Evaluation of the macroeconomic impact of Jobcentre Plus and Jobseeker’s Allowance New Deals: a feasibility study

Rebecca Riley, Simon Kirby, Pamela Meadows, Justin van de Ven and Ray Barrell

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## Abbreviations

<table>
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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ALMP</td>
<td>Active Labour Market Programme</td>
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<tr>
<td>CGAWAD</td>
<td>Client Group Analysis of Working Age Database</td>
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<td>CMS</td>
<td>Customer Management System</td>
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<td>DWP</td>
<td>Department for Work and Pensions</td>
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<td>ETO</td>
<td>Education and Training Opportunities</td>
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<td>EZ</td>
<td>Employment Zones</td>
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<td>FA</td>
<td>Financial Assessor</td>
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<td>FC</td>
<td>First Contact</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IAP</td>
<td>Intensive Activity Period</td>
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<td>IB</td>
<td>Incapacity Benefit</td>
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<td>IS</td>
<td>Income Support</td>
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<td>JSA</td>
<td>Jobseeker’s Allowance</td>
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<td>LFS</td>
<td>Labour Force Survey</td>
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<td>LMS</td>
<td>Labour Market System</td>
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<td>LPWFI</td>
<td>Lone Parent Work Focused Interview</td>
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<td>NBD</td>
<td>National Benefits Database</td>
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<td>ND25+</td>
<td>New Deal 25+</td>
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<td>ND50+</td>
<td>New Deal 50+</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>NDDP</td>
<td>New Deal for Disabled People</td>
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<td>NDED</td>
<td>New Deal Evaluation Datasets</td>
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<td>NDLP</td>
<td>New Deal for Lone Parents</td>
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<tr>
<td>NDPA</td>
<td>New Deal Personal Adviser</td>
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<tr>
<td>NDYP</td>
<td>New Deal for Young People</td>
</tr>
<tr>
<td>NIESR</td>
<td>National Institute of Economic and Social Research</td>
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<tr>
<td>NiGEM</td>
<td>National Institute Global Econometric Model</td>
</tr>
<tr>
<td>PA</td>
<td>Personal Adviser</td>
</tr>
<tr>
<td>PES</td>
<td>Public Employment Service</td>
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<tr>
<td>WBLA</td>
<td>Work-Based Learning for Adults</td>
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<tr>
<td>WFI</td>
<td>Work Focused Interview</td>
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<tr>
<td>WPLS</td>
<td>Work and Pensions Longitudinal Study</td>
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<td>WTC</td>
<td>Working Tax Credit</td>
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Summary

With the introduction of the Jobcentre Plus agency in October 2001 the Department for Work and Pensions (DWP) initiated a number of changes to the provision of employment services and benefit delivery. One of the main innovations of Jobcentre Plus is the extension of the work-first ethic and the concept of rights and responsibilities to all people of working age wanting to claim social security benefits, regardless of their individual situation. The services delivered through Jobcentre Plus range from job search assistance and wage subsidies for the long-term unemployed to training and Work Focused Interviews (WFIs) for people claiming disability benefits, and are all intended to achieve the common goal of raising sustainable employment and preventing social exclusion.

The objective of this report, commissioned by DWP, is to consider how one might measure the labour market and wider economy effects of Jobcentre Plus services against three distinct policy counterfactuals where:

• the changes to the Public Employment Service (PES) and WFIs brought about by the introduction of Jobcentre Plus did not take place;

• the New Deal for Young People (NDYP), the New Deal 25+ (ND25+), and the New Deal for people aged 50+ (ND50+) do not exist, and the long-term unemployed passively claim benefits;

• Jobcentre Plus as a whole (its basic PES functions, WFIs and active labour market programmes) is abolished and social security benefits are applied for and delivered either electronically or through the post.

To clarify what each policy counterfactual measures, Chapter 2 of this report gives a brief overview of current DWP provision for people of working age, changes that occurred with the introduction of Jobcentre Plus, and changes in the delivery of the New Deals for the unemployed since these were introduced. The broad range of services delivered through Jobcentre Plus can be separated into three distinct groups: the initial work-focused claim process; programme delivery, which follows on from the work-focused claim process and involves more active and targeted provision; and job-brokering services. The introduction of Jobcentre Plus brought about a number of changes to service delivery for all its three main client groups (people...
claiming Jobseeker’s Allowance (JSA), lone parents claiming Income Support (IS), and people claiming disability-related benefits). The change in service delivery was most significant for disabled customers.

In considering a macroeconomic evaluation of Jobcentre Plus policies it is important to bear in mind that Jobcentre Plus is not a single service provided to a particular target group. Rather, it encompasses a variety of services for a variety of target groups. Also, for large scale interventions such as Jobcentre Plus, the net effect of policy on the macroeconomy should take into account the direct effects of that policy on individual participants, as well as the indirect effects of the policy on non-participants and on participants themselves. Last, it is important to distinguish between the impacts of Jobcentre Plus over the short- versus the longer-term. Chapter 3 sets out a framework for thinking about the macroeconomic effects of Jobcentre Plus policies, which allows us to integrate the analysis of the different elements of Jobcentre Plus within a coherent structure.

For the purposes of analysing the macroeconomic effects of Jobcentre Plus its policy components can be grouped into four categories, which cut across the different programmes delivered through Jobcentre Plus: public employment services and administration, labour market training, subsidised employment and special measures for specific groups. The macroeconomic effects of these policies occur first and foremost through their effects on the aggregate labour market. The effects of Jobcentre Plus on the aggregate labour market can be summarised in terms of its effects on job matching, labour market participation, productivity, job creation and impacts that are related specifically to the introduction of Jobcentre Plus. Importantly, these effects cannot be captured by evaluation methods that focus exclusively on participants and short-term outcomes.

It is also important to consider how Jobcentre Plus policies might affect transitions between three different labour market states: in work; out of work and looking for work; out of work and not looking for work. The flow representation of the labour market is convenient for the current purposes since this is the level at which most evaluation evidence is available, at which aggregate effects are most likely to be observed, and the impact of Jobcentre Plus on labour markets flows is a necessary input to a full cost-benefit analysis. Importantly, Jobcentre Plus may affect flows in each direction between these three labour market states and an evaluation would need to consider impacts on all these flows.

In many ways the issues that arise in estimating directly the net effects of policy on the macroeconomy are similar to those that arise in assessing effects on individual outcomes. We need to estimate the counterfactual and in doing so we need to address issues of selection bias, or policy endogeneity. However, a separate set of issues arises in a macroeconomic evaluation. The economy is typically described by a broader set of variables than used to describe the policy effect on individual participants. Also, in many instances policy variation cannot be observed at the aggregate level and there may be different channels by which the policy affects the economy, so that
the researcher needs to look at policy effects on a range of outcomes. Finally, policy may change the structure of the economy.

The methods used to evaluate policy impacts on macroeconomic outcomes are generally less well established than those used to assess policy impacts on individual outcomes. There are two broad approaches to identifying the net macroeconomic impacts of ‘activation’ policies such as those provided through Jobcentre Plus: direct estimation and model simulation. The appropriate method is determined, amongst other factors, by the particular outcome measure of interest, the likely scale of the impact, and the level of aggregation at which exogenous variation in policy treatment can be observed. Direct estimation of the policy effect on aggregate outcomes, e.g. the aggregate employment rate, benefits from the automatic inclusion in the analysis of displacement and substitution effects, and in some instances other general equilibrium effects. The use of models to identify policy effects is particularly useful in cases where it is not possible to directly assess from the available data the difference that a policy makes. Some form of model simulation is usually necessary in macroeconomic evaluation.

Much is already known about the net impacts on participants and the labour market of different elements of Jobcentre Plus. However, there is little evaluation evidence on the effect of Jobcentre Plus policies on non-participant outcomes and on the complementarities between the different services provided through Jobcentre Plus. There is virtually no evidence on the quantitative impacts of ND50+ and a number of smaller programmes delivered through Jobcentre Plus. From the existing evaluation evidence it seems likely that Jobcentre Plus will have quantifiable effects on the aggregate labour market and the macroeconomy.

The feasibility of different evaluation strategies is very much dependent on the data that is available for analysis. The DWP holds a wealth of information on working age people, but it is clear that the evaluation exercises considered would need to cost for significant data cleaning and manipulation. There is likely to be a trade off between the sample period that can be analysed and the accuracy of destinations data upon leaving benefit. This issue is less severe for JSA claimants. A number of programme administrative databases should allow for the construction of various policy indicators that can be used to identify exogenous variation in policy intensity or treatment across different geographical areas and time. An evaluation of Jobcentre Plus would need to be careful in how it uses data on Jobcentre Plus vacancies, which suffer a number of discontinuities, some of which are policy-related. The Quarterly Labour Force Survey is likely to provide an additional useful data source in a macroeconomic evaluation of Jobcentre Plus.

We propose econometric analyse of labour market flows for the three different policy counterfactuals. These can be conducted largely independently and should recover much of the aggregate policy impacts on the labour market. The analysis of wages, wider economy effects and cost-benefit assessment would need to be sequenced after an econometric analysis of policy impacts on the labour market, which would provide many of the necessary inputs to these analyses. Indeed, if the econometric
analysis suggested there was little or no aggregate impact on the labour market of a particular policy, then the case for undertaking an analysis of its wider economy effects may be less compelling. In any event, this part of the analysis would need to be model-based. We also propose robustness checks and sensitivity analysis which will be crucial in producing defendable impact estimates.

The introduction of Jobcentre Plus first in a set of Pathfinder areas and its gradual roll-out across the country facilitates an evaluation of its macroeconomic impacts. An evaluation analysis would need to explicitly allow for implementation effects and would need to distinguish between impacts on short and long duration benefit claims for all client groups. Issues that are likely to complicate the analysis are the introduction of Pathways-to-Work in some of the areas where Jobcentre Plus was initially introduced and the fact that Jobcentre Plus may affect labour market outcomes in non-integrated areas through its internet-based services. This work should not be undertaken before benefit claim data is available to the end of 2006/07.

The problem of establishing an up-to-date counterfactual scenario for NDYP and ND25+ lies in the fact that these are mandatory and have been operating for some time so there are no obvious comparison groups against which to evaluate the policy effect. Methods used in previous studies of the impacts of NDYP and ND25+ are unlikely to be particularly helpful. The important issue for a macroeconomic evaluation will be to identify some source of exogenous variation in policy treatment across geographical areas and time. An evaluation would need to consider a range of policy indicators. Age eligibility rules should also be exploited in building up an evidence base on policy impacts and substitution effects should be considered explicitly. The effects of different measures of policy treatment on labour market flows can be assessed econometrically in a panel analysis of flows across geographical areas and time. The effects on unemployment, employment and inactivity levels can be derived and should be corroborated by separate econometric analysis of these. This estimation exercise should recover much of the aggregate labour market impact of NDYP and ND25+ and could in principle be undertaken at any time, since both NDYP and ND25+ are well-established programmes. The time span covered by the analysis will determine the policy background in which these programmes operate.

Due to the relatively small size of the participant group relative to the target group and the general lack of evaluation evidence on the effectiveness of ND50+, it is difficult to be confident that potential policy effects of ND50+ can be distinguished from noise in the data in an econometric analysis of aggregate labour market transitions. We recommend that DWP undertake an initial assessment of the effect of ND50+ on individuals before any attempt is made to evaluate the effect of ND50+ on the aggregate labour market.

Evaluating the effects of Jobcentre Plus as a whole is a very different exercise to those described above. There are at least two ways in which this evaluation can be approached. A top-down approach would exploit variation across geographies in different indicators of treatment intensity. The findings of an evaluation of this kind may be less robust than the kind of evidence that can be provided for the New Deal
counterfactuals, as the number of available cross checks that can be conducted will be more limited. A bottom-up approach may collate impact evidence about the individual services provided through Jobcentre Plus. This would have to be done very carefully and it is not obvious that this approach would be able to identify all the benefits of Jobcentre Plus. A bottom-up approach is likely to be very costly and will not necessarily provide more robust results than those that may be obtained by taking a relatively inexpensive top-down approach to the evaluation. We recommend that DWP adopt a top-down approach to evaluating the labour market impacts of Jobcentre plus as a whole. As in the case of the evaluation of the New Deals, the time span covered by the analysis will determine the policy being evaluated and the policy background.
1 Introduction

Jobcentre Plus was introduced in a number of Pathfinder Areas in October 2001 as part of the Government’s strategy for achieving employment opportunity for all. The roll-out across the country will be completed this year. Jobcentre Plus is essentially an executive agency of the Department for Work and Pensions (DWP), which delivers the majority of DWP provision for people of working age who are looking for work and/or seeking to claim social security benefits. This provision includes the various New Deals that have been introduced since 1998 as well as a number of smaller labour market policy initiatives. The menu of services provided by DWP through Jobcentre Plus is broad, ranging from job matching, job search assistance and wage subsidies for the long-term unemployed to training and Work Focused Interviews (WFI) for people claiming disability benefits. These services are all funded by DWP and are all intended to achieve the common goal of raising sustainable employment and preventing social exclusion.1

The objective of this report, commissioned by DWP, is to assess the feasibility of measuring the labour market and macroeconomic impacts of the Jobcentre Plus agency and the programmes it delivers in its entirety against a base case where the rights and responsibilities currently associated with benefit entitlement are abolished and where the functions of the Public Employment Service (PES) are reduced to paying out benefits. Separately, but related to this, the objective of the report is to assess the feasibility of establishing the labour market and macroeconomic impacts of the introduction of the Jobcentre Plus agency and of conducting an up-to-date evaluation of the macroeconomic impacts of the New Deal for Young People (NDYP), the New Deal 25+ (ND25+), and the New Deal for people aged 50+ (ND50+).

This chapter provides some background information to the feasibility study and sets out the aims and scope of the study. Chapter 2 reviews the main operational details of Jobcentre Plus and the programmes it delivers, the changes to DWP provision for working age customers brought about by the introduction of Jobcentre Plus, and the main changes that have been made to the operation of the New Deals

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since their initial implementation. Chapter 3 discusses the mechanisms by which Jobcentre Plus may impact on the labour market and the macroeconomy and defines a conceptual framework on which to base an analysis of these impacts. Based on the literature, Chapter 4 reviews existing evaluation methods. Particular attention is paid to macroeconomic evaluation methods and methods for evaluating complex policy initiatives. Chapter 5 reviews existing evaluation evidence on Jobcentre Plus and the programmes it delivers and on policies that are similar to Jobcentre Plus. The focus is on quantitative evaluation studies only. Chapter 6 assesses administrative data sources that could be employed in an evaluation of Jobcentre Plus. Chapter 7 identifies strategies for establishing estimates of the labour market and wider economic impacts Jobcentre Plus and the New Deals. We discuss each of the three counterfactuals separately. Chapter 8 discusses the feasibility of conducting a full cost-benefit analysis of Jobcentre Plus. A final chapter sets out potential evaluation options under different time and cost frames.

1.1 Jobcentre Plus and the New Deals

Jobcentre Plus brings together the Employment Service and those parts of the Benefits Agency dealing with people of working age to provide an integrated and work-focused service to people seeking to claim social security benefits and to employers. One of the main innovations of Jobcentre Plus is the extension of the work-first ethic and the concept of rights and responsibilities to all people of working age wanting to claim social security benefits, regardless of their individual situation. Most prominent is the introduction of mandatory WFIs for all benefit claimants and increased efforts to channel people into the New Deals, known as caseloading. The merging into one of the job placement functions and active labour market interventions, previously performed by the Employment Service, and the payment of benefits, previously performed separately by the Benefits Agency, was also accompanied by the introduction of new IT systems. These were intended to increase the efficiency with which benefits and the work-focused service are delivered, to reduce benefit fraud and to improve job vacancy management and job matching.

The key objectives of Jobcentre Plus are to:\(^2\):

- increase the effective supply of labour by promoting work as the best form of welfare and helping unemployed and economically inactive people move into employment;
- work towards parity of outcomes for ethnic minority customers;
- pay customers the correct benefit at the right time and protect the benefit system from fraud, error and abuse;
- provide high-quality and demand-led services to employers, which help fill job vacancies quickly and effectively with well-prepared and motivated employees;

\(^2\) http://www.jobcentreplus.gov.uk/JCP/Aboutus/index.html
• help people facing the greatest barriers to employment to compete effectively in the labour market and move into and remain in work;
• continuously improve the quality, accessibility and delivery of services to all customers;
• ensure that people receiving working age benefits fulfil their responsibilities while providing appropriate help and support for those without work; and
• increase Jobcentre Plus’ overall productivity, efficiency and effectiveness.

Jobcentre Plus was first introduced in 56 Pathfinder sites in 17 clusters across the UK in October 2001. The second stage of implementation, known as Day 2 and covering 24 districts, began in October 2002 and was mostly completed in March 2003, with the remainder of this stage of the roll-out being completed over the year that followed\(^3\). The Pathfinder sites represent six per cent of the population claiming benefits and Day 2 districts represent 23 per cent\(^4\). The remainder of the national roll-out was scheduled in three successive waves between 2003/04 and 2005/06. As of September 2006, 33 out of 868 Jobcentre Plus offices remain non-integrated.

Jobcentre Plus delivers the New Deals and as such part of its role is to caseload into these active labour market programmes benefit clients who are not deemed job-ready. Caseloading is mostly relevant for the New Deals where participation is voluntary: New Deal for Lone Parents (NDLP), New Deal for Disabled People (NDDP) and ND50+. For longer term Jobseeker’s Allowance (JSA) claimants participation in either NDYP or ND25+, depending on age, is mandatory. Nevertheless, caseloading is still important as some individuals may qualify for early entry into these programmes.

The New Deals were all implemented nationally before Jobcentre Plus was introduced in the initial Pathfinder Areas. The New Deals for the inactive are targeted at different low-income groups who face significant disadvantage in the labour market. Available to lone parents, NDLP provides participants with advice on job opportunities, training programmes, childcare, benefit entitlements and the financial rewards associated with moving into paid employment. NDLP also provides job-search assistance to participants. Available to people who claim incapacity related benefits, NDDP provides participants with help and advice on moving into work through a set of Job Brokers. Primarily these function in an advisory capacity, but some Job Brokers also provide basic labour market training. ND50+ is available to long-term benefit claimants aged 50 and above. Qualifying benefits include incapacity-related benefits, Income Support (IS) as well as Jobseeker’s Allowance. The programme combines job-search assistance with financial incentives to move into work and to take up in-work training.

The New Deals for the unemployed groups include a period of intensive job-search assistance with a personal adviser for those who reach long-term unemployment. For those who remain unemployed this is followed by a placement in either some

\(^3\) See Figure 1.1 in Corkett et al. (2005).
\(^4\) On average 2001-4, Table 1.1 in Corkett et al. (2005).
form of subsidised employment or labour market training. A further period of job-search assistance follows if individuals return to short-term unemployment from their placement. Participation is now mandatory in the sense that individuals face benefit sanctions if they fail to participate. In some areas, known as Employment Zones (EZs), the New Deals for the unemployed and NDLP are delivered by private sector agencies that are managed by Jobcentre Plus\(^5\). Jobcentre Plus also administers or delivers a number of other programmes intended to help people move from welfare to work, including Work-Based Learning for Adults\(^6\) (WBLA) and the Pathways to Work Pilots for disabled people, which is due to be extended nationally by the end of 2008.\(^7,^8\)

The Jobcentre Plus customer group includes people claiming JSA, IS as well as incapacity benefits. The most recently available data suggest that there were 1 million people claiming JSA, 0.8 million lone parents claiming IS (lone parents comprise the vast majority of IS claimants), and 2.7 million people claiming incapacity benefits in February 2006, accounting for approximately 12 per cent of the working age population in Great Britain\(^9\). The benefit claim statistics ostensibly suggest that people claiming incapacity benefits form the largest customer group dealt with by Jobcentre Plus. This belies the distribution of people who come into contact with Jobcentre Plus. For example, in the three months to February 2006, 0.4 million people initiated a JSA claim. This was four times the number of Incapacity Benefit (IB) claims and 10 times the number of lone parent IS claims initiated over the same period.\(^10\)

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\(^5\) EZs are implemented in geographical areas of persistent high long-term unemployment. EZs are not bound by constraints of national programmes as to what is eligible expenditure and are able to use resources flexibly.

\(^6\) WBLA is being abolished. It is currently, as of April 2006, being run down and funding is only available to those who have already started their provision.

\(^7\) Currently a third of the national caseload of IB claimants is serviced in Jobcentre Plus districts piloting the Pathways to Work programme for disabled people (Pathways to Work roll-out schedule for October 2006, provided by DWP).

\(^8\) Other programmes include the smaller New Deal programmes such as the New Deal for Partners of the Unemployed and the New Deal for Musicians. Jobcentre Plus also administers, and in some case delivers, the WORKSTEP and Access to Work programmes for disabled people and the Action Teams for Jobs programme, available mainly via Outreach in disadvantaged areas.


\(^10\) These numbers measure live benefit claims that had lasted up to 3 months in February 2006, and are not necessarily equal to the gross on-flow to benefits in the three months to February 2006.
Some benefit claimants also participate in the New Deal programmes administered by Jobcentre Plus (see Table 2.1). The latest available data suggest that there are 190,000 people participating in one of the New Deals for the unemployed. Of these, 46 per cent were participating in NDYP, 25 per cent in ND25+, with the remainder participating in ND50+. At the same time there were 140,000 and 63,000 people participating in NDLP and NDDP respectively, with a further 25,000 participating in EZs.

1.2 Background to the feasibility study

Jobcentre Plus, or at least the introduction of Jobcentre Plus, has already been the subject of extensive evaluation, but most of this concerns the delivery and process of the policy. The evaluation of the impact of Jobcentre Plus on labour market outcomes has mostly been conducted in-house by the DWP and there is as yet no evaluation of the macroeconomic impact of Jobcentre Plus.

The Jobcentre Plus agency delivers most DWP provision for people of working age, much of which was in place before the changes to and relaunching of the PES as Jobcentre Plus. For JSA claimants in particular, the benefit claim process was already work-focused, with people having to complete personal action plans and participate in WfIs. Thus, an evaluation of the introduction of Jobcentre Plus will not capture the costs and benefits of having the Jobcentre Plus agency and all the services that it performs.

While much evaluation evidence exists on the labour market impacts of individual DWP policies, there is little evaluation evidence that quantifies the impacts of DWP provision for working age people as a whole. There is ongoing research into the impacts of NDLP and NDDP. Extensive evaluation programmes have resulted in a substantial body of evidence on the labour market and macroeconomic impacts of both NDYP and ND25+, but these largely refer to the first few years following implementation. Since then the programmes have changed, as has the context in which they operate. There is as yet no impact analysis of ND50+.

Against this background the DWP wish to explore the feasibility of evaluating the macroeconomic impact of the Jobcentre Plus agency and the New Deals, paying particular attention to NDYP, ND25+ and ND50+ and the impacts of the introduction of the Jobcentre Plus agency. Given differences in the timing of the introduction of these policy interventions, differences in the ways they are expected to work and potential interactions between policy interventions, an impact evaluation of this type is a different kind of exercise to the impact evaluations of individual DWP policies.

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11 Many New Deal participants are not registered as claiming benefits although they are still serviced through Jobcentre Plus. Those participating in the “options” phase of NDYP and the intensive activity period of ND25+ are not registered as JSA claimants; NDLP participants include people of working age who are not claiming benefit.

12 ND50+ participants include IS and IB claimants as well as JSA claimants.
that have first been piloted in a confined set of geographical areas, as has typically been the case.

Throughout this report we distinguish between Jobcentre Plus and the introduction of Jobcentre Plus. The introduction of Jobcentre Plus refers to the merger of the PES and benefit agencies into the Jobcentre Plus organisation and other changes to provision for working age benefit claimants that accompanied this merger. Where we do not explicitly refer to its introduction, Jobcentre Plus refers to the full range of PES functions and activation provision for working age benefit claimants provided by DWP through Jobcentre Plus. This includes a range of active labour market programmes (ALMP).

1.3 Aims and scope of the feasibility study

The aim of the study is to investigate how, with existing data sources, one might produce estimates of the labour market and macroeconomic impacts of Jobcentre Plus and the New Deals it delivers. Specifically it is the aim of the feasibility study to explore strategies for quantifying the effect on labour market flows and a range of macroeconomic variables of:

- The introduction of Jobcentre Plus against a base case where it is assumed that the changes to the PES and WFI's brought about by the introduction of Jobcentre Plus did not take place.

This impact measure does not capture any additionality effects of the various ALMPs delivered through Jobcentre Plus unless there are complementarities between these and the introduction of Jobcentre Plus, for example through caseloading to the voluntary New Deals or through more efficient delivery of the various elements of ND25+ and NDYP.

The study also considers the feasibility of disaggregating this impact measure on flows off benefit by New Deal programme (NDYP, ND25+ and ND50+ in particular), client group (JSA claimants, lone parents, people with health conditions and disabilities) and age group (18-24, 25-49, 50+), and for JSA claimants further disaggregation by age and benefit duration:

- NDYP, ND25+ and ND50+ against a base case where these do not exist, and the long-term unemployed passively claim benefits.

Thus the study considers how one might undertake a relatively up-to-date evaluation of these programmes.

- Jobcentre Plus as a whole (basic PES functions, WFI's and ALMPs) against a base case where social security benefits were applied for and delivered either electronically or through the post.

This impact measure is intended to capture the effects of the PES given all that it does in its current form. Feasible evaluation methods almost inevitably involve some
adding up of the effects of the different elements of Jobcentre Plus and the study considers how one might take account of complementarities between the different elements. In this exercise the study concentrates its attention on the main ALMPs delivered by Jobcentre Plus, excluding some smaller ALMPs.

It is important to emphasise that it is not the aim of the feasibility study to quantify policy effects; rather it is the aim of the study to identify methods that would enable such quantification.

Macroeconomic impact variables considered include wages, employment, unemployment and inactivity rates, gross domestic product (GDP), consumption, taxes and benefits, and productivity. In addition, the study explores the possibility of establishing the net impact on social benefits of Jobcentre Plus and the New Deals with the aim of providing a means for undertaking a full ‘value for money’ or cost-benefit analysis.

The study pays particular attention to the robustness of the results that might be obtained by various evaluation methods, pointing out the limitations and advantages of different approaches.
2 Jobcentre Plus and the New Deals

This chapter gives a brief overview of current Department for Work and Pensions (DWP) provision to people of working age, focusing on the main operational features of Jobcentre Plus and the New Deals. We also set out which elements of provision changed with the introduction of Jobcentre Plus, and flag significant changes in the delivery of the New Deals for the unemployed since their initial introduction.

2.1 Jobcentre Plus

It is helpful to separate the services delivered through Jobcentre Plus into three distinct groups: The first, the work-focused claim process, involves allocating individuals to the appropriate benefit and a two-way process of getting to know individuals’ circumstances and work potential, and of raising individuals’ awareness of the opportunities available. The second, programme delivery, follows on from the work-focused claim process and involves more active and targeted provision. We review programme delivery in Section 2.2. The third function of Jobcentre Plus is its job-brokering service. This service supports both the work-focused claim process and programme delivery.

2.1.1 The work-focused claim process

There are essentially three main stages to the work-focused claim process of Jobcentre Plus: First Contact (FC), Financial Assessor (FA) meeting, and the Work Focused Interview (WFI):13

FC refers to the initial meeting between Jobcentre Plus and a person wishing to make a benefit claim. The intention is that this meeting takes place over the telephone and is dealt with by an FC Officer. The objective of FC is to collect customer information to determine which benefits might be appropriate and what help might be needed to assist the customer back into work. Information collected at this stage includes

13 Corkett et al. (2005).
details of customers’ work history and work readiness. Information is processed using the Customer Management System (CMS), which helps the FC Officer determine benefit eligibility and eliminate fraudulent claims. The FC Officer also arranges a WFI with a Personal Adviser (PA), usually arranged to occur within four working days\textsuperscript{14}, and arranges for the appropriate claim forms to be sent out to the customer. Since October 2005 the initial WFI for Incapacity Benefit (IB) claimants is scheduled to occur eight weeks after the start of the claim.

The FA meeting deals with the delivery of benefits. It takes place separately once the customer has completed the relevant benefit claim forms and collected necessary verification documents supporting the benefit claim. It is intended to take place in advance of the WFI to ensure that discussion at the WFI centres around work.

The WFI is mandatory for all people of working age who have initiated a benefit claim, unless the WFI has been waived at FC. During the WFI, the PA helps the customer identify barriers to work and ways in which these barriers might be overcome. The latter may include encouraging the customer to take up some of the help on offer through the different Jobcentre Plus programmes, known as caseloding. JSA claimants will be obligated to complete a Jobseeker’s Agreement with the PA, which sets out how they intend to get back into work. Other customers will be encouraged, but are not obligated, to complete a Customer Action Plan to the same effect. The PA has access to the information collected at FC and updates this for use at later stages of the claim.

Following the initial WFI, Jobseeker’s Allowance (JSA) claimants are required to attend further WFIs every three months, and are also required to attend a fortnightly signing on meeting intended to monitor active job search activity on behalf of the claimant. In the six weeks following the 3-, 6- and 12-month WFIs, JSA claimants are required to attend weekly signing on meetings. Lone parents claiming IS are required to attend further WFIs 6 and 12 months after the initial interview, and annually thereafter. Since October 2005, lone parents claiming Income Support (IS) for at least a year and whose youngest child is age 14 or above are required to attend further WFIs every three months. IB claimants must attend a further WFI three years later or if they have a Personal Capability Assessment and remain on benefit.

\subsection*{2.1.2 Job-brokering}

The job-brokering activities of Jobcentre Plus include active matching of customers looking for work to employers with notified vacancies. Individuals may be made aware of potentially suitable vacancies at various stages of their benefit claim: during the work-focused claim process (for example, at FC, WFIs and fortnightly signings for JSA claimants) and during programme participation. Thus, the job-brokering service of Jobcentre Plus supports the entire service delivery for benefit claimants. To enable this Jobcentre Plus holds a databank of vacancies and job candidates (benefit customers who are looking for work). Employers can submit their vacancy on-line or

\textsuperscript{14} In some instances, WFIs are deemed inappropriate and are deferred or waived altogether.
by telephone via Employer Direct. A Vacancy Service Manager will then try to match employers to suitable job candidates.

In addition to active job-matching, the job-brokering activities of Jobcentre Plus include the provision of easy access to information on job vacancies. For example, a telephone service for JSA claimants (Jobseeker Direct) and on-line access to similar information for all people looking for work.

2.1.3 Changes to DWP provision on implementation

Many of the services currently provided through Jobcentre Plus existed before the introduction of the Jobcentre Plus agency, sometimes in a different form or under a different name. For example, there was no change in the type or range of welfare-to-work programmes available to Jobcentre Plus customers. Here we set out what changed with the introduction of the Jobcentre Plus agency and how provision changed for the three main client groups: jobseekers, lone parents and disabled people.

The introduction of Jobcentre Plus involved a number of changes that affect all benefit claimants of working age. These include:

- **Integration of the Employment Service and Benefit Agency**
  
  This process has involved staff reductions, rationalisation of estates, and office refurbishments. The aim was to reduce the estate from 1500 sites to 1000 sites by 2006.\(^{16}\)

- **Modernised IT systems**
  
  This primarily refers to the introduction of CMS, of which the main new features are: integrated electronic information gathering and onward transmission of data to benefit processing systems; a responsive interactive customer interface service with built in focus on work and anti-fraud.\(^{17}\)

- **Performance targets**
  
  Jobcentre Plus introduced a Job Entry Target Point System to help in monitoring its performance. Points are allocated on a scale of 1 to 12 depending on the priority of the client group of the individual moving into work through Jobcentre Plus. Customers claiming IS, IB, or Severe Disability Allowance (SDA) achieve the highest priority. Long-term JSA claimants and customers on the New Deal programmes achieve the next highest priority.

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\(^{16}\) Information provided by DWP.

\(^{17}\) Corkett et al. (2005).
• Enhanced job-brokering

New measures introduced include: the introduction of a Sales Led Vacancy Taking process called Vacancy Plus; Employer Direct On-line; the introduction of a Candidate Bank; enhanced services to small and medium sized enterprises; Specialist Employment Advisers to work with community groups and employers to help with ethnic minority employment in seven cities.\(^{18}\)

In addition to these changes, the introduction of Jobcentre Plus brought about little difference in the service delivery provided to JSA claimants and lone parents claiming IS. The JSA claim procedure was already work-focused before the introduction of Jobcentre Plus, with fortnightly signing on and mandatory WFIs. For most lone parents, the claim procedure was also work-focused before the introduction of Jobcentre Plus, which occurred very close to the national introduction of mandatory WFIs for lone parents (LPWFI). In April 2001, in advance of the introduction of Jobcentre Plus, LPWFI was introduced for lone parents making a new or repeat claim for IS whose youngest child was at least five years old. Eligible lone parents also included lone parents who at this point had been claiming IS for less than three months and whose youngest child was at least five years old, as well as any lone parent claiming IS whose youngest child was aged 13-15¾. In April 2002, LPWFI was extended to lone parents making a new or repeat claim for IS whose youngest child was at least three years old and in April 2003 LPWFI was extended to all lone parents making a new or repeat claim for IS. At the same time the coverage and frequency of LPWFI was gradually extended so that by April 2004, all lone parents claiming IS were receiving LPWFI at claim start, at six and 12 months following claim start, and annually thereafter (Knight et al., 2006).\(^{19}\)

Changes in service delivery are more significant for disabled customers claiming either IS with a disability premium or IB. Before Jobcentre Plus there was no explicit work-focus associated with benefit delivery for disabled customers in most areas of the UK. This changed with the introduction of mandatory WFIs for this group under Jobcentre Plus. WFIs for disabled benefit clients had been introduced in some areas before the introduction of Jobcentre Plus under the ONE Pilot scheme.\(^{20}\) However, the WFIs provided in the ONE Pilots are likely to have been less work-focused than those provided through Jobcentre Plus, since there was no separation of FA and the WFI.

2.2 New Deals and other Welfare-to-Work programmes

The help provided under the programmes phase of Jobcentre Plus is more intensive and targeted at specific groups of individuals than is the initial Jobcentre Plus process,

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\(^{18}\) Information provided by DWP.

\(^{19}\) Lone parents who were already claiming IS before the roll-out of LPWFI will of course not have received LPWFI during the earlier stages of their claim.

\(^{20}\) The ONE Pilot scheme was introduced throughout 1999 in 12 pilot areas representing nine per cent of working age benefit claimants in Great Britain.
including various combinations of job search assistance, training, help to identify and overcome barriers to work, financial incentives to individuals and employers, as well as direct job placements. Participant numbers, annual starts and expenditure for the individual programmes delivered or administered by Jobcentre Plus, which individuals may participate in following the initial work-focused claim process, are shown in Table 2.1. The full range of DWP provision through Jobcentre Plus includes some smaller ALMPs and pilot schemes not included in Table 2.1. Given our objectives, we briefly review the main features of New Deal for Young People (NDYP), New Deal 25+ (ND25+) and New Deal 50+ (ND50+). For details of other programmes see, for example, the studies reviewed in Chapter 5.

### 2.2.1 New Deal for Young People

In terms of the number of programme starts this is the biggest of the New Deal programmes, with more than a million people having started on NDYP since it was first introduced in 12 pathfinder areas in January 1998. The programme was implemented nationally in April 1998 and is available to unemployed 18-24 year olds who have been claiming JSA for six months. Some people may qualify for NDYP entry at an earlier point in their JSA claim. Participation is mandatory at the six month claim stage. Failure to participate can result in benefit sanctions.

There are three stages to NDYP: the Gateway, Options and Follow-Through. On entry individuals are assigned a New Deal Personal Adviser (NDPA) who, if possible, assists them throughout their stay on the programme. The Gateway stage is intended to last a maximum of four months. During this period individuals draw up an action plan setting out how they plan to get back to work, receive intensive job-search assistance, and help to identify and overcome individual barriers to work (for example, basic skills needs). At the end of the Gateway, individuals who have not found work enter the Option stage of the programme. Individuals can choose to participate in either subsidised employment, a work placement in either the voluntary sector or an environmental taskforce, or in full-time education and training. In practice, there is local variation in availability of the different options. The work experience options last six months, but the training option can last up to a year. Employers receive a wage subsidy of £60 (£40) per week for taking on an NDYP participant for a minimum of 30 (24-29) hours per week. Employers also receive £750 for providing 21

Table 2.1 includes programmes which account for at least three per cent of annual starts, measured in 2004/05, or which account for at least three per cent of DEL programme expenditure, measured in 2005/06. Smaller programmes include, for example, Work Trials, the New Deal for Partners of the Unemployed, and Programme Centres. Reviews of the full range of provision for key customer groups provided through Jobcentre Plus are available in, for example, Beale (2005a, 2005b) and Hasluck and Green (2006).

22 Early entrants include amongst others lone parents and people with a disability on JSA.

23 In practice the Gateway period has in many instances lasted much longer than 4 months.
the equivalent of one day of training per week. NDYP participants are not registered as JSA claimants during this phase of NDYP, but receive the equivalent amount of income from Jobcentre Plus. Participants in work placements in the voluntary sector or an environmental taskforce receive an income top-up of £15.38 per week (equivalent to £400 over six months). Those who do not find work during the Options stage of NDYP join the Follow-Through stage of NDYP, lasting 13 weeks. On joining Follow-Through individuals initiate a new JSA claim and receive further job-search assistance.

### Table 2.1 Programme statistics (thousands of people; £ million)

<table>
<thead>
<tr>
<th>Programme</th>
<th>Annual Starts</th>
<th>Participants</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>NDYP</td>
<td>150.9</td>
<td>87.3</td>
<td>153</td>
</tr>
<tr>
<td>ND25+</td>
<td>81.8</td>
<td>48.2</td>
<td>98</td>
</tr>
<tr>
<td>ND50+</td>
<td>26.9</td>
<td>54.1</td>
<td>2</td>
</tr>
<tr>
<td>NDLP</td>
<td>136.9</td>
<td>63.4</td>
<td>28</td>
</tr>
<tr>
<td>NDDP</td>
<td>61.6</td>
<td>140.0</td>
<td>66</td>
</tr>
<tr>
<td>Ezs</td>
<td>32.6</td>
<td>25.0</td>
<td>94</td>
</tr>
<tr>
<td>WBLA*</td>
<td>72.3</td>
<td>13.1</td>
<td>142</td>
</tr>
<tr>
<td>Pathways to Work Pilots</td>
<td>62.0</td>
<td>na</td>
<td>25</td>
</tr>
<tr>
<td>Access to Work</td>
<td>32.1</td>
<td>na</td>
<td>60</td>
</tr>
<tr>
<td>WORKSTEP</td>
<td>4.7</td>
<td>na</td>
<td>69</td>
</tr>
<tr>
<td>Action Teams for Jobs**</td>
<td>89.0</td>
<td>na</td>
<td>29</td>
</tr>
</tbody>
</table>

Notes: Starts on New Deals, Employment Zones (EZs) and WBLA during 2005, otherwise starts during 2004/05; NDYP, ND25+ and NDLP participants in February 2006; EZs participants in April 2006; ND50+ and New Deal for Disabled People (NDDP) participants in May 2006; Work-Based Learning for Adults (WBLA) participants in March 2006; Estimated expenditure in 2005/6; Expenditure refers to DEL programme expenditure, which excludes administrative and AME expenditure (for example New Deal Allowances and Working Tax Credits); WBLA expenditure includes expenditure on Basic Skills, some of which is provided as part of the New Deals. 
Source: Annual starts and participants on New Deals, EZs and WBLA from DWP Tabulation Tool, annual starts on other programmes provided by DWP; Expenditure on New Deals and Action Teams from DWP Departmental Report 2006; Other expenditure items provided by DWP.
*See footnote 4.
**Action Teams for Jobs are due to be dismantled in autumn 2006 (DWP Departmental Report 2006).

NDYP has changed since it was first introduced (Beale, 2005a). In January 2000, participants who faced particular difficulties in gaining work were offered more intensive help to improve basic skills and job coaching. In June 2000, the Gateway was enhanced with more intensive job search assistance including a two-week course tackling job search and soft skills. In 2004 greater flexibility in delivery of the Options stage was introduced allowing individuals to move between options.
2.2.2 New Deal 25+

ND25+ is targeted at long term unemployed people aged over 25. The programme has much in common with NDYP. Participation is mandatory for JSA claimants aged over 25 who have been claiming JSA for 18 out of the past 21 months. As with NDYP some will qualify for early entry and failure to participate can result in benefit sanctions.

There are three stages to ND25+: the Gateway, an Intensive Activity Period (IAP) and Follow-Through. On entry individuals are assigned a NDPA who they meet with on a weekly basis during the Gateway stage of the programme, which lasts up to 13 weeks. During the Gateway, individuals receive a similar range of help as that provided under NDYP Gateway. As part of the National Basic Skills Programme, individuals are screened (Independent Assessment) for basic skills needs on entry to ND25+ and participation in a basic skills training course is mandatory if deemed necessary. Those who do not find work before the end of the Gateway stage enter the IAP, which lasts for three to six months. Participation at this stage is mandatory for 25-49 year olds, but is voluntary for people aged 50 and above. The IAP may include Education and Training Opportunities (ETO), WBLA, work experience/placements, subsidised employment, help to become self-employed, or further help with job search and basic skills problems. ND25+ participants are not registered as JSA claimants during the IAP, but continue to receive an equivalent allowance. Individuals also receive an income top-up of £15.38 per week, unless they are participating in ETO or subsidised employment. ETO may last up to a year. People entering subsidised employment are classified as having left both JSA and ND25+. Employers receive a wage subsidy of £75 (£50) per week for taking on an individual from ND25+ for a minimum of 30 (16-29) hours per week, on condition that the job will continue when the subsidy ends after 26 weeks. Much as with NDYP, those who do not find work during the IAP join the Follow-Through and receive further job-search assistance. Follow Through lasts for up to 13 weeks.

ND25+ was originally launched as the New Deal for Long Term Unemployed adults in June 1998. The programme has changed very substantially since then, but has essentially been delivered in its current form since April 2001 (Beale, 2005a). Before then participation was mandatory when individuals had claimed JSA for 24 months (rather than for 18 months). The assistance received during the Gateway, then known as the Advisory Interview Process, was less intense. Following the Gateway individuals could participate in either subsidised employment or full-time education and training. Participation at this stage of the programme was voluntary. Before the programme was re-engineered in April 2001, different programme variants were tested in 28 pilot areas.

2.2.3 New Deal 50+

ND50+ is available to people aged 50 and above who have received either JSA, IS, IB, SDA or a Pension Credit for at least six months. Participation is voluntary. On

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24 Mandatory participation in IAP for 50-59 year olds was piloted for two years in 11 areas from April 2004.
entry, participants are assigned a NDPA who helps individuals draw up an action plan setting out how they may get into work, provides job search assistance, support and reassurance, and who may help customise and organise a package of training or voluntary work. Individuals who find work through ND50+ can receive an in-work Training Grant of up to £1,500 for expenditure on job-specific training for two years. They may also qualify for a top-up on the Working Tax Credit (WTC) for the first year of employment, the amount of which depends on family income. The WTC itself is available to participants with expected annual income of up to £15,000 and amounts to £40 per week for part-time work (16-30 hours) and £60 per week for work more than 30 hours work.

The programme was introduced nationally in April 2000, following its initial implementation in nine pathfinder areas in October 1999. Initially, individuals who found work through ND50+, qualified for a weekly tax credit called an Employment Credit. This was paid directly to the individual for up to a year and the amounts were as for WTC. In April 2003 this was replaced by the WTC, which is available to all low-income earners, and the top-up on the WTC. Before July 2002 the Training Grant was set at £750.
3 Conceptual framework

Jobcentre Plus covers a broad range of policies targeted at different groups of individuals. Thus, the people serviced by Jobcentre Plus may be affected in a number of different ways, depending on who they are and the ‘treatment’ they are given. Similarly, there are a several ways in which Jobcentre Plus potentially impacts upon the macroeconomy. Here we describe how Jobcentre Plus sits within the labour market and the wider economy. We define a general conceptual framework, which allows us to integrate the analysis of the different elements of Jobcentre Plus within a coherent structure.

It is helpful here to make some initial distinctions between the impacts of Jobcentre Plus on the people who come into contact with Jobcentre Plus versus the macroeconomy. The majority of labour market policy evaluation centres on the direct effects of policy on participant outcomes. Questions typically addressed are, for example, what is the additional or net effect of policy participation on an individual’s earnings or chances of being in work. The additional effect of a particular policy, particularly a large-scale one, on aggregate wages or employment is unlikely to be replicated by a simple aggregation of the net effect on individuals, although in some cases this may be a suitable approximation, particularly for small-scale interventions. Rather, the additional or net effect of a particular policy on the macroeconomy should take into account the direct effects of that policy on individual participants, as well as the indirect effects of the policy on non-participants and on participants themselves.25 The framework set out here emphasises all of these effects.

It is also important to bear in mind the distinction between the potential impacts of Jobcentre Plus policies over the short- versus the longer-term. There are at least three reasons for this: First, economic adjustment generally takes time, such that the longer-term equilibrium effects of policy may be very different from its short-term impacts. For example, when people move into work due to Active Labour Market Programmes (ALMPs) they may initially ‘displace’ somebody else, so that aggregate employment remains unchanged if the economy and the labour market did not react. However, in the long-run new entrants into work are likely to be fully absorbed

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25 Heckman et al. (1999) make this point explicitly, suggesting that any policy with a large target group is likely to have general equilibrium effects.
without (much) displacement. Second, the impacts of Jobcentre Plus on individual customers may develop or wane over time and this will affect the time profile of the aggregate impacts of policy. For example, if Jobcentre Plus policies lead to sustained improvements in individual productivity, the effects on the aggregate labour market may build over time as more and more individuals pass through Jobcentre Plus. Third, the introduction of Jobcentre Plus is only just complete and many of the services introduced with Jobcentre Plus are geared towards helping individuals at the start of their benefit spell. Thus, many existing benefit claimants will not have benefited from the help available, even once national roll-out is complete. Furthermore, the introduction of Jobcentre Plus is likely to have been associated with some initial and temporary disruption.

3.1 Jobcentre Plus policy components

The previous chapter outlined the main operational features of Jobcentre Plus, highlighting separately the services provided during the work-focused claim process, via the many individual programmes available under Jobcentre Plus, and its job-brokering function. In considering how Jobcentre Plus is likely to affect the macroeconomy, it is useful to think of the range of services provided by Jobcentre Plus in terms of the following broad policy groups typically considered in the literature:

- **Public employment services and administration**

  This includes the job-brokering and placement functions of the Jobcentre Plus agency; the counselling, guidance, and referral to ALMPs provided via Work Focused Interviews (WFIs); Jobseeker’s agreements and Customer Action Plans; job search assistance provided during the New Deal for Young People (NDYP) and New Deal 25+ (ND25+) Gateways and through the New Deal for Disabled People (NDDP), New Deal for Lone Parents (NDLP) and Employment Zones (EZs); job search monitoring and reviewing through frequent signing-on meetings and WFIs; as well as benefit administration and sanctioning.

- **Labour market training**

  Labour market training includes the mandatory basic skills courses provided during the Gateway stage of NDYP and ND25+, or provided on a voluntary basis through NDLP and NDDP; the full-time education and training option and workplace training options available as part of NDYP; Education and Training Opportunities (ETO) available during the Intensive Activity Period (IAP) of ND25+; the training courses available under Work-Based Learning for Adults (WBLA); and the support towards in-work training provided under New Deal 50+ (ND50+).

- **Subsidised employment**

  This includes the recruitment and employment maintenance incentives provided to employers through NDYP and ND25+; as well as help to becoming self-employed and direct job-creation measures like the voluntary sector jobs provided through NDYP and ND25+.
• **Special measures for specific groups**

Measures providing targeted help for particular groups in the labour market include, for example, financial assistance to overcome specific barriers to work such as childcare costs for lone parents (available through NDLP and Action Teams for Jobs) or workplace alterations for disabled people (available through Access to Work); the rehabilitation or Condition Management Programmes for disabled people available through Pathways to Work; and the supported or sheltered employment opportunities available for disabled people through the WORKSTEP programme.

### 3.2 Jobcentre Plus and labour market equilibrium

We outline a simple and relatively standard model of labour market equilibrium. Next, based on the exposition in Calmfors (2000) and with reference to the literature, we illustrate the potential effects on the aggregate labour market of the set of policies covered by Jobcentre Plus, typically referred to as activation policies or ALMPs, broadly defined. Note that traditionally, over the last two decades, activation strategies have mostly been directed towards the unemployed. Only recently has this changed, for example, with the introduction of Jobcentre Plus and the New Deals for lone parents and disabled people in the UK. Hence, the literature on activation policies and their potential macroeconomic effects is not, in all cases, directly applicable in the current context. In what follows we distinguish where necessary between the macroeconomic effects of Jobcentre Plus policies for ‘active’ and ‘inactive’ benefit claimants.

#### 3.2.1 A simple illustration of labour market equilibrium

We can analyse the impacts of Jobcentre Plus on the labour market within a stylised model of equilibrium unemployment as provided, for example, in Layard et al. (1991) and illustrated in Figure 3.1.

The wage-setting schedule shows sustainable combinations of real wages and the unemployment rate in a labour market where wage determination is characterised by imperfect competition. Along the wage-setting schedule, as drawn in the top panel of Figure 3.1, lower unemployment leads to higher wage demands. Factors such as the job-search effectiveness of the unemployed and labour productivity determine the location of the wage-setting schedule.

Firms hire labour according to their labour demand schedule, derived from the production function. The higher the wage, the less labour demanded by employers, as indicated by the downward sloping curve in the top panel of Figure 3.1. Amongst other factors, technical progress and hiring costs determine the location of the labour demand schedule. Note that employment in Figure 3.1 is shown as a proportion of the labour force, so that shifts in the labour force also result in shifts in the labour demand curve.\(^{26}\)

\(^{26}\) Since the amount of labour demanded at a given real wage is expressed in terms of people or hours, rather than as a proportion of the labour force.
Figure 3.1  Labour market equilibrium

The equilibrium rate of unemployment and real wages are determined by the intersection of the labour demand curve and the wage-setting schedule in the top panel of Figure 3.1. The unemployment rate is given by the horizontal distance between equilibrium and the point at which the entire labour force is employed (as indicated by the vertical line through 1). The number of people employed is simply equal to the share of the labour force in employment (1 less the unemployment rate) x the labour force. This can be read from the upward sloping line in the bottom panel in Figure 3.1, which shows the number of people employed at different unemployment rates for a given population of working age and rate of labour force participation.

We assume in this set up that the unemployed are those who are looking for and available to start work, as per the International Labour Organisation (ILO) definition of unemployment. In terms of the main customer groups of Jobcentre Plus, Income Support (IS) and Incapacity Benefit (IB) claimants are typically in the ‘not looking for work’ category and are outside the labour force or ‘inactive’ in a labour market sense, although there will be a large minority of exceptions. Jobseeker’s Allowance (JSA) claimants are typically in the ‘looking for work’ category and are, therefore, included in the labour force as unemployed. It is worth making these distinctions clear, as the effects of Jobcentre Plus policies on people inside and outside the labour force will manifest themselves differently in the framework outlined above. In reality, the distinction between being inside and outside the labour force is not always clear. People who are actively looking for work are easily thought of as participating in the labour market. Similarly, people who are unable to participate in the labour market, for
example, because they are in full-time education, are terminally ill or have significant caring responsibilities, may also easily be classified as outside the labour force. But, the distinction between active and inactive will not always be obvious. There are likely to be a significant number of people who are loosely connected to the labour market, and indeed much of Jobcentre Plus policy is directed towards this group.

An alternative to the analytical framework presented above is to treat the entire population of working age as unemployed in the sense that all the non-employed then influence wage-setting. In many ways this would simplify the exposition here. However, we find the distinction between active and inactive helpful as it facilitates the illustration of the different effects of Jobcentre Plus on the macroeconomy and fits with standard economic thinking.27

We assume that employment includes subsidised jobs and job placements provided through Jobcentre Plus programmes, such as voluntary sector placements available through NDYP and ND25+. People participating in Jobcentre Plus training programmes are outside the labour force if they are not looking for work, i.e. if they are not unemployed, but are included in the labour force if they are unemployed.

### 3.2.2 Effects of Jobcentre Plus policies

Here, we discuss the impacts of the different services delivered through Jobcentre Plus within the simple framework outlined above. In particular we discuss the qualitative effects of these services on job matching, labour force participation, productivity and job creation and how this affects real wages, employment and the unemployment rate.

**Job matching**

With the exception of benefit administration, the Public Employment Service (PES) functions provided by Jobcentre Plus are all intended to improve the job search efficiency of those looking for work and, in general, the efficiency of the job matching process (the way in which people looking for work are matched to available jobs or vacancies). Help such as this, provided to those who are already looking for work, increases competition between jobseekers and puts downward pressure on wages for a given rate of unemployment. From a demand-side point of view, the readier access to job candidates reduces the time period over which vacancies are unfilled and reduces the likelihood that an employer will have to increase the wage offer in order to attract a suitable range of candidates.

In Figure 3.2, an improvement in job match efficiency shifts the wage curve down and to the right, resulting in lower real wages, a lower unemployment rate, and more

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27 The discussion in Carcillo and Grubb (2006) also follows this approach.
It is important to emphasise that the downward pressure on wages affects all workers, and is, to some extent, independent of whether an individual is directly affected by Jobcentre Plus. It cannot, therefore, be captured by evaluation methods that focus only on the impact of Jobcentre Plus clients.

Job search assistance for those who are not already looking for work, for example IB and IS claimants, should have qualitatively similar effects on real wages and employment as job search assistance for the unemployed, but may increase rather than decrease the unemployment rate. There is generally less evidence on the impact of such measures for the inactive. To the extent that job search assistance helps these groups it should encourage labour force participation.

Figure 3.2  Job search assistance for active benefit claimants

In Figure 3.3, an increase in participation rotates the line in the bottom panel upwards and shifts the labour demand curve down (recall that labour demand is specified in terms of the employment share of the labour force). It is easy to see that, all else being equal, the economy then stabilises at a new equilibrium with a higher unemployment rate.

Reviewing the evidence Martin and Grubb (2001) suggest that job search advice and assistance improves exit rates to employment (see also Blundell et al. (2004) and Kluve (2006)); Lalive et al. (2005) find that job search monitoring and benefit sanctioning both increase the exit rate from unemployment; Abbring et al. (2005) find that benefit sanctioning increases individuals’ re-employment rates.
rate and lower real wages, but with more people in work. The increase in participation may reduce the average job search effectiveness of those looking for work, if on average, those who have been encouraged to participate in the labour market are less effective jobseekers than those who were already looking for work. At the outset this seems a reasonable assumption. A reduction in average job search effectiveness would shift the wage curve up and to the left (as in Figure 3.3), dampening the increase in employment and softening the fall in real wages that otherwise results. This effect may also occur if, for example, the PES is not allocated enough resource to effectively perform its job brokering activities for a larger customer group (Carcillo and Grubb, 2006), and this may be an issue for Jobcentre Plus (OECD, 2006).

**Figure 3.3 Job search assistance for inactive benefit claimants**

Here it is important to emphasise the difference between short and long run equilibrium. Figures 3.2 and 3.3 illustrate what might occur for a given level of aggregate output and the capital stock. Over the longer term, the improvements to the effective labour supply (through either more efficient jobseekers or a larger labour force) would result in increases in the capital stock (as we discuss in Section 3.4.1) and aggregate output (as we discuss in Section 3.4.2). These second round impacts would tend to shift labour demand upwards in Figures 3.2 and 3.3, with the effect of reducing the unemployment rate, increasing real wages and further increasing the number of people in employment (although real wages would not necessarily return to their initial level). These general equilibrium effects would take time to become effective as the capital stock adjusts slowly and impacts upon all
workers, whether or not they are directly affected by Jobcentre Plus. These effects will not be captured in an analysis that focuses on Jobcentre Plus clients or on short term outcomes exclusively.

The improvements that Jobcentre Plus may bring to the matching process, either through increased search effectiveness of those looking for work or through an increase in the number of people looking for work, may also reduce the cost of hiring to employers to the extent that employers are prepared to employ more workers at existing real wages.\(^{30}\) In addition, a reduction in the time taken to fill any given vacancy will directly lead to a higher overall level of employment without there necessarily being any effect on wages. This would tend to shift the labour demand curve upwards and to the right (not illustrated), enforcing the rise in employment and off-setting the downward effect of improved job matching on real wages. Again, it is important to point out that these types of effects should affect the job-finding rate of individuals, regardless of whether they come into contact with Jobcentre Plus or not.

The training and work placements provided through the New Deals and WBLA may also improve job matching by reducing skills mismatch.\(^{31}\) On the other hand they may also be associated with a ‘locking-in’ effect reducing job search effort, which would weaken job-matching (Calmfors, 2000). For example, some of those individuals who would otherwise be looking for work may decide to take up training and, at least during the period where they are participating in the training, may spend less time looking for work or may stop looking for work altogether. The benefit top-up that may be gained during training or during work placements (for example for WBLA participants or for NDYP participants in voluntary sector or environmental taskforce options) may reinforce this effect. The threat of training and work placements, particularly the longer training courses available during the Options phase of NDYP and the IAP of ND25+, associated with mandatory participation for the longer-term unemployed, may in itself increase the search effort of those looking for work and improve job-match efficiency (Black et al., 2003; Geerdsen, 2006).

By raising job-match efficiency, Jobcentre Plus should reduce non-employment durations. This may reduce the scarring effects of being out of work, that is the loss of skills associated with long spells out of work (Arulampulam, 2001), resulting in potentially sustainable employment impacts for individuals. If this were the case, then over time, as the numbers helped through Jobcentre Plus increases, this could lead to on going improvements in job-matching and a build up in aggregate sustainable employment.

\(^{30}\) This type of effect is implied by search and matching models of the labour market, see for example Mortensen and Pissarides (1999).

\(^{31}\) See, for example, the discussion in de Koning (2001a). Meadows (2006) reviews the evidence and suggests that training may improve matching in the longer term, whereas job search assistance is more effective in the short term. Riley and Young (2003) suggest that upgrading the skills of the workforce may have significant effects on aggregate equilibrium employment by moving people into a position where they exert more downward pressure on wages.
Participation

We have already mentioned, in the above section, that the PES functions of Jobcentre Plus, available for inactive benefit claimants, may improve labour market participation and that this should help to increase employment and reduce real wages, although the unemployment rate may increase. We can assume that the training and work placements available to IB and IS claimants through Jobcentre Plus, including the special measures that are targeted at the hardest to help or those with significant barriers to work, will tend to raise active participation in the labour market as well. Jobcentre Plus measures targeted at the unemployed may also increase labour market participation by reducing the number of workers who become discouraged after long spells of unemployment and leave the labour market.

Together the increase in participation and the general increase in the efficiency of job matching, discussed so far, raise the effective labour supply. As illustrated in Figures 3.2 and 3.3 these effects both tend to lower real wages and raise the number of people in employment.

Productivity

As mentioned above, by improving job-matching, Jobcentre Plus may reduce the scarring effects of being out of work. The training and work placements available through Jobcentre Plus may also directly counteract any scarring effects of being out of work, by improving individuals’ skills. Thus, Jobcentre Plus may improve the productivity of its customers. In the framework in Figure 3.1, an increase in productivity or the quality of the labour force will tend to shift labour demand upwards. Typically, the wage-setting schedule is assumed to rise to match the increase in real wages, so that the effect of Jobcentre Plus, through the productivity channel, is to raise real wages without changing the overall unemployment rate. However, the effects of Jobcentre Plus policies on aggregate labour productivity, and the associated effects on wage-setting, labour demand and labour market equilibrium, are likely to be more complex. First, if the improvement in individuals’ productivity increases labour force participation there will be additional effects on wage-setting and labour demand. In particular, even if Jobcentre Plus increases the productivity of the people directly affected by its policies, it may reduce average labour productivity by bringing into employment lower productivity individuals. Note that overall output and compensation should still rise. Second, as we discuss in Section 3.1, Jobcentre Plus may change the ratio of capital to labour in the economy, and this will also affect average labour productivity.

Job creation

In the framework here we assume that individuals are employed when they are in subsidised jobs available through NDYP and ND25+ or in the jobs created in the voluntary sector available through these programmes. This means that Jobcentre Plus almost automatically increases aggregate labour demand (in Figure 3.1 the labour demand curve shifts to the right – not illustrated) and reduces the unemployment rate. Similarly, the sheltered jobs available through WORKSTEP almost automatically
increase labour market participation (if the disabled people targeted through this programme are generally outside the labour market), further increase labour demand and reduce the unemployment rate. These effects are essentially an accounting effect of Jobcentre Plus. These elements of Jobcentre Plus may also serve to reduce regular labour demand and employment (i.e. employment less subsidised jobs and direct job creation).

Subsidised employment or direct job creation may increase labour demand, by artificially reducing the cost of employment. But, the increase in labour demand will generally be less than the number of subsidised jobs. Many of the employers offering subsidised employment would have taken on workers from the Jobcentre Plus customer group anyway. For these employers the subsidy is essentially a free gift, i.e. it is ‘deadweight’. Other employers would have taken on similar workers from outside the Jobcentre Plus customer group. These workers have, therefore, been substituted by the Jobcentre Plus customer group. While this substitution is an offset to the overall economic impact, it may serve the objective of combating social exclusion. These off-setting effects on labour demand are mostly important for the subsidised jobs available with the New Deals for the unemployed. Arguably, some of the voluntary sector jobs may not have been undertaken without Jobcentre Plus, and hence may genuinely be additional.

It is also possible that subsidised employment and the voluntary sector jobs available through Jobcentre Plus displace regular jobs by reducing the welfare loss of being out of ‘regular’ employment, i.e. individuals regard programme participation as a substitute for regular work. This is similar but separate to the ‘locking-in’ effect discussed above and shifts the wage setting schedule in Figure 3.1 to the left, off-setting the positive effect on aggregate employment of increased labour demand.

In viewing the effect of Jobcentre Plus as a whole against a counterfactual where benefits were delivered electronically or through the post, we may also consider the Jobcentre Plus agency itself as a job creation scheme. There are approximately 80,000 Jobcentre Plus staff, equivalent to 0.2 per cent of the population of working age in the UK or 0.3 per cent of aggregate employment. The extent to which the demand for Jobcentre Plus staff boosts aggregate labour demand and investment depends on the extent to which these jobs can be regarded as additional, i.e. the extent to which these jobs would not be provided by other employers (for example private recruitment agencies) in the absence of the Jobcentre Plus agency.

3.3 Jobcentre Plus and labour market flows

For the purposes of evaluating the macroeconomic impacts of Jobcentre Plus and for conducting a full cost-benefit analysis, we also need to have in mind the ways in which Jobcentre Plus is likely to affect labour market flows. We outline a convenient representation of labour market flows and suggest how the impacts of Jobcentre Plus on the labour market, discussed above, are likely to change labour market flows.

Jongen et al. (2003) suggest the offset is potentially quite large.
within this framework. The flow approach also benefits from the fact that much of the evidence on the labour market impacts of ‘activation’ policies, such as those available through Jobcentre Plus, relates to labour market transitions.

### 3.3.1 A general labour market stock and flow framework

At any one particular point in time individuals can be in one of three labour market states: working, out of work and looking for work (unemployed), or out of work and not looking for work (inactive). Individuals move between these different states over time. For example, people looking for work may find a job. Others looking for work may decide to cease looking for work, for example, to take up full-time education or if after repeated failure to find work they become discouraged. Individuals in work may be made redundant and may then look for another job, or they may leave work for other reasons and leave the labour market altogether, for example, to care for young children. Individuals who are inactive in the labour market (that is out of work and not looking for work) may similarly change their labour market status, for example, upon completion of higher education or upon recuperating from a period of poor health they may start looking for work or may return to a previous employer. Sometimes inactive people are offered work without ever actually seeking it. These transitions between labour market states are illustrated in Figure 3.4.

**Figure 3.4 Labour market transitions**

The objective of all Jobcentre Plus policy is to increase the number of non-employed people moving into sustainable jobs. In particular, its objective is to raise sustainable employment by increasing the effective labour supply and helping people to avoid getting trapped on benefits and disengaging from the labour market either permanently or for longer periods of time. Thus, in terms of the simple model of
labour market transitions outlined earlier, Jobcentre Plus aims to achieve a situation as illustrated in Figure 3.5.

Comparing Figure 3.4 with Figure 3.5, individuals looking for work find jobs more easily and individuals who are not looking for work are more likely to engage in the labour market and start looking for work. Also, the probability that individuals looking for work become discouraged and disengage from the labour market is smaller. The resulting picture is one where there are more people in employment and fewer people out of employment. Non-employment falls in this illustration, however, unemployment may fall or rise as more people join the labour force. Similarly, the average exit rate from unemployment to employment improves in this illustration. However, it may actually decline, if those entering unemployment from outside the labour market are less effective jobseekers.

Figure 3.5  Labour market transitions and the objectives of Jobcentre Plus

More formally, we can think of the illustration in Figure 3.4 in terms of the dynamic identity relationship between the number of people in different labour market states and the transition rates between these states:

\[
\begin{bmatrix}
E \\
U \\
I
\end{bmatrix}_t =
\begin{bmatrix}
f_{EE} & f_{UE} & f_{IE} \\
f_{UE} & f_{UU} & f_{IU} \\
f_{IE} & f_{IU} & f_{II}
\end{bmatrix}
\begin{bmatrix}
E \\
U \\
I
\end{bmatrix}_{t-1}
\]

(3.1)

where the number of people in employment \((E)\), unemployment \((U)\) or inactivity \((I)\) at time \(t\) depends on the number of people in these different labour market states.
at time $t - 1$ and the flow rates $(f_{ij})$ from state $i$ to $j$. We can think of each transition rate as a function of a number of exogenous, and perhaps endogenous, factors. For example, the number of people moving from unemployment into work over a fixed period of time is commonly described in the macroeconomic literature by means of an aggregate matching function (see Petrongolo and Pissarides, 2001). Using this approach we can think of the exit rate from unemployment into work $(f_{UE})$ as a function of labour market tightness (the number of available vacancies ($V$) per unemployed) and some measure of the job search effectiveness or employability of those looking for work ($\theta$) as:

$$f_{UE} = \alpha \cdot m(V, \theta) \quad (3.2)$$

where $\alpha$ is a scaling factor and $m$ is increasing in its determinants. In turn, job search effectiveness may be thought to depend on financial incentives such as the ratio of wages to benefit payments. To take another example, one might expect very few individuals who are not looking for work to move into employment, assuming that most people need to undertake some period of job search, however short that may be, before moving into work. In terms of equation (1) this implies that $f_{ii}$ should be close to zero.

We can also extend equation (3.1) to take into account directly the differences in exit rates from short- versus long-term unemployment or inactivity, by modelling unemployment of different durations as explicit labour market states. Similarly, we can explicitly take into account flow rates between the three main customer groups of Jobcentre Plus, by modelling each of these as different states.

### 3.3.2 Effects of Jobcentre Plus policies

The overall effect of Jobcentre Plus on employment and non-employment depends on its effect on the flow rates between all labour market states taken together. Here we sketch the potential impacts of Jobcentre Plus on the labour market in terms of their effects on flow rates.

We have already discussed in the previous section how Jobcentre Plus might affect job matching and this can be translated directly within the flow framework outlined here. In terms of equation (3.2), the job search assistance provided through various programmes, the counselling and referrals to programmes through WFiS, and completion of action plans should increase the search effectiveness of those looking for work ($\theta$). Regular monitoring of job search activity and benefit sanctioning of JSA claimants should similarly serve to increase search effectiveness of the unemployed. In equation (3.2) the general job brokering services provided by Jobcentre Plus should increase $\alpha$, also raising the job-finding rate of those looking for work.

Improved job-brokering and provision of job search assistance for IS and IB claimants is likely to increase the transition from labour market inactivity to unemployment and may inadvertently reduce the average search effectiveness of those looking for work,
if individuals who move from inactivity into the labour market are, on average, less effective jobseekers and face greater barriers to employment, which would reduce the exit rate from unemployment to work and may also increase the exit rate from employment. It may also increase the movement from inactivity to employment directly, for example, if we regard all IB claimants as ‘inactive’.

The positive effects of improved matching on labour demand should increase the number of vacancies per unemployed in the short term and increase the exit rate from unemployment to work. Note however, that in equilibrium, improved job matching should reduce the number of vacancies per unemployed.33

The ‘locking-in’ effects of programme participation and programme caseloading may increase the exit rate from unemployment into inactivity or may reduce the exit rate from inactivity to unemployment and from unemployment to jobs in the short run. Training programmes are intended to increase the productivity or general employability of those who participate. This should ultimately increase active participation in the labour market, raising the exit rate from inactivity to work, and potentially the exit rate from unemployment into jobs. However, the exit rate from unemployment into work may also decrease as wage demands rise to match productivity increases.

Subsidised employment may increase the entry rate to employment from either unemployment or inactivity, depending on the target group of the subsidy. This increase in the entry rate to jobs is of course unrelated to improved job search. Deadweight and substitution effects would mitigate any increase in the entry rate into work, and displacement effects would tend to increase the exit rate out of employment. If subsidised jobs are short-lived this would also tend to increase the exit rate out of employment.

3.3.3 Impacts related to the introduction of Jobcentre Plus

There are likely to be a number of impacts on labour market flows that are distinctly related to the introduction of Jobcentre Plus: First, the physical integration of offices, refurbishments, and introduction of new IT systems is likely to have been associated with some disruption and a temporary reduction in the quality of services available to Jobcentre Plus customers. Thus, the introduction of Jobcentre Plus could have led to a temporary reduction in exit rates from unemployment and inactivity into work and from inactivity into unemployment. Second, the integration of the Employment Service and the Benefit Agency, improvements to IT systems and the development of a less fragmented service for people of working age may have been associated with efficiency gains and economies of scope. These types of factors are normally considered in terms of their effects on costs (for example, costs per job placement), but they may also impact directly on labour market flows, helping to achieve the situation illustrated in Figure 3.2. Third, labour market flows may also be affected

33 The Beveridge curve (the equilibrium trade-off between vacancies and unemployment) shifts inward.
in the short-term by changes in the number of PES staff (headcount) upon the introduction of Jobcentre Plus. Longer term effects from changes in Jobcentre Plus staffing depend on the extent to which these jobs can be regarded as additional, as discussed already.

In addition to these factors, the introduction of anti-fraud measures may reduce the inflow to benefit. The introduction of performance targets that reward job outcomes for those furthest away from the labour market may also help to increase the transition rate from inactivity into the ‘looking for work’ category. Conversely, it may detract attention away from those who are already looking for work, reducing the job-finding rate for the unemployed.

3.4 Jobcentre Plus and the macroeconomy

Jobcentre Plus impacts on the macroeconomy first and foremost via its effect on the aggregate labour market. However, the changes in the labour market brought about by Jobcentre Plus will have impacts on other macroeconomic variables and, vice versa, these may have further repercussions in the labour market. Jobcentre Plus may also directly affect macroeconomic variables outside the labour market. For example, Jobcentre Plus directly affects the public finances, through the costs associated with delivery, as well as indirectly, through the benefit savings and additional tax revenue that may accrue with more people moving into work. Here we discuss the ways in which Jobcentre Plus is likely to affect the wider economy, outside the labour market.

3.4.1 Interest rates, the user cost of capital and the capital stock

As discussed above, Jobcentre Plus policies may affect the labour market through several channels. To summarise in a few words, the main effects of Jobcentre Plus are likely to be an increase in the effective labour supply that puts downward pressure on real wages and raises the number of people in work. The downward pressure on wages and prices that results may allow nominal interest rates to be lower in the shorter term, the exact magnitude of which is influenced by monetary policy and the openness of the economy. For example, with strict inflation targeting, nominal interest rates would be reduced more sharply (and inflation would be reduced by less) than in the case where other factors, such as the level of domestic demand or the output gap, were taken into account in addition to the inflation target. In the former case the benefits of Jobcentre Plus might be felt more quickly, and hence, be considered to be more politically acceptable. However, we should not be led by this to think that monetary policy can affect the long run impact of Jobcentre Plus on the economy, and we stress it only has an impact on the speed of adjustment to a new equilibrium.

34 Barrell and Hurst (2006) discuss the coordination of labour market policies and monetary policy in a discussion of the Lisbon Process in Europe.
Any downward pressure on nominal interest rates is unlikely to result in reductions in real interest rates, since inflation is also likely to have been reduced. Furthermore, the additional demand for investment and capital that is likely to be associated with Jobcentre Plus (discussed below) will tend to increase real rates of interest. In any case, effects of Jobcentre Plus on real interest rates and the user cost of capital will be limited because the UK economy can be regarded as a small open economy such that rates of return are largely determined by those in the world economy. The reduction in wage pressure with Jobcentre Plus should result in a reduction in the real exchange rate, which should boost competitiveness abroad.

The increase in employment that may result with Jobcentre Plus should stimulate investment and increase the capital stock, if firms desire to attain an equilibrium in the ratio of capital to labour. Note that the additional investment that occurs via this channel does not imply higher labour productivity, because employment has risen as well. In fact, the ratio of capital to labour may fall with Jobcentre Plus because subsidies and endogenous movements in wages reduce the relative cost of labour to capital. This serves to reduce average labour productivity in comparison to a case where Jobcentre Plus did not exist. To the extent that Jobcentre Plus improves the skills of the labour force, it may provide some additional stimulus to investment, since capital is relatively complementary to skilled labour. This effect of Jobcentre Plus would tend to increase the ratio of capital to labour, at given factor prices, which should feed back as an increase in labour productivity. However, this effect of Jobcentre Plus is likely to be negligible. Jobcentre Plus mainly improves the skills of the very low skilled, which in effect increases the supply of low-skilled labour providing comparatively little stimulus to investment and reducing average productivity (as discussed in previous sections).

### 3.4.2 Consumer spending, gross domestic product and national income

By increasing the supply capacity of the economy Jobcentre Plus should increase Gross Domestic Product (GDP). In the long run the supply side of the economy determines macroeconomic outcomes, and thus any genuine changes to supply that are brought about by Jobcentre Plus should have sustainable effects on aggregate output. The effect of Jobcentre Plus on equilibrium employment and productivity are both important determinants of the longer term effects of Jobcentre Plus on GDP. In the short-term the effects of Jobcentre Plus are likely to be smaller than over the longer-term if for no other reason then because the economy generally takes time to adjust to supply changes. The role of wage, consumer, and financial market expectations are all important determinants of the speed of adjustment to the economy’s new equilibrium.

Jobcentre Plus will also change gross national income, and for the purposes of evaluating the aggregate benefits of Jobcentre Plus it is a more accurate measure of

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35 This long run equilibrium may be marginally changed by an increase in the labour supply, depending on how easily substitution can take place between the two factors.
welfare since it includes net income from abroad. This is particularly important for an economy such as the UK for which income flows to and from abroad are relatively large. As mentioned in the previous section, to the extent that Jobcentre Plus raises the effective labour supply it should result in a reduction of the real exchange rate. All else being equal this alone should imply that the effect of Jobcentre Plus on GDP is different from that on gross national income, although the increase in gross national income may only be slightly smaller than the increase in GDP, and the differences may not be significant for policy.

To the extent that Jobcentre Plus increases real gross national income, it should also increase real consumer spending. Here, the effects of Jobcentre Plus on the household savings ratio are important. If, for example, the saving behaviour of low income groups is different from that of higher income groups, Jobcentre Plus may have disproportionate effects on consumer spending.

### 3.4.3 The public finances

Jobcentre Plus should affect the public finances through several channels. The main savings to the tax payer associated with having the Jobcentre Plus agency are likely to occur through the increased tax revenue that results from having more people in work. Both direct and indirect tax revenues should be higher than they would be in absence of Jobcentre Plus, as the additional employment increases aggregate incomes and spending. Here, it is important to remember that the additional people in work will typically be in the lower income groups, and hence, should be taxed below the average tax rate. Further savings to the tax payer should occur through lower expenditure on social benefits, the amount of which will depend on the net effect of Jobcentre Plus on the number of people claiming JSA, IS and IB. There may also be wider welfare gains associated with Jobcentre Plus, which impact upon the public purse, such as reductions in crime and better health, as discussed in Chapter 8.

The main costs to the tax payer of having the Jobcentre Plus agency are its implementation and operating costs. Operating costs include the costs of all the programmes, Jobcentre Plus staff, WFs and other services provided through Jobcentre Plus. We discuss costs in more detail in Chapter 8.

The public purse will also be affected by any changes in the rate of interest that result from Jobcentre Plus, which change the cost of servicing government debt, and changes in the budgetary position, which influence the build up of government debt.
Evaluation methods
4 Evaluation methods

Here we outline existing evaluation methods that are typically employed to assess net labour market and wider economic impacts of policies such as Jobcentre Plus and the New Deals. We emphasise methods that may be used to assess the macroeconomic effects of policy, although we also discuss methods for determining policy impacts at the individual level, as these are often a necessary input to an assessment of macroeconomic impacts. The methods used to evaluate policy impacts on macroeconomic outcomes are generally less well established than those used to assess policy impacts on individual outcomes. Furthermore, and of relevance to the current task:

‘The evaluation literature typically focuses on specific programmes. Regular job-search assistance, registration and matching of unemployed workers with vacancies, and monitoring of eligibility for unemployment benefit are all important active measures which are usually ignored in the evaluation literature.’


4.1 The basic evaluation problem

The key information that needs to be provided when evaluating any policy is the difference that it makes. In order to determine what difference the policy makes, one needs to know what would have happened in the absence of this provision (the ‘counterfactual’). Of course, it is impossible to observe individuals or the macroeconomy in both states at the same time (i.e., with and without the policy intervention). The difficulty in any evaluation problem is assessing the counterfactual outcome. In this case we have three counterfactual scenarios to consider, as discussed in Section 1.3.

4.1.1 Evaluating the policy counterfactual for individuals

In an experiment, a process of random assignment is used to construct the counterfactual. Individuals who meet the eligibility criteria for selection for policy ‘treatment’ are assigned at random either to a treatment group that takes part in the intervention or to a control group that does not (but which continues to have
access to all other services that they might otherwise receive). Follow-up information is collected to understand the behaviour and experiences of members of both the treatment and control groups. The random assignment process ensures that there are no systematic pre-existing differences between the groups\(^{36}\) and, therefore, that the two groups are comparable to each other. This means that members of the control and treatment groups are just as likely to live through external events not attributable to the policy intervention that may affect policy outcomes. The only difference between them is the fact that the treatment group has been exposed to the treatment and the control group has not. Thus, the subsequent experience of the control group will represent what would have happened to the treatment group if they had not been subjected to the policy intervention. Consequently, any differences that are observed in the outcomes of the control and treatment groups will provide a valid measure of the difference caused by the policy, i.e., its impacts. The problem is that policy is not typically randomly assigned to individuals, and certainly this is not the case with the services provided through Jobcentre Plus.\(^{37}\) Indeed, in many instances one might question whether it is at all achievable to randomly assign individuals to a control group in such a way that outcomes for this group are entirely independent of the policy experiment. First, it may not be possible to blind individuals to whether they are in the control group or not, unlike in a medical experiment where individuals in the control group may receive placebo medication, and hence it is difficult to rule out the possibility that outcomes for individuals are affected by the policy experiment itself. Second, in many policy experiments outcomes for the control group may be affected by the indirect effects of policy, irrespective of whether individuals are unaware of their allocation to a particular group.

Non-experimental estimation techniques essentially attempt to correct for the differences between the treatment and comparison group that arise due to non-random selection. To formalise the problem, let \(Y_{0i}\) be an outcome of interest for a person if they are not given the policy treatment and let \(Y_{1i}\) be the outcome for the same person if they are given the treatment. To measure the impact of policy provision offered to the individual in one period on an outcome in a future period, we would like to measure \(\Delta_i = Y_{1i} - Y_{0i}\). Unfortunately, we do not observe \(Y_{1i}\) and \(Y_{0i}\) for the same person: we observe \(Y_{0i}\) only for individuals who do not receive the treatment and \(Y_{1i}\) only for individuals who do.

A common goal in investigating treatment effects is to obtain an unbiased (or at least a consistent) estimate of the mean of \(\Delta_i\). Such an estimate would tell us the effect one would expect to see, on average, if all individuals in the population are given the treatment. It is tempting to try to estimate this by taking the simple difference of the average outcome for those who actually receive the treatment minus the

\(^{36}\) Strictly speaking, the expected values of the means for all pre-existing characteristics of the treatment group and the control group will be the same. Their actual values may differ, although the larger the sample, the less likely it is for such differences to occur.

\(^{37}\) New Deal 25+ (ND25+) was initially randomly assigned in two geographical areas to facilitate an experimental evaluation.
average outcome for those who do not. The difficulty with this approach is that any observed differences in outcomes will partly reflect the true policy impact and partly reflect other differences between those who receive and those who do not receive the treatment. This is the standard sample selection problem: individuals who receive the treatment are, generally, not a random selection from the population. They have differing characteristics and (often) experience different labour market conditions (if they are selected from different geographical areas or time periods). In formal terms, we observe, $Y_i = D_i Y_1 i + (1 - D_i) Y_0 i$, where, $D_i$ is a dummy variable equalling 1 if the individual receives treatment and zero otherwise. Problems arise when $D_i$ is correlated with $Y_1 i$ or $Y_0 i$ and, potentially, $\Delta i$ (Heckman, 1997).

### 4.1.2 Evaluating the policy counterfactual for the macroeconomy

Similar issues arise in macro-evaluations. Here, we also need to consider whether the policy being evaluated changes the structure of the economy, as in the case of Jobcentre Plus and the New Deals.

The traditional approach to macroeconomic policy evaluation uses models of the economy of the following type:

$$AY = BZ + \epsilon$$

where $Y$ is a vector of endogenous variables, $Z$ is a vector of exogenous variables, and $\epsilon$ is a vector of random terms; $A$ and $B$ are matrices of structural parameters. As written, the model is linear, which is a reasonable approximation for most policy exercises. The effect of policy is then modelled by calculating how the endogenous variables respond to changes in the value of the exogenous variables:

$$\Delta Y = Y_1 - Y_0 = A^{-1} B(Z_1 - Z_0) + A^{-1}(\epsilon - \epsilon)$$

Here, the effect of policy is worked out by comparing the difference between the solution of the model with the policy intervention in place ($Y_j$) with the base case ($Y_0$). As long as the parameters of the economy do not change as policy changes (the so-called ‘Lucas critique’, Lucas (1976)) then this is a sensible approach to the evaluation of policy. However, this traditional approach to macroeconomic evaluation is not applicable in the case of Jobcentre Plus and the New Deals since the policy is designed to change the structure of the economy, and particularly the way in which unemployment and labour supply responds to shocks. If there is an adverse shock that leads to an increase in job losses and a surge in inflows into unemployment, then Jobcentre Plus is designed to alter the way in which this translates into unemployment and disengagement from the labour market.

Thus, Jobcentre Plus is likely to change the way in which parts of the economy respond to shocks and, as such, a potential evaluation will need to take account of
the shocks that affect it. In terms of the model described above, the structure of the economy will change to:

\[ \hat{A}Y = \hat{B}Z + \varepsilon \]  

where \( \hat{A} \) and \( \hat{B} \) represent the structural parameters with Jobcentre Plus. Therefore, an evaluation would need to focus on:

\[ \Delta Y = Y_t - Y_{o} = \hat{A}^{-1}\hat{B}Z + \hat{A}^{-1}\varepsilon - (A^{-1}BZ + A^{-1}\varepsilon) \]  

That is, how the economy operates under one set of ‘shocks’ and policies, relative to how it would have operated with the same shocks in the absence of Jobcentre Plus.38, 39

### 4.2 Identifying the effect of policy on individuals

Typically, there are three approaches to establishing the counterfactual as described in Heckman et al. (1999). One counterfactual is the outcome for a similar but non-treated comparison group of individuals unaffected by the policy. In this case the mean difference in outcomes for individuals receiving help through the policy and individuals from the comparison group is attributed to the policy. In practice there are a number of difficulties with this method. The important identifying assumption is that individuals in the comparison group behave, on average, as would individuals who have been affected by the policy. If the assumption is invalid, it is incorrect to attribute the difference in outcomes between the ‘treated’ and the individuals from the control or comparison group. An alternative is to project labour market outcomes based on the historical behaviour of the group affected by the policy. In this case, the effect of the policy is measured as the difference between outcomes for the ‘treated’ after and before they are affected by the policy. Another alternative is to compare the difference in outcomes between policy participants and a non-participant comparison group unaffected by the policy, before and after the policy is implemented. In this approach, the ‘differences-in-differences’ approach, the counterfactual is the mean outcome for the comparison group after accounting for the usual difference in outcomes between participants (before they participated) and the comparison group. The policy effect is measured as the change in the difference between the participant and the comparison group. This estimator is valid if we can assume that the historical difference in outcomes between the two groups is a good measure of the difference that would have been in the absence of the policy. In practice, the comparison of outcomes or changes in outcomes between the treated and a control

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38 Similar points apply to the introduction of new macroeconomic policy regimes such as the introduction of an inflation target.

39 Arguably the Lucas critique may also apply at the individual level. However, it is typically ignored in the literature concerning policy effects on the individuals directly concerned.
group are more common ways of identifying counterfactual outcomes than the comparison of outcomes for the treated before and after the policy intervention.

The comparison group is chosen to be as similar as possible to the treatment group, but there will usually be differences between the groups, i.e. there will be some form of selection bias. A range of statistical methods can be employed to control for selection bias. The appropriate method for dealing with selection bias depends on the nature of selection into the treatment group, the particular evaluation problem and the richness of the data. Different methods for dealing with selection bias and the associated estimators will only yield unbiased estimates if the assumptions underlying these methods are in fact correct. For these reasons it is important to carry out as thorough an assessment of these assumptions as is possible.

In the simplest type of evaluation design, standard regression techniques are used to fit a model of the particular outcome of interest, and a treatment indicator is included to identify the effect of policy participation. This approach assumes that all differences between the treated and the controls that are not directly related to the policy can be explained by observable variables; it also imposes a linear functional form between the variables. As an alternative, matching techniques relax the functional form restriction of standard regression techniques, but the validity of these still hinges on the assumption that all differences between the treated and the controls, beyond the policy effect, are observable (Smith, 2000). There are several matching techniques available. Propensity score matching allows a large number of variables to be used in the matching process. Variables included in the matching process should include observables that influence both the probability of receiving treatment and the outcome variable. Using either regression or matching techniques, problems arise if the factors influencing selection for treatment differentiate very strongly between the treated and the control group or if the treated form a strong majority or minority in comparison to eligible controls such that it may be difficult to match the treated and controls on observable characteristics (the common support problem). In another approach, selection bias is sometimes dealt with by means of instrumental variables. The idea here is to identify variation in the probability of policy treatment that is exogenous to the outcome of interest. In this approach the probability of receiving treatment is effectively modelled independently to the outcome measure. In practice it is usually difficult to identifying suitable instruments. Finally, and more recently, some studies have used sharp discontinuities in policy eligibility rules (for example, age or geography related discontinuities) to control for selection bias (Hahn et al., 2001; Frölich and Lechner, 2006). In this approach outcomes for individuals assigned for treatment are compared against outcomes for their ‘nearest neighbour’ who does not receive treatment (for example, individuals in two proximate postcodes falling inside and outside the boundaries of a policy that is piloted in a particular geographical area). One criticism here is that by choosing nearest neighbours in this manner, spillover effects are likely to be a concern.

The statistical methods outlined above are typically employed to control for selection bias when outcomes of the treatment group are compared against outcomes of a control group. In principle the same statistical methods can be employed to control for
selection bias in the case where changes in outcomes between the two groups are compared to identify the policy counterfactual (i.e. in the differences-in-differences approach). Note that the differences-in-differences approach already provides some control for selection bias by netting out much of the difference between the treatment and control groups by historical comparison. However, this does not control for changes in factors that influence the treatment and control group differently before and after policy implementation. Typically, standard regression techniques are used to provide further control for issues of selection bias. Matching techniques are not normally used in this instance. Partly this is because the differences-in-differences approach is often used when data restrictions mean that there are significant dissimilarities between the treatment and the control group which affect outcomes and which cannot be attributed to differences in observables. In these cases, the benefit of sophisticated matching methods over standard regression techniques may be limited.

The majority of the evaluation literature focuses on the effects of single policy interventions. Methods for evaluating multiple policy interventions are also likely to be relevant in a potential evaluation of Jobcentre Plus. A common approach to this in the literature is to treat different combinations of policy interventions as separate treatment scenarios (see e.g. Lechner, 2001 and 2002). To illustrate, in the case of two policy interventions there would be four separate scenarios that individuals could take: no treatment, one intervention, the other intervention, or both. The relative efficacy of these scenarios can be assessed using the techniques discussed above and the standard evaluation issues will apply.

4.3 Identifying the macroeconomic effects of policy

The importance of taking into account wider economy effects in evaluating large-scale policy intervention should not be underestimated. This is illustrated by Heckman, Lochner and Taber (1998), who show that the estimated impact of a tuition subsidy on college enrolment may be up to ten times smaller than generally thought to be the case once the wider economic effects of the policy are taken into account. Another illustration is provided by (Riley and Young, 2001b), who find that the direct impact of New Deal for Young People (NDYP) on employment and unemployment is amplified by around 30 per cent once the impact of NDYP on aggregate wage pressure is taken into account. Despite the importance of taking into account macroeconomic effects in evaluating large scale policy interventions, this is something that is much less common in the literature (Heckman et al., 1999; de Koning, 2001a). The literature available on evaluating wider economy effects is, thus, relatively scarce. Nevertheless, there are some general guidelines one can follow.

40 Blundell et al. (2004) are an exception.

41 Taking into account the possibility that individuals may be affected by a particular policy intervention more than once there are potentially endless treatment scenarios to compare.
There are two broad approaches to identifying the net macroeconomic impacts of ‘activation’ policies such as those provided through Jobcentre Plus: direct estimation and model simulation. The appropriate method is determined by the particular outcome measure of interest, the likely scale of the impact, and the level of aggregation at which we might observe exogenous variation in the policy treatment. Other important factors include the nature of the policy, the time scale over which events are being evaluated, and the importance of the Lucas critique for the particular policy.

Much as an evaluation of policy effects on individuals, a macroeconomic evaluation ultimately attempts to assess the difference that a policy makes. In many ways the issues that arise in estimating directly the net effects of policy on the macroeconomy are similar to those that arise in assessing effects on individual outcomes. We need to estimate the counterfactual and in doing so we need to address issues of selection bias, or policy endogeneity. However, a separate set of issues arises in a macroeconomic evaluation. The economy is typically described by a broader set of variables than used to describe the policy effect on individual participants. Also, in many instances policy variation cannot be observed at the aggregate level and there may be different channels by which the policy affects the economy (as described in Chapter 3), so that the researcher needs to look at policy effects on a range of outcomes (for example: participants and non-participants; employment and wage-setting).

Here we describe the two broad approaches to macroeconomic policy evaluation and the instances in which they are applicable.

4.3.1 Direct estimation

Direct estimation of the policy effect on aggregate outcomes, e.g. the aggregate employment rate, benefits from the automatic inclusion in the analysis of displacement and substitution effects and, in some instances, other general equilibrium effects. The problem is of course that this is rarely possible. Policy effects on macroeconomic outcomes are typically either too small to be distinguished from noise in the data and/or there is not sufficient variation in policy treatment to identify the policy effect using aggregate time series analysis. The first issue is more important for some outcome measures than for others. For example, it is easy to see that the effects of a particular policy on aggregate employment may be relatively small in percentage terms, even if there is a substantial effect on labour market flows. As regards the second issue, some level of disaggregation is usually necessary to generate the variation required for direct empirical investigation. For example, cross-country studies use variation in public expenditure on activation policies to identify the effects of these on aggregate unemployment, wages and labour market flows. The same principle can be applied to look at policy effects in a single country, for example, by using regional variation in some indicator of policy treatment (see e.g., Riley and Young, 2001a; and the studies reviewed in de Koning, 2001a). Amongst others, indicators of policy treatment used in direct estimation of aggregate impacts include Active Labour Market Programme (ALMP) or Public Employment Service (PES) expenditure as a percentage of GDP, expenditure measured relative to the target population, programme participants per unemployed, and the inflow to programmes relative to the broad target group (see...
The use of variation in policy treatment across countries or regions to identify the policy effect can be likened to the comparison of outcomes for individuals in a treatment group against those in a control group. Time series analysis that exploits variation in policy treatment over time to identify the policy effect can be likened to the before-after comparison of outcomes for individuals in the treatment group. Combining the two types of identification strategies in a panel analysis can be compared to the differences-in-difference approach. Here the use of dummy variables to control for area-specific effects and time-specific effects is important.

Problems of policy endogeneity (selection bias) are equally pertinent in macroeconomic analysis as in microeconomic analysis. For example, Jobcentre Plus expenditure may be particularly high in geographical areas where unemployment is particularly high and where the transition from inactivity into work is difficult. If we were to use regional variation in total Jobcentre Plus expenditure as a measure of ‘treatment intensity’ in an analysis of regional unemployment, it is obvious that we might find a positive correlation between treatment and unemployment levels, which would be incorrect to attribute to a policy effect. In practice, the difficulty in this type of evaluation lies in identifying indicators of policy intensity that are exogenous to outcomes. The launch of policy in an isolated set of geographical areas is particularly helpful in this regard. In other instances it may be possible to identify instrumental variables that are correlated with the measure of policy intensity, but uncorrelated with the outcome measure being analysed (Calmfors and Skedinger, 1995; Dahlberg and Forslund, 2005). As in microeconomic assessments it is important to control for other factors that may influence the outcome measure and that are correlated with the particular measure of treatment intensity to obtain unbiased estimates of the policy effect. In the example above, if Jobcentre Plus expenditure is determined by lagged unemployment, as is probably the case, and lagged unemployment is correlated with current unemployment, then the validity of the evaluation exercise would necessarily depend on the inclusion of lagged unemployment as a control.

In cases where it is difficult to identify exogenous variation in policy intensity at the aggregate level or where treatment effects are small, estimates of the aggregate effects of policy may literally be derived by aggregation of estimates of policy effects on individuals. This is of course only possible if we have estimates of policy effects not only on those individuals who are directly affected, but also on those that may be affected indirectly. The latter is typically not available. Furthermore, this would not necessarily address, in full, the issue of general equilibrium effects. For this the literature generally relies on model simulation.

### 4.3.2 Model simulation

The use of models to identify policy effects is particularly useful in cases where we cannot directly assess from the available data the difference that a policy makes. Some form of model simulation is usually necessary in macroeconomic evaluation. This may involve very simple models, for example, in the case where one needs to derive the
policy effect on the number of people in work or on the duration composition of the
unemployed from estimates of the policy effect on labour market flows (Lehmann,
1993; Riley and Young, 2001a). Or it may involve larger models designed for a specific
purpose, such as large-scale macroeconomic models designed to assess the effects
of macroeconomic policy on a range of variables (Riley and Young, 2001b; Barrell
et al., 2003), or models designed to look specifically at a range of fiscal indicators
(Bynner et al., 2001).

One situation where we may not be able to assess from the data the difference a
policy makes, other than the situations discussed in the previous section, is where
we think the effects of policy are likely to develop over a longer time period. In this
case one might wish to conduct an evaluation ex ante, rather than ex post. In ex post
evaluations the policy effect is measured by comparing the actual outcomes with a
counterfactual describing estimates of what would have happened in the absence
of the policy. By contrast, in ex ante evaluations the comparison is made between
a simulated case that assumes that the policy is implemented and a base forecast
that outlines what would happen in its absence. In ex ante evaluations both cases
are counterfactual in the sense that neither describes an actual outcome.

In any modelling exercise used to evaluate the effects of policy there are two issues
that need to be addressed: first, the particular mechanisms that need to be modelled;
second, the ‘policy’ inputs into the model. The two are related in the sense that the
factors influenced by policy that are not modelled endogenously, but that determine
macroeconomic outcomes, need to be taken into account as exogenous shocks. The
latter are generally obtained from direct empirical analysis. Evaluation results based
on model simulation methods are of course sensitive to the specification of the model
and it is important to conduct sensitivity analysis around key assumptions.

Any particular model used to evaluate the macroeconomic impacts of Jobcentre
Plus would need to embody a clear concept of labour market equilibrium (labour
supply, the wage determination process and demand) and would need to take into
account the channels through which Jobcentre Plus policies are likely to affect the
wider economy. As discussed in Chapter 3, Jobcentre Plus policies are likely to affect
job matching in particular and the effects of policy are relatively easily summarized
in terms of their effects on labour market flows. For these reasons, models that take
into account explicitly labour market flows are in a sense particularly suited to the
analysis of Jobcentre Plus type policies (de Koning, 2001a and 2001b). This approach
is embedded in the general equilibrium modelling used in, for example, Plesca (2002)
and in Jongen et al. (2003). Riley and Young (2000 and 2001b) estimate directly
the effects of NDYP on labour market flows and wages and build these effects into
a macroeconomic model of the UK economy that embodies a model of the labour
market similar to that outlined in Chapter 3.

Important economic relationships for consideration in a model-based analysis of
Jobcentre Plus and the New Deals include the description of the wage bargain, the
sensitivity of wages with respect to different groups of non-employed people and
the duration structure of non-employment, and the labour market participation
decision, all of which influence the effect of the policies on sustainable employment. Other important factors include the productivity of the people affected by the policy, relative to mean productivity, and the fiscal expenditure on transfer payments linking the costs of the policy directly to the public finances.
5 Existing evaluation evidence on Jobcentre Plus

Much is already known about the net impacts on participants and the labour market of different elements of Jobcentre Plus. Here we review existing quantitative evidence on the effects of these policies on labour market and other macroeconomic outcomes, broadly defined. The purpose of this exercise is to allow us to narrow down, more precisely, any knowledge gaps that need to be addressed in a potential evaluation of the macroeconomic impacts of Jobcentre Plus and the New Deals, and to give us an indication of the scale of the macroeconomic effects we might expect from Jobcentre Plus. Given the objectives of the report we split this review of the evidence into three separate parts: the introduction of Jobcentre Plus and the Public Employment Service (PES) (which summarizes evaluation evidence on elements of the initial work-focused claim process of Jobcentre Plus); the New Deals for the unemployed (i.e. New Deal for Young People (NDYP) and New Deal 25+ (ND25+), as far as we are aware there is no quantitative evaluation evidence on the labour market effects of New Deal 50+ (ND50+)); and other New Deals and Welfare-to-Work programmes. A set of tables in the final section of this chapter lists summary details of the main studies reviewed here.

5.1 The introduction of Jobcentre Plus and the PES

5.1.1 Jobcentre Plus

The evaluation evidence on Jobcentre Plus of which we are aware is summarised in Corkett et al. (2005). Much of the evaluation is concerned with the Jobcentre Plus process itself, but there is also some evidence on labour market outcomes. The analysis uses a differences-in-differences approach to identify the effect of the introduction of Jobcentre Plus on district-level outflows from benefit and job entry for new clients and of the existing client stock. Off-flows are investigated at different claim durations. The empirical analysis provides mixed results. There does seem to be some tentative evidence of positive effects of the introduction of Jobcentre Plus on the outflow of sick and disabled clients to work of 16 hours or more. However,
the evidence from the administrative data does not suggest that there has been an improvement in the general outflow of sick and disabled clients. Evidence from Pathfinder areas suggests that start-up problems may have had a negative impact on the outflow rate of the sick and disabled clients. Corkett et al. (2005) note that the most recent evidence suggests that the outflow rates of the Pathfinder areas have converged with the outflow rates of the control areas.

The analysis does not control for any other differences between changes in outcomes for clients in areas where Jobcentre Plus has been introduced and areas where it has not. This means that all area and time specific shocks that affect labour market outcomes are attributed to the introduction of Jobcentre Plus. We do not know whether the results are robust to the inclusion in this exercise of control variables (such as year or quarter controls, local unemployment rates or local area vacancy to unemployment ratios).

5.1.2 Jobseeker’s Allowance

The introduction of Jobseeker’s Allowance (JSA) is regarded as a major change to the UK benefits system. JSA was introduced nationwide in October 1996 as a replacement for Unemployment Benefit (UB) and Income Support (IS) for the unemployed. Rayner et al. (2000) set out the unemployment benefit regime change due to JSA as a reduction in the entitlement to claim benefit to six months for those claiming UB, delivery from a single office, the requirement to find work through the Jobseeker’s Agreement and allowing those claiming JSA to work part-time and still claim benefit while searching for full-time employment. Thus, the introduction of JSA can be seen as an increase in job search monitoring and assistance, benefit sanctioning, and integrated service delivery.

There has been much evaluation of the introduction of JSA (see Rayner et al., 2000 for a review). The quantitative aspect was provided through an analysis of a survey of pre-JSA unemployment clients and JSA clients after the introduction of JSA, with the former acting as the comparison group. Smith et al. (2000) used this survey data to estimate the impact of the introduction of JSA on the outflow of the unemployed from benefit. They conclude that the probability of leaving benefit for JSA clients was increased by 11 per cent. Smith et al. (2000) also note that there was almost no effect from the introduction of JSA in the first weeks of claiming JSA. They acknowledge that the figures are consistent with some JSA clients leaving benefit due to the sanction and loss of contributory JSA after six months of claiming. Smith et al. (2000) are not able to provide estimates from this on the probability of leaving benefit to go into employment due to the JSA treatment effect. However, they do model those that return to benefit and find no statistically significant evidence of any effect of the introduction of JSA on the inflow to unemployment benefit.

Manning (2005) has also analysed the introduction of JSA and its effect on labour market outcomes for participants and their search activity. Manning (2005) uses the Labour Force Survey (LFS) to estimate the impact of the introduction of JSA with a differences-in-differences approach. The national implementation poses a problem for estimating a treatment effect. His method is to use the treatment group of JSA
claimants from the period July to September 1996 and the control group of April to June 1996. Manning (2005) uses the labour market outcomes for the sample members three months from their respective inclusion in the sample. That is, their participation in the next wave of the LFS. When the treatment group are first observed they are subject to the UB rules. However, three months later they are subject to the JSA rules. The comparison group, when examined three months later, are still pre-JSA. To control for any seasonal effects the study also uses a sample from the same two seasonal quarters in 1995.

Manning (2005) finds evidence of a 6.4 percentage point increase in the outflow rate from claimant unemployment of JSA clients, attributable to the introduction of JSA. However, when he analyses the outflow to jobs he finds no evidence of any JSA treatment effect. He concludes that this is because the outflow in general is capturing a weeding out effect, whereby the introduction of JSA causes certain benefit clients to exit unemployment benefits for other benefits and non-employment outcomes, or benefits altogether. He notes that although they may be no longer classified as unemployed by the claimant count, they can still be classified as unemployed by the ILO definition. The inclusion of a control for seasonal effects in Manning’s work leads him to argue that many of the findings from evaluations of JSA could be spurious as they are just capturing seasonal effects.

The study does note that it seems strange that there was no effect of JSA on the search activity of participants, and suggests it is possible there may have been effects in the longer term not captured in the analysis of short-term effects. It is possible that Manning’s (2005) results could be affected by implementation effects. Indeed, Rayner et al. (2000) suggest that there was an improvement and more consistency in the time spent on job search at the fortnightly review by 1999.

5.1.3 Work Focused Interviews for lone parents

At the outset it should be stressed that the following evaluation studies estimate the impact of the eligibility for mandatory WFIIs for lone parents claiming income support (LPWFI), as it is only eligibility that can be observed with the administrative data used here. Knight and Lissenburgh (2004) analyse the effect of the introduction of mandatory LPWFI. LPWFIs were introduced between April 2001 and April 2004 for both new and repeat clients, and the stock of clients depending on age of youngest child, as discussed in Section 2.1.3. Since the sample and evaluation design for new and repeat clients and for the existing stock of clients was different, the treatment effect was estimated separately for these two groups. The study uses a differences-in-differences approach applied to administrative data on individual benefit records. Since LPWFIs were introduced nationwide, the study does not rely on geographical areas to construct a comparison group. Instead it constructs a comparison group from lone parents claiming IS who were ineligible for a LPWFI. That is those with a youngest child aged less than 5½ for the new/repeat clients and aged less than 12 for the stock.

A variety of labour market programmes were being piloted over the sample period available to Knight and Lissenburgh (2004). In order to avoid any bias from these
benefit clients from the ONE pilot areas, LPWFI Pathfinder areas and Jobcentre Plus pilot areas were excluded. The administrative data used included claims from 1999 onwards. The roll-out of Jobcentre Plus that began in October 2002 posed estimation issues and as a result, the sample was ended prior to this. Robustness checks included further restrictions on the comparison group by age of youngest child and checks for biases arising with the introduction of the Working Families’ Tax Credit (WFTC).

Their central estimates suggest that there was no effect of LPWFI on the exit rate from IS for new/repeat lone parent clients. Knight and Lissenburgh (2004) did find a small positive effect for those with children aged nine and 11, but this was offset by declines in exit rate for lone parents with children of other ages. For the stock of lone parents claiming IS the results suggest that the exit rate from IS increased by one percentage point within a year of the introduction of the system. The study also found a statistically significant increase in entries to NDLP for new/repeat lone parent clients. The effects varied depending on the season, but the increase attributable to LPWFI was between 13 and 17 percentage points. This effect was sustained for each month up to 12 months after the participant started their benefit claim. With respect of the stock of eligible lone parents it was not possible to conduct a rigorous analysis on the effect of LPWFI on their entry rates to the New Deal for Lone Parents (NDLP).

Knight and Lissenburgh (2005) use the same methodology as Knight and Lissenburgh (2004) to evaluate the extension of mandatory LPWFIs to new/repeat lone parents claiming IS with a youngest child aged three to 5¼ and for the stock of lone parents whose youngest child was aged at least nine to 12. The study found no evidence of an impact of the extension of LPWFIs on the exit rates from IS for new/repeat clients. This is consistent with their findings from the evaluation of the introduction of mandatory LPWFIs nationwide. However, as with their previous report they did find a statistically significant, if small, positive effect on the exit rate from benefit for the stock of eligible clients. Their estimates suggest that the extension raised the exit rate off benefit by one percentage point, and that this increased to two percentage points after 12 months.

Knight et al. (2006) investigate the impact of LPWFI and of LPWFI and NDLP together using administrative data. They extend the analysis by Knight and Lissenburgh (2004 and 2005) using a longer sample period to observe the effect on the treatment group. The study exploits the fact that many of the individuals eligible for LPWFI did not actually receive it, despite the ‘compulsory’ nature of the policy. Multiple treatment effects are estimated using propensity score matching rather than a differences-in-differences approach. After 12 months the effect of LPWFI and NDLP on exits from benefit was not significantly different from zero, but increased to between two and four percentage points after 18 months for new and repeat clients. For the existing stock there was a similar pattern, except that after 18 months the treatment effect on the exit rate from benefit increased to ten percentage points. The treatment effect of LPWFI without NDLP was significantly smaller.

Knight and Thomas (2006) estimate the impacts of the extension of LPWFI in 2003 and the impact of the annual review meetings on the 2001 and 2002 cohorts of
LPWFI participants. Using before-after and differences-in-differences approaches on data from May 1999 to December 2004, they estimate the impact of the 2003 LPWFI extension to new/repeat claimants who started claiming IS between June and October 2003. Knight and Thomas (2006) provide a range of estimates as results are sensitive to the specification used. Their conclusion is that the impact of the 2003 LPWFI extension was most likely around 1.5 to two percentage points on exits from IS between three and six months after the start of an IS claim. Although, they caveat the result as some of this impact is probably due to the introduction of the Working Tax Credit (WTC) and the Child Tax Credit. Knight and Thomas’ (2006) estimates suggest that the introduction of the annual review meetings have had a positive impact on the exit rate from IS of between 0.5 and 1.75 percentage points. A major concern, due to data limitations, is whether the exits are to employment or just some other benefit category.

5.1.4 ONE

The ONE pilot programme introduced compulsory WFIIs for all new/repeat benefit clients at a single point of contact. In many respects ONE was the pilot scheme for Jobcentre Plus, before the Jobcentre Plus pilot programme was put into place. Corkett et al. (2005) suggest the ONE pilot programme provided many lessons that were learnt and implemented in the Jobcentre Plus programme. One such example is the separation of the work-focus from the initial contact, as ONE showed that the work focus of the initial interview was swamped by the process of claiming benefit.

Kirby and Riley (2003) and (2004) evaluate the effects of ONE on individual exits from benefit using a differences-in-differences approach to identify the treatment effect. The evidence suggested that there was no effect from participation in the ONE pilot programme on the exit rate from benefit for each of the three main benefit client groups. There were some tentative results that the probability of exit for JSA clients may have been adversely affected, but this seems to have been due to implementation problems. There is also some evidence that the exit rates of the existing client stock may have been adversely affected. However, these results were not regarded as robust.

Barrell et al. (2003) undertook scenario analyses of the macroeconomic effects of policies that increase labour force participation amongst the three main client groups of ONE and Jobcentre Plus. The analysis included robustness checks for changes in job search intensity that may result as a consequence of increasing the labour market attachment of non-JSA benefit clients, although these were assumed rather than estimated. The scenarios did not take into account policy costs. Quite clearly, any evaluation of Jobcentre Plus would require the costs of the programme to be introduced into the model so that the effect on the public finances can be more accurately modelled. Central estimates with respect to the sick and disabled client group suggested that a five per cent reduction in the stock of sick and disabled benefit clients, where a third of this reduction resulted in labour force entry, would increase...
GDP by 0.15 per cent in the long run, reduce real wages by a little under 0.4 per cent, and improve the public sector budget balance by approximately £2bn.

5.2 New Deals for the unemployed

5.2.1 New Deal for Young People

NDYP was subject to an extensive evaluation exercise when it was first introduced, including both quantitative and qualitative evaluation studies, analysis of its effects on participants and on the aggregate labour market and economy more widely. The majority of analysis relates to the programme in its first two to three years of existence. The most up-to-date study of net impacts, of which we are aware, uses data on entrants to NDYP up to December 2001 (De Giorgi, 2005).

Some studies made use of the initial roll-out of NDYP in a set of Pathfinder areas, three months before national implementation, to identify the policy effect (for example, Anderton et al. (1999) and Blundell et al. (2004)). The Pathfinders provided some opportunity to study the effects of NDYP on non-participants, by comparing changes in outcomes for non-eligible age groups in the Pathfinder areas to those for non-eligible age groups outside the Pathfinder areas. Anderton et al. (1999) found evidence of an initial adverse impact on outflows from unemployment for non-eligible JSA claimants in the Pathfinder areas, but they concluded this was not due to substitution since a similar pattern was observed outside the Pathfinder areas, although they suggested there may have been short-lived impacts from implementation. Blundell et al. (2004) suggested that substitution and general equilibrium effects on outflows were likely to be weak or off-setting each other. It is important to point out that the conclusions of these studies are based on short-term evidence and that substitution and general equilibrium effects may take time to emerge.

Due to the short-lived nature of the Pathfinders, the majority of evidence on the impacts of NDYP was based on analysis of the national roll-out. Typically, the eligible age group of 18-24 year olds was compared to a non-eligible age group before and after policy implementation (differences-in-differences). Analyses of district-level flows off unemployment (Riley and Young, 2001a) and of individual transitions off unemployment (Wilkinson, 2002; Blundell et al., 2004) suggested that NDYP had a significant positive impact on outflows from unemployment in general and from unemployment to unsubsidised jobs. Riley and Young (2001a) also found some evidence that NDYP was associated with increased inflows to unemployment, as individuals who had left the programme returned to JSA. All studies suggest that NDYP resulted in modest, but significant, reductions in unemployment and increases in employment. More up-to-date evidence suggests that the positive effect of NDYP has been sustained across cohorts (De Giorgi, 2005).

As discussed above, evidence from the Pathfinder areas suggested there were few spill-over effects of NDYP in the very short term. Riley and Young (2001b) further investigated general equilibrium effects by assessing the impact of NDYP on wage
Examining age-specific and regional wages before and after NDYP was introduced they concluded that NDYP had reduced wage pressure. Using a macro model of the UK economy they simulated the effect on the economy of the estimated changes to youth employment and wage pressure, and suggested that general equilibrium effects amplified the direct effect of NDYP on employment. Their study suggests that NDYP was associated with a small gain to the economy as a whole, at a small cost to the tax payer. Van Reenen (2001) conducts a cost-benefit analysis of NDYP which also takes into account the excess burden of taxation. His central estimate suggests a net social benefit of NDYP during its early stages of £57m per annum, and is based on the assumption that there are no substitution or general equilibrium effects of the programme.

Using propensity score matching Bonjour et al. (2001) and Dorsett (2006) provide analysis of the relative efficiency of the various New Deal options and the Gateway in helping people into work.

5.2.2 New Deal 25+

Most of the analysis relates to the impact of ND25+ before it was re-engineered in April 2001. The main studies analysing the impacts of ND25+ on the labour market are summarized in Wilkinson (2003). The conclusion of these is that ND25+ may have helped to increase exits from claimant unemployment, but there is little evidence to suggest that it raised exits from unemployment to work.

The majority of studies concerning the labour market impacts of ND25+ use the initial roll-out of the programme in a set of Pilot areas to help in estimating the counterfactual for ND25+. One study examines the effects of the national programme on aggregate outflows from unemployment. The policy effect is estimated by comparing long-term unemployed JSA claimants to short-term unemployed JSA claimants using a differences-in-differences approach. The author draws attention to the absence of an adequate control group and caveats the results for this reason.

The evidence from some of the Pilot studies may present an underestimate of the impact of ND25+, since some of the control group would have been participating in the re-engineered programme. As far as we are aware there has been no explicit analysis of potential substitution or general equilibrium, or any cost-benefit analysis of ND25+.

Further studies of the effects of NDYP on job search activity, substitution and matching in the youth labour market are summarised in White and Riley (2002).
Other evidence relating to ND25+ comes from a recent study of extending mandatory participation in the Intensive Activity Period (IAP) to 50-59 year old JSA claimants (Dorsett and Speckesser, 2006). At present, participation in this phase of ND25+ is voluntary for this age group in most parts of the country, but is mandatory for younger participants aged 25-49.

Initial evidence from this pilot study suggests that mandating IAP significantly raises the probability of exit from unemployment by five percentage points within a year of entry to IAP. The authors point out that the evidence only relates to initial exits from unemployment and that, therefore, the longer-term effect on employment probabilities is likely to be smaller. The study also finds evidence to suggest that mandating IAP raises exits from JSA to other benefits, primarily Incapacity Benefit (IB).

It is of course unknown whether the effectiveness of mandating IAP extends to younger age groups. We also note that IAP was only mandated to individuals at the end of the Gateway; hence, the estimates of effectiveness exclude the potential ‘threat’ effects on exits from unemployment associated with compulsion (see discussion in Chapter 3).

5.3 Other New Deals and Welfare-to-Work programmes

5.3.1 New Deal for Lone Parents

NDLP has been subject to much evaluation. Lessof et al. (2003) construct a matched sample of NDLP participants and eligible non-participants using information collected via a postal survey sent out to lone parent IS claimants. Their estimates suggest that NDLP participation increases the probability of being in work six months after starting on the programme by 24 percentage points. They find similar estimates of the programme impact on the probability of having left IS by this stage. Based on these estimates an internal Department for Work and Pensions (DWP) report, discussed in Evans et al. (2003), suggested that the value to society of each additional job was in the order of £4,400 and that the Exchequer saving associated with each additional job was just under £1,600.

Subsequent evaluation of NDLP and of the robustness of the estimates in Lessof et al. (2003), suggested that the impact of the programme on exits from benefit was likely to be smaller. Using the data in Lessof et al. (2003), augmented with additional analysis of administrative benefit records, Dolton et al. (2006) find that NDLP participation increases the probability of having left benefit nine months after claim start by 15 percentage points. This study also suggests that this effect of NDLP participation persists for some time following participation.

A combined analysis of NDLP and LPWFI (Knight et al., 2006) suggested that there was evidence that LPWFI increased participation in NDLP, but that it may have reduced

43 The authors also suggest caution in generalising this result to other time periods and mention a number of reasons why their findings may overestimate the average impact of NDLP.
the effectiveness of NDLP. The authors speculate that LPWFIs may have caseloaded less employable participants into NDLP. Nevertheless, this updated analysis finds significant positive effects of the joint LPWFI and NDLP process.

### 5.3.2 New Deal for Disabled People

The quantitative impact evaluation and cost-benefit analysis of New Deal for Disabled People (NDDP) is ongoing and is yet to be published (Stafford et al., 2006). The evaluation evidence published so far concerns a number of surveys that have been constructed for the purposes of the evaluation, and qualitative research.

### 5.3.3 Employment Zones

There are several analyses of the effect of Employment Zones (EZs) on labour market outcomes. Hales et al. (2003) use a cohort survey of EZs participants and ND25+ participants in a matched set of comparison areas to evaluate the programme. The survey was conducted over the period November 2000 to January 2001. Clients were followed up in mid-2002. Information derived from the 1991 Census was used to match areas to the EZs across a wide range of economic and social factors. These included the structure of employment and the unemployment rate.

The effect of EZs was identified by comparing individuals in EZs to those in the comparison group using logistic regression. Note that the treatment effect is the effect of EZs relative to having ND25+ in areas of disadvantage, since by definition EZs only operate in areas of disadvantage and ND25+ operates elsewhere. The study finds that participants in EZs are 1.8 times more likely to obtain a job than ND25+ participants towards the end of 2001. By mid-2002, the second wave of the survey, they found no statistically significant treatment effect. However, when they restrict their analysis to their definition of full-time employment they find that a statistically significant result remains. Hales et al. (2003) find participants in the EZs are 2.1 times more likely to obtain a ‘full-time’ job than ND25+ participants towards the end of 2001. This result is reduced to 1.7 times by mid-2002. To identify the effect of EZs against a no programme counterfactual, we would need to know the effect of ND25+.

A number of factors influence the study: First, ND25+ treatment for the comparison group varies, since the programme was overhauled between the first and second stages of the cohort survey. Second, Action Teams for Jobs began operating in some of the same areas, and were operated by the same organisations as operated the EZs, leading to potential interactions between the policies (Hales et al., 2003). Third, to qualify as an EZs an area must have a certain set of characteristics that sets it out as one of particular labour market disadvantage. Consequently, the comparison areas will not be as disadvantaged as the EZs (Hasluck et al., 2003). This makes it difficult to match the comparison group, which is crucial to identifying the policy effect.

To get around this issue, Hasluck et al. (2003) use a differences-in-differences approach to identify the labour market effects of EZs. Using administrative data they estimate unemployment outflow functions for a variety of age and duration groups, using data pre-dating the programmes to control for systematic differences between the
EZs and comparison areas used in Hales et al. (2003). Their results suggest that EZs raised the unemployment outflow rate of the participant group by one percentage point. They also found no evidence of any substitution of EZ participants for other unemployed people in the EZ areas.

Hasluck et al. (2003) also evaluated the EZ programme at the individual level using the administrative data from the EZ database for the participant group and the JUVOS database for the comparison groups. This research also suggested that EZs reduced the duration of unemployment, while there was no evidence of an increase in the probability of returning to unemployment once individuals had left EZs.

5.3.4 Work Based Learning for Adults

Anderson et al. (2004) evaluate the effect of Work-Based Learning for Adults (WBLA) on labour market outcomes for participants using a survey designed specifically for these purposes. JSA clients are by far the largest group that participate in WBLA, and their study focuses on this group. Speckesser and Bewley (2006) also analyse the impact of WBLA on the labour market outcomes of JSA clients using administrative data. There is no evidence on the effects of WBLA for other client groups who have participated. Anderson and Pires (2004) evaluate the participation of lone parents claiming IS, but this does not provide any quantitative evidence on the effects of WBLA on the labour market outcomes of this client group.

The sampling frame includes JSA clients who entered WBLA in the first four months of 2002. They were interviewed between April and June 2003, one year after entering WBLA. Due to a small sample size the self-employed opportunity (SEP) provided by WBLA was not included. Anderson et al. (2004) use propensity score matching to select non-participants for inclusion in their survey, using the information available in administrative data on JSA clients. The labour market effects of WBLA are then estimated using propensity score matching with the rich data available in their survey. They find differential labour market effects of the different opportunities available to programme participants. The probability of entering employment is increased by five to seven percentage points for participants in the Short Job-Focused Training (SJFT) opportunity at approximately five months after enrolling. This effect disappeared by ten months after enrolling. The Longer Occupational Training (LOT) opportunity increased the probability of exiting to employment by seven percentage points up to a year after enrolling. Their estimates suggest that the third opportunity analysed, Basic Employment Training (BET) had no effect on the probability of exiting to employment. The study finds no effects of any of the opportunities on the wages and productivity of participants.

Using administrative data Speckesser and Bewley (2006) update the work of Anderson et al. (2004). The use of administrative data allows Speckesser and Bewley (2006) to extend the time period analysed at the expense of the richness of data available from the survey evidence. Speckesser and Bewley (2006) find evidence of positive employment effects up to 40 months after participation in the WBLA, suggesting an impact not only on the employment outcomes of participants, but on the sustainable employment outcomes of participants. Applying a differences-in-differences estimator
to a matched sample they find evidence of an increase in the employment rate of participants from each of the SJFT, LOT and BET opportunities. However, once they control for those that remain on benefit while taking employment, the effect is much reduced. Speckesser and Bewley (2006) find evidence of a three percentage point increase in the employment rate of participants up to 40 months since beginning participation in WBLA. For the SJFT participants this significant effect begins around four months after the beginning of participation. The positive effect from LOT occurs only 12 months after the beginning of participation. The positive effect of the BET opportunity is not always significant, does not materialise until 19 months after enrolment, and is not sustainable.

5.3.5 Pathways to Work

The Pathways to Work programme is designed to improve labour market outcomes for IB clients. The pilot scheme was introduced into three Jobcentre Plus districts in October 2003. The pilot scheme is being extended to a further 14 districts in the form of three phases, phase one beginning 31 October 2005. This extension is expected to have been rolled out by October 2006. The programme is expected to be rolled out nationally by the end of 2008.

A major evaluation exercise is being undertaken for this pilot scheme. However, as the programme is in its infancy, the available evaluation evidence is limited. The main part of the evaluation of the Pathways to Work programme, to date, is analysis of a small scale longitudinal dataset. For details see Corden et al. (2005) and Corden and Nice (2006). There are currently two pieces of work available that evaluate the effect of Pathways to Work on IB clients’ labour market outcomes: Blyth (2006) and Adam et al. (2006).

Using administrative data from the National Benefits database over the period April 2001 to August 2005, Blyth (2006) provides evidence of a treatment effect on the outflow rate from benefit aggregated to the district level. He compares the outflow rates from IB in the districts participating in the first two phases of the pilot scheme to outflow rates in the rest of the country, using a differences-in-differences approach to identify the Pathways to Work effect.

The study suggests that Pathways to Work increased the six-month outflow rate from IB by around eight percentage points for new and repeat IB clients, but it is not clear that this is due to an increase in the outflow to employment. The study also suggests that there is some tentative evidence that the Pathways to Work programme reduced the caseload of IB clients in the pilot areas, although these findings are not necessarily attributed to a Pathways to Work treatment effect. The empirical analysis does not control for any other differences between changes in flows in the pilots and the rest of the country. This means that all area and time-specific shocks that affect benefit off-flows (for example, the introduction of Jobcentre Plus) are attributed to a Pathways effect.

Adam et al. (2006) evaluate the labour market effects of Pathways to Work using individual level data. The dataset used for this evaluation is a sample of individuals in both the pilot and comparison areas before the introduction of the policy and a
set after the introduction of the policy. This allows Adam et al. (2006) to identify the treatment effect using a differences-in-differences methodology. Propensity score matching is used to check the robustness of their results. The comparison areas are geographically adjacent to the pilot areas. Jobcentre Plus had been rolled out in the pilots and comparison areas at the time of the survey. The study distinguishes between an ‘early policy’ cohort and the ‘preferred’ cohort. The ‘early policy’ cohort includes individuals who made enquiries shortly after the policy was launched. The ‘preferred’ cohort consists of individuals who made an enquiry longer after the policy was introduced. This design is intended to mitigate the bias of any implementation problems on the evaluation. Adam et al. (2006) analyse the early cohort.

Adam et al. (2006) provide a variety of specifications to test the robustness of their analysis. The full model specification suggests that Pathways to Work increases the outflow rate from IB to paid employment by 9.4 percentage points approximately 10½ months after the initial interview. The full model specification includes all those sampled that made an enquiry about IB. The treatment effect on movements into paid employment at any time since the first interview is similar. The propensity score matching approach provide broadly similar estimates to those from the differences-in-differences approach. The estimated policy effect on net monthly earnings for those who find work is an increase of £72 (from £172 to £244), although this estimate is sensitive to the specification. Smaller treatment effects in the April 2004 pilots in comparison to the October 2003 pilots are attributed to teething troubles associated with the introduction of the policy. The study also provides estimates of the treatment effect for different subgroups of the population (for example, age and sex).

The authors note a number of concerns, which they intend to address in subsequent studies. These include the substitution and general equilibrium effects of Pathways to Work.

5.3.6 WORKSTEP, Access to Work, and Action Teams for Jobs

There is little evaluation evidence of WORKSTEP. Purvis et al. (2006) conducted a case study-based evaluation of WORKSTEP, examining the design, delivery and performance of the programme. However, this type of evaluation cannot provide quantifiable evidence on the effects of WORKSTEP on exits from benefits to employment. There is little evaluation evidence of Access to Work and Action Teams for Jobs. We are aware of case study evidence on Access to Work (Thornton and Corden, 2002) and qualitative analysis of Action Teams for Jobs (Casebourne et al., 2006), but again this does not help to determine the quantitative effects of these programmes on clients’ labour market outcomes or on the aggregate labour market. The lack of quantitative evaluation evidence on the impacts of these programmes may reflect data problems (NAO, 2005) and particular difficulties in constructing control groups against which to benchmark outcomes for participants.

5.4 Summary tables

Tables 5.1-5.3 outline the details of the main studies discussed above.
Table 5.1  Quantitative evaluation evidence on the impacts of the introduction of Jobcentre Plus and the PES

<table>
<thead>
<tr>
<th>Programme</th>
<th>Study</th>
<th>Method</th>
<th>Data</th>
<th>Treatment and control groups</th>
<th>Additional controls</th>
<th>Impacts</th>
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<tbody>
<tr>
<td>Jobcentre Plus</td>
<td>Corkett <em>et al.</em> (2005)</td>
<td>Differences-in-differences</td>
<td>Administrative data aggregated to Jobcentre Plus district level.</td>
<td>Treatment group are Pathfinder offices and Day 2 districts. Control group includes non-integrated offices, October 2001-December 2004 for job entries, and October 2001-August 2004 for benefit on/outflows.</td>
<td>None.</td>
<td>Job entry is defined as both programme (e.g. New Deal job) or non-programme employment. Mixed evidence. Identifies what may be a positive effect on the outflow to employment of 16+ hours a week for the sick and disabled</td>
</tr>
<tr>
<td>JSA</td>
<td>Smith <em>et al.</em> (2000)</td>
<td>Before and after analysis</td>
<td>Survey of pre- and post-JSA clients, two nationally representative samples of 5,000 unemployed people.</td>
<td>Treatment group sampled ten months after introduction of JSA, September-October 1997 and then again in March-April 1998. Control group includes UB clients pre-JSA, interviewed once in September-October 1995 and then again in March-April 1996.</td>
<td>Unemployment duration, local labour market employment rate, gender, age, has partner, children at different ages, housing tenure, qualifications, driving licence, health problems, job search attitudes/activity and region.</td>
<td>JSA increased speed at which people leave unemployment benefit. Long-term unemployed people are 11 per cent more likely to leave unemployment benefit after introduction of JSA. No information on exits to employment. No evidence of an effect of JSA on unemployment inflows.</td>
</tr>
<tr>
<td>JSA</td>
<td>Manning (2005)</td>
<td>Differences-in-differences</td>
<td>LFS, treatment group</td>
<td>Treatment group: UB claimants in the period July-September 1996; Control group: UB claimants April-June 1996</td>
<td>Gender, ethnicity, education, quartic in experience, quartic in duration since last worked, dummy for whether ever worked, season and regional dummies</td>
<td>No JSA effect on outflows into employment. Increased off flows to non-employment by 6.4 percentage point (pp) in the short-term. Reduced inflow from non-employed non-claimants by 0.04pp. No effect on unemployment inflows from employment. No increase in the search activity of participants.</td>
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Table 5.1  Continued

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<tr>
<th>Programme</th>
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<tbody>
<tr>
<td>LPWFI</td>
<td>Knight and Lissenburgh (2004)</td>
<td>Differences-in-differences</td>
<td>Administrative data, excl. claims in ONE, LPWFI Pathfinder, and Jobcentre Plus pilot areas and Northern Ireland.</td>
<td>Treatment group: Eligible lone parents; Control group: Non-eligible lone parents claiming IS; May 1999-October 2002.</td>
<td>Age, quadratic of age, gender, number of dependent children, Government Office Region and the unemployment rate in the travel-to-work areas.</td>
<td>No effect on exits from benefit of new/repeat lone parent clients. Exit rate of stock increased by 1 pp within a year of the introduction of the system. Increase in the entry rate to NDLP, 13 to 17 pp depending on the season the participant entered the sample, for new and repeat clients.</td>
</tr>
<tr>
<td>LPWFI</td>
<td>Knight and Lissenburgh (2005)</td>
<td>Differences-in-differences</td>
<td>Administrative data, excl. claims in ONE, LPWFI Pathfinder, and Jobcentre Plus pilot areas and Northern Ireland.</td>
<td>Treatment group: Eligible lone parents; Control group: Non-eligible lone parents claiming IS; May 1999-May 2004.</td>
<td>Age, gender, number of dependent children, Government Office Region and the unemployment rate in the travel-to-work areas.</td>
<td>No evidence of an impact on the exit rates from benefit for new/repeat clients. Estimates suggest that the extension raised the exit rate off benefit for existing stock by 1 pp, increasing to 2 pp after 12 months.</td>
</tr>
<tr>
<td>LPWFI and NDLP</td>
<td>Knight et al. (2006)</td>
<td>Multiple treatment effects using propensity score matching</td>
<td>Administrative data, excl. claims in ONE, LPWFI Pathfinder, and Jobcentre Plus pilot areas and Northern Ireland.</td>
<td>Treatment groups: Eligible lone parents who received LPWFI, and participated in NDLP; who participated in NDLP, but did not receive LPWFI Control groups; Eligible lone parents who did not participate in NDLP and who did not receive LPWFI, April 2001-April 2002.</td>
<td>Benefit history, benefit duration, region of residence, claim start date, age, gender, age of youngest child and number of dependent children.</td>
<td>After 12 months the effect of LPWFI and NDLP on exits from benefit was not significant, but rose to a 4 pp increase after 18 months for new and repeat clients. For the existing stock, LPWFI and NDLP increased exits from benefit after 18 months by 10 pp. Further results reported for NDLP and LPWFI separately.</td>
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<tr>
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<tbody>
<tr>
<td>LPWFI</td>
<td>Knight and Thomas (2006)</td>
<td>Before-After and differences-in-differences</td>
<td>Administrative data, excl. claims in ONE, LPWFI Pathfinder, and Jobcentre Plus pilot areas, Jobcentre Plus roll-out and Northern Ireland.</td>
<td>Treatment group: Eligible lone parents with youngest child aged one to less than three; Control group: lone parents claiming income support with youngest child aged 16.25 to 18 years; May 1999-December 2004.</td>
<td>A quadratic in age, gender, number of dependent children, whether had received IS disability premium, Government Office Region and the unemployment rate in the travel-to-work areas for 1999.</td>
<td>The exit rate from IS for new/repeat clients increased by between 1.5 and two percentage points three to six months after claim start by the 2003 extension. Annual review meeting increased the exit rate from IS by between 0.5 and 1.75 pp.</td>
</tr>
<tr>
<td>ONE</td>
<td>Kirby and Riley (2003)</td>
<td>Differences-in-differences</td>
<td>Administrative data (CGAWAD and the ONE evaluation database).</td>
<td>Treatment group: New/repeat clients from the three main benefit groups in the ONE Pilots; Comparison group: New/repeat clients from the three main benefit groups in selected comparison areas; CGAWAD 1996Q4-2001Q3; claims starting July 1999-December 1999 and July 2000-December 2000 for the ONE evaluation database.</td>
<td>Age, gender, duration of claim, previous year’s benefit history, living in London, dependent children under three, living with partner, means tested benefit, working part-time, number of dependent children, income, travel-to-work area unemployment rate and vacancy-unemployment ratio, Severe Disability Allowance (SDA), area and time fixed effects, Invalid Care Allowance and Widow’s Benefit.</td>
<td>No effect of ONE participation on the exit rate from benefit. Tentative results that the probability of exit for JSA clients and the existing benefit stock may have been adversely affected due to implementation problems.</td>
</tr>
<tr>
<td>ONE</td>
<td>Barrell et al. (2003)</td>
<td>Macro-model simulations and database with some extensions</td>
<td>Macroeconomic outcomes are measured against a baseline for the UK economy.</td>
<td>Not applicable.</td>
<td>Estimates of Gross Domestic Product (GDP), labour market and fiscal effects of reducing the number of lone parents claiming IS, sick and disabled claimants and JSA claimants.</td>
<td>Continued</td>
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<tr>
<td>Programme</td>
<td>Study</td>
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<tr>
<td>NDYP</td>
<td>Anderton <em>et al.</em> (1999)</td>
<td>Differences-in-differences</td>
<td>Administrative data aggregated to New Deal Unit of delivery and to national level.</td>
<td>Treatment group: JSA claimants aged 18-24 and other age groups in the pathfinder areas; Control group: JSA claimants aged 18-24 and other age groups in ‘matched’ comparison areas.</td>
<td>Labour market conditions, time and area fixed effects, option and gateway intensity.</td>
<td>Significant early impact of NDYP on exit rate from unemployment for 18-24 year olds (deadweight estimate of 50 per cent); some evidence of an adverse impact of NDYP in its early stages on the long term unemployed outside the 18-24 age group.</td>
</tr>
<tr>
<td>NDYP</td>
<td>Riley and Young (2001a)</td>
<td>Differences-in-differences</td>
<td>Administrative data aggregated to New Deal Unit of delivery to March 2000.</td>
<td>Treatment group: JSA claimants aged 18-24, different unemployment durations; Control group: JSA claimants aged 25-29, different unemployment durations.</td>
<td>Labour market conditions, time and area fixed effects, treatment intensity (constructed from participant share in local area unemployment and interview frequency).</td>
<td>Impact estimates of NDYP on the outflow rate from unemployment to jobs, unsubsidised jobs, and all destinations show significant positive impacts; evidence of churning; reduction in youth unemployment of 35,000 by March 2000.</td>
</tr>
<tr>
<td>NDYP</td>
<td>Blundell <em>et al.</em> (2004)</td>
<td>Combined differences-in-differences and matching</td>
<td>Administrative data to July 1999 (5 per cent sample)</td>
<td>Treatment group: 19-24 year old JSA claimants in the pathfinder areas or nationally; Control groups: 19-24 year old JSA claimants and other age groups outside the pathfinder areas; JSA claimants of different non-eligible age groups nationally.</td>
<td>Labour market history.</td>
<td>NDYP increased the probability of being in employment ten months after JSA claim start by 5pp for young men; Differential effects for men and women.</td>
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<th>Programme</th>
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<th>Method</th>
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<tr>
<td>NDYP</td>
<td>De Giorgi (2005)</td>
<td>Group comparison using regression design discontinuity</td>
<td>Administrative data to December 2001 (five per cent sample).</td>
<td>Treatment groups: successive cohorts of 24 year old JSA claimants. Control groups: successive cohorts of 25 year old JSA claimants.</td>
<td>None.</td>
<td>NDYP raises probability of entering employment with 18 months of claim start by six to seven per cent for men; This effect is relatively stable across successive cohorts.</td>
</tr>
<tr>
<td>NDYP</td>
<td>Wilkinson (2002)</td>
<td>Differences-in-differences</td>
<td>Administrative data (five per cnet sample).</td>
<td>Treatment group: Eligible participants in the first year of the programme. Control group: 30-39 year olds who had reached six months unemployment at that time.</td>
<td>None.</td>
<td>Reduction in probability of being unemployed six months from NDYP entry of 20pp for young men, falling to 5pp 18 months after claim start; similar effects for women Reduction in youth unemployment of 37-39,000 for first year participants, six months after NDYP entry.</td>
</tr>
<tr>
<td>NDYP</td>
<td>Riley and Young (2001b)</td>
<td>Macro-model simulations and panel analysis of age-specific and regional wages</td>
<td>LFS wage data and NiDEM database</td>
<td>Macroeconomic outcomes are measured against a baseline for the UK economy.</td>
<td>Not applicable for macro-model simulations; wage analysis includes controls for union density, minimum wage, duration composition of unemployment, non-employment rate.</td>
<td>NDYP reduced aggregate wage pressure; general equilibrium effects amplify direct effects of the programme by 30 per cent; NDYP increased aggregate employment by 0.1 per cent at a cost to the Exchequer of £140m per annum in the first four years of the programme.</td>
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<tr>
<th>Programme</th>
<th>Treatment and control groups</th>
<th>Study Method</th>
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<th>Additional controls</th>
<th>Impacts</th>
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<tbody>
<tr>
<td>ND25+</td>
<td>1. Treatment: ND25+ entrants in the pilot areas December 1998-February 1999; Control: JSA claimants at 12 or 18 months into their unemployment spell outside the pilot areas.</td>
<td>Random assignment and survey data (covering a fifth of the target population).</td>
<td>Administrative survey data from March 2001; Control eligible non-participants who were non-randomly assigned standard provision in the same areas at the same time.</td>
<td>Interim results suggest that mandating IAP raises the probability of exit to employment within a year of reaching the end of the Gateway, although some evidence of an effect of ND25+ on probability of being in employment 18 months after programme entry is apparent.</td>
<td>ND25+ start by 5pp and may raise the probability of exit to employment by 3pp; significant employment effects concentrated amongst the low skilled.</td>
</tr>
<tr>
<td>Dorsett and Speckesser (Mandating IAP for 50-59 year olds)</td>
<td>50-59 not assigned mandatory IAP upon reaching the end of the Gateway.</td>
<td>Random assignment and survey data (covering a fifth of the target population).</td>
<td>Administrative survey data from March 2001; Control eligible non-participants who were non-randomly assigned standard provision in the same areas at the same time.</td>
<td>Educational qualifications, occupational history, drivers’ licence, access to car, accommodation type, part-time work, ethnic groups, living with partner, age, district and time.</td>
<td>Interim results suggest that mandating IAP raises the probability of exit to employment within a year of reaching the end of the Gateway, although some evidence of an effect of ND25+ on probability of being in employment 18 months after programme entry is apparent.</td>
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Table 5.3  Quantitative evaluation evidence on the impacts of other Welfare-to-Work programmes

<table>
<thead>
<tr>
<th>Programme</th>
<th>Study</th>
<th>Method</th>
<th>Data</th>
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</table>
| NDLP      | Lessof et al. (2003) | Propensity score matching    | Survey of matched IS clients (1,250 participants, 1,250 non-participants, 2000-01) | Treatment group: NDLP participants.  
Control group: Eligible non-participants.                                                                                       | Range of demographic and labour market characteristics including: education, expectations of being in work and recent job search behaviour. | 24 pp increase in probability of being in work six months after participation start; similar effect on probability of leaving IS. |
| NDLP      | Dolton et al. (2006) | Matched comparison groups     | Survey used in Lessof et al. (2003) and administrative data.          | Treatment group: NDLP participants.  
Control group: Eligible non-participants.                                                                                       | As in Lessof et al. (2003), but also including programme and labour market history. | 15 pp increase in probability of having left IS nine months from claim start, 14 pp increase at two years after claim start. |
First stage November 2000 to January 2001.  
Second stage mid-2002. | Treatment group: EZs participants.  
Control group: ND25+ participants in selected comparison areas.                                                                 | Age, sex, marital status, criminal record, vehicle available, long-term health problem, ethnicity, educational qualifications, work history, ward level unemployment. | Participants in Employment Zone are 1.8 times more likely to obtain a job than ND25+ participants towards the end of 2001. No statistically significant effect by mid-2002. Participants 2.1 times more likely to obtain a job of 16+ hours towards the end of 2001, the effect falling to 1.7 times by mid-2002. |
| EZs       | Hasluck et al. (2003) | Differences-in-differences data aggregated to district level (NOMIS). | Administrative data aggregated to district level (NOMIS).          | Treatment group: long-term unemployed in EZs areas.  
Control group: long-term unemployed aged 25+ in selected comparison areas and unemployed aged 18-24 in the EZs areas, Jan 1996-May 2001. | Season, year, introduction of JSA, period when the NDYP operates, treatment indicators, unemployment-vacancy ratio, various unemployment flow-stock ratios, proportion of EZs participants. | Relative to ND25+, EZs raised the outflow rate from long term unemployment by 1 pp; no evidence of substitution. |

Continued
<table>
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<tr>
<th>Programme</th>
<th>Study</th>
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<th>Data</th>
<th>Treatment and control groups</th>
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<tr>
<td>WBLA</td>
<td>Anderson et al. (2004)</td>
<td>Propensity score matching</td>
<td>Survey of JSA clients January-April 2002</td>
<td>Treatment group: JSA WBLA participants; Control group: JSA non-WBLA participants sampled from JSA records using propensity score matching on the administrative data.</td>
<td>Age, sex, number and age of children, disability, ethnicity, accommodation tenure and financial responsibility, education, labour market experience, prior job search activity, local area controls and local labour market controls.</td>
<td>SJFT participation increases employment probability by 5 to 7 pp at the 5 month mark, but not thereafter. LOT participation increases employment probability at 9-12 months by 7 pp. BET had no effect on employment. No effects on wages and productivity.</td>
</tr>
<tr>
<td>WBLA</td>
<td>Speckesser and Bewley (2006)</td>
<td>Conditional differences-in-differences</td>
<td>Matched WPLS and WBLA administrative data.</td>
<td>Treatment group: JSA WBLA participants starting WBLA in January-April 2002; Control group: JSA non-WBLA participants sampled from stock claiming JSA January-April 2002 using propensity score matching on the administrative data.</td>
<td>Age, sex, ethnic group, Jobcentre Plus areas, benefit history, basic skills screening outcome.</td>
<td>SJFT participation increases employment rate by 3 pp over the period 4-40 months. LOT participation increases employment rate over the period 12-40 months by 3 pp. BET had no effect on sustainable employment.</td>
</tr>
<tr>
<td>Pathways to Work</td>
<td>Blyth (2006)</td>
<td>Differences-in-differences</td>
<td>Administrative data aggregated to Jobcentre Plus District level. Survey of individuals who enquired about claiming IB.</td>
<td>Treatment group: Jobcentre Plus pilots; Control group: rest of the country; before and after introduction of Jobcentre Plus.</td>
<td>None.</td>
<td>8pp increase in outflow from IB.</td>
</tr>
<tr>
<td>Pathways to Work</td>
<td>Adam et al. (2006)</td>
<td>Differences-in-differences and propensity score matching</td>
<td>Survey of individuals who had enquired about claiming IB.</td>
<td>Treatment group: survey participants in the Pathways to Work pilot areas; Control group: survey participants in areas similar and contiguous to pilots.</td>
<td>Household characteristics, educational qualifications, ethnicity, illness/disability, sex, activity prior to claim, broad area of residence.</td>
<td>Pathways increased probability of exit from IB to employment by 9.4 pp 10.5 months after IB enquiry. Increase in net monthly earnings of £35-£72 (nominal terms).</td>
</tr>
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6 Data sources

The feasibility of different evaluation strategies is very much dependent on the data that is available for analysis. The objective of this chapter is to establish what data are available for the purposes of evaluating Jobcentre Plus. Features such as sample periods, coverage, variables held, and any problems or pitfalls that the data present, help us determine how these data might be used to estimate the counterfactual to Jobcentre Plus and the New Deals and the likely robustness of the policy effect that may be estimated.

There are a variety of data sources available to the Department for Work and Pensions (DWP) for the purposes of evaluating Jobcentre Plus and the programmes it delivers. The majority of data available is in the form of administrative databases containing information on almost all benefit claimants and programme participants. We review these administrative databases in turn; starting with the National Benefits Database (NBD), the various programme-specific administrative databases, each of which varies in the data provided. We conclude the discussion of administrative databases with an analysis of the Work and Pensions Longitudinal Study (WPLS). We also discuss the quarterly Labour Force Survey (LFS) as an alternative to the administrative databases for the purposes of the evaluation of Jobcentre Plus and the New Deals, and the Jobcentre Plus vacancy data. Cost data are discussed in Chapter 8.

The DWP have also commissioned a number of surveys for the evaluation of specific programmes. These surveys are maintained only for the life of an evaluation exercise and provide data that usually allows the estimation of relatively short-term impacts of a particular programme. Such surveys are outside the scope of this report.

We do not assess the extent of missing values for all the data information reviewed here (for example, for some variables a large share of observations may be recorded as ‘don’t know’, ‘not answered’ or ‘not asked’), although we flag some of the main problems of this kind. Variables with severe missing value problems are of limited value in a potential evaluation. This is an important issue for the administrative databases, which typically have a limited set of control variables.
6.1 National Benefits Database

The NBD contains administrative records for almost all benefit clients since June 1999. The data is recorded at the individual level, providing data on DWP client benefit spells. Through a unique identifier we are able to identify a DWP client’s different spells on different benefits allowing the post-June 1999 benefit history of an individual to be derived. The database covers the majority of available benefits, including those of the three main client groups served by Jobcentre Plus: Jobseeker’s Allowance (JSA), the sick and disabled, and lone parents claiming Income Support (IS). The data on the NBD is derived from the Joint Unemployment and Vacancy Operating System (JUVOS) database for JSA clients and the General Matching Service (GMS) database for all other benefit clients.

6.1.1 Variables

The NBD provides a number of control variables that may be useful in determining the treatment effects of Jobcentre Plus. The variables available include the age and gender of the benefit client, the duration of the benefit claim and the amount of a particular benefit received by the client. We are able to control for the type of benefit claim where benefits give such a choice. For example, there are four different types of JSA, the receipt of which depend upon your circumstances and contributions history. Control variables also available include the type and amount of any premiums, and whether the claimant is a refugee. We are able to determine those who receive Housing Benefit and Council Tax Benefit, although not the amount they receive. The NBD also provides the date of birth of the youngest child for JSA and IS benefit clients. For almost all benefit clients, the number of dependent children is recorded. We are also able to identify those IS and JSA clients that work part-time. For those that are working part-time, the amount of income from this is provided. For those claiming sick and disability benefits, except IS with a disability premium, the NBD database also contains detailed data on the type of disability or illness (defined by the International Classification of Disease). We are also able to identify the ONE pilot control areas, although evidence from the evaluation of ONE suggested there was no treatment effect, at least in the short-term (see Kirby and Riley, 2003).

The detailed geographical information allows the analyst to control for the roll-out of Jobcentre Plus across Great Britain. The database provides variables that identify the residence of the individual at different geographical levels. For example, from the ward level to the Government Office Region. It also allows local labour market and local area information such as unemployment, vacancy-unemployment ratios and deprivation indices to be matched to the individual benefit records.

The NBD does not have extensive destinations data. There is data that allows the identification of a variety of benefit exit destinations for JSA claimants due to the JUVOS source data. For IB claimants there is limited information on destinations from benefit and these are only available for the period November 2002 onwards. We are able to identify if an exit from one benefit is just a transition to another benefit. Thus, except for JSA clients, the NBD simply enables the identification of individuals
exiting the benefit system. For all benefit clients we are able to control for exit from benefit due to death.

The NBD also lends itself to the creation of a database at different levels of regional aggregation such that the off-flow rates of different client groups can be modelled and disaggregated by the control variables mentioned above.

### 6.1.2 Issues

Data on different benefit clients is provided at different frequencies. The JSA data are extracted for the second Thursday of every month and the IS client data are extracted every two weeks while data on the IB/SDA clients are extracted every six weeks. Consequently, it is possible for benefit clients to leave and re-join the same benefit without this being recorded on the database. Due to varying lengths of time between extractions for different benefits, the potential for this to happen varies. For example, because of differing extraction frequencies it is possible for clients receiving IS to leave and rejoin the claimant stock and have this recorded as an off- and on-flow to benefit. A similar transition by an IB client would be recorded as one continuous spell. The different extraction times also means that benefit clients can be recorded as being on two different benefits in the same month in permutations that are in breach of benefit rules. In analysing the NBD, or indeed any benefit data on DWP clients, these issues can be important. For example, if programme eligibility is identified using claim entry and duration.

Discontinuities in the data occur for several reasons: The aggregate IS data are severely distorted in October 2003, where those that received IS as part of the minimum income guarantee were moved from IS to the Pensions Credit. The data are also affected by the shift of 19-20 year old IB claimants from SDA to IB in April 2002 as part of changes to benefit rules.

The NBD provides data on almost all DWP clients, but it has little available data on DWP clients prior to the introduction of Jobcentre Plus. The Client Group Working Age Database (CGWAD) provides a longer sample period, although is less comprehensive than the NBD as it only sample five per cent of DWP clients. Use of the CGWAD may be useful in conjunction with the NBD and other databases discussed below.

### 6.2 Programme administrative databases

Each of the programmes for benefit claimants administered by the DWP has a self-contained administrative database. For the purposes of the evaluation of Jobcentre Plus these include Jobcentre Plus, New Deal for Young People (NDYP), New Deal 25+ (ND25+), New Deal 50+ (ND50+), New Deal for Lone Parents (NDLP), New Deal for Disabled People (NDDP), Work-Based Learning for Adults (WBLA), WORKSTEP, Employment Zones and Pathways to Work.

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44 Widows’ Benefit and Bereavement Benefit are also extracted every six weeks. Invalid Care Allowance (ICA) and Disability Living Allowance (DLA) are extracted every four weeks.
Each of the programme databases has a set of variables that one can use as control variables in an evaluation of the respective programme. This ‘default’ set of control variables is similar to the set available on the NBD. At the individual level, all the databases record details on the gender, age or date of birth, ethnicity and whether the programme participant is a refugee. Each provide variables that identify the residence of the individual at different geographical levels. For example, from the ward level to the Government Office Region. The Jobcentre Plus office at which benefit was claimed is also available on the various programme databases. It also allows local labour market and local area information such as unemployment, vacancy-unemployment ratios and deprivation indices to be matched to the individual benefit records. The programme databases also lend themselves to the creation of a database at different levels of regional aggregation such that the stocks and off-flow rates from the different programmes can be modelled.

The evaluation databases are particularly important as they contain information that may be developed to establish exogenous variation in the strength of policy treatment. As discussed in Chapter 7, this is particularly important in the case of NDYP and ND25+ for which there is no obvious comparator group from which to construct counterfactual outcomes.

Labour market outcomes on these databases are defined in terms of exits to employment, but also in terms of exits to sustainable employment. The definition of sustainable employment is specific to each programme. A written answer to a Parliamentary Question stated that employment is defined as sustainable if a participant of NDYP or ND25+ does not claim JSA for at least 13 weeks once they have gained employment. Employment has been defined as sustainable if it has been held for 13 weeks only since October 2005 on NDLP, while on ND50+ there is no definition of sustainability. Employment Zones (EZs) use the same definition as NDYP and ND25+. Action Teams for Jobs define sustainability as employment for at least 11 weeks of the 13 week period after they gain employment. NDDP defines sustainability as employment for 13 weeks out of a 39 week period\(^\text{45}\).

### 6.2.1 Jobcentre Plus evaluation database

The Jobcentre Plus database is derived from the Labour Market System (LMS). The Jobcentre Plus database is actually a series of databases that record data concerning the contact from a prospective DWP client, and the details of the process administered to them\(^\text{46}\). The database sample covers participants in Jobcentre Plus as well as those that make contact with Jobcentre Plus without making a claim. As the database

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\(^{45}\) Written Parliamentary Question (Mr Frank Field – Mrs Margaret Hodge) HC Hansard 9th January 2006 Vol 441 c89w, [http://www.publications.parliament.uk/pa/cm200506/cmhansrd/cm060109/text/60109w20.htm#60109w20.html_wqn0](http://www.publications.parliament.uk/pa/cm200506/cmhansrd/cm060109/text/60109w20.htm#60109w20.html_wqn0)

\(^{46}\) Throughout we will simply refer to the Jobcentre Plus database, rather than the set of databases that this actually covers.
covers Jobcentre Plus only, the time period of the sample for any particular Jobcentre Office is conditional upon the date at which Jobcentre Plus was introduced there. For those offices that were the Jobcentre Plus pathfinder offices, the sample covers spells and contacts from October 2001, while some offices only went ‘live’ in June 2006. The Jobcentre Plus database can be matched to the WPLS or other DWP databases using the NINOs.

The database provides data on spells with Jobcentre Plus, including those that contact Jobcentre Plus but do not make a claim. The database provides the length of the spell, the date the client made first contact with Jobcentre Plus, the method of initial contact. The database records the date, attendance, type and decision of each meeting with the client.

The Jobcentre Plus database provides data on the gender, age and ethnicity of the participants. The database also provides detailed destination data. This destination data includes exits to employment, training schemes, ineligible for benefit and such reasons as jury service/witness, abroad, client deceased and client in prison/remanded in custody/on trial. We are also able to determine whether the office a client is participating at is or was a Pathfinder area, and the date that each office went ‘live’.

As with the NBD, the detailed geographical information allows the analyst to control for the roll-out of Jobcentre Plus across Great Britain. The database provides variables that identify the residence of the individual at different geographical levels. For example, from the ward level to the Government Office Region. It also allows local labour market and local area information such as unemployment, vacancy-unemployment ratios and deprivation indices to be matched to the individual benefit records.

### 6.2.2 The NDYP, ND25+ and ND50+ evaluation databases

Each of these New Deal databases covers almost all programme participant spells. The database for NDYP has data from May 1998; ND25+ contains data from August 1998. While the databases for NDYP and ND25+ cover the period since the introduction of the programmes, the ND50+ database only includes spells on the ND50+ programme that have started since January 2004.

The ND25+ and NDYP databases include relatively extensive information, such as information on the educational qualifications of programme participants, their marital status and the duration of the JSA benefit claim prior to participating in the New Deal. We have data on the start and end dates of each of the three stages for both NDYP and ND25+, together with information on the different options chosen by the participants. Each database contains details about the timing of the WFI that the programme participants have had. The databases for NDYP and ND25+ also contain data on participants’ preferred occupation. This includes such details as whether any exits to employment are subsidised and/or sustained. In comparison ND50+ contains very limited information on its participants beyond the standard control variables.
They also have very limited destination data. The ND50+ database provides data on participants that have gained a job as well as those that have started a training scheme. The ND25+ database identifies whether programme participants participate pre- and post- the re-engineering of ND25+. Also indicated on these three New Deal databases is whether the participant lives in a rural ward.

It needs to be stressed that each of these New Deal databases only contains data on participants. They, therefore, do not contain data on comparison groups.

### 6.2.3 Other programme administrative databases

In comparison to the databases for the mandatory NDYP and ND25+, the NDLP and NDDP databases contain limited information on participants beyond the standard control variables. NDDP sample starts in December 2000 providing data on participants in the pilot areas, as well as participants since the national roll-out of the programme in July 2001. NDLP sample begins in August 1999, after the national roll-out in April 1998, and the pilot programme that started in July and August 1997.

Both the NDDP and NDLP database contain data that is unique to these particular New Deals. NDDP allows the identification of those that participated in the pilot programme and the surveys used to evaluate this. There is also data that allows the identification of the broker, together with data on whether a destination is to a full- or part-time job, and whether this is sustained. The NDLP database contains data on whether a lone parent had a PA while they participated. There is also data on when the first meeting with a PA, occurs and details on the reason behind any delays in a first meeting. There is also data concerning further interviews. The NDLP database also has data concerning participants’ employment and training spells. The NDLP database provides details on the qualifications of any courses taken through NDLP, whether these courses were funded by NDLP and the total amount of this. There is also data for the receipt of childcare by NDLP participants, together with the total cost of childcare for a spell on NDLP. NDLP also provides data on spells of mentoring that a NDLP participant has received. NDLP also has a separate database that contains information on childcare barriers to work, identifying whether each of the childcare options normally available is present, as well as the type of childcare a participant requires. However, this data is only available from December 2004 onwards. NDLP also has a database with details of the in-work credit received by lone parents and the period for which this occurs. However, as with the childcare data this is available from December 2004 onwards only.

The WBLA database contains data on the spells of WBLA participants who started their spell in April 2000 or later. Prior to this the WBLA was not administered by the DWP. The database contains the standard control variables discussed above. It also provides data on the ‘opportunity’ a voluntary participant chooses and has extensive information concerning which labour market programme or benefit they have arrived from. We are able to control for a variety of labour market disadvantages, such as whether the participant is in need of basic skills, whether they are an ex-offender and whether they are homeless. There is also some limited information concerning exits
to employment, with more comprehensive data on whether the participant moved onto or remained on benefits upon their exit from WBLA. These are only recorded if the job has been kept for 13 weeks, the definition of sustainable employment for this programme. The benefits data is recorded up to a year after leaving the programme. The database provides no comparison group as it covers only participants.

The WORKSTEP database contains the standard control variables. It also contains detailed data for the type of disability or illness the participant has, as defined by the International Classification of Disease. The database also records data on the type of support they receive in order to obtain employment. Within the WORKSTEP database there is information concerning not only the outcome of participation: is it a subsidised or unsubsidised job, but also details concerning the job. This includes whether the job is full-or part-time and the type of job (an approximation to occupation). The WORKSTEP database provides no comparison group as it covers only participants.

The EZ database collects data on clients on a monthly basis starting from January 2000, just before the launch of the policy in April 2000. The EZ database has a much richer set of control variables in comparison to the other available programme databases. As well as the standard control variables discussed already it also provides data on their qualifications when they start their EZ contract spell and participants’ qualifications when they finish the spell. The EZ database contains the data available for JSA clients via the JUVOS database. Thus, it contains an established set of destinations data.

The Pathways to Work database provides data on the Pathways to Work participant group of Incapacity Benefit (IB) clients in the pathfinder areas as they are introduced in phases. It augments the standard administrative data available with the additional data used as an input to the screening tool. This screening tool provides data on participants’ qualifications, work and benefit history, when they expect to work again, the occupation they were in, details about their main, and where relevant, secondary health problem and/or disability, together with whether working worsened this, the length of time they have had the health effect/disability, and the income they received in their previous employment. It is also possible to construct a comparison group for this programme from existing administrative databases, as done by the DWP. However, as this comparison group is derived from administrative data only there is no additional information available to replicate the screening tool for this group.

6.3 The Work and Pensions Longitudinal Study

The WPLS links together information on benefit clients, those participating on the majority of DWP programmes and employment data from Her Majesty’s Revenue and Customs (HMRC). It provides information on DWP benefit clients from May 1999 onwards. A key advantage of this database is the improvement of destinations data for benefit clients. With the matching of employment data and benefits data we are provided with improved data on the labour market transitions of benefit clients. The latest quarterly release shows the WPLS having records on 5.4 million working age benefit clients in February 2006.
The WPLS is essentially an index from which DWP benefit and labour market programme data can be matched together. These data can then also be matched to data on employment spells. This employment data is provided by HMRC and can be matched to data held by the DWP using individuals’ National Insurance Number (NINOs). The employment spell data is derived from employee P45/P46 forms. The quality of the match is verified through the comparison of five variables: surname, forename, date of birth, gender and postcode. For the benefit spells that have ended, 60 per cent have no linked benefit record, 34 per cent have an accurate employment match, and seven per cent have a possible employment match. The accurate matches are defined as those where the NINOs matched or where no NINO match was possible, all five variables matched. A match made on fewer variables is classified by the DWP as a possible employment match.

6.3.1 Variables

Through the WPLS we are able to utilise all the data discussed above, but with more accurate data concerning destinations. This allows one to differentiate between exits from benefit in general and exits from benefit to employment as an employee for the majority of benefit claimants since May 1999. The additional information available depends upon the source of the data, be it NBD or programme databases. An extension the WPLS provides is any work history of benefit clients. With data available from April 1998, from HMRC, we are able, the robustness of the match depending, to provide information concerning whether individuals had employment in at least the previous year. The measurement of a benefit clients’ work history has not been possible with the DWP administrative databases alone. Previously, such information has only been available for the participants of certain labour market programmes.

The WPLS also improves upon the destinations data available with the datasets of specific programmes. DWP (2005) used the employment data from the WPLS to improve the destinations data of NDYP and ND25+. For example, up to May 2005, 30 per cent of destinations from NDYP were unknown. Using the WPLS the DWP were able to reduce this figure by eight percentage points. The WPLS also provided the ability to differentiate between the different benefits NDYP and ND25+ participants exited to, through the benefit data that has been matched onto the WPLS.

The availability of detailed geographical identifiers means the WPLS can be used to generate a panel of geographical areas since May 1999, such as Jobcentre Plus district. Data on benefit and employment stocks, flows on and off benefit and from benefit to work can be derived. Thus, it provides the basis for evaluations at a more aggregate level.

See http://www.dwp.gov.uk/asd/statistical_summaries.asp
6.3.2 Issues

A significant percentage of the employment spell data matched to DWP benefit clients does not have information on the employment spell start date. Two per cent of employment spells have missing start and end dates. For 20-25 per cent only the financial year in which the spell started is known. In these cases the start date is simply coded as 6 April. Thus, for almost a quarter of the employment spells of DWP benefit clients we are unable to determine at what point after an exit from benefit they entered employment. These cases complicate aggregation and use of the data.

There are currently no data on self-employment spells on the WPLS, as the data provided by HMRC only covers employees. Future work is intending to add self-employment data so that exits from benefit to self-employment can be identified. Currently, those that leave benefit to a self-employment spell would be classified as having left a particular benefit to a non-employment and non-benefit spell, reducing the estimate of the exit to paid employment. The employee data recorded by HMRC includes only employment exceeding 15 hours per week (Speckesser and Bewley, 2006). The lack of self-employment data and part-time work from HMRC may partly explain the substantial number of cases where job entries are recorded in the benefits data, but not in the HMRC data. However, the large number of these cases (almost equivalent to the number of job starts visible in the HMRC data, but not recorded in the benefit databases; source: DWP) suggest that there may be other data problems.

For the current employment data available there is also no information on the wage obtained. It is intended that wage data from the employment spells be included in the data from HMRC matched to the WPLS. Wages will most likely be recorded on an annual basis. This significantly limits the value of this data in determining the effect of Jobcentre Plus on wages and productivity.

6.4 The Quarterly Labour Force Survey

The LFS is a survey of private households and those in NHS accommodation in Great Britain and Northern Ireland. The LFS has a sample of approximately 57,000 households, corresponding to 0.2 per cent of the UK population. It has been conducted on a quarterly basis since spring 1992. Households participate in the survey for five consecutive quarters, or ‘waves’, providing the LFS with a short-term longitudinal element. The LFS is one of the main sources of labour market data in the UK. For example, it provides the data underlying the estimate of the ILO’s definition of unemployment.

The LFS is available as a potential source of data for the evaluation of Jobcentre Plus. The availability of information on wages, labour market status and job search alongside the richness of data, is particularly useful in the current context. Another advantage of the LFS is the fact that it provides a longer span of historical data than available in the administrative datasets.
6.4.1 Variables

The LFS provides a rich source of information for labour market policy analysis. It provides information on the human capital of the survey participants, such as years of schooling, educational qualifications, along with a plethora of other individual and household characteristics, which are not present in the administrative based datasets discussed above. For those in paid employment the LFS also asks about earnings and hours, such that we are able to construct estimates of hourly earnings.

The LFS contains data on benefit claimants. The survey also asks respondents about their job search behaviour, and whether they participate in government employment or training schemes. Thus, we are able to identify those survey respondents who are using a jobcentre for job search activity, together with the participants of the New Deals and WBLA. Indeed the LFS has been used in the past for the analysis of job search behaviour. One such example is Manning (2005), who examined the effect of the introduction of JSA on both labour market flows and the job search activity of the unemployed.

The LFS provides data on the labour market status of all participants where a response has been provided. Consequently, we are able to identify the state a member of the sample moves to when they exit benefits or an identifiable labour market programme. With exits to employment, we are able to determine the hourly wage associated with that employment, together with occupation and industry. We can also relate claimant measures of unemployment to the ILO measure of unemployment.

6.4.2 Issues

For the purposes of the evaluation of Jobcentre Plus there are three significant shortcomings of the LFS: First, from comparisons with administrative data it has been concluded that there is under-reporting of benefit receipt amongst the sample of the LFS\(^{48}\). The linking of the DWP’s administrative databases and the LFS as means of correcting for this has been discussed. If these were to proceed then this would vastly improve the benefit information derived from the LFS.

Table 6.1  LFS respondents participating in the New Deals or WBLA

<table>
<thead>
<tr>
<th></th>
<th>1999Q2</th>
<th>2006Q2</th>
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<tbody>
<tr>
<td>New Deal participants</td>
<td>242</td>
<td>92</td>
</tr>
<tr>
<td>WBLA participants</td>
<td>NA</td>
<td>42</td>
</tr>
<tr>
<td>ILO unemployed using Jobcentre for job search</td>
<td>1,128</td>
<td>852</td>
</tr>
</tbody>
</table>

Notes: Unweighted figures.

Second, sample sizes are likely to be an issue. Table 6.1 highlights the number of LFS respondents who participated in the New Deals, or WBLA in the second quarters of 1999 and 2006. Clearly, the sample size is small compared to the 100

\(^{48}\) See http://www.statistics.gov.uk/about/data/guides/LabourMarket/concepts/workingage.asp
per cent administrative databases. The job search figure is given for ILO unemployed respondents, who account for three-quarters of respondents reporting use of a jobcentre as their main method of job search activity. These problems of sample size and under-reporting of benefit receipt mean that we cannot identify reliable estimates of outcomes for Jobcentre Plus participants from the LFS. Finally, geographical disaggregation below Local Authority District level is not advised. This means that it is not necessarily possible to distinguish accurately between respondents in Jobcentre Plus integrated versus non-integrated areas.

6.5  Vacancy data

DWP Jobcentre Plus vacancy statistics are available through NOMIS\(^{49}\). These include monthly data on notified, unfilled and filled vacancies by Jobcentre Plus office and other geographical disaggregations such as travel-to-work area. Information on the industrial and occupational breakdown of these vacancy data is also available.

There are a number of issues regarding use: First, the data is available on a consistent basis from March 2004 only. Limited back data are available to May 2002, but these are affected by various changes to Jobcentre Plus handling procedures, some of which are directly related to the introduction of Jobcentre Plus, and changes to Jobcentre Plus office definitions (a full description of these data is given in Bentley (2005)). Further historical data is available for some geographical disaggregations, but these are not necessarily comparable to later data. This means that these data are not always useful for detecting changes over time in local area labour market conditions, although they may be useful in detecting changes in vacancy volumes that result from Jobcentre Plus interventions and differences in local area labour market conditions at individual points in time.

Where consistent time series are required, it may be possible to use other vacancy statistics, published by the Office for National Statistics, to adjust national Jobcentre Plus vacancies. Applying the geographical dispersion in vacancies at different points in time it might be possible to obtain consistent time series on local area labour market conditions for some geographical disaggregations. Note also that the vacancy stock data are probably more disrupted by inconsistencies over time than data on notified vacancies. The latter may, therefore, prove a more useful series from which to develop an indicator of changing patterns in local area labour markets. Alternatively, in estimation, breaks in the data would need to be taken into account explicitly or other indicators of local labour market conditions would need to be developed (for example, in an analysis of local area labour market flows, local area unemployment or inactivity rates).

\(^{49}\) At http://www.nomisweb.co.uk
Measuring the macroeconomic impacts of Jobcentre Plus and the New Deals
7 Measuring the macroeconomic impacts of Jobcentre Plus and the New Deals

Based on the conceptual framework, the review of evaluation methodologies and of existing evidence on the impacts of Jobcentre Plus and the New Deals, and the data source evaluation in previous chapters we discuss potential evaluation strategies for identifying the macroeconomic impacts of Jobcentre Plus and the New Deals. As mentioned in Chapter 1, we look at means of evaluating the macroeconomic impacts of current provision against three separate but related policy counterfactuals:

- The changes to the Public Employment Service (PES) and Work Focused Interviews (WFIs) brought about by the introduction of Jobcentre Plus did not take place.
- The New Deal for Young People (NDYP), New Deal 25+ (ND25+) and New Deal 50+ (ND50+) do not exist, and the long-term unemployed passively claim benefits.
- Jobcentre Plus as a whole (basic PES functions, WFIs and Active Labour Market Programme (ALMPs)) is abolished and social security benefits are applied for and delivered either electronically or through the post.

We discuss each of these in turn. In each case the objective of a potential evaluation exercise is to measure outcomes under the counterfactual scenario and we discuss specific issues that arise in relation to this.

7.1 Measuring the impacts of the introduction of Jobcentre Plus

The introduction of Jobcentre Plus first in a set of Pathfinder areas and its gradual roll-out across the country facilitates an evaluation of its macroeconomic impacts. Here we set out the ways in which one might identify the effects of the introduction
of Jobcentre Plus on labour market flows and on the aggregate economy more generally.

### 7.1.1 Measuring impacts on labour market flows

In principle it should be possible to identify policy impacts on aggregate outflows from the different benefit groups to jobs and aggregate inflows to benefit with the available data. It should also be possible to assess policy effects on flows between different benefit categories, and to disaggregate these by age group and for Jobseeker’s Allowance (JSA) claimants to disaggregate these by benefit duration.

The most natural way of doing this would be to use the differential timing of the introduction of Jobcentre Plus in different areas of the country to identify the policy effect by implementing an aggregate differences-in-differences type procedure in a panel analysis of area-specific flow rates (Riley and Young, 2001a; Hujer et al., 2002). Indeed, the Department for Work and Pensions (DWP) has already undertaken some analysis along these lines (Corkett et al., 2005).

The analysis would need to be careful in identifying suitable control areas and would need to experiment with different sets of control areas to ensure robustness of the estimated policy effect to area and time-specific shocks unrelated to the introduction of Jobcentre Plus and which cannot be controlled for by observables, or time-specific and area-specific dummy variables. One problem for a potential evaluation of this kind is the introduction of Pathways to Work for Incapacity Benefit (IB) clients in some of the integrated offices. Assuming that these would have been introduced in the absence of the introduction of Jobcentre Plus it would be incorrect to attribute the effects of Pathways to Work to the introduction of Jobcentre Plus. Thus, one would need to exclude from the analysis offices where Pathways to Work had been introduced. If this proves not to be feasible, the analysis would need to take account of the current estimates of the impact of Pathways to Work Pilots on labour market flows (e.g. Blyth, 2006). If instead one assumes that the introduction of Pathways to Work is conditional upon the introduction of Jobcentre Plus, and hence, that the counterfactual to be measured is one where Pathways to Work were not introduced, it would not be necessary to make these distinctions. A full macroeconomic evaluation and cost-benefit analysis would then need to count the costs associated with the Pathways to Work Pilots as part of the costs of introducing Jobcentre Plus.

The validity of the differences-in-differences estimator depends on the assumption that the ‘normal’ difference in flow rates between integrated and non-integrated areas is the same in the baseline and treatment periods. Using historical data, the analysis would need to estimate the variance of this difference to gauge the validity of the assumptions and the error bound of the estimated treatment effect. The analysis would generally need to rely on Work and Pensions Longitudinal Study (WPLS) data, which are available since 1999 only, which may make it difficult to assess the validity of the differences-in-differences estimator. It is possible that the CGAWAD data (the five per cent sample of working age benefit claimants), with a longer span of historical data, can be of assistance in addressing these issues and in choosing suitable control areas.
The model of flow rates would need to include standard determinants that vary both over time and area; these include vacancies, measures of local area labour market slack, as well as the duration structure of unemployment or inactivity. The importance of controlling for the latter is emphasised in Heckman et al. (1998). The inclusion of additional control variables in the analysis is complicated by the short span over which consistent vacancy data is available. Also, while the main determinants of the aggregate exit rate from unemployment into work are relatively well understood, it would be difficult to say the same about the exit rate from Incapacity Benefit (IB) or Income Support (IS). The analysis will require some experimentation with different measures of labour market slack, and should consider including in the analysis aggregate measures of client group characteristics in the local area, which can be constructed with the information available in the National Benefits Database (NBD).

The introduction of Jobcentre Plus is likely to have had some disruptive effect on labour market flows, for example, during refurbishments. A potential evaluation would need to take this into account, examining separately the effects of implementation and the effects of Jobcentre Plus once it is more established. However, the period over which it is possible to analyse the effects of the introduction of Jobcentre Plus on labour market flows is limited since the policy is of course being rolled out nationally and eventually the control areas will be affected. Nevertheless, unless we assume that implementation effects were very protracted this problem should not be severe.

The introduction of Jobcentre Plus is likely to affect new claimants differently from existing claimants, as most of the change brought about by the policy applies to the initial stages of the claim. The stock will not be unaffected as many of the changes brought about by the introduction of Jobcentre Plus may affect all customers. The analysis should, thus, distinguish between short- and longer-term claims, not only for JSA claimants, but also for IB and IS claimants. If it appears that the effects on flows are very small the analysis may be extended to corroborate some of the results by looking at individual level data, for example, using a similar approach to that used in the analysis of the ONE pilots in Kirby and Riley (2004).

There are other data issues that an evaluation will need to consider: First, the accuracy with which claim end dates are recorded. We note that discrepancies in accuracy can distort measures of claim duration quite significantly. Although claim duration is recorded with six-weekly precision for IB claims, these frequencies are likely to vary for the reasons discussed in Chapter 6. This causes a problem in an evaluation exercise when accuracy varies between the areas where Jobcentre Plus is introduced and where it is not, as it potentially introduces a systematic distortion between measured claim duration for the treatment and non-treatment groups. Differences-in-differences methods are unlikely to be useful in netting out this distortion, since it will mostly occur for claims in the integrated areas that commence after integration. Also, although less important, duration from claim start to job start and duration from claim start to claim end for other reasons will not be directly comparable. These effects can be assessed and dealt with if necessary. Second, the data would need to be cleaned of those IS claimants who were moved to the Pensions Credit in October 2003.
We note that the non-integrated control areas may be affected by some of the internet-based job-brokering services rolled out with Jobcentre Plus. If this is the case it may be worth distinguishing, if possible, between outcomes analysed before and after these services were introduced.

The DWP also wish to consider the effects of the introduction of Jobcentre Plus on outflows from benefit disaggregated by New Deal programme. These types of issues can be addressed to some extent within the framework outlined above, for example, by including the voluntary New Deals as a separate labour market destination. However, this type of issue is likely to require analysis at a more disaggregate level, using the methods adopted in, for example, Knight et al. (2006). More generally the study will need to consider carefully how to classify individuals participating in programmes.

### 7.1.2 Measuring impacts on labour market stocks and wages

The estimated impacts on area level (for example, district level) flow rates can be used to assess the effect of the introduction of Jobcentre Plus on the number of people in different benefit groups and the number of people in employment using extensions of the identity relationship between stocks and flows as shown in equation 3.1. Careful consideration will need to be given to the difference between effects in the short run and changes to the steady state, which is complicated by potential implementation effects and the gradual roll-out of the policy, but which is nonetheless feasible within this framework. Importantly, aggregating from the relatively short-term or medium term impacts of the introduction of Jobcentre Plus in a set of geographically distinct areas to steady state impacts at the national level involves additional assumptions. For this reason, this part of the analysis will typically provide less robust point estimates of policy impacts than those that are assessed directly from the data.

A sensible check against the derived policy effects on stocks would be direct estimation of the policy impact on local area level stocks, using similar methods to those used to assess flow rates. This can be done separately and on its own such analysis is unlikely to be sufficient to obtain robust estimates of the policy effect on employment, unemployment and inactivity rates. But, it could provide useful corroborating evidence, and provides a check on the robustness of the findings of the flow analysis. Again, the difference between short- and long-term effects will need to be made explicit in the analysis.

It is important to stress that for the evaluation to be successful, in the sense of achieving robust estimates of the impacts on aggregate employment, unemployment and inactivity, it is necessary to look at flows on to benefit as well as flows off benefit. The analysis at the relatively aggregate level should ensure that potential spillover effects are picked up, at least in part, by direct estimation. The analysis discussed above of flow rates for the existing stock of benefit clients in integrated versus non-integrated offices, may be taken to give some indication of the spillover effects of the policy. However, these will in any event only give an indication of very short-term effects. As we discuss below, some general equilibrium effects will be slow to develop.
To assess the aggregate impact on the labour market in full, in particular to get to grips with the possible indirect effects of Jobcentre Plus, the evaluation should include some assessment of impacts on aggregate wages. The extension of WPLS to include wage data would provide a unique opportunity to assess the impacts of the introduction of Jobcentre Plus on local area wages. However, this aspect of the WPLS has, as yet, not been developed. Furthermore, there will be limitations as regards the robustness of the findings of such an analysis since it is likely to be difficult to establish estimates of hourly pay. It may be possible to develop some indicator of weekly pay using the employment spell information in WPLS, but due to inaccuracies in spell start and end dates this may not be viable. Thus, at the outset, it seems unlikely that an analysis of the impact of Jobcentre Plus on aggregate wages can be based on the WPLS.

In absence of wage data from the WPLS, the LFS may provide a useful means of analysing the policy effect on aggregate wages, for example in a panel of Local Authority District level wages. It would be necessary to conduct the analysis at a more aggregate level than the flow analysis, due to restrictions inherent in the Labour Force Survey (LFS) data, as discussed in Chapter 6.\(^{50}\) Indicators of policy treatment at this level of aggregation could be developed from the WPLS and NBD data. For example, one such indicator might be the percentage of the workforce living in integrated versus non-integrated areas. In this context the LFS also benefits from the relatively long span of data available in advance of Jobcentre Plus. Similar analysis could be conducted to assess the effect of the introduction of Jobcentre Plus on job search behaviour. The findings of this analysis could then be used to assist in an evaluation of the potential general equilibrium effects of the policy.

### 7.1.3 Measuring wider economic effects

The analysis described above will recover much of the impact of Jobcentre Plus on the aggregate labour market. However, the impacts of the introduction of Jobcentre Plus should be accompanied by a general equilibrium analysis. This is for three reasons: First, to capture the full effects of changes in job matching and wage behaviour on the labour market and the feedback to the labour market from the rest of the economy. This can be done by taking into account the findings from the analysis discussed in the sections above within a model that embodies the key features discussed in Chapters 3 and 4. Second, this should allow a coherent assessment of the effects of the introduction of Jobcentre Plus on economic variables such as consumption, Gross Domestic Product (GDP) and tax revenues, which are not possible to assess by direct estimation. Third, as we have mentioned above in this chapter and in Chapter 3, it is necessary to distinguish between the potential effects of policy over the shorter and the longer term. One of the reasons for this is the time it takes for the macroeconomy to adjust to supply-side changes. A dynamic stochastic general equilibrium analysis would capture these longer-term effects and would provide additional evidence on steady state policy implications.

\(^{50}\) Note that aggregate wages refer to wages for all employees, or all employees in particular segments of the labour market, and not the participant group alone.
We have already suggested that the shorter- and medium-term effects of the introduction of Jobcentre Plus are likely to be more robust than derived steady state effects, which require the researcher to impose additional assumptions. Similarly, the results that can be obtained by scenario analysis or model simulation are likely to be less robust than those that are directly estimated (where direct estimation is possible). Crucial to the robustness of the evidence provided through model simulation and to the confidence we can have in this evidence is thorough sensitivity analysis to key assumptions. For the purposes of analysing the wider economy effects of the introduction of Jobcentre Plus, sensitivity analysis to the parameters of the production function, the wage determination process, assumptions about the productivity of the client groups, price elasticities of external demand and imports and the dynamics of adjustment should be conducted.

To illustrate the time lags involved, the potential magnitude of supply side shocks on other macroeconomic variables, and the sensitivity of impact estimates to some key assumptions, we report the results of a simulation exercise using NIESR's econometric model of the UK and global economy. We emphasise that the purpose of this is purely illustrative, and is intended to help us identify practical evaluation strategies. It should not be interpreted as an actual impact assessment of a particular policy. The points to note are: first, economic adjustments take a long time and therefore the full effects of policy are unlikely to be captured by direct empirical estimation alone; second, the macroeconomic effects of Jobcentre Plus will be very sensitive to the skill mix and other characteristics (e.g. health and responsibility of dependents) of Jobcentre Plus clients, and this needs to be taken into account.

We illustrate these points within NIESR's econometric model of the UK and global economy, NiGEM. This model is intended to capture key features of the economy. It is theoretically coherent and quantified by means of empirical estimation over recent historical experience. Short run reactions to shocks depend upon expectations of the future as well as cost-based dynamics of adjustment. Longer run reactions depend upon the equilibrium of the labour market which depends on labour demand, capital demand and wage determination. As such, the model contains a determinate equilibrium level of unemployment and employment, and policies can be designed to change this equilibrium. The model provides a plausible benchmark for estimating the effects of policy on the economy of different policies and other types of shocks. Crucial to this type of study, NiGEM captures forward looking behaviour in financial markets, investment and in wages and consumption. Details are reported in Barrell et al. (2003).

The main effects of Jobcentre Plus are likely to be an increase in the participation rate and hence, in the effective labour supply that puts downward pressure on real wages. This should initially raise the number of people in work and the number of people searching for employment whilst unemployed. In the longer term, real wages and the capital stock will adjust in order to absorb these pressures and produce a new, higher employment, equilibrium in the labour market. The speed at which the impacts feed through to employment in aggregate will depend on the monetary and exchange rate policies in place as well as on other factors, as discussed in
Chapter 3. Any evaluation should look at the importance of short-term policy responses in accommodating supply side changes.

The increase in employment that may result with Jobcentre Plus should stimulate investment and increase the capital stock. If a policy is announced years in advance, as is the case with increasing the retirement age of women in the next decade, we can expect the required level of capital to be in place when the effective labour force starts to rise. However, we cannot expect the impacts of Jobcentre Plus to have the decade of lead-in time that these changes have had and hence, the stock of capital must rise as the policy is implemented. The speed at which firms desire to attain equilibrium in the ratio of capital to labour will be central to the speed at which the increase in effective labour supply is absorbed into employment.

We can illustrate the impacts of a policy like Jobcentre Plus with a simple model simulation where we shock the participation rate and increase it by 1.2 per cent over three years (where labour force = participation rate * population of working age). This is equivalent to an increase in the labour force of around 450,000 people. Of course, the essence of the evaluation of Jobcentre Plus is to understand the ways in which policy can raise the participation rate, and any macro evaluation has to take into account the costs of doing so, as well as the benefits. The illustration here involves an unmodified model and hence, wage bargaining is not influenced by policy. The increase in labour supply involves a movement down an existing labour demand curve and hence, real wages fall to equilibrate the labour market in the short term. The fall in real wages depends upon the wage equation in the model, and this reflects the existing search effectiveness of the unemployed. If there were evidence that Jobcentre Plus raised search effectiveness this could be used to recalibrate the model. Figure 7.1 plots the impact of the increase in participation on output, unemployment, the real wage and employment.

If real wages were to fall more rapidly as a result of the policy package then the unemployed would be absorbed more quickly, and any general equilibrium analysis should take this into account. In addition, if investment were to be increased more quickly than our model suggests, the impacts on unemployment would be less.

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51 This long-run equilibrium may be marginally changed by an increase in the labour supply, depending upon how easily substitution can take place between the two factors.

52 The wage equation is described in Barrell and Dury (2003) and its theoretical background is discussed at length in Layard et al., (1991).
Figure 7.1 The potential impacts of a rise in participation

The ratio of capital to labour would initially fall because with Jobcentre Plus it takes time to put the new capital in place. In the long run an increase in the effective labour supply of 1.2 per cent would require an increase in the capital stock of a similar magnitude. The capital output ratio in the economy is around 2.5 and hence, the capital stock needs to rise by about three per cent of total income. At present, investment in all forms of capital represents about 7.5 per cent of total capital, and takes up approximately 16 per cent of Gross National Product (GNP). Investment would have to rise by 1.0 per cent of GDP for three years in order for the capital stock to rise in time with the labour force, and this would raise demand and inflationary pressures significantly. Our model equations suggest that it would take three times as long as this for the capital stock to be increased. The longer it takes for the capital stock to rise, the more pressure must be taken up in the labour market, and as shown in Figure 7.1, real wages have to fall more in the first five years of the simulation than they do in the long run.

Output in our analysis rises by less than employment in equilibrium because of our assumptions about the Government and housing capital stocks. Both are projected to be influenced by the total population (which is unchanged) as well as by total output and hence, the capital stock does not rise as much as employment and so average productivity is marginally lower (by 0.3 per cent) than it would otherwise have been. Any detailed evaluation would have to consider the impacts of Jobcentre Plus on other policies and especially the impacts on Government investment and on firms’ desire to invest in capital.
In our analysis, real wages per person hour (deflated by consumer prices) are around 0.5 per cent lower in the long run than they would otherwise have been (they are rising at around two per cent a year on our baseline). This change reflects the fact that the UK is producing more with the same technology and hence, export prices have to fall (by one per cent) as compared to other prices in order to sell that share of total output. This fall in wages per person hour would however, be offset by changes in taxation. In our analysis a reduction in the inactive part of the population of working age would reduce spending on transfers, for instance to the disabled. As we assume that the Government targets a given overall budget deficit this would lead to tax cuts which would be equivalent to 0.5 pence in the pound on average and hence, real post-tax wages per person hour would be the same as they would otherwise have been. A detailed evaluation of the programme would have to investigate public finance effects in detail.

An evaluation of the programme would have to take account of the impacts of the policies on the skill mix of the labour force. We have undertaken a simple analysis of the type that would be needed, and we have assumed that the productivity of new entrants into the labour force is two-thirds the productivity of those already in the labour force. As shown in Figure 7.2 output rises noticeably less in this case.
7.2 Measuring the impacts of the New Deals

The problem of establishing an up-to-date counterfactual scenario for NDYP and ND25+ lies in the fact that these are mandatory and have been operating for some time such that there are no obvious comparison groups against which to evaluate the policy effect. For example, the majority of previous evaluation evidence relating to the impacts of NDYP exploited age-specific eligibility rules in combination with information pre- and post-introduction to identify the counterfactual. The age-specific eligibility rules can still be exploited to this end; however, it would not be possible to use pre-programme outcomes as a means of identifying the programme effect. The assumptions underlying the differences-in-differences method that exploits this variation in policy treatment over time are unlikely to be valid at this stage, particularly in light of the Lucas critique, which almost certainly is an issue in the case of NDYP and ND25+

This does not mean that some up-to-date assessment of the impacts of NDYP and ND25+ is impossible. For example, Swedish evaluations have had to confront similar problems for decades (Sianesi, 2001). The important issue is to identify some source of exogenous variation in treatment. At a macroeconomic level this is typically done by identifying indicators of treatment that vary across geographical areas and time. For example, in the case of NDYP and ND25+, one might use variation in expenditure per eligible participant, potentially controlling against a similar measure for non-eligible participants. Other indicators of the scale of policy treatment might include participant numbers or inflows relative to the total number of unemployed and New Deal staff to client ratios (if it is possible to distinguish between New Deal and other Jobcentre Plus staff). More sophisticated indicators may be developed from the detailed information available in the New Deal evaluation databases. Important for an evaluation of this kind is an assessment of treatment exogeneity. These types of issues can be addressed by statistical means.

In many other ways, an evaluation of the aggregate labour market impacts of the mandatory New Deals is similar in process to that discussed in the previous section. The effects of different measures of policy treatment on labour market flows are likely to be most straightforward to assess econometrically in a panel analysis of flows across geographical areas and time. The effects on unemployment, employment and inactivity levels can be derived as discussed in Section 7.1.2, and this analysis should be corroborated by separate econometric analysis of these. Similarly, policy effects on wages and other labour market variables may be assessed in a panel analysis using LFS data on aggregate outcomes across geographical areas and time.

Crucial in assessing the robustness of these estimated policy impacts, is some experimentation with different policy indicators. The age eligibility rules should also be exploited in building up an evidence base on policy impacts. For example, all else being equal, we would expect larger policy effects for the target group of a particular policy than for the non-target groups (unless substitution and displacement occurs one-for-one for the target group and is absent for non-target groups). While the predominant objective of an aggregate impact evaluation will be to assess aggregate
effects, an assessment of age-specific effects will provide an important cross-check of the estimated policy impacts.

There are other important considerations: First, NDYP and ND25+ change the duration structure of unemployment by definition if by no other means. An evaluation would need to consider carefully the way in which option/IAP participation is defined, and needs to look at aggregate flows into and out of unemployment in addition to any duration-specific analysis. Second, substitution and general equilibrium effects are important for these programmes because of their size and because of the wage subsidy and job creation elements of these programmes. An assessment of the importance of these types of effects may be facilitated by exploiting variation in the intensity of the different options across geographical units in an assessment of flows for non-eligible participants. For example, one might assess the importance of potential substitution effects by examining the relationship between aggregate labour market flows, or flows for the non-target groups, and the relative use of the subsidised employment option. If substitution effects prove to be small this would provide further opportunity to exploit the age eligibility rules in determining policy effects.

Another consideration is how these estimates may be used to construct the counterfactual, where the individual New Deals for the unemployed are abolished. The estimated coefficient on the policy variable will capture the effect on the dependent variable of a marginal change in the treatment indicator. It is not clear that we can extrapolate from the marginal policy effect to an overall or average policy effect that recovers the extreme no policy scenario, since the sample will not include the no policy case (i.e., the zero participants, zero expenditure, and zero staff case). For example, if the aggregate treatment effect exhibits decreasing returns to scale, the marginal effect of policy will be less than the average effect. Experimentation with the functional form of the model with respect to the policy variable may provide one means of testing to what extent the marginal effect approximates the average effect of policy.

The estimation exercise outlined here should recover much of the aggregate labour market impact of NDYP and ND25+. However, the geographical and time variation in any potential policy indicator will not capture policy effects that occur through changes in the fiscal stance and the exchange rate, which occur at the national level. Thus, to recover the full impact of these programmes and to determine their effects on GDP and the public finances, some element of general equilibrium modelling will be necessary. This part of the analysis will need to take care in distinguishing between effects that are likely to be captured at the geographically disaggregated level and the national level to avoid double counting policy impacts. As discussed in Section 7.1.3, a number of sensitivity analyses will be necessary to establish robustness of these types of results.

53 This issue can be likened to the common concern in evaluations of policy impacts on individuals that estimated treatment effects are best described as local average rather than average treatment effects (Imbens and Angrist, 1994; Heckman, 1997), making it difficult to generalise from a particular study to the broader policy context.
Due to the relatively small size of the participant group relative to the target group and the general lack of evaluation evidence on the effectiveness of ND50+, it is difficult to be confident that potential policy effects can be distinguished from noise in the data in an econometric analysis of aggregate labour market transitions, in the way we might expect is possible for NDYP and ND25+. In contrast, an evaluation of the impacts of ND50+ on individual participants’ outcomes is, in some ways, more straightforward than for NDYP and ND25+, due to the voluntary nature of the programme. Some of the methods used to evaluate NDLP may be used. Key to the evaluation would be the quality of matching that can be achieved with the administrative data. Here unemployment histories are key. The WPLS should also allow matching on occupational history, which is likely to be very important for the employment prospects and participation of people in this age group. However, such analysis will not detect the potential spillover effects of ND50+ to non-participants or other general equilibrium effects to the extent these occur. Indeed it is not obvious how these would be detected in an analysis of individual outcomes. Thus, at the outset it seems likely that the evidence on aggregate labour market effects would involve a number of assumptions that would be difficult to verify.

7.3 Measuring the impacts of Jobcentre Plus as a whole

Evaluating the effects of Jobcentre plus as a whole is a very different exercise to those described above. This is for the reason that it encompasses a wide range of services available to the whole population of benefit customers and people looking for work. Moreover, its operations have indirect impacts on individuals and firms with whom it has no direct contact. Thus, it affects the economy in many ways, as described in Section 3, and the counterfactual where social security benefits are applied for and delivered through the post is truly hypothetical.

At the same time, there are similarities in this evaluation problem to that of identifying the counterfactual to the mandatory New Deals. Thus, one approach to this type of evaluation would be to exploit variation across geographies in some indicator of treatment intensity. The issues that would arise would be similar to those discussed in the section above. Again, the initial concern for a potential evaluation is to establish at the outset whether or not there is sufficient variation in policy treatment across geographies and time to establish the impacts of policy. Potential indicators of treatment intensity include Jobcentre Plus expenditure per client, staff per client, staff turnover (which should be inversely correlated with staff quality and experience), and performance target scores (which should capture some variation in Jobcentre Plus service provision). We expect that the findings of an evaluation of this kind may be less robust than the kind of evidence that can be provided for the other counterfactuals described above. This is due to the wide coverage of the policy, which limits the number of available cross-checks that can be conducted. Again, in order to establish robustness, it would be important to experiment with different policy indicators.

One advantage of the general approach outlined above and in Section 7.2 is that similar approaches have been adopted in other policy evaluations so to some extent,
the method is tried and tested. An alternative to this approach may be to collate impact evidence about the individual services provided through Jobcentre Plus. This would have to be done very carefully and it is not obvious that this approach would be able to identify all the benefits of Jobcentre Plus. Simple aggregation of the available evidence, reviewed in Chapter 5, would not be possible. Services to Jobcentre Plus clients come in bundles, and an increase in caseload increases the number of potential combinations available to different types of client. The evaluation of both the individual components and the impact of combinations is rarely attempted because of its design and analytical complexity (Moffitt and van Ploeg, 2001).

Moreover, there is little evidence on the complementarities of the various services provided. These would need to be identified. For example, the interactions between the different services provided by the Jobcentre Plus agency are likely to be important. The effectiveness of one service, for example WFI, is likely to depend on the other services that are available, such as job search assistance and basic skills training. Similarly, the effectiveness of policies directed towards one customer group, for example the unemployed, is likely to be influenced by the policies in place for other customer groups, such as people claiming disability benefits. Most of the existing evaluation evidence focuses on the effectiveness of individual policies in helping people move closer to the labour market and in improving aggregate employment. An exception is the study by Knight et al. (2006). The methods employed there could be employed more widely. Another way of assessing potential complementarities may be to assess the effectiveness of the New Deals in the Jobcentre Plus pathfinders against the effectiveness of the New Deals in non-integrated areas. This would be achievable if an exogenous source of variation in New Deal treatment can be identified, as described in the previous section. Alternatively, an assessment of the impact of Jobcentre Plus at different benefit spell durations may indicate the extent of complementarities. It may be, for example, that the additionality of Jobcentre Plus occurs at relatively short unemployment durations, but not at long unemployment durations. If this were the case then it is likely that complementarities between NDYP and ND25+ and the introduction of Jobcentre Plus are small, since these New Deals are targeted at the long-term unemployed.

Also, it is not obvious that all complementarities would be identified. As an example, suppose Jobcentre Plus delivered a large number of very small services, each of which was known to provide effective help to a distinct group of people such that there were no obvious complementarities between the different services. We may still expect the effects of Jobcentre Plus as a whole to be greater than the sum of its parts, if for no other reason than for the size of the intervention in aggregate.

In any event, a potential adding up exercise would need to be very careful in interpreting what exactly each impact evaluation measures. For instance, a comparison of labour market flows in the Jobcentre Plus pathfinder areas and non-integrated areas will capture the impact of the introduction of Jobcentre Plus conditional on the New Deals in place. If there are positive complementarities between the introduction of Jobcentre Plus and the programmes it delivers, then this impact is greater than
the effect on labour market flows that Jobcentre Plus would have in absence of the New Deals. An up-to-date evaluation of the New Deals might capture the impact of the New Deals, conditional on the existence of Jobcentre Plus. In this case, summing the two analyses to measure the aggregate impact of Jobcentre Plus and the New Deals would, in effect, double count the positive complementarity between the two policies.
8 Cost-benefit analysis of Jobcentre Plus

So far we have discussed ways in which one might establish the effects of Jobcentre Plus and the New Deals on the macroeconomy. Here we consider the feasibility of assessing the impacts of Jobcentre Plus on the income distribution and of conducting a full cost-benefit analysis of Jobcentre Plus.

8.1 Jobcentre Plus and inequality

8.1.1 Likely effects on inequality

By providing support to individuals who are not employed, Jobcentre Plus and the New Deals will necessarily tend to reduce inequality. The size of the associated redistributive effect will depend upon the influence that the respective policies have at the micro level, and the methods of measurement that are adopted for analysis. We focus here upon the size and direction of the principal effects that Jobcentre Plus and the New Deals are likely to have, and discuss methods of analysis in the next sections.

From the key objectives of Jobcentre Plus, the following can be singled out as having potentially important distributional implications:

- the provision of training to those not in employment;
- reduced costs associated with job search (for both the unemployed and employers);
- the provision of advice and support, particularly to key groups of claimants; and
- limiting benefits provision by assigning pre-requirements to benefits receipt beyond labour force participation, and structuring the system to minimise fraud, error and abuse.

Given an experience effect on income, the first objective singled out here should reduce the implicit depreciation of human capital that occurs while people are not employed, and the second should reduce the duration that an individual spends
not employed. These two objectives should consequently reduce cross-sectional inequality by limiting the extent to which the wages of people returning from periods of unemployment understate those with continuous work records. With regard to statistical evidence for the UK, Gregory and Jukes (2001) and Arulampalam (2001) find that the wage penalty associated with a period of unemployment rises and then falls with time following re-employment. In the case of Arulampalam (2001), the wage penalty is six per cent during the first year of re-employment, rising to 14 per cent after three years, and then falling away to 11 per cent in the long run (similar results are also obtained by Gregory and Jukes, 2001).\(^{54}\)

In addition to the specific tasks of Jobcentre Plus, the organisation has a responsibility to contribute to the Government’s overall anti-poverty strategy. A central part of that strategy is a reduction in worklessness, and particularly in the proportion of children living in workless households. It is, therefore, relevant to consider the distributional effects of these policy objectives from the perspective of the life-course, where the effects may be more pronounced. This is because of their potential to reduce long term ‘scarring’ effects associated with labour market breaks. For example, if individual wages are subject to an experience effect, then a period of unemployment could affect individual wages, not just in the short run, but long after an individual has returned to employment. Analysis undertaken at the National Institute (Sefton et al., 2005), suggests that, using a rational agent model, it is difficult to explain the high levels of labour supply that are commonly observed early in the working life (when wages are low), without taking these types of experience effects into consideration.

The third policy objective is likely to reduce inequality, from both the cross-sectional and life-time perspectives, if only by increasing take-up rates of welfare benefits by population subgroups that are disproportionally represented at the bottom of the income/wealth distribution.

In contrast, the distributional implications of the final policy objective referred to above are ambiguous. On the one hand, linking benefits receipt to participation in training and job search programmes is likely to reinforce the progressive effects of these schemes. On the other, if benefits payable under the scheme are obtained predominantly by the poor, then any policy that limits those benefits is likely to be

\(^{54}\) Smaller effects have tended to be found using US data. Mincer and Ofek (1982), for example, report that in the short run, every year spent out of the labour market can result in a 3.3-7 per cent fall in wages relative to those who remain employed. This study also finds that the restoration of human capital tends to be faster than the original accumulation, so that the impact of early labour breaks reduces to 1.3-1.8 per cent in the long run. Eckstein and Wolpin (1989) do not make a distinction between the long run and short run impact of actual experience, but find, again using US data, that the first year out of the labour market reduces wages by around 2.5 per cent, with subsequent years having a marginally diminishing effect. See also, Waldfogel (1998) and Myck and Paull (2004) for the role of experience in explaining the gender wage gap.
8.1.2 Approaches to analysing effects on inequality

A key issue that arises in attempting to measure the effects that Jobcentre Plus and the New Deals have on inequality is obtaining the appropriate micro-data. For any natural experiment, such as those considered here, distributional effects can be inferred directly from survey data by comparing the characteristics of individuals before, with those after the considered policy change. When undertaking such an analysis, however, it is important to control for any differences that may exist between the populations being compared. This is an issue that inevitably arises due to ‘the impossibility of observing what would happen to a given person in both the state where he or she receives a treatment (or participates in a program) and the state where he or she does not’ (Heckman and Smith, 1995, p. 87).

Alternative statistical methods have been devised to address various forms of undesired heterogeneity between populations of interest. Where this undesired population heterogeneity is considered to be slight (as is possibly the case for transitional effects of introducing Jobcentre Plus), comparison of raw descriptive statistics, or the application of statistical methods that adjust for mild heterogeneity such as the differences-in-differences approach may be considered appropriate. In contrast, where the comparison of raw survey data is hampered by substantial variation that is orthogonal to the policy of interest (as in the case of inferring the current impact of the New Deals), simulation methods based upon structural models of behaviour are more appropriate for inferring distributional effects. This approach is discussed at greater length later in the next section.

Measurement of the redistributive effects of Jobcentre Plus and the New Deals depends upon three criteria: the unit of analysis (individual, family, household), the distribution of interest (wealth, annual income, lifetime income), and the summary statistic (Gini coefficient, variance of logs). Although decisions regarding these three alternatives are often made on the basis of available survey data and historical convention, it is important to note that the choices made are likely to influence the results obtained. For example, there is reason to suppose that the distributional influence of Jobcentre Plus and the New Deals may be more pronounced when considered from a working lifetime, rather than a cross-sectional perspective, as this will better capture the scarring effects of unemployment.

8.1.3 Methods for analysing inequality and labour market effects

The distributional and labour market effects of introducing Jobcentre Plus may be obtained by comparing survey data from before and after the policy change. Measuring the effects of Jobcentre Plus and the New Deals in the longer term, however, and how the world would look in their absence is a more complex problem. Two analytical approaches, one simple and the other complex, could be employed.
On the simple end of the scale, a detailed study could be undertaken to clarify the characteristics of the individuals that receive support under Jobcentre Plus and the New Deals. It is conceivable that various information could be compiled regarding user characteristics, including their age, period of unemployment, wages upon finding employment, self-assessments regarding usefulness of alternative facilities and services provided, and the like. A wider understanding of the programme’s distributional effects could be gained by comparing user characteristics with those of the labour market in general. Presenting simple correlations regarding the user group, and various measures of how this group is affected by Jobcentre Plus and the New Deals, would go a fair way to understanding the effects of the associated policy.

The analytical approach necessarily becomes more complex, and costly, if information beyond the simple correlations that are referred to above is desired. The New Deals were introduced nationally at the turn of the decade. The time between then and now, combined with their national implementation, complicates the use of survey data in measuring the value of the New Deals and Jobcentre Plus to both benefit recipients and the wider economy. This consequently appears to be a perfect example of the type of question that ought to be considered using simulation methods based upon a structural model of behaviour. We describe here some of the details of such an approach, including its advantages and limitations.

Jobcentre Plus and the New Deals provide participants with three key services:

- training to improve human capital;
- job search assistance; and
- support and advice regarding benefit entitlements and the like.

From an analytical perspective, each of these three services can be linked to a specific labour market incentive: training that contributes to an individual’s human capital improves their potential wage offer, job search assistance reduces the costs of looking for work, and advice will reduce the search costs associated with benefits eligibility, thereby increasing associated take-up rates. It is possible to design a structural model – a model that is based upon an explicit framework for predicting behavioural responses – that takes these incentive effects into consideration. This type of model could then be used to predict the behavioural responses and welfare effects of discontinuing the services provided by Jobcentre Plus and the New Deals.

National Institute of Economic and Social Research (NIESR) has a great deal of experience in the design, calibration, and use of structural models of labour supply (see, for example, Sefton et al., 2005, for analysis of retirement responses to means-tested pensions commissioned by the DWP). These types of models are used to ‘generate’ micro-data for a population simulated under an assumed policy environment, which can then be compared with micro-data for a population that is generated under an alternative policy scenario. In this way, the distributional, labour market, and welfare effects of Jobcentre Plus and the New Deals could be measured within a controlled environment.
Of course, the accuracy of such measurements necessarily depends upon how closely the structural model considered for analysis reflects the practical reality. The model that we most commonly use at the NIESR considers individual decisions as being made to maximise a welfare (utility) function, subject to various practical (budget) constraints. This is the standard framework used in economics to analyse agent decisions, and its continued use bears witness to its ability to reflect most behavioural observations of practical importance. Furthermore, the focus on optimising behaviour provides a ‘best case’ scenario, of how well a given policy would work if the prevailing economic environment was perfectly understood by individuals when making their decisions. On the other hand, it is clear that this type of rational agent model – like any model – will provide at best a stylised representation of reality, so that the measured effects of the policy will be affected. This is made clear by the fact that, in practice, people do not undertake the extensive calculations that are necessary to ensure that their decisions are optimal.

A structural model that was designed to analyse Jobcentre Plus and the New Deals would need to include explicit assumptions regarding how individuals look for work, the labour market costs to an individual due to unemployment, and a model of benefits take-up. These issues would require a substantial research effort, and are, therefore, likely to require a significant investment of time.

8.2 Cost-benefit analysis

8.2.1 What is cost-benefit analysis?

Cost-benefit analysis is an attempt to identify and express, in monetary terms, all of the effects of a policy intervention or project. These effects are measured across the whole of society, not just immediate participants and the Government. They also include both economic and social effects and both direct and indirect effects (often referred to as externalities or spillover effects). Some of these indirect effects are intended (for example where someone gains paid work and their health improves, or where a job creation project improves the local environment) but some are unintended, and some of these may be unwanted (see Gramlich (1990) for a fuller discussion of the issues). An example of a negative externality might be where an employer dismisses an existing employee in order to recruit someone who is supported by a subsidy. It is not uncommon in social interventions for the value of the externalities to be large, particularly if externalities include impacts on crime and health, which can be costly to society.

The more limited cost-effectiveness analysis generally looks at intermediate direct outcomes over a short time period and concentrates on the impact on public finances. It is frequently used where there is more than one way of achieving the same outcome. Where interventions have multiple goals and no one goal has clear priority, then cost-effectiveness analysis may be much less revealing, and cost–benefit analysis is likely to be very much more important. (Layard and Glaister, 1994)
The key element of cost-benefit analysis – the use of monetary values – is sometimes regarded as controversial. Many people believe that issues such as quality of life or a beautiful view are beyond monetary value. But the use of monetary values is essentially a means of: (a) ensuring that all considerations are taken into account and (b) providing a common unit. Cost-benefit analysis allows policy makers and practitioners to make informed judgements about the impact of their actions on the wellbeing of society as a whole.

However, cost-benefit analysis is unlikely to be sufficient on its own to determine whether or not an intervention is successful. Equity is also an issue because a programme could pass a full-cost benefit test, but might only benefit the better off, so would involve regressive financial transfers. It is, therefore, important to establish where the costs and benefits fall for different groups in society. Traditional theory of economic welfare would require that nobody is made worse off by an intervention, in other words, the benefits exceed the costs for all parties, including taxpayers. This is known as the Pareto rule. In practice the Pareto rule is very rarely met, and it is more usual to apply an alternative formulation known as the Hicks-Kaldor rule. This says that if the net benefits to the gainers are such that they could compensate the losers and still have net gains, there is a net benefit to society as a whole and the project could proceed. Of course, in practice, the gainers rarely do compensate the losers because there are not often mechanisms available to secure this. Thus, a consideration of the distributional effects of an intervention remains important.

Even where an intervention passes both cost-benefit and distributional tests, there may still be other projects which provide larger net benefits for the same costs, or there may be budgetary constraints on the overall level of costs that can be incurred (a common occurrence in less developed countries). All these instances indicate that cost-benefit analysis is a useful part of the toolkit of the decision maker, but should not necessarily be followed blindly. Other considerations and priorities are also relevant.

To ascertain the net effect of a policy on social well-being it is necessary to estimate both the gains to the gainers and the losses to the losers. It is also important to take account of differences in timing. Typically costs are incurred early on while benefits arrive over a period of years. For this reason cost-benefit analysis typically discounts future benefits and costs back to current monetary values.

One of the advantages of cost-benefit analysis is that it enables the identification of those who gain and those who lose as a result of a particular intervention. In the case of Jobcentre Plus, taxpayers generally are likely to be making net tax payments, while those who get jobs are likely to be net gainers as at least some of them are likely to be receiving wages instead of benefits. Where the Government’s social welfare function includes policy objectives related to equity, it may be willing to tolerate relatively small net benefits if the benefits accrue to disadvantaged members of the community and the costs are incurred by those who are better off (see Adler and Posner (1999) for more discussion of this issue). This follows the same logic as raising taxes to support those who would otherwise have no or low incomes.
guidance (HM Treasury, 2003) suggests the use of weights in cost-benefit analysis to take account of the higher value of benefits to lower income groups. (The issue of distributional effects is discussed in Section 8.1)

The central steps in undertaking cost-benefit analysis are, therefore:

1 Identify the costs of the intervention:
   In the case of a complex intervention such as Jobcentre Plus it is likely to be more useful to identify the costs of the different parts of the task (registration, benefit payment, support for jobseekers, services to employers). These costs need to include capital costs (e.g. premises and IT) as well as staff and other running costs. All costs (and all benefits) should be valued at the same base year (e.g. 2005/06 prices).

2 Identify who bears those costs.

3 Identify the direct effect of the intervention on the participants:
   In the case of Jobcentre Plus this is the net increase in income as a result of being in paid work rather than being workless.

4 Identify the indirect effect of the intervention on the participants and their families:
   Potential indirect effects include lower rates of homelessness, improved school performance by children associated with the increase in family income, improved health, improved self-esteem, greater social participation. Other effects may be negative: increased stress because of time pressures caused by combining paid work with bringing up a family.

5 Identify the indirect effects on other members of the community:
   The range of potential benefits and costs for other members of the community is quite wide. Employers are likely to benefit from faster vacancy filling and better matching. There may be lower healthcare costs for taxpayers to fund. There may be fewer criminal offences. On the other hand, some people who would otherwise have been employed may find themselves workless for longer periods. This stage in the cost-benefit analysis is dependent on the outcome of the macroeconomic evaluation in order to identify the net rather than the gross impact.

6 Identify the distributional implications of both direct and indirect effects.

7 Identify the timing of both costs and benefits, and discount future costs and benefits to current values.

8 Compare the total costs to all parties with the total benefits to all parties, both unweighted and weighted to take account of the distributional impact.
8.2.2 Why undertake a cost-benefit analysis?

Smith and Sweetman (2001) provide a useful exposition of why governments should undertake cost-benefit analyses of employment and training programmes. They identify five reasons:

• Governments have a responsibility to ensure that the money they take from taxpayers is producing benefits at least equal to what has been spent. Otherwise, governments have a moral responsibility to spend less and collect less taxation. This is particularly important given that some labour market interventions have either a zero or negative impact.

• Many programmes have multiple outcomes. Looking only at a narrow range of outcomes on programme participants (or worse, just outcomes for the Government itself) may miss some important benefits to health and family functioning for example.

• Taxation itself has a negative effect on Gross Domestic Product (GDP) (although the size of the impact is a matter of dispute). Thus, part of the cost of an intervention is the opportunity cost to the economy of the tax revenues involved.

• Generally it is only by doing a full cost-benefit evaluation that the level of benefits accruing over a longer period of years than the initial impact measurement are taken into account.

• Cost-benefit analysis alongside estimating the wider macroeconomic effects ensures that some assessment is made of the effects on people who are not directly involved in the receipt of services.

8.2.3 Costs

For the cost-benefit evaluation the theoretical costs of each of the alternative scenarios (counterfactuals) will have to be estimated as well as the cost of the current provision.

The three possible alternative scenarios are:

• Public Employment Service (PES) continued as before and Work Focused Interview (WFI) and New Deal regime continued to apply to those already targeted by it.

• The abolition of the New Deal for Young People (NDYP), New Deal 25+ (ND25+) and New Deal 50+ (ND50+), but continuation of standard PES services.

• The payment of benefits either electronically or through the post without any engagement with a personal adviser or any provision of a public employment service.

In each case (the current Jobcentre Plus configuration plus the three alternatives), the costs to be measured are net costs, and need to allow both for the impact of feedback and for capital costs. The cost elements to be considered in each case are:

• The cost of processing a new (or renewed) claim to benefit x the number of new claims per year. (The current target is for a unit cost of £28.84).
• The cost of maintaining an ongoing claim to benefit x the average annual caseload.

• The amount of the benefits themselves x the number of claimants.

• The cost of taking a vacancy from an employer x the number of vacancies notified each year.

• The cost of filling a vacancy in terms of putting forward candidates and completing the process x the number of vacancies filled during a year. (While this is relatively straightforward where there is staff intervention in the process, self-service vacancy filling, including the use of the internet to post vacancies makes this more difficult to measure, because the outcome of the vacancy is not always clear.)

• The cost of each active labour market policy intervention x the number of clients for each intervention (in the case of NDYP, for example, the costs of the Gateway and each option would need to be identified separately.)

• The costs of taxation in order to fund the services (i.e. the loss to the economy of the distortions caused by taxes).

Within each of these broad categories there will be different values for different types of claimant. We understand the Department for Work and Pensions (DWP) is currently developing models which produce unit costs for a range of standard Jobcentre Plus activities. While in practice there will be some variation in unit costs between claimants with different characteristics and between different parts of the country, it should be feasible for any evaluation to use standard costs rather than undertake a special work measurement and costing exercise, as the degree of inaccuracy involved in using standard average costs will be spread across a relatively large number of cases.

There will also be different costs for different service delivery methods. For example, experience with the introduction of call centres to handle telephone claims for unemployment insurance in the US has found that the savings in administrative costs outweigh the set-up costs after around four years (OECD, 2000).

There are likely to be trade-offs between the different elements. Thus, we would expect scenario 3 (no PES, electronic and postal claims only) to increase the stock of claimants, thus increasing benefit costs. The effect on the flow of new claims could be higher (bigger incentive to claim due to lower risk of fraudulent claims being detected), or lower (people staying on benefit rather than cycling between benefits and work). This scenario would save the costs involved in filling vacancies.

In scenario 2 (abolition of New Deals) the Active Labour Market Programme (ALMP) intervention costs would be zero while the stock of claimants would be likely to increase. The cost of maintaining an ongoing case would probably be lower as there would be less personal adviser involvement with each client given the smaller number of options available to them.

The challenge facing the evaluation is not in determining the unit costs, it is in
determining the number of cases. Perhaps the most important challenge lies in looking at the relationship under each of the scenarios between the overall number of claimants and the inflow of new (or renewed) claims. In a dynamic labour market the relationships between flows and stocks can shift, and are likely to do so where the incentive structure facing the individual claimant changes.

A standard performance indicator, used both by Jobcentre Plus and public employment services in other countries, is the cost per exit from benefit into employment. Currently, Jobcentre Plus has a target cost per entry into employment of £217.03. In the USA, in 2005, the equivalent figure was around $97 ($62 per head with a placement rate of 64 per cent) against a target of $90 ($52 per case with a 58 per cent placement rate) (US Department of Labor, 2006). However, in the USA the public employment service only serves Unemployment Insurance claimants, who need recent work history to qualify, so they are likely to be more employable than the average Jobcentre Plus client.

### 8.2.4 Benefits

The benefits will be those which accrue to:

- individuals who are in paid employment, who would not have been otherwise;
- the Government; and
- the wider community (including employers who may face lower recruitment costs and fewer unfilled vacancies).

For individuals, the value of the benefit is any net gain or loss in income. For those who gain employment the net gain is the value of their earnings plus tax credits, less income tax and national insurance and the value of the benefits they would otherwise have been getting. The main complication is that although this sum can be calculated for individuals who have been helped by Jobcentre Plus, the net number of additional people in paid employment is likely to be lower than the gross number. This is because those helped by Jobcentre Plus may get jobs which would otherwise have gone to other people (young people leaving full-time education or people who are not claiming benefits because their partners have jobs, for example). This substitution means that some people will be worse off than they would otherwise have been as a result of the Jobcentre Plus intervention. Thus, it is important for the evaluation to identify the net impact on overall employment levels in order to estimate the size of the offset. However, it is important to stress that substitution is unlikely to be complete. Where those who are more employable fail to get any particular job, the reality is that they are likely to get another one. Moreover, if employers perceive that the effective supply of suitable employees available to them has increased, they may be more willing to expand their businesses and create additional vacancies. As we discuss in Chapter 3, it is this process, and the downward pressure on the rate of inflation, which means that there is likely to be a net effect on employment of Jobcentre Plus interventions (Riley and Young, 2001a, b).

For the Government the traditional focus has been on savings in benefit payments
by reducing caseloads. For example, de Boer (2004, reported in Johri et al., 2004) estimated the net cost to the taxpayer over a ten-year period of a range of active labour market policy interventions in New Zealand. However, in reality, the main benefit to the Government of a successful Jobcentre Plus is likely to be in the form of higher employment rates, better overall productive potential of the economy and higher tax receipts. By comparison benefit savings are likely to be relatively small. The Organisation for Economic Cooperation and Development (OECD) argues that to focus on caseload reduction rather than employment generation is ‘dysfunctional’ and likely to lead to misguided configurations of services (OECD, 2005 p. 217). The New Zealand study referred to above found that from the point of view of benefit savings, very few interventions had a positive benefit/cost ratio. Most were negative. It will, therefore, be important for the evaluation to estimate the whole range of benefits to all parties, rather than to focus on the narrow issue of benefit savings.

In any case, even in the case of the benefits to the Government, a more reliable estimate would also take account not only of both direct and indirect tax receipts, but also any reduction in the provision of other services such as health services, for example.

8.2.5 Assessing overall costs and benefits

Previous cost-benefit analyses of public employment service interventions have found high cost-benefit ratios, both for the public purse and for society as a whole, when the whole range of beneficiaries is taken into account (see, for example, Black et al., 2003).

A useful initial approximation of value for money from the point of view of the public purse for the public employment service is to use the \((B + tW)\) formula (OECD, 2005) where \(B\) is the total value of benefits saved, \(t\) is the tax rate and \(W\) is the value of the earnings of all those who use Jobcentre Plus services during the course of a year (i.e. including both those with positive earnings and those with zero earnings).

A more thorough version of the formula would be to look over a longer time period than the first year \((B + tW) \times (1/(1+r))^n\) where \(n\) is the year, with the first year (i.e. 2006/07 in this case) being year zero. The value of \(r\) would be the Treasury’s standard discount rate of 3.5 per cent real a year (HM Treasury, 2003). The use of discounting in cost-benefit analysis is sometimes controversial, particularly in the case of environmental benefits and costs which may impact on future generations (see for example the discussion in Boardman et al., 1996).

However, the underlying principle is quite straightforward: Generally, a benefit nearer in the future is valued more highly than one which does not take place until many years hence. Investing money in an intervention producing future benefits means a reduction in consumption now. Generally, people are only willing to reduce their current consumption if the value of the potential future benefits is greater than the value of the present consumption which is being foregone. For this reason, it is standard practice in cost-benefit evaluation to apply a discount rate to future costs and benefits (see Layard and Glaister (1994) or Gramlich (1990) for a fuller discussion of the principles).
There is a longstanding and continuing debate about the appropriate level of the discount rate. The current standard rate for UK government spending used to be higher than it is now (six per cent real). Ideally, the discount rate should approximate to the target rate of return on investment in the private sector less the risk premium that private investment is confronted with. It, therefore, represents the opportunity cost of the use of resources through taxation rather than allowing market uses for them.

The OECD recommends a follow-up period of between two and five years. The minimum period is designed to allow for interventions for the most disadvantaged groups that have zero or negative impacts initially, but whose impact grows over time (OECD, 2005). In some cases the evaluation of costs and benefits has taken place over a ten-year period (Johri et al., 2004). For many long-lived capital projects (for example, roads or dams, or early childhood interventions) a longer time period of 20 years or more is usually appropriate.

Grubb (2004) argues that \((B + tW)\) can also be interpreted as a measure of the net output arising from employment (i.e. the gross output produced, less the disutility of work effort). He argues that the gain in social welfare when a workless person enters paid work is \(W - H\) where \(W\) is gross earnings (output) from the job and \(H\) is the disutility of hours worked. The individual has an incentive to take such a job if \(W(1 - t) - H > B\) where \(t\) is the tax rate on earnings and \(B\) is the rate of benefit during unemployment. So, if workless people are involuntarily unemployed (and benefit systems should be managed to ensure that this is the case), \(W - H > B + tW\). Therefore, the gain in social welfare from an entry to employment is at least equal to \((B + tW)\). However, in the case of Incapacity Benefit (IB) claimants or lone parents, \(H\) may relatively high. For disabled people the cost of transport and any aids used in work may be higher than the costs which non-disabled people incur. For lone parents there may be childcare costs as well as the time and effort required to organise potentially complex schedules to accommodate both their own working patterns and their children’s needs. In this case any benefit to the individual is likely to be lower than the benefit to the public purse.

8.2.6 Cost-benefit conclusions

- DWP management information on unit costs appears to be adequate for the purposes of estimating the costs of different service configurations.

- Because of the importance of dynamic effects on client stocks and flows, and the implication of different flow patterns for overall costs, the macroeconomic evaluation will need to estimate both the level of employment, the stock of claimants and the inflow of new claims.

- For the client groups for whom Jobcentre Plus is likely to have made a difference (particularly new lone parents and Incapacity Benefit (IB) claimants) the standard cost-benefit formula is likely to overstate the benefits to the individuals concerned. This is because they have higher opportunity costs of being in paid employment than unemployed claimants.
• Benefits to clients and to other members of the community are likely to be significantly larger than the benefits to the public purse.
• One of the key functions of cost-benefit analysis is to take into account benefits that will occur in future years.
9 Evaluation options

Here we put forth our recommendations as to the approaches one might take to evaluate the macroeconomic impacts of Jobcentre Plus and the programmes it delivers. We present, alongside the alternatives, some broad and preliminary estimates of the costs that are likely to be involved, issues around the time scale over which the analyses can be conducted, the work that needs to be done to achieve defendable estimates of policy impacts and our ex ante view on the robustness of the results that might be obtained. Further details are discussed in Chapter 7. The preliminary costs provided are not the result of a detailed costing of the work that is likely to be involved, but are very much indicative ball park figures for costs excluding VAT.

We discuss separately the econometric analysis of labour market impacts for the three different counterfactuals we consider. These can be conducted largely independently and should recover much of the aggregate policy impacts. We discuss the analysis of wages, wider economy effects and cost-benefit analysis separately. This part of an evaluation would need to be sequenced after an econometric analysis of policy impacts on the labour market, which would provide many of the necessary inputs to the analysis. Indeed, if the econometric analysis suggested there was little or no aggregate impact on the labour market of a particular policy, the case for undertaking an analysis of its wider economy effects may be less compelling.

9.1 Labour market impacts of the introduction of Jobcentre Plus

A panel analysis as described in Section 7.1, undertaken at the Jobcentre Plus District level, for example, of benefit off- and on-flows for the three main client groups, distinguishing between shorter- and longer- term flows, is likely to be the most fruitful way of establishing the aggregate labour market impacts of the introduction of Jobcentre Plus. Exogenous variation in the policy occurs over time and geographical units due to the staged roll-out of Jobcentre Plus. An assessment of policy effects on flows between the various benefit types, potentially between some of the main Jobcentre Plus programmes, employment and a residual category capturing all other labour market states would enable the Department for Work and Pensions (DWP) to
build up a robust picture of the aggregate labour market effects of Jobcentre Plus. Crucial to the robustness of this analysis is that it encompasses an assessment of both flows off and flows on to benefit, and that the panel analysis considers sensitivity of the results to different assumptions about parameter heterogeneity and error variances across geographical units. Results should be reported with error bands around the main estimates, something which is typically ignored in impact evaluations of policy effects on both outcomes for participants and aggregate outcomes. To further establish the robustness of the results, this work should include a separate econometric analysis of the policy effect on benefit stocks. The work should also include some consideration of the sensitivity of the results to the sample period and specifications of the flow equations for non-Jobseeker’s Allowance (JSA) clients.

To include outcomes from the final roll-out phase that was scheduled for 2005/06, in the analysis the work is best conducted once benefit claim status data from the Work and Pensions Longitudinal Study (WPLS) or Client Group Analysis of Working Age Database (CGAWAD) is available to at least the end of 2006/07, when initial implementation effects are likely to have been ironed out. The cost of undertaking this analysis should allow for a substantial amount of data manipulation and cleaning before any econometric analysis is started. Together with the econometric analysis outlined above, including the proposed robustness checks, this work can probably be conducted for approximately £100,000. Clearly, if some of the robustness checks we mention were not included in the analysis, the work could be done at less cost. However, we would not necessarily advise this.

9.2 Labour market impacts of the New Deals

We recommend that DWP undertake an initial assessment of the effect of New Deal 50+ (ND50+) on individuals before any attempt is made to evaluate the effect of ND50+ on the aggregate labour market. This is for two reasons, as discussed in Section 7.2. First, it is as yet unknown to what extent this programme is effective at the individual level. Second, the programme is relatively small in comparison to the target group.

An evaluation of the aggregate labour market effects of New Deal for Young People (NDYP) and New Deal 25+ (ND25+) cannot rely on analyses of outcomes for the target groups alone, even if these are conducted at a relatively aggregate level. Results obtained in this manner are likely to be misleading due to substitution, displacement and other general equilibrium effects. A panel analysis, undertaken at the Jobcentre Plus District level, for example, of JSA on- and off-flows to other benefits and employment, using various indicators of programme intensity, will give an estimate of the effects of NDYP and ND25+ on the aggregate labour market. Importantly, the analysis would need to experiment with different indicators of programme intensity and policy endogeneity would need to be addressed. The latter may be facilitated by using instrumental variables estimation, by controlling for other determinants of aggregate flow rates, and by controlling for fixed effects.
As above, crucial to the robustness of this analysis is that it encompasses an assessment of both flows off and flows on to JSA, and that the panel analysis considers sensitivity of the results to different assumptions about parameter heterogeneity and error variances across geographical units. The analysis should be conducted looking at aggregate labour market flows to capture the aggregate labour market effects, but should be backed up by analysis of flows disaggregated by age and JSA spell duration (since these define programme eligibility) and by an analysis of the relationship between labour market flows and the use of employment subsidies (to assess substitution effects). Again as previously, results should be reported with error bands around the main estimates and should include a separate econometric analysis of the policy effect on benefit stocks.

This work could, in principle, be undertaken at any time, since both NDYP and ND25+ are well-established programmes. The time span covered by the analysis will determine the policy background in which these programmes operate. The econometric analysis outlined above, including some of the proposed robustness checks, can probably be conducted for approximately £60,000. Without the robustness checks we mention, the work could be done at less cost. We would strongly advise that the various robustness checks suggested form part of the analysis, particularly since policy exogeneity will be more difficult to establish than, for example, in the case of the introduction of Jobcentre Plus.

9.3 Labour market impacts of Jobcentre Plus as a whole

We recommend that DWP adopt a top-down rather than a bottom-up approach to evaluating the labour market impacts of Jobcentre Plus as a whole. An analysis of Jobcentre Plus as a whole conducted by ‘adding-up’ the impacts of the different services provided through Jobcentre Plus is likely to be very costly, since each service would need to be evaluated, and, for the reasons discussed in Section 7.3, will not necessarily provide more robust results than those that may be obtained by taking a relatively inexpensive top-down rather than a bottom-up approach to the evaluation.

A panel analysis similar to that suggested in Section 9.1 could be conducted to establish the effects of Jobcentre Plus as a whole on the aggregate labour market. As suggested in Section 9.2, the analysis would need to experiment with different indicators of policy intensity and policy endogeneity would need to be addressed. It is important to emphasise that in comparison to the impact estimates that may be obtained in a similar manner for the New Deals for the unemployed, we expect the impact estimates of Jobcentre Plus as a whole to be less robust. As mentioned in Section 7.3 this is for the reason that we are unlikely to be able to conduct as many cross checks, since the policy is very wide in coverage and should work through many different channels. Nevertheless, a policy evaluation of this kind is not at all unprecedented and is likely to be informative to DWP. Some additional benchmarking of the results can be facilitated by comparison to those that have been found for some of the larger programmes and extensive services delivered through Jobcentre Plus.
The approximate cost of this work is likely to be in the region of £60,000. The DWP would need to consider the timing of this work in relation to what exactly they wish to evaluate. As in the case of the evaluation of the New Deals, the time span covered by the analysis will determine the policy being evaluated and the policy background, both of which are constantly changing.

9.4 Wages, the wider economy and cost-benefit analysis

A full aggregate impact analysis of Jobcentre Plus and the New Deals should include some analysis of policy effects on wages, although it is clear that data constraints mean that less can be done to assess these effects. A panel analysis of wages using Labour Force Survey (LFS) data should provide some indication of the wage effects of these policies. Together with an assessment of policy impacts on aggregate labour market stocks and flows this information could be used to simulate the wider economy effects of Jobcentre Plus policies within a macroeconomic model such as National Institute Global Econometric Model (NiGEM) or some other dynamic stochastic general equilibrium model of the UK economy, augmented to capture the key features of the labour market discussed in previous sections. This would give estimates of the policy effects on Gross Domestic Product (GDP) and the public finances. We emphasise that, by nature, estimates of this type are likely to be less convincing than estimates of the labour market impacts discussed previously. An analysis of this kind cannot be conducted before we obtain estimates of the labour market impacts of policy econometrically. Although we expect this to be unlikely, it is possible that once the size of the labour market impacts are established, the benefit of conducting macroeconomic scenario analysis will be less obvious. We expect that the analysis of wages and macroeconomic scenario analysis can be conducted for around £20,000 and £40,000 respectively. However, additional robustness tests of key model parameters are likely to add further to the costs of this work.

The cost-benefit analysis would need to be conducted alongside the macroeconomic scenario analysis and would use, as its inputs, the outputs from the analyses of labour market flows. This work can probably be conducted from approximately £30,000. There are a range of options for evaluating the effects of Jobcentre Plus on inequality, and the DWP would need to establish what scenarios they wish to consider.
References


References


