also grow but will remain small. But if it remains in proportion to the effects of ETU it will be confined to a reduction in entry-wages and will anyway be underwritten by the National Minimum Wage. Most of the new money will stay with the workers.
Problem debt

For the purposes of this report, a person is defined as having a problem debt when:

- they have not kept up to date with payments for their electricity bill, gas bill, other fuel bills, Council Tax, insurance policies, telephone bill, TV/video rental or HP, other HP payments, or water charges (each counts as one problem debt); or
- they cannot manage the repayments on their credit, charge or store cards, that is they cannot meet the minimum monthly amount they have to repay; or
- they have rent or mortgage arrears; or
- they have not been able to keep up with repayments for a bank overdraft, a fixed term loan from a bank or building society (excluding mortgages), a loan from a finance company, a loan from a money lender or ‘tally man’, a loan from a friend or relative, or a loan or advance on wages from their employer.

Hardship measures

Family Credit research showed eligible non-recipients to be ‘better off’ than recipients using a complex index of relative material hardship, on which they scored lower. The index assigned points to families who could not afford things that most other families could afford, who lived in poor housing circumstances, suffered a lot of financial anxiety, and fell into unmanageable debt. ‘Severe hardship’ was defined by exceeding a pre-set points total.

Measuring hardship among this sample of childless workers was more difficult. For example, few young workers maintain households in the way that families with dependent children have to. Ideas of household-based hardship, of families ‘going without’ and getting into household debt, are far more difficult to pin down for a young person living with parents or sharing a flat with friends.

A hardship measure was therefore constructed from seven basic measures. One point was scored for each of the following:

- The respondent said ‘yes’ to the question: ‘Is there anything you really need to buy at the moment but which you just cannot find the money for?’.
- The respondent had fallen behind with at least one regular bill such as utilities, Council Tax, Water Charges, telephone, TV rental.
- The respondent had fallen behind on the repayments schedule for a loan or overdraft.
- The respondent said they worried about money ‘quite often’ or ‘almost all of the time’.
The respondent said that they ‘don’t manage very well’, ‘have some financial difficulties’ or are ‘in deep financial trouble’.

The respondent said that over the past two years they have had debts that they have found hard to repay and that this situation occurred ‘often’ or ‘almost all the time’.

The respondent had fallen behind with rent or mortgage payments.

Not surprisingly, the tendency to score on one of these items of financial stress was correlated with the tendency to score on others, so they could be usefully combined into a single index:

Score 0 – no hardship
Score 1 – little hardship
Score 2 – some hardship
Score 3 or more – severe hardship.
Changes in inflows to unemployment were estimated by first taking all the inflows accumulating in the months before ETU was introduced and calculating the ratio of these between Scheme A and control areas. The same ratio was then calculated for the months after the introduction of ETU and the first subtracted from the second. Positive or negative values indicated a change that may be associated with the introduction of ETU in Scheme A. The same procedure was then followed for Scheme B versus control areas. These ratio-differences were calculated for all recipients and then separately for the groups most likely to have been affected by ETU and who were known to be numerous among actual recipients: young single men or women, for example.

Changes in outflows from unemployment were estimated using a similar procedure but one that had first to control for the effects of any change in inflows. If ETU had led to a decrease in inflows, for example, then a corresponding decrease in outflows would also be observed. To estimate whether ETU may have had an additional and independent effect on outflows, the calculation began by taking a ratio of outflows to inflows – simply showing outflows as a share of inflows – to provide a measure of net outflows. This ratio of outflows to inflows in pilot areas was then expressed as a ratio of the same sum estimated in control areas. This was done separately for the months before and the months after ETU and, again, the result from the earlier months was subtracted from the later outcome.
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