

The
BOW
GROUP

POLICY IN THE MAKING



**WELFARE
THAT
WORKS**

by Adam Bogdanor

About the Bow Group

The Bow Group has three aims:

- To create new and thought-provoking research for the Conservative Party
- To provide a forum for its members to meet each other socially
- To provide opportunities for its members to meet senior Party figures to discuss the issues of the day

The Group has no corporate view, which allows it to approach every issue on its merits and with an open mind. Accordingly, the views expressed in Bow Group publications are those of the authors, and do not represent a statement of Conservative party policy, or the views of other members of the Group.

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Executive Summary

• Welfare isn't working

There are two fundamental problems with the welfare state, which this paper seeks to address:

- Welfare is far too expensive. Its cost is huge, representing £80 a week for each household in Britain and one-third of all Government spending. The cost of welfare has soared in recent years: it rose faster than any other major area of spending from 1979 to 1997.
- The current welfare state causes dependency among welfare claimants. The system has made large numbers of people permanently reliant on the state and unable to realise for themselves the self-respect and responsibility that work provides. The official unemployment figures understate the problem. They miss out, for instance, 900,000 lone parents on income support, of whom two-thirds have been claiming welfare for over two years. The children of these lone parents are more likely to have worse education and job prospects if their mothers are on welfare, rather than working. Welfare also encourages family break-up, a major cause of child poverty and crime.

• The cause of the problem - a system that doesn't require work

- Dependency is caused by the unconditional nature of welfare - the current system does not ensure that welfare claimants are looking for work. Lone parents are not even required to look for work and the average Jobseeker's Allowance claimant spends only one day a week looking for work. Because of this, claimants lose the basic motivation and discipline necessary to get and hold down a job: they lose hope and become addicted to state support. The proportion of households where no-one is in work has doubled since 1979 and is now one in five.
- The rising cost has been chiefly a result of the increasing numbers of people on benefit, particularly lone parents on income support. Indeed, this is the group that suffers the most extreme form of chronic welfare dependency. Therefore, the rising cost is a direct function of the dependency induced by the system.

• Welfare must require work

Any successful reforms to welfare must therefore both reduce the cost of welfare and get people off benefit and into work. The only way to do this is to require work as a condition of receiving benefits. The welfare reforms which were introduced in the US state of Wisconsin in the late 1980s and 1990s, and which generally became known as 'workfare', reduced welfare rolls by 90% and halved both the cost of welfare and the child poverty rate. There were four elements to these reforms:

- short-term aid was offered, rather than welfare;

- supervised job search for two months was a condition of receiving benefits;
- community work was required for those who still could not find jobs as a condition of receiving benefits; and
- competition was introduced into welfare provision.

• **Back to Work**

This paper recommends the introduction of a workfare programme into the United Kingdom based on the principles and policies applied in Wisconsin. This programme is called 'Back to Work' and would:

- reduce the numbers claiming cash benefits;
- save money, even in the short term;
- encourage people to take private sector jobs;
- virtually eliminate welfare fraud;
- restore crucial work skills and end long periods of debilitating worklessness, dramatically reducing dependency; and
- provide welfare only for those who work.

• **The New Deal has failed**

The New Deal for 18 to 24s (the New Deal for Young People) has failed because it is not a workfare programme:

- the most popular option in the New Deal for Young People is training, but only a third of people in this option subsequently enter unsubsidised employment. Labour's New Deal is more of a welfare-to-training programme than a welfare-to-work programme;
- three-quarters of the moves from welfare to work in the New Deal for Young People are nothing to do with the New Deal;
- each job created by the New Deal for Young People costs £16,000;
- fewer than 40% leave the New Deal for Young People for unsubsidised work; and
- the New Deal is only really compulsory for 18-24 year olds – it ignores four-fifths of the long-term unemployed.

• **A Universal Welfare State is not the answer**

Frank Field and others claim that abolishing means tests and restoring universal, insurance-based benefits would reduce dependency and cut the welfare budget. They are wrong:

- it would not solve the dependency problem – lack of work, not means-testing is the main cause of dependency;
- it would result in higher taxes to finance benefits for those who do not need them; and
- it is wasteful - only one-fifth of universal benefits reach the poor.

• **The Working Families Tax Credit is not the answer**

Gordon Brown has introduced the Working Families Tax Credit (WFTC) to reduce marginal tax and benefit withdrawal rates for people who are disincentivised by these rates from leaving benefit and entering work. WFTC, however:

- traps more people in high marginal tax rates;
- creates new unemployment traps for married women;
- goes to the wage-earner, not the primary child carer;
- is not targeted at the poor – it has mainly helped owner occupiers; and
- is expensive but will do very little to reduce dependency or reduce unemployment.

This paper argues for a welfare state based on Conservative principles. The Conservatives have been unfairly caricatured as the party of the rich and powerful for too long. By implementing Back to Work, the Conservatives would be extending the benefits of independence from the state, individual responsibility and competition to the least well off in society. They would be giving back to the poor the dignity and sense of purpose denied them by the current welfare system, while at the same time lifting a huge financial burden from the shoulders of taxpayers.

Margaret Thatcher and Nigel Lawson were blocked in Cabinet when they tried to introduce workfare in the 1980s¹ and a workfare programme called Project Work appeared in the 1997 Conservative Manifesto. It is surely now time to replace Labour's failed New Deal with the Back to Work programme, tackling a problem neglected by politicians for decades. The Conservatives will then have a policy, which is not only fresh, radical, and fair-minded, but also has the potential to convert voters of all party allegiances to the Conservative cause.

¹View from No. 11 pp434, N. Lawson (Bantam Press 1992)

Chapter One: What's Wrong with Welfare?

• Executive summary

The twin evils of the modern welfare state are its fiscal cost and the dependency it induces in its recipients. The cost of social security rose at an alarming rate during the 1980s and 1990s, particularly spending on the disabled / long-term ill, the elderly and one-parent families. At the same time, welfare is trapping people into a lifestyle of worklessness and undermining their independence from the state. It harms those who pay for it and those who receive it.

• The rise in welfare spending

Under New Labour, taxes have risen by £27.1 billion², and they are up 2.9 percentage points to 40.5% of national income³, the highest tax burden ever⁴. The Conservatives must aim to cut this figure. One way in which they should do so is reduce welfare spending as a percentage of national income. Every penny spent on welfare is a penny that could be spent on tax cuts or increased health and education spending.

Both major parties have in the past shown themselves incapable of reducing welfare spending. While spending overall under the Conservative governments of 1979-1997 fell as a proportion of national income, social security spending rose by 5% a year in real terms and from 9.1% to 12% of national income during that time⁵. This means that the welfare state exceeded the nation's capacity to afford it without further increases in taxes or cuts in spending elsewhere. Spending fell as a proportion of GDP by 0.7% in the last three years of John Major's government. Labour has also managed to cut the share of national income spent on social security – but only by a paltry 0.2%⁶. There is still a long way to go before reversing some of the massive increase in the 1980s and 1990s:

- Social security spending under the Conservative governments of 1979-1997 rose by over 90% in real terms, a faster rate of growth than any other major area of expenditure, including health and education⁷.
- Social security costs every household on average about £80 a week, with fraud costing every family with children on average £10 a week⁸. One in ten income support claims are fraudulent⁹.
- Social security currently costs £110 billion a year, one-third of all Government spending.

² £24.3 billion over the five years to 2001-2002, a rise of 2.4% of GDP

³ HM Treasury, Public Finances Database, 22 March 2001, cited by Institute for Fiscal Studies Overall Tax and Spending, C. Emmerson and C. Frayne

⁴ Excluding North Sea oil revenues.

⁵ The Changing Welfare State: Social Security Spending, DSS February 2000

⁶ Audit 2001: Tessa Keswick, Centre for Policy Studies 13th May 2001

⁷ See note 5

⁸ New Ambitions for our Country: A New Contract for Welfare, DSS March 1998 Cm 3805

⁹ F. Field, Stakeholder Welfare IEA1996

Where did all this growth come from? Labour have frequently claimed that the massive growth in social security spending under the Conservatives was mostly the result of job losses in the early 1980s and 1990s. In fact, less than one-tenth of the increase in social security spending under the Conservatives represented spending on unemployment benefit recipients¹⁰. If one removes the increase in spending on unemployment benefit from the figures, social security spending still rose by an average of 2.9% a year above inflation during the 1980s¹¹.

Nevertheless, the growth did originate largely from worklessness, even if not from the official unemployment figures. The following table shows the rise in social security spending on each benefit group as a proportion of the total rise in spending under the Conservative governments of 1979-1997 and sets out the percentage increase in spending for each group¹².

Benefit group total	Real annual average increase in spending 1979-97, %	Proportion of rise in spending, 1979-97, %
Long-term ill / disabled	17	39
Elderly	3	32
Families (including lone parents)	18	17
Unemployed	5	8
Children	2	3
Others	0.4	0.8

Nearly 90% of the increase in spending was accounted for by spending on one-parent families, the long-term ill/disabled and the elderly (as opposed to the officially unemployed). However, around half of the increase was received by members of working age families where no-one worked¹³. The clue to this apparent paradox lies in the fact that lone parents are not included in the official unemployment figures, because they receive income support, rather than unemployment benefit¹⁴. The major source of the increase in spending on able-bodied, working-age claimants was, indeed, the rise in the number of unemployed lone parents, of whom there are now nearly 900,000¹⁵. Moreover, the biggest percentage increase in welfare spending was on this group.

¹⁰ See Table 1 below

¹¹ Extrapolated from table B4, The Changing Welfare State: Social Security Spending, DSS February 2000

¹² *ibid.* Figures in the second column do not add up to 100% due to rounding

¹³ The Changing Welfare State: Social Security Spending, DSS February 2000

¹⁴ The official title for unemployment benefit is now Jobseeker's Allowance.

¹⁵ 888,000 according to the Income Support Statistical Enquiry, May 2001, DWP

• Rising poverty is not the root of the problem

Labour also claim that the Conservatives cut social security benefit levels and that their 'cuts' resulted in rising poverty. The issue, many Labour politicians say, is one of rising poverty, not rising welfare spending or dependency. This is wrong on two counts.

First of all, tales of Tory 'cuts' are largely mythical. Most of the changes Margaret Thatcher made to benefit levels were marginal – her reforms redistributed benefits, rather than saving money¹⁶. She removed the earnings-related supplements for unemployment benefit – but well under a fifth of the unemployed had been receiving it anyway, since it was only available for the first six months of unemployment. Benefits were linked to prices, rather than earnings, but this meant that they broadly kept their real value (despite an early real cut in unemployment benefit). Pensions were also linked to prices rather than earnings, which was essential to maintain the solvency of the system at reasonable taxation levels. Overall, income-related benefits rose by 15% in real terms¹⁷.

Secondly, there is little evidence of rising poverty. Table 2 summarises the facts¹⁸. From 1979 to 1998/9, the real net income of the poorest 20% grew by over a fifth before deducting housing costs (BHC) and by over a tenth after deducting housing costs (AHC)¹⁹. The poverty rate (the proportion of the population living below a fixed threshold of 50% of mean average 1994/5 income) fell from 24% in 1979 to 13% in 1998/9 (BHC) and from 26% to 19% (AHC)²⁰.

What about the 1980s? Didn't poverty rise in that decade? Actually, the poverty rate fell from 24% in 1979 to 19% in 1990/1 BHC²¹. The real net incomes of the bottom 20% rose by 5% from 1979 to 1988/89 BHC, and by 2% AHC²². Expenditure (the measure of poverty preferred by Eurostat) rose by over a quarter for the poorest 10% between 1979 and 1992²³.

To summarise, poverty fell faster under John Major's government than Tony Blair's²⁴ and the poverty rate nearly halved under the Tories²⁵.

¹⁶ Designed for the poor - Poorer by Design, M. Evans, D. Piachaud, and H. Sutherland 1994
London: LSE STICERD, WSP/105

¹⁷ Low Income Families 1979-89, House of Commons Social Security Select Committee

¹⁸ The more reliable figure is the Before Housing Costs (BHC) figure used by the Government, since housing costs often reflect improvements in the standard of living e.g. the proportion of houses without basic amenities fell from 1 in 20 in 1981 to 1 in 100 in 1991.

¹⁹ Social Security Statistics 2000 DSS. From 1979 – 1997, the bottom 20% had a 15.5% rise in income before housing costs (Institute of Fiscal Studies).

²⁰ Households Below Average Income 1994/5 – 1998/9, DSS (excludes full time self-employed)

²¹ *ibid*. Similar results apply after housing costs are deducted and if median, rather than mean, average income is used as the threshold.

²² DSS Households Below Average Income Team inquiry

²³ Goodman and Webb, The Distribution of UK Household Expenditure, Institute for Fiscal Studies 1995.
The discrepancy between income and expenditure is due to under-reporting and dissaving, not from an increase in debt.

²⁴ Living Standards under Labour, Institute of Fiscal Studies Election Briefing Note number 4,
Tom Clark and Alissa Goodman, May 2001

²⁵ Figures in this sentence are BHC.

Table 2: Poverty under the Conservatives		
	1980s	1979-98/9
Real incomes of the poorest 20% (BHC)	Up by 5%	Up by 23%
Poverty Rate (BHC)	Down by 21%	Down by 46%

Leading lobby groups, such as the Joseph Rowntree Foundation, do not dispute the above figures. They simply say that what counts is relative poverty; in other words, inequality. This certainly rose in the 1980s, because some people did much better out of the decade than others. Indeed, it was a central message of Thatcherism that people should be allowed to do better than others through their own hard work. But it is faintly ridiculous to argue that the poor became poorer in the 1980s just because they got richer at a slower rate than the rich. If anyone lost out in the 1980s, it was the unemployed, but this was a product of various economic factors – it had nothing to do with marginal changes in social security benefits. People who look to changes in social security benefit rates to solve poverty are therefore missing the point. The problem is dependency, not poverty.

• **Dependency is the root of the problem**

In many respects, welfare is making things worse for the most vulnerable in society by reducing their motivation and ability to take jobs. Dependency refers to reliance on the state and loss of the self-sufficiency and independence associated with working members of society. It arises where individuals spend long periods on welfare and become addicted to state-subsidised inertia, feeling that they cannot break out of unemployment.

In the analysis that follows, it is worth bearing in mind the bright economic outlook that Britain currently enjoys – the poverty rate has halved since 1979 and unemployment is at its lowest level since 1975.

Nearly three in five families receive some type of benefit²⁶ and 11.6% of the population are dependent on income support²⁷, a higher figure than in the 1981 recession. Nearly 1.2 million working-age, able-bodied people claim income support, two-thirds of them for over a year, but the official unemployment figures do not include them. A fifth of children live in families claiming a key benefit²⁸ and 60% of them have been on benefit for at least two years²⁹. The long-term unemployed³⁰ only have a 17% chance of entering employment in the next six months³¹.

The extent of dependency among lone parents is particularly acute. Nearly

²⁶ Family Resources Survey 1998, DSS

²⁷ Income Support Quarterly Statistical Enquiry November 2000 (includes dependents).

²⁸ Jobseeker's Allowance, Income Support, Disability Living Allowance, Incapacity Benefit and Severe Disablement Allowance

²⁹ DSS Statistical Summary March 2001, figures relate to May 2000

³⁰ Those unemployed for two years or more

³¹ B. Bell, R. Blundell and J. V. Reenan: Getting the Unemployed Back to Work, Institute of Fiscal Studies April 1999

four in five lone-parent families receive means-tested benefits and over half (nearly 900,000) are on income support³². This is not confined to families with pre-school age children: only half of the lone parents with children aged five to ten currently work³³. The average length of time lone parents have been receiving income support continuously is over three-and-a-half years³⁴. Over sixty per cent of lone parents on income support have been claiming continuously for at least two years and a third for over five years³⁵. Alarming, half of all lone parents on income support in 1991 were still on income support seven years later, according to a DSS study of a representative sample³⁶. In a survey, only about half of all lone parents agreed that it was better to have almost any job than to be unemployed³⁷. Children of lone parents account for two-thirds of all children living on income support, even though less than a fifth of children live in lone-parent families³⁸.

Indeed, there is a vicious circle of welfare dependency, which has a major impact on children. International research shows a correlation between the length of time benefit can be claimed and the duration of long-term unemployment³⁹. Welfare in the United States of America (before the recent reforms there) made children of welfare claimants more likely to be dependent on welfare themselves⁴⁰ and an increase in benefits resulted in an increase in caseload⁴¹. Indeed, a 50% increase in the Aid to Families with Dependent Children and Food Stamps programme (AFDC) led to a 75% increase in the number of women enrolling in AFDC and in the number of years those women spent on AFDC⁴².

Welfare also encourages illegitimacy. The system has encouraged many to raise families outside marriage by subsidising long periods of unemployment without any obligation to look for work and by paying benefits unconditionally according to need. The claim here is not that women get pregnant in order to claim benefits. It is that some women in every generation want children anyway and that the removal of the cultural stigma associated with having children outside marriage has combined with the modern welfare state to undermine the incentive for women to conceive and bring up their children within marriage. In other words, it is no longer necessary to marry to bring up a child – either financially or socially. Even the centre-left Urban Institute has conceded that 'A slight majority of the studies have found a statistically significant positive association between the generosity of the welfare system and nonmarital birth rates'⁴³. Increases in welfare in the US have led to increases in the non-marital birth rate (or illegitimacy rate) there, as former President Bill Clinton has admitted.

³² Family Resources Survey 1999, DSS

³³ National Statistics Dataset, Spring 2000

³⁴ Low Income Families in Britain, DSS Research Report 2001 No. 138, Marsh A, McKay S, Smith A, Stephenson A

³⁵ Income Support Quarterly Statistical Enquiry, May 2001, DWP

³⁶ Finlayson L, Ford R, Marsh A, McKay S and Mukherjee A (December 2000)

The British Lone Parent Cohort 1991 to 1998 (DSS Research Report Number 128)

³⁷ Low Income Families in Britain, DSS Research Report 2001 No. 138, Marsh A, McKay S, Smith A, Stephenson A

³⁸ F. Field Stakeholder Welfare, pp24, IEA1996

³⁹ House of Commons Employment Committee, The Right to Work / Workfare, Minutes of Evidence, Session 1994-: Professor Richard Layard

⁴⁰ M. Anne Hill and June O'Neill, Underclass Behaviours in the US: Measurement and Analysis of Determinants (City University of New York, Baruch College, February 1992)

⁴¹ G. B. Christiansen and W. E. Williams, "Welfare Family Cohesiveness and Out of Wedlock Births", in J. Peden and F. Glahn: The American Family and the State (Pacific Institute for Public Policy Research 1986)

⁴² M. Anne Hill and June O'Neill, Underclass Behaviours in the US: Measurement and Analysis of Determinants (City University of New York, Baruch College, August 1993)

⁴³ Childbearing by Teens: Links to Welfare Reform by Richard Wertheimer and Christine Moore, Child Trends Inc, Urban Institute

The rise in the illegitimacy rate here is remarkable: the proportion of children born outside marriage in the UK has risen from one in twelve babies in 1969 to one in nine in 1979 (after an increase by a third in benefits for lone parents from 1970-6) to one in two-and-a-half in 1999⁴⁴. This is higher than the US illegitimacy rate and costs each taxpayer on average £11 a week⁴⁵. There is now a substantial body of literature showing that children of one-parent families are more likely to suffer worse outcomes in terms of poverty, education, involvement in crime, adult income, and even their exposure to child abuse than children of two married parents, even when socio-economic status is controlled for⁴⁶.

• Conclusion

The welfare state effectively pays people not to work. It is not surprising therefore that the numbers of people claiming benefit, the level of dependency and the level of social security spending have all risen to unacceptable levels. The aim of welfare reform must therefore be to cut Government spending and reduce welfare dependency. These are the yardsticks by which proposed welfare reforms will be judged successes or failures. In chapters 2 to 4, I examine the Government's reforms and show they fail against these yardsticks. In chapter 5, I examine the workfare principles emanating from the US and show how the adoption of these principles would, by contrast, cut welfare spending and dependency.

⁴⁴Office of Population Surveys and Censuses

⁴⁵The Cost of Family Breakdown, Family Matters Institute

⁴⁶P. Morgan: Farewell to the Family; N. Dennis and G. Erdos: Families without Fatherhood; N. Dennis: Rising Crime and the Dismembered Family;

Chapter Two: Universal Welfare versus Means Tests

• Executive summary

There are two salient features of welfare: it is means-tested and it is unconditional. Chapter 5 will argue that the cause of dependency is that it is unconditional. But some commentators, such as Frank Field, the former Minister of Welfare Reform, argue that the problem is simply the means test and champion a universal insurance-based welfare state ('universality') inspired by William Beveridge's original welfare state. This chapter will show this to be a dangerous chimera. The means test is not the main cause of dependency and universality would require higher taxes to fund benefits for those who do not need them.

• A 'return to Beveridge'?

The advocates of universality argue that welfare should be about insurance for all, rather than means tests. In doing so, they invoke the original principles on which they believe welfare was founded. The country has, however, changed considerably since the welfare state was created and the premise of insurance-based payments on which the welfare state was based has always been flawed.

The country has changed

As an initial antidote to calls from the Left for a 'return to Beveridge', it is worth briefly recapping the substance of the post-war welfare system.

The founding principle of the new welfare state, encapsulated in the 1942 Beveridge Report (Social Insurance and Allied Services) and the related 1944 White Paper⁴⁷, which were in turn implemented by Clement Attlee's government in the 1945 Family Allowance Act and the 1946 National Insurance Act, was contributory state insurance. National Insurance contributions were to be made by both employees and employers and entitlement to flat-rate benefits for unemployment, old age and sickness was to be determined by the employee's past contribution record, rather than by his need.

The centrepiece of the reforms which the Beveridge Report presaged was the introduction of the first universal benefit, Family Allowances, which paid benefits for the second and subsequent child in any family, regardless of the family's income and payable whether or not the wage-earner was in work.

However, the main assumptions behind the 1944 White Paper no longer hold good:

Assumption 1: A population in which fewer than 10% were aged 65 or older.

Reality: Around 17% of people are now above statutory pension age⁴⁸.

⁴⁷Cmd 6550 Social Insurance (1944)

⁴⁸J. Hills The Future of Welfare 1997 (Rowntree Foundation)

Assumption 2: Children would be looked after by two married parents.

Reality: Nearly 40% of all marriages end in divorce and nearly 40% of all births are outside marriage⁴⁹.

Assumption 3: Unemployment would not exceed 8.5%, with unemployment over six months rare. Only one in eight women would be in work⁵⁰.

Reality: In most years between 1981 and 1996, male unemployment exceeded 8.5%⁵¹. Seventy per cent of women are now in work⁵².

Assumption 4: Poverty could be catered for by National Insurance benefits, with few needing to rely on means-tested benefits in the long term.

Reality: Means-tested National Assistance was introduced in 1948. One million claimed it then – in 1999 over two-and-a-half million claimed its successor, income support, for at least two years.

The disparity between these assumptions and the reality are the reason why a universal welfare state would be far more expensive than Beveridge ever budgeted for.

Indeed, Beveridge himself recommended National Assistance as a means-tested benefit, but thought that it would purely play a residual role as the insurance system came into full operation. That this did not happen is testament to the fact that insurance benefits were never as high or as comprehensive as its proponents had predicted. National Insurance benefits have never been high enough to keep people above the safety net.

Around a third of benefit expenditure is currently means-tested and one in three households are dependent on at least one of the major means-tested benefits⁵³. The Beveridge ideal of comprehensive insurance for all has never succeeded in practice. As the White Paper admitted: 'the conception of relating individual payments precisely to individual needs is not really capable of realisation in an insurance scheme. . .'⁵⁴

The insurance myth

Nevertheless, the opponents of means-testing argue that welfare should be about insurance for times of need – the contributory principle is supposed to mean that people do not receive something for nothing. But National Insurance pays for only 58% of the Social Security budget; the rest is funded by general taxation. Furthermore, people have never had their own state insurance fund. As Pete Alcock points out:

⁴⁹ Office of Population Surveys and Censuses 1999

⁵⁰ Social Insurance and Allied Services, Beveridge

⁵¹ Department of Education and Employment: Social Trends, ILO figures, 1981-1996

⁵² Department of Education and Employment Press Release 8.02.01

⁵³ A New Contract for Welfare, Department of Social Security

(now the Department of Work and Pensions) Cm3805 1998

⁵⁴ Social Insurance (1944) Cmd 6550

'The system thus operated from the start on a 'pay-as-you-go' basis, with contributions being used to meet current benefit needs; and this in a sense meant that contributions were little different from other forms of direct taxation.'⁵⁵

There has never been any actuarial link between National Insurance and insurance benefits; benefits are funded on a 'Pay As You Go' basis, meaning that current benefits are funded by current taxation, not by past contributions. National Insurance is effectively another form of direct taxation – it simply goes into the Government's general pool of revenue – it is not even collected by the Department of Social Security⁵⁶ any more, but by the Inland Revenue. As the Government admits, 'It has long been an accepted principle that Parliament can change the policy arrangements under which contributory benefits are paid'⁵⁷. In other words, Parliament can cut these benefits whenever it wants. In pretending to be an insurance system, National Insurance perpetrates a fraud on the British people.

• **Universality costs more and does not alleviate poverty**

It is claimed that increases in means-testing (from one in six households claiming means-tested benefits formerly to one in three now⁵⁸) have led to increases in spending as people become totally dependent on state benefits⁵⁹.

In fact, a universal welfare state would require higher taxes to finance the provision of welfare to those who do not need it. Despite the rise in means-testing, most benefits are still not properly targeted. It might surprise readers to discover that, over their lifetimes, they will receive the same social security benefits, whether they are rich or poor⁶⁰! Three-quarters of the welfare state is smoothing out income across each individual's life cycle, rather than redistributing income from the rich to the poor⁶¹ - the system takes money away and then gives it back to the same people after deduction of a sizeable administration fee and damaging productivity. This is entirely the fault of non-means-tested benefits. Only a fifth of universal benefits reach the poorest 20% and nearly 40% go to the richest half of the population⁶². Less means-testing would mean more waste.

• **Universality does not reduce dependency**

Opponents of means-testing argue that it causes dependency through the so-called 'poverty trap'. This reasoning is flawed.

The reduction in the poverty trap

It is argued that means-testing increases dependency. Since means-tested benefits are targeted on the poor, those who manage to help themselves out of poverty lose out. For example, if a man is unemployed and his wife works

⁵⁵Introduction to Social Security Ed. John Ditch, Chapter 3 (Routledge 1999)

⁵⁶Now renamed the Department of Work and Pensions

⁵⁷Reply by the Government to the Fifth Report of the Select Committee on Social Security, Session 1999-2000.

⁵⁸For example, Jobseeker's Allowance is means tested after only six months, but its predecessor (unemployment benefit) was means tested after a year.

⁵⁹Stakeholder Welfare, F. Field IEA1996

⁶⁰Falkingham and Hills, LIFEMOD simulation model, The Future of Welfare 1997, J. Hills

⁶¹ibid

⁶²Social Security Statistics 2000, DSS

part-time, they are little better off with her in work than where they both claim means-tested Jobseeker's Allowance (JSA). She may thus decide that it is not worth her working and may instead seek to claim JSA too. This is a typical illustration of the poverty trap. Advocates of universality point out that if the husband were instead entitled to universal benefits, then they would be a lot better with her in work than if neither worked. Furthermore, under the current system, those claiming means-tested JSA lose 100% of any additional part-time earnings after the first £15, discouraging them from taking part-time work.

Nevertheless, reforms have reduced the extent of the poverty trap, whereby one is little better off in work than on benefit. The Fowler⁶³ social security review of 1986 (effective 1988) introduced Family Credit (now the Working Families Tax Credit). Family Credit, an extension of the existing Family Income Supplement, was a great common sense advance for the working poor and helped mitigate the poverty trap by providing in-work benefits for families with children. In fact, the Fowler reforms, by basing benefit entitlement on after-tax income, abolished the anomaly whereby one could be worse off by earning more.

While it is true that there remains a high marginal tax and benefit withdrawal rate, only one in twenty of the working population now face a marginal tax and benefit withdrawal rate of over 70% when they start work⁶⁴. The Conservatives also ensured in their time in office that partners of JSA claimants can work up to 24 hours a week without the claimant losing benefit and introduced the Back to Work Bonus in order to alleviate this problem. The poverty trap has been reduced significantly by these reforms, but the idea that it can be abolished completely is an impossible dream – as the Institute of Fiscal Studies puts it:

'Can high marginal tax rates on the poor be avoided? We are forced reluctantly to conclude that they cannot . . . except by accepting a worse evil; substantial reductions in the level of support for the poor; or very high marginal tax rates on a much higher proportion of the population.'⁶⁵

Means tests are not the main cause of dependency

The proposition that means tests are not the main cause of dependency has been tested: the largest income maintenance experiments (IMEs) ever were conducted in Seattle and Denver (SIME and DIME respectively) from 1970 to 1978 with guaranteed non-means-tested benefits in- and out of work. The payments increased spells of unemployment by an average of 60% for single female family heads, 42% for wives and 27% for husbands⁶⁶. The experiments even saw an increase in marital break-up⁶⁷.

Furthermore, American federal welfare incentives without poverty traps were introduced from 1967-81 and had negligible effects on work effort⁶⁸. Moreover,

⁶³ Norman Fowler was Secretary of State at the Department for Social Security at the time

⁶⁴ DSS Social Security Departmental Report 1997, Cm 3613. London: The Stationery Office. 5.3% faced replacement rates of over 70%. Replacement rate is out of work income as a percentage of in-work income.

⁶⁵ The Reform of Social Security, IFS

⁶⁶ Robins P., Tuma N. and Yaeger K.: Journal of Human Resources Vol XV No 4, Fall 1980, pp 654-74

⁶⁷ Groeneveld L., Tuma N., and Hannan M. Journal of Human Resources Vol XV, No 4, Fall 1980, pp566

⁶⁸ Robert Moffitt: Incentive Effects of the US Welfare System: A Review, Journal of Economic Literature 30, March 1992: 13-18

if means testing were the main cause of dependency, the means-tested Family Credit (an in-work benefit) in the UK would have led to a poverty trap for the low paid. But it did not - only 12% of claimants were on Family Credit for over a year⁶⁹.

The reason for this is that people are not motivated purely by marginal increases in income – many are motivated by the sense of self-respect, independence and duty to their families that work gives them. Many families escape poverty traps by working harder; indeed the poverty rate would have been 50% higher in 1989-91 were it not for married women taking jobs⁷⁰. The reason why some people do not behave in this way is that they are not required to work, so they suffer long periods of worklessness and become despondent (see chapter 6), rather than that the financial incentive for work is not high enough. It is the absence of genuine work requirements that explains dependency, not means-testing.

• **Penalising honesty and discouraging saving**

It is claimed that the withdrawal of benefit (for example, means-tested Jobseeker's Allowance) as earnings increase penalises the honest and virtuous and rewards the lazy or fraudulent. Those who have built up savings in work are likely to find themselves ineligible for means-tested benefits and will feel cheated by others who have been extravagant, knowing full well that the state will pick up the tab. It is further argued that only through an insurance-based welfare state will people feel that they have a stake in the system; otherwise, the middle class will become so hostile to the welfare state that it will simply collapse.

It is, however, wrong to claim people are being penalised for saving money or for being honest by means tests. It is only taxes that take money away from people and thus penalises them for being successful. Not giving people benefits is very different from taking anything away from them. Moreover, people will be far less supportive of a universal system financed by higher taxes than a cheaper targeted system. The disillusion with the current welfare state arises from those who claim benefits without looking for work, not from targeting benefits on the needy.

• **Removing stigma**

Opponents of means-testing argue that there is still a stigma in claiming means tested benefits, explaining their poor take-up. For example Income Support take-up is only 79-89% by caseload and Family Credit⁷¹ take-up was only 66-70% by caseload. However, these figures do not take into account the size of the sums unclaimed: take-up by expenditure is 88-95% for Income Support and was 73-79% for Family Credit⁷².

⁶⁹D. Willetts: *Why Vote Conservative?* (1997)

⁷⁰S. Harkness, S. Machin, and J. Waldfogel: *Evaluating the Pin Money hypothesis: The Relationship between Women's Labour Market Activity, Family Income and Poverty in Britain*, LSE Welfare State Programme (1995), quoted by David Green: *Welfare and Civil Society in Stakeholder Welfare*, F. Field IEA(1996)

⁷¹It has now been replaced by the WFTC.

⁷²Social Security Statistics 2000, DSS

• **Conclusion**

This chapter has argued that means-testing is not the main cause of dependency - it has not argued for an increase in means-tested benefits, nor has it argued for the creation of new means-tested benefits (as the Chancellor has done). The way to tackle dependency is not to eliminate means-testing, but to implement a workfare programme which tackles unconditionality (see chapters 5 and 6). But first it is worth examining the Blair government's approach.

Chapter Three: Brown's Tax Credit Maze

• Executive summary

The Government has tried to 'make work pay' by replacing Family Credit with the Working Families Tax Credit (WFTC). This will do very little to improve work incentives overall, but it will make more people pay higher marginal taxes and subsidise people who are not poor. This chapter will also show that Gordon Brown's 'tax credits' are nothing more than benefits with a different name and have left Britain's social security system in a mess.

• The Working Families Tax Credit

The principle of in-work benefits is sound and existed in the form of Family Credit before New Labour even existed. The Chancellor claims that WFTC will reduce marginal tax rates for more people and, as a tax credit paid through the wage packet, will remove the stigma of claiming benefits. However, WFTC has had a decidedly mixed record.

More people facing high marginal taxes

While it has reduced the numbers facing marginal tax rates of 90% by three-quarters and its withdrawal rate is 55% (down from 70% under Family Credit), WFTC has extended high marginal tax rates right up the income scale: the numbers facing 60% marginal tax rates are up by one-quarter⁷³. The Chancellor has managed to increase the number of benefit recipients and increase the number of people suffering disincentive effects.

Badly targeted

The WFTC is badly targeted. A family with children earning £38,000 a year could receive the credit and two-thirds of those who are now eligible for the WFTC but were not eligible for Family Credit are owner-occupiers.

Paid to the wage-earner, not the child carer

More worryingly, the WFTC is paid to the wage-earner, generally the father, whereas Family Credit was paid to the parent who directly cared for the child (only 7% of Family Credit recipients wanted this change⁷⁴). Of course, paying the WFTC through the wage packet is also an added burden on employers who already have to administer PAYE.

Disincentive effects on married women working

The worst element of the WFTC is its disincentive effects on women wanting to take part-time jobs where their husbands are working - they now face a 55% marginal tax rate. According to the Institute of Fiscal Studies, the WFTC will only produce a net gain of 30,000 jobs – this means each extra job created by the WFTC costs £200,000!

⁷³ HM Treasury reply to David Willetts, Hansard 5.4.00

⁷⁴ Low Income Families in Britain, DSS Research Report 2001 No. 138, Marsh A, McKay S, Smith A, Stephenson A

Increased spending

Far from cutting welfare spending, Gordon Brown has actually been fairly profligate. The WFTC cost £1.9 billion in additional spending in just the three years from 1998/9 to 2001/2⁷⁶. Since it failed to have much effect on getting people off welfare and into work, little of this will have realised savings elsewhere in the social security budget.

Low take-up

The credit's take-up has also been lamentable – less than half of those who are eligible to claim WFTC but who were not eligible for Family Credit have actually claimed it⁷⁶. This gives the lie to Brown's claim that people would be more inclined to claim WFTC than Family Credit, because WFTC is paid through the wage packet. As the Institute of Fiscal Studies put it, 'As employers and potentially work colleagues would observe the WFTC, it might increase the stigma . . . and so decrease take-up'⁷⁷. Ironically, there is little evidence that its predecessor, Family Credit, suffered from such problems⁷⁸.

• The trouble with tax credits

Quite apart from the problems with WFTC, the Chancellor's whole tax credit strategy is fraught with difficulties.

Complexity

The Chancellor has introduced (or will introduce) WFTC, the Child Care Credit, the Children's Tax Credit (CTC), an Integrated Child Credit and an Employment Credit. All these credits are calculated on different bases, paid in different ways and subject to different means tests and with different forms to fill in. The hideous complexity of the system is an affront not just to purists obsessed with tidiness, but to ordinary people who are unaware of the benefits to which they are entitled. Administrative complexity is one of the main features preventing moves off welfare into work⁷⁹.

The Treasury intends to introduce an Integrated Child Credit to integrate CTC with the child premia in Income Support and WFTC and an Employment Credit paid to all people in low-paid jobs, regardless of whether they have children. This supposed simplification will actually result in the proliferation of benefits to the same people – one payment for the unemployed and those on low pay and a separate child payment⁸⁰.

Tax-benefit integration

Tax is assessed on an annual basis, but income-related benefits are assessed on a weekly basis to ensure needs are met continuously. Tax liability is based

⁷⁵See note 5

⁷⁶ Memorandum submitted by the Low Incomes Tax Reform Group to the Social Security Select Committee, 14th March 2001.

⁷⁷Institute of Fiscal Studies Green Budget

⁷⁸Joseph Rowntree Foundation findings, January 1998

⁷⁹P. Meadows, evidence to Social Security Select Committee: Tax and Benefits: Pre-Budget Report 1998

⁸⁰D. Willetts MP, What's Wrong with Gordon Brown's Social Policy? Politeia 2000

on individual income, benefits on household income, again so that need is properly accounted for. Income-related benefits look at a claimant's circumstances, such as his capital resources, whether he is looking for work and his private domestic arrangements; whereas tax is not concerned with such things. Lastly, there is only a small overlap between the systems: in 1997 there were about 420,000 Family Credit recipients and over 20 million income taxpayers, so wholesale integration is totally inappropriate.

Apart from these practical problems, the functions of the tax and benefit systems are, and should remain, entirely different. Tax takes money from people to finance Government spending on everything from social security to the NHS to the police; the social security system is about the Government giving taxpayers' money to alleviate poverty. A failure to understand the distinction between taking and giving, or between what individuals earn and what is given to them by the state, is fatal to the cause of anyone who believes in cutting taxes, because it misleads people into thinking that a government hand-out is actually a tax cut. In fact, as David Willetts MP has shown, WFTC is not really a tax cut at all. It is paid to people who do not pay any tax and 'it is applied for by filling in a claim form like a benefit. Entitlement is calculated on a daily basis like a benefit. It requires a full picture of household income like a benefit. If it looks like a duck, and quacks like a duck, it is a duck'⁸¹. Pretending WFTC is a targeted tax cut is a confidence trick on the British people – it is a benefit.

Tax credits worsen the marriage disincentive

The system of tax credits accentuates the discrimination against marriage in the tax system: CTC is paid regardless of whether the parents are married and WFTC is higher for a lone parent than a married couple. The single parent premium in child benefit has been abolished, but income support is still higher for a lone parent and partner than for a couple. The restoration of the Married Couples' Allowance at nearly £1,000 a year proposed by the Conservatives in the 2001 Manifesto would have been a welcome step in restoring the recognition of marriage into the tax system. We must move to a system where there is as little as possible discrimination against marriage in the social security system.

Targeted tax cuts?

Even if the tax credits were genuine tax cuts, they would be open to some objection. It is right to take poorer people out of paying tax altogether (as Margaret Thatcher did) – people should not have to pay tax to the Government as soon as their earnings exceed a modest £4,535. However, the Conservatives must also aim to cut tax for every taxpayer. A tax break for one interest group only increases taxes on everyone else, thereby redistributing taxpayers' money to that group. If a group genuinely deserves financial support as a result of poverty or other circumstances, then the proper response is to provide benefits through the social security system, not to give them a tax break. One of George W Bush's most effective attacks on Al Gore in the US

⁸¹ibid

election was to contrast Gore's proposed tax cuts only for the groups that Gore favoured with Bush's tax cuts for all taxpayers. Benefits should be targeted – tax cuts should not be.

• **Conclusion**

The Conservatives were right in their 2001 Manifesto to propose paying WFTC to the direct carer, rather than the wage earner, and to target the benefit better on those who need it. It is wrong to increase incentives for some at the expense of higher marginal tax rates for others; in fact, it is old-fashioned socialist redistribution and does nothing to improve work incentives.

Labour has turned parts of the tax system into a complex and hidden second welfare state. New Labour rhetoric would have us believe that tax privileges for various interest groups are the same as tax cuts – they are not.

Chapter Four: The New Deal - Miracle or Mirage?

• Executive summary

This chapter will argue that Labour's New Deal for Young People is an expensive flop, costing £16,000 for each job created. Far from being a workfare programme, it is a socialist big-government scheme that fails to require actual work, as opposed to endless training programmes. Fewer than 40% of New Deal leavers enter sustained unsubsidised employment and three-quarters of those who have moved into work would have done so without the New Deal. The New Deal only requires continuous participation for young people, who make up less than 20% of the unemployed. The New Deal is not even new – Restart in the 1980s was similar.

• Introduction to the New Deal

What is the New Deal?

There are in fact several New Deals – the main one is for 18-24 year olds unemployed for over six months, but there is also a scheme for older workers out of work for 18 months or more out of the last 21 and for lone parents on income support. However, the young person's New Deal is the only one which is not mostly voluntary (benefits are cut 40% for non-compliance, though never totally stopped).

The New Deal for Young People

The first stage of the New Deal for 18-24 year olds is the 'Gateway' – up to four months of personalised help. If they still cannot find work after this time, they have four options:

- subsidised employment
- work in the voluntary sector
- work in the Environmental Task Force
- full-time education and training.

All options are for up to six months apart from full-time education and training, which can be for up to one year.

• A training programme, not a work programme

It is immediately clear that only one of the four options involves genuine private-sector employment. Only one in twenty people on the New Deal were in the subsidised employment option at the end of June. Indeed, of all the people entering options up to the end of June, fewer than one in five entered the subsidised employment option. Even more revealingly, only 39% of people have left the New Deal for sustained unsubsidised jobs⁸².

⁸² Figures in this chapter, unless otherwise stated, are from the Department of Work and Pensions: New Deal for Young People and Long-Term Unemployed People Aged 25+ Statistics to June 2001. The DWP cited a survey in June 1999 that suggested this figure might be 59% rather than the official figure of 39%.

Job subsidies for young people rarely result in employment once the subsidy is withdrawn, because increases in productivity tend to be insufficient to justify keeping these people on⁸³.

But by far the most popular of the four options, with 40% choosing it, is the full-time training option. Government training programmes tend to be ineffective, not only because the state does not know what training employers are looking for in a worker, but also because training fails to give people the discipline and the responsibility that employers look for.

Research from the United States shows that training often just raises employees' wage demands far in excess of what employers are prepared to provide, so employees actually spend longer out of work⁸⁴. An evaluation of the US JOBS programme showed that workfare was far more effective in raising employment, earnings and welfare savings than training programmes⁸⁵. Indeed, a study of an American programme called New Chance, which spent around \$9,000 per mother on education, training and childcare, found that the mothers were no more likely than before to find a job or leave welfare⁸⁶.

Research by Accenture suggests that employees would prefer workers had skills such as enthusiasm and commitment (and a consistent work record), rather than a record of participating in an endless list of training programmes⁸⁷. Only 10% of the first group of New Deal entrants completed their training courses and two-thirds who do complete the course simply return to benefits⁸⁸. For many, the New Deal is an endless merry-go-round of training courses which never actually lead to a job – in fact, only a third of those leaving the training option enter unsubsidised employment.

Furthermore, half the people on New Deal are in the four-month Gateway, which contains no real mechanism to check what efforts the unemployed are making to find a job.

• The New Deal is not responsible for the fall in unemployment

The Government claims that the New Deal reached its target of 250,000 young people off benefit and into work in September 2000. But the latest research commissioned by the Government shows that three-quarters of the moves from benefit into work claimed by Labour are nothing to do with the New Deal⁸⁹. Youth unemployment fell by 250,000 before the New Deal was set up, because of improving economic conditions – in fact, unemployment fell more slowly under Blair's first government than John Major's Conservative government.

But it's even worse than that: 40% of all the jobs gained though the New Deal lasted less than three months.

⁸³ B. Bell, R. Blundell and J. V. Reenan: Getting the Unemployed Back to Work, Institute of Fiscal Studies April 1999

⁸⁴ US Department of Labour study of 1993 Job Training Partnership Act program – wages only rose by 3.4% for female trainees and not at all for male trainees.

⁸⁵ The JOBS Evaluation: Early Findings on Program Impacts in Three Sites, S. Freedman and D. Friedlander, New York: Manpower Demonstration Research Corporation, July 1995

⁸⁶ Why Welfare Reform is Working by Daniel Casse in Commentary, September 1997

⁸⁷ The Attributes of Youth – young people, education and employability, Andersen Consulting (now called Accenture)

⁸⁸ D. Smith: Welfare, Work and Poverty, 2000 Institute for Study of Civil Society quoting official figures

⁸⁹ National Institute of Economic and Social Research: The New Deal for Young People: Implications for Employment and the Public Finances December 2000

• The New Deal is poor value for money

The total cost of the New Deal will reach £1.4 billion by spring 2002⁹⁰. The Government's boast that the New Deal pays for itself is based on its claim that each job created costs only £4,000. But research commissioned by the Government shows that the cost of each job that the New Deal has actually created is £16,000⁹¹, compared to £443 per job for the Conservatives' Jobclubs and £282 for Restart⁹². The New Deal is actually very expensive, given the little it has achieved.

• The New Deal is only genuinely compulsory for the young

The focus on young people is curious: as Damian Green MP has pointed out, 84% of New Deal money goes to the young, but only 16% of the long-term unemployed are young people⁹³. The other New Deals do not require continuous participation nor are they any more effective.

The New Deal for Lone Parents does not even require that its participants look for work and is described by the New Deal website as a 'voluntary programme'. For those who decide to take part, interviews and job subsidies are provided. A Government-commissioned evaluation found that unemployment was actually higher where the New Deal was in place than where it was not! More lone parents did leave income support in the New Deal areas, but only through the discovery by the Benefits Agency of fraudulent claims⁹⁴. The evaluation also found that 80% of the jobs obtained through the scheme would have been filled even if the New Deal had never existed⁹⁵. In the whole of the last three years, even the Government estimates that the New Deal for Lone Parents has created only 10,000 jobs at a cost of £11,000 per job.

The New Deal for Long-Term Unemployed People aged 25+ requires participation in a 3-6 month Intensive Activity Period (IAP), during which training and work experience with a public or private employer is available. Following that, participants are offered job subsidies and training. However, after the IAP, jobseekers are free to return to JSA without taking up a New Deal opportunity – indeed, this is exactly what nearly half have done. Moreover, fewer than a fifth have left the New Deal for work and under 13% have left it for unsubsidised work.

• Conclusion

The figures speak for themselves – a programme that creates jobs at a cost of £16,000 each is plainly ineffective. What has gone wrong? New Labour have rejected workfare and relied on old-fashioned, socialist training schemes, instead of getting people into actual work.

⁹⁰Economist, December 2nd 2000, p54

⁹¹National Institute of Economic and Social Research: The New Deal for Young People: Implications for Employment and the Public Finances December 2000

⁹²Damian Green MP, The Four Failures of the New Deal, CPS 1998. Jobclub offered two weeks' help with job search and Restart involved compulsory interviews followed by employment or training for the long-term unemployed.

⁹³ibid

⁹⁴David Willetts MP and Nicholas Hillman: A Raw Deal for Lone Parents Centre for Policy Studies 2000

⁹⁵Jon Hales: Evaluation of the New Deal for Lone Parents: Early Lessons from the Phase One Prototype – Findings of Surveys (2000)

Chapter Five: Workfare in Theory

• Executive summary

The main cause of dependency, poverty and rising welfare costs is the failure of the system to get people into work. Long periods of worklessness sap people's initiative, confidence and independence as they lose the ability and the discipline to cope in a working environment. The only way to solve this is to require that all benefit recipients actually work for their benefits.

• Workfare cuts welfare spending

It is a common fallacy that in order to cut taxes, it is necessary to cut spending. The truth is that one need only keep the growth in spending below the growth of national income. Normally this implies slowing the overall growth of spending, rather than cutting it. As chapter 1 shows, the rise in costs is largely a result of the rise in the numbers of people who are without work and claiming benefits, so the best way to cut welfare spending is to reduce the numbers claiming welfare and to increase the numbers working.

Every person who leaves benefit and enters employment saves the taxpayer £9,000 from no longer claiming benefits and paying taxes⁹⁶. Workfare realises these savings - once claimants and potential claimants know that they can no longer claim welfare without working, they decide to take private sector jobs or they do not go onto welfare in the first place. Workfare also eliminates large swathes of welfare fraud: claimants will be supervised during working hours, so it is impossible for them to do black market work and they cannot receive multiple welfare cheques under different names. This will also reduce the welfare rolls substantially and save money for the taxpayer.

• Workfare reduces dependency

Along with the rise in the numbers on welfare came a rise in dependency. Except for the elderly and disabled, the rise in welfare costs is mainly accounted for by the increasing number of lone parents on income support. This is a group particularly prone to long periods on welfare and low commitment to the job market (see chapter 1).

The Jobseeker's Allowance (JSA) has failed to enforce work requirements properly. It provides no effective way to monitor whether someone is actually spending his time looking for work. In fact, a survey showed that about half of those claiming JSA thought that their benefit would not be stopped if they were not really looking for work⁹⁷ and the average claimant only spent 7 hours a week looking for work⁹⁸. JSA does not even require people to look for work for the first three months of claiming it. Lone parents (who make up around three-quarters of able-bodied working-age claimants of income support⁹⁹) are not required to work until their children reach 16 (or 18 if in full-time education).

⁹⁶ Dennis Snower, Financial Times, 20th April 1994

⁹⁷ Unemployment and Jobseeking after the Introduction of the Jobseeker's Allowance: S. McKay, A. Smith, R. Youngs, and R. Walker, DSS Research Report No. 99

⁹⁸ *ibid*

⁹⁹ National Statistics Press Release March 2001, figures relate to November 2000.

Work is the best route out of dependency, because it gives people self-sufficiency and a sense of responsibility. A daughter of a lone mother is over three times more likely to get at least one A Level and half as likely to become a teenage mother herself if the mother is working¹⁰⁰. US research suggests that, if a family claims welfare, this reduces a boy's future adult earnings, a girl's chance of graduating from high school and staying off welfare as an adult, and a child's IQ, even after controlling for poverty¹⁰¹. Children are better off with a working mother, rather than a welfare mother.

As Professor Lawrence Mead has observed¹⁰², the reason that many of the long-term unemployed have given up looking for work is not that they are lazy, but that they have become defeatist. Furthermore, many who receive jobs are unable to hold them down, because they lack what Mead calls 'competence' – the basic skills of motivation, punctuality, commitment and discipline needed to hold down any job. As the Treasury puts it, 'Long periods of worklessness reduce the chances of a parent subsequently finding work, and lower their eventual earnings'¹⁰³. The best antidote to their situation is not training, which has proven to be ineffective both under the New Deal and in the US (see chapters 4 and 6), but genuine work experience.

Voluntary work programmes do not succeed, because welfare recipients who are disillusioned either do not volunteer for the programme or drop out of it as soon as they face up to the discipline needed to do a hard day's work. The US's experience with work programmes in New York and California bears this out¹⁰⁴.

Workfare is a system that requires work-based activities as a condition of claiming benefits. It ensures that welfare recipients follow a regular, work-based structure to their lives every day and that they do not have long gaps in their work histories. This prevents them becoming defeatist and ill-disciplined and makes them more employable. It also encourages people to take private sector jobs (see above), preventing dependency from arising in the first place.

• Workfare lifts people out of poverty

Any policy that is not squarely based on getting people back to work is ignoring the driving force behind today's poverty. Work is the best route out of poverty: about two-thirds of families rising above the poverty line in any one year do so because a parent gets a job or the family's earnings increase¹⁰⁵.

¹⁰⁰K. Kiernan "Lone Motherhood, Employment and Outcomes for Children" in *International Journal of Law, Policy and the Family* 10 (1996), cited in D. Willetts and N. Hillman *A Raw Deal for Lone Parents*, CPS 2000

¹⁰¹M. Anne Hill and J. O'Neill, *Family Endowments and the Achievement of Young Children with Special Reference to the Underclass*, *Journal of Human Resources*, Fall 1994, pp1090-1; M. Corcoran, R. Gordon, D. Loren and G. Solon, "The Association between Men's Economic Status and their Family and Community Origins", *Journal of Human Resources*, Fall 1992, pp575-601; R. Forste and M. Tienda, *Race and Ethnic Variation in the Schooling Consequences of Female Adolescent Sexual Activity*, *Social Science Quarterly*, March 1982; M. S. Kimenyi, *Rational Choice, Culture of Poverty, and the Intergenerational Transmission of Welfare Dependency*, *Southern Economic Journal*, April 1991

¹⁰²L. M. Mead, *From Welfare to Work*, IEA1997

¹⁰³Tackling poverty and making work pay – Tax Credits for the 21st Century: HM Treasury March 2000

¹⁰⁴L.M. Mead "The Potential for work enforcement: a study of WIN", *Journal of Policy Analysis and Management*, Vol 7, No 2, Winter 1988, pp264-88; L. M. Mead, *From Welfare to Work*, IEA1997

¹⁰⁵Supporting Children through the Tax and Benefit System: HM Treasury, November 1999

Conversely, lack of work is the main cause of poverty. Fewer than one in ten low-income¹⁰⁶ adults live in households where all adults are in work – this compares with six out of ten, who live in households where no-one works¹⁰⁷. Indeed, two-thirds of adults in households where the head or spouse is unemployed are in the poorest 20%, compared to only 9% in working families¹⁰⁸.

Data from the US suggest that the problem is even more acute because many of the poor people who do find work do not stay in employment for long. In 1995 only 10% of the poor worked full-time, full-year¹⁰⁹ and the poverty rate for those who did work full-time, full-year was only 3%¹¹⁰.

In the UK, the proportion of households where no-one is in work (one in five) has doubled since 1979 and worklessness is increasingly concentrated in the poorest fifth of the population, primarily because of the rise in one-parent families¹¹¹.

• Conclusion

The current welfare system fails effectively to require work from claimants. This is the reason behind the rise in the numbers claiming welfare and the consequent rise in dependency and cost. Workfare is the best solution to dependency and the rise in welfare costs – indeed, it is the only solution. The next chapter will show what workfare has achieved in practice.

¹⁰⁶ Bottom quintile of the income distribution

¹⁰⁷ Tackling Poverty and Social Exclusion, First Annual Report 1999 DSS, citing figures from Households Below Average Income, 1996/7 DSS HBAI 1993/4 – 1998/9 DSS

¹⁰⁸ HBAI 1993/4 – 1998/9 DSS

¹⁰⁹ "Full-year" means for at least 50 weeks a year

¹¹⁰ L. M. Mead, From Welfare to Work, IEA1997

¹¹¹ S. Harkness, S. Machin, and J. Waldfogel, Evaluating the Pin Money Hypothesis: The Relationship Between Women's Labour Market Activity, Family Income and Poverty in Britain, LSE Welfare State Programme, May 1995

Chapter Six: Workfare in Practice

• Executive summary

This chapter outlines the principles and specifics of the work programmes operated in the US state of Wisconsin during the late 1980s and 1990s. It shows why the policies adopted in Wisconsin provide the best solution to the twin evils of dependency and spending examined in chapters 1 and how they apply the principles of workfare set out in chapter 5.

The headline achievements of Tommy Thompson's welfare reforms in Wisconsin, which received cross-party support and which Bill Clinton called 'one of the boldest, most revolutionary plans in the country'¹¹², are summarised below for 1987-99¹¹³. The Wisconsin scheme has had remarkable results. President George W Bush was so impressed that he has made its creator, Tommy Thompson, his Secretary of State for Health and Human Services. The people of Wisconsin were so impressed that they elected him as Governor in three consecutive elections, despite usually voting for the Democrats. The results speak for themselves:

- Welfare rolls: down by 90%, the biggest fall in the country (nationally, the fall was just 25%).
- Cost of welfare: down by half.
- Child poverty: down by half.
- Unemployment: down to 3%.
- 83% of those leaving the welfare rolls left for work.

• Workfare in Wisconsin

The Personal Responsibility and Work Opportunity Act 1996 ended American federal welfare as an entitlement, based on the view that no-one had the right to unconditional financial support – they had to look for work. It also gave individual states the flexibility to devise their own work programmes with a fixed federal block grant to spend as they chose. But, as independent commentators put it, 'Wisconsin is the only state that has enacted legislation to end traditional welfare'¹¹⁴. No other state has implemented such a comprehensive work programme and no other state has achieved what Wisconsin has.

¹¹²CNN.com 14.1.99

¹¹³Source: Heritage Foundation: Issues 2000; Jean Rogers, Administrator, Wisconsin Department of Workforce Development, Testimony Before the Subcommittee on Human Resources of the House Committee on Ways and Means: Hearing on the Effects of Welfare Reform, May 27, 1999;

The Decline of Welfare in Wisconsin, L. M. Mead, Wisconsin Policy Research Institute Report 1996, Vol. 9 No 3

¹¹⁴An Overview of Research Related to Wisconsin Works, Demetra Smith Nightingale and Kelly S. Mikelson, Urban Institute, March 2000

There are four elements to the Wisconsin scheme:

Short-term aid for the first few weeks

Self Sufficiency First (SSF) replaced benefits with short-term aid for a few weeks for new claimants. People still received loans and transport that helped prevent the need for welfare in the first place. Claimants were also required to begin working almost immediately after enrolling on welfare. This is in contrast to Jobseeker's Allowance (JSA), which only requires work after 13 weeks of claiming. SSF halved the number of new welfare claimants in two years and only half of the new applicants now end up on welfare¹¹⁵.

Supervised job search

Claimants were required to perform 6 weeks of continuous, supervised job search for 20 hours a week. Case workers were assigned to each claimant to provide tailored help, ensuring that claimants were dealt with as individuals, and job vacancies were made accessible through the workfare offices' computerised job search system. Benefits would be cut in proportion to the number of hours a claimant failed to turn up (although claimants could spend time learning basic skills, such as writing a CV). This has several aims. It eliminates fraud, because a single claimant cannot receive multiple cheques under different names if they are required to show up at a workfare site on a daily basis. It also prevents black market work, since claimants will have little time for other jobs. Finally, it helps restore the crucial work habits necessary for any successful job. Many welfare claimants had previously found themselves unable to hold down jobs, because they had lost their self-discipline. Under work and job search requirements, people learn commitment, individual responsibility and persistence - essential skills for the working world.

For those who cannot find work, community jobs

For those who could not find a job after the supervised job search, Pay For Performance (PFP) required them to take six-month community jobs and earn their benefits. This is very much a last resort, an enforcement mechanism to encourage recipients to take private sector jobs. Only half of the claimants have been assigned to community jobs and these only among the most difficult cases remaining on the Wisconsin welfare rolls as late as December 1998¹¹⁶. Childcare and transport were provided but, if people failed to work for up to 30 hours a week (plus up to 10 hours training), benefits were cut pro rata. This sent a powerful symbolic message to claimants that they could no longer claim benefit without working and provided the motivation necessary to overcome defeatism and dependence. It also mirrored the real world of work - claimants did not have long periods of debilitating worklessness, and they got used to doing a full day's work. This improved their employability and prepared them for employers' expectations. Finally, it reduced the incentive for remaining on welfare or enrolling onto it in the first place - receiving income for doing nothing is no longer possible; instead, recipients are encouraged to find private sector

¹¹⁵Heritage Foundation, Issues 1998

¹¹⁶Milwaukee after W-2, Amy L. Sherman in Ending Dependency, D.L. Besharov, P. Germanis, J. Hein, D.K. Jonas, A.L. Sherman, Institute for the Study of Civil Society 2001

jobs. In the first seven months after PFP, welfare caseloads fell by a third¹¹⁷.

Competition in welfare provision

Welfare offices that failed to reduce caseloads were replaced with private contractors and funds were awarded depending on how successful bureaucracies were in reducing the rolls. Previously, funds had been awarded according to how many claimed welfare, so the welfare bureaucracy had been hostile to welfare reforms. Welfare providers must be accountable to the public and those on welfare – this requires de-emphasising state monopoly. Ninety-five per cent. of the agencies selected through this method met or exceeded the state's rigorous welfare targets, and the private agencies that took over inner-city Milwaukee's welfare system performed particularly well¹¹⁸.

On 1 September 1997, Wisconsin Works (W2) was launched. This builds on the policies above, but does not alter the fundamental analysis. For those facing severe barriers to performing any independent work (for example, those with drug or alcohol problems), W2 Transition has been introduced, requiring work activities up to their ability, combined with training and rehabilitation programmes. The broad principle is that cash assistance is totally replaced by a pay cheque for private work or (if claimants cannot get private sector work) community jobs.

• Wisconsin cut welfare spending

Real spending on Wisconsin's welfare system has halved overall. This refutes the oft-repeated myth that welfare reform costs money in the short term. It is true that administration costs rose by about \$69 million between 1987/8 and 1993/4, but the state saved \$173 million on welfare benefits. The fall in overall welfare costs was \$68 million (net of the rise in administrative costs)¹¹⁹

• Wisconsin reduced dependency

The fall in welfare rolls

Wisconsin experienced the biggest reduction in dependency in the country because it is the only state that truly requires all adults to work. Welfare caseloads fell by 90% in Wisconsin from 1987 to 1999 and by 60% in inner-city Milwaukee. The size of the state's caseload fell from above- to below-average for the nation. While the average state saw its AFDC¹²⁰ numbers rise by over a third from 1987-94, Wisconsin's fell by a quarter, more than twice as large as the next largest decline¹²¹. Even in the 1990-2 recession, Wisconsin's caseload only rose 2%, while the average state suffered a rise of 25%¹²².

This success is mainly due to workfare, not to the strength of the economy. In previous economic booms caseloads either remained static or they actually

¹¹⁷Excluding Milwaukee, where caseloads fell by 14%

¹¹⁸Wisconsin Department of Workforce Development news release February 16, 2001

¹¹⁹The Decline of Welfare in Wisconsin, L. M. Mead, Wisconsin Policy Research Institute Report 1996, Vol 9 No 3

¹²⁰Aid to Families with Dependent Children, the principal US welfare program at the time

¹²¹The Decline of Welfare in Wisconsin, L. M. Mead, Wisconsin Policy Research Institute Report 1996, Vol 9 No 3

¹²²ibid

rose. Over the ten years to 1997, 13 states with lower unemployment actually experienced rises of 20% in their welfare caseloads and the country's caseloads rose by a third; meanwhile Wisconsin's fell by 60%¹²³. Indeed, states with immediate work requirements and strong sanctions reduced their caseloads by three-and-a-half times more than other states during 1997 and 1998¹²⁴. President Bill Clinton's Council of Economic Advisers admitted that less than 8% of the national fall in caseloads was due to the fall in unemployment¹²⁵ and Lawrence Mead's cross-sectional and time series analysis also suggest that economic conditions had little influence in the decline in welfare¹²⁶. An independent study of Wisconsin's programmes showed that they did succeed in reducing the numbers on cash assistance compared to a control group¹²⁷.

In contrast to JSA (see chapter 5), over 80% of claimants knew that the state required them to find work¹²⁸.

What happened to those leaving welfare?

A survey by Wisconsin's Department of Workforce Development published in 1999 showed that 83% of leavers had worked since leaving welfare and 62% were working at the time of the survey (not much lower than the work rate for the entire Wisconsin workforce - 69%). Sixty per cent. thought they would not need welfare again and 68% said getting a job was easier than being on welfare¹²⁹. The average wage of those employed was £5.33 an hour, nearly 40% above the current UK minimum wage¹³⁰. Unemployment fell to 3%, the 15th lowest in the country – even inner city Milwaukee saw unemployment fall to 3.1%¹³¹.

• Wisconsin reduced poverty

Child poverty halved during Thompson's tenure¹³² after it nearly tripled between 1969 and 1986¹³³. Indeed, Wisconsin's child poverty rate is one of the lowest in the country. Its overall poverty rate is 5 percentage points lower than the US average and its child poverty rate 9 percentage points lower¹³⁴. The number of children living in families that reported 'food problems' is also much lower in Wisconsin than the US as a whole¹³⁵. These comparisons remain favourable

¹²³ Wisconsin's Welfare Miracle, R. Rector, Policy Review Mar-Apr 1997, No. 82

¹²⁴ The Determinants of Welfare Caseload Decline, Rector and Youssef

¹²⁵ The Effects of Welfare Policy and the Economic Expansion on Welfare Caseloads, Council of Economic Advisers, 1999

¹²⁶ The Decline of Welfare in Wisconsin, L. M. Mead, Wisconsin Policy Research Institute Report 1996, Vol 9 No 3

¹²⁷ Wiseman, Michael. 1996. State Strategies for Welfare Reform: The Wisconsin Story. IRP Reprint Series. Madison, WI: Institute for Research on Poverty, University of Wisconsin

¹²⁸ Converting to Wisconsin Works: Where did Families go when AFDC ended in Milwaukee? R. Swartz, J. Kauff, L. Nixon, T. Fraker, J. Hein, S. Mitchell 1999, Madison, WI The Hudson Institute and Washington DC, Mathematica Policy Research

¹²⁹ Jean Rogers, Administrator, Wisconsin Department of Workforce Development, Testimony before the Subcommittee on Human Resources of the House Committee on Ways and Means

¹³⁰ Ibid. Average wage was \$7.42 an hour, current minimum wage is £3.70 an hour.

¹³¹ November 2000 figures, seasonally adjusted. Figures for July 2001 show a rate of 4.4%, below the national average. Source: Wisconsin Department of Workforce Development press releases.

¹³² Heritage Foundation, Issues 2000

¹³³ Governor Tommy Thompson: The Good News about Welfare Reform, Heritage Foundation Lecture No. 593, March 1997

¹³⁴ Excludes elderly

¹³⁵ In Midst of Reform: Wisconsin in 1997, Michael Wiseman, Urban Institute June 1999; W-2 Achievements and Challenges: An Overview and Interpretation of the White Papers Commissioned by the Department of Workforce Development: Rebecca J. Swartz, Thomas Corbett, March 2001

to Wisconsin when assessed against comparable states (rather than the US as a whole) and originate from the independent, centre-left Urban Institute.

• Wisconsin and lone parents

In addition to the above, Wisconsin introduced a myriad of programmes to get lone parents into work. For example, Children First provides compulsory job search assistance, work experience, education and training to non-custodial parents (i.e. absent fathers) who are not able to pay child support as a result of poverty. As a result, Wisconsin's child support system is one of the best in the country¹³⁶ and Wisconsin leads the nation in the amount of child support it collects per full-time state employee¹³⁷. Learn Fare ties the payment of welfare to families with attendance at school by their children, which created the lowest school drop-out rates in inner-city Milwaukee for eleven years and one of the lowest drop-out rates in the country¹³⁸.

Workfare has improved the condition of lone parents in Wisconsin. From 1997 to 1999, the lone parent employment rate rose from 77% to 80% and the lone parent poverty rate fell from 30% to 25%. Wisconsin's single parent work rate exceeds the US's by 15 percentage points – four-fifths of lone parents are working, compared to Britain where over half are not working and are on welfare.

Although a link between welfare and illegitimate births was shown in chapter 1, the illegitimacy rate has continued to rise in Wisconsin, by half a percentage point, between 1994/5 and 1996/7, although 33 states did experience larger percentage increases in this period¹³⁹. Clearly the link is a complex one. Nevertheless, there is evidence that the availability of an employed husband has more effect on marriage than welfare benefit levels¹⁴⁰ and that workfare removes the disincentive to marriage which unconditional hand-outs create¹⁴¹.

• The recent record

Critics said that the welfare rolls would stop falling as only the unemployable would remain on the rolls. They were wrong: since 1995 the caseload has fallen by a further 89%, the single parent poverty rate is down by a sixth since 1997 and welfare leavers continue to enjoy employment and wage rates above the national average¹⁴².

¹³⁶Map and Track: State Initiatives to Encourage Responsible Fatherhood, 1999 Edition, National Center for Children in Poverty, Columbia University

¹³⁷Wisconsin Department of Workforce Development press release quoting federal figures, September 4, 2001

¹³⁸The Good News about Welfare Reform, Governor Tommy Thompson and Dr William J. Bennett, Heritage Lecture No. 593, published August 11th 1997

¹³⁹National Center for Health Statistics website. The US experienced a 0.003% increase in this period.

Wisconsin experienced a further rise of 0.729 percentage points in 1998:

National Vital Statistics Report, Vol. 48, No. 3, March 28, 2000, National Center for Health Statistics.

¹⁴⁰Making Room for Daddy, Horn and Sawhill, p. 14

¹⁴¹Welfare and out-of-wedlock childbearing evidence from the 1980s by R.D. Plotnick in Journal of Marriage and the Family, Vol. 52, No. 3, August 1990, pp735-46

¹⁴²W2 Achievements and Challenges: An Overview and Interpretation of the White Papers Commissioned by the Department of Workforce Development: Rebecca J. Swartz, Thomas Corbett, March 2001

• Conclusion

The claims made above are not a matter of selectively quoting studies. An independent review of 53 studies of Wisconsin's welfare programme concluded not only that Wisconsin's caseload had fallen substantially, but that at least three-quarters of former welfare recipients work in each year after they leave the rolls, that the earnings of those who work increase in each of the three years after leaving welfare, and that the poverty rate among former welfare recipients is falling¹⁴³. The evidence is overwhelming - Wisconsin's welfare programme has succeeded in reducing dependency and saving money.

¹⁴³See note 114.

Chapter Seven: Recommendations for Reform in the UK

• Executive summary

The New Deal should be abolished and replaced with a new programme which could be named 'Back to Work', based on the four principles in Wisconsin's work programme (see chapter 6).

Except for mothers with pre-school age children, all able-bodied working-age people who have been without work and claiming benefits for 6 months or more should be enrolled in Back to Work as a condition of receiving welfare. Ultimately, as savings are realised from the programme, it should be extended to all able-bodied out-of-work welfare claimants of working age (except for mothers with pre-school age children). The programme would therefore include nearly all lone parents claiming Income Support, one of the fastest rising benefit groups, as well as all claimants of Jobseeker's Allowance (JSA). This is in contrast to the New Deal, which only includes young people (the other New Deals are broadly voluntary). Those currently eligible would continue to receive help with childcare costs and a reformed Working Families Tax Credit (see chapter 3).

• Abolish the New Deal full-time training option

Training has proven thoroughly ineffective and a poor substitute for genuine work-based activities (see chapter 4) - it is the New Deal's soft option. Subsidised training of the kind offered under the New Deal should be available for those in work (including community jobs), but should not be a full-time option for the unemployed. Most of the working day must be spent either working or actively looking for work; otherwise, claimants lose their attachment to the world of work. (Those who face extreme barriers to work, such as those suffering alcohol or drug abuse, should be given intensive help, but they should still be required to work up to their abilities.)

• Abolish the New Deal subsidised employment option

Job subsidies have a poor record in creating long-term jobs (see chapter 4). While W2, the most recent workfare programme in Wisconsin, does provide three-month subsidised jobs, only 1% of participants were allocated to them as of December 1998¹⁴⁴. Money spent on these subsidies is far better spent on job search assistance or community jobs.

• Introduce Back to Work

The Back to Work programme would have four key elements.

¹⁴⁴Milwaukee after W-2, Amy L. Sherman in Ending Dependency, D.L. Besharov, P. Germanis, J. Hein, D.K. Jonas, A.L. Sherman, Institute for the Study of Civil Society 2001

Give claimants short-term aid, rather than welfare, for the first few weeks on the programme

Administrators of the Wisconsin programme know the importance of preventing claimants enrolling on welfare in the first place¹⁴⁵. Participants should be given temporary financial aid, such as cash loans, and help with overcoming immediate practical barriers to work, such as lack of transport and childcare. This prevents jobseekers from adopting the psychology of welfare claiming and encourages them to look for work immediately (see chapter 6). Only those who still have not found work after the first few weeks should begin to receive income support / JSA on condition that they enrol in supervised job search.

Convert the New Deal Gateway into continuous, supervised job search for two months

The Gateway currently lasts four months, during which time there is no way of checking whether the jobseekers are looking for work and no requirement to do any continuous work-based activity, even though over half the people on New Deal are stuck in the Gateway. Turning up at regular interviews is no substitute for actual job search. Requiring attendance at a job centre for a specified number of hours each day is the only way to ensure that claimants are not faking job search. It also reduces fraud, keeps people in touch with the world of work and helps them find work (see chapter 6).

Participants should be required to undertake job search for up to 20 hours a week and training for up to 10 hours a week. Their benefits must be cut proportionately for each hour missed without good cause. The Government must aim to set up a computerised job search system to facilitate easier and more comprehensive job search. Each jobseeker must be given individual help by their Personal Adviser (as at present under the New Deal), including advice on issues such as financial planning and help with interviews and job applications. Participants must also continue to receive help in overcoming practical barriers to work (see above).

Job search need probably only account for two months, in contrast to the four-month Gateway.

Six-month community jobs for those who still have not found work

Six-month community jobs already exist in the New Deal under the Environmental Task Force and voluntary sector work options. Claimants should be required to work for up to 30 hours a week with up to 10 hours a week education and training. They will be paid above benefit rates, as at present, but their pay must be cut proportionately for each hour of work they miss. This will encourage claimants to take private sector work, prevents the creation of long gaps in claimants' employment histories and maintains the work habits that all employers look for (see chapters 5 and 6). It will ensure that people do not spend long periods out of work and thus will prevent them becoming dependent on state benefits. It will also give the unemployed a sense of purpose, dignity and self-worth.

¹⁴⁵ Lessons from Wisconsin's Welfare Reform, J. Jean Rogers, director of Wisconsin's Welfare Programmes, Social Market Foundation September 1997

Introduce competitive bidding into the workfare programme

Private companies would be invited to bid alongside local job centres for the right to administer Back to Work. Fixed-term contracts would be awarded to the organisation which could reduce the cash caseload the most. If performance fell below specified caseload reduction targets, then the competitive bidding process should be repeated. Of course, organisations would only be allowed forcibly to remove people off the rolls if they failed to comply with the programme requirements.

A note on time limits

Wisconsin does have a policy, 'Work Not Welfare', which prevents people from claiming welfare benefits for longer than five years. While this policy may well help reduce the caseload, this policy is not recommended for Britain. It is not acceptable to cut off welfare unless people have failed actively to look for work. Cutting off benefits after two years makes the assumption that available and suitable jobs for the unemployed will be in plentiful supply, even in recession. Given the regional and structural nature of much of Britain's unemployment (which has for some time been higher than the US's), this assumption is untenable in the long term. It should also be noted that food stamps are still available in Wisconsin after the five years and that exemptions exist for people 'with extreme barriers to becoming employed or if local labour market conditions precluded an individual from finding employment'¹⁴⁶.

• Spending implications

The major costs of the new scheme would be the administration, childcare and transport costs – but these are already provided for under the New Deal. Therefore, the UK scheme is likely to save even more money than the Wisconsin one. Potential areas for savings in the UK are:

- Welfare fraud costs around £7 billion a year. The programme would eliminate much of this at a stroke. It would become impossible to claim while working and to use multiple names to claim unemployment benefits.
- People would be required to look for work straightaway, rather than after 13 weeks at present. The Conservatives would have saved £330 million by reducing this period to 8 weeks. Abolishing it entirely would save far more.
- The Conservative proposal to require lone parents to work when their children are aged 11 or over would have saved £500 million. The proposal here is to require them to work as soon as their children reach school age – a policy that would save far more money. Only half of the lone parents with children aged five to 10 currently work.
- The requirement to perform community work for those who cannot find work will encourage many claimants to find private sector jobs, thus paying taxes instead of claiming welfare. As noted above, every move off welfare and into work saves the taxpayer £9,000.

¹⁴⁶ Wisconsin Department of Workforce Development website

- The abolition of training and job subsidies would also result in significant savings.

The Conservatives in their Manifesto identified savings of over £1.8 billion through a far more modest programme of welfare reform than Back to Work. There is every reason to believe that Back to Work will save money straightaway, as money is released from New Deal training schemes and job subsidies and as more people move into work.

• **Reducing dependency**

The Back to Work programme would also reduce the scourge of dependency in modern Britain, as people are moved off welfare and into work in the ways identified in this and the preceding chapter.

Conclusion

The last word goes to former Chancellor, Nigel Lawson, who neatly summarises the stance of this paper:

'Suppose the Government of the day has a fixed sum of money to apply to the relief of poverty (raised for example from VAT). The choice before it is whether to spread the money evenly among the population at large, which would be manifestly absurd and would not relieve poverty, or whether to concentrate it on the poor. The latter course is the only one that relieves poverty; but equally it means that as the poor become less poor – essentially as they earn more- their eligibility for benefit is reduced. It is this withdrawal of benefit, and not the tax system, which creates the inevitable consequence that the poor are little better off by earning more. The only practical way of mitigating this debilitating effect is to embrace the US concept of workfare, in which the payment of benefit is contingent on doing work for the local community . . .¹⁴⁷

¹⁴⁷ N. Lawson, *The View from No. 11*, Bantam Press (1992)

