

Welfare to work policies and child poverty

A review of issues relating to the labour market and economy

Paul Gregg, Susan Harkness and Lindsey Macmillan



**JOSEPH ROWNTREE
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Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP
Website: www.jrf.org.uk

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Glossary

DP	Disability Premium
DPSS	Department of Public Social Services
DWP	Department of Work and Pensions
EDA	Economic Development Agency
EID	Earned Income Disregard
EITC	Earned Income Tax Credits
ERA	Employment Retention and Advancement Projects
FTP	Florida Family Transition Program
GCSE	General Certificate of Secondary Education
GDP	Gross Domestic Product
GHS	General Household Survey
HCD	Human Capital Development Schemes
IB	Incapacity Benefit
IFS	Institute of Fiscal Studies
IS	Income Support
IV	Instrumental Variable technique
JC+	Job Centre Plus
JSA	Job Seekers Allowance
LFA	Labour Force Attachment Schemes
LPWFI	Lone Parent Work Focused Interviews
MDRC	A non-profit, non-partisan social policy research organization
MFIP	Minnesota Family Investment Program
MFIP-IO	Minnesota Family Investment Program – Incentives only
ND25+	New Deal for 25+
NDDP	New Deal for Disabled People
NDLP	New Deal for Lone Parents
ND+LP	New Deal Plus for Lone Parents
NEWWS	National Evaluation of Welfare to Work Strategies
NI	National Insurance
OLS	Ordinary Least Squares regression technique
PBR	Pre Budget Report
PRWORA	Personal Responsibility and Work Opportunities Act
QLFS	Quarterly Labour Force Survey
SSP	Canadian Self Sufficiency Project
SSP Plus	Canadian Self Sufficiency Project plus employment services
TANF	Temporary Assistance for Needy Families
WFI	Work Focused Interviews
WFTC	Working Family Tax Credit
WRAP	Work Related Activity Payment
WRP	Vermont Welfare Restructuring Project
WRP-IO	Vermont Welfare Restructuring Project – Incentives only

Introduction and summary

This research, forming part of the Joseph Rowntree Foundation's project 'What will it take to end child poverty?', aims to assess the potential for labour market, employment and welfare to work policies to support the goal of reducing child poverty in the UK. In particular, it focuses on the potential for increasing lone parents' employment. This is an important part of the current government strategy for reducing child poverty. However, it should be remembered that considerable numbers of children in poverty live in two parent households. Therefore employment or income among these families will also need to be addressed. The study suggests that on current policy positions the government will miss the stated 70 per cent employment target for lone parents. However, lone parent employment rates will rise owing to improving characteristics of lone parents; principally lone parents are older and have older children than a decade ago. Furthermore, a number of initiatives that have been introduced or have been publicly committed to but not yet fully implemented, such as the childcare strategy and the Pathways programme, will boost employment further. The study here suggests that the lone parent employment rate could well reach 65 per cent by 2010 without substantial further initiatives beyond what has been announced in the Welfare Reform Green Paper and the latest Pre-Budget Report (PBR) and Budget. To go beyond that, and have a fighting chance of hitting the Government's stated target, will, we believe, require three additional steps; rolling out the New Deal plus for lone parents, a series of area focused measures to tackle the weak employment of lone parents in London, and measures to raise job retention. Further work incentive improving measures may also prove necessary.

The report is laid out in seven sections. The first two discuss experimental evidence on what types of welfare to work programmes are the most successful in raising employment, incomes and child outcomes. This evidence base is drawn from North America, which provides the clearest evidence on policy design. The next two sections discuss the recent developments of welfare dependence and employment among parents in the UK and who remains out of work as of late 2005. This includes discussions of evidence on welfare to work programmes in the UK. The last three sections discuss the potential developments for tackling welfare dependence among lone parents and couples. This explores shifts in the characteristics of lone parents, the evidence of current UK policy pilots and flows into and out of work. The final section draws the evidence together to suggest likely employment patterns in 2010 on currently announced policy and discusses extra policy

developments that could enable the government to meet its 70 per cent employment target for lone parents.

The first section discusses North American evaluatory evidence on what aspects of programmes designed to aid welfare claimants' return to work have been successful. In some cases these are small scale experiments; in others they are large scale state wide programmes with a control group. Three main messages come from this research; first, that improving the financial gains to work raises employment but schemes which combine work incentives with additional support/conditions for required activities have proved more successful. Second, programmes that have not used financial incentives as a major lever for return to work can raise employment, but those which emphasise entry to work out-perform those which emphasise skills/training/education. Even after five years human capital enhancing programmes are not successful at raising employment. Third, within the Work First programmes Portland, which focused on matching clients with higher paid jobs, saw fewer job entries but substantially higher earnings and persistence in job holding. There has been a long running debate over the value of Work First strategies that ignore improving skills and job quality and the education/training route. The latest and longer-term evidence still firmly says that work is the best first destination at raising earned income for lone parents rather than education based strategies. However, low job quality and low job retention (often related to low job quality) do undermine the potential gains for lone parents from working. The UK welfare to work strategy is firmly Work First and has systematically failed to address job retention and earnings progression. The first section concludes by looking at evidence for programmes to support job retention and earnings advancement in the US. The evidence here remains largely depressingly inconclusive; no tried and tested strategy is yet available.

The second section focuses on the role of childcare in welfare to work programmes for lone mothers and the evidence on what impact extra work and extra incomes have on child outcomes. This documents that childcare subsidies for low earning lone mothers are an effective welfare to work policy, probably as effective as other incentive measures. However, the more childcare subsidies are extended to higher income lone mothers, workless lone mothers and couples in general the more their effectiveness is watered down. Hence, general support for childcare has benefits for increasing work among lone parents but the justification for such policies has to lie in the benefits for children rather than reducing welfare. This section goes on to suggest clear evidence that increased employment among lone parents only benefits children where

incomes rise. Indeed for teenage children, increased employment among lone mothers results in adverse effects on children unless incomes rise significantly. The income effects on young children's development are substantively positive and are shown experimentally. So when welfare groups get help to move into work but no extra income, the children do not improve maths and reading test scores; when incomes are supplemented test scores rise. This is powerful evidence that money in itself raises children's educational attainment among poor families.

Section 3 discusses welfare to work policy in the UK and the effectiveness of that policy. This documents the staggering rise in employment among lone mothers, from 42 per cent in 1992 to 56 per cent in 2005. The available research suggests that policy reform between 1999 and 2002, which include the Working Families Tax Credit and the New Deal for Lone Parents, was responsible for around 5 points of that 14 point rise. The bulk of the rest stems from aggregate employment improvements and shifts in the characteristics, such that lone parents are typically older and have older children than a decade ago. Policy reform was also responsible for some of the fall in workless couples but this was more modest in scale. Between 1993 and 2003, the percentage of children in couple households with neither parent in work fell from 8.4 per cent to 4.9 per cent. Research by the Institute of Fiscal Studies suggests that around a quarter of this fall (1 point) can be attributed to policy reform between 1999 and 2002. Evidence based on flows into and out of work suggests that around another 3 percentage points will be added to lone parents employment as a result of recent policy changes. This is because the full impact of recent reforms has not been fully reflected in employment patterns to date. Furthermore improvements in work incentives are likely to add another point by 2010. As the characteristics of lone parents may well continue to improve and the Government's 10 year childcare strategy starts to bite, our study suggests that lone parent employment should reach 65 per cent by the end of 2010. Whilst this is still a sizable way from the announced target it would represent an awesome achievement. The paper concludes by offering suggestions for further reform steps to close this gap. However, the main problem for the Government is that it is rapidly running out of time for further reforms to bite. It takes around four years for the bulk of any reform to feed into employment behaviour on the ground. Given lags between announcement and delivery, the next Pre-Budget Report and Budget, along with the current Comprehensive Spending Review, are the last opportunities for meaningful reforms to take place.

1. Review of North American experimental and quasi-experimental studies of the impact of financial incentives, time limits and active case management in welfare to work programmes

This first substantive section considers the available evidence on 'work first', education and quality job match alternatives for welfare to work programmes and will address both short term transitions and the available evidence of longer term impacts.

Grogger and Karoly (2005) in their recent book *Welfare reform: effects of a decade of change*, present a very useful summary of the evidence from a wide range of schemes on the effects of financial incentives on employment, earnings and income, with and without work requirements, and on the efficacy of time limits. We discuss this evidence under the headings 1.1 financial incentives, 1.2 time limits, 1.3 mandatory job search and activity based reform packages, and 1.4 job retention and career development. Although policies do not always neatly fit such groupings, they remains a useful framework for assessing the available evidence.

The studies discussed below focus primarily on lone parents. They are mostly based on experimental evidence using random assignment, where one group receives treatment under a programme, the treatment group, and another does not, the control group. A random draw is used to allocate welfare recipients to the treatment or the control group. Data on employment or the receipt of welfare is usually based on administrative data, while the earnings and income figures quoted refer to measures of income gathered within the experimental studies instead of from administrative sources. The interpretation of these results therefore requires some caution as under-reporting or over-reporting could occur.

1.1 Financial incentives

Financial incentives with and without attached activity requirements have been commonly evaluated in North America. Three projects are considered here: The Vermont Welfare Restructuring Project (WRP), the Minnesota Family Investment Programme (MFIP) and the Canadian Self Sufficiency Project (SSP) (see Table 1.1). WRP and MFIP were split into two programmes for study; a financial work 'incentives only' (WRP-IO and MFIP-IO) programme and a full programme. Both programmes, in each study, enhanced existing earnings disregards before welfare

payments are withdrawn and in the full project the WRP and MFIP combined these financial incentives to take 'small jobs' with an additional work requirement, or related activity.¹ Additionally the MFIP project was split into two subgroups; people who were long term recipients of welfare (over 24 months from the last 36 – MFIP [R]), and recent welfare applicants (MFIP [A]). WRP required recipients to be in a paid job, or community service, after 30 months on aid or their welfare payments were cut (a time limit) but welfare payments and earnings could continue to be mixed after 30 months. MFIP required long term recipients and those that have been on aid for more than six months out of twelve to participate in mandatory education and training. The Canadian SSP and an enhanced SSP-plus, in a similar way to the WRP and MFIP, had a basic financial work incentives element and additional non-financial support in the enhanced package. So both offered an earnings supplement for individuals who worked for over 30 hours a week, while the SSP-plus also offered employment services as well but had no conditionality attached to receipt of support. The three programmes all have features which are currently being used in the UK, at least in pilots. The SSP-plus programme looks somewhat like Work Focused Interviews combined with tax credits, except that the SSP in-work support was time limited. Time limited in-work support of £40 a week is currently being piloted in a number of areas in the UK, and is being used widely in London. The education and training supplement of MFIP is also contained in the NDLP but this is only voluntary in the UK. Finally, the time limits before which benefit levels are reduced are similar to the Work Related Activity Payment contained in the ND+LP pilots and the Work Search Premium being tried in other pilots. However, only the additional payment is subject to a sanction. Hence the UK is currently using and testing all three of these models to some degree.

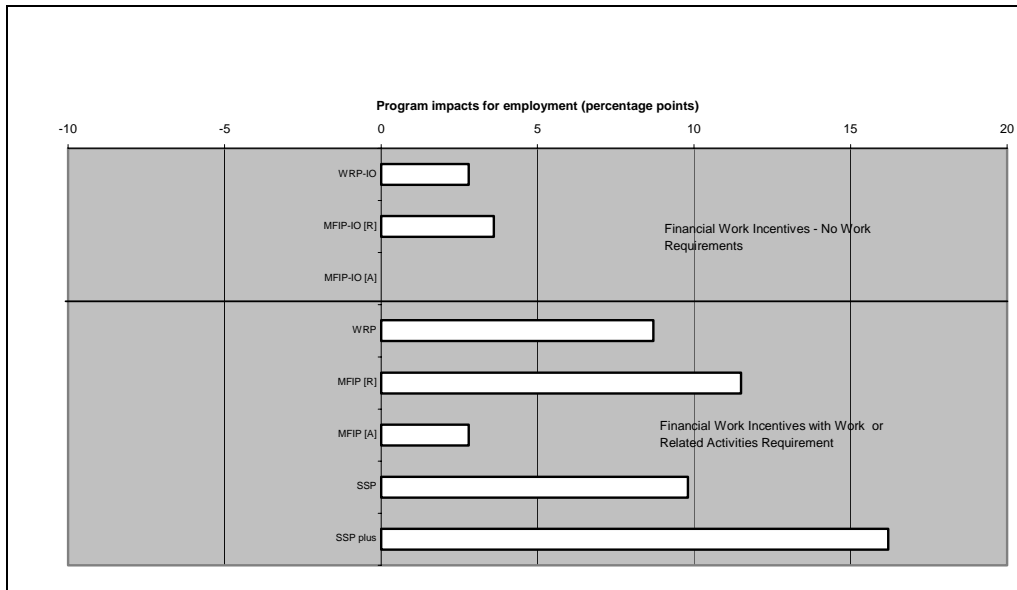
Employment outcomes

The WRP-IO programme showed a small insignificant increase in employment while the MFIP-IO, with greater financial incentives than WRP-IO, produced a statistically significant 3.6 percentage point increase in employment (see Figure 1.1). Both WRP and MFIP had a greater effect on employment than their 'incentives only' counterparts, suggesting that 'a requirement to undertake work in exchange for welfare may be effective in increasing employment' (Grogger and Karoly, 2005). WRP produced a statistically significant increase of 8.7 percentage points and MFIP produced a statistically significant increase of 11.5 percentage points. The subgroup of MFIP, MFIP [A] who were recent applicants, also saw greater employment effects as a result of

¹ By small jobs here we mean incentives to take jobs with very few hours.

requirements, with the employment effect rising from an insignificant no change result for financial incentives only, to a statistically significant increase in employment of 2.8 percentage points. The SSP programmes generated large gains in employment of 9.8 per cent for SSP and 16.2 percentage points for SSP-plus indicating that employment services combined with strong financial incentives had a clear impact on employment levels. The results for these studies are summarised in Figure 1.1, with separate employment effects reported for schemes with and without work requirements. All the results suggest that financial incentives alone have a weaker employment effect than when combined with support from employment services or work requirements. It is less clear which package of support services is most effective.

Figure 1.1 Financial work incentives impact on employment

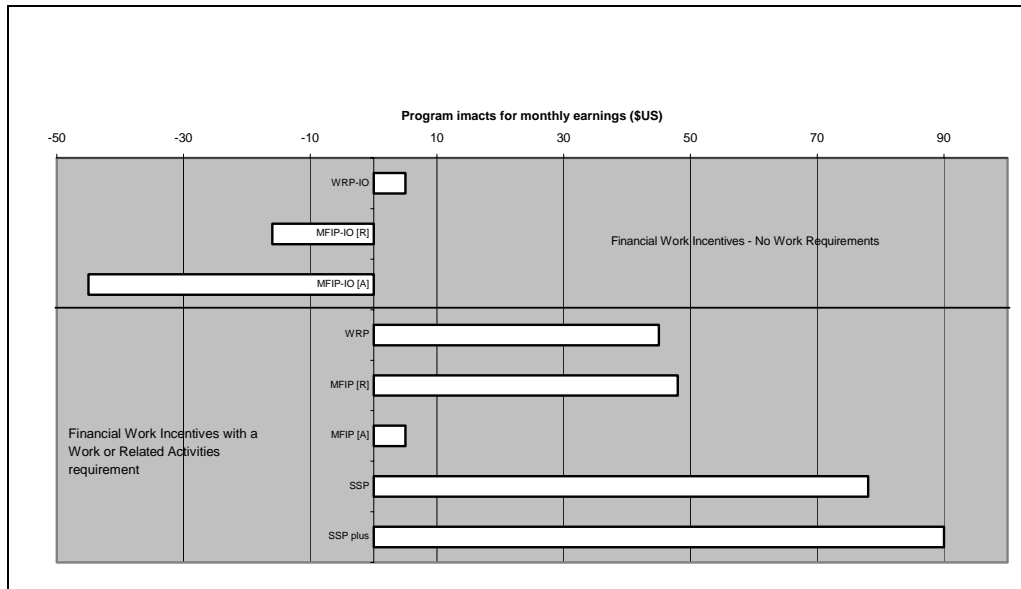


Earnings

Figure 1.2 summarises the effect of these various schemes on recipients' monthly earnings. WRP-IO participants experienced small positive insignificant change in monthly earnings whilst MFIP-IO had a negative impact, suggesting that the extra numbers in employment were offset by lower hours and lower hourly earnings; MFIP had a high benefit level when compared with other programs, providing \$9,228 per year to a family of three with no other income, and many of the participants in the scheme were working already (33 per cent of the control group and 49 per cent of the programme group). Increased in-work support may well have caused a reduction in the number of hours worked in this case. WRP had a statistically significant impact on earnings, an increase of

\$45 per month (Figure 1.2). This supports the theory that work requirement may be effective in increasing earnings. MFIP saw a positive impact on earnings when a work requirement was included suggesting that this could overcome the strong negative income effect witnessed in the presence of high levels of benefits and high financial incentives. The SSP and SSP-plus saw impressive increases in monthly earnings of \$78 and \$90 respectively with employment services again indicating larger gains.

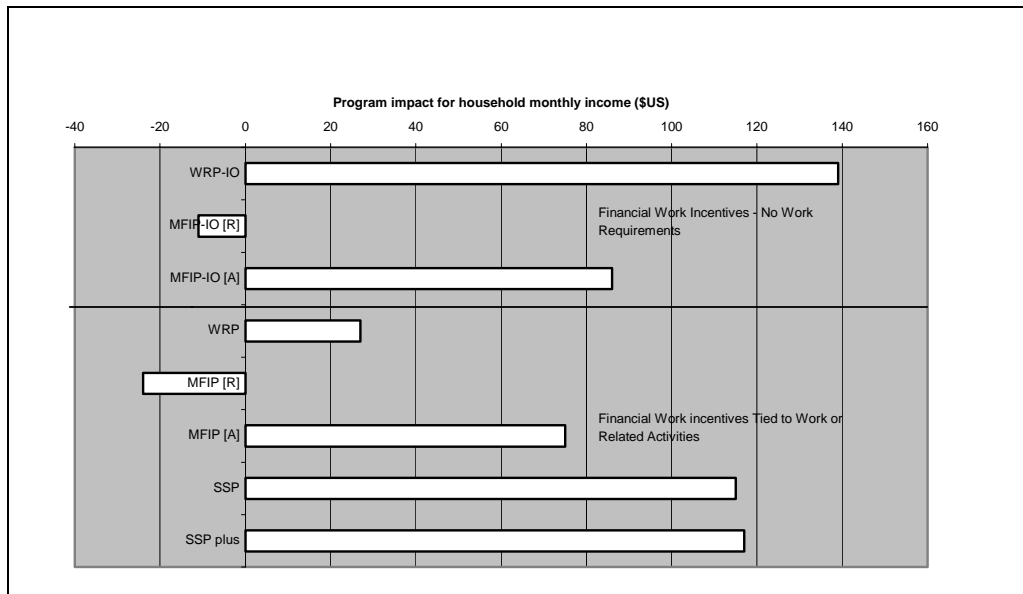
Figure 1.2 Financial work incentives impact on earnings



Income

Income gains will reflect the effects of increased financial support, earnings and reductions in benefits that otherwise would have been paid. Figure 1.3 indicates that WRP-IO produced a \$139 monthly increase in household income, whilst MFIP-IO had mixed results with a reported decrease of \$11 for existing recipients and an increase of \$86 for fresh applicants. WRP, combining smaller financial incentives and a mandatory work requirement, saw a small statistically insignificant increase in monthly household income of \$27. MFIP on the other hand, which combined larger financial work incentives, increasing welfare payments and earnings, and a mandatory work requirement, saw larger positive impacts on income for applicants of \$75. Recipients reported an even larger decrease in income than the IO programme, of \$24. SSP and SSP-plus substantially increased income by \$115 and \$117 respectively, attributed to the earnings supplements of the scheme.

Figure 1.3 Financial work incentives impact on income



The evidence suggests, therefore, that financial work incentives are crucial when considering employment, earnings and income, but also that when tied to activity and support they are more effective than financial incentives alone. However, earnings disregards in welfare payments can have the effect of reducing the hours of work by (ex-) claimants while raising the numbers in employment. The incentives are to work a little to utilise the disregard but not to work extra hours. In the US studies discussed here this can imply working very few hours. Likewise work requirements for financial support will see claimants taking 'small jobs' to fulfil the requirements but no more. The Earned Income Tax Credit (EITC) in the US has a zone where extra earnings results in extra credits (a positive taper) and it has been widely demonstrated that the EITC has raised employment, earnings and incomes among the poor. This positive taper acts to offset reductions in other welfare support as earnings rise. Hence it creates a substantial zone where extra earnings results in little or no reduced financial support from the state, overcoming incentives to take 'small jobs'. The 16 and 30 qualifying hours rules in UK tax credits also serve to reduce this problem (see Gregg and Harkness, 2003). So to tackle poverty the financial incentives to work need to be focused so as encourage enough hours of work with sufficient support to lift families out of poverty. This is broadly true in the UK for lone parents but not for couples.

1.2 Time limits with financial incentives

The main aim of time limits is to discourage individuals from becoming dependent on welfare assistance in the long term. It is argued by exponents of time limits that this will encourage individuals to stop taking

welfare for granted and do everything in their power to return to work and retain the jobs that they find. Evidence on the effects of time limits is of particular interest because if the policy fails to encourage employment and job retention, alongside increasing the levels of hardship to which welfare recipients are subjected, once welfare assistance stops there may be severe consequences for inequality and poverty, with some very acute cases of hardship.

The evidence on time limits is based on observational estimates that compare outcomes between different states at different time periods. The implementation of welfare reform in the US after the 1996 Personal Responsibility and Work Opportunity Act (PROWORA) varied across states and therefore provided a 'natural experiment' that can be used to attempt to isolate the impact of time limits on employment, earnings and income. The data used in these studies is typically administrative data or nationwide survey data. In addition a number of states undertook randomised control experiments to understand the impact of reforms.

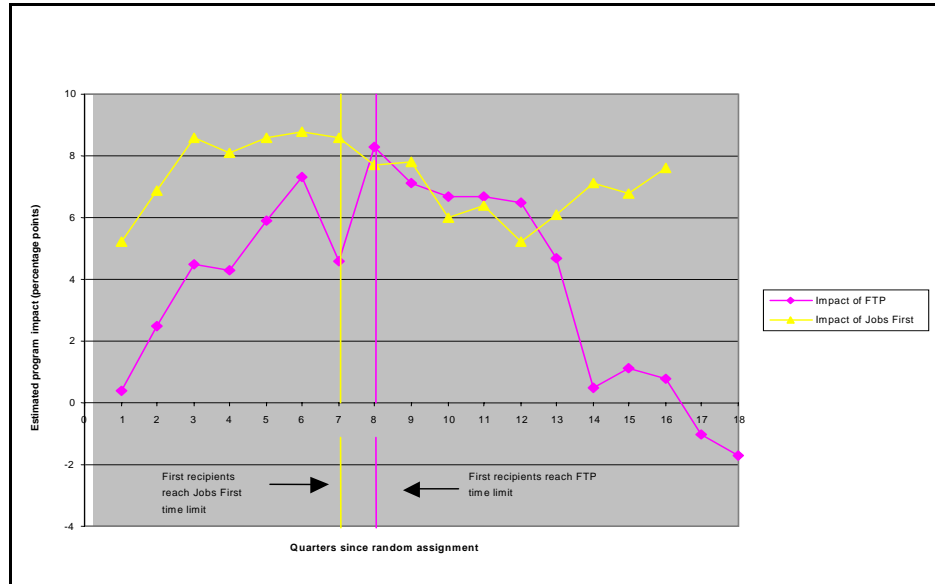
Considering first two states that combined financial incentives with time limits, Florida's Family Transition Programme (FTP) and Connecticut's Jobs First Programme, both used a wide mix of reforms (see Table 1.1), with relatively generous financial work incentives. Difference-in-difference techniques were used to separate the effect of time limits, which change over time from policies such as financial work incentives that stayed constant. The Jobs First time limit was set at 21 months and the FTP time limit was set at 24 months. However around 40 per cent of the FTP programme had a 36 month time limit as they were deemed particularly disadvantaged. Due to the state time limit being much shorter than the federal time limit none of the participants could have exhausted their benefits before the state time limits came into effect.

Employment

Figure 1.4 shows that during the pre-time limit period both programs increased employment, with Jobs First seeing a greater increase consistent with its larger financial incentives. However, neither programme appears to show a mechanical effect of the time limit on employment: Jobs First experienced a 0.9 per cent decrease in employment in the period directly after the time limit and FTP experienced a 1.2 per cent decrease in employment. This suggests that the act of stopping welfare does not encourage people to move into employment, but there appear to be pre-time limit effects as recipients move into work prior to the limit being imposed. However, the employment gains were short lived in the FTP programme, but not the 'Jobs First' approach. A possible explanation for this could be that

evidence from the month after the time limits were reached suggests that only 11.1 per cent of those who had not found work were no longer receiving benefits in the FTP programme whereas 78.4 per cent of those who were not in work were no longer given benefits in the Jobs First scheme. The key point though is that whilst there are employment gains under the programmes, they are not that large and certainly no bigger than achieved under the WRP, MFIP and SSP-plus programmes.

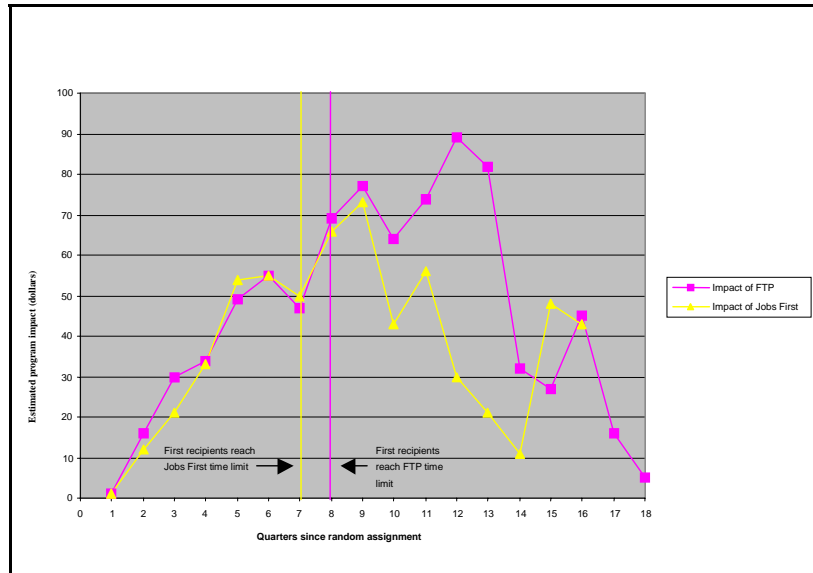
Figure 1.4 Impact of FTP and Jobs First schemes on employment



Earnings

Figure 1.5 shows that both programmes experience an increase in earnings in the pre-time limit period, again likely to be a result of the impending time limits. Earnings continue to rise for both programmes in the period after the time limit before turning down around three months after the time limits. There appears to be little evidence that time limits have long term effects on earnings.

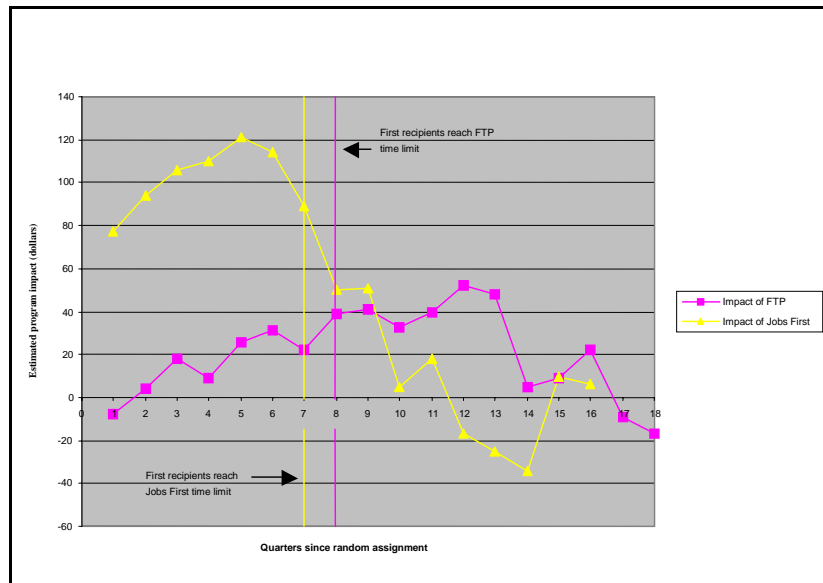
Figure 1.5 Impact of FTP and Jobs First schemes on earnings



Income

The timing of any impact on income differs across the two programmes, as indicated in Figure 1.6, but the broad story is that most groups saw income gains prior to time limits coming into force, but these gains were not always sustained thereafter. Jobs First’s impact on income rose steadily in the first five periods due to its large financial incentives. After period five, however, there is a steady decline in income, with a 4.6 per cent decline between periods seven and eight when the time limit came into effect – a decrease from \$89 to \$50, a \$39 decrease relative to the control group’s mean income of \$842. The continuous decline can be attributed to the fall in welfare receipt after the time limit and the decrease in earnings seen above. The impact for FTP was for a slower build-up of gains carrying on after the time limit period up to a year. This can be explained to some extent by the 88.9 per cent still receiving benefits after the time limit. While earnings fell rapidly so too did income, but to a lesser extent. Evidence on long term welfare changes therefore suggests the impact of time limits on income, combined with financial incentives, dissipates, leaving the groups as a whole no better off than under a system without time limits.

Figure 1.6 Impact of FTP and Jobs First scheme on income



In order to inform discussions on the reauthorisation of PRWORA, MDRC – a non-profit research organisation – attempted an early analysis of the effect of the implementation of time limits, examining the five states that implemented time limited policies before they were made compulsory in 1996. As part of the early implementation, random assignment tests were required to conduct evaluations of these policies and several of the states continued these random assignment tests after the 1996 federal welfare reform law was passed. Connecticut and Florida have the most complete data, with a benefit termination time limit and four years of extensive follow-up data. As discussed above, Florida continued to provide aid to 88.9 per cent of cases after the time limit was reached whereas Connecticut only provided aid to 21.6 per cent of people. Delaware and Virginia imposed benefit termination time limits but the follow-up period was not complete as they began to treat the control group. In Indiana time limits only applied to adults, benefits were reduced to cover only the child’s needs after the time limit, and full follow-up data is not yet available for this study.

Employment and earnings

The effect of the time limits on employment and earnings varied at different stages. After the first year of the programme, when the time limit had not been reached, employment and earnings increased in all five states. Connecticut and Indiana saw differences of 8.1 per cent and 7.6 per cent respectively between the control group and the programme group at a 1 per cent significance level. These results suggest an anticipatory effect of time limits, encouraging people to leave welfare to ‘bank’ months for when they need them. However, it is difficult to know

whether to attribute these increases to time limits, as the whole reform package was aimed at encouraging employment, and in the past welfare to work programmes with no time limits have found similar results. Interestingly the employment impacts for Delaware and Indiana were smaller at the end of year two, despite Delaware's policy including a mandatory work requirement after 24 months. Evidence from families reaching the time limit suggests little effect on employment and earnings; Grogger and Karoly (2005) conclude 'there is no evidence that people responded to benefit termination by going to work'. In Connecticut this is probably because many people were employed by the time the time limit was reached, although there was an increase in earnings around the time of the time limit suggesting people were working more hours to substitute for their loss of income. The Earned Income Disregard was notably higher in Connecticut than elsewhere and recipients are likely to have continued on Temporary Assistance for Needy Families (TANF) whilst at work rather than 'bank' months. The follow-up period shows that many people retained their jobs after the limit was reached. In Florida there was a slight jump in employment as the time limit approached but this was not sustained in the follow-up period. So the impact of time limits is to raise employment ahead of the termination time but have little effect at the termination point itself.

Welfare

The effect of time limits on welfare receipt varied across the states in the first year of the programme. The extent to which welfare increased or decreased appears to be a direct result of the generosity of financial incentives, specifically the Earned Income Disregard (EID) in each state. Connecticut, with a generous EID policy, saw welfare receipt increase by eight percentage points between the programme group and the control group suggesting that more people were combining welfare and work in the first year. In Indiana, with no EID available, there was a 9.3 percentage point decrease in welfare receipt between the programme group and the control group. Individuals could have been 'banking' their welfare months. Again, it is impossible to separate the effects of EID from other policies and the report points out that Indiana's time limit was not designed to provide an incentive to 'bank' months. Results in the other states show no real effect on welfare, although evidence suggests that for the Florida and Delaware programs, welfare receipt would almost certainly have reduced had it not been for their financial work incentive policies. The report suggests this is because sanctions and time limits encourage recipients to leave welfare whilst the incentives encourage them to stay, due to the fact that they can earn income and receive benefits, creating a neutral result. Welfare after the time limit obviously decreased in the states with strict termination time limits. This suggests

that the combination of time limits and financial incentives is an ineffective policy package for reducing the welfare roll.

The picture on time limits presented here (and in the WRP above) is reasonably clear for the first six years or so after a policy reform. Time limits in systems where people can mix welfare and work (through earnings disregards) produce employment gains ahead of the time limits biting but these gains are not dissimilar to other programmes without time limits. However, programmes with time limits and earnings disregards tend to encourage only very limited hours of work (short jobs) and hence the gains in earnings and income are small. Programmes with no work incentives other than a time limit achieve similar employment and earnings gains but no income gain because of the offset of reduced welfare payments with the higher earnings. So if the policy aims are to raise employment and reduce poverty, rather than just to reduce the welfare bill, time limits alone offer no chance of success.

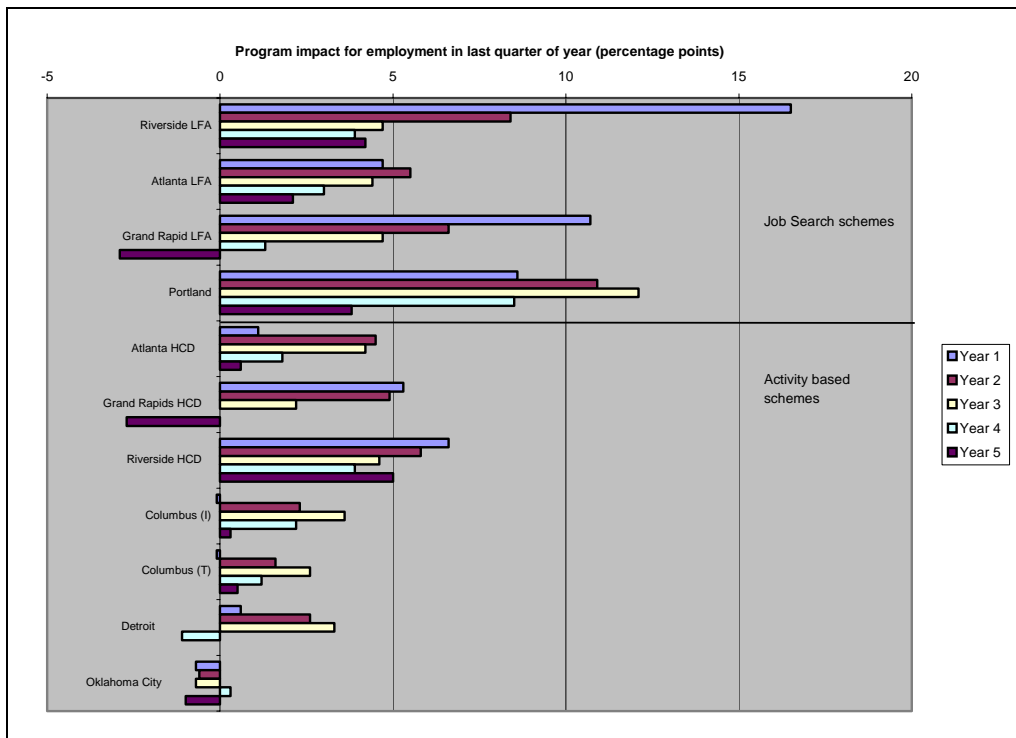
1.3 Mandatory job search and activity based reform packages

The National Evaluation of Welfare to Work Strategies (NEWWS) considers the relative effectiveness of job search and activity based schemes on employment and earnings. The broad aim of this research is to assess whether policies which emphasise human capital development or job search are more effective in helping participants find work and in raising their earnings. All programmes aim to get people back to work faster than they otherwise would do. But additionally schemes that aim to improve employability would be expected to see gains from holding people in work longer and better wages providing stronger incentives. So, while education based schemes may start slowly relative to work first schemes, the hope is that the gains will build. Work first schemes seek only to get people into work and not to influence longer run employability (except through increased work experience). Hence these schemes seek only to raise short term employment, which in a steady state will reduce numbers on welfare, as numbers on welfare reflect numbers flowing on and how long they stay. However, for the participants the effects are unlikely to be life changing.

The findings indicate that, of the 11 programmes considered (see Table 1.1), 10 had positive employment impacts. The schemes with a job search rather than education and training focus have a greater effect on employment. The results, however, indicate that the impact of educational activity based schemes on employment is not impressive. Those schemes focusing on human capital development (lower part of

Figure 1.7) saw weak employment gains initially as a result of these interventions, but even these were not maintained compared to the control group. This is because the control groups caught up with the programme groups – not that the employment of the programme group decreased. This could reflect the fact that control group members subsequently sought similar training opportunities. Overall, however, the findings suggest that human capital development is not as successful a means of boosting employment over the five years after intervention as other welfare reforms. Nor is there any evidence that there are beneficial earnings or employment effects emerging toward the end of the five year evaluation window for education based interventions.

Figure 1.7 Mandatory job search and education/training activity based reforms impact on employment



So while work first schemes do what they intend – reduce time spent out of work but with modest effects on changing longer term prospects – the education based schemes perform poorly on both counts. This evidence underpins governmental thinking in the UK and the US that securing employment, rather than skills, should be the priority for supporting lone parents without employment.

1.4 Job retention and career advancement

Policies to encourage people to go back to work will have only limited effects on employment and income if they facilitate entrance into only low

paid jobs with high turnover and with little provision of benefits and scope for career advancement. A recent study by One Parent Families found that, although 55 per cent of lone parents are now in paid work in the UK, retention rates are poor and 'work is not providing a secure route out of poverty'. In an earlier MDRC report, *'Building bridges to self-sufficiency'* the point is made that helping achieve economic stability within low-income families may boost children's health, cognitive and behavioural outcomes and help break the welfare dependency cycle. These concerns have led to experimentation to assess what can improve job retention and career advancement among lone parents. The Employment Retention and Advancement (ERA) projects are designed to find more effective methods of improving earnings, retention and advancement prospects for low income families. ERA projects are being piloted in a number of US states, as well as the UK, but they vary in the different components of support and incentives being used.

Previous studies on retention and advancement have produced mixed results and much of the evidence available comes from the USA as little work has been carried out on this topic in the UK. The Work First strategy, which aims to get people back to work quickly, was widely seen as the reason for the fall in welfare recipients in America in the 1990s. Holzer and Wissoker (2002), in their article *'How can we encourage job retention and advancement for welfare recipients?'* suggest that Work First improves retention rates, particularly among the young and low skilled, allowing workers to accumulate experience. The MDRC report points out, however, that by placing an emphasis on the quantity rather than the quality of job placements, many low skilled workers are being pushed into positions with antisocial hours, temporary contracts and no benefits. There is also little opportunity in these jobs for wage growth or career advancement. The One Parent Families working paper *'Lone parents, employment retention and advancement'* states that job focused, high quality training has led to better retention results. It points out that the Portland Programme, 'the most effective pre-employment programme' for retention (see Figure 1.7 for employment results), focused on taking a good job rather than the first job that came along, while building skills and making connections to employment. It also advocates the use of the 'Ambition' model that has been piloted on a small scale in the UK. This model focuses on providing disadvantaged job seekers with job preparation and training appropriate for specific sectors to enable them to apply for jobs above entry level. The pilots proved successful with a job placement rate of 59 per cent of participants and a retention rate of 72 per cent.

The first results to come from the US ERA project have been documented in 'Early results from four sites' by MRDC. The three sites of most interest are Riverside County, California; Pee Dee Region, South Carolina; and Corpus Christi, Fort Worth and Houston, Texas. The California site tests two different models of education and training to assess the most effective way to encourage advancement. The target groups are newly employed TANF recipients and there are no pre-employment services. The second site, South Carolina, again focuses on post-employment services in rural areas in an outreach scheme to try to improve the labour market outcomes of those who have been off welfare for a period of time and are not advancing. Recipients of TANF halved between 1993 and 1998 at this site and research into what these individuals were doing pointed to individuals either not working, working but not in steady employment, or stuck in low paid jobs. The scheme focuses on using 'case management' to help with job search, basic education, short term training and support services such as childcare and transportation. Texas, the third site, targets TANF recipients without employment. This site includes pre-employment services and post-employment services and contrasts three different counties that took different lengths of time to implement their reforms. This programme follows workers through from placing them in a job, leaving TANF, and focusing on career advancement.

Post-employment services – education and training

The California site seeks to address the issue of career advancement. There are two main objectives of this study. The first aims to assess the difference in effects between the programme group with a work requirement and the programme group without a work requirement. The Department of Public Social Services (DPSS), a TANF agency, administers the programme group with a work requirement. The 'work plus' group are required to work at least 20 hours a week while being encouraged to participate in education. If an individual chooses not to participate in education the work requirement increases to 32 hours a week. The idea behind the work requirement is the belief that 'work reinforces the value of education and training'. The Economic Development Agency (EDA), a workforce development agency, administers the programme group with no work requirement, the 'training focused' group. This group is also required to participate for 32 hours a week, but this can all be in education. There is a strong focus on case management, with the idea behind the no work requirement being that 'elimination of the work requirement will give recipients more flexibility to access high quality education and training programmes'. Contrasting the results from these two groups may help reveal whether programmes to aid career advancement should also include a work requirement. Early

results from these studies indicated that there was no significant difference between the two groups. Therefore, there is little evidence at this early stage as to whether a work requirement is beneficial or detrimental to a career advancement programme.

The second objective of the study was to compare the effects of the programme groups and the control group. The control group, the 'work focused' group, is administered by the DPSS but the group is encouraged, in a more traditional post-employment services manner, to increase the number of hours they are working and to look for higher paid jobs. By contrasting the two programme groups to the control group, the value of education and training in career advancement strategies, with a work requirement and without, should become clear. One surprising result that has arisen from this study is that the control group were as likely to participate in education and training as the programme groups, while working at the same time. Interviews are being conducted with many of the education and training participants to better understand the levels of encouragement they are receiving. Early results from this study indicate that there was no impact on earnings, employment, employment stability, food stamps and welfare for the 'work plus' group, and no significant differences between the 'work plus' group and the 'work focused' group. There was a negative employment effect for the 'training focused group': in an average quarter the 'training focused' group's employment rate was four percentage points lower than the 'work focused' groups. There were no significant effects on earnings, food stamps or welfare. A possible reason for this negative impact on employment could be the absence of a work requirement. The report stresses the difficulty of assessing results from education and training at such an early stage after implementation. The result does suggest, however, that so far education and training is not an effective immediate response to career advancement.

Post-employment services – case management

The South Carolina site looks to address the issue of job retention and career advancement. Developed as a response to the number of 'working poor' and welfare cases, the 'Moving Up' scheme focuses on reaching out to six rural counties in the Pee Dee Region, increasing awareness of retention and advancement services through career consultants. The objective of this study is to compare the effects of a programme group, who are assigned a career consultant, and the control group, where there is 'no *systematic* outreach'. The programme group are contacted initially and asked to join the scheme, with a \$10 incentive provided for the first consultation. Those who take part are offered services based upon their needs ranging from job search services to

help with soft skills and advice on how to talk to employers about pay rises. Cash incentives are also used to encourage job retention, ranging from \$50 for the first month, the three-month mark and the six-month mark, to \$150 for staying a year. There is also an incentive to increase earnings; participants receive \$50 for increasing their wages by at least 8 per cent. The control group are effectively left to their own devices. They may receive benefits such as food stamps and are allowed to participate in related services should they so wish but they are not encouraged or helped to do so. By contrasting the results of these two groups it is possible to evaluate the effect of raising awareness of welfare recipients to job retention and career advancement policies and to assess the effectiveness of incentives and support services as policy choices.

Early results indicate the programme has had little effect on employment levels, earnings or employment stability – ‘there is little evidence that the programme affected job placement, retention, or advancement-related measures’. The results from the follow-up period however do suggest an increase in employment levels during the third and fourth quarters of the period. This effect disappeared by the fifth quarter however. Results from the early cohort, that is participants who joined the scheme early, suggest that individuals benefited from employment increases of up to six percentage points in one quarter. The report states that this probably suggests that the programme was more effective in the earlier stages, as the caseloads were not so high. This may suggest that higher resourcing might be more effective.

Pre-employment and post-employment services

The Texas study differs from the previous studies as it focuses on both pre-employment and post-employment services. Most individuals are not employed when they enter the scheme and so the scheme focuses on job placement, as well as job retention and career advancement. The object of this study was to compare the results of the programme group and the control group in order to improve the poor performance of past retention and advancement services within Texas by implementing longer-lasting post-employment services. The control group in this case were entered into the ‘choices’ scheme, the state’s standard employment and training scheme that offers job search assistance, case management and support services and a small amount of post-employment services. Individuals are supported through this scheme until the end of their four-month earnings disregard period at which point their case closes. The programme group are offered similar pre-employment services to the control group, including job search assistance and an employer-contact requirement. Based on earlier evidence of the ineffectiveness of case management services, the

programme looks to strengthen these supports by starting them in the pre-employment period and involving multiple agencies so as to offer not only job search assistance and support services, but also to aid career planning, goal setting and addressing 'specific employment-related barriers'. The programme group also receive a monthly allowance of \$200 a month once they have left TANF, if they are working 30 hours a week and participate in an advancement activity, or work 15 hours a week and are involved in an education and training activity. The individuals can receive 12 allowances in total, but these do not have to be received consecutively. This financial incentive was included as past evidence suggests financial incentives encourage job retention.

The three areas implemented what was, essentially, the same scheme, although Fort Worth experienced some initial set-up problems and Houston placed too much emphasis on the pre-employment phase in the early implementation stages. Corpus Christi, the site to implement the programme quickly, experienced a positive impact on a number of employment retention measures. The average quarterly employment rate increased by 3.5 percentage points above the control group average of 49.6 per cent and the number of individuals in jobs covered by unemployment insurance increased in all four quarters above the control group average of 26.1 per cent, by 4.5 percentage points. Average earnings for the programme group increased by \$339 above the \$3,575 control group average, most of which can be attributed to the last quarter that saw a \$143 increase. The impacts began to decline in the follow-up period but these results were the most impressive of the survey. With respect to food stamps and welfare the programme had no significant effect. In Fort Worth, although the results produced no statistically significant changes in employment, earnings or employment stability, the increases in the actual figures were not far behind Corpus Christi. In terms of earnings there was an increase of \$195 above the control group average of \$4,265. In the follow-up period Fort Worth also saw these impacts decline over time. There were no statistically significant effects on food stamps or welfare. Houston, the slowest to implement the scheme, had no statistically significant results for earnings, employment, employment stability, food stamps or welfare. In the follow-up period there was a suggestion of movement from negative impacts to positive impacts although none of the results were statistically significant.

There is thus a less than complete picture of what can help job retention and advancement among those leaving welfare. It should also be remembered that career advancement in these studies is measured solely in terms of relatively short term wage rises. The Portland programme, which places a strong emphasis on the quality of the job, was less successful in raising initial job entry than other Work First

strategies but the high job retention meant that it was as successful as other programmes after two years and the wages secured were higher. However, post-employment services and education or training have so far drawn a blank in the US. The Texas based programme, which mixes pre- and post-job entry services to emphasise advancement combined with a financial sum, offer the best hope to date.

Table 1.1 Financial incentives and job search/activity based schemes

Scheme name	Scheme	Cases served	State Reform	RA period		Sample size	Financial work incentives	Mandatory work related activity	Time limits
				Start	End				
Welfare Restructuring Project – Incentives only (Vermont)	WRP-IO	Single parents recipients and applicants	Yes	07/94	06/95	2,196	Enhanced disregards (first \$150 and 25% of any remaining)		
Minnesota Family Investment Programme – Incentives only	MFIP-IO [R]	Urban single parent – long term recipients (>24 months in last 36)	No	04/94	03/96	1,769	Enhanced disregards (38% of guarantee level and 38% of any remaining earnings up to 140% of FPL)		
	MFIP-IO [A]	Urban single parent recent applicants	No	04/94	03/96	3,113			
Welfare Restructuring Programme (Vermont)	WRP	Single parents recipients and applicants	Yes	07/94	06/95	4,376	Enhanced disregards (first \$150 and 25% of any remaining)	Part or full time paid or community service job after 30 months on aid	
Minnesota Family Investment Programme	MFIP [R]	Urban single parent – long term recipients (>24 months in last 36)	No	04/94	03/96	1,780	Enhanced disregards (38% of guarantee level and 38% of any remaining earnings up to 140% of FPL)	Mandatory E&T for recipients on aid >24 months in past 36 and working <30 hours/week	
	MFIP [A]	Urban single parent recent applicants	No	04/94	03/96	4,049			

Welfare to work policies and child poverty

Scheme name	Scheme	Cases served	State Reform	RA period		Sample size	Financial work Incentives	Mandatory work related activity	Time limits
				Start	End				
Canada Self Sufficiency Project	SSP	Single parent recipients	No	11/92	03/94	5,729	Earnings supplement (half difference between gross earnings and benchmark income \$30k & \$37k) for minimum 30 hours/week		3 yrs
Canada Self Sufficiency Project	SSP-plus	Single parent recipients	No	11/94	03/95	596	Earnings supplement as with SSP + employment services		3yrs
LA jobs	1 st GAIN	Single parent recipients and applicants	No	04/96	09/96	15,683		Job search first, Job Clubs for supervised job search	
Indiana Manpower Placement and Comprehensive Training Programme	IMPACT	Recipients and applicants, less job ready	Yes	05/95	12/95	3,865		Work first, mandatory 20 hours a week in E&T or work related activity	
Atlanta Labour Force Attachment	LFA	Recipients and applicants	No	01/92	01/94	2,938		Job search first, exemption if child <3. E&T available after job search	
Grand Rapids Labour Force Attachment	LFA	Recipients and applicants	No	09/91	01/94	3,012		Job search first, exemption if child <1. E&T programs in addition to work	

Welfare to work policies and child poverty

Scheme name	Scheme	Cases served	State Reform	RA period		Sample size	Financial work Incentives	Mandatory work related activity	Time limits
				Start	End				
Riverside labour Force Attachment	LFA	Recipients and applicants	No	06/91	06/93	6,726		Job search first, exemption if child <3. Clients encouraged to take low paying jobs	
Portland		Recipients and applicants	No	02/93	12/94	4,028		Job search or E&T first depending on circumstance, exemption if child <1. Encouraged to find high pay jobs	
Atlanta Human Capital Development	HCD	Recipients and applicants	No	01/92	01/94	2,992		E&T first, exemption if child <3, Choice of activity	
Grand Rapids Human Capital Development	HCD	Recipients and applicants	No	09/91	01/94	2,997		E&T first, exemption if child <1. Choice of activity	
Riverside Human Capital Development	HCD	Recipients and applicants	No	06/91	06/93	4,938		E&T first, exemption if child <3, moved to job search once literacy target met	
Columbus Integrated	Columbus (I)	Recipients and applicants	No	09/92	07/94	4,672		E&T first, exemption if child <3, Choice of activity – integrated case management	

Welfare to work policies and child poverty

Scheme name	Scheme	Cases served	State Reform	RA period		Sample size	Financial work Incentives	Mandatory work related activity	Time limits
				Start	End				
Columbus Traditional	Columbus (T)	Recipients and applicants	No	09/92	07/94	4,729		E&T first, exemption if child <3, Choice of activity – traditional case management	
Detroit		Recipients and applicants	No	05/92	06/94	4,459		E&T first, exemption if child <1	
Oklahoma City		Applicants	No	09/91	05/93	8,677		E&T first, exemption if child <1. Importance of education as a way of increasing job skills stressed	
Family Transition Programme (Florida)	FTP	Recipients and applicants	No	05/94	02/95	2,815	Enhanced disregards (first \$200 and 50% of any remaining earnings)	Job search, intensive case management. Exemption if child < 6 months	24 in 60 months or 36 in 72
Jobs First (Connecticut)	Jobs First	Recipients and applicants	Yes	01/96	02/97	4,803	All earned income disregarded as long as earnings below FPL	Job search, E&T as last resort. Exemption if child <1 (and not conceived while on welfare)	21 in 60 months

2. Welfare reform, childcare and child outcomes

This section reviews the available evidence of the impact of parental education, employment and income changes on child development within US studies. A particular emphasis will be placed on whether childcare subsidies are an important element in supporting lone parents back to work.

2.1 Childcare and employment

A different approach to increasing employment and income for low income families is to reform childcare policy. In their paper 'Child care policy and the employment of single mothers', Bainbridge, Meyers and Waldfogel (2003) find evidence to suggest that additional expenditure on childcare policies leads to increased employment for single mothers. They compared levels of spending on childcare and differences in employment rates between single mothers with children under the age of 13 and single women without young children, across states and over time. By using a difference-in-difference-in-difference approach, unobserved heterogeneity across states and over time is controlled for. Evidence of employment rates for single women between 1991 and 1996 indicates a closing of the gap between single women and single mothers. This cannot all be attributed to the increased expenditure on childcare, but Bainbridge et al. state that 'The expansion of childcare assistance was particularly notable' during this period. Previous literature on this topic had found that although increasing expenditure on childcare had positive employment effects, the effects were small. Bainbridge et al. cover new ground by also considering the effects on two groups of low income families – welfare recipients and the working poor. They argue that a majority of expenditure is focused on welfare recipients who are in education and training prior to employment and the true effects of increased childcare subsidies on employment are therefore hidden. Two models are contrasted to illustrate the importance of disaggregating low income families to observe the potential effects for working poor families. The first considers all low income single parent families and the second considers the two subgroups, welfare recipients and working poor. The difference-in-difference-in-difference results indicate that the difference in childcare subsidy between 1991 and 1996 spent on welfare recipient families was an increase of \$161. Working poor recipients on the other hand only saw a \$77 increase in subsidies. Funding for working poor families fell from 59 per cent in 1991 to 45 per cent in 1996.

Table 2.1 Probit estimates of the effect of child care variables on the employment of single women

Childcare subsidy amount per single mother family with child < 13.	Marginal effects	Change from £1000 increase
Model 1 – Aggregate	0.036* (0.019)	4%
Model 2 – Disaggregate – Welfare subsidy amount	-0.019 (0.030)	-2%
Model 2 – Disaggregate – Working poor subsidy amount	0.110*** (0.043)	11%

P-values: * p<0.10, ** p<0.05, *** p<0.01

Standard errors in parenthesis

Source: Bainbridge et al. Child care policy reform and the employment of single mothers, Table 4.

Multivariate results, estimating the effect of total childcare expenditure on the employment probability of single women, indicate that there is a vast difference between the two models. The results from a probit model estimate of the effect of childcare subsidies on employment of single mothers are reported in Table 2.1. Model one suggests a \$1000 rise in the childcare subsidy per single mother family would lead to a 4 per cent increase in employment of single mothers. This is in line with findings from previous research that found that childcare subsidy only accounted for four to 7 per cent of the increase in employment whilst the Earned Income Tax Credit (EITC) accounted for up to 60 per cent of the increase. Model two however indicates that when low income families are disaggregated, ‘these policies actually had potential opposite results for the employment of single mothers’. The coefficient for welfare families was negative and insignificant whereas the coefficient for working poor families was statistically significant at a one per cent level and indicates that a \$1000 increase in expenditure on childcare subsidies for working poor families would lead to an 11 per cent increase in employment. Childcare subsidies for those not in work do not raise employment but could help the minority of non-working lone parents in education, which was not considered in this paper.

These results indicate that increasing expenditure on childcare does lead to substantially higher levels of employment for single mothers if the childcare subsidies are focused on the low income working single parents rather than those on welfare or higher income lone parents. These targeted subsidies work by making work at low wages financially viable for lone parents. It does, however, need to be made clear that these are highly targeted subsidies for low income lone parents. Making

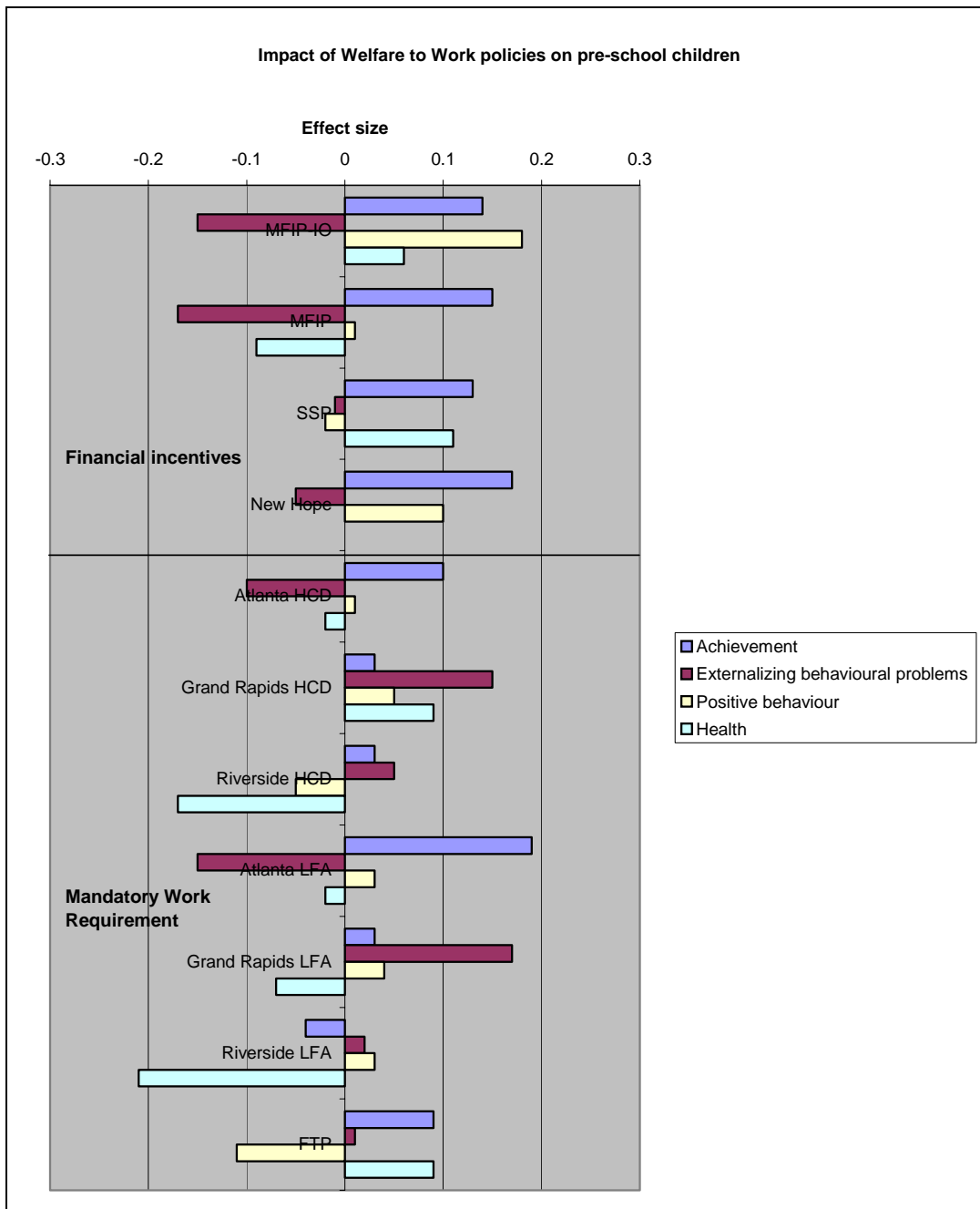
the subsidy available to non-working single parents substantially reduces its cost effectiveness; further making it available to all single parents would mean that the cost effectiveness would be dramatically reduced.

2.2 Income and child outcomes

A significant amount of research has been carried out on welfare reforms and the effect they have on income. One of the many reasons for this is that evidence suggests that there is a link between increasing income and improving child outcomes. However, there has been concern that focusing on increasing income by encouraging work may lead to children missing out on valuable time with their parents and hence counteract any benefits of increasing families' income on children's development.

Work on this carried out by MDRC and Grogger and Karoly (2005) finds evidence to suggest that recent reform policies have had mixed results. Pre-school children appear to have improved achievement outcomes as family incomes increase whereas the results on behaviour and health are less clear. These benefits begin to diminish as children reach adolescence where welfare policies appear to have a detrimental effect on children. By comparing policies, results indicate that increasing incomes directly, for example, through a financial incentive, improves children's outcomes whereas mandatory work requirements have smaller effects. Adolescent behaviours and achievement seem to be adversely affected by reduced parental supervision. For infants there is a well developed childcare sector which avoids harmful effects from reduced parental inputs but for adolescents in these programmes there were not well developed after school clubs or play schemes. Hence the absence of adult supervision, rather than specific parental supervision, may well be the issue here.

Figure 2.1 Impact of policy on pre-school children



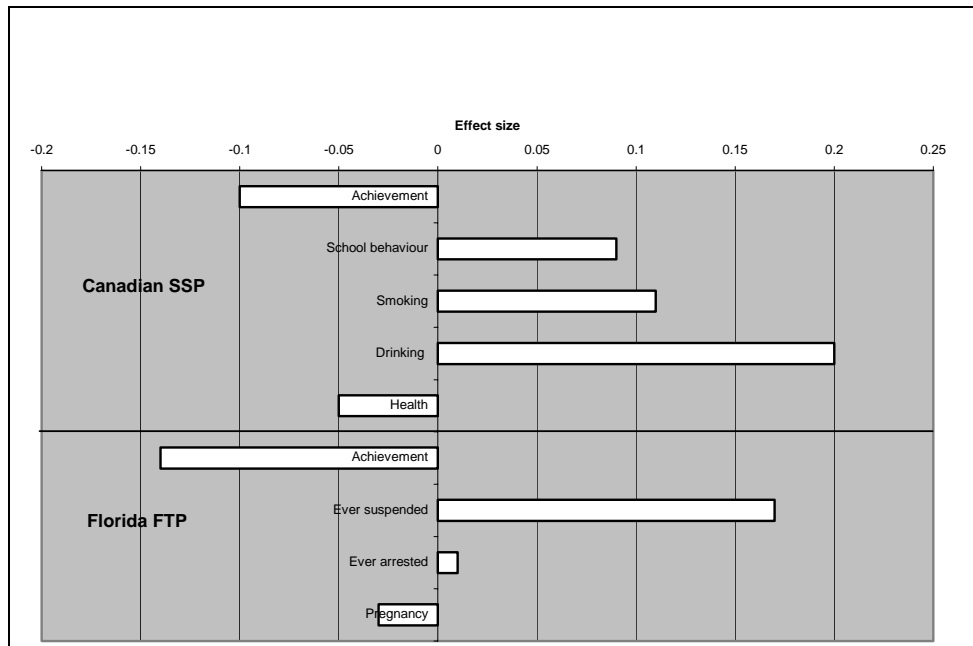
Source: Morris, P. et al. How welfare and work policies affect children: a synthesis of research. MDRC report tables 1, 5 and 7.

Duncan and Chase-Lansdale (2000) use results from the MDRC report 'How welfare and work policies affect children' in their report 'Welfare reform and child well-being', to analyse the effects of recent welfare reforms on child outcomes. A summary of these findings for pre-school children is presented in Figure 2.1. The main findings for pre-school children were: 'Welfare reform packages can have positive impacts on

children's achievement and behaviour' and 'There is little evidence to suggest that elementary school-aged children are harmed by the welfare reform packages built into the experiment'. Differences are noticeable between the programmes that gave earnings supplements (and therefore increased incomes), and the programmes that had mandatory work requirements boosting employment without increasing income. This suggests a strong link between increased income and child outcomes, suggesting that policy should focus on achieving financial gains rather than work alone. The programme that implemented time limits, the FTP, had small mixed effects. The evidence of the impact of this type of reform on child outcomes is minimal. An important point to note is that the positive impacts of reform appear to be stronger for long term recipients, as Grogger and Karoly (2005) show when considering the two groups included in the MFIP programme. However, because the control group for recent applicant children performed better than the recipient children control group there was less room for improved outcomes for the applicant children.

Two studies, the Canadian SSP and Florida's FTP, also considered the effect of welfare to work policies on adolescents. The findings from these studies are summarised in Figure 2.2. The evidence from these studies indicated that parents leaving welfare for work might have negative impacts on adolescents; achievements and increase their behavioural problems. The MDRC report suggests this could be due to lack of communication and monitoring once the parent is in work.

Figure 2.2 Impact of welfare to work policies on adolescents



Source: Morris, P et al. How welfare and work policies affect children: A synthesis of research. MDRC report table 8

2.3 Mothers' education and child outcomes

In addition to income, the level of education of the mother has been found to have significant effects on child outcomes. In their report 'The effect of increasing welfare mothers education on their young children's academic problems and school readiness', Magnuson and McGroder suggest that policies which aim to improve the level of education of the mother are effective in improving child outcomes. They use the National Evaluation of Welfare to Work Strategies Child Outcomes Study (NEWWS-COS) to compare the effects on academic school readiness and academic problems from Labour Force Attachment (LFA) schemes and Human Capital Development Schemes (HCD) for three sites, Atlanta, Grand Rapids and Riverside. In addition, by using a two stage least squares instrumental variable technique they estimate the effect of the mother's education on child outcomes and find that maternal education is significant and positively correlated with children's academic school readiness and negatively associated with children's academic problems.

The authors are particularly interested in mothers' education because a large body of literature has found this to be the single best predictor of child outcomes. The explanation for this is that higher levels of maternal education are associated with higher quality home learning environments and mother-child interactions, as well as a greater participation in

children's schooling. These findings are summarised in Table 2.2. The results found no significant impact on the programme groups over the control groups for the HCD programs in academic school readiness. One LFA programme, Atlanta, found a positive significant impact; children of mothers in Atlanta LFA programme group scored 1.65 points higher in school readiness than the mothers in the control. Partaking in HCD or LFA schemes had no significant effect on the academic problems of the focal child for any study however. The Atlanta and Riverside HCD sites both found mothers reporting significant reductions in any academic problems among any of their children whereas the LFA programmes found no significant effects.

Table 2.2 Difference-in-difference estimates of impact of schemes on child outcomes

	HCD			LFA		
	Atlanta	Grand Rapids	Riverside	Atlanta	Grand Rapids	Riverside
Academic School Readiness – Bracken Score	0.80 (0.58)	0.09 (0.94)	1.42 (0.92)	1.65*** (0.64)	0.27 (0.91)	0.08 (0.90)
Academic problems – Focal child	-0.02 (0.02)	0.05 (0.04)	-0.04 (0.03)	0.00 (0.02)	0.01 (0.04)	0.00 (0.03)
Academic problems – Any child	-0.06*** (0.03)	-0.03 (0.05)	-0.11*** (0.04)	0.02 (0.03)	0.06 (0.05)	0.02 (0.04)

Notes: 1. P – values: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$ (Standard errors on parentheses). 2. Covariates included for: educational attainment and participation at baseline, prior earnings, prior welfare receipt, numeracy, literacy, depressive symptoms, mother's and focal child's age, number of baseline risk factors, family barriers to employment, race, marital status, number of children, locus of control, sources of social support and child gender.

Source: Table 4: Magnuson and McGroder (2002) The effect of increasing welfare mothers education on their young children's academic problems and school readiness.

Omitted variable bias is likely to lead to the estimates using standard regression techniques (Ordinary Least Squares) being downwardly biased. The report therefore also uses Instrumental Variables estimation to assess the effect of a month of mothers' educational activities on the academic school readiness and behaviour of the focal child and any other children in the family, Results from OLS and IV estimation are reported in Table 2.3 below. The first model uses six instruments: the two different programme approaches for three different sites. The second model adds an extra instrument controlling for the predicted value of

quarters of employment and demonstrates that this has practically no effect on the estimated effect of maternal schooling on academic outcomes. The results indicate an additional month of maternal education has a positive impact on children’s academic readiness, and that the OLS results are indeed biased. The IV estimates show significant reductions in academic problems as a result of an extra month of maternal education, whereas the OLS estimates produced no significant results. For academic problems of any child, OLS finds a 0.01 reduction for an extra month of mothers’ education and IV finds a 0.031 reduction.

Table 2.3 IV and OLS estimates of months in educational activities on children’s raw Bracken School Readiness Composite Scores and academic problems

Months in education	Model one		Model two	
	OLS	IV	OLS	IV
Academic school readiness – Bracken scores	0.089*** (0.035)	0.305* (0.168)	0.098*** (0.035)	0.311* (0.169)
Academic problems – Focal child	0.000 (0.001)	-0.012** (0.001)	0.000 (0.001)	-0.011* (0.006)
Academic problems – Any child	-0.005*** (0.002)	-0.031*** (0.009)	-0.005*** (0.002)	-0.031*** (0.009)

P – values: * p<0.10, ** p<0.05, ***p<0.01 (Standard errors on parentheses)
Covariates included for: educational attainment and participation at baseline, prior earnings, prior welfare receipt, numeracy, literacy, depressive symptoms, mother’s and focal child’s age, number of baseline risk factors, family barriers to employment, race, marital status, number of children, locus of control, sources of social support and child gender.

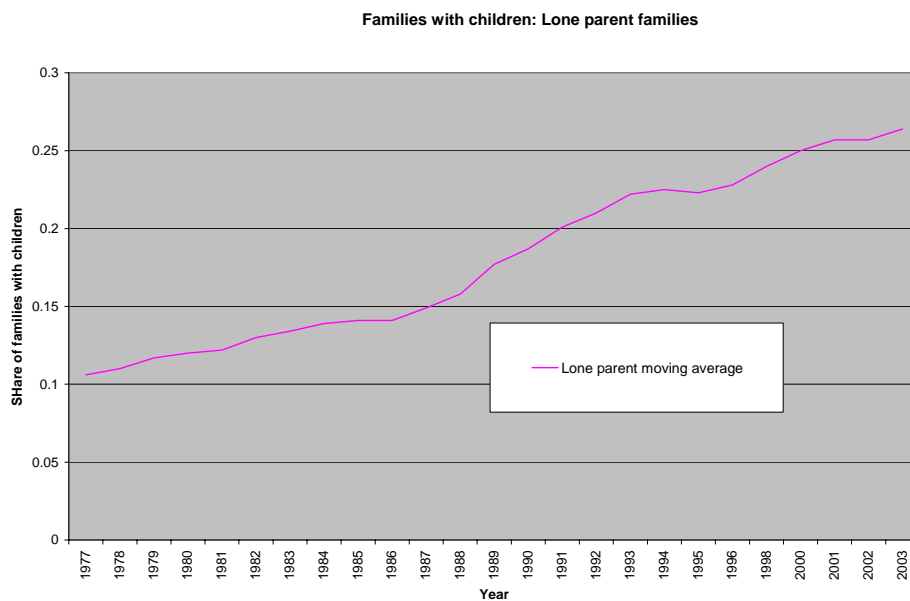
Source: Table 6: Magnuson and McGroder (2002).

These results are not out of line with other studies which suggests that increasing mothers’ education, through changing school leaving age or similar, has positive effects on the children of these mothers. Within the context being viewed here, there remains a question mark over whether short training courses or short education courses are of much value to the parent or child but this research suggests that continuing education among teen mothers and access to education and literacy courses among less educated mothers should be actively supported.

3. Families with children and the labour market in the UK

The report now switches its focus to the UK and, in this section, summarises the available evidence on the employment patterns among families with children over the last decade or so and discusses their performance relative to other (sometimes overlapping) populations. A summary of the Government’s welfare to work strategy to date will be developed, as will a summary of the available evidence on the effectiveness of this strategy in achieving the observed outcomes. The available evidence on job retention and wage and job progression will also be summarised. To place these changes in context, however, it is first worth pointing out the patterns of change that have taken place in the composition of families with children. Figure 3.1 shows the share of families with children headed by lone parents. In the late 1970s around 1 in 10 families with children were headed by a single parent. This proportion rose slowly until the late 1980s, whereafter there was a dramatic increase in this share to 22 per cent in 1993. Since then the shift to lone parent families has slowed, although it now stands at over 1 in 4 families. As couple families tend to have more children, the proportion of children in lone parent families is slightly lower and now stands at around 23 per cent.

Figure 3.1 Proportion of families with children headed by lone parents



3.1 Employment of parents in the UK

The UK labour market has seen a profound employment upturn since 1993, with the working age employment rate rising from 70.3 per cent to

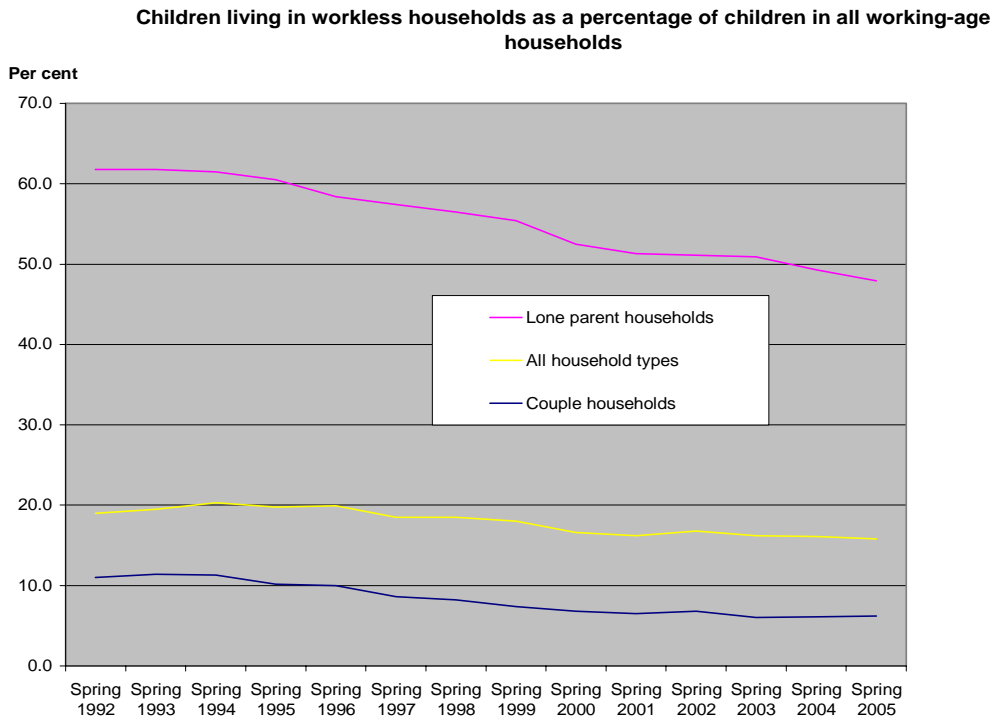
73.9 per cent by spring 1999. The Government's welfare to work programmes focused on families with children began to kick in in 1999. However, since then further progress in aggregate employment has been modest, with the adult employment rate reaching 74.7 per cent in spring 2005 (see Figure 3.2). The employment situation of parents was very poor in the early 1990s, with over 20 per cent of children living in a household without a worker in 1994. In spite of gains in aggregate employment, this figure fell little by spring 1999 when the proportion of children in workless households stood at 18 per cent. This was largely driven by the upturn in aggregate employment rather than policy changes. Since 1999 these improvements have been sustained in spite of modest aggregate improvements in employment. The latest spring figures suggest that 15.8 per cent of children lived in households without a worker, a fall of 600,000 or 25 per cent from 1994. The improvements have occurred among both couples with children and lone parents. The proportion of children in couple households with neither parent in work fell from a peak of 11.4 per cent in 1994 to 6.2 per cent in 2005 (nearly halving the rate of worklessness). The proportion of children of lone parents in families with no worker fell from just under 62 per cent to just under 48 per cent in 2005 (see Figure 3.3). The decline in worklessness among couples effectively stopped in 2001 while improvements among lone parents have continued right through to 2005.

Figure 3.2 Employment rate, all working age adults



Source: Office of National Statistics Economic Trends. LFS 2004
(Data available online at <http://www.statistics.gov.uk/statbase/TSDdownload2.asp>)

Figure 3.3 Children living in workless households



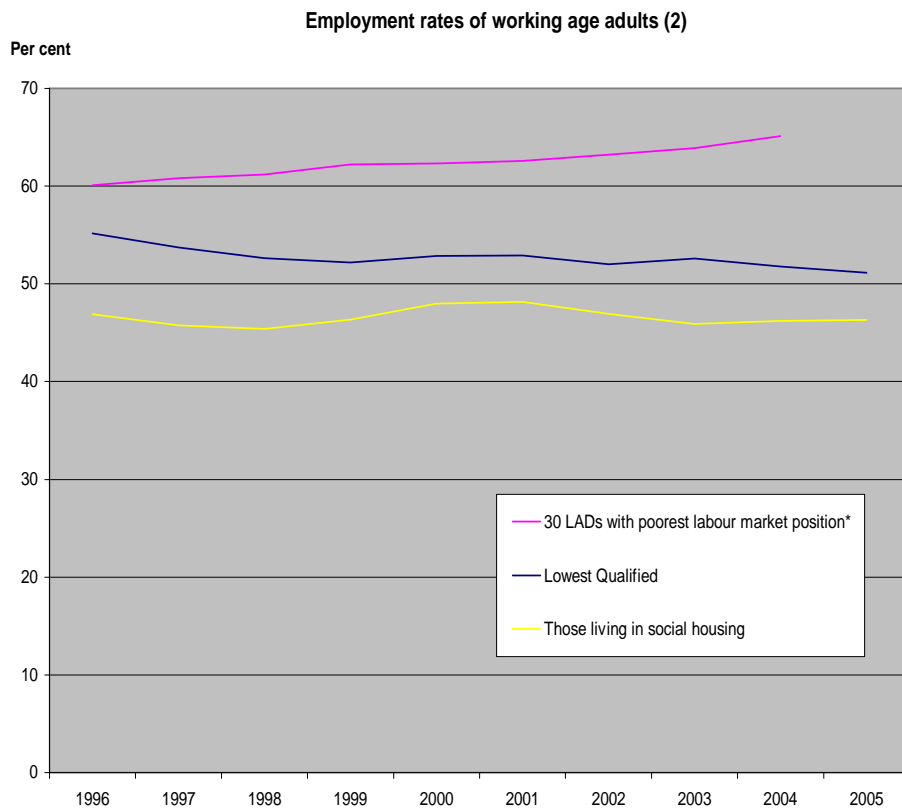
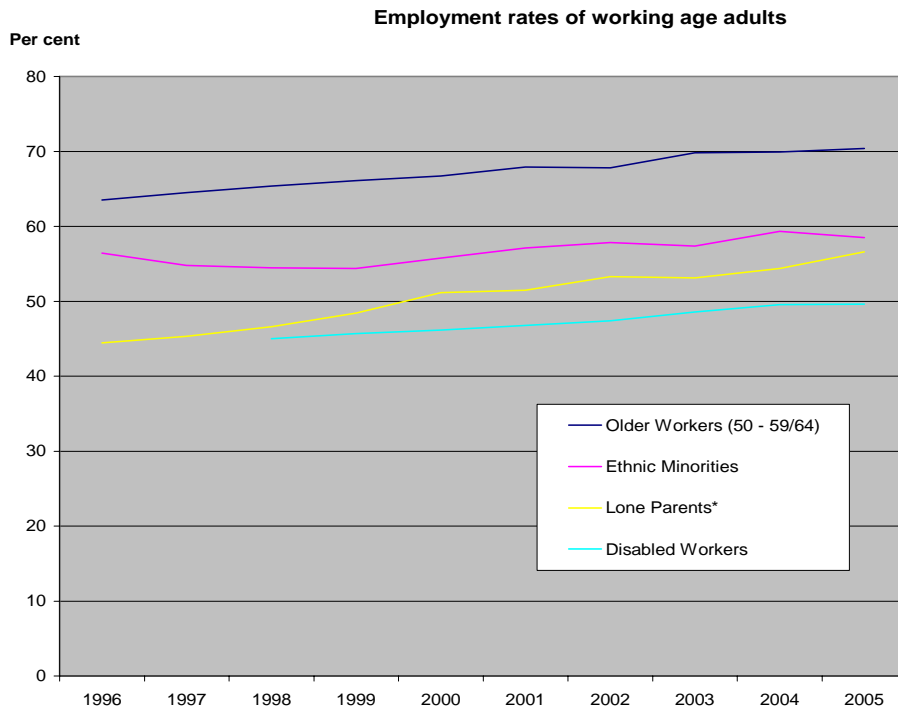
Source: Office of National Statistics. First Release LFS 2005. Not seasonally adjusted.

The low employment rate among lone parents does not just reflect their caring responsibilities but also an over representation of a number of other characteristics associated with low employment chances in the labour market (see Section 4). Lone parents disproportionately live in social housing, have somewhat lower qualifications and around one fifth of those not working are receiving sickness and disability benefits rather than Income Support. Workless couples are even more heavily represented among families with low skills, with health problems and living in very deprived neighbourhoods. So, to complete our opening discussion of key labour market trends, we look at how employment patterns have changed for other groups that have traditionally been disadvantaged in the labour market and compare these with parental employment rates. Figure 3.4 shows the employment picture for the last decade for a range of (overlapping) disadvantaged groups. Lone parents saw a staggering 12 percentage point increase in their employment rate between 1995 and 2005. Some other groups have also fared well: older workers (seven points), disabled workers (five points since 1998) and the worst 30 local authority districts (five points) all saw substantial progress. However ethnic minorities, the least qualified and those in social housing have seen far slower progress than the national average. Employment gains have not, therefore, been uniformly focused on the disadvantaged, and the overlap between lone parenthood and low skills and, above all,

social housing is likely to understate the relative progress of lone parents.

The next step in the analysis is to assess how far the improvements in employment among parents are due to government initiatives, how much to aggregate labour demand increases and how much to compositional shifts in these populations' characteristics. To do this we undertake some simple calculations using major UK datasets and summarise existing UK research into the impact of Labour's policy record on welfare reform.

Figure 3.4 Employment rates of working age adults with labour market disadvantages



Source: Office of National Statistics. Labour Force Survey

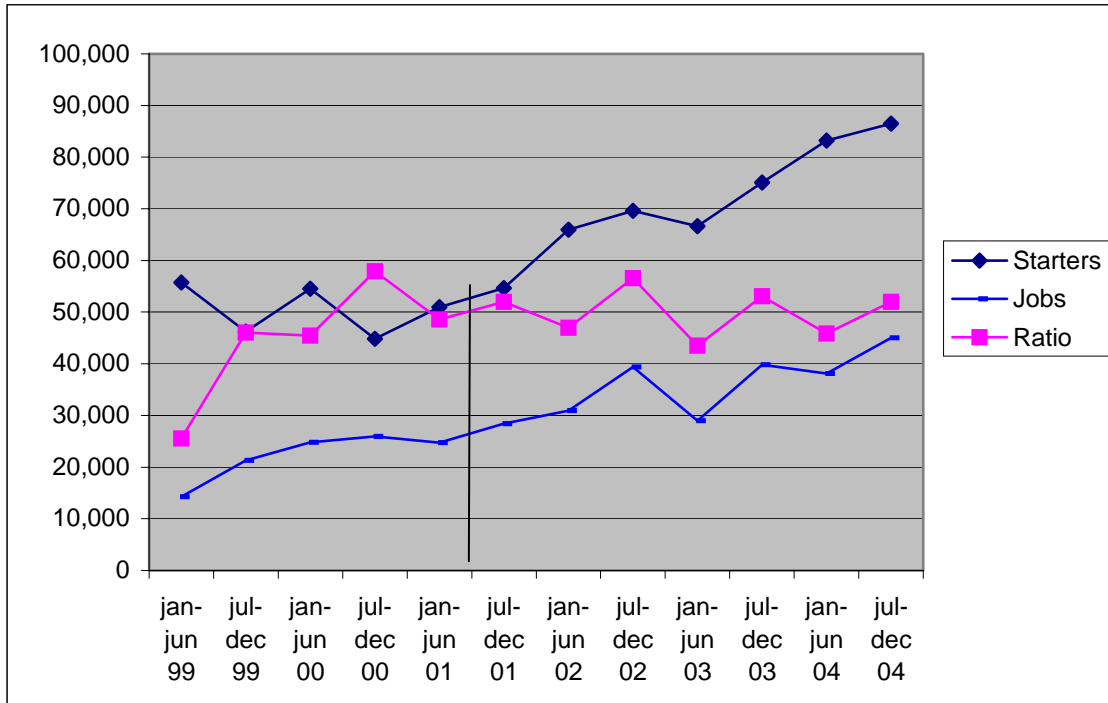
3.2 The Impact of welfare reform in the UK

When the Labour government of Prime Minister Tony Blair and Chancellor Gordon Brown came into office in 1997, poverty and worklessness had reached record high levels in the UK. Over the 20 years prior to 1997, children had replaced the elderly as the group with the highest poverty rate in the UK. Indeed, the poorest fifth of children in 1996-97 were in households with real incomes no different in absolute terms than the incomes for the poorest fifth of children in 1979 (Gregg, Harkness, and Machin, 1999; Dickens and Ellwood, 2003). The Labour government started a programme of welfare reform, which aimed not only to reduced unemployment, but to help other so-called welfare dependent groups back to work. However, the initial moves towards helping lone parents back to work only got going with the first part of the national roll-out of the New Deal for Lone Parents (NDLP) in the spring of 1999. With the introduction of the Working Families Tax Credit in October 1999, it is reasonable to assert that welfare reform for lone parents started in 1999. For couples with children the New Deal for 25+ started slightly earlier in mid-1998.

Promotion of paid work and 'making work pay'

The UK's welfare to work reform for lone parents, the New Deal for Lone Parents (NDLP), is a voluntary programme in which lone parents receiving means-tested Income Support can, but are not required to, take up job search assistance, training or other work support. On 30 April 2001, Lone Parent Work Focused Interviews (LPWFI) were first introduced. The first extension to eligibility occurred from 1 April 2002, with the next occurring from 1 April 2003. Age of the youngest child and the length of claim were used to determine which claimants were invited to attend the mandatory LPWFI in each phase. Review meetings were also introduced from May 2002 to maintain continued contact with claimants. Failure to attend WFIs could result in sanctions being applied where avoidance was continually repeated. Figure 3.5 shows the numbers flowing on to the NDLP in each quarter since its inception and the numbers leaving to start jobs in the same period. The job entrants may well reflect those who started in a previous quarter but the ratio of the two represents a rough guide to effectiveness under the different regimes; pre-WFIs, the first use of WFIs on restricted groups in April 2001 and in subsequent extensions. The key points are that, prior to the introduction of WFIs, the numbers of starters was around 50,000 a quarter with around half of these moving into jobs. The advent of WFIs and review meetings and their extension to wider eligibility groups has seen numbers starting the programme rising progressively, whilst the job entry ratio has remained very similar.

Figure 3.5 Quarterly New Deal for Lone Parent starts and exits into employment 1999-2004



Note: the ratio of job exits to starts is scaled so that it moves from 0 to 100 per cent with the units coinciding with 0 to 100,000 participants.

The Policy Studies Institute has undertaken analyses of administrative data to formally evaluate the net impact on Income Support exits of LPWFI and Review Meetings for eligible lone parents. Their results reflect the findings in Figure 3.5 that WFIs have raised NDLP participation with no adverse effect on the chances of participants moving into work. They also find small additional effects of people leaving IS from WFIs and review meetings over and above the impact of NDLP. These are likely to be the result of WFIs making clear the financial gains to working, and also that the Jobcentre Plus is checking up on claimants with greater intensity.

Making work pay

To help ‘make work pay’, the Labour government brought in the UK’s first National Minimum Wage in April 1999.² At the same time, various reforms to income tax and National Insurance Contributions reduced the tax burden on the low paid and their employers. Additionally, in October 1999 the government introduced a new tax credit, the Working Families Tax Credit (WFTC), for couples with children or single parents who

² In the UK, the minimum wage is equivalent to 45 per cent of median hourly full-time earnings, compared to only 34 per cent of the median in the US (Low Pay Commission, 2003, table A5.2).

worked 16 or more hours per week (with higher benefits if they worked 30 or more hours).³ The WFTC was somewhat similar to the US Earned Income Tax Credit (EITC) but, unlike the EITC, payments were made regularly through the year. The WFTC, mimicking the structure of the pre-existing scheme, consisted of a family element and per child element, which was set higher for older children. The withdrawal rate of WFTC was much slower than the previous Family Credit scheme, providing additional help further up the income distribution. However, the age variation in the per child element in favour of older children was progressively eliminated. Hence, extra resources were focused on working families with younger children. The Labour government also introduced a series of benefit changes aimed at reducing child poverty, including significant real increases in the value of the universal child allowance, Child Benefit, and substantial increases in allowances for children under age 11 in non-working families receiving Income Support. In April 2003, all of the various benefits and tax credits for children (apart from Child Benefit) were combined into a single fully refundable Child Tax Credit. This new structure improved the work incentives for mothers as second earners in households as it reduced the rate of withdrawal of support where no income tax was being paid by an earner and where the household is not on Housing Benefit, but had little broader effect on work incentives.

A substantive change in financial support for childcare costs occurred with the introduction of WFTC. Seventy per cent of childcare costs, up to a maximum limit, were met through WFTC and furthermore these extra credits were not included in calculations for Housing Benefit. This represented a substantial increase in generosity in the treatment of childcare costs and a major improvement in work incentives where claimants had to pay for childcare.

Education and childcare

The reforms also include many other measures to reduce disadvantage and combat social exclusion. Although these cannot be discussed in detail here, we note that early years programmes that deliver childcare or other services for pre-school-age children have been particularly emphasised (HM Treasury, 2001; 2004). Part-time universal pre-school provision is now in place for all three and four-year olds.⁴ Additional

³ This was split into a Working Tax Credit and an integrated Child Tax Credit, which includes all means-tested support for children, in April 2003.

⁴ Funding for Sure Start, childcare, and other early education programmes was budgeted to double between 2002-2003 and 2005-2006, and is set to increase further as part of the government's Ten Year Childcare Strategy, announced in December 2004 (HM Treasury, 2004).

spending on education, which rose from 4.5 to 5.1 per cent of GDP between 1999-00 and 2002-3 (and is budgeted to reach 5.6 per cent of GDP in 2005-6) has reduced class sizes in the primary grades and raised per pupil expenditure. Taken together, spending on these child-related programmes was expected to approach 0.3 per cent of GDP by 2004 (Hills and Waldfogel, 2004). Thus expenditures in this area, whilst less than on tax credit and benefit increases, were still substantial.

The impact of the reforms on employment

a) Lone parents

The number of single parents claiming Income Support fell from 1 million in 1997 to 760,000 in 2005, a reduction of almost a quarter (Department for Work and Pensions, online tabulation tool WPLS). Over roughly the same time period, single parent employment rose by 12 percentage points to stand at 56 per cent in spring 2005. However, as noted before, there was a marked recovery in the labour market, which saw rising employment from 1993 but especially in the period 1996-1998. Also it is possible that the characteristics of lone parents were moving towards improving their employment chances. For instance, there are fewer lone parents with pre-school-age children, making employment easier. Therefore, an assessment needs to be made of the impact of policy on the employment rates of lone parents over and above general employment changes and changing characteristics. As the reform process came in two distinct waves and much of the academic analysis has focused on these periods of reform separately, it is worth considering them in two distinct phases. Phase 1 covers the start of the national roll-out of the NDLP in spring 1999, the introduction of the WFTC in Oct 1999 and the introduction of Work Focused Interviews (WFI) in April 2001.

Summary table of studies assessing policy effects on parental employment

Study of reforms	Estimated impact of reforms Phase 1 Spring 1999 – Spring 2002 NDLP national roll-out from April 1999 WFTC – Oct 1999 Completion of free half-day place for four-year-olds WFI - April 2001
Employment rate of lone parents	Full programme
Gregg and Harkness (2003) LFS	+4.8 ppts on Employment Rate of LPs (1999-2002)
Franesconi and Van der Klaauw (2004) BHPS	+7 ppts (1998-2001)
Blundell et al. (2005a) FRS	+3.7ppts women +2.1ppts men implied average – 3.5ppts
	Financial incentives only
Brewer et al. (2004) FRS	+3.7ppts women
	NDLP and WFI
Dolton et al. 2005	NDLP raises participants moves into work by 22 ppts
Knight et al. 2004	WFI regime increased participants in NDLP by 25%
Employment rate of adults in workless couples	Full programme
Blundell et al. (2005a) LFS	+2.6ppts – women (partner not working) +0.5ppts – men (partner not working)
Blundell et al. (2005b) FRS	+4.3ppts women (partner not working) +1.5ppts men (partner not working)
	Financial incentives only
Brewer et al. (2004) FRS	+0.6ppts women (partner not working) +2.1ppts men (partner not working) overall effect -0.6ppts workless couples
	Phase 2 Spring 2003 New Tax Credits NI rates rise by 1% Tax Allowances frozen in nominal terms
Employment rates	Financial incentives only
IFS Labour Supply Model elasticities	For everyone (i.e. in work and not in work): lone parents: around 0.5 mothers in couples: around 0.6 fathers in couples: around 0.15

	<p>For those in work: lone parents: around 0.15 mothers in couples: around 0.04 fathers in couples: around 0.25</p> <p>This means that a 10% (real) rise in gross wages leads to 5% rise in hours worked by lone parents. Of this 5% rise in hours worked, 1.5 points comes from those already working, and 3.5 points comes from LPs entering work. A 3.5% rise in employment from an employment rate of 56% is around 2 percentage points. So a 10% real increase in take home pay raises lone parent employment by 2 percentage points.</p>
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There have been a number of evaluations of the policy reforms introduced over the Phase 1 period. These are reported in the above box. The first group includes studies which cover the full programme of reform for the period. They use before and after or difference in difference techniques to assess the impact of the reform package on employment. The box also covers studies based on structural labour supply models which are able to address only the effects of financial incentives. Studies which consider the full package range in their estimated effects from 3.5 percentage points (Blundell et al., 2005) on lone parent employment rates, to 7 percentage points (Francesconi and Van der Klaauw, 2004). An average of the studies' findings suggests that 4.8 percentage points of the rise between 1999 and 2002 can be attributed to policy reforms. Another study by Leigh (2004) suggested that the reforms raised the employment of lone mothers by around 1 percentage point in the first 15 months after WFTC introduction, but this may well not capture all the responses made by lone parents to the reforms. Another study undertaken at the IFS uses a structural labour supply model to estimate the effects of the changes in financial incentives resulting from the reforms. The estimated effects on lone mothers' employment are very similar and suggest that employment rose by a little under 4 percentage points as a result of the WFTC and related reforms.

It could be concluded from the above that the total reform package of financial incentives, combined with activational support through NDLP and WFIs, have raised lone parents employment by around 5 percentage points. With around four points stemming from the financial packages and an additional point from the WFI/NDLP activational approach. However, this makes a lot of inferences that may not be supported. As shown in the Canadian SSP and MFIP, the combined package is more effective than either undertaken separately. So attributing differential

effects to elements of the reform package may be missing important interactions between the elements.

Alternatively, the work of Blundell, Brewer and co-authors at the IFS produces no difference in results using a structural labour supply model looking at financial measures only and before and after estimates, which would reflect all elements. Implicitly they are saying that WFIs and the NDLP do not influence the employment decisions of lone parents, and that such contacts can only increase the speed of adjustment to changed incentives by increasing information flows. However, NDLP/WFIs can reasonably be thought of as helping to overcome misperception of incentives or to reduce stigma attached to claiming tax credits. Brewer et al. (2005) suggest reductions in the stigma claimants feel when claiming in-work benefits has added 1.4 percentage points to lone parent employment, some or all of which could be the result of the NDLP/WFI regime.

As a useful benchmark the last section reports the labour supply elasticity estimates embedded in the IFS model. This shows that lone parents' employment rises quite strongly with a rise in real take home wages. A 10 per cent increase in real net pay (relative to being out of work) raises employment rates of lone parents by around 2 percentage points.

b) Couples with children

The labour supply decisions of couples with children will also have been affected by tax credit changes and the New Deals for 25+ unemployed and for sick and disabled people. However, the New Deal for Disabled People (NDDP) had very low take-up over this period and is unlikely to have had substantive effect on worklessness. Even the ND25+ was fairly modest in its take-up and, perhaps, can be seen as a second order issue. The IFS structural labour supply models have estimated the effects of tax credit and other financial measures on the incidence of workless couples, with Blundell et al. (2005) estimating a difference in difference model. The two papers suggest significant effects but differ somewhat on whether it is men or women in workless couples who responded most. Brewer et al. (2005) estimate that policy reform was responsible for a 0.6 percentage point fall in the share of couples who were workless. Blundell et al. provide estimates for men and women in workless couples separately but, given a similar relationship to that estimated by Brewer et al., they would imply a 1 to 1.5 percentage point fall in workless couples. Between 1993 and 2003 the rate of worklessness among couples with children fell from 8.5 to 4.9 per cent. This work by the IFS suggests that around a quarter of this fall (1 point)

can be attributed to policy reform in the 1999 to 2002 window, representing around 60,000 couples and 140,000 children. The rest of the fall will have largely flowed from the general economic upturn occurring in the period.

The new tax credit changes and subsequent increases in generosity of payments have not yet been fully evaluated. The IFS structural model, used extensively by Blundell and Brewer with co-authors, provides a simulation of the implication of financial reforms introduced in April 2003 and April 2004. This suggests that the new tax credits and the rise in NI and freezing of tax allowances had marginal net positive effects on labour supply of lone parents. Since 2003 the rate of worklessness among couples with children has been flat. For lone parents, however, the employment rate has risen by over 3 percentage points. Since aggregate employment levels have been flat, this may reflect continued adjustment to past reforms or changes in lone parent characteristics (see further below), rather than the impact of the latest reforms. The IFS model suggests that mothers in couples are as sensitive to real wages as lone parents but less likely to vary their hours when in work. In contrast, fathers in couples are not as sensitive to increases in real wages and those in work actually cut back the hours they work as incomes rise, although some of those out of work do enter employment as incomes rise.

The conclusion from this section is that employment in families with children over the last 10 years has improved dramatically. For couples with children the rate of worklessness fell from 8.5 to 4.9 per cent between 1993 and 2003. Work by the IFS suggests that around a quarter of this fall (1 point) can be attributed to policy reform in the 1999 to 2002 window. This would represent around 60,000 couples and 140,000 children. The rest of the fall will have largely flowed from the general economic upturn occurring in the period up to spring 2000. For lone parents the employment gains have been truly staggering, with employment rising from 42 per cent in 1995 to 56 per cent in 2005. Around 60 per cent of this gain has been achieved since the major welfare reforms starting in 1999. This later period has seen rather muted employment growth compared to the mid-1990s. A range of studies suggest that the policy reforms since 1999 have added around five percentage points to the employment rate of lone parents, with the remainder arising from improvements in employment, and especially shifts in the characteristics of lone parents, which are discussed further in the next section.

4. Who remains out of work and what are the employment and wage opportunities for the workless in the UK?

There are two methods of exploring who remains out of work. First we examine which benefits are being received by which types of parent. This is very important for assessing the potential for welfare to work policy, which is normally delivered on the basis of benefit type received. The second method uses survey data on the characteristics of the population of workless couples with children and lone parents.

Table 4.1 focuses on benefits and their recipients and shows that there were 470,000 couples claiming key welfare benefits in February 2005 and the vast majority of these were receiving disability related benefits. This suggests that further falls in Jobseeker's Allowance (JSA) measure of unemployment (or modest rises) will have little effect on the numbers of workless couples in the UK. This was not always the case. In the decade between 1995 and 2003⁵ there was a decline of nearly a quarter of a million couples with children in receipt of JSA. Most lone parents claim Income Support for Lone Parents but a small minority, about one in five, claim disability benefits. This means that what happens to numbers of disability benefit recipients over the next few years will be very important for employment patterns of parents and, whilst this is clearly the dominant issue for workless couples, it is also pertinent for the employment rates of lone parents. Overall about a third of claims for disability benefits are made by adults with parental responsibilities, so welfare to work programmes to address child poverty need to focus on disability benefits, as well as on lone parents' reliance on Income Support.

⁵ There was a change in definition in 2003 which identified many more families as couples with children.

Table 4.1 Numbers of claimants for key benefits by family type Feb 2005

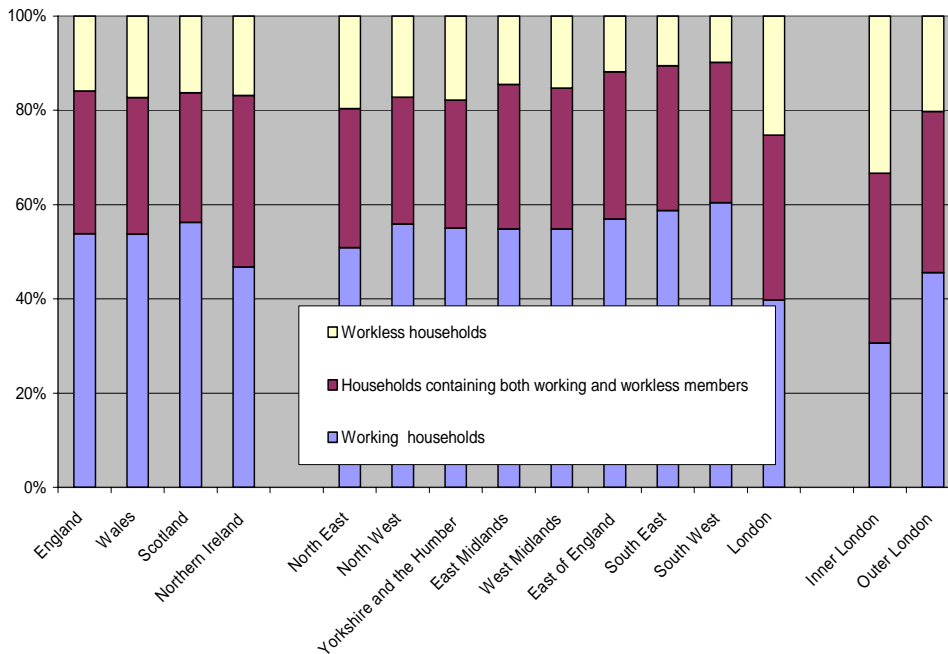
Benefit types	Couples with children	Single parents
Lone Parent IS	-	761
IS + Disability or IB	358	171
JSA	92	21
Other	20	5
All	470	958

Source: Client group analysis: families and children on key benefits, June 2005, Department for Work and Pensions.

Furthermore, these families in receipt of welfare support have mostly been out of work for substantial periods of time. Some 60 per cent of couples with children on these key benefits have claims that have lasted for over two years. For lone parents this rises to two thirds.⁶ So worklessness among those claiming these benefits is long standing.

Figure 4.1 Children in workless households by region

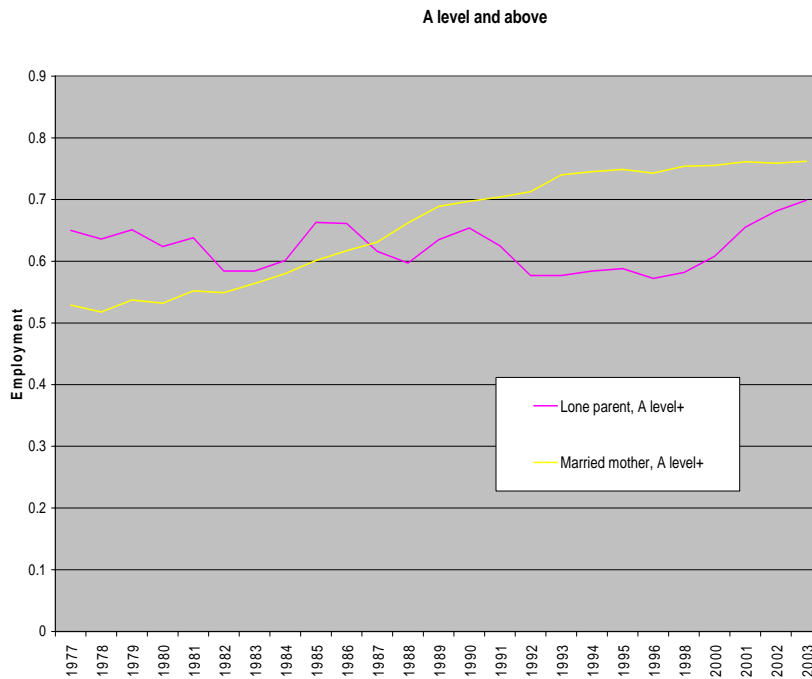
Children living in working-age households by region and combined economic activity status of household. Spring 2005



⁶ Calculations from Client Group Analysis: Families and Children on Key Benefits, June 2005, Department of Work and Pensions.

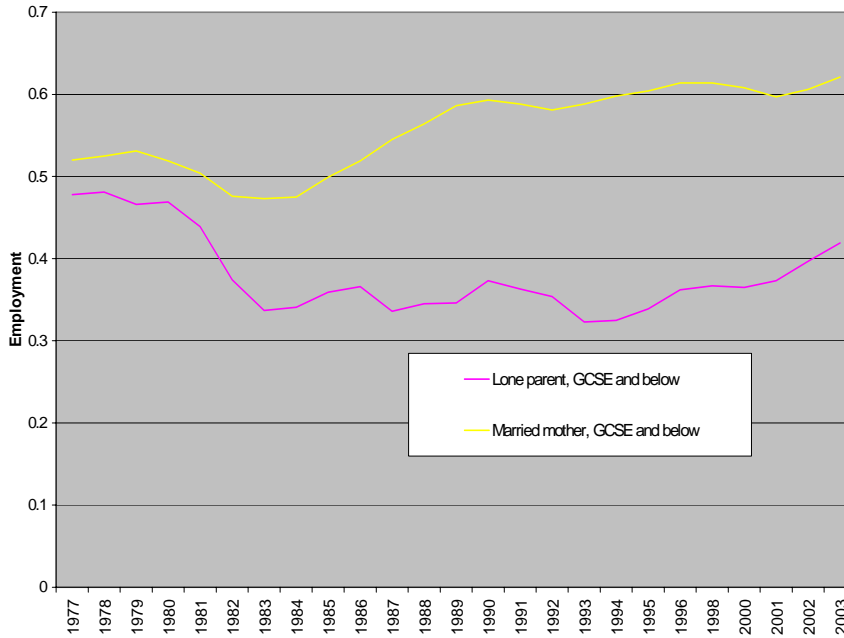
The second method of exploring worklessness is to use survey data to explore the characteristics of the population still out of work. Figure 4.1 highlights the regional patterns of children living in workless households. The first very striking point is that London stands out as clearly having the worst extent of worklessness for families with children (24 per cent of children in a household with no adult in work). This is partly the result of Inner London having a higher proportion of lone parents than in other areas, and partly poor employment patterns among both lone parents and couples in London (see Meadows 2006 or HM Treasury 2006). The situation in Inner London is massively worse than any other area, with some 35 per cent of children in a workless household. Outer London is similar to the North East (20 per cent), followed by Wales, Northern Ireland, the North West and Yorkshire (all around 17 per cent). Given the huge London population, this sizable employment deficit is doubly worrying.

Figure 4.2 Lone parent employment by major education grouping



Welfare to work policies and child poverty

GCSE and below



Figures 4.2 to 4.5 report the patterns of worklessness among lone parents across a number of characteristics. Figure 4.2 shows that lone parents with qualifications at A levels or above had higher employment rates than mothers in couples with the same qualifications in the early 1980s. This pattern was reversed in the mid 1980s and a large gap emerged by the early 1990s. However, this has been sharply eroded over the last 10 years and the employment gap is now fairly modest. The lower panel of Figure 4.2 shows the same for those with GCSE or lower qualifications. A small deficit in the early 1980s grew dramatically, so that by the early 1990s employment among less qualified lone parents was 25 percentage points behind that of similarly qualified mothers in couples. This gap has narrowed a little over the last decade but is still 20 percentage points. So the employment deficit of lone parents is heavily focused on those lone parents with low level qualifications.

Figure 4.3 Lone parent employment by number of children



Employment among lone parents is markedly lower for the small minority with three or more children than for those with fewer children (Figure 4.3). The gap in employment rates between lone parents and mothers in couples is large across all family sizes. Figure 4.4 shows employment patterns for lone parents by age of youngest child. The recovery in employment is marked for all lone parents whose youngest child is in each of the three age groupings. Again all three categories could see large gains in employment to match mothers in couples. Finally Figure 4.5 shows variation across male and female lone parents and by the previous marital status of lone mothers. Among male lone parents (around 8 per cent of the total) the employment rate is 70 per cent, some 15 per cent below men of similar ages who are not lone parents. For women who were previously married, employment rates are quite high at about 62 per cent, although this group tends to have older children. Lone parents who were never married still have employment rates of under 50 per cent, but the gains since the mid 1980s have been huge.

Figure 4.4 Lone parent employment by age of youngest child

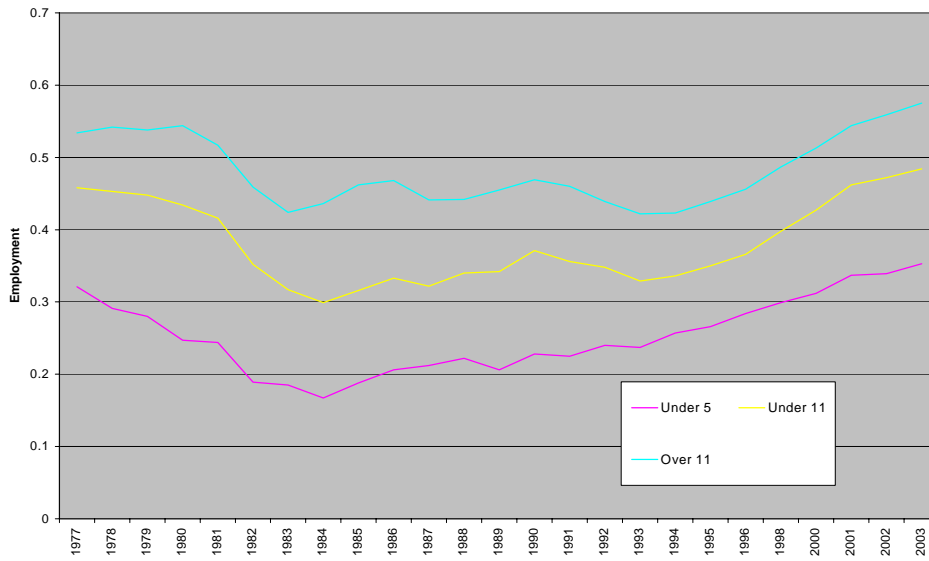
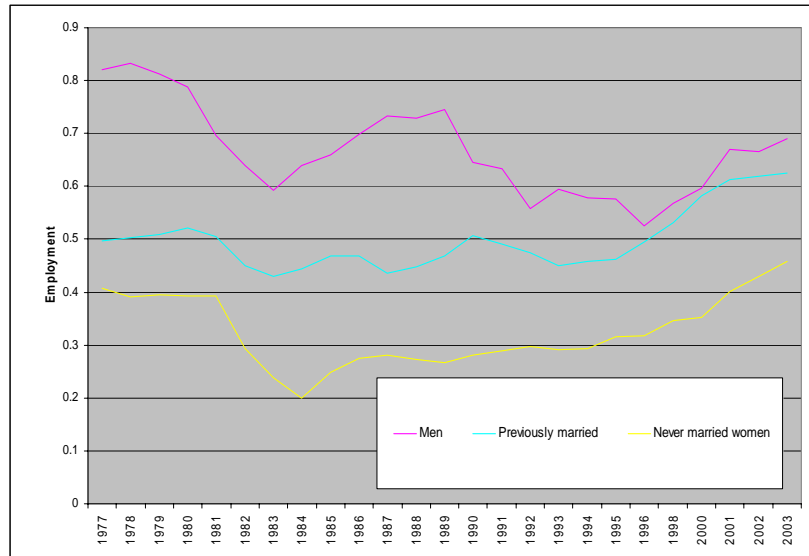


Figure 4.5 Lone parent employment by gender and previous marital status



5. Projected employment in 2010 and beyond

In this section we produce baseline projections of the likely employment rate of lone parents and (workless) couples with children in 2010. These projections are based on the policy developments described in Sections 3 and 4. We assume a constant policy structure as of 2004-5.

The government has announced a policy target of raising the employment rate of lone parents to 70 per cent by 2011 but this target is aiming to support the 2010 child poverty target so for the purposes here we focus on the potential to achieve the target by 2010. The target also applies to Great Britain rather than the UK for which the employment rate of lone parents had reached an all time high of 56 per cent in 2005. In 1997 the GB lone parent employment rate stood at just 45 per cent, so in order to reach 70 per cent by 2010 the Government needed to see a rise in lone parent employment by just under 2 percentage points a year. Even with the rapid employment growth achieved, the overall employment rate in 2005 remained five percentage points below that required to be on track to hit the target. Figure 5.1 shows the employment trajectory for lone parents required to raise employment from 45 per cent in 1997 (point A) to 70 per cent in 2010 (point D). By 2005 the employment rate reached 56 per cent (point B) but would need to be 61 per cent to be on track to reach the 2010 target. This deficit means that the employment growth from 2005 to 2010 (line joining points B and D) needs to be substantially faster than the recent strong growth (line joining A and B) to get to 70 per cent by 2010.

Figure 5.1 Lone parent employment rate and target rate



Projecting forward there are three broad reasons why the employment rate of lone parents might change in the absence of further welfare reform. First, there may be a general shift in employment if there is a change in aggregate macroeconomic conditions. Second, the composition of the lone parent population may change so that there are fewer lone parents with (un-)favourable employment characteristics. Third, existing policy, which has been announced and in some cases implemented, may continue to have a lagged effect on employment which has not yet been captured in the data. For the purpose of this exercise we intend to ignore aggregate employment shocks as it is difficult to assume a direction, let alone a magnitude, of change. So our simple rule of thumb is that aggregate employment will not change greatly over the next few years.

5.1 Changes in lone parent characteristics

Changes in the employment characteristics of lone parents are reported in Table 5.1. Compared to lone parents in the early 1990s, lone parents in 2002/03 were older (only one in four were under 30 in 2002/3 compared to more than one third in the early to mid 1990s), better educated, more likely to be home-owners, had fewer children in total and were less likely to have young children. They were also much more likely never to have married. We assess the effect that these changes in characteristics have had on total employment by running a model of employment. We then estimate how, in the absence of policy change, employment would have changed as a result of changes in

characteristics of the lone parent population alone. By looking at the changes in propensity of lone parents to be in work from the model, holding constant lone parent characteristics, we then estimate the impact that policy change has had on employment.

Table 5.1 Proportion of lone parents with characteristic 1982-3 to 2002-3

	1982- 1983	1992- 1993	1996- 1998	2002- 2003	Projected mean characteristics for 2010
Age					
<i>Aged 16-19</i>	0.044	0.024	0.033	0.018	0.01
<i>Aged 20-24</i>	0.129	0.147	0.095	0.100	0.08
<i>Aged 25-29</i>	0.166	0.204	0.181	0.123	0.10
<i>Aged 30-39</i>	0.351	0.361	0.410	0.433	0.47
<i>Aged 40-49</i>	0.238	0.225	0.250	0.270	0.28
<i>Aged 50-59/64</i>	0.072	0.039	0.031	0.056	0.06
Education					
<i>Degree</i>	0.018	0.035	0.056	0.093	0.12
<i>Higher</i>	0.085	0.133	0.142	0.175	0.18
<i>A Level</i>	0.053	0.097	0.163	0.183	0.16
<i>5 GCSEs</i>	0.243	0.357	0.317	0.324	0.32
<i>Less than 5 GCSEs</i>	0.601	0.382	0.322	0.225	0.19
Homeowner	0.284	0.334	0.325	0.366	0.37
Marital status					
<i>Divorced / Separated</i>	0.657	0.574	0.587	0.518	0.52
<i>Single never married</i>	0.213	0.367	0.366	0.456	0.45
<i>Widowed</i>	0.130	0.059	0.047	0.026	0.03
Number of children					
<i>One Child</i>	.541	.558	.535	0.565	0.55
<i>Two children</i>	.322	.303	.313	0.306	0.30
<i>Three children</i>	.127	.139	.152	0.188	0.19
Age of children					
<i>Youngest child < 5</i>	.329	.443	.383	0.326	0.33
<i>Youngest child < 11</i>	.656	.742	.729	0.681	0.68
Health					
<i>Good health</i>	0.555	0.572	0.525	0.562	0.56
<i>Moderate health</i>	0.287	0.307	0.331	0.280	0.28
<i>Poor health</i>	0.158	0.121	0.143	0.158	0.16
London	0.117	0.150	0.135	0.140	0.14

Source: Authors' calculations from the General Household Survey.

The results from the probit model are reported in Table 5.2. The results suggest that older lone parents are now much more likely to work than those aged under 30, and that this effect has become increasingly important with time. Education also matters greatly, with the least well qualified much less likely to work than those with some education. Home-owners are much more likely to work than those renting, perhaps because of the radically different work incentives created by Housing

Benefit. Previous marital status does not appear to have a direct influence on employment for lone parents at any point in time. Lone parents with more than one child are less likely to work, with those with three children 24 per cent less likely to be employed than those with one. Finally, having a young child also reduces the likelihood of employment, but this effect is much smaller than a decade ago.

Table 5.2 Predict impact of characteristics on employment probabilities (from probit model)

	1982-1983	1992-1993	1996-1998	2002-2003
Age (relative to age 25-29)				
16-19	-0.326*	-0.095	-0.206*	-0.553**
20-24	-0.048	-0.037	-0.190**	-0.129*
30-39	0.063	0.119**	0.039	0.132**
40-49	0.019	0.031	0.024	0.131**
Education (relative to A level)				
Degree	-0.213	0.010	0.139	0.065
Higher Education	-0.136	-0.001	0.018	0.011
5 GCSEs	-0.173*	-0.086	-0.047	-0.134**
Less than 5 GCSEs	-0.313**	-0.203**	-0.187**	-0.287**
Marital status (relative to single never married)				
Widowed	0.001	-0.061	-0.005	0.055
Divorced	0.024	-0.007	0.038	-0.031
Separated	0.030	0.061	0.008	-0.034
Number of children				
Two children	0.022	-0.068	-0.080*	-0.079*
Three children	-0.133*	-0.207**	-0.178**	-0.240**
Age of children				
Youngest child < 5	-0.270**	-0.184**	-0.084*	-0.151**
Youngest child < 11	-0.107*	-0.123**	-0.117**	-0.031
Health (relative to fair)				
Good	0.027	0.023	0.059	0.064
Not good	-0.275**	-0.178**	-0.139**	-0.168**
Homeowner	0.211**	0.193**	0.270**	0.375**
London	0.220*	-0.073	-0.104	-0.131

P – values: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Source: Authors' calculations from the General Household Survey.

Using the coefficients from each of the four probit models we can predict the levels of employment that would have persisted among lone parents where mean characteristics vary over time. These estimates are reported in Table 5.3 below. This table shows, for example, that using the coefficients from the 1982/3 probit model predicts an 8.9 percentage point rise in employment to 49.2 per cent in 2002/03 as a result of changes in characteristics alone. However employment actually rose to be as high as 55.9 per cent in the 2002/3 General Household Survey, suggesting that 6.7 percentage points of the rise in employment was due

to improved chances of employment for lone parents with a fixed set of characteristics. Using the coefficients from the 1996/98 probit model predicts that changes in characteristics alone would have led to a 4.5 percentage point increase in employment to 48.8 per cent by 2002/3. The further 7.1 percentage point rise in employment to 55.9 per cent must therefore be explained by increases in the propensity of lone parents with a fixed set of characteristics to be in work. This suggests that rising aggregate employment, together with policy changes that increased employment propensities of lone parents, explained the seven percentage point residual gain in employment.

Table 5.3 Actual and predicted employment

	1982/3	1992/3	1996/98	2002/3
Predicted employment using probit coefficients from:				
1982/3	.403	.425	.446	.492
1992/3	.371	.398	.424	.467
1996/8	.395	.424	.443	.488
2002/3	.422	.467	.496	.559

Source: Authors' calculations from General Household Survey data. Numbers on leading diagonal (in bold) are actual employment rates.

Table 5.4 Decomposition of the change in employment resulting from improvements in employment characteristics

	1992/3-02/03	1996/98-02/3
Change in employment	.161	.116
Due to characteristics	.088	.059
<i>Health</i>	-6%	0%
<i>Home owner</i>	11%	21%
<i>Age</i>	23%	20%
<i>Region</i>	5%	0%
<i>Education</i>	48%	38%
<i>Marital</i>	0%	1%
<i>No. kids</i>	2%	7%
<i>Age kids</i>	17%	13%

We are able to break down further the effect of changes in characteristics on employment into their component parts (Table 5.4). This decomposition suggests that since 1996/8 around half the total increase in employment has risen from changes in characteristics (5.9 percentage points of the employment gain), and that changes in age,

levels of home ownership and education among lone parents accounted for around 80 per cent of this rise. Falling numbers of children and, in particular, of young children, among lone parent families accounted for much of the remaining fifth of this gain.

Finally we use coefficients from the probit models to predict the extent to which future changes in lone parents' characteristics are likely to affect the overall lone parent employment rate. We do this by projecting forward to estimate likely average future employment characteristics, assuming that the estimated coefficients from the 2002/03 probit model remain unchanged. Taking this forward would suggest that continued improvements in education and the increasing average age of lone mothers will lead to a rise in employment of around 5 percentage points between 2002/3 and 2010, or around 0.6 percentage points per year. The latest data from the Labour Force Survey, that for Autumn 2005, which is two-and-a-half years on from the point at which our General Household Survey estimates were computed, suggests that changes in composition should have contributed one-and-two-third points to employment already. We would therefore expect only a further three-and-one-third percentage points to be added to employment as a result of compositional change by 2010. So accounting for likely compositional shifts over the next five years would predict an employment rate of just over 59 per cent by 2010, well below the Government's 70 per cent target rate.

5.2 Lagged policy effects

The full effects of policy reforms can take a long while to be fully revealed, especially where claimants remain on benefits for long periods of time. To examine the potential impact of lagged policy effects on employment we start by examining a flow model of the labour market participation of lone mothers. This approach has a great advantage, in that recent policy changes will affect flows into and out of work pretty well immediately, but it will take some years for these new flow patterns to be fully realised in the average employment rate. Hence we can forecast from current flow patterns what the steady state employment rate will converge to.

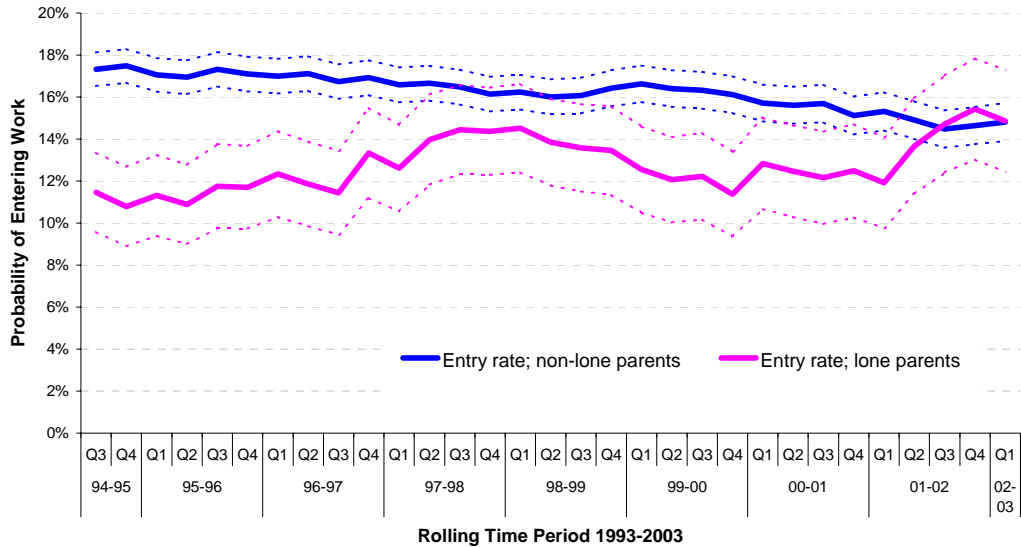
Data on job flows from the Quarterly Labour Force Survey panel shows a convergence in the job entry rate of lone parents with other non-working women (see Figure 5.2). However exit rates from jobs, while falling, remain higher than those for other women. Using a simple steady state analysis we can assess the likely impact of changes in the entry and exit rate on employment. In 1992, lone parents had a job entry rate (from non-employment) of 11.5 per cent, and an exit rate of 14 per cent. Had

these rates persisted we would have predicted an equilibrium employment rate of 45 per cent. By 2002 the job entry rate had risen to 15 per cent, and job exits declined to 10 per cent, raising the equilibrium employment rate to 59 per cent. Preliminary analysis of data for job entries and exits between 2003-05 suggests that the exit rate has continued to fall (in 2003/5 it is around 9 per cent) while the entry rate has also shown a small decline from its 2002 peak (to around 13 per cent in 2003/5). These latest figures on job flows still suggest an equilibrium employment rate of 59 per cent because improvements in job exit are offset by the falling rate of job entry rate. Therefore, this suggests that the effects of past policy changes that had not been fully realised by 2003/5 will add around three percentage points to the employment rate in the future.

These flow patterns are based on the characteristics of lone parents in 2002/3 and they are not capturing any future employment growth that occurs from changing characteristics described immediately above. Hence these two projections are not double-counting the same developments.

Figure 5.2 Job entry and job exits: lone parents and non-lone parents.

Source:



Source: Data on job entry and edit (from Evans and Harkness)

6. Current policy pilots

There are a number of policy pilots underway involving welfare to work programmes for sick and disabled people and lone parents. As shown in Section 4, around one in five workless lone parents are receiving sickness and disability benefits, with the rest mainly receiving Income Support. Nearly 80 per cent of workless couples with children have at least one adult on sickness and disability benefits, with only 20 per cent on JSA. So current pilots in areas supporting lone parents into work from Income Support and all families with children from sickness and disability benefits, as well as those supporting job retention and advancement, need to be considered here.

Pathways

The Pathways programme seeks to help claimants of Incapacity Benefit and Income Support with Disability Premium back to work. It consists of six Work Focused Interviews in the first nine months of a person's claim. At these interviews the client is encouraged to join the Choices programme (which can contain mixtures of rehabilitation and New Deal for Disabled People) and is backed by a Back-to-Work Bonus and a Job Preparation Premium. These help to make sure work pays and that participants are able to meet any costs associated with the extra activity required. The Choices support package is almost always delivered by an outside contractor, rather than Jobcentre Plus and many of these are non-profit making organisations, some with past experience of helping disabled people.

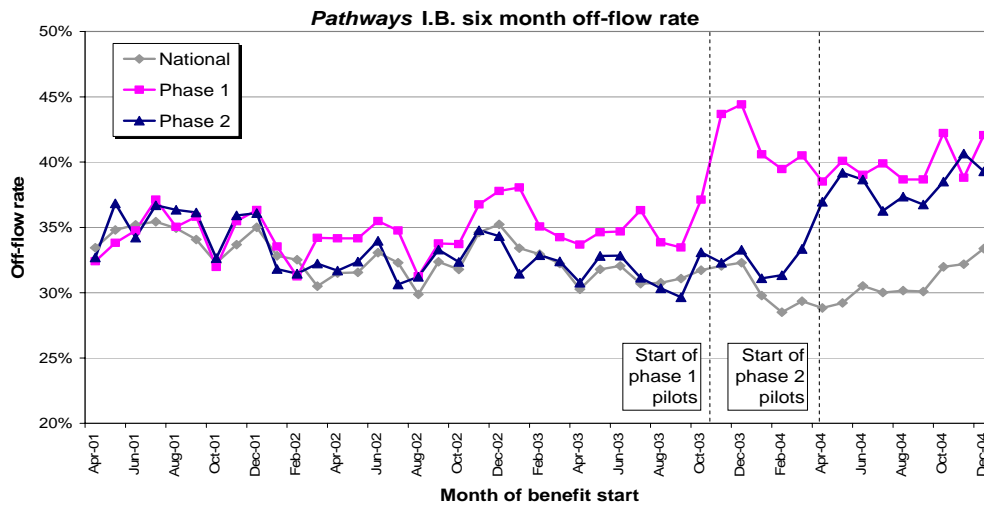
Pathways, to date, has applied only to new claimants but an additional pilot for the 'short term stock', that is those who have been in receipt of benefit for between nine months and three years, has recently started (October 2005). The pilots, known as Pathfinder areas, have been chosen and implemented in three waves. The first, covering four relatively small Jobcentre Plus districts, started in October 2003. The second wave started in April 2004 and a more substantive group, which brings coverage to around a third of the country, began in October 2005. Glasgow and further areas will come on stream through 2006.⁷

⁷ **Current pilot areas:** Began October 2003: Bridgend & Rhondda, Cynon, Taff, Derbyshire, Renfrewshire, Inverclyde, Argyll & Bute. Began April 2004: Lancashire East, Essex, Gateshead & South Tyneside, Somerset.

Benefit off-flows

There is an increasingly clear indication that Pathways appears to be having an impact on flows off incapacity benefit. Figure 6.1 shows the proportion of initial claimants in a month who are no longer in receipt of Incapacity Benefit six months later. Each month reported thus reflects the month of entry on to benefit. The count is of the proportion of the initial claimants no longer in receipt six months later so any claimant who leaves but later returns to being a claimant counts as in benefit receipt. It is clear that both phases of Pathways roll-out have reduced the numbers of claimants by 7 per cent after six months. There are also indications that this increase in off-flows has been associated with a reduction in the total number of Incapacity Benefit recipients in the pilot districts. Indeed, the most recent data suggest that the total stock of Incapacity Benefit claims has started to fall and this is the first sustained reduction since the benefit's inception. There is a risk, however, that it is the most job- ready who move into work and hence these people would have returned to work anyway but at a later date.

Figure 6.1 Percentage of claimants flowing off of IB after six months



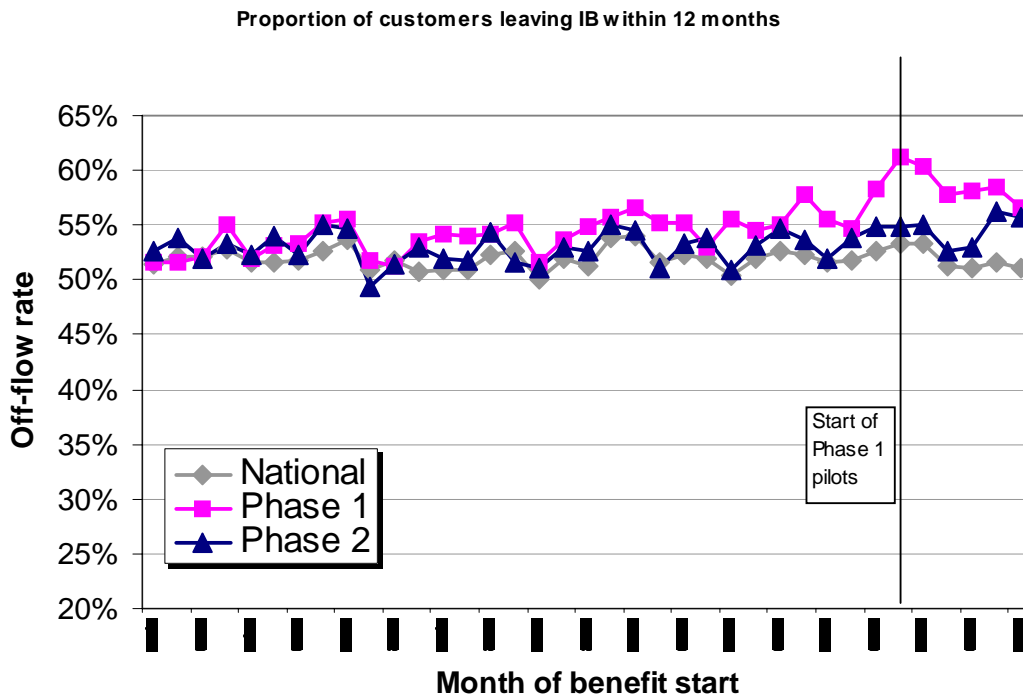
The off-flow rates presented are produced from the Working Age Statistical Database (WASD). WASD does not include a proportion of short-term Incapacity Benefit claims, therefore the off-flows presented will be lower than actual rates. However, trends over time will be consistent.

So the crucial question is, for how long do these reductions in caseload persist? Figure 6.2 shows the same information as Figure 6.1 but one year after claims have started, rather than after six months. The first

Pre Budget Report 2004 announcement: Phase 1 Jobcentre Plus Districts (October 2005): Glasgow, Cumbria, Lancashire West. Phase 2 Jobcentre Plus Districts (April 2006): County Durham, City of Sunderland, Greater Manchester Central, Liverpool & Wirral, Swansea Bay West Wales, Lanarkshire & East Dunbartonshire, Barnsley, Doncaster & Rotherham, Tees Valley. Phase 3 Jobcentre Plus Districts (October 2006) Staffordshire, Greater Mersey, Eastern Valleys.

monthly cohort of Phase 1 pilots to reach a year from the pilot start are shown by the vertical line and are still showing a 5 per cent reduced caseload on welfare. So, while there had been some decay, there was still a marked lowering of caseload after a year. The Phase 2 pilots had not been running for a full year for this data period but the pre-effect is apparent in the two months prior to start-up. Early evidence suggests that the policy is helping those with mental health problems (e.g. depression and anxiety) more than physical conditions. This may well mean that lone parents will be helped more than the average Incapacity Benefit claimant as lone parents are more frequently on Incapacity Benefit for mental health reasons. So the effects of Pathways on parental employment appear positive but it is far from clear, as yet, how long the beneficial effects will last and hence how positive the programme will prove.

Figure 6.2 Percentage of claimants flowing off of IB after 12 months



The off-flow rates presented are produced from the Working Age Statistical Database (WASD). WASD does not include a proportion of short-term Incapacity Benefit claims, therefore the off-flows presented will be lower than actual rates. However, trends over time will be consistent.

The effects of Pathways and the increasing focus on disability within Jobcentre Plus is for the first time leading to a pronounced decline in the numbers of claimants. Incapacity Benefit claims peaked at 1.59 million in May 2002 but have fallen by 90,000 since, to stand at 1.5 million (Source DWP Tabulation Tool), 50,000 leaving in the last year. This decline is matched by falls in Income Support with Disability Premium claims, which peaked at 1.36 million in August 2003 but declined to 1.2 million in August 2005. These two benefits can be claimed simultaneously but, even so, this represents a marked break in the trend. Numbers on either

benefit had previously risen continuously, from around 700, 000 in 1979 to a little over 2.77 million in November 2003, but are now 64,000 below this peak; 57,000 of this fall has taken place in the last year.

New Deal plus for Lone Parents (ND+LP)

The pilots addressing potential further support mechanisms for lone parents include an in-work credit of £40 a week on entry into work paid for one year and, in a reduced number of areas, a Work Search Premium designed to generate greater participation in NDLP and other programmes. More recently a full package of potential support including the in-work credits and an activational payment (entitled Work Related Activity Payment – WRAP) has started, labelled the ND+LP pilot programme. This probably represents the Department of Work and Pension's intended next step package to move toward the 70 per cent employment rate target. None of these pilots have so far produced published results. In addition, the Employment Retention and Advancement pilot aims to explore strategies to help those leaving welfare (lone parents or disabled) to maintain employment and raise earnings. Again, we have no published results to date but the very similar pilots in the US, reported in Section 1 of this report, suggest that the potential for these strategies to raise employment rates may be small.

7. Potential policy developments and hitting the 70 per cent one parent employment target

In this section we draw future scenarios of what is likely to happen to employment of lone parents and workless couples with no future policy changes. We then go on to discuss policy options to further increase employment. First, we look at what may happen to employment on currently delivered policy reforms, based on the evidence developed in Sections 5 and 6. We then extend this to include announced policy that is not yet implemented and, finally, we discuss some options for further reform.

7.1 Projections based on current delivered policies

There are five major reasons why employment may change over the next few years, even without further new policy initiatives:

- changes in aggregate employment;
- employment related changes in the characteristics of lone parents or couples with children;
- time lags in the impact of recently implemented policies;
- change in work incentives implicit in current policy;
- policies not yet delivered to the whole population but announced.

7.1.1 Changes in aggregate employment

The first, and most obvious, reason why employment patterns might change is if there are changes in aggregate employment which have effects on employment probabilities of the groups under consideration, that is, families with children. However, such forecasting is fraught with unknown eventualities, so our baseline assumption is that aggregate employment remains at around 75 per cent of the working age population in the absence of policy reform. Hence, it is not anticipated that aggregate employment will make a substantial impact on employment among families up to 2010.

7.1.2 Changes in characteristics

The second factor that will change employment patterns is if the characteristics of lone parents or couples with children shift in ways that increase or reduce their employment chances. In the early 1980s there was a marked shift towards lone parents who were less well educated, younger and living in social housing. More recently all of these aspects have reversed. Lone mothers are increasingly older (and have older children), are owner-occupiers and are increasingly well educated (see

Section 5). This has contributed to recent rising employment patterns. Projecting forward trends in increasing home ownership, increasing age and rising education levels to 2010 (at slightly slower rates than in the recent past), suggests that compositional shifts would push up the employment rate of lone parents by three percentage points to 59 per cent. Projecting any further forward is unwise, given the huge uncertainty about whether such trends can continue for such a long period.

7.1.3 Time lags in policy impact

Policies recently enacted often take time to work though into a steady state employment rate. However, flow patterns in and out of work give early insight into what the steady state levels of employment will be. Based on flows data within the Quarterly Labour Force Survey, for a constant composition of lone parents, the steady state employment rate for lone parents is predicted, again, to rise by three percentage points to 59 per cent. This will develop before 2010 and, indeed, mostly by 2008. Based on this working assumption, that current flow patterns can predict the steady state that will be reached in the next few years, the projection is that by 2010 the lone parent employment rate will stand at around 59 per cent. However, again, some of this effect will already be accounted for in the latest data for autumn 2005. Combined with expected changes in the composition of lone parents discussed above, the estimated level of lone parent employment will reach close to 62 per cent by 2010. This estimate of the steady state employment rate does not take account of the recent Pathways pilots which are not in the period over which the flows based estimate is modelled. This is discussed further below but our estimate is that the existing Pathways areas and fall in Incapacity Benefit caseloads will raise lone parent employment by around half a percentage point by 2010.

7.1.4 Work incentives

One further part of the puzzle of what may happen in the absence of further reforms concerns work incentives. Current policy assumptions are that only the Child Tax Credit will rise in line with earnings until 2008, whilst all other benefits including out-of-work benefits will continue to rise only in line with prices. Therefore, in-work incomes are rising in line with earnings (apart from the Working Tax Credit and income tax thresholds, which are rising in line with prices). But out-of-work incomes are rising slower than earnings since Income Support, Jobseeker's Allowance and Incapacity Benefit are set to rise only with prices. For a non-working lone mother with 1.7 children, the Child Tax Credit makes up half her income, this half will rise with earnings and the other half by prices. This would suggest that in-work earnings will be rising by around 1 per cent a year

faster than out-of-work incomes (given real wage growth of 2.5 per cent a year). Over five years this will raise the employment rate by around one percentage point but it will take years to feed through fully into employment. So a more reasonable assumption is that about a 0.5 percentage point increase will have come through by 2010.

Given the uncertainty of these elements our baseline is that, without any policy change, employment for lone parents will rise to around 63 per cent by 2010 on the basis of policies currently being delivered.

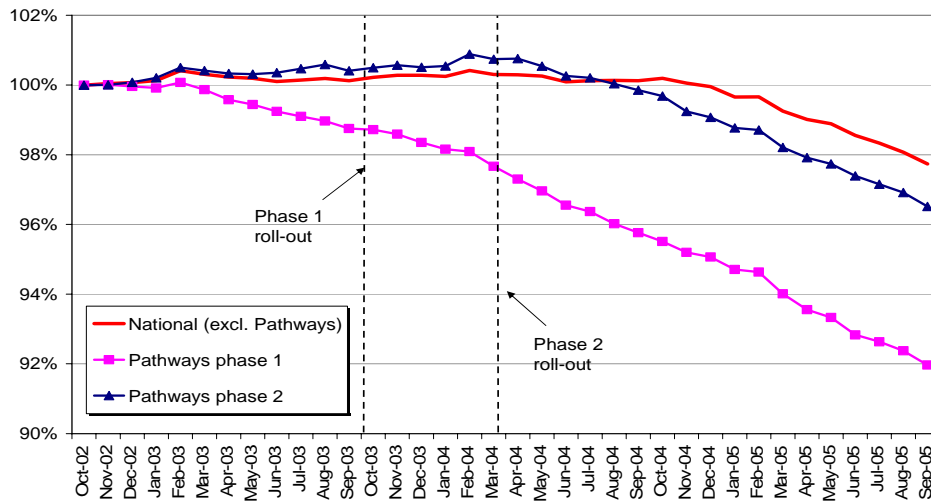
7.2 Policies announced but not yet fully delivered

A further strand of influences will stem from policies already announced and funded but not yet (fully) delivered to the target group(s). The two substantive elements here are the extension of Pathways for sick and disabled people to a third of the country, and the expansion of pre-school childcare and after school clubs.

7.2.1 Pathways

While there are 2.7 million 'live' claims currently, only some 60,000 start (or leave) in each month, while, on average, a claim lasts a little under four years. If a person does not leave in the first year the expectation is that they will be more likely to reach retirement age or die than return to work. As seen above, Pathways is reducing the number of claims still live after a year by around five percentage points. As the policy stops after nine months of a claim, its effectiveness will start to decline (as some of those leaving early would have left anyway, by year two or three for example). Hence, the effectiveness of the policy on the whole Incapacity Benefit 'stock' of claimants will not be large even if it is run nationally and, even then, will take a very long time to work through.

Chart 7.1 – Change in Incapacity Benefit caseload size – indexed to October 2002



The policy, nationally, could be expected in the long run to reduce the stock of claimants for disability benefits by, at most, 234,000. However, only one quarter of the claims are for families with children – so this policy as it stands would reduce the numbers of workless families with children by 60,000. Of these around one third will be lone parents (assuming that the policy is equally effective for all family types). So when run nationally Pathways should raise lone parent employment by a percentage point. Even this small gain rests on the very optimistic assumption that the extra people leaving in the first year are no different from those who remain on Incapacity Benefit, rather than being those who are more work ready.

Pathways will shortly cover all new claims for Incapacity Benefit (and IS+DP) in a third of the country. So, we assume the currently implemented policy will achieve one third of a national policy. This is a little less than a third of 1 per cent increase in the lone parent employment rate. Yet, for the first time, numbers of incapacity claimants have fallen over the last year. This is a new development and could be driven by a number of factors. But, if sustained, it would reduce the numbers of lone parents claiming for reasons of incapacity by 10,000 (adding 0.5 per cent to employment) by 2010.

In the Welfare Reform Green paper the Department for Work and Pensions announced that Pathways will go national from 2008, with extension to some further areas in 2007. So the expectation is that another two thirds of a point will be added to the lone parent employment rate as the policy goes national. However, delivery in 2008 will not see anywhere near the full effects achieved by 2010. So we assume that only a third of a point will be added by this policy by 2010.

7.2.2 Childcare

Childcare is often seen as a major barrier to lone parents being able to return to work. Working patterns do not often fit well with school hours and children's sickness and holidays remain difficult to cover. The Government's 10 year childcare strategy proposes a large expansion of pre-school and wraparound care (outside school hours). This has already started, with guaranteed half time places for three- and four-year-olds. However, further steps are needed for more flexible hours of care around schooling and for nursery places. Bainbridge et al. (2003) estimate that spending on childcare subsidies is as efficient (in spend per outcome) in raising employment among lone mothers as in-work tax credits such as WFTC. However, proposed childcare provision in the UK, whilst it is subsidised, is far from cheap for lone parents in the UK when moving into low paid work. Furthermore, the increase in proposed provision is to be spread across all families who wish to use it, rather than being targeted at lone mothers, let alone those trying to leave Income Support. Hence, the main effect of this policy area will be to make access to childcare easier and more flexible, rather than to reduce costs. Therefore, the likely effects on lone parent employment will probably be modest.

7.2.3 Extra Work Focused Interviews (WFIs)

The government has announced plans for further reforms to disability and lone parent benefits in the DWP five year plan and the Welfare Reform Green Paper. The Green Paper proposes to:

- introduce mandatory quarterly WFI interviews to lone parents whose youngest child is aged at least 11;
- introduce six-monthly interviews (rather than the existing annual WFI) for all lone parents who have been on benefit for at least a year and whose youngest child is aged below 11;
- provide more intensive support for lone parents between the first 6 to 12 months of their claim through additional interviews at months 8 and 10, complementing the existing WFIs at months 6 and 12.

The March 2006 budget announced that part of these proposed increases will be funded to start in early 2007. This will entail a minimum six monthly interview regime for lone parents with children of any age. The extension to quarterly WFIs where the youngest child is aged 11 or more has not yet secured announced funding. The whole WFI extension package described in the Green Paper should add around one percentage point to the employment rate. However, at some point further WFIs will become ineffectual as they will have reached a saturation point

whereby WFIs are so frequent that extra ones do not change lone parents' employment decisions.

7.2.4 Retention

Evidence presented in Section 4 suggests that if lone parents have the same job exit rates as the rest of the population and there is no related fall in job entry rates, 70 per cent employment could be met without a further significant increase in job entry rates. Although this does not mean that entry rates cannot or should not be raised, it illustrates the fact that maintaining employment once leaving benefit and, indeed, advancing into better paid jobs merits serious policy attention. The UK Employment Retention and Advancement pilots have not yet presented any evidence, but the first US pilots on very similar agendas have recently done so. This evidence was discussed in Section 1 and is disappointing, especially for strategies that provide education and case management after job entry. The most promising appears to be the Texas programme, which combines after-care once job entry has occurred with pre-employment services including training in soft skills. The Portland programme according to NEWWS evaluation evidence suggests that trying to match people with better jobs and establishing working relationships with firms seems to raise wages and holds workers in work longer, but results in lower job entry initially. On balance this programme did not improve job outcomes but did improve wages.

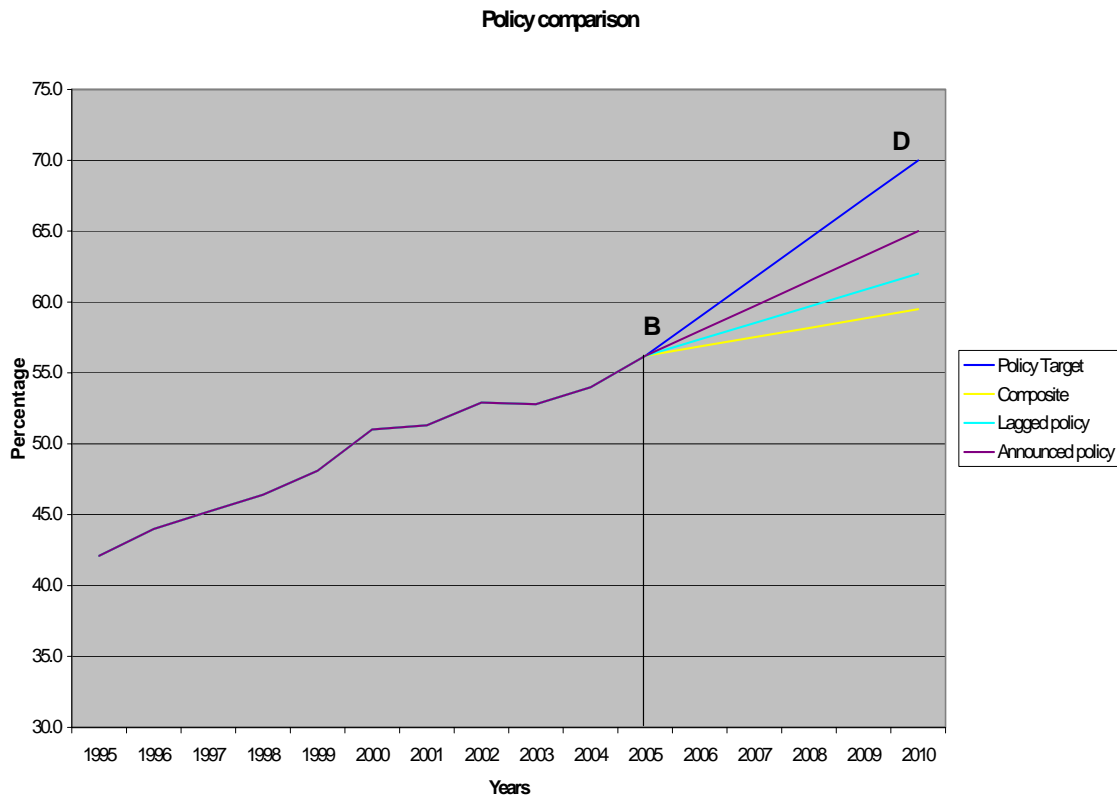
In the UK context a cheap option would be to change the Jobcentre Plus target structure to award additional points for lone parents entering sustainable employment (currently only awarded for Jobseeker's Allowance claimants remaining off their allowance for four weeks). This would naturally lead to a shift of emphasis to longer lasting jobs. Further resources allocated for emergency support, for example childcare crises, and working to solve conflict between workers and employers (absence due to child illness is a major source of problems) might offer some help in this regard. Such a policy shift could well add one third of 1 per cent to the lone parent employment rate at minimal cost.

So the above analysis would suggest that announced, but as yet unimplemented, policy will add a further two-and-a-half percentage points to the lone parent employment rate, although there is considerable uncertainty about this figure. This would take the employment rate above 65 per cent by 2010.

These projections are plotted out in Figure 7.2, which shows the cumulative projections from the drivers for the future patterns of lone parent employment, discussed above. The first component, (the lowest

upward sloping line) reflects the impact of compositional changes among the stock of lone parents, the second line adds in the lagged impact of current policy based on job flow patterns among lone parents. The third line adds in the impact of announced but as yet unimplemented policy. This suggests that, without further announced policy initiatives, the Government will fall around five percentage points short of the announced target, reaching somewhat over 65 per cent by 2010.

Figure 7.2 Employment projections for lone parent employment rates



7.3 Further policy developments

In this section we consider the likely implications of new policy developments that are being planned.

7.3.1 *New Deal Plus for Lone Parents*

The most substantive reform for lone parent employment would be if the current ND+LP pilots were to be rolled out nationally. The ND+LP represents an integrated package including an in-work credit, an activity payment for those looking for work or other agreed activities, extended school childcare, childcare tasters and Jobcentre Plus support, alongside

new measures such as increased training for personal advisers and increased marketing to encourage participation in programmes. It is currently being piloted in five areas, having started in April 2005, but the first evidence is not due until December 2006. This appears to be Jobcentre Plus's planned programme to raise further lone parent employment.

Without clear evidence from the pilots it is difficult to quantify the effect of this regime change. A plausible estimate is that this package could add two percentage points to the lone parent employment rate on national roll-out. This estimate is based on around 20 per cent of the 'stock' of unemployed lone parents being paid the activity payment (around 150,000), and around 200,000 receiving the in-work credit. This would cost around £250 million a year if rolled out nationally, and could realistically be achieved by 2008 if funding became available in the PBR due in Autumn 2006. Delays beyond this would reduce the likelihood of national roll-out being in time to deliver fully for the 2010 deadline.

7.3.2 Conditionality

The Department for Work and Pensions' five year strategy sets out an alternative approach to ND+LP, with an automatic payment of £20 a week for lone parents (with children at secondary school) on top of their existing benefits subject to the condition that the claimant is active in taking steps to find work. This is different to the activational payment in ND+LP (called Work Related Activity Payment or WRAP) in that this payment would be on an opt-out basis rather than a voluntary choice to opt in. The DWP five year strategy suggests that this would be used where lone parents have no child aged under 11. No pilots have yet been announced and the policy requires legislation. As the policy is to switch from an opt-in to an opt-out basis it is hard to gauge what scale a difference of presentation to clients would have on outcomes or, indeed, cost. However, the requirement for legislation means that this shift cannot realistically occur prior to 2008 and, more reasonably, early 2009. As such it is rather late to make a profound difference to lone parent employment by 2010.

7.3.3 Contestability

Social sector involvement in delivery of welfare to work programmes varies by programme. For Pathways, the disability programme, the social sector delivers all programmes once a claimant agrees to participate. So whilst WFIs and disability assessments are undertaken by Jobcentre Plus and health based rehabilitation is largely undertaken by the NHS, all

back-to-work support is undertaken by social sector contractors. For lone parents Jobcentre Plus undertakes WFIs and all programme brokerage and agreement of action plans but, as with services for the unemployed, normally contracts out for specific back-to-work support services. The key difference is that under the disability programmes, outside contractors are engaged in outcome related funding for the client who agrees to participate. The relative effectiveness of Jobcentre Plus over outside contractors in agreeing and implementing back-to-work plans and securing entry into work by clients remains untested. No experiment to date has pitted alternative regimes against each other on identifiably neutral ground. This possibility is described as 'contestability', using the notion of a 'contest' between Jobcentre Plus and not-for-profit providers. The not-for-profit sector argues that there would be several advantages in having such a contest. First, even an implicit competition between Jobcentre Plus and other providers will put pressure on Jobcentre Plus to improve performance. Second, outside contractors are paid on outcome delivery and, hence, have very strong incentives to produce results, with poorly performing outside contractors being easier to scale back (non-renewal of funding), in a way that is far more difficult in the public sector. Finally, social sector providers argue that they can engender greater trust among clients, and emphasise their flexibility and ability to experiment and innovate. However, to date there is little clear evidence for or against such claims.

The government has intimated, in recent PBR and Budget documents and the Welfare Reform Green paper, that it intends to use more social provision of programmes, in part to meet targets for reduced government employment under the Gershon process. But as yet no substantive announcements have been made. Whilst it is not easy to quantify the effect that such contestability might have on programme effectiveness, this direction of travel is likely to lead to modest improvements in lone parent employment, perhaps half a percentage point.

7.3.4 London initiatives

There are more lone parent households (as a proportion of all families with children) in London than in other regions and their employment rate is very low. Equally couples with children in London are extremely likely to have no work. So as shown in Figure 4.1, London has a far higher proportion of children in workless households compared to other regions. So while there is a general problem of employment in London, the problem is more acute for families with children. Thus, there is a clear need for further focus on London.

Unlike other regions the numbers of lone parents on Income Support in London has barely fallen and the ND+LP programme has been less successful in London. The current weak performance of welfare to work programmes for lone parents in London suggests that the idea of opening up contestability of delivery of WFIs and ND+LP to outside contractors might make more sense in London than elsewhere. A large area of London (several contiguous boroughs) could allow an evaluation for a pilot project using random assignment to different providers (Jobcentre Plus and not-for-profit providers), with benchmarking of effectiveness.

High housing, childcare and transport costs are often highlighted as one of the reasons for London's problems. Raising the in-work credit to £60 in London or having a one year guarantee to meet all childcare costs up to higher limits may be sensible additional support strategies for London. Further, introducing higher WTC payments for London might be attractive.

7.3.5 Retention and advancement

The major weakness in the Government's approach so far is the lack of a substantive strategy for retention and advancement after welfare claimants move into employment. This has been pointed out by a number of commentators including recently the charity One Parent Families. The problem for DWP is there is no evidence base upon which to base a programme administered by Jobcentre Plus. Hence it has limited itself to the ERA pilots discussed in Section 6. However, there is an alternative approach that has not yet been tried and could be tested out. The social sector provides most programmes administered to support job entry. For support for sick and disabled people, this is on an outcome related basis. That is, the provider only secures payment on a successful job entry. This passes most of the risk on to the provider, who will only take a contract if they feel they can successfully cover costs. So DWP could set up contracts for social sector providers to bid for contracts to offer support services to job entrants from welfare and only be paid if they can hold that entrant in work for a year and/or the entrant increases their earnings by some agreed magnitude by the end of the year.

A sensible approach would divide up the available population of lone parent job entrants in an area across more than one provider. DWP can then assess which providers and which strategies employed proved most successful. An extra bonus for the best performers would incentivise innovation, crucial for learning best practice in this area. These programmes would constitute pilots or pathfinders whereby, with low risk

to the exchequer, providers are encouraged to innovate. This would then provide the evidence base for a further generation of programmes.

Summary – Possible policy construct to reach 70% target lone parents

Measures	Cost	Contribution to employment rate (percentage points)
Base autumn 2005		55.9%
Lone parent composition	-	+3
Long run outcome given current flows; Past policy not yet having full effects	-	+3
Falling incapacity rolls from Pathways pilots	-	+0.5
Work Incentives under current policy assumptions of Brewer and Brown	-	+0.5 by 2010; +2 by 2020
Baseline for 2010 under 2005/6 policy		63% by 2010, 64.5% by 2020
Pathways pilots roll-out to UK – announced in Welfare Reform Green Paper 2006	£250m for all groups	+0.2 by 2010 +0.7 by 2020
Childcare strategy	-	+1.0
More frequent WFIs as in Green Paper – partially announced in Budget 2006	£20m	+1.0
Retention incentive – announced in PBR 2006	Negligible	+0.3
Baseline for 2010 under announced but not yet introduced policy changes	£0.5bn	65.5% by 2010, 67.5% by 2020
New Deal Plus for Lone Parents – National role out inc WRAP and in-work credit	£250mn	+2.0
London specific policy	£200mn	+0.5
Conditionality – opt-out system rather than opt-in for WRAP etc	£100-150m	+0.5 by 2010 +1 by 2020
Contestability of JC+ programmes	minor	+0.25
Retention and advancement	£200m	+0.5 by 2010; +1 by 2020
Additional work incentives through WTC	£0.75bn	+1.5 or so
Potential totals by 2010 and 2020	£1.5-1.7bn	70% by 2010; 73% by 2020

Welfare to work policies and child poverty

Couples with children		Base is Autumn 2005 95.1% with at least one worker
Existing Pathways pilots and incapacity falls	-	+0.2 by 2010 +0.5 by 2020
Improving incentives in line with Brewer and Brown		+0.1
Pathways pilots roll-out to UK	See Lone Parents	+0.2 by 2010 +0.5 by 2020
New Deal Plus for Partners as with ND+LP and move to individual claimant signing	£50-250mn	+0.1 by 2010 and +0.2 by 2020
Additional work incentives through WTC	see Lone Parents	+0.2
Potential total	£50-250 above Lone Parent total	+0.5 by 2010 rising to +1 by 2020 with full programme

Conclusion

This research, forming part of the Joseph Rowntree Foundation's project 'What will it take to end child poverty?', aims to assess the potential for the labour market, employment and welfare to work policies to support the goal of reducing child poverty in the UK. The study suggests that on current policy positions the Government will miss the stated 70 per cent employment target for lone parents. However, lone parent employment rates will rise owing to improving characteristics of lone parents, principally they are getting older and have older children. Furthermore, a number of initiatives that have been introduced or have been publicly committed to but not yet fully implemented, such as the childcare strategy and the Pathways programme which will boost employment further. The study here suggests that the lone parent employment rate could reach 65 per cent by the end of 2010 without substantial further initiatives beyond what has been announced in the Welfare Reform Green paper and the latest PBR and Budget. To go beyond that, and have a fighting chance of hitting the Government's stated target will require three additional steps; rolling out the New Deal plus for Lone Parents, a series of special focused measures to tackle the weak employment of lone parents in London, and job retention measures. Further work incentive improving measures may also prove necessary.

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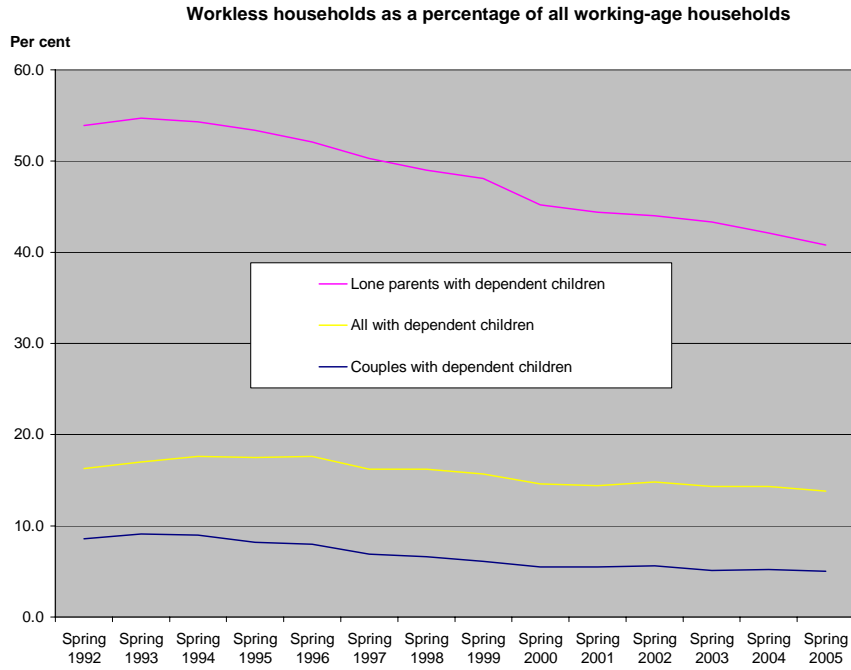
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Appendix

Figure A.1



Source: Office of National Statistics. First Release LFS 2005. Not seasonally adjusted.

(Data available at <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=12859&Pos=1&ColRank=1&Rank=224>)

Figure A.2
Chronology of main UK reforms

July 1995

- **Family credit:** 30 hours credit introduced

April 1996

- Amount to be offset for **childcare** increased from £40 to £60

October 1997

- **Child Benefit** rates for first child equalised for lone parents with that of couples for new claims, existing lone parent claims were frozen in nominal terms

1997-1998

- **New Deal for Lone Parents** launched in eight pilot areas and then extended nationally from April 1998

Oct 1998

- Age 0-10 child rates in **Family Credit** raised by £2.50 in real terms

April 1999

- **Income Support** rates for children aged 0-10 raised by £2.50 in real terms
- **Child Benefit** first child rate increased by £2.80 per week in real terms
- **National minimum wage** introduced

Oct 1999

- **Working Families Tax Credit** introduced, age 0-10 child rates raised by nearly £5 in real terms. Adult credit raised by £2 per week, earnings allowance before credits withdrawn raised by £10 in real terms and taper rate cut from 70 per cent to 55 per cent of after tax earnings. Seventy per cent of **childcare** costs up to limit of £70 for one child and £105 for two or more children can be added to credits
- First **Sure Start** programs get underway

April 2000

- **WFTC and Income Support** rates for all children under 11 raised by around £6 per week in real terms so as to eliminate differential with rates for those aged 11-16

April 2001

- Roll-out of **Work Focused Interviews** to enhance effectiveness of NDLP
- WFTC and Income Support rise in line with prices

April 2002

- WFTC and Income Support rise in line with prices

Note: There were also increases in the real value of WFTC in June 2000 and 2001.