

THE WIDER LABOUR MARKET IMPACT OF EMPLOYMENT ZONES

Research Summary

Introduction

This report sets out findings from a research project undertaken as part of the evaluation of the Employment Zones (EZs). The project examines the wider labour market impacts of the EZ programme. It sought to establish the extent of any positive impact on the EZ client group and whether such positive effects were offset by adverse effects on other jobseekers that were not the target of the programme.

The programme

Employment Zones (EZs) were introduced in April 2000 as a means of tackling the relatively high levels of long-term unemployment that persisted in some localities despite the general fall in the number of claimant unemployed in Great Britain.

Methods used

The analytical approach took a variety of forms and used a wide range of analysis techniques.

- Unemployment outflow equations were estimated for a range of age-duration categories using pooled time series data for groups of EZs and time series analysis for individual EZ areas.
- A 'difference in differences' method was used to examine variations in relative outflow rates.
- Analysis was carried out on the JSA inflow/outflow relationship across Zone and comparison areas.

- The duration of spells of unemployment were analysed by way of a hazard function.
- Finally, the chance that a person returned to unemployment was modelled, also using a hazard function.

Findings

- The Employment Zone programme raised unemployment outflows from the EZ client group by a little over 1 percentage point.
- The performance gap between non-target and target outflow rates decreased, a finding consistent with the Zones having a positive impact on the client group.
- A few months after the programme started, long-term unemployment in Zones started falling at a faster rate than the comparison areas.
- Employment Zones were associated with having a positive impact on the rate at which long-term unemployed claimants left the count.
- Participants that became eligible after April 2000 and subsequently found work were less likely to re-enter unemployment if they lived in an Employment Zone area.
- Generally, the effect was considered to be greatest for those with shorter durations of unemployment that became eligible for the programme after April 2000.

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Executive Summary

This report sets out findings from a research project undertaken as part of the evaluation of the Employment Zones (EZs). The project examines the wider labour market impacts of the EZ programme. It sought to establish the extent of any positive impact on the EZ client group and whether such positive effects were offset by adverse effects on other jobseekers that were not the target of the programme.

The first stage of analysis looked at the flows from unemployment over time, while the second stage looked in greater detail at the impact of EZs on the unemployment duration of individual spells of unemployment.

The Programme

Employment Zones (EZs) were introduced in April 2000 as a means of tackling the relatively high levels of long-term unemployment that persisted in some localities despite the general fall in the number of claimant unemployed in Great Britain. A total of 15 areas were designated as EZs and within these areas the main programme for long-term unemployed adults – New Deal 25plus – was replaced by the EZ programme. EZs represented a radical approach to tackling the problem of long-term unemployment. The new approach was characterised by a ‘client centred’ approach (emphasising personal choice and client responsibility), flexible delivery of services funded through a Personal Job Account and a focus on progression into sustainable employment (reinforced by a regime of output related payments to zone contractors).

The counterfactual

This report sets out an overview of the comparison area approach that has been used in the evaluation of EZs both here and in Hales et al (2003). It presents the way in which EZs and comparison areas were chosen and details the extent to which they are similar. It concludes

that while the EZs and comparison areas were fairly well matched, the EZs were consistently more deprived than comparison areas.

Analytical Techniques

The analytical approach took a variety of forms and used a wide range of analysis techniques. These are set out below along with their key findings:

Unemployment outflows in EZs

Firstly unemployment outflows in the EZs were modelled over a time period both before and after the introduction of the programme. The underlying model suggested that variations in unemployment outflows would be related to variations in local labour demand (and other exogenous factors). In this model, evidence of an EZ impact would take the form of shifts in the outflow relationships. The programme would be expected, *a priori*, to raise outflow rates for EZ client groups and, if there were any adverse effects, to reduce outflow rates for non-target groups.

Unemployment outflow equations were estimated for a range of age-duration categories using pooled time series data for groups of EZs and time series analysis for individual EZ areas. This analysis covered up to the first year on the programme and the main findings were:

- The Employment Zone programme raised unemployment outflows from the EZ client group by a little over 1 percentage point. This positive impact was evident in both 12-month and 18-month zones.
- Examination of changes in the outflow rates of people aged 18-24 and the outflow rates of unemployed adults who were outside the EZ client group provided no evidence of adverse impacts, or substitution effects, on these non-target groups. There were no detectable adverse or substitution effects to

offset against the positive gains from the EZ programme.

- The results suggest that the New Deal for Young People (NDYP) had a significant impact on unemployment outflow rates of both young people and adults. Strong positive effects on the outflow rates of 18-24 year olds who had been unemployed more than six months were found. Of more concern to the evaluation of the EZ programme, negative NDYP impacts were found in relation to adult unemployment outflows, especially in the long duration categories.

Difference in differences

A 'difference in differences' method was used to examine variations in relative outflow rates. If EZs had the expected impact, it would be expected that the 'difference between outflow rates from EZ target groups and the non-target group would diminish.

This method examined the changes in the relative outflow rates of different EZ target groups (relative to adult short-term unemployed). The method rests on a number of assumptions, but within these limits, a number of key findings emerged. These were as follow:

- The gap between non-target and target outflow rates decreased, as would be predicted if EZs had the expected effect on participants. This effect was probably maintained during the second year of the programme. This general conclusion was reinforced by evidence of a narrowing of outflow differential for 12-18 month unemployed clients in 12-month zones that was not evident in 18-month zones (where such a client group was ineligible).
- The impact of the EZ programme appeared to have been most marked for eligible clients with shorter durations (that is, less than 24 months). Partly for this reason, the impact on differential outflow rates appeared more marked in the 12-month zones than the 18-month zones.

- The analysis points to a widening of the gap between non-target and target group outflow rates during the third year of EZ operation.

JSA inflow/outflow

Analysis was carried out on the JSA inflow/outflow relationship across Zone and comparison areas. This enabled the pattern of changes in long-term unemployment in Employment Zone areas to be viewed in relation to that of the comparison areas. This analysis covered the first 15 months of the programme. Findings from this approach were:

- Unemployment levels were falling consistently across the Zone and comparison areas since the first observation in 1998.
- Before April 2000, unemployment generally fell faster in the comparison areas than in the Zone areas.
- A few months after the programme started, long-term unemployment in Zones started falling at a faster rate than the comparison areas.

Analysis of unemployment duration

The duration of spells of unemployment were analysed by way of a hazard function. This was a way of modelling the difference that an EZ made to a person's chances of leaving unemployment once all observable characteristics had been taken into account. It found that:

- Employment Zones were associated with having a positive impact on the rate at which long-term unemployed claimants left the count.
- The effect was stronger for those claimants that became eligible for the programme after April 2000.
- When positive outcomes were limited to those recorded as leaving into work (rather than simply leaving JSA), the Zone effect was more strongly positive for all clients.

Returns to unemployment

Finally, the chance that a person returned to unemployment was modelled, also using a hazard function. The analysis compared Zone and comparison areas and controlled for individual differences and found that:

- There was no difference between areas for a person who was already eligible for an Employment Zone in April 2000.
- Participants that became eligible after April 2000 and subsequently found work were less likely to re-enter unemployment if they lived in an Employment Zone area.

Conclusion

The results from modelling unemployment outflows, the analysis of differences in differences, the inflow/outflow analysis and the two hazard models appear consistent. They point to a small but significant programme impact on exits from unemployment during the first year of EZs. This programme effect is not associated with any negative impact on other client groups. The difference in difference analysis for subsequent years is weaker but points to the impacts possibly remaining evident in the second year but being eroded to a considerable extent in the third year of EZ operation.

Employment Zones had a positive impact on the programme target group relative to the comparison areas and previous performance. There is no evidence to support the view that Employment Zones had negative 'spillover effects'.