

**QUICK EVIDENCE REVIEW:
THE CONTRIBUTION OF LOCAL ACTION
AND/OR
LOCAL ECONOMIC DEVELOPMENT TO
REDUCING WORKLESSNESS**

For NCRA Panel

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1. Introduction

Spatial concentration of unemployment, both at the region/city-region scale and much more locally, has a very long history, and its persistence in particular areas has often been a source of concern to policy-makers – though the grounds for this concern are rarely clear. Variations in unemployment between broad (labour market areas) are known to be primarily a reflection of varying pressures of demand for labour (a consequence of differing rates of supply and demand growth). At the more local scale, the dominant factor is known to be that of the residential distribution of population groups with combinations of personal characteristics that place them in stronger or weaker positions in the competition for (secure) jobs. The local pattern of unemployment is thus largely shaped by the distribution of housing opportunities of various kinds, with high unemployment being found in areas where housing is in lower demand and/or outside the private market.

The degree of local concentration/persistence of unemployment may be compounded by other ‘neighbourhood’ factors, including: weaker access to informal information about worthwhile jobs in localities where few residents have such jobs; poor transport access to areas with relevant employment opportunities; or sources of local social support that lower the psychological costs of worklessness. However, there is no good evidence at present as to the real importance of such factors.

The broadening of policy concern over to the past decade to include various other ‘workless’ groups within the (local) working age population reflects a number of developments, notably:

- Shifts (during the 1990s) of substantial numbers of individuals from unemployment (in either the claimant or ILO/active job seeking senses) to statuses as long-term sick or early retired, which represented a further degree of marginalisation/exclusion from the labour market;
- Substantial subsequent success (principally via macroeconomic policy) in reducing the size of the core group of formally ‘unemployed’, redirecting attention toward other types of ‘hidden unemployment’; and
- A new emphasis, under the Blair government’ on work as the key route to social inclusion and poverty-relief for other workless groups traditionally dependent on welfare benefits, including single mothers (and other mothers in poor families).

The spatial pattern of overall worklessness tends to be very similar to that of unemployment, though the contrasts become even more striking. One paradoxical example which has been highlighted is that of London as a whole. There, despite a strong pressure of demand for labour, not only is the unemployment rate above that in other official ‘regions’¹, but other forms of worklessness have actually been growing [5,7]².

Despite the value of the new inclusive view of worklessness, from the perspective of impact assessments it remains important to recognise that it covers various groups in quite different situations, including those who define themselves as: active *searchers* for a job;

¹ A somewhat misleading comparison since London is clearly not a separate region in functional economic or labour market terms.

² Though this is not true of the DWP benefit claimant rate

not actively seeking but *wanting paid work*; or currently *not wanting* employment (the last being the key element in London).

2. Evidence on Change in the Spatial Pattern of Worklessness

Socially and spatially targeted policies are just two of a range of factors affecting the geography of worklessness, with others often being more powerful, so it is important to start from a wider view of change. Regional variations in the DWP's working age benefit claimant rate (across GB) have been substantially cut since 2002 (by about 25%), notably among JSA and incapacity benefit claimants. This has been associated with a substantially greater share of employment growth accruing to the 'northern' regions, via a slow-down in growth of the southern regions. This is consistent with regional policy aims. But it is not clear what role such policy may have played, as distinct from macro-policy's evident success in sustaining national economic growth past the point at which effective full employment has been achieved in the south.

Within regions, some convergence has also been evident (in constituency data) over this period – though much slower (around 6% of existing gaps), and in this case involving lone parent as well as JSA/incapacity claimants. This is consistent with the view that it has been demand shifts (preponderantly through the private market) which have been responsible for most of the recent convergence, although various forms of local action could (in principle) have contributed to the intra-regional shifts. In the case of the very substantial convergence between unemployment rates in London and other parts of the Greater South East, achieved a bit earlier (between 1995 and 2002), however, the key factor seems to have been the persistence of strong demand pressure, drawing marginalised groups back into steady work [4].

3. Relating Changes to Policies

One key issue in assessing policy impacts at the local scale, where housing status/access is key to where the workless live, is the question whether policies are primarily intended to affect:

- *personal welfare* and the concentration of disadvantage at individual/family level; or
- the *viability and standing of neighbourhoods* in socio-economic terms as reflected in their relative employment rates.

Confusion between these concerns can lead to very misleading assessments of effects. On the one hand, policies which successfully improve the competitive position of (some) residents in low status areas, bringing them into more continuous work, may very well enable them to move to better areas, being replaced by others in a weaker position and leaving the area workless rate unchanged. On the other hand, area-related policies which succeed in raising a neighbourhood's relative status may very well attract a population with more competitive assets, lowering the area's workless rate, even though individuals' employment prospects are unchanged [3].

The other key issue is that of spatial spillovers from localised demand or supply changes, with a combination of induced migration, commuting shifts and vacancy chains spreading effects (of growth particularly) over much wider areas than those where policies actually operated.

4. What We know about Impacts and Effectiveness

The ‘what works’ question has three different aspects to it:

- a) strategically – comparing different types of approach to the labour market: demand versus supply-side, job ‘creation’ versus job retention, targeting individuals/groups on a longer/shorter-term basis, incentivising search/work, enhancing effectiveness/equity of matching processes;
- b) operationally – comparing different modes of delivery of these policies: institutionally, in terms of local discretion/flexibility, different forms of targeting enhancing employability, involving employers etc.; and
- c) spatially – whether area-based initiatives, particularly those encompassing much wider sets of ‘regeneration’-oriented policies, add significant value to direct labour-market-focused interventions, and if so, how?

I shall discuss what we know about each of these briefly, but without attempting to say much on the second aspect, which Anne Green should cover authoritatively from her recent report to DWP – nor to cover the full panoply of relevant policy initiatives , as reviewed in ref. [3].

4.1 In relation to *strategy*, the key things we know come much more from broader analyses of spatial labour markets [4] than specifically of policy impacts (which are hard to separate out, not least because they are normally only a small part of the picture). Levels of worklessness in an area basic reflect a combination of three influences:

- the array of personal characteristics of residents (not just ‘skills’) which influence their competitive position within the labour market; interacting with
- the pressure of demand for labour across rather broad regions/metro-areas (*not* localities) – with low demand pressure exacerbating the effects of a weak competitive position; producing concentrations, perpetuated over time by
- a combination of social processes linking underemployment to poorer health, education and family stability (and thus to a less competitive workforce).

There may be other significant factors in particular places (e.g. possible work disincentive effects from the benefit system in areas of high housing costs, or some particular local attraction for groups with less interest in work – including students). But these are the dominant ones, and an effective policy mix will need to address all three - with a realistic view of the time required to reverse local effects of long term weakness in demand - (and to attack the competitiveness issue from both the supply and demand-side).

This ‘labour market’ perspective suggests that ‘targeting’ will not always work. It will not work for small areas, because they (usually) are embedded in labour markets stretching well beyond the commuting range of individuals. And it may not work well in relation to the disadvantaged as a group, if success in advancing the competitiveness of individuals still leaves them in a congested ‘entry zone’ of jobs from which others get displaced. Resolving this problem of ‘churn’ depends on moving other groups ‘on up’ and out of this zone of unskilled jobs through a combination of market pressures and more broadly targeted policy intervention (including promotion of equal opportunities as well as support for training).

There is evidence that the effectiveness of supply-side interventions can vary greatly between types of place, specifically from the core performance measures of New Deal programmes (NDYP and ND25plus) which have tended to be much worse in areas of high unemployment. The one major study interprets the problem as one of inadequate demand in these areas for those passing through the programmes [10]. However, given that the main contrasts are sub-regional, between rural areas and the inner city (notably in London), I would give more credence to an alternative explanation in terms of the personal characteristics of New Deal clients (which are likely to be less favourable in regions of strong demand).

4.2 In relation to the *operationalisation* of policies to bring disadvantaged groups into employment, the Hasluck/Green report [3] provides a very thorough coverage, both of what is known and what is not (notably about cost-effectiveness). Key messages are: the diversity of the target groups, the importance of *good* Personal Advisors, the crucial issue of client motivation, and the need for stronger involvement with employers, particularly to influence recruitment attitudes/practices (e.g. in relation to the specific ‘ethnic penalty’ affecting black/Muslim groups). Stronger labour market pressures in recent years have helped to broaden employers’ horizons, but more effort will be required if this situation changes.

4.3 In relation to *area-based initiatives* (ABIs), the key questions are whether:

- there are important ‘neighbourhood effects’ on individuals’ chances of becoming/remaining employed that can be reduced by attacking areas of concentrated worklessness, reducing residential segregation/enhancing social mix;
- they allow more focused attention to the sets of social/familial/institutional process which reproduce labour market disadvantage in particular populations/communities; or
- they distract attention from more generic problems affecting individuals with particular needs across labour markets operating at a much broader (sub-)regional scale.

The direct evidence which we have about impacts of ABIs on worklessness is generally too broad, short-term and uncertain to answer these questions directly – partly because of the character of the initiatives themselves. What the two major evaluations (one completed, one on-going) show is that:

- Only a small part of ABI expenditure has been targeted at business/employment goals; for SRB case study areas the average was below 20% [11], for NDC partnerships the interim evaluation reported an 11% expenditure allocation to the worklessness theme - despite a strong emphasis on related outcomes in the Delivery Plans [8].
- There seem to have been some small overall improvements in employment rates though not much/clearly greater than nationally or across similarly deprived areas [1, 8,11]³. Significantly, the only SRB case study area (in the national evaluation) to target resources on employment issues, secured a large proportionate increase in local jobs without any effect on the local employment rate [11];
- Generally progress with people-related outcomes has been slower than with place-related ones, maybe partly because the former are more deep-rooted, requiring

³ though results vary somewhat between sources (e.g. claimant count versus surveys)

sustained action to produce substantial change, or because the ABI approach is less appropriate for them. .

4.4 In relation to neighbourhood effects (which are inherently difficult to pin down), British research does not yet appear to have found any robust evidence of neighbourhood characteristics (including those of other residents) significantly affecting the incidence of worklessness. The benchmark international study (with no parallels in the UK) is that of the US Moving to Opportunity experiment. This compared outcomes for a large number of households who were given the opportunity to move from housing estates with high poverty to more average ones, against those for a control group. Over the long run this did detect a variety of significant effects of different kinds (both positive and negative) on well-being and behaviour, but *no* real impact on employment rates of household members [2]. Without such evidence, the potential relevance of ABIs as a tool for addressing worklessness really reduces to their potential as a vehicle for more sensitive delivery (over the long run) of policies to enhance the competitiveness of local residents subject to various kinds of labour market disadvantage.

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