

CONTENTS

1. Introduction

2. Measuring ethnic parity

- 2.1 Definition of 'Ethnic Parity'
- 2.2 The current approach to measuring ethnic parity
- 2.3 Problems with the current approach
 - 2.3.1 Selection bias
 - 2.3.2 Sampling frame
 - 2.3.3 Spells versus individuals
 - 2.3.4 Outcome measures
 - 2.3.5 Ethnicity not recorded
- 2.4 Proposed new approach to measuring ethnic parity
 - 2.4.1 Selection bias
 - 2.4.2 Sampling frame
 - 2.4.3 Spells versus individuals
 - 2.4.4 Outcomes
 - 2.4.5 Ethnicity not recorded
- 2.5 Methodology
 - 2.5.1 Overview
 - 2.5.2 Measuring ethnic parity through matching methods
 - 2.5.3 Measuring ethnic parity through regression-based methods
 - 2.5.4 Measuring ethnic parity through duration modelling
 - 2.5.5 Measuring ethnic parity through difference-in-differences methods

3. Samples and the data

- 3.1 Samples
- 3.2 The datasets
- 3.3 Explanatory variables
 - 3.3.1 The 'by' variables: ethnicity, sex and region
 - 3.3.2 Past labour market history variables
 - 3.3.3 Individual characteristics
 - 3.3.4 Local labour market characteristics
 - 3.3.5 Other variables not common across groups
- 3.4 Limitations of the data

4. Guide to explaining project outputs

- 4.1 Descriptive analyses
 - 4.1.1 Ethnic breakdown
 - 4.1.2 Labour market status over time: Ethnic Minorities and Whites
 - 4.1.3 Raw parity estimates
 - 4.1.4 Characteristics of Ethnic Minority and White customers
- 4.2 Ethnic parity estimates
 - 4.2.1 Graphical assessment
 - 4.2.2 Behind and beyond the figures

- 4.2.3 Putting it all together: A summary table
- 4.2.4 Duration analysis output
- 4.2.5 Difference-in-differences analysis output
- 4.3 Taking care in interpretation
 - 4.3.1 Ethnic parity and unobserved characteristics
 - 4.3.2 Common support
 - 4.3.3 Difference-in-differences analysis
 - 4.3.4 Employment outcomes: Low earners are missed from the WPLS
 - 4.3.5 Time neither in employment nor on benefits and immigration
 - 4.3.6 Comparisons of ethnic parity across ethnicities, programmes and districts
 - 4.3.7 Implications of and from 'discrimination'
- 5. Ethnic Parity in Jobcentre Plus overall**
 - 5.1 Introduction
 - 5.2 Description of the Jobcentre Plus Overall sample
 - 5.3 JCP estimates of Ethnic Parity for All Ethnic Minority Groups
 - 5.3.1 Introduction
 - 5.3.2 Overall Measure
 - 5.3.3 By Gender
 - 5.3.4 By Region
 - 5.4 JCP estimates of Ethnic Parity For Ethnic Minority Subgroups
 - 5.4.1 Introduction
 - 5.4.2 Black Ethnic Minorities
 - 5.4.3 Asian Ethnic Minorities
 - 5.4.4 Other Ethnic Minorities
 - 5.5 Estimates of Ethnic Parity for Individuals of Unknown Ethnic Origin
 - 5.6 Conclusions and Policy Implications
- 6. Ethnic Parity in Incapacity Benefit**
 - 6.1 Introduction
 - 6.2 Description of the Incapacity Benefit sample
 - 6.3 Estimates of Ethnic Parity for All Ethnic Minority Groups
 - 6.3.1 Introduction
 - 6.3.2 Overall Measure
 - 6.3.3 By Gender
 - 6.3.4 By Region
 - 6.4 Estimates of Ethnic Parity For Ethnic Minority Subgroups
 - 6.4.1 Introduction
 - 6.4.2 Black Ethnic Minorities
 - 6.4.3 Asian Ethnic Minorities
 - 6.4.4 Other Ethnic Minorities
 - 6.5 Estimates of Ethnic Parity for Individuals of Unknown Ethnic Origin
 - 6.6 Conclusions and Policy Implications
- 7. Ethnic Parity in Income Support**
 - 7.1 Introduction

- 7.2 Description of the Income Support sample
 - 7.3 Estimates of Ethnic Parity for All Ethnic Minority Groups
 - 7.3.1 Introduction
 - 7.3.2 Overall Measure
 - 7.3.3 By Gender
 - 7.3.4 By Region
 - 7.4 Estimates of Ethnic Parity For Ethnic Minority Subgroups
 - 7.4.1 Introduction
 - 7.4.2 Black Ethnic Minorities
 - 7.4.3 Asian Ethnic Minorities
 - 7.4.4 Other Ethnic Minorities
 - 7.5 Estimates of Ethnic Parity for Individuals of Unknown Ethnic Origin
 - 7.6 Conclusions and Policy Implications
- 8. Ethnic Parity in Jobseekers Allowance**
- 8.1 Introduction
 - 8.2 Description of the Jobseekers Allowance sample
 - 8.3 Estimates of Ethnic Parity for All Ethnic Minority Groups
 - 8.3.1 Introduction
 - 8.3.2 Overall Measure
 - 8.3.3 By Gender
 - 8.3.4 By Region
 - 8.4 Estimates of Ethnic Parity For Ethnic Minority Subgroups
 - 8.4.1 Introduction
 - 8.4.2 Black Ethnic Minorities
 - 8.4.3 Asian Ethnic Minorities
 - 8.4.4 Other Ethnic Minorities
 - 8.5 Estimates of Ethnic Parity for Individuals of Unknown Ethnic Origin
 - 8.6 Conclusions and Policy Implications
- 9. Ethnic Parity in New Deal for Lone Parents**
- 9.1 Introduction
 - 9.2 Description of the New Deal for Lone Parents sample
 - 9.3 Estimates of Ethnic Parity for All Ethnic Minority Groups
 - 9.3.1 Introduction
 - 9.3.2 Overall Measure
 - 9.3.3 By Gender
 - 9.3.4 By Region
 - 9.4 Estimates of Ethnic Parity For Ethnic Minority Subgroups
 - 9.4.1 Introduction
 - 9.4.2 Black Ethnic Minorities
 - 9.4.3 Asian Ethnic Minorities
 - 9.4.4 Other Ethnic Minorities
 - 9.5 Estimates of Ethnic Parity for Individuals of Unknown Ethnic Origin
 - 9.6 Conclusions and Policy Implications
- 10. Ethnic Parity in New Deal 25 Plus**

- 10.1 Introduction
 - 10.2 Description of the New Deal 20 Plus sample
 - 10.3 Estimates of Ethnic Parity for All Ethnic Minority Groups
 - 10.3.1 Introduction
 - 10.3.2 Overall Measure
 - 10.3.3 By Gender
 - 10.3.4 By Region
 - 10.4 Estimates of Ethnic Parity For Ethnic Minority Subgroups
 - 10.4.1 Introduction
 - 10.4.2 Black Ethnic Minorities
 - 10.4.3 Asian Ethnic Minorities
 - 10.4.4 Other Ethnic Minorities
 - 10.5 Estimates of Ethnic Parity for Individuals of Unknown Ethnic Origin
 - 10.6 Conclusions and Policy Implications
- 11. Ethnic Parity in New Deal for Young People**
- 11.1 Introduction
 - 11.2 Description of the New Deal for Young People sample
 - 11.3 Estimates of Ethnic Parity for All Ethnic Minority Groups
 - 11.3.1 Introduction
 - 11.3.2 Overall Measure
 - 11.3.3 By Gender
 - 11.3.4 By Region
 - 11.4 Estimates of Ethnic Parity For Ethnic Minority Subgroups
 - 11.4.1 Introduction
 - 11.4.2 Black Ethnic Minorities
 - 11.4.3 Asian Ethnic Minorities
 - 11.4.4 Other Ethnic Minorities
 - 11.5 Estimates of Ethnic Parity for Individuals of Unknown Ethnic Origin
 - 11.6 Conclusions and Policy Implications
- 12. Difference in Difference Analysis**
- 12.1 Introduction
 - 12.2 Sample Selection and Sub-groups Considered
 - 12.3 DiD Analysis for Jobcentre Plus Overall
 - 12.4 DiD Analysis for Incapacity Benefit
 - 12.5 DiD Analysis for Income Support
 - 12.6 DiD Analysis for other JCP benefits and programmes
 - 12.7 Conclusions
- 13. Summary and conclusions**
- 13.1 Methodological conclusions
 - 13.2 Work and Pensions Longitudinal Study dataset recommendations
 - 13.3 Benefit/programme conclusions
 - 13.3.1 Jobcentre Plus overall
 - 13.3.2 Incapacity Benefit
 - 13.3.3 Income Support

- 13.3.4 Jobseekers Allowance
- 13.3.5 New Deal for Lone Parents
- 13.3.6 New Deal 25 Plus
- 13.3.7 New Deal for Young People
- 13.3.8 Difference in Difference Analysis
- 13.4 Overarching conclusions

1 INTRODUCTION

A substantial employment gap between Ethnic Minorities and the overall working-age population in Great Britain has been observable for several decades (Cabinet Office, 2003, National Audit Office (2008)). In the third quarter of 2007, the gap stood at 13.2 percentage points, with 74.8 per cent of the GB working-age population in employment compared with 61.6 per cent of the equivalent Ethnic Minority population (Labour Force Survey). The National Audit Office (2008) notes that over the last twenty years there have been significant fluctuations in this gap, ranging from 12.5 percentage points in 1989 to 20 percentage points in 1994. However since 1994, there has been a slow but steady decline in ethnic minority employment gap.¹

As would be expected, this overall gap conceals considerable diversity in employment rates across ethnic groups (see for example, Heath and Cheung (2006)). Thus, Black Caribbeans and Indians have employment rates that are similar to those for the GB working-age population as a whole, whereas Bangladeshis and Pakistanis have rates that are considerably lower – a fact that can be partly explained by the very low rates of employment amongst women in these two ethnic groups, which even by 2007 were still below 25 per cent. Perhaps more worryingly for Pakistanis, whilst the recent closing of the employment rate gap between Ethnic Minorities and Whites has been relatively well spread across ethnic groups, this has not been the case for this group between 2002 and 2007. The drop in employment rates experienced by this group can also be seen amongst the Chinese population and in both cases is accompanied by a slight increase in inactivity; evidence on enrolments in higher education may explain the situation for the Chinese, but not the Pakistani, ethnic group.²

The National Audit Office (2008) also notes that whilst 21 per cent of the overall population are 'economically inactive' this compares with about one third of the working age ethnic minority population that are neither working nor actively seeking work. Again there are wide differences in these figures across different ethnic groups. Heath and Cheung (2006) show that Pakistani and Bangladeshi men have particularly high inactivity rates, largely because of long-term sickness and disability.

The National Audit Office (2008) estimates the cost of the employment gap is around £8.6 billion a year in terms of the cost of extra benefit payments and lost tax revenue (£1.3 billion) and lost output (£7.3 billion). This cost ignores any wider social costs of this gap.

It is the government's intention that '*in ten years' time, ethnic minority groups should no longer face disproportionate barriers to accessing and realising opportunities for achievement in the labour market*' (Cabinet Office, 2003). In order to achieve such aims, policymakers need to be well informed on the exact form and extent of any such barriers. The statistical literature investigating the labour market fortunes of Ethnic Minorities attempts to identify the extent to which any apparent systematic disadvantage observed for certain ethnic groups, or Ethnic Minorities as a whole, can be attributed to

¹ For a longer historical context, see, for instance, Berthoud and Blekesaune (2003) and Heath (2001) and for a more recent update of the latest figures see Heath and Cheung (2006), <http://www.dwp.gov.uk/asd/asd5/rports2005-2006/rrep341.pdf>.

² Bhattacharyya *et al*, 2005 and Heath and Cheung (2006).

differences in their characteristics which reduce their employability, as opposed to the discriminatory behaviour of other agents in the labour market.³

To illustrate, a number of studies⁴ underline the high levels of concentration of Ethnic Minorities in poor inner-city areas and the accompanying lower levels of demand for labour; thus whilst analysis of these areas suggests less pronounced differences in employment rates between the local White and Ethnic Minority populations, the predominance of Ethnic Minorities in these areas translates to a higher level of disadvantage on a national level. Taking another example, Bangladeshi women have lower employment probabilities than many other ethnic groups. However, controlling for their poorer qualifications profile and their high probability of experiencing language difficulties⁵ significantly reduces the correlation between ethnicity and employment outcome.

Thus, studies that adopt a statistical approach to analysis of the situation of Ethnic Minorities tend to use multivariate techniques (usually regression analysis) to control for differences in labour market profiles, modelling wage differences (Blackaby *et al*, 2002), the extent of occupational 'segregation' (Blackaby *et al*, 1999; Borooah, 1999) or the rate of unemployment/inactivity (Blackaby *et al*, 1999). These approaches, which typically use some form of decomposition analysis, are based on the assumption that much of the unexplained 'residual' difference between ethnic groups (having controlled for a variety of characteristics) can be attributed to discrimination.⁶

However, whilst a review of this literature highlights an increasing academic interest over recent decades, gaining a clear historical perspective of the extent to which the situation of various Ethnic Minority groups has improved, remained unchanged or worsened is hampered by a number of limitations; primarily, the limited amount of comparable evidence from large survey datasets before the 1990s,⁷ but also the variety in econometric methods employed and the attempt to model a number of different manifestations of discrimination (i.e. wages, employment, unemployment and occupational segregation).

Having said this, Clark and Drinkwater (2005) provide a very good review of the work of researchers such as David Blackaby who, with various other authors, has mapped out the differing situations of Ethnic Minorities in the UK labour market both before and after 1991 (when the Census began to collect information on ethnicity for the first time). Whilst it is hard to generalise, the evidence does suggest that up to half of the deterioration in the relative employment position of Ethnic Minorities (particularly males) during the 1980s can be explained by a range of observed characteristics. Similarly, during the

³ For an excellent review, see Clark and Drinkwater (2005).

⁴ For instance, Clark and Drinkwater (2002) and Social Exclusion Unit (2005).

⁵ See, for instance, Owen *et al* (2000).

⁶ Clearly, this assumption depends crucially on the extent to which any study has captured all differences in the characteristics of ethnic groups. This is a particularly questionable assumption in the modelling of occupational segregation; these equations are 'reduced form' in nature (i.e. they do not distinguish between the demand of individuals *for* work in certain occupations and the supply, *by* employers, of jobs in certain occupations to those of different ethnic groups). In this case, the well-documented differences in cultural preferences of some ethnic groups for jobs in certain occupations may be misconstrued as discriminatory behaviour by employers. Similarly, the study here is not able to distinguish between these, often unobservable, 'demand' and 'supply' effects.

⁷ One of the exceptions being the *National Surveys of Ethnic Minorities*.

1990s, researchers could explain just over one-half of any employment disadvantage through differences in factors such as human capital.

The majority of economic theories assume that discrimination manifests in the hiring and firing practices of employers (with much of the theoretical literature stemming back to the work of Becker (1964), which is well described in Joll *et al* (1983), and Thurow (1975)); though there are also theories of efficiency wages that consider employee power and others that consider employee behaviour. Bosworth *et al* (1996) provide a discussion on these issues, but these are not considered here as this aspect is not the focus of the present study.

Jobcentre Plus is a key organisation that has the potential to affect the employment rate of Ethnic Minorities. The main way in which this contribution manifests itself is through the 'treatment' it provides to improve the employability of Ethnic Minorities, as opposed to overcoming possible discriminatory behaviour amongst employers.⁸

In order to inform future strategies and policymaking to achieve this, the extent to which ethnic group influences the chances of a Jobcentre Plus customer successfully obtaining employment needs to be fully understood. This study is not the first to tackle this issue and a considerable literature has been created in recent years. This has usually taken the form of an investigation into the degree of 'parity' (of outcome) between different ethnic groups on specific Jobcentre Plus programmes, including New Deal for Young People (Moody, 2000; Bonjour *et al*, 2001), New Deal 25 plus (McArdle, 2001), Employment Zones (Moody, 2002) and New Deal for Lone Parents (Moody, 2002). Much of this work on particular programmes is now rather out-of-date and, where it was based on surveys, was hampered by small sample sizes for some ethnic groups.

In order to estimate the true measure of ethnic parity, it is essential to compare each Ethnic Minority group with an otherwise-identical White group. Previous studies estimating ethnic parity have relied on simple regression techniques and assumed that having a sufficiently rich set of controls would achieve this objective. However, it is now well known that regression techniques may have problems if (i) there is not complete overlap in the *range* of values for the control variables (the so-called common support problem); (ii) the regression methods fail to weight comparable individuals correctly; and (iii) the simple regression methods (ordinary least squares – OLS) do not allow the effect to vary by individual observed characteristics.

This report is unique in using the full range of methods to estimate ethnic parity and to assess the sensitivity of the results to the methods used. This turns out to be very important and raises serious questions of the reliability of previous estimates of ethnic parity. The purpose of the research is to help Jobcentre Plus gain a more detailed and accurate understanding of its impact on Ethnic Minority customers than has hitherto been possible. Of course, the extent to which any difference in employment and benefit outcomes can accurately be 'attributed' to the actions of Jobcentre Plus staff, as opposed to the actions of employers, is limited.

⁸ Whilst there is a process by which Jobcentre Plus staff can take action against employers who they feel are acting in a discriminatory way, this is not widely used (see evidence from Hudson *et al* (2006)) and would not seem to form a core aspect of Jobcentre Plus staff duties.