

## **Welfare to Work: New Labour's 'Employment First' Welfare State**

This article describes the evolution and impacts of New Labour's welfare to work strategy and outlines the emerging 'employment first' welfare state to be consolidated should there be a third term Labour Government.

### **The main priorities 1997 to 2004**

In 1997 'New Labour' committed to a New Deal for young unemployed people (NDYP). It swiftly was followed by other New Deal programmes for lone parents, the long-term unemployed, disabled people, those over 50 and the partners of unemployed people. The key innovation was the role of front line New Deal Personal Advisers (NDPAs) who individualised employment assistance and worked with claimants to tackle employment barriers. The New Deals were part of a new, albeit 'modest', approach to redistribution and were financed by a £5 billion 'windfall tax' on the excess profits of privatised utilities.

The New Deals were integral to New Labour's 'rights and responsibilities' agenda. Programmes for the unemployed consolidated the 'stricter' Jobseekers Allowance (JSA) regime of the Conservatives, but 'guaranteed' intensive employment assistance after a particular duration of unemployment. Then all JSA claimants must get a job, participate in an employment programme, or possibly face benefit sanctions. In the New Deals for other benefit claimants participation is voluntary.

In a context of falling unemployment, and with evidence that the new programmes were delivering, the Government outlined its "new contract for welfare" in 1998. The ambition was to "change the whole culture of the benefits system" via a "single gateway to work" where personal advisers (PAs) focused on "helping people to become independent, rather than locking them into dependency" (DSS, 1998, p. 9).

The strategy involved policies to 'make work pay', including reductions in direct taxes for the low paid and, in 1999, the introduction of a National Minimum Wage (NMW) and the Working Families Tax Credit. Gradually a complex package of 'transition' initiatives was introduced to minimise the 'risk' of leaving benefit and meet the costs of starting work.

Following its 2001 election victory the Government set targets to increase employment rates (especially for lone parents and in the most disadvantaged areas) and reduce child poverty. Key developments included the introduction of a Working Tax Credit, with financial support for children paid separately through a Child Tax Credit, and mandatory 'work focused interviews' (WFIs) for all working age benefit claimants. The Department of Work and Pensions (DWP) was created and 'Jobcentre Plus' replaced the Employment Service and Benefits Agency.

### **What has worked?**

New Labour has made progress in reducing unemployment and ‘making work pay’.

Between May 1997 and June 2004 the number of employed people rose from just over 27 million to just over 28.3 million and the unemployment rate fell from over 8 per cent to 4.7 per cent. The number of unemployed people claiming JSA fell from 1.6 million to just under a million. By 2002 long-term *continuous claimant* unemployment virtually had disappeared for those aged under 25, and by 2004 the number of JSA claimants aged over 25 unemployed for over 18 months had fallen to about 100,000. The working age employment rate had increased to 74.6% and the employment rate for lone parents had increased from 47% to 53.4% and for people with disabilities or health problems from 43.5% to 49% (DWP, 2004a).

The most comprehensive evaluation of ‘net’ employment effects focused on NDYP. An econometric analysis concluded that in its first two years NDYP was cost effective and directly reduced levels of youth unemployment by between 25,000 and 45,000 and increased youth employment by between 8,000 and 20,000 (NAO, 2002, Part 3). Evaluations of other New Deals suggest similarly positive, albeit modest, impacts on employment outcomes for unemployed participants aged over 25 and for lone parents (Hasluck, 2002; Evans, 2003).

New Labour’s strategy has increased incomes for many of the lowest paid. Over 1.3 million employees benefited from the introduction of the NMW, a pattern sustained by subsequent increases in the basic rate. Primary beneficiaries are women, part time workers, young people, people with disabilities and some minority ethnic groups (LPC, 2003). The number of people benefiting from the NMW has risen with increases of 7% in 2003 and nearly 8% in 2004. The latest rise should benefit 1.6 million low paid workers, with others likely to gain from employers setting ‘mezzanine’ pay rates just above the minimum.

By 2004 2.3 million families benefited from the Working Tax Credit (Budget, 2004). A study of the combined impact of the NDLP and tax credits concluded that they may have directly increased the lone parent employment rate by about 80,000 between 1998 and 2002 (Gregg and Harkness, 2003).

### **What are the problems?**

Some less favourable assessments of the New Deals’ impact suggest that the reduction in unemployment simply reflects the strength of the economy. Others claim that many participants do not get jobs whilst a significant minority get jobs they do not retain. Placement and retention is hardest for those from minority ethnic groups, those with the greatest individual barriers, and those living in areas of highest unemployment. This poor performance has been attributed to the interplay between local labour market conditions, the characteristics of participants and the capacity of local delivery systems (Martin and Sunley, 2003).

There has been criticism of the 'make work pay' strategy, with employers aggrieved by the increased costs of regulation and Opposition Parties highlighting bureaucratic complexity. These criticisms have been exacerbated by administrative failures in the payment and calculation of the credits. Paradoxically the separation of Child Tax Credit from Working Tax Credit has 'blunted work incentives' and, although the highest effective marginal tax rates have been reduced, the number of those in work "facing an effective marginal tax rate of over 50%" has increased by almost 900,000 (Brewer and Shephard, 2004, p. viii). Another issue is the disincentive to work for partners of those in households with a tax credit claimant.

Perhaps the greatest weakness in the 'welfare to work' strategy has been the marginal impact on those working age people receiving sickness and disability benefits, over a million of whom say they want to work.. The rise in Incapacity Benefit (IB) claimants has continued, albeit at a slower rate, now standing at some 2.7 million people. There is intense political debate about the emergence of 'sick note' Britain within the media and Opposition Parties argue that the increase represents 'hidden unemployment' and demonstrates the failure of the New Deals which they are committed to abolishing (see, for example, Willets et al, 2003). The evidence suggests a more complex explanation involving the collapse in demand for unskilled labour and 'social prescribing' by medical 'gatekeepers'. There has been much emphasis on the higher level of invalidity relative to JSA benefits both financially and in terms of weaker conditionality. The future of IB is likely to be an issue in the 2005 election.

### **The next phase of reform**

In many respects the 'welfare to work' strategy of a third Labour administration is embedded. A combination of policy statements on public sector reform, the continuing 'roll out' of Jobcentre Plus, and the publication of DWP's 'five year strategy', have together shaped a 'second wave' of welfare reform to be consolidated in further welfare reform legislation if Labour is re-elected.

Jobcentre Plus heads the strategy. In 2002 it inherited a network of 1,500 offices and 90,000 staff. By 2006 it will deliver employment assistance and benefit payments through a network of integrated offices where benefit claimants will be assisted by 'financial assessors' and PAs. By 2008 Jobcentre Plus will comprise 1000 front line offices supported by 25 'contact call centres'. Staff numbers are planned to fall to 70,000 by 2006, with greater use of computers, call centres, telephones and on line technologies.

Over the next five years Jobcentre Plus will 'decentralise' and 'localise' New Deal employment programmes. During its first phase of reform the Government prioritised a concerted drive from the centre to tackle high unemployment and give a work focus to the benefit system. The next phase requires a "centralised intervention system combined with a more decentralised approach" (DWP, 2004b). District Managers and PAs will have greater flexibility to tailor provision to meet local needs. Jobcentre Plus Districts will test the new system in 2005 prior to its extension. This process will be 'benchmarked' by further experimentation with private sector provision, as in Employment Zones, to provide a further 'spur' to improving public sector performance.

Jobcentre Plus will play the front line role in implementing the increased 'responsibilities' required of workless people. From 2005 unemployed people must demonstrate greater efforts to look for work and to travel for jobs. There will be greater variation in 'signing on' regimes. A more intensive regime, involving sequences of WFIs, will be targeted at disability benefit claimants and lone parents with older children. 'Pathways to Work' will be extended nationally and more claimants will have to attend up to eight interviews with a PA. Within 'Pathways' PAs can refer claimants to a range of assistance including 'condition management programmes', under development with the NHS, that involve rehabilitation support to enable an individual to manage and cope with health conditions, such as, back pain, angina, or mental illness.

The 'Pathways' approach will expand dramatically after the reform of IB which is to be replaced by a new 'Rehabilitation and Support Allowance' (RSA) for those with 'more manageable conditions' and a 'Disability and Sickness Allowance' (DSA) for those with 'severe conditions' (DWP, 2005). Initially claimants will be placed on a 'holding benefit', paid at JSA rates, and, after medical assessment, those eligible for RSA will be paid extra only if they participate in WFIs and work related activities. DSA claimants will receive more than current IB rates and, although required to attend a WFI, will participate in other work related activities on a voluntary basis.

There remains a commitment to develop the evidence base on 'what works' in employment programmes. A new generation of pilot programmes have commenced and will test initiatives to help those with the greatest employment barriers; reduce 'recycling' through programmes; and improve employment retention and advancement (ERA). There will be further testing of financial incentives and 'Pathways' to inform the implementation of national programmes for lone parents and those on disability benefits.

The development of the 'ERA' pilot programmes is significant. The experiment is part of an acknowledgement of the limits to 'work first' programmes with labour market trends indicating a continuing decline in the demand for unskilled labour. ERA could be incorporated into the 'New Deal for Skills' where reforms can be expected to create greater articulation between Jobcentre Plus and the workforce development activities that in England are delivered by Learning and Skills Councils. This includes the implementation of the new entitlement for all adults to have free training to attain an NVQ Level 2 qualification and involves a relaxation of the JSA regime for some claimants as well as the co-location of skills counsellors alongside PAs in Jobcentres.

## **Conclusion**

The combination of New Deal programmes, 'make work pay', and personalised employment assistance, has contributed to employment growth and poverty reduction. The effective implementation of the 'second wave' of welfare reform in itself would represent a significant achievement but a third term Labour Government must do more than consolidate its existing strategy. It is unlikely that Jobcentre Plus can focus on employment assistance without a radical simplification of the benefit system. Otherwise

the new agency could become mired in administrative complexity, exacerbated by continuing IT inadequacies. There is a challenge to develop policies, such as an 'advancement agency' to create 'ladders of opportunity' for those who 'work first' but are trapped in low paid jobs and the 'tax credit economy' (Denham, 2003). More fundamental political questions concerning the potential of tax credits to improve work incentives and reduce child poverty remain. The emerging system could be further galvanised should Prime Minister Blair commit fully to the attainment of a national 80% employment rate.

New Labour's strategy remains controversial and there are flaws. An 'employment first' strategy will be discredited should it seem to devalue the unpaid tasks of caring and the position of those unable to work or facing discrimination in the labour market. Benefit levels for those unable to work are inadequate and resources will be needed to devise alternative routes out of poverty and social exclusion. There also is justifiable concern about the accuracy of a new 'capacity to work' test and the impacts of benefit reductions and increased conditionality on vulnerable groups. If, however, like this author, you accept that, for most people, employment is the best route from poverty and that citizens have obligations as well as entitlements, then there is much to commend in the strategy.

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