LSE seminar: London in recession
The Recession - London’s experience and some policy implications

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Historically London is more cyclically volatile than the UK Economy

Source: GLA Economics
Growth in passenger numbers still above early 2000s levels
London experienced a less severe downturn in activity

Source: RBS / Markit Economics
And for new orders

Source: RBS / Markit Economics
Jobs growth higher in London

Source: ONS
Employment rate has fallen by more in GB than London until recently.
Unemployment has not risen as fast in London

Source: Labour Force Survey
Forecasts are for a significant contraction this year
What policies might help tackle rising worklessness in London?
What welfare to work policies work?

• Consider evaluation evidence on:
  – programmes to enhance job search
  – training programmes
  – subsidised “regular” employment
  – temporary work “tryouts”
  – work in the public / voluntary sectors
Not all jobs gained via programmes are additional

- **Deadweight** - where the same individuals would have moved into work anyway without the programme
- **Substitution** - where individuals assisted by the programme move into employment at the expense of other individuals; and
- **Displacement** - similar to substitution but operates via the product market. For example, a company employing subsidized employees undercuts its rivals taking their custom, and causing them to cut back on production and employment.
Job search programmes

• Include items such as help with CV writing, information on job vacancies.
• Core activity of the Public Employment Service (Jobcentre Plus) with its responsibility for matching job seekers to vacancies.
• Effective at helping people with skills / recent work experience move into work.
• Job search assistance also generally relatively cheap so most cost effective for the relatively ‘job ready’.
• By itself it is less effective for more disadvantaged individuals.
Training Programmes

• Successful training programmes have a strong work focus with content relevant to employer needs.
• Class room based training without associated work experience is much less effective.
• The impact of training programmes build up over time.
• More difficult to get right than other sorts of WTW programmes. Hence more risky and need careful design.
• More likely to work with more disadvantaged workers.
Subsidised Employment

• Subsidised employment often suffers from high levels of deadweight / substitution / displacement, e.g. OECD survey concluded these combined were generally in the range 76 to 95%.

• But evaluation of NDYP concluded deadweight was only around 35% - perhaps because access to the subsidy only followed an initial period of intensive job search.

• Job subsidies targeted on more the disadvantaged can be successful & tend to substitute for more job ready workers.
Temporary Work Trials

• Not as frequently used as some other programmes, but have proved successful.
• UK Work Trials programme allowed employers to take on the long term unemployed for a 3 week temporary trial period.
• Participants continued to receive benefits plus work expenses.
• Evaluation of the programme indicated that participants chances of being employed after 6 months were increased by 34 - 40 percentage points. A very large impact.
Direct Employment in public / voluntary sectors

- Public works programmes - long tradition going back to the New Deal in America in the 1930s.
- But led to very high displacement of “regular” economic activity e.g. housing, road construction.
- So programmes switched towards “non-market” work in the public / voluntary sectors e.g. environmental work
- Consequently don’t have the look or feel of jobs in the “open” labour market.
- May explain why they have generally been shown to be ineffective - true of the UK Community Programme in the 1980s and also the OECD survey similar schemes in other countries.
Is the Government’s recent announcement evidence based?

• Budget 2009 announced a guaranteed job, training or work placement for all 18-24 year olds who have been unemployed for 12 months or more.
• As part of this, the Government will allocate funding for Local Authorities and voluntary sector partners to provide 100,000 new jobs in socially useful activity and a further 50,000 jobs in areas of dense unemployment.
• Sounds like direct work schemes that evidence shows is ineffective.
• But also includes private sector work experience which is effective with more the disadvantaged.
• To be hoped that as much of possible of this initiative is focused on providing young people with jobs placements in the private sector / regular labour market.
And how about the Mayor’s recent announcement?

- £23 million for skills and employment support to unemployed Londoners
- Clients - long term unemployed but worryingly also ‘newly unemployed lacking skills’.
- Personalised support including job search and training
- Payments by results - numbers into training and further payments for those in work at least 6 months.
- Hope that payments are skewed towards jobs. Payments for training may create perverse incentives.
Summary and conclusions

• London has suffered less than the UK so far in the recession.
• Worklessness expected to rise substantially.
• Evidence suggests job search assistance, training, subsidised employment and work trials can help people return to work.
• But direct employment in ‘non-market’ type work is not effective.
• Both the Government’s and the Mayor’s recent policy announcements seem to be only partly evidence based.