



UNIVERSITY OF
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For Neither Love Nor Money:

Was the Flexible New Deal a more effective and efficient active labour market policy than those it replaced?

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Abstract

Long-term unemployment creates a series of individual, social, and economic problems. Long-term unemployment has been treated with a wide variety of public policies: this thesis focuses on one approach - active labour market policies. Active labour market policies in the UK have emerged in stages, as the welfare state has incrementally evolved from a largely state-dominated and passive social security system to a market-led, work-first system where an escalating percentage of benefit recipients are expected to be actively seeking work. The theory and evidence underpinning these developments are explored in the first five chapters.

In the last decade, British governments have sought the assistance of private and voluntary sector organisations in the delivery of active labour market policies, using a system of payment-by-results to encourage these organizations to move individuals into, and sustain, employment. These are the core features underpinning the case study of this thesis, the Flexible New Deal. The Flexible New Deal is a programme for all long-term unemployed persons, which operated between the autumns of 2009 and 2011. In chapter six the objectives, structure and expected outcomes of FND are detailed, and these are used to contextualize the core research problem. With the use of data analysis and fieldwork the thesis seeks to answer whether the national contracted market in labour market attachment has created a more effective and efficient system for transferring the unemployed from benefits into work than the systems before it.

Within the broad parameters of the primary question, two further questions are considered. The first, whether the contracting process can identify the best and worst providers in the welfare market, and the second, whether work-first models of welfare-to-work are effective in different economic environments.

Using careful data analysis, the results chapter shows that the Flexible New Deal did not meet the government's own objectives for the programme, and it did not outperform the programmes it was designed to replace. In some areas of the country, the distance from

attaining the targets were much greater than others, and these differences are shown to be largely reflective of the labour market characteristics of the operating areas.

The thesis concludes by returning to the theme of path dependence established in Chapter 4 as the explanatory factor behind the reform of welfare-to-work programmes. It explains that despite market-driven active labour market policies not meeting their own objectives, the policies are likely to continue to be deployed by future governments.

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List of Abbreviations

ALMP Active Labour Market Policy / Programme

CSF	Critical Success Factor
DSS	Department for Social Security
DWP	Department for Work and Pensions
ERSA	Employment Related Services Association
EZ	Employment Zones
EZ25+	Employment Zones for Over-25s
EZYP	Employment Zones for Young People
FND	Flexible New Deal
JSA	Jobseekers Allowance
LJO	Sustained Job Outcomes (26 Weeks)
ND25+	New Deal for Long Term Unemployed
NDYP	New Deal for Young People
PAT	Provider Assurance Team
PES	Public Employment Service
PRaP	Provider Referrals and Payments System
SJO	Short Job Outcome (13 Weeks)

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Introduction, Research Questions and Methodology

The benefits system in the United Kingdom has changed over the past three decades; the most substantial transformation is evident in the delivery of unemployment benefits. In this policy area, a once relatively passive welfare system has come to be regimented by interventionist active labour market programmes. The prime objective of these schemes is to move individuals from out-of-work benefits into unsubsidized employment.

These policies are now widely accepted as integral to, and effective at, managing levels of unemployment in the labour market by assisting people to move from benefits and into work.¹ In this, there has been a pattern to the systemic reforms. Since the end of the 1970s unemployment policies have become increasingly focussed on unemployment at the individual rather than macro-economic level, where as Lowe phrases it the 'abandonment of 'full' employment [...] reduced the active role which government played in the promotion of individual welfare.'² As the state has drawn back from delivering 'full employment' in the traditional (Keynesian) sense, it has become more interventionist in the lives of the individual benefit recipient, while decreasing its role as deliver of unemployment services. This is shown through two observable trends presented in this thesis. First, that there has been a continuous tightening of eligibility tests for benefits and escalation of compulsion directed at individual active labour market programme participants.³ Second is there has been a movement towards a diversity of delivery arrangements in welfare-to-work initiatives.⁴ With regard to the former,

¹ OECD (2006) *General Policies to Improve Employment Opportunities for All*, OECD Employment Outlook 2006, OECD, Paris, p71

² Lowe, R. (1999) *The Welfare State in Britain Since 1945*, Second Edition, Palgrave Macmillan, Basingstoke, p339

³ Trickey, H. and Walker, R. in Lodemel, I. and Trickey, H (2000) *An Offer You Can't Refuse? Workfare in an International Perspective*, The Policy Press, Bristol, p186

⁴ Bruttel, O. (2004) *Contracting Out the Public Employment Service and the Consequence for hard-to-place Jobseekers: Experiences from Australia, the Netherlands and the United Kingdom*, Paper for 2nd Annual ESPAnet Conference, Oxford

services and benefits have gradually moved away from universal and (relatively) passive cash transfers towards a complex system of conditionality (which mandates a series of activities, including work, in order to merit continued benefit receipt). The latter is demonstrated by the increased role of the private and voluntary sector in delivering a 'contracted' quasi-market in welfare-to-work services.

These themes are connected by the personalisation of the welfare state, where the problem of unemployment is ever-more bound with the deficiencies of the individual, in turn, decreasing the direct responsibility of the state. The thesis will demonstrate the proliferation of these tendencies since they represent a fundamental change in the relationship between the state and the individual. Now an individual's right to receive benefits is being matched increasingly with greater levels of personal responsibility. This is itself being complemented by a growing use of contracted service providers for the delivery of unemployment related policies.

The situation in the UK now is one where the government contracts out active labour market policies for delivery by the for-profit and voluntary sectors, who are rewarded on their performance at moving individuals back to the labour market by the fastest possible route. The policy manifestation of this is the Flexible New Deal, the case under inspection for this thesis, and the last major welfare reform of the Labour government, implemented in 2009.

Research Question

In October 2009, the Flexible New Deal (FND) began to replace a number of existing welfare-to-work programmes and introduced private contractors to handle the majority of cases of long-term claimant unemployment. In some areas there was to be direct competition between contractors, in others a regional monopoly was in operation. As will be explored in successive chapters, both theory and

practice have suggested that the national quasi-market of work-focussed employment services should produce improved employment outcomes. This is premised on the expectation that ‘a quasi-market [in employment policy] will deliver more efficient, effective and de-bureaucratished employment services.’⁵ This hypothesis will be tested using comparisons between the Flexible New Deal and those programmes it was to replace.

The core research question is:

Has the implementation of a national contracted market in labour market attachment created a more effective and efficient system for transferring the unemployed from benefits into work than existed before the reform was introduced?

To address this question, the research will compare the Flexible New Deal to active labour market policies that existed prior to the 2009 welfare reforms. Greater effectiveness was treated in the narrow manner of moving more individuals into 13-week employment than existing programmes, and greater efficiency in the economic constraints of being as effective using less financial resources.⁶

Within the parameters of the broader research question are two sub-questions:

- 1. Does contracting competition between providers serve to identify the best, and worst, suppliers in the quasi-market?**
- 2. Is the emphasis on rapid labour market attachment effective in all labour markets?**

These questions are of value because there has been considerable academic insight into active labour market policies, but there has been limited attention on the effects of contracting out welfare-to-work programmes in the UK, and the field remains in its infancy. In summarising the evidence behind quasi-markets in employment programmes in 2008, Bredgaard and Larsen explain that ‘the efficiency gains and cost-savings, which are spurring the introduction of quasi-markets, are still largely unknown and

⁵ Bredgaard, T, and Larsen F. (2008) *Quasi-Markets in Employment Policy; Do they deliver on their promises?* Social Policy and Society v7.3, p341

⁶ Alternatively more effective on the same resources.

undocumented.⁷ On the specific case study in question, the Flexible New Deal, the one research report conducted deals with neither effectiveness nor efficiency in a holistic manner. As a qualitative study commissioned by the Department of Work and Pensions,⁸ the appraisal conducted by the Policy Studies Institute focussed heavily on customer's experiences of particular processes with the programme in the middle of programme operation, rather than a full analysis of programme outcomes. This thesis will therefore contribute to debate concerning the effects of contracting out by providing an, at present, unique data analysis of a major government employment programme.

Within this broader national appraisal of the Flexible New Deal there is an opportunity to explore how the contracting process at the local level, and identify the factors that determine the performance of contracted agencies. Specifically, it permits an exploration of one of the primary purposes of contracting: to identify and maintain the most effective contracting agents, and remove the worst.⁹ Many accounts of the (re)tendering process in contracted employment services have been offered,¹⁰ but little has been written about the challenge of 'picking winners'.

Finally, the timing of the programme and the spatial analysis provide an opportunity to explore the effects of work-first during a period of recession, where historically these programmes have been evaluated (and celebrated) during periods of economic expansion.¹¹ Because work-first programmes are now the norm in the UK, the effectiveness of these in weak or constricted labour markets is profoundly important.

⁷ Bredgaard, T, and Larsen F. (2008) *Quasi-Markets in Employment Policy; Do they deliver on their promises?* Social Policy and Society v7.3, p351

⁸ Vegeris, S. et al. (2011) *Flexible New Deal Evaluation: Customer Survey and Qualitative Research Findings*, DWP Research Report no.758, Policy Studies Institute and IFF Research, TSO, London

⁹ DWP (2008) *DWP Commissioning Strategy*, DWP, Cabinet Office, London, p21

¹⁰ For instance, see Eardley, T. (2003) *Outsourcing Employment Services: What have we learned from the Jobs Network?* Social Policy Research Centre, University of New South Wales, pp5-8, or Finn, D. (2008) *The British Welfare Market: Lessons from Contracting Out Welfare to Work Programmes in Australia and the Netherlands*, Joseph Rowntree Foundation, London, pp18-19

¹¹ Peck, J. and Theodore, N. (2000) *Work-First: workfare and the regulation of contingent labour markets*, Cambridge Journal of Economics, v.24, p123

How these research questions are to be broadly addressed in this thesis is explored in the following section.

Methodology

This section outlines and justifies the methodology the project used to address the core research question. It will explore a number of available methods of public policy analysis, and detail how the predominantly quantitative approach will be executed. Before doing so, it is pertinent briefly to mention the use of documentary sources. As Chapters 5 and 6 are premised on the development of active labour market policy, the chapters use an array of green and white papers, government legislation, and reports to the Work and Pensions Select Committee. A range of academic journal articles and reports dealing with the welfare state and its active labour market policies have been used to help supplement the primary documentation. The goal has been to build a full picture of programme structure and anticipated consequences, and these anticipated consequences informed the quantitative and qualitative methodology. In particular, the specific design of the programme and its distinguishing features must be accounted for, as is necessary for appropriate comparisons with simultaneous active labour market policies. As Burnham et al., argue ‘careful use of a wide range of documentary material is one of the most reliable methods open to the political researcher and provides an opportunity for the production of authoritative studies, even if the ‘definitive account’ remains out of reach.’¹² To compensate for the inevitable discrepancy between what the documents say, and what is actually occurring in employment service offices, qualitative research was undertaken to inform the case study in question.¹³

The Case Study

The research project is a case study of the Flexible New Deal. The use of case studies is widespread in social science research. This is because they enable the researcher to study a single policy area in depth,

¹² Burnham, P. et al. (2004) *Research Methods in Politics*, Palgrave Macmillan, Basingstoke, p188

¹³ For a seminal account of this problem see Pressman, J.L. and Wildavsky, A. (1973) *Implementation: How Great Expectations in Washington are Dashed in Oakland*, University of California Press, Los Angeles.

utilising both quantitative and qualitative data to build a comprehensive picture of the policy in question.¹⁴ According to Denscombe, this singularity is their defining feature where ‘case studies focus on one instance ... of a particular phenomenon with a view to providing an in-depth account of events, relationships, experiences or processes occurring in that particular instance.’¹⁵ The common criticism of case studies is equally associated with their singularity, that ‘explanations and generalisations are limited to the particular case study.’¹⁶ The findings for the case in this research project will not be suitable for generalisations concerning all active labour market policies, but the data analysis will be replicable for future studies of active labour market policies in the UK.

The case under study in this project, the Flexible New Deal, is a public policy. What is meant by public policy is an area of dispute in the literature, and the debate too large to warrant discussion at this stage.¹⁷ A sufficient explanation is offered by Goodwin et al. who state that ‘Ruling is an assertion of the will, an attempt to exercise control, to shape the world. Public policies are instruments of this assertive ambition.’¹⁸ Public policies are therefore an exercise in control, introduced in order to achieve something, or prevent something occurring. For Goodwin et al, ‘Policy gets made in response to problems.’¹⁹ Such problems range from the multi-layered, such as low national life expectancy, to the specific, such as an excessive number of road traffic accidents. As is common amongst the public policy literature however, problems do not exist until they are identified as such, and importantly that public policy-making is ‘In part ... a matter of transforming sheer ‘puzzles’ into ‘actionable problems;’ if no solution can be envisaged, then for all *practical* purposes there simply is no problem.’²⁰ In the case of this research project, a clear and identified problem exists in the form of and volume of long-term

¹⁴ Burnham, P. et al. (2004) *Research Methods in Politics*, Palgrave MacMillan, Basingstoke, p53

¹⁵ Denscombe, A. (2003) *The Good Research Guide for Small-Scale Social Research Projects*, Open University Press, Maidenhead, p32

¹⁶ Burnham, P. et al. (2004) *Research Methods in Politics*, Palgrave MacMillan, Basingstoke, p55

¹⁷ For a fuller discussion of the term see Hill, M. (1997) *The Policy Process in the Modern State*, Prentice Hall, London, pp7-18

¹⁸ Goodwin, R. et al.in Moran, M. et al. (eds.) (2006) *The Oxford Handbook of Public Policy*, OUP, Oxford p3

¹⁹ *Ibid*, p26

²⁰ *Ibid*, p26

unemployment in the UK. Correspondingly, there is an obvious desire amongst policy makers to a) recognise it as a problem, and b) seek a solution.

Having established identifiable problems and solutions, policy analysis enables the researcher to 'discover what governments do, why they do it, and what difference, if any, it makes.'²¹ In particular, policy analysis facilitates the exploration of 'what is 'working' and what is not' and consequently what refinements, policy improvements and policy learning' could be achieved.²² The analysis of public policy therefore renders the possibility of understanding whether the solutions, in this case the Flexible New Deal, to the given problem of long-term unemployment, have achieved their initial aims.

General Method

Addressing the primary research question requires the analysis of quantitative data. As the most appropriate method for evaluating the performance of an active labour market programme is to measure the number of individuals moving from social security to employment, the use of quantitative information is essential. The numbers moved from employment to work are meaningless without either a) an understanding of common performance levels, or b) performance objectives. Both of these elements are key to the method in this thesis. The level of performance which is expected from the policy case study, FND, has been outlined in three quantifiable 'Critical Success Factors' assigned to it by the Department of Work and Pensions, which were:

- Suppliers will meet or exceed the Short Job Outcome targets (13 weeks employment) agreed in their contract;
- Suppliers will meet or exceed the Sustained Job Outcome targets (26 weeks employment) agreed in their contract;

²¹ Dye, T. (2011) *Understanding Public Policy*, 13th Edition, Longman, Harlow, p5

²² McDonnell, A. (2010) *Understanding Policy Success*, Palgrave, Basingstoke, p11

- Suppliers will deliver a service that represents excellent value for money and a step-change improvement in performance compared with previous programmes;²³

It is therefore clear that these objectives will require the analysis of performance data of the programme itself, of other programmes, and expenditure to assess the efficacy of the quasi-market in employment services.

To appreciate fully the operation of the Flexible New Deal's welfare market requires an exploration of the programme first at the national level to evaluate its aggregate efficacy. This will serve to assess whether the programme met its Critical Success Factor objectives, and is also necessary for evaluating the programme against the other legacy programmes explored in this thesis to appreciate the FND's added value. Because the programme has been contracted out to a number of different provider organisations, it is also necessary to explore the programme at the local level to evaluate spatial differences in provider performance. This will offer insight into the competition elements of private provision and address the two research sub-questions of the thesis. In accordance with the case study analysis, this will produce a fuller picture of the Flexible New Deal.

Quantitative Data Collection

The quantitative data collection process involved collecting, processing and adapting a selection of government and independent datasets. All data used in this project are interval/ratio data, which permitted a degree of adjustment not available to other categories of data.²⁴ Most of the data used is 'whole population' data rather than sample data, which largely eliminated the need for tests of statistical significance tests that are necessary when attempting to apply a sample to an entire population. The fundamental source of Flexible New Deal information was the Delivery Directorate

²³ DWP (2008) *Flexible New Deal Phase 1 Invitation to Tender: Provision Specification and Supporting Information*, DWP, p15

²⁴ For a discussion of the differences and uses of different data categories see Denscombe, M. (2005) *The Good Research Guide for Small Scale Social Research Projects*, 2nd Edition, Open University Press, Maidenhead, pp237-238

Report. This data set is full population data, pertaining to every individual who participated in the Flexible New Deal, making systematic sampling unnecessary. As John argues, the larger proportion of the population included in the dataset, the greater the strength of generalisations derived from the data.²⁵ In this case, the Delivery Directorate report includes information on all 407,690 participant spells on the Flexible New Deal. The data was gathered by the Flexible New Deal prime provider organisations that were required to record and report accurate information to the Department of Work and Pensions concerning a selection of activities, including the volume of participants registered to their organisation, their labour market status, and the destinations of the customers upon exiting the programme. This applied to each of the contractors in each of the geographic districts of FND operation (henceforth known as Contract Zones).

It is important to note the discrepancy between the data input, and the data output. As John reminds, 'official information is what politicians and bureaucrats wish to make public.'²⁶ The rich variety of data provided to the DWP by providers was curtailed when consolidated into the national database. The dataset included total participants in each contractor in each area joining the programme, the number entering a short-term job (at least 13 weeks), and the number entering sustained work (at least 26 weeks). These have been publicly available on a monthly basis through the Delivery Directorate Report on contracted employment programmes, with the final statistics released in November 2011.²⁷ However, a number of characteristics were omitted by the DWP in their consolidation of the data that could have contributed further to the understanding of the Flexible New Deal, such as the gender of participants, and the job entry rate of each contract area.²⁸

The information in the Delivery Directorate Report was recorded against the robust, unambiguous criteria outlined above and then crosschecked and revised in a number of ways by the Department of

²⁵ John, P. in Marsh, D. And Stoker, G. (eds.) (2002) *Theory and Methods in Political Science 2nd Edition*, Palgrave Macmillan, Basingstoke, p218

²⁶ Ibid.

²⁷ DWP (2011) *Delivery Directorate Performance Report*, DWP, available at <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> [accessed 11/04/2011]

²⁸ The exclusion of these variables was not explained by the DWP.

Work and Pensions. First, the data was authenticated by Jobcentre Plus to verify that participants had exited Jobseeker's Allowance. This process was automatic, and used repeatedly to check whether the customer has left the JSA for a sufficient period to merit the job outcome criteria. A DWP inspectorate, the Provider Assurance Team (PAT), undertook the second check. Specifically, the PAT visited individual providers and manually checked their physical records.²⁹

To provide a richer understanding of the data, further data sets were collected to provide information on the levels of supply and demand in the contract area labour markets. On the demand side, ILO unemployment, Claimant Count, and Claimant to Vacancy ratios were used to match provider performance with the local labour market. On the supply-side, data regarding benefit receipt length, and educational attainment were used in attempt to evaluate the quality of supply within the area. The labour market data was obtained from the Nomis Local Labour Market system.³⁰

Analysis

The review of the literature in Chapter 2 highlights a selection of tools deployed to evaluate active labour market programmes. It is observable that most have utilised quantitative methods to assess impacts on aggregate employment, unemployment and wages. This project will continue the trend by using data analysis to quantify the outcomes of the Flexible New Deal, and make inferences of relative success or failure by triangulating outcomes with expectations from the literature and quantified outcomes of comparable simultaneous active labour market policies.

Quantitative data analysis presents many methodological choices and opportunities for understanding unemployment programmes. In this project, the method of analysis was determined by the nature of

²⁹ Department of Work and Pensions (2010) *Provider Referrals and Payments System Q&A*, DWP, available at <http://www.dwp.gov.uk/docs/prap-qanda.pdf> [accessed 03/10/11] p6

³⁰ NomisWeb (2011) Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/> [accessed 03/10/11]

the available data. As Heckman argues in his detailed discussion of ALMP evaluation methods, ‘The choice of an appropriate [method] should be guided by the economics underlying the problem, the data that are available or that can be acquired, and the evaluation question being addressed.’³¹ The absence of certain key pieces of information, such as job finding rates, or participant tracking, prevented the longitudinal-based methods like ‘propensity score matching’³², or an ‘event history analysis’ approach,³³ which have been deployed to some effect in evaluating impacts of employment policies and duration of these interventions. These data allow for the measurement of net impact by creating counter-factual scenarios, which allow the comparison of the treated client group against the untreated.³⁴

Submitted formal requests for access to longitudinal data were rejected by the DWP on two occasions on data protection grounds. The lack of longitudinal information does not inhibit a comparative analysis of active measures, as a direct quantitative approach based on total employment outcomes can be achieved. A precedent for this approach is found with Considine’s approach to evaluating the Australian Jobs Network, which used the official labour market outcomes of public, private and voluntary agencies over time to assess the relative impact of a private sector led welfare-to-work scheme.³⁵ Like Considine’s study, the analysis will assess the employment outcomes of agencies within the programme, and these will be evaluated against the government performance targets. The findings from the Flexible New Deal data analysis will, using the same method, be compared with three other existing programmes with similar client groupings, to observe any relative impact. This is necessary to address whether the Flexible New Deal demonstrated a tangible improvement on existing arrangements that it was to replace. The existence of a number of welfare-to-work programmes operating simultaneously,

³¹ Heckman, J. Et al. (1999) *The Economics and Econometrics of Active Labor Market Programs*, in Ashenfelter, O. and Card, D. (1999) *The Handbook of Labor Economics Volume 3*, Kenneth Arrow, Stanford, p1868

³² For a discussion see Bryson, A. et al. (2002) *The Use of Propensity Score Matching in Active Labour Market Policies*, Department of Work and Pensions Working Paper 4, HM Stationary Office, London

³³ For a discussion see Allison, P. (2004) in Hardy, M. and Bryman, A. (eds.) (2004) *Handbook of Data Analysis*, Sage, London, pp369-386

³⁴ For one example see Belzil, C. (1995) *Unemployment Insurance and Unemployment Over Time: An Analysis with Event History Data*, The Review of Economics and Statistics V77.1 pp. 113-126, for another, see DWP (2012) *Early Impacts of Mandatory Work Activity*, Department of Work and Pensions Ad Hoc Analysis, DWP Publications, available at http://statistics.dwp.gov.uk/asd/asd1/adhoc_analysis/2012/early_impacts_mwa.pdf [accessed 17/06/2012]

³⁵ Considine, M. (2002) *Selling the Unemployed: the Performance of Bureaucracies, Firms and Non-Profits*, Social Policy and Administration, v34.3, pp278-279

with similar client groups, offers a valuable counter-factual. Using an array of inputs from the Department of Work and Pensions' own models of how programmes, client groups, and expectations are different, an assessment of any benefit is possible. A detailed explanation of the specific methodology behind the data analysis is discussed at length in Chapter 7, but a brief description is offered here.

The data has been treated in a two-step process. The first leaves the data in its final format, but divides it into contract area types to identify the effects of competition in the quasi-market. The second stage required a minor remodelling to account for the abrupt termination of the programme by the Coalition government in October 2011 and offer a more reasoned description of programme performance. The remodelling process was detailed in Chapter 7. Using both standard and remodelled datasets, trends were explored in the national and contractor-level results. To help address the core research question, the Flexible New Deal outcomes were carefully compared with national targets and against other simultaneous active labour market policies to observe whether such a 'step-change' (quantified in Chapter 6) has occurred. Further exploration has occurred at the contract area level, where results were evaluated in light of local labour market conditions using the data sets described above. These have provided a more holistic understanding of where and how the programme has performed strongly. The analysis of data at the contract level served also to indicate why some contractors or contract areas have performed better or worse than others have. The 'why' was explored further using qualitative data and survey work by other researchers.

Finally, the quantitative data has been used in collaboration with figures released in documentary sources to provide a cost-benefit analysis. A standard gross cost-to-participant approach is adopted, and is germane to the core research question because it gives a stronger indication as to whether the performance of the Flexible New Deal was a reflection of the resources at its command.

Qualitative Data

As part of understanding the Flexible New Deal, the use of qualitative data was necessary, but only at a supplementary level. For the purposes of the case study qualitative data is deployed primarily to understand whether the principles and objectives outlined in national and local policy documents are reflected in the services received by customers. As Bryman argues, a more complete response to the research question can be facilitated by using one method in support of another, because one method may leave knowledge gaps that the other can fill.³⁶ A stronger grasp of detail through qualitative data is pertinent to understanding the Flexible New Deal, as often what programmes were believed to be doing at the national level may not be reflected at the customer or provider level; what may be outlined in official policy documents may not be occurring on the ground. Secondary qualitative data produced by the Vegeris et al. at the Policy Studies Institute was used specifically for Chapter 6 in order to verify that the regulations intended by policy documents were being applied in practice.³⁷

In addition to the utilisation of secondary qualitative data to bolster the policy documents, a handful of face to face interviews were pursued to give the researcher a stronger grasp of the day to day of a customer's FND journey, and close any gaps in the researcher's knowledge of FND operations. The interviews with FND participants and a member of staff were achieved through an opportunity-sampling approach. There is precedent for this approach; in attempting to interview men in the hidden economy, Sixsmith approached men as they left the Social Services offices as she recognised that this was a logical approach for locating the relevant individuals.³⁸ The four interviews were obtained through contact with participants on leaving provider offices. The content of these interviews is used sparingly in the thesis, as the qualitative data is intended only to have a supporting position in the project. Relevant quotes are therefore included where necessary, in manner advised by Critcher et al.: 'Where these [qualitative data] are adjuncts to quantitative data, the usual strategy is to extract some quotations or case histories

³⁶ Bryman, A. (2012) *Social Research Methods 4th Edition*, Oxford University Press, Oxford, p637

³⁷ Vegeris, S. et al. (2011) *Flexible New Deal Evaluation: Customer Survey and Qualitative Research Findings*, DWP Research Report no.758, Policy Studies Institute and IFF Research, TSO, London

³⁸ Sixsmith, J. (1999) *Working in the Hidden Economy: The Experience of Unemployed Men in the UK*, Community, Work and Family v2.3, p262

as exemplification of numerical findings.³⁹ The questions used for both the participants and staff are included in the annex.⁴⁰

Summarily, using policy documents and quantitative research the research methodology was suitably equipped to construct a case study to address the primary research question of whether the FND would surpass the performance of legacy employment programmes.

Chapter Outline

Finally, having outlined the methodological approach of this thesis, this introduction turns to a brief description of each chapter to show how a staged approach to the thesis will illuminate what, why, and how the policy under review, the FND, emerged and whether it could match the objectives assigned to it by policy-makers. The thesis will address the primary research question through a staged approach. First, it will develop context by examining the historical development of British welfare policy, considering why particular unemployment related programmes have emerged and what effects these have on levels of unemployment. Based on this review, the thesis shows that particular policies have been favoured over others, considering both why this has been the case and what the implications are for the long-term unemployed. Third, it turns to examine policy in practice by exploring the performance of three schemes implemented in the UK to act as a benchmark for the national quasi-market. Finally, it turns to the case in question, the structure and outcomes of the Flexible New Deal at both national and local levels, comparing the performance against both government targets, and the previous programmes FND was intended to replace.

Chapter 1 positions the research question on active labour market policy by establishing the general causes of unemployment and the specific causes of long-term unemployment. It will proceed to examine the effects of unemployment on the individual, the state, and the economy, and address why

³⁹ Critcher, C. et al. in Williams, F. et al. (1999) *Welfare Research: A Critical Review*, UCL Press, London, p76

⁴⁰ For the qualitative research all University of Liverpool Committee on Ethics standards were met, including full and informed consent of participants, assured anonymity, and data protection requirements.

sustained periods of unemployment are a commonly identified policy problem. These are fundamental to understanding what the capabilities and limitations of any active labour market policies are, why they are regarded as necessary, and what types of unemployment active labour market policies are designed to resolve.

Chapter 2 will introduce the concept of active labour market policies. Active labour market policies are defined and situated along a continuum of interventions, with the meanings of welfare-to-work and workfare outlined. The chapter will continue by looking at where these concepts have their origins and explain why active labour market policy has come to be viewed as an effective response to unemployment. In particular, the burgeoning popularity of their implementation is explored, with a detailed examination of the contextual necessity for their emergence; including the economic, social, and political contexts supporting their use.

Chapter 3 is a detailed discussion of the academic literature on active labour market policies in developed economies, exposing the key divisions of opinion on the necessity and effects of active measures. It will evaluate what the apparent effects of active measures are, and will look at particular components commonly featured in active measures, such as conditionality, work-first and human capital development approaches, and the use of contracted delivery to discover whether these trends expose positive effects of active interventions. Explicitly, they will address the literature on whether contracting out will deliver higher levels of employment and lower levels of unemployment. Additionally, it will explore the unintended consequences that have been observed in the labour market that are the result of these programmes. This evaluation of the literature will provide some explanations and expectations of the specific active measures discussed in Chapters 4, 5 and 6.

Chapter 4 outlines the historical development of welfare-to-work programmes in the United Kingdom. The historical analysis of unemployment policies will begin with the arrival of the Conservative government under Margaret Thatcher in 1979 because it is often regarded traditionally as a turning

point away from post-war welfare consensus - specifically in its rejection of full employment as a core objective of macroeconomic policy.⁴¹ The historical analysis reaches its terminus with the last major welfare reform passed by the Brown government, the Flexible New Deal (FND), which at that point was the largest active labour market programme seen in the United Kingdom.⁴² The adjustments to welfare policy over this period are situated within the theoretical framework; which combines the policy-making theories of historical institutionalism with political incrementalism. The chapter shows that despite conflicting evidence for the efficacy of certain types of ALMP shown in Chapter 3, there is a clear path apparent in the types of policies that have been selected by British governments. This serves to understand why policies that are not proven to be demonstrably more effective than their alternatives, can often get locked in to policy preferences.

Chapter 5 provides a detailed account of the comparative elements to the thesis, and alternative positions that the British government has pursued. The chapter examines firstly, how the Labour Party adjusted the social security and employment systems, and then it moves to examine three specific policies. The first is New Labour's flagship active labour market policy, the New Deal for Young People (NDYP); the second is Labour's measures for over 25s, the New Deal for the Long-Term Unemployed (ND25+) and the third, Employment Zones (EZ). In each of these cases the origins, objectives and structures will be explained, with particular emphasis on the role of conditionality and different delivery models in each. It will proceed to discuss a selection of programme evaluations for each initiative, and provide a decade of data on programme performance in order to project the expected from the Flexible New Deal. As legacy programmes operated by the state and private sector on differing scales, these programmes supply comparable benchmarks against which the research question and case study can be assessed.

⁴¹ Kavanagh, D. (1997) *The Reordering of British Politics: Politics After Thatcher*, Oxford University Press, Oxford, pp121-122

⁴² N.B. Whilst the most contemporary welfare reform has been embarked upon by the Coalition government through the Work Programme, there are two reasons why it is not necessary to evaluate the programme. Firstly the Work Programme will not have been enacted for a sufficient amount of time to properly evaluate its merits. Second the programme is identical in its essentials, notwithstanding the frontloading of programme participation which itself reinforces the current reform trajectory.

Chapter 6 deciphers the structure of the Flexible New Deal, explaining the incentives behind the contracting process and how, theoretically, this might influence an improvement in employment outcomes and efficiency. To ground the research question, Chapter 6 explores the primary objectives of the FND and how these were quantified for the data analysis. These quantify the explicit expectations of private sector programme performance that are assessed in the data analysis of Chapter 7.

Chapter 7 is a detailed account of the methodological approach to the data analysis, and an analysis of the results of the data gathered. The programme data obtained from the Department of Work and Pensions explored and is used in conjunction with labour market data from the Nomis local labour market data bank to evaluate the Flexible New Deal. The chapter turns first to explain how the programme performed against its original targets. In order to address directly the core research question, it will compare the results of the Flexible New Deal against the programmes discussed in chapter 5 using identical outcome measures. Having address the primary research question, the chapter proceeds to evaluate differences in performance at the local level, and discuss the labour market features that account for the variance in local employment outcomes. Finally, it will account for why the results of the Flexible New Deal were significantly off-target.

The conclusion returns to the original research questions and addresses a range of conclusions from the research project. These are both general and specific. From the general conclusions, a discussion of why contracting out public employment services may be a difficult approach to reverse is offered, looking back to the theoretical framework of path dependence and reviewing this in light of the latest Coalition reforms. For the specific, the conclusions identify practical uses for this research, including a discussion of predicting local performance targets, and considering a temporary role for counter-cyclical alternatives. Last, the conclusion will identify where research could be enhanced, stressing the importance of difference-in-difference evaluations of the private and public employment services, where the literature continues to be ambiguous.

Conclusion

Active labour market policies are now a core part of the UK's labour market strategy in pursuit of lower levels of unemployment. The Flexible New Deal was at the cutting edge of ALMP, using private contractors in a deregulated environment to improve the employment outcomes beyond those achieved in the past. The government assigned clear targets to benchmark these achievements, and through data analysis, the programme performance can be established against these targets. Using careful comparisons of multiple programme datasets, the methodology is suited to address the primary research question of whether the shift to a national quasi-market in employment services resulted in a more effective policy than before. The methodology is also equipped to address the supplementary questions concerning the efficacy of work-first in different labour markets, and whether the contracting process is capable of identifying suitable providers for future contracts.

The following chapter will begin to assign context to the case study, examining the definitions of unemployment, long-term unemployment, and the wide variety of the causes. Only with an understanding of what causes unemployment can the purpose, and likely impact, of active labour market policy, be understood.

CHAPTER 1 Contemporary explanations of unemployment and welfare-to-work

The prime objective of all active labour market programmes is to move people from unemployment into work; it is therefore essential to understand what the government means by the term 'unemployment'. Exploring this concept requires an appreciation of the primary causes of unemployment, and what if any, measures might be suitable for efforts to reduce the number and types of groups becoming, and remaining, unemployed. To begin addressing these issues this chapter will present a definition of unemployment and then a range of commonly recognised causes of unemployment, particularly the nature and causes of long-term unemployment. This will subsequently provide the context for understanding the proliferation and use of active labour market programmes (ALMPs) as state mechanisms designed to ameliorate long-term unemployment.

The challenge facing all programmes designed to help the unemployed re-enter the labour market is identifying where and why the labour market is unable to integrate them. This section will outline the definitions of unemployment, some general principles of labour market economics and the widely held views of the causes of unemployment.

What is unemployment?

Unemployment has a variety of different meanings and measures and the International Labor Organisation (ILO) provides a basic definition:

The "unemployed" comprise all persons above a specified age who during the reference period were:

- (a) "without work", i.e. were not in paid employment or self-employment;
- (b) "currently available for work", i.e. were available for paid employment or self-employment during the reference period;

and

(c) "seeking work", i.e. had taken specific steps in a specified recent period to seek paid employment or self-employment.⁴³

In essence, unemployment is summarised as a status in which a person is not in paid work, but is able, available and actively looking for work. How unemployment is actually measured varies over time and location, and thus making comparisons within and between countries difficult. In the UK there are two measures used by governments and statisticians. The first is known as the Claimant Count, which calculates the number of people on work-related unemployment benefit, the Jobseeker's Allowance, and does not include those claiming other benefits.⁴⁴ Because it counts benefit recipients rather than the total number looking for work, governments often appear to prefer this measure since it leads to substantially lower unemployment counts. The second, consistently higher measure of unemployment is provided by the Labour Force Survey, which measures the number of people available, looking for, and willing to work but not in work. These figures include all individuals seeking work regardless of whether they are in receipt of JSA. It is important to note that neither measure includes all economically inactive individuals, for example, those who have voluntarily retired are not considered unemployed, nor is anyone on the wider measure if they are deemed not to be actively seeking employment.

Causes of Unemployment

Just as there are a number of different definitions of unemployment, a range of causes are identified in the literature. These can initially be cast in two different categories, equilibrium and disequilibrium

⁴³ ILO (1982) Resolution concerning statistics of the economically active population, employment, unemployment and underemployment, adopted by the Thirteenth International Conference of Labour Statisticians, International Labour Organization, [available at] <http://www.ilo.org/public/english/bureau/stat/download/res/ecacpop.pdf> [accessed 10/11/10]

⁴⁴ ONS (2011) *Claimant Count: Topic Guide*, UK National Statistics Publication Hub [available at] <http://www.statistics.gov.uk/hub/labour-market/people-not-in-work/claimant-count> [accessed 10/11/10]

unemployment. The former is (theoretically) where supply of labour matches demand for labour, and the latter is where supply and demand are out of step.

Equilibrium unemployment, commonly associated with economist John Maynard Keynes, exists where in the long-run supply may match demand, but large scale unemployment persists. Disequilibrium unemployment on the other hand can be accounted for where there is a mismatch between the number of vacancies in the labour market, and the number of workers available for them. It is important to note at this stage that in any theoretical approach, equilibrium between supply and demand does not mean unemployment is zero.⁴⁵ The features of both types are explained in the following sections, as is an explanation of why zero unemployment does not exist when the labour market is in equilibrium.

Different models have emerged to try to account for these two broad categories of unemployment. The classical approach to unemployment contains many of the features of disequilibrium unemployment. In the classical model, wages are the key determinant to understanding the cause of unemployment. In this approach, the idea of a 'labour market' is at its most appropriate because it treats one's labour as a commodity, and a commodity that will only be purchased at the correct price to the buyer. At times, or in places, where wages exceed what the market is willing or able to pay, unemployment will occur. This is a 'natural' consequence of firms either reducing their workforce to save on wage costs (where demand for their products has fallen), or where they refuse to hire more workers at the wage demanded. Because there will be fewer jobs available during a contraction in the labour market, workers will compete on wage demands until a new equilibrium is found and the natural rate of unemployment is re-established based on the new wage.⁴⁶ Temporary disequilibrium exists, but for the classical model, the labour market will return to equilibrium by natural market signals.

⁴⁵ Borjas, G. (1996) *Labor Economics* McGraw-Hill, New York, p434

⁴⁶ Mulhearn, C. and Vane, H. (1999) *Economics*, Palgrave Macmillan, Basingstoke, p202

The 'race to the bottom' between workers should eliminate the possibility of sustained periods of mass unemployment as the market naturally self-corrects. It is important to stress that according to the literature the model does allow for both large-scale unemployment, and sustained periods of long-term unemployment. For instance, the model accepts that when the national economy moves into recession, consumer spending and finance shrink, sales fall, stock remains unsold and firms find that they cannot keep their workers at the current wage. In essence, the economy slows down and the demand for labour weakens if workers are not willing to reduce their wages. The evidence of this connection between the goods market and the labour market is shown through Okun's Law, which suggests that for every 2 per cent an economy loses in GDP the unemployment rate will increase by 1 per cent.⁴⁷

The model explains why the market may not self-correct and large numbers of workers remain un-hired and unemployed. The situation is known as 'real-wage unemployment', where there are barriers that prevent workers competing to drive down their own wages. For instance, it is often argued (particularly by those on the right of the political spectrum) that trade unions are responsible for demanding wages in excess of what the market is able to pay.⁴⁸ Because of this, the level of unemployment is artificially inflated as fewer workers are hired at higher wages than the market would naturally pay. Alternatively, states or municipalities may set legally enforced minimum wages that are 'too' high, which prevent the labour market from being able to self-correct.^{49,50}

These two aspects of disequilibrium in the labour market can function together to make unemployment higher than classical model should allow. As trades unions and mandatory minimum wages resist pressure for workers to reduce their wage expectations at the end of the business cycle, firms may be forced to reduce their workforce or not rehire. These forces therefore prevent the labour market from

⁴⁷ Samuelson, P. and Nordhaus, W. (1995) *Economics 15th Edition*, McGraw-Hill, USA, p559

⁴⁸ See for example Friedman, M. (2002) *Capitalism and Freedom: Fortieth Anniversary Edition*, Chicago Press, Chicago, pp123-124

⁴⁹ Sloman, J. (2003) *Economics*, Fifth Edition, Prentice Hall, Harlow, p406

⁵⁰ The effect of minimum wages has been subject of an ongoing debate, rekindled in the 1990s with the publication of Card, D. And Krueger, D. (1995) *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton, New Jersey.

wage competition and returning to an equilibrium state of full employment. Full employment, in this model, was a natural consequence of 'Says Law', which argued that supply created its own demand. To extrapolate this to the labour market, it suggests that 'when we produce goods, we create a demand for other goods; consequently there can be no overproduction of goods *in general*. Since there can be no overproduction of goods in general, there can be no unemployment in general.'⁵¹

Marx in *Kapital* rejected this idea:

'Nothing can be more childish than the dogma, that because every sale is a purchase, and every purchase a sale, therefore the circulation of commodities necessarily implies equilibrium of sales and purchases.'⁵²

A more forceful response expressed half a century later can be located in Keynes' *General Theory*, which again refuted Say's Law.⁵³ He wrote that 'There is, therefore, no ground for the belief that a flexible wage policy is capable of maintaining a state of continuous full employment'.⁵⁴ Instead, according to Sloman the *General Theory* argued that the strength of demand in the economy can settle at different points of equilibrium and the economy in aggregate may not balance at the same level of output as a contraction, so higher unemployment may persist.⁵⁵ This is widely known as a position of 'unemployment equilibrium.' The position of high unemployment, even when the economy has rebalanced, is possible because aggregate demand falls and natural market forces alone are inadequate to return the labour market to a position of full employment.⁵⁶ In part, this is explained because if wages are reduced to boost employment chances, consumer spending must also fall; as Keynes wrote 'it

⁵¹ Gill, R.T. (1973) *Economics: A Text With Included Readings*, Goodyear, California, p182

⁵² Marx, K. (2010) *Kapital: A Critique of Political Economy, Volume 1*, C3, [online] <http://www.marxists.org/archive/marx/works/download/pdf/Capital-Volume-I.pdf> [accessed 10/01/12]

⁵³ Harcourt, G.C. and Kriesler, P. (2011) *The Enduring Importance of The General Theory*, Review of Political Economy, v23.4, p509

⁵⁴ Keynes, J.M. (2012) *General Theory of Employment, Interest and Money*, [Ebook available at] http://ebooks.adelaide.edu.au/k/keynes/john_maynard/k44g/chapter19.html [accessed 12/06/12], C19 part 2

⁵⁵ Sloman, J. (2003) *Economics*, Prentice Hall, Harlow, p408

⁵⁶ Gill, R.T. (1973) *Economics: A Text With Included Readings*, Goodyear, California, p186

would, I think, be more usual to agree that the reduction in money-wages may have *some* effect on aggregate demand through its reducing the purchasing power of some of the workers.⁵⁷

The purpose of examining this intractable debate between two competing theories has been to highlight a consensus that emerges in relation to two points. First, that unemployment will occur in the short-term when the number of vacancies is inadequate to absorb the supply of labour, and that this may persist in pockets where demand remains low. Second, ‘even when there are as many job vacancies as people unemployed – there will still be some unemployment’.⁵⁸

Taking this a little further, the two main causes of equilibrium (or natural) unemployment are frictional unemployment and structural unemployment, and both concern the fit between the individual and the job available. Frictional (or search) unemployment is a common type of unemployment across all economies at all times, and occurs when employees leave or are dismissed from their occupations and are looking for a new job.⁵⁹ This type of unemployment is common because people regularly leave work or firms reduce their labour forces, therefore the unemployed are left temporarily out of work. While evidence provided by Mattila shows that a large proportion of the working population avoid unemployment as they transfer from one job to the next,⁶⁰ the transition to unemployment and back to reemployment may not be immediate for all jobseekers. This is because jobseekers’ access to vacancy information is imperfect, and it may take time to match or revise their skills, or reduce their wage expectations to an existing vacancy. Search unemployment is likely to occur to most people in their lifetimes and is not strictly a policy problem unless jobseekers are persistently unsuccessful in their searches.

Frictional unemployment is more prominent in some sections of the population, in particular young adults. The younger portion of the labour market (i.e. those aged between 16 and 24) has a higher

⁵⁷ Keynes, J.M. (2012) *General Theory of Employment, Interest and Money*, [Ebook available at] http://ebooks.adelaide.edu.au/k/keynes/john_maynard/k44g/chapter19.html [accessed 12/06/12], C19 part 1

⁵⁸ Sloman, J. (2003) *Economics*, Prentice Hall, Harlow, p408

⁵⁹ Borjas, G. (1996) *Labour Economics*, McGraw Hill, Singapore, p434

⁶⁰ Mattila, P.J. (1974) *Job Quitting and Frictional Unemployment*, *The American Economic Review* v64.1, p235

propensity to frictional unemployment for a number of reasons. The first is that upon finishing formal education, vast numbers will enter the labour market at the same time. This is compounded by apparent 'shopping around' in the youth labour market and the freedom to relinquish their current employment due to the (theoretically) absence of a dependent family to support. Furthermore 'young people are more likely to quit their jobs than adults, will continue to do so during recessions, and will therefore be disproportionately affected by recession-induced reductions in new hires'.⁶¹ Moreover, the skill and training levels of young people tend to be lower and therefore the costs of firing young people are lower than their older and more experienced employees.⁶² The likelihood of moving in and out of unemployment as young people a) decide what career to pursue, and b) the relative ease of severing their contracts makes frictional unemployment a common feature of the youth labour market.

Structural unemployment is different in nature and reflects the shifting patterns in the structure of the economy, as demand in certain areas and industries may rise or contract. There are two main causes of structural unemployment. The first is a changing pattern of demand in the economy, where certain goods are no longer required or can be found cheaper elsewhere, products fall out of fashion and places of employment close. This was evident in the United Kingdom where the coal mining industry gradually closed as alternative sources of fuel were found cheaper elsewhere. As certain industries are often concentrated in the same area, industrial decline can lead to high regional unemployment.⁶³ This type of unemployment has obvious knock-on effects, and may affect entire geographic regions as unemployment reduces consumer spending in the area.

The other major cause of structural unemployment pertains to technology, where 'new techniques of production often allow the same level of output to be produced with fewer workers.'⁶⁴ Where a robot can build motor vehicles at multiple times the pace of humans for the same price, but demand for

⁶¹ O'Higgins, N. (1997) *The Challenge of Youth Unemployment*, International Labour Office, Geneva, p27

⁶² *Ibid*, p27

⁶³ Sloman, J. (2003) *Economics*, Prentice Hall, Harlow, p410

⁶⁴ *Ibid*, p409

motors remains the same, the need to retain the same sized sentient workforce diminishes. Marx, for instance, feared:

[A]portion of the working-class, thus by machinery rendered superfluous, i.e., no longer immediately necessary for the self-expansion of capital, either goes to the wall in the unequal contest of the old handicrafts and manufactures with machinery, or else floods all the more easily accessible branches of industry, swamps the labour-market, and sinks the price of labour-power below its value.⁶⁵

With structural unemployment, consequent of technological development or industrial decline, returning demand to a given area or industry can be difficult if the market is diminishing, or the goods can be produced more efficiently by machines or cheaper labour elsewhere.

The pattern of industry within a geographic area can periodically shift volumes of unemployment by altering the types of employment contracts they offer. For instance, a large manufacturer may offer a large number of short-term contracts that are not renewed once the demand for the labour declines. One example of this is 'seasonal unemployment', where, at certain times of year, unemployment tends to be higher and at others significantly lower.⁶⁶ Seasonal unemployment is often associated with agricultural production, where in times of harvest the demand for labour increased, but this type of periodic labour demand can also be observed in tourist destinations, and the boom in vacancies in the run up to the Christmas retail period. When these 'seasons' pass, unemployment will often rise.

Explaining Long-Term Unemployment

The previous section outlined that unemployment has an array of causes, and unemployment over short durations is a more or less common experience over one's working life. As such, short-term unemployment at the individual level is not strictly a policy problem, and as Borjas argues, 'policy-

⁶⁵ Marx, K. (2010) *Kapital: A Critique of Political Economy, Volume 1*, C3, [online] <http://www.marxists.org/archive/marx/works/download/pdf/Capital-Volume-I.pdf> [accessed 10/01/12] P285

⁶⁶ Sloman, J. (2003) *Economics*, Prentice Hall, Harlow p411

makers usually worry more about some types of unemployment than about other types.⁶⁷ Long-term unemployment, on the other hand, is often identified as a policy problem. The logic behind this is that short periods out of work do not require large income transfers and the loss of income experienced during most short spells without work can be absorbed by the individual through unemployment insurance, past savings, and reduced expenditures.

Unemployment becomes a more pressing individual and political issue when protracted. As an individual remains out of the labour market over a sustained period they lose most of their income, and often find that they are incapable of financing what are considered basic needs in a capitalist economy, such as the purchasing of food and paying mortgages and bills. Thus, long-term unemployment increases the costs to the state through income transfers while reducing its tax intake.

The designation of someone as long-term unemployed varies between states and regulatory agencies. However, on average the literature tends to view an individual as being 'long-term' unemployed at around the 12-month point.⁶⁸ In some of the literature, this 12-month period may have been accumulated over a longer period, in recognition that individuals may experience a short succession of repeated cycles of short-term employment and return to benefits. This is the 'carousel effect' or 'revolving door employment', where cumulatively individuals suffer long-term unemployment over a period of, for example, two years. This phenomenon is relevant to the current discussion because the carousel effect may be just problematic for the individual and the state as the traditional single-spell classification of long-term unemployment.^{69,70}

Defining long-term unemployment raises questions because of its connection to short-term unemployment, and the fact that the point unemployment becomes 'long-term' is arbitrary. Indeed, traditionally the causes of long-term unemployment were not deemed distinguishable to those of

⁶⁷ Borjas, G. (1996) *Labour Economics*, McGraw Hill, Singapore, p434

⁶⁸ OECD (2002) *The Ins and Outs of Long-term Unemployment*, OECD Employment Outlook 2002, OECD, p189

⁶⁹ OECD (2002) *The Ins and Outs of Long-term Unemployment*, OECD Employment Outlook 2002, OECD, p196

⁷⁰ For a comprehensive discussion and analysis of the carousel effect see Mulheirn, I. et al. (2009) *Vicious Cycles: Sustained Employment and Welfare Reform for the Next Decade*, Social Market Foundation, London.

unemployment generally. For instance, at the aggregate level at any given point in time the lack of available jobs and higher levels of competition for vacancies will naturally result in longer search durations. This argument is simple; higher levels of unemployment create higher levels of long-term unemployment. A lack of demand for labour (whatever the cause) will not only increase unemployment, but also will extend search durations.

Whether long-term unemployment manifests distinct characteristics is a subject of debate in the labour market literature. In trying to come to terms with the disagreement a good starting place is to examine the 'hysteresis' effect. 'Hysteresis' is an expression drawn from physics research, which refers to the 'failure of an object to return to its original value after being changed by an external force, even after that force is removed.'⁷¹ The application of this to the labour market is that 'an increase in unemployment produces an increase in long-term unemployment which is simply not reversible by an increase in demand for labour.'⁷² For instance, Jackman and Layard found that after the UK recession in 1983 the proportion of those leaving unemployment was lower amongst the long-term unemployed than the short-term unemployed. They hypothesized that 'long duration [of unemployment] may actually reduce a given individual's probability of leaving unemployment.'⁷³ The authors contend that the extension of unemployment spells in the UK is a consequence of two factors. First, 'a fall in the ratio of vacancies to unemployed [i.e. deficient demand] and [second] a higher proportion of the unemployed being long-term unemployed, and hence demoralised and stigmatised in the eyes of employers.'⁷⁴ Like the Keynesian contention that after a recession, unemployment fails to return to its pre-shock state, 'hysteresis' suggests that an upswing in the wider economy will not institute a reduction in the level long-term unemployment built up during the contraction, that long-term unemployment will be a larger proportion of total unemployment after the shock. At the individual level

⁷¹ Ball, L. and Mankiw, N.G. (2002) *The NAIRU in Theory and Practice*, Journal of Economic Perspectives, v16.4, p199

⁷² Webster, D. (2005) *Long Term Unemployment, the Invention of 'hysteresis' and the misdiagnosis of structural unemployment in the UK*, Cambridge Journal of Economics, v29, p975

⁷³ Jackman, R, and Layard, R. (1990) *Does Long-Term Unemployment Reduce a Person's Change of a Job? A Time Series Test*, *Economica* v58, p93

⁷⁴ Jackman, R, and Layard, R. (1990) *Does Long-Term Unemployment Reduce a Person's Change of a Job? A Time Series Test*, *Economica* v58, p103

therefore 'the probability of finding a job is lower for the long-term unemployed'⁷⁵

The 'hysteresis' debate is a source of controversy because it suggests that the longer individuals spend on the unemployment register, the more unemployable they become, and the less the upswing in the economy matters for reversing the fortunes of the individual. The explanations for the occurrence of hysteresis vary from the loss of human capital, employer discrimination, and the apparent comforts of state dependence (e.g. see Budd, A. et al.)^{76,77} These points require explanation. Human capital depreciation and discrimination will be dealt with here, while state dependence will be discussed in the following section. Human capital is described by Borjas as 'a unique set of abilities and acquired skills';⁷⁸ it is effectively the economic worth of an individual, which are a combination of their capacities, skills and reliability which contribute to their own (intangible) economic profile. Unemployment is said to affect human capital, because as people become unemployed, their familiarity with working practices decrease, and their skills (the core of their economic profile) may become dated. As Acemoglu argues, this contributes to a decline in human capital, and may result in discrimination between the short- and long-term unemployed, thus elongating the unemployment spell.⁷⁹ As an example, he uses the Disney et al. study where despite large subsidies for businesses to recruit the long-term unemployed, take up by business was poor.⁸⁰ Thus, short-term unemployment now is a contributor to future long-term unemployment.

Nevertheless, the hysteresis explanation of long-term unemployment is not universally accepted.

Webster re-examined the connection between short and long-term unemployment in the UK since the

⁷⁵ Budd, A. et al. (1988) *Unemployment, Vacancies, and the Long-Term Unemployed*, The Economic Journal v98., p1071

⁷⁶ *Ibid.*, p1088

⁷⁷ Even self-sabotage has been offered as an explanation of persistent unemployment. See Leon, L. and Matthews, M. (2010) *Self-Esteem Theories: Possible Explanations for Poor Interview Performance for People Experiencing Unemployment*, Journal of Rehabilitation, v76.1

⁷⁸ Borjas, G. (1996) *Labor Economics*, McGraw-Hill, Singapore, p 220

⁷⁹ Acemoglu, D. (1995) *Public Policy in a Model of Long-Term Unemployment*, *Economica* v62, pp161-162

⁸⁰ Disney, J. Et al. (1991) cited in Acemoglu, D. (1995) *Public Policy in a Model of Long-Term Unemployment*, *Economica* v62, p162

1940s and found little evidence of 'stickiness' or hysteresis. Instead Webster found that the total and long-term unemployment data had been misinterpreted by not giving sufficient attention to the repeated lag in labour market recovery. Once this delay had been taken into account he argued that the overall level of long-term unemployment to be broadly consistent once the economy had recovered, and that the relationship between total and long-term unemployment was solid on both the up and downturn of the economy.⁸¹ The policy implications for this finding are profound; if long-term unemployment is directly linked to short-term unemployment, then governments need to be targeting policy measures towards fixing general causes of unemployment, because to fix the former would fix the latter. However, from the literature studied, Webster's position appears in the minority.

Voluntary and Involuntary Explanations

It seems clear that long-term unemployment has some distinguishing features and effects. These need to be explored because many of the active labour market policies explored in this thesis are targeted explicitly at the long-term unemployed. The literature on the causes of long-term unemployment has been divided into involuntary and voluntary categories.

Beginning with the involuntary factors there are a number of explanations of long-term unemployment that stress issues beyond the individual's control. One important factor is deficient demand for labour at the local level, and there are considerable disparities in the UK of levels of long-term unemployment. Webster, for example, observes 'spatially concentrated structural unemployment, with a spatial mismatch between the unemployed and job opportunities.'⁸² What Webster means by this is industrial decline in certain parts of the UK has resulted in a dearth of employment opportunities, and that where there may be an aggregate degree of equivalence between the number of unemployed and total vacancies, the two are separated by considerable geographic distances. For the former, there is clear

⁸¹ Webster, D. (2005) *Long Term Unemployment, the Invention of 'hysteresis' and the misdiagnosis of structural unemployment in the UK*, Cambridge Journal of Economics, v29. pp977-983

⁸² Ibid. p986

evidence of this problem in the UK, which is visible in the ratios of unemployment benefit claimants to live vacancies. An analysis of claimants-to-vacancies undertaken by the Local Government Association found that south Wales, London and the North West had noticeably higher claimant-to-vacancy ratios than the rest of the country.⁸³ Such problems are also demonstrated in detail in Chapter 7, which connects spatial mismatch of employment opportunities with employment programme performance. The first issue is connected to the second. Despite available vacancies, the unemployed are spatially detached from them; where labour mobility is low, long-term unemployment is likely to be high. In one example, McCormick presents an analysis of labour mobility in the UK, and finds that those most prone to unemployment (manual workers) are, in his words, 'spatially inflexible', where despite job opportunities in distant parts of the UK, (former) manual workers find traversing the gap difficult.⁸⁴ Furthermore, the relative mobility of non-manual workers away from contracting labour markets exacerbates the problem of unemployment.⁸⁵ There are both voluntary and involuntary forces at play here, but McCormick suggests that the public housing stock is one involuntary impediment to labour migration.⁸⁶ If workers cannot relocate to where work is, periods of unemployment are likely to be protracted.

Even in areas where a sufficient volume of vacancies may exist in the locality, the skills profiles of workers may not be appropriate. One of the principle causes of supply-side long-term unemployment is where the skills and qualifications of the pool of available labour do not correspond with the demand for it. For example, a firm seeking to recruit engineers for a new weapons factory, may find only trained colliers inhabit the pool of available local labour. Manacorda and Petrongolo recognise this skill mismatch as a significant contributor to unemployment in the United Kingdom. The authors write:

⁸³ LGA (2006) *The Growth of Claimant Unemployment to Vacancy Ratios by Area*, Local Government Association, London Government House, London, p3

⁸⁴ McCormick, B. (1997) *Regional Unemployment and Labour Mobility in the UK*, *European Economic Review*, v.41, pp587-588

⁸⁵ *Ibid*, p585

⁸⁶ *Ibid*, p585

'In many OECD economies, this tendency in the evolution of relative demand for skills was not matched by an equal increase in relative supply [...] its magnitude was remarkable in Britain and the United States during the 1980s, where in fact the difference between skill-specific unemployment rates was rising, and wage differentials widened dramatically.⁸⁷

Education mismatch is also a common feature of this, and long-term unemployment disproportionately affects those with low educational attainment. This is because, according to Borjas, educated workers are less likely to lose their jobs for two reasons, either because of the training investment that they have received from the firm, or because educated workers are more likely to switch jobs without an spell of search unemployment, given they have more information about the labour market, or better contacts. Therefore, inadequate education is more likely to result in longer periods of search unemployment.⁸⁸ If demand is insufficient for the jobseeker's skills, the period of unemployment is likely to lengthen. In an economy increasingly requiring a skilled workforce, the unskilled will find it harder to locate work, and search durations will inevitably lengthen. Therefore, there are risks (often ignored) when comparing the number of vacancies to jobseekers.

A further cause of involuntary long-term unemployment is discriminatory employer practices, where prejudices may make the incidence of long-term unemployment likely amongst some groups. The competitive market should eliminate discrimination, because the act of discriminating is costly to firms.⁸⁹ The literature on hysteresis implied employer discrimination against those with elongated periods of benefit receipt, but in this case, discrimination means that long-term unemployment incidence is higher amongst a number of societal groups including ethnic minorities and those with

⁸⁷ Manacorda, M. And Petrongolo, B. (1999) *Skill Mismatch and Unemployment in OECD Countries*, *Economica* v.66, pp202-203

⁸⁸ Borjas, G. (2008) *Labor Economics*, McGraw-Hill, Singapore, p500

⁸⁹ Bulow, J. and Summers, L. (1985) *A Theory of Dual Labor Markets with Application to Industrial Policy, Discrimination and Keynesian Unemployment*, NBER Working Paper Series, no. 1666, p29

recognised disabilities.⁹⁰ This implies that regardless of effort to locate employment, employer prejudices are preventing access to the labour market. Notable policy responses have been attempted throughout recent history to resolve this, such as affirmative action legislation in the US or anti-discrimination laws in the United Kingdom.

In contrast to the involuntary mechanisms of long-term unemployment discussed above there is a range of other (often more familiar) theories concerning long-term unemployment as a form of individual and collective lifestyle choice.

In this camp, Layard argues that the levels of unemployment are correlated with the generosity of alternatives. He highlights that the lower levels of long-term unemployment seen in the United States is the natural consequence of the ungenerous nature of the American welfare system.⁹¹ This type of arguments falls into what Marxists refer to as the commodification of the workforce. As long as workers can be commoditised they will have to work for survival, however once they are decommodified (such as through the welfare state) they have a choice whether to accept the 'going' rate for their labour. Thus, as part of this, the more extensive and generous welfare state is to the individual the more likely it is to reduce their incentives to re-entering the labour market once they have left. Katz and Meyer for example, find that (in the case of where benefits are time limited) when unemployment benefits are extended by one week the individual's additional period in receipt of benefit extends by 0.16-0.2 weeks. Thus, if benefits are extended from six months to one year, the authors predict that benefit duration will increase by around four to five weeks.⁹² The existence of unemployment benefits is thus sufficient to extend periods of jobsearch, with the potential to extend this until the individual is classified long-term unemployed.

⁹⁰ There is a vast body of work on this matter, for one example see Perkins, R, and Rinaldi, M. (2002) *Unemployment Rates Among Patients with Long-term Mental Health Problems: A decade of rising unemployment*, *Psychiatric Bulletin* v26 pp295-98

⁹¹ Layard, R. et al. (2000) *Welfare-to-Work and the fight against long-term Unemployment*, p9

⁹² Katz, L. and Meyer, B. (1990) *The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment*, *Journal of Public Economics*, v41 pp45-72

It is argued that the decommodification effect of the welfare state induces individuals to remain unemployed even when a job is available by creating an artificially high reservation wage. This occurs because unemployed workers are able to be more selective and reject low paying jobs because of welfare safety nets. With jobseekers able to be more selective over their future employment, longer job search periods are anticipated, and therefore, as is an increased likelihood of long-term unemployment. The greater is the decommodification, then the greater the opportunity for an individual to remain unemployed. Ljungqvist and Sargent claim to have identified such a relationship when studying patterns of European unemployment, suggesting that 'It is well known that high income taxation and generous welfare benefits distort workers' labor supply decisions.'⁹³ Furthermore they contend that the impact is considerable in relation to hysteresis as:

Generous unemployment compensation hinders the process of restructuring the economy. Laid-off workers then lack the incentives to quickly accept the transition to new jobs in which skills will once again have to be accumulated. Consequently, there can be a lengthy transition phase with long-term unemployment largely attributable to the existence of welfare programs.⁹⁴

Despite decommodification through welfare entitlement apparently slowing the search process and increasing frictional unemployment, entitlements are not necessarily pernicious or contrary to the demands of economic efficiency. Indeed, the upside of such a system is that higher reservation wages, while increasing frictional employment in the short term, may enable workers to find jobs most suitable for them, which is both good for the economy and individual. The suitability of the work found may result in to less frequent transitions in and out of unemployment and lower frictional unemployment in aggregate.

⁹³Ljungqvist, L and Sargent, T (1998) *The European Unemployment Dilemma*, Journal of Political Economy Vol. 106, No. 3 p517

⁹⁴ *Ibid*, p517

Before accepting that welfare providence makes sustained periods of worklessness more appealing, Barr warns that the literature surrounding voluntary unemployment is 'large, complex, and controversial':

Though the replacement rate [of benefits over wages] has an effect, labour supply is influenced more by other aspects of the benefit structure, in particular the maximum duration for which a benefit can be received. In short, the hypothesis that unemployment benefits exert a substantial upward effect on the level of unemployment receives only limited empirical support.⁹⁵

Caution therefore is advised in this area, though for this thesis a working assumption is that generous benefit provision allows extended search periods and thus boosts short-term frictional unemployment. However, the question remains as to what level of generosity is sufficient to deplete jobsearch activities and render long-term unemployment desirable. The debate concerning benefit dependency is too large to be explored here, and includes a raft of sociological arguments about underclass, intergenerational effects, and idleness. The dependency arguments interact with the economic debate, but these are situated more suitably within the justifications for mandatory employment programmes.

Unemployment as a policy problem

It is important to assert that the justifications for intervention in the market rest on premises that unemployment, when sustained, has malign effects on the individual, society and public finances. Each are examined in turn as a premise for deploying active labour market programmes.

⁹⁵ Barr, N. (2004) *The Economics of the Welfare State*, 4th edition, Oxford University Press, Oxford, p182

For the majority of individuals, spells of unemployment will have a negative impact on personal and family income. Often, where unemployment is sustained over a long period, this puts people in, or at risk of, poverty.⁹⁶ In the United States, the Urban Institute found that poverty increases with each week of unemployment, and that the poverty rate of the long-term unemployed in 2010 was double that of people who had no experienced unemployment that year. Of family types, the Urban Institute found that single parents were at the greatest risk of unemployment related poverty.⁹⁷ In the United Kingdom, Tomlinson and Walker have found that unemployment puts people at 'high risk' of poverty in the UK, and at greatest risk are those in the lowest echelons of the labour market, either in manual labour jobs, or jobs without skills.⁹⁸⁹⁹

In association with the experience of individual hardship, sustained unemployment has a number of detrimental health effects. A study Kessler, Turner and House in the US state of Michigan found that unemployment led to a significant elevation of depression, anxiety and other mental health conditions of clinical significance; conditions that would reportedly disappear once reemployment had commenced.¹⁰⁰ In a review of international literature commissioned by the UK's Department of Work and Pensions, Waddall and Burton conclude that 'there is extensive evidence that there are strong links between unemployment and poorer physical and mental health and mortality. A large part of this appears to be a cause-effect relationship,'¹⁰¹ Specifically the authors cite evidence of increased

⁹⁶ Poverty is a state of material hardship and lack of income. The debate on poverty is simply too wide for exploration in this thesis. On the whole, poverty is regarded as something undesirable for individuals, families, and society. For an interesting counter-narrative see Gans, H. (1972) *The Positive Functions of Poverty*, American Review of Sociology, v78.2

⁹⁷ Nichols, A and Callan, T. (2011) *Unemployment and Poverty*, The Urban Institute, Unemployment and Recovery Project, [online] <http://www.urban.org/UploadedPDF/412400-Unemployment-and-Poverty.pdf> [accessed 10/11/11]

⁹⁸ Tomlinson, M. and Walker, R. (2010) *Recurrent Poverty: The Impact of Family and Labour Market Change*, Joseph Rowntree Foundation, York, pp28-29

⁹⁹ This does not mean that employment automatically alleviates poverty. For example, Lawton found that over half (57%) of children living in poverty in the UK had one or more parent in work. See Lawton, KJ. (2009) *Nice Work If you Can Get it: Achieving a Sustainable Solution to Low Pay and In-Work Poverty*, Institute For Public Policy Research, [online] available at http://www.ippr.org/images/media/files/publication/2011/05/nice%20work%20if%20you%20can%20get%20it_1671.pdf, [accessed 07/04/12] p12

¹⁰⁰ Kessler, R. et al. (1988) *Effects of Unemployment On Health in a Community Survey: Main, modifying and mediating effects*, Journal of Social Issues, v44.4 pp69-85

¹⁰¹ Waddell, G. and Burton, A, (2006) *Is Work Good for Your Health and Well-being?* Department of Work and Pensions, TSO, London, p13

mortality rates amongst the unemployed, including increased incidence of both accidental death and suicide, but with the caveat that, in some cases, unemployment may be beneficial, actually improving health of certain individuals compared to their previous occupation.¹⁰²

Unemployment was found also to affect some groups psychologically more than others. Research by Furlong and Cartmel, using data from Scotland, Sweden, Finland and Spain found that while unemployment generally makes people unhappy, this effect was observed more among young men than young women.¹⁰³ The above evidence identifies sustained unemployment as detrimental to both the health and happiness of human beings. This is one factor, amongst others, which may justify state intervention in the labour market.

Looking beyond the individual and the family unit, unemployment is argued to have negative effects on wider society. Specifically unemployment thought to be associated with a number of anti-social behaviour and illegal activities. For instance, Stafford reports that there is a 'strong presumption that unemployment among young people leads to benefit dependency, social exclusion, dysfunctional and antisocial behaviour, low self-esteem and even the emergence of an underclass'.¹⁰⁴

Research by Raphael and Winter-Ebmer also found a significant correlation between the rise in property crime and a rise in unemployment levels in the United States. Equally, the falling crime rates of the 1990s are associated with declining unemployment.¹⁰⁵ Using panel data from the UK, Witt, Clarke, and

¹⁰² Ibid, p13

¹⁰³ Furlong, A. and Cartmel, F. (2003) *Unemployment, Integration and Marginalisation: A comparative Perspective on 18-24 year olds in Finland, Sweden, Scotland and Spain*, in Hammer, T. (eds.) (2003) *Youth Unemployment and Social Exclusion in Europe*, The Policy Press, Bristol, pp38-40,

¹⁰⁴ Stafford, B. (2003) *The welfare we want? The British Challenge to American Reform*, Policy Press, Bristol, p147

¹⁰⁵ Rafael, S. and Winter-Ebmer, R. (2001) *Identifying the Effect of Unemployment on Crime*, *Journal of Law and Economics*, vLXIV, pp259-282

Fielding found similar results; that a rise in crime is associated with a rise in male unemployment.¹⁰⁶ The crimes associated with rises in unemployment tend to property related, such as theft and burglary.¹⁰⁷

Criminal activity of the unemployed also has apparent spill over effects. Hakim argues that adult unemployment has consequences on immediate family, where children of unemployed parents are more prone to juvenile delinquency.¹⁰⁸ This connection penetrated the upper echelons of government, for example, the former Prime Minister, Tony Blair, declared 'I know of people in my own constituency whose fathers don't work and whose grandfathers haven't worked. Once that starts, drug abuse starts happening, you get family instability and a whole range of problems.'¹⁰⁹

Hakim also argues that unemployment, through its effects on mortality, stress in the family home, and associated divorce rates, could also increase the volume of single-parent families in the population, which in themselves were argued to lead to future social problems such as low educational attainment of the children growing up under these conditions.¹¹⁰

The effect of unemployment on the fabric of society is a complicated phenomenon, and the above literature only scratches the surface of what has been found. Further arguments concerning the connection between unemployment, the welfare state, and the concept of an 'underclass' are explored below. The need to keep people from sustained unemployment is therefore, on this evidence, not simply important for the individual, but also is a social good. The quicker the return to employment, the less likely the pernicious social effects of unemployment will emerge.

The selection of individual and social consequences, such as depression, family breakdown, crime and delinquency create pressures on government services, such as the police forces, the justice system and

¹⁰⁶ Witt, R. Clarke, A. and Fielding N (1999) *Crime and Economic Activity*, British Journal of Criminology, v39.3, p398

¹⁰⁷ *Ibid*, pp396-397

¹⁰⁸ Hakim, C. (1982) *The Social Consequences of High Unemployment*, Journal of Social Policy, v11.4, p450

¹⁰⁹ Blair, T. (1997) cited in Dale, I. (1997) *The Blair Necessities*, Robson Books, London, p67

¹¹⁰ Hakim, C. (1982) *The Social Consequences of High Unemployment*, Journal of Social Policy, v11.4, pp455-456

health agencies. This can either encourage government to increase expenditure on services, or reduce provision within them. It is also commonly known that a high volume of short and/or long-term unemployment will have a direct impact on the state of public finances. As Franco and Pench report, there are two elements to this. The first is an expansion of social security payments to compensate for lost earnings. The second is that a rise in the people out of work will result in a loss of tax revenues to the exchequer.¹¹¹ Dilnot and Morris discuss the extent of the interaction between fiscal policy and unemployment in length,¹¹² but generally large scale and/or long-term unemployment may pressure governments to spend surpluses, increase borrowing, retrench welfare services, or target other policy areas to compensate losses. Latter sections will explore how concerns, such as the functioning of the market economy and demographic transformation, have perhaps made these choices more stark and action more necessary.

Conclusion

The arbitrary distinction between short and long-term unemployment renders the identification of the causal factors of sustained benefit receipt problematic. As a starting point it is certainly true that the causes of short-term unemployment will contribute to the stock of the long-term unemployed, but the evidence presented, particularly that of hysteresis, suggests that after a time unemployment becomes 'sticky' at the long-term, and it may be difficult to return to pre-recession levels of unemployment. The specificities of long-term unemployment reflect both the demand and supply explanations, where for example, economic restructuring may be manifested in a factory closure, where a section of the populous once worked, and their training and skills do not adequately reflect new vacancies in the area.

Those that emphasise the importance demand factors, or supply factors nonetheless acknowledge the role of the other. For instance, Webster acknowledges that 'there are people in the labour force who

¹¹¹ Franco, D. and Pench, L. (2000) *Reconciling the Welfare State with Sound Public Finances and High Unemployment*, European Commission Forward Studies Unit Working Paper, p16

¹¹² Dilnot, A. and Morris, C. (1982) *The Exchequer Costs of Unemployment*, Fiscal Studies, v.2.3, pp10-19

really are less easily employable as a result of various genuine handicaps such as disabilities, illiteracy and criminal records, etc.’¹¹³ Similarly, Jackman and Layard recognise structural mismatch in the labour market as a persistent problem.¹¹⁴ Personal decisions clearly contribute to the stock of short and long-term unemployment- for example the role of social security in decommodifying the workforce may rationally extend search periods, and diminish the will to, or search for, work.

Recognition of the multiplicity of causes behind sustained worklessness might warrant balance in the policy responses, but as later chapters of this thesis will illustrate, the thrust of policy mechanisms have disproportionately been associated with one set of causes of long-term unemployment to the detriment of another.

¹¹³ Webster, D. (2005) *Long Term Unemployment, the Invention of ‘hysteresis’ and the misdiagnosis of structural unemployment in the UK*, Cambridge Journal of Economics, v29. p979

¹¹⁴ Jackman, R, and Layard, R. (1990) *Does Long-Term Unemployment Reduce a Person’s Change of a Job? A Time Series Test*, *Economica* v58, p103

CHAPTER 2 Active Labour Market Policies: Definitions and Development

The previous chapter outlined some of the major general causes of unemployment, and the particular causes of long-term unemployment. This chapter will begin linking the issues discussed in the previous chapter to the emergence, expansion, and embedding of strict active labour market measures into the social security system. This will be complemented though a discussion outlining the main commonalities found in the programmes associated with the active labour market policies and what effects, if any, they are said to have on unemployment and length of time that an individual remains unemployed.

Before examining active labour market programmes it is important to distinguish individual policies from the layers of institutions and contexts in which they operate. As defined by Baldock, a welfare state is ‘the institutional arrangements through which the state provides money, goods, and services to its citizens.’¹¹⁵ In the British case this usually refers to ‘the main institutions of the post-war welfare settlement including the National Health Service, the social security system, the state-funded education system, the state role in the provision and funding in housing, and state personal and social work services.’¹¹⁶ Baldock distinguishes this from the welfare system, which is more concerned with the machinery of welfare, specifically ‘the organisations and mechanisms primarily concerned with providing or guaranteeing the social welfare of citizens.’¹¹⁷ These mechanisms and organisations will include (in the UK for example) departments and agencies in charge of distributing welfare services, such as benefits, or charged with the task of delivering services such as Jobcentre Plus; these are the systems and organisations that encompass a welfare state.

¹¹⁵ Baldock, J. in Baldock, J, et al. (eds) (2007) *Social Policy, 3rd Edition*, OUP, Oxford, p30

¹¹⁶ Ibid.

¹¹⁷ Ibid.

Within this is the further distinction of policies and programmes, which may be operationalised by, or applied to, the new or existing parts of the welfare system. Policies are 'plans of action formulated in general terms by political parties and their representatives in government, especially ministers, and often developed in detail by civil servants.'¹¹⁸ One such example in the UK context is the Jobseeker's Allowance, a policy designed to accelerate the transition from unemployment benefit into work, operated by multiple parts of the system, including the executive agency Jobcentre Plus, with bureaucratic and ministerial oversight provided by the Department of Work and Pensions. Programmes on the other hand are often made up of multiple, interacting policies, sometimes a programme might include a menu of Options, such as the New Deal for Young People, which combined the policy of the Jobseekers Allowance within a range of other welfare-to-work policies including a training and education policy. The definitions of these are fluid; this is because a 'policy is not usually expressed as a single decision. It tends to be defined in terms of a series of decisions, which, taken together, compromise a more or less common understanding of what policy is.'¹¹⁹ A collection of policies might therefore be described as either a programme, or a policy. The distinction is only of real importance when distinguishing between parts of programmes and the programme as a whole, and often the words are used interchangeably.

Last are welfare regimes, which are a term for describing broad categories of welfare states at usually the national level, and their interaction with the market.¹²⁰ Regimes describe the institutions of the welfare state, and the contexts in which they are operating. These have been used to imply 'the existence of a certain logic of social policy provision, and specific configurations in which markets, states and family interact in the provision of welfare within a given country.'¹²¹ As Esping-Anderson writes,

¹¹⁸ Manning, N. in Baldock, J, et al. (eds) (2007) *Social Policy, 3rd Edition*, OUP, Oxford, p57

¹¹⁹ Hill, M. (2013) *The Public Policy Process, 6th Edition*, Pearson, Harlow, p16

¹²⁰ *Ibid*, p88

¹²¹ Clasen, J. in Baldock, J, et al. (eds) (2007) *Social Policy, 3rd Edition*, OUP, Oxford, p626

‘As we survey international variations in social rights and welfare-state stratification, we will find qualitatively different arrangements between state, market, and family. The welfare state variations we find are therefore not linearly distributed, but clustered around regime types.’¹²²

The host of complexities to, and disputes with, this argument are not relevant for this thesis, but Esping-Anderson argues that the structure of welfare states, systems and policies are based around embedded principles.¹²³ Relevant here is the classification of the UK as a ‘liberal regime’ that is associated with ‘means-tested assistance, modest universal transfers or modest social insurance plans [where] entitlement rules are therefore strict and often associated with stigma; benefits are typically modest.’¹²⁴ Other systems which Esping-Anderson regards within this ‘liberal regime’ type are Anglophone states including Australia, New Zealand, Canada, Ireland and the United States, some of whose labour market policies are discussed in this thesis. The type of regime the UK is associated with has its uses in identifying why the UK gave preference to some measures over others is a recurring theme, but the prevalence and type of welfare-to-work programmes is not uniform across these similar systems.

Defining Active Labour Market Policies

To understand what active labour market policies are, and why they have emerged it is necessary to distinguish between active and ‘passive’ labour market policies. Indeed, it might be easier to define active labour market policies as much by what they are not, as what they are. At the extreme, passive measures consist of [cash or in kind] ‘benefit allocated without any conditions to show evidence of

¹²² Esping-Anderson, G. (1990) *The Three Worlds of Welfare Capitalism*, in Pierson, C. and Castles F. (2006) *The Welfare State Reader*, 2nd Edition, Polity, p167

¹²³ Arts, W. and Gelissen, J. (2002) *Three Worlds of Welfare Capitalism or More? A State-of-the-art Report*, Journal of European Social Policy, v12 (2), p139

¹²⁴ Esping-Anderson, G. (1990) *The Three Worlds of Welfare Capitalism*, in Pierson, C. and Castles F. (2006) *The Welfare State Reader*, 2nd Edition, Polity, p168

seeking work or any offer of assistance in finding work.’¹²⁵ Simply, entitlements are issued to the unemployed or economically inactive with few or no requirements. Passive benefits were common in most developed countries until the late 1970s, when according to Lodermel and Trickey ‘High levels of unemployment experienced by most western nations...led to high levels of public expenditure on social security, requiring governments to develop strategies to relieve these problems.’¹²⁶¹²⁷

In response, most Western governments have been involved in transforming passive benefit programmes and social security systems by developing more interventionist policies, commonly these policies have been labelled as active labour market programmes (ALMPs). Broadly, ALMPs are defined by Robinson as deliberate interventions that require recipients to engage in ‘work, training, or other programmes designed to help the jobless move back into employment.’¹²⁸ More precisely, Boone and Van Ours describe them as ‘programmes such as public employment services, labour market training or subsidized employment’ designed ‘to improve the functioning of the labour market in various ways.’¹²⁹ Bonoli, describing the ALMP as an ambiguous term, opens the definition up, suggesting that it can be used to describe ‘the approach developed in various English-speaking countries, which combines placement services with stronger work incentives, time limits on reciprocity, benefit reductions, and the use of sanctions –so the called workfare approach.’¹³⁰ This definition is perhaps too wide to serve much purpose, though it raises some important questions about the distinction between what is passive and active.

As Robinson explains, the distinction between a passive benefit and an active labour market programme

¹²⁵ Lodermel, I and Trickey, H. (2000) *An Offer You Can't Refuse? Workfare in International perspective*, Policy Press Bristol, p13

¹²⁶ Ibid, p12

¹²⁷ Not all countries had passive systems before this period; Robinson for example describes active measures as being a strong feature of welfare models in countries such as Sweden since the end of the second world war. (Robinson, P. (2000) *Active Labour Market Policies: A Case of Evidence-Based Policy-Making?* Oxford Review of Economic Policy, v16.1, p13)

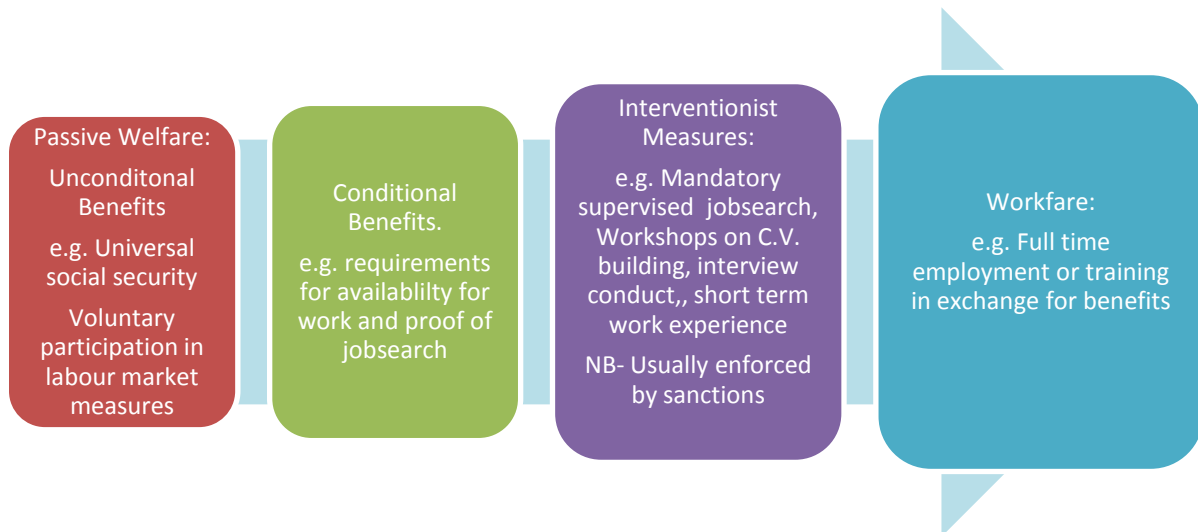
¹²⁸ Robinson, P. (2000) *Active Labour Market Policies: A Case of Evidence-Based Policy-Making?* Oxford Review of Economic Policy, v16.1, p14

¹²⁹ Boone, J and Van Ours, J.C. (2004) *Effective Active Labour Market Policies*, CEPR Discussion Paper 4707, Centre for Economic and Social Policy, London, p2

¹³⁰ Bonoli, G. (2010) *The Political Economy of Active Labour Market Policy*, Politics and Society, v38, p439

is rarely clear. He recommends that distinctions are best observed ‘along a continuum’ of activity, and not distinct as ‘one key feature of ‘active’ programmes is that participation or non-participation in them increasingly plays a role in securing access to the benefits system.’¹³¹

Figure 2.1 The Passive-Active Spectrum



Source: Author’s Construction

To the far left of the continuum, social security benefits are distributed to welfare claimants with few or no requirements attached to their receipt. Alongside these social security payments, services may be available for the long-term unemployment, but the take up is voluntary. Toward the middle of the spectrum are programmes that use a mixture of conditional and unconditional benefits. Here, the conditions attached to welfare receipt tend to be ‘soft’, consisting of little more than a requirement that recipients demonstrate they are eligible for work and looking for it. Further across, some states (and/or programmes) expand these requirements by requiring the unemployed to carry out certain tasks in exchange for continued benefit receipt. These are active in as far as there are activities attached to benefit receipt, but these requirements are largely minimal, and checked by the benefit services rather

¹³¹ Robinson, P. (2000) *Active Labour Market Policies: A Case of Evidence-Based Policy-Making?* Oxford Review of Economic Policy, v16.1, p14

than undertaken or supervised by them. These requirements are common to most international benefit systems. The conditions vary widely, and generally include job-search and attendance at an interview with the public employment service.

Further down the spectrum are the more interventionist measures, commonly called welfare-to-work programmes. This is a clouded part of the spectrum, because as Bonoli explains, one of the problems with classifying the extent of intervention of any welfare-to-work programme is that 'the menu of options within these programmes is vast.'¹³² This range of programme components not only adds to the difficulty in trying to compare different welfare regimes, but differences between conditional benefit receipt and active labour market programmes (i.e. those regimes and programmes falling furthest to the right in Figure 2.1) are not always apparent. Studies have tended to draw a distinction based on the level of intervention and activity required, yet these can vary within the same programme. Many welfare-to-work programmes tend to require less interventionist activities, which tend to be less intense, at the beginning of the recipient's participation than at the end.

There is considerable heterogeneity in the social security and employment services of different states; however, some common features are identifiable: enforced jobsearch undertaken in a supervised and controlled environment; attendance at workshop on interview techniques; some form of state sponsored or provided short-term work experience and placements; and, a number of different work orientated training programmes. These features are becoming increasingly common in Western welfare regimes; and for the mainstream unemployed groups these exercises will often be enforced by benefit sanctions when recipients are not compliant.

At the far end of the continuum are the strictest of the active intervention programmes, known as workfare. The term 'workfare' date back to the end of the 1960s as can be seen when Richard Nixon

¹³² Bonoli, G. (2010) *The Political Economy of Active Labour Market Policy*, Politics and Society, v38, p440

stated: 'We cannot talk our way out of poverty; we cannot legislate our way out of poverty, but this nation can work its way out of poverty. What America needs now is not more welfare, but more workfare'¹³³ While some academics and politicians outside the United States have traditionally used 'workfare' in a pejorative manner to attack proponents of strict labour market conditionality¹³⁴, the term itself has come to describe a fairly fluid concept. In its simplest form, workfare is understood as 'making social assistance conditional on the performance of employment'¹³⁵. This definition may be extended to any active labour market programme that makes work *or training* a condition of welfare receipt. Jones described similar demands to accept training as a condition of benefit receipt as 'trainingfare',¹³⁶ however this term has not found common parlance in the academic lexicon.

The definitional wrangling offers constructive insight into the distinctions between degrees of intervention at the programme level, but in practice employment services embedded within the framework of the social security system can, and often do, deploy the full spectrum of active measures.

In the UK, measures tend to progress along the continuum, beginning with a relatively passive approach to service provision and limited conditionality in exchange for benefit receipt. As an individual's claim becomes more protracted (moving from the short-term to the long-term unemployed) they have more and more conditions attached to their continued receipt of benefit, eventually having to participate in a workfare programmes (for the New Deal for Young People this was after 10 months) in order to retain their benefits. As such, despite the active nature of the welfare state, workfare has often been used as a last resort.

Core to understanding the degree of activation is the composition and range of services provided within

¹³³ Nixon, R. (1969) cited in Peck, J. (1999) *Workfare States*, Guildford Press, London, p90

¹³⁴ Lodemel, I and Trickey, H. (2000) *An Offer You Can't Refuse? Workfare in International perspective*, Policy Press, Bristol, pp3-4

¹³⁵ Solow (1998) cited in Sunley, P. et al. (2006) *Putting Workfare in Place*, Blackwell, Oxford p7

¹³⁶ Jones described 'trainingfare' as 'a hidden compulsion to participate in training schemes in return for state benefit.'
Jones, M. (1997) *Full Steam Ahead to a Workfare State*, p139

the broader social security regime, and the level of compulsion upon individuals to use services or take work or training where available. The OECD defines active labour market policies (ALMP) as involving 'Activation programmes [that] differ from free public employment services in that participation is *obligatory* for relevant target groups.'¹³⁷

This definition opens up a number of possible understandings, and academics have identified a series of programme types with different components and emphases on immediate labour market attachment. For instance, systems may be described as 'Soft' when participants are presented with a variety of options, such as training, education, and work-related activities alongside an option to work. At the opposite end of the spectrum are the 'hard' workfare regimes, which impose a Work-First strategy to reintegrating the unemployed into the labour market, by stipulating that in order to receive benefits the client must accept work (or become disentitled). A similar dichotomy is made by Torfing in the Danish experience of ALMP, which identifies a distinction between what he describes as 'offensive' and 'defensive' workfare; where the former is a proactive series of activities and services which seek skills-attainment, against the latter which is associated with rapid labour market attachment and downward wage-pressure.¹³⁸

These distinctions provide two recognised categories of interventions: one advocating human capital development and the other emphasising immediate labour market attachment. The dominant type of intervention and the time-period allowed before an individual is required return to the labour market serves to distinguish the two broad approaches. The 'hard' approach, associated with Work-First, advocates the notion that 'any job is a good job'¹³⁹ and explains sustained unemployment through unfamiliarity with the labour market, believing that work-experience will lead to work, and altering

¹³⁷ OECD (2005) Labour Market Programmes and Activation Strategies: Evaluating the Impacts, *OECD Employment Outlook*, OECD. p175

¹³⁸ Torfing, J. (1999) *Workfare with Welfare: Recent Reforms to the Danish Welfare State*, *Journal of European Social Policy*, v9.5 pp17-18

¹³⁹ Bruttel, O. And Sols, E. (2006) *Work First as a European Model? Evidence from Germany and the Netherlands*, *Policy and Politics*, v34.1, p73

attitudes towards entering the labour market, which explains the mandatory element. This approach seeks to minimise the transition time back to work, effectively by the shortest route and implies an immediate impact on frictional unemployment.¹⁴⁰ Capital development may exist in Work-First regimes, however it will largely be short-term and work orientated.¹⁴¹ The 'soft' approach gives more time to participants returning to the labour market, seeking to invest in human capital development exercises such training and retraining individuals to 'assist benefit claimants in raising their education and skills levels'.¹⁴² The effects of these two core approaches are explored in the following chapter.

The rationale for active labour market policies

As Bruttel and Sols argue, the 'practical rationale for activation programmes is that they can have a large impact on employment and unemployment outcomes in environments where benefits entitlements are of long or indefinite duration.'¹⁴³ This was identified relatively early in states such as Germany and Sweden who introduced activation policies in the early 1950s.¹⁴⁴ However, the wider proliferation was not to occur until the late 1980s and early 1990s, during what Bonoli describes as the 'Activation Turn'.¹⁴⁵ This suggests that something in the intervening 40-years altered the way many Western policy makers began to conceive the relationship between the state and its unemployed. A number of possible explanations for this are explored below.

¹⁴⁰ Peck, J. and Theodore, N. (2000) *Work-First: workfare and the regulation of contingent labour markets*, Cambridge Journal of Economics, v.24, p122

¹⁴¹ Sol, E. and Westerveld, M. (2005) *Contractualism in Employment Services: A New Form of Welfare State Governance*, Kluwer Law International, The Hague, p147

¹⁴² *Ibid*, p148

¹⁴³ OECD (2005) *Labour Market Programmes and Activation Strategies: Evaluating the Impacts*, *OECD Employment Outlook*, OECD, p176

¹⁴⁴ Bonoli, G. (2010) *The Political Economy of Active Labour Market Policy*, *Politics and Society*, v38, p452

¹⁴⁵ *Ibid*, p448

Economic theory justifications

With the development and expansion of non-employment based social security policies the replacement wage was artificially raised. Part of the reason for this was that wage expectations amongst the unemployed appeared to grow, while simultaneously these unconditional benefits allowed unemployed individuals the prospect of being more selective in what job they are willing to accept. As the previous chapter asserted, replacement wages are arguably permissive of extended periods of frictional unemployment, which can foster the malignant effects of long-term unemployment. In essence, the welfare system is responsible for higher levels of sustained unemployment, and thus by tightening the parameters within which the unemployed are able to be selective, and improving information through centralised vacancy databases, search duration and frictional unemployment generally should be reduced. There are however a number of other economic justifications for moving away from passive regimes which have been advanced.

There is wide agreement amongst economists that there is a trade off between inflation and unemployment; that a fall in unemployment will feed wage and price inflation, and conversely that a rise in unemployment will serve to reduce wage and price inflation (exemplified by the Phillips Curve). The concern therefore is that attempting to intervene in levels of unemployment may create its own economic problems. However, an important feature of the economic argument is that ALMP's are said to be a method of 'cheating the Phillips curve'.¹⁴⁶ Calmfors, describes ALMP's as a 'deus ex machina' to the long-term unemployment problem where it was argued that activation policies circumvent inflationary pressures.¹⁴⁷ This idea of a miracle cure to a long-held concern amongst economists is best summarised by Robinson:

¹⁴⁶ Calmfors, L. (1994) *Active Labour Market Policies and Unemployment*, OECD Economic Studies No22, Office for Economic Cooperation and Development, p8

¹⁴⁷ *Ibid*, p8

The long-term unemployed play no role in holding down inflation... [therefore] if employers used a wage subsidy to hire more of the long-term unemployed at the expense of the short-term unemployed, or even by reducing their existing workforce, this would not matter. For a higher level of short-term unemployment would reduce wage inflation, so allowing for an expansion of real demand, so that the workers who have been substituted against will all find work again, and relatively quickly, before they become long-term unemployed.¹⁴⁸

Premised upon this argument, active labour market policies targeted at the long-term unemployed (which reduce the duration of unemployment rather than the total volume of it) will not have an impact on inflation, theoretically solving the Phillip's dilemma. The argument that the long-term unemployed play no inflationary role has been disputed,¹⁴⁹ but if policy-makers accept the premise that a) the trade-off exists, and b) that reducing long-term unemployment will not affect inflation, the appeal of intervening in the labour market status of the long-term unemployed is enhanced.

Economic context justifications

Moving from the economic theory to the economic context, there are a number of general trends, which have made political intervention in the operation of the labour market necessary. One incentive for ALMP emerged was the belief that 'high wages in developed economies in the 1970s and 1980s were damaging economic competitiveness against rivals in the developing world, and thus increasing unemployment in the developed world.'¹⁵⁰ Simply, demand for labour is, at least partly, driven by the price of the labour available; where the more wages a firm is required to pay to its workforce, the less labour the firm can afford to take on. Matthews presents a convincing argument in this regard for high

¹⁴⁸ Robinson, P. (2000) *Active Labour Market Policies: A Case of Evidence-Based Policy-Making?* Oxford Review of Economic Policy, v16.1, p15

¹⁴⁹ For a discussion see *Ibid*, pp14-16

¹⁵⁰ Baldock, J. et al. (2007) *Social Policy*, Oxford University Press, Oxford, p158

wages and replacement ratios in Britain as a key cause of high unemployment.¹⁵¹ Matthews used data from after the Second World War to argue that a selection of factors have prevented the (from the classical perspective) wage levels reducing in response to falling demand, and thus a growth in unemployment. In particular, he points to trade union power to negotiate wages on behalf of their members, minimum wage laws and principally 'a steep rise in unemployment benefits.'¹⁵²

Hall, in the United States, found that wage rigidity ('stickiness') was caused by the wages of public, or what he calls the 'non-entrepreneurial' sectors.¹⁵³ In downturns, wages in the non-entrepreneurial sectors did not fall as they would in the private sector. This resulted in a spillover effect, where private sector companies found it difficult to recruit against the more rigid (and higher) public sector salaries.¹⁵⁴

Layard and Nickel identified several of these factors in contributing to British unemployment during the 1970s and early to mid-1980s. They attribute the principle cause of unemployment in Britain as fluctuations in demand; however, they also identify a number of 'push' factors that have nudged unemployment beyond its necessary (or macro-demand levels). Principally they refer to benefit levels,¹⁵⁵ the relaxing of unemployment rules, and employment protection as causing sticky wage rigidities and a rise in unemployment.¹⁵⁶

Nickell and Nutziata's report for the Bank of England identified most of these features, what they describe as 'labour market institutions' as being push factors of unemployment from the 1960s to the 1990s amongst all OECD countries. They again stress the importance of demand shifts as a cause of modern unemployment, but state strongly that:

¹⁵¹ Matthews, K. (1985) *High Wages Cause Unemployment*, Economic Affairs v5.3 pp1-6

¹⁵² *Ibid*, p11

¹⁵³ Hall, R.E. (1975) *The Rigidity of Wages and the Persistence of Unemployment*, Brookings Papers on Economic Activity, v2. P302

¹⁵⁴ *Ibid*, P331

¹⁵⁵ See Layard, R. And Nickell, S. (1986) *Unemployment In Britain*, Economica, v45, pp124-125 or pp163-164

¹⁵⁶ *Ibid*, pp163-164

It is sometimes thought that the fact that unemployment is determined by aggregate demand factors is somehow inconsistent with the notion that unemployment is influenced by labour market institutions. This is wholly incorrect.¹⁵⁷

The authors identify that 55% of the long-term upward shifts in unemployment across the OECD are explained by changes to these labour market institutions; and that these labour market institutions are therefore in the long-run influential on demand. The remainder is accounted for by short run shocks and that these are influential on the level of demand in unemployment across the OECD.¹⁵⁸

Only some elements of these push factors hold today. For instance, a decline in trade union power has occurred and this is a feature identified by Nickell and Nutziata's report for the Monetary Policy Committee.¹⁵⁹ Furthermore, Petrongolo and Pissarides identify that some of the responsible labour market institutions have been dismantled since the deregulatory programme between 1985 and 1993, which coincided with both more people being unemployed quicker (inflow), but was also a time of falling unemployment (outflow).¹⁶⁰

Last, the introduction of tighter benefit rules and the stability of unemployment benefits over the last 20 years imply that the 'strong labour market institutions' that were cited as the cause of British unemployment arguments are weakening.¹⁶¹ The shrinkage of push factors should reduce

¹⁵⁷ Nickell, S. And Nutziata, L (2002) *Unemployment in the OECD since the 1960s: What do we know?* Report to the Bank of England Monetary Policy Committee, London School of Economics [online] <http://cep.lse.ac.uk/events/conferences/macro/nickell.pdf> [accessed 16/04/10] p16

¹⁵⁸ *Ibid*, p16

¹⁵⁹ *Ibid*, p8

¹⁶⁰ Petrongolo, B. And Pissarides, C. (2008) *The Ins and Outs of European Unemployment*, CEP Discussion Paper, No 853, London School of Economics, online <http://eprints.lse.ac.uk/3658/1/insoutseuropeanunemployment.pdf> [accessed 10/01/11] p8

¹⁶¹ See Pissarides, C. (2006) *Unemployment in Britain: A European Success Story*, LSE Research Online [http://eprints.lse.ac.uk/3640/1/Unemployment_in_Britain-A_European_Success_Story_(LSERO).pdf] [accessed 12/01/11] pp13-15

unemployment, and may be part of the reason why the UK may need policy interventions less than other European countries. That said, there are still factors at play, which are contributing to UK unemployment and thus necessitate a role for active labour market policy. For instance, benefit systems still provide a replacement ratio sufficient to incentivise a proportion of the population to remain unemployed for longer, and imperfect information on vacancies, and skills mismatch still imply a role for ALMP. While true that the UK for the last decade maintained a lower level of unemployment than most European countries, this does not mean further work reductions cannot be achieved. In particular, there has been a colossal growth in the volume of people classified as economically inactive in the UK.¹⁶² Nickell also identifies a growth of technical industries in the UK, which is biased in favour of the skilled workforce, at the cost of the unskilled. As evidence, Nickell shows that unemployment rates for men in the UK without qualifications have doubled between 1979 and 1993, and economic inactivity rates amongst the same group have risen by a factor of six between 1979 and 1998.¹⁶³ If a lack of basic skills is an important determinant of modern UK unemployment, there is clear potential for this to be addressed through active labour market policies.

International pressure on the UK labour market

These push pressures on labour market demand in the UK and Europe must be considered against a wider backdrop. The wage problem was put into sharp relief by the phenomena of globalisation that has increasingly enabled businesses to shift their production and capital abroad in search of lower wages and costs with greater ease. The opening up of markets to the forces of globalisation has hampered political decision making by creating, in Friedman's words, a 'Golden Straitjacket.' In order to prosper under the conditions of global free market capitalism, countries must adopt the some of the following approaches:

¹⁶² Nickell, S. (2001) *Has UK labour market performance changed?* Speech given at the Society of Business Economists, 16th June, 2001, [online] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=762284 [accessed 10/04/2011] p2

¹⁶³ *Ibid*, p10

- making the private sector the primary engine of its economic growth,
- maintaining a low rate of inflation and price stability,
- shrinking the size of its state bureaucracy,
- maintaining as close to a balanced budget as possible, if not a surplus,
- eliminating and lowering tariffs on imported goods,
- removing restrictions on foreign investment,
- getting rid of quotas and domestic monopolies,
- increasing exports,
- privatizing state-owned industries and utilities,
- opening its industries, stock and bond markets to direct foreign ownership and investment, deregulating its economy to promote as much domestic competition as possible,
- eliminating government corruption, subsidies and kickbacks as much as possible.¹⁶⁴

This list of instructions for prosperity according to Barr implies that ‘Countries with expensive welfare states... will increasingly be at a competitive disadvantage relative to those with more parsimonious ones.’¹⁶⁵ With businesses and capital less constrained by national borders, states risk rising unemployment if they do not combat rising labour costs.¹⁶⁶

The reason this is pertinent to the UK is because on the measure of unit labour costs (which demonstrate worker productivity plus the costs incurred by the exchange rate) the UK has been losing ground between 1995 and 2004 to core competitors such as the United States, France and Germany,

¹⁶⁴ Friedman, T. (2000) *The Lexus and the Olive Tree*, Anchor Books, New York, p105

¹⁶⁵ Barr, N. (2004) *The Economics of the Welfare State*, 4th Edition, Oxford University Press, Oxford, p13

¹⁶⁶ Employer, or payroll taxation is attributed as one of the (smaller) causes of unemployment in the developed world, as it naturally impacts on labour costs. See Layard, R. And Nickell, S. (1986) *Unemployment In Britain*, *Economica*, v45, p165

making British labour (relatively) more expensive.¹⁶⁷ This naturally makes labour market rigidities more problematic in the face of foreign competition.

With labour market institutions, wage rigidities, mismatch and a degree of decommodification still playing a role in pushing the natural rate of unemployment, an increasingly competitive international labour market can exert pressure on the UK workforce. It is therefore clear that the continuum of activation can serve to combat them. At the passive end of the spectrum, unemployment benefits can be reduced to constrict decommodifying replacement wages. Further down the scale wage expectations can be addressed by defining the selectivity of the unemployed, and at the furthest end of the spectrum workfare type programmes can explicitly coerce benefit recipients into either working for their benefits, or working for sub-market wage levels, thereby forcibly reducing their wage expectations. While other government policies also clearly have a role to play in dampening wage expectations, such as dismantling collective bargaining, labour market protection and minimum wage regulations, it is clear that active measures can contribute.

Demographic Pressures for active labour market policies

The proliferation of welfare-to-work is more than simply a concern with high labour costs. Reducing government expenditure on social security has also become a priority as states attempt to maintain balanced budgets, and present a perception of fiscal discipline in the era of globalisation.¹⁶⁸ Before reviewing this literature, it is necessary to stress that many of the arguments (and subsequent state responses) have roots in neoliberal arguments that presuppose a leaner (or non-existent) welfare state.

¹⁶⁷ Mason, G. Et al. (2008) *Cross Country Productivity Performance at Sector Level: the UK compared with the US, France and Germany*, BERR Occasional Paper No.1, National Institute of Economic and Social Research and Department for Business, Enterprise and Regulatory Reform, Crown, London, Pp117-118

¹⁶⁸ Globalisation for the purposes of this thesis is understood in its narrow economic definition, which is associated with 'the growing salience of giant corporations operating as 'multinationals' and integrating production on a global scale; and the emergence of a 24-hour, integrated, global capital market.' Brown, C. and Ainley, K. (2009) *Understanding International Relations*, 4th Edition, Palgrave Macmillan, Basingstoke, p178

One of the undeniable alterations to impact society has been a range of demographic changes. First, recent decades have witnessed considerable change in the social and economic structures of the family. This shift has had a profound impact on the welfare state. A starting point is the growth in the size of the workforce since the Second World War, especially since the 1960s where women have more freely entered the labour market thus vastly increasing the numbers available for work.¹⁶⁹ This change brought both advantages and challenges for the welfare state. On the one hand, the increased number of individuals entering the labour market creates a larger tax base to support social services, while also a larger stock of labour to inhibit inflationary pressures. On the other hand, increasing the number of those available for work intensifies competition in the labour market¹⁷⁰ and widens the pool of potential social security recipients. In addition, where both parents (in a two parent family) work, there is a decrease in either parents' ability to provide informal welfare services to their immediate families.

Other demographic shifts have occurred to instigate a redesign of passive welfare transfers, including the increase in the divorce rate and the rise of single parent families. This is a particular concern for the UK, which leads the European Union on proportions of failed marriages.¹⁷¹ Alongside the rising divorce rate is an increase in never married single parent families.¹⁷² Typically, lone parents tend to reside in the lowest part of the income distribution, making them vulnerable to poverty and dependency on state support programmes to supplement (part or all of) their income.¹⁷³ It should be stressed that even amongst those working at the lowest ends of the income ladder that (despite the state's best attempts

¹⁶⁹ Trinczek, R. (2010) *Demographic Change and Work in Europe*, European Working Conditions Observatory, Eurofound, [online] http://www.eurofound.europa.eu/ewco/surveyreports/EU0902019D/EU0902019D_2.htm [accessed 20/11/11]

¹⁷⁰ N.B. In the short run at least. See Layard, R (1997)'s account of the 'lump of labour fallacy' in Peck, J. (2001) *Workfare States*, Guildford Press, London p357

¹⁷¹ Pahl, J. (2007) in Baldock et al. *Social Policy 3rd Edition*, OUP, Oxford p182

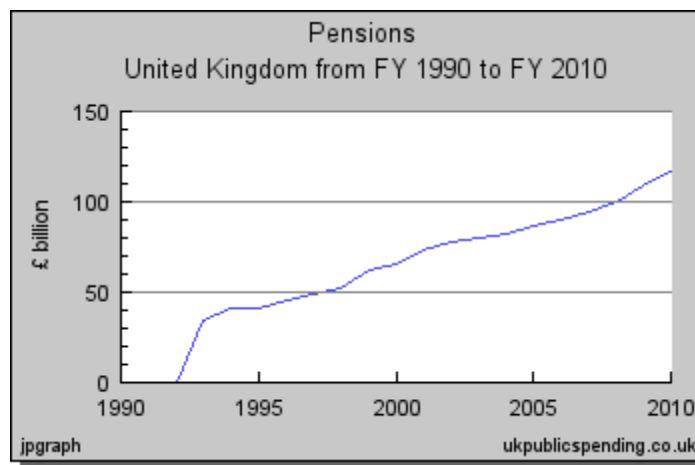
¹⁷² Bradshaw, J. And Millar, J. (1991) *Lone Parent Families in the UK*, Department for Social Security Research Report No. 6, HM Stationary Office, London, p95

¹⁷³ Bradshaw, J. And Millar, J. (1991) *Lone Parent Families in the UK*, Department for Social Security Research Report No. 6, HM Stationary Office, London, pp95-96

to convince otherwise) work has not lifted all out of poverty.¹⁷⁴

Another significant demographic challenge to emerge over recent decades is a dramatically ageing population as people live longer and have fewer children. This has increased the costs borne by the state for providing welfare to this ageing population.¹⁷⁵ The proportion of the population who have reached retirement is creating unprecedented burdens for the pensions and healthcare systems in the UK. If we examine the growth in expenditure on state pensions since the middle of the 1990s the growth is enormous.

Figure 2.2 UK Government Expenditure on Pensions since 1992 (billions £)



Source: UK Public Spending Online¹⁷⁶

As the above chart indicates since 1992 public expenditure on pensions has tripled. The impact this has on the welfare state is clearer when the 'support ratio', is examined. In brief, the support ratio calculates the number of people of working age compared to the number of people of retirement age. Because of a drop in the birth rate, improving healthcare and lifestyle choices, the government project

¹⁷⁴ For a full account of in-work poverty, see Ray, K. Et al. (2010) *Work, Poverty and Benefit Cycling*, Joseph Rowntree Foundation, JRF [online] <http://www.jrf.org.uk/sites/files/jrf/work-poverty-benefits-summary.pdf>, [accessed 10/12/11] pp1-4

¹⁷⁵ Coleman, D. in Pierson, C. and Castles F. (eds)(2006) *The Welfare State Reader*, 2nd Edition, Polity, Cambridge, p298

¹⁷⁶ UK Public Spending (2012) *UK Spending History by Category*, UK Public Spending, [available at] http://www.ukpublicspending.co.uk/spending_chart_1990_2010UKb_11c1li001tcn_00t [accessed 11/05/2012]

that the ratio will drop from 3.34:1 in 2003 to 2.57:1 by 2030.¹⁷⁷ The problem this changing ratio presents is that much of the welfare state was designed in an era where people died younger and had more children. Today, the length of working life, and life itself are different. Glennester summarises the present problem presciently, that 'A population that is living longer *and* working fewer years, as ours have been, must either save more out of earnings, be taxed more heavily, or work longer to sustain income in retirement.'¹⁷⁸¹⁷⁹ These challenges are fully understood by government administrations but often dealt with only in a piecemeal fashion. At first, this may be considered as unusual given the enormity of pressure that retirement pensions apply to the welfare state is much greater than that of unemployment. For instance, the expenditure on unemployment benefit in 2010 was £3.6billion, whereas the expenditure on the basic state pension was £66billion.¹⁸⁰

Social security for the unemployed receives an enormous amount of attention and intervention by politicians and policymakers, less so the pensions system despite the sizable difference in their expense. The important question is, 'why deploy active measures aimed at the long-term unemployed, rather than resolve the obvious problem of ballooning pension expenditure?' Part of the answer may be found in public opinion. Taylor-Gooby and Hastie surveyed tax-payers to examine the popularity of additional taxation targeted towards specific services and benefits, the least popular of which, by a considerable margin, targeted increasing unemployment benefits (16% agreed, or strongly agreed to a 1p rise in income tax to finance this). In contrast, the support for a rise in taxation to finance retirement pensions

¹⁷⁷ Parker, G. and Schneider, J. in Baldock et al. (2007) *Social Policy 3rd Edition*, OUP, Oxford p460. N.B. These projections also take into account the declining birth rate, which in itself increases the burden by failing to replace adult workers as they move into retirement.

¹⁷⁸ Glennester, H. (2003) *Understanding the Finance of Welfare: What Welfare Costs and How to Pay for It*, The Policy Press, Bristol,, p142

¹⁷⁹ Other than dismantling welfare in its entirety, there are a number of solutions are available to ameliorate future crises, such as weakening pension entitlements and increasing the retirement age as a method of maximising employment using the available workforce. Age-based extinction policies are another option (see Nolan, W.F. (1967))

¹⁸⁰ Guardian (2012) *The Budget 2010*, Guardian Datablog, [available at]

<http://www.guardian.co.uk/news/datablog/2010/oct/18/government-spending-department-2009-10#zoomed-picture>
[accessed 10/11/11]

was 65% of those interviewed.¹⁸¹ This may go some way towards explaining why public policies have more consistently been focussed on the unemployed than on either pensions or welfare-to-work for older generations.

Alternatives to ALMP

The changing nature of Western labour markets can help explain why policymakers have been attempting to reform welfare state services in order to address the needs of very different economic and demographic contexts from that which faced the state when these services were developed. However, active labour market programmes are not the only solution available to policymakers. For instance, in the past, most academics and politicians adhered to the conviction forwarded by John Maynard Keynes that high unemployment was caused by demand deficiencies in the economy, and that after a recession the rate of unemployment would settle at levels higher than the equilibrium rate of unemployment. In order to return the labour market to full employment (i.e. only frictional/search unemployment) state intervention was necessary, using fiscal and/or monetary injections, and/or public works programmes. Such interventions would directly or indirectly increase employment and return the labour market to a state of, or near to, full employment.¹⁸²

Yet, with the emergence of the neoliberal economic paradigm during the 1970s-1980s, this approach shifted from the policy agenda. Neoliberal economists viewed demand interventions as waste due to the fact that left alone the market would naturally return to its natural equilibrium. If anything, Keynesians were bumping employment beyond its natural rate, causing longer-term macroeconomic instability. In the neoliberal analysis any unemployment that remained was more than simply frictional/search unemployment. Unemployment, was primarily the result of workers pricing themselves out of the market. This caused a demand deficiency, or as Gregg puts it, the emphasis

¹⁸¹ Taylor-Gooby and Hastie (2002) cited in Glennester, H. (2003) *Understanding the Finance of Welfare*, The Policy Press, Bristol, p199

¹⁸² Mulhearn, C. and Vane, H.R. (1999) *Economics*, Palgrave Macmillan, Basingstoke, p258

shifted from 'raising the demand for labour at the going rate to matching the wage to skill levels so that labour will be demanded.'¹⁸³ Unemployment was to be seen more as the failure of the unemployed than the free economy. In this context, active measures could oblige individuals to enter the labour market at lower wages than they would otherwise expect, because the alternative was the far from lucrative benefits system.

Sociological Justifications for Active Labour Market Programmes

The emphasis on economic necessity, real or otherwise, is not the sole justification for introducing active labour market policies into the benefit system. Since the 1980s, a series of social arguments have targeted the issue of 'welfare dependency', or the 'dependency culture'. While the concept of welfare dependency was not new, it gained prominence amongst those championing a more active welfare state. The key for the following is that many of the arguments complement the decommodification debates. For instance, George Gilder wrote in 1981 that 'Our welfare system creates moral hazards because the benefits have risen to a level higher than the ostensible returns of an unbroken home and a normal job.'¹⁸⁴ In this view, the welfare state has not only extended the period of frictional unemployment, but has made work less attractive than a life on welfare. This, according to Charles Murray, has manufactured its own social strata, who according to Fitzpatrick 'alleged that over-generous benefits in America had led to the emergence of a significant underclass of several million people.'¹⁸⁵ The term underclass itself is credited to Gunnar Myrdal, who explained that sustained unemployment had created 'unemployed and, gradually, unemployable, persons and families at the bottom of society'.¹⁸⁶

Murray's thesis goes further in alleging that the blame must be attributable to the benefits system, which had manufactured a class of unemployed and unemployable individuals, mainly black males and

¹⁸³ Gregg, P. (1990) cited in Cressey, P (1999) *New Labour, New Welfare State?* The Policy Press, Bristol, p176

¹⁸⁴ Gilder, G. (1981) cited in Dolowitz, D. (1998) *Learning from America? Policy Transfer and the Development of the British Welfare State*, Sussex Academic Press, Brighton, p88

¹⁸⁵ Fitzpatrick, T, in Baldock, J. et al. (eds) (2007) *Social Policy*, 3rd Edition, OUP, Oxford, p364

¹⁸⁶ Cited in Field, F. (1993) *An Agenda for Britain*, Harper Collins, p62

single mothers who had no interest in work.¹⁸⁷ Murray argued the existence of a 'benefits trap' and the disincentive effect of welfare 'rights', whereby the changing level and availability of benefits had made low-level labour market entry no longer attractive; this is seen as particularly the case for young people who have entered the labour market in a system of generous welfare benefits. He describes the microeconomic effect as follows:

To someone who is not yet persuaded of the satisfactions of making one's own way, there is something laughable about a person who doggedly keeps working at a lousy job for no tangible reason at all. And when working no longer provides either income or status, the last reason for working has truly vanished. The man who keeps working is, in fact, a chump.¹⁸⁸

Thus, according to Murray's theoretical construction, the 'increase' in welfare generosity, relative to the gains of low-paid and low-level work, created a culture of dependence, where individuals take from society, which requires them to contribute nothing in return. Because of this it is argued, that the benefit system led; first to a growth in unemployment and second, it facilitated lengthier unemployment spells. It is easy to observe the similarities between these arguments and those of hysteresis previously discussed; the underclass thesis simply offers a more textured narrative.

In spite of the similarities between the hysteresis thesis and the underclass, it is noteworthy that Murray viewed the necessity for addressing unemployment amongst the poor as driven not by economic expediency, but a belief that remarrying the unemployed with work was the route to personal happiness and social salvation. This need to 're-moralise' the welfare state is a common theme amongst neo-conservatives, who argue that the rise of state welfare 'destroyed the moral framework within

¹⁸⁷ Baldock, J. et al. (2007) *Social Policy*, 3rd Edition. OUP, Oxford p364

¹⁸⁸ Murray, C. (1984) *Losing Ground: American Social Policy 1950-1980*, BasicBooks, New York, p185

which civic associations were situated.¹⁸⁹ The very institutions established to hold society together was ripping it apart. Murray's ideas of underclass and moral degeneracy have helped frame the discussion of poverty and unemployment in the United States and, to a certain extent, Britain.¹⁹⁰ According to Dolowitz, Murray's seminal work, *Losing Ground*, had a two-step influence on British policy-makers, by first energizing the debate about reforming welfare in the United States, where the ostensible success of this was to inspire British policy makers to adopt the same rhetorical and attempt to tackle similar problems.¹⁹¹

While similar, Lawrence Mead approached dependency by arguing that 'the damage seems to be done, not by the benefits themselves, but by the fact that they are entitlements given regardless of the behaviour of clients'.¹⁹² Unlike Murray, he believed that poverty and unemployment were not caused by the circumstances in which the individuals found themselves, but by the individual's choices and behaviour.¹⁹³ The welfare system, Mead argued, could be transformed into a part of the solution. Mead wrote that 'the source of bondage for today's seriously poor is no longer social injustice but the disorders of their private lives. For these Americans, the way forward is no longer liberation but obligation'.¹⁹⁴ According to Lewis, Mead's arguments have been influential on the UK government, with its emphasis on personal responsibility representing a thread running through a selection of New Labour's policies, none more obvious than the obligation to work.¹⁹⁵

¹⁸⁹ O'Brien, M. and Penna, S. (1998) *Theorising Welfare: Enlightenment and Modern Society*, Sage, London, p98

¹⁹⁰ Deacon, A. (2002) *Perspectives on Welfare: Ideas, Ideologies and Policy Debates*, Open University Press, Buckingham, p33

¹⁹¹ Dolowitz, D. (1998) *Learning from America? Policy Transfer and the Development of the British Welfare State*, Sussex Academic Press, Brighton, p89-90

¹⁹² Mead, L. (1986) cited in White, M. eds. (1994) *Unemployment and Public Policy in a Changing Labour Market*, Policy Studies Institute, London, p57

¹⁹³ Deacon, A. (2002) *Perspectives on Welfare: Ideas, Ideologies and Policy Debates*, Open University Press, Buckingham, p52

¹⁹⁴ Mead, L. (eds.) (1997) *From Welfare to Work: Lessons from America*, Civitas, London, p15

¹⁹⁵ Lewis, J. (2001) in Seldon, A. (eds.) (2001) *The Blair Effect: The Blair Government 1997-2001*, Little and Brown Company, London, p503

Frank Field can be best positioned between these two. Field balances the view that the welfare state has developed rational but socially pernicious behaviour alongside the belief that this has itself led to a pervasive culture of dependence. He writes:

The underclass is as difficult to define as it is easy to recognise when confronted with it. The major cause is the collapse of full employment and particularly the radically transformed employment position of those with brawn and little developed intelligence. But welfare continues to play a part in both recruiting and solidifying the underclass. ¹⁹⁶

The approach mirrors characteristics of Mead's assessment that unemployment is associated with social disorder, or in Field's words a 'job culture', where 'the underclass, at its strongest point, is fed by unemployment, the abuse of welfare, crime and drugs.'¹⁹⁷ Field railed at the means testing welfare system, but more broadly identified the need to reattach individuals to a sense of responsibility as the route back to social integration and the labour market.¹⁹⁸ The influence of Field on British policy is perhaps more direct, as having a short ministerial brief for welfare reform between 1997 and 1998, at the genesis of the New Deal programmes discussed in following chapters.

Murray, Mead and Field may attack dependency and poverty from slightly different perspectives but they find the fundamental solution to the social ills created by dependency in the same place. All three appear to regard the solution as the reintegration of individuals into the labour market. For Murray and Mead, the welfare state must change into a system which not only expects but forces work upon its recipients. Murray's solution was to eliminate benefit entitlement for the majority of the unemployed,

¹⁹⁶ Field, F. (1996) *Stakeholder Welfare*, IEA Health and Welfare Unit, Choice in Welfare No.32, p17

¹⁹⁷ *Ibid*, p18

¹⁹⁸ These views are a distortion of the voluminous causal factors behind long-term unemployment, as it defines economic status by the character [defects] of the individual, promulgated by a system of provident and undemanding social security. Nevertheless, all three would suggest a welfare system that does more to incentivise labour market participation.

leaving them little choice but to take work.¹⁹⁹ His contribution therefore, is in contextualising the demand for intervention rather than the advocacy of it. Mead on the other hand was quite explicit in his interventionist persuasions that the fix was paternal obligation through workfare. He states 'It is the mandatory, work-orientated form of welfare employment programme that clearly delivers the goods.'²⁰⁰ Thus, employment is a precondition of the societal reintegration and moral recovery of the poor and workless and, for Mead at least, active labour market policies are the tool with which it can be achieved.²⁰¹ Field was initially reluctant to accept the emphasis on interventionism, at first emphasising the idea of 'stakeholder' social security, which allowed individuals to control and purchase their own reintegration to the labour market, but later embraced tough active measures, and like Murray, time limited benefits.²⁰²

That these arguments are insufficient to account for *all* of the causes of long-term unemployment discussed in chapter one does not matter here. What is important is that a) the arguments have become central in discussions of the modern welfare state, and that b) they may be a necessary precondition to introducing the stricter end of the passive-active spectrum. Such a point is argued by Dolowitz,

'without shifting the political and public debate surrounding the British welfare system from one of universal entitlement to one which saw the victims of poverty as being responsible for their own situation the Thatcher Government could not have introduced the workfare regime'.²⁰³

¹⁹⁹ Deacon, A. in Field, F. (eds.) (1996) *Stakeholder Welfare*, IEA Health and Welfare Unit, Choice in Welfare No.32, p67

²⁰⁰ Mead, L. (eds)(1997) *From Welfare to Work: Lessons from America*, Civitas, London, p41

²⁰¹ Like with the demographic challenges discussed, AMLP is not the only policy lever available. For example improving both jobs and relative income gains from employment are conceivable methods for encouraging the nonworking poor to return to the labour market. Such policies including minimum wages and tax credits have been popular and many have been tied in with welfare-to-work and workfare schemes as we will see with New Labour's *Making Work Pay* agenda. Indeed, welfare incentives to encourage work and discourage benefit receipt may even precede Milton Freedman's suggestion of a negative income tax. Mead however did not believe that incentives were sufficient, stating that the 'people who respond to incentives are mainly those who are already functional within the economy.' (Mead, L. (1992) in Deacon, A. (2002) *Perspectives on Welfare*, p53)

²⁰² Field, F. and White, P. (2007) *Welfare Isn't Working: The New Deal for Young People*, Reform, London, pp23-24

²⁰³ Dolowitz, D. (1998) *Learning from America? Policy Transfer and the Development of the British Workfare State*, Sussex Academic Press, Brighton, p101

Conclusion

The causes of unemployment present a number of challenges to policy-makers of multiple economic outlooks. In a post-Keynesian age, where re-inflating the economy is no longer common practice, policy makers have to an ever greater extent looked for other methods of reducing unemployment and managing benefit duration. The theory, both economic and sociological, suggests that intervention at the micro (individual) level, will affect the aggregate level of unemployment at the macro-level.

According to theory presented above, this might be possible by a number of active measures. In the bluntest expression, measures can attack welfare dependence through forcibly attaching individuals to the labour market through workfare programmes, making the 'normal' labour market more appealing.

A more subtle approach however could also yield results. For instance, the OECD have argued that if the unemployed lack sufficient information detailing available vacancies, or indeed sufficient skill to implement jobsearch exercises, enforcing supervised jobsearch requirements may improve access to vacancies and bolster search activities. This could serve to match jobseekers to vacancies more quickly, cutting the stock of frictional unemployment, while simultaneously preventing spells becoming protracted and thereby protecting from the specific problems that occur when long-term unemployment sets in.²⁰⁴

The role of ALMPs is not limited to reducing frictional unemployment. For example encouraging more people into work, or the search for it, at a faster pace can favourably alter aggregate demand in the economy, and thus further reduce unemployment.²⁰⁵ De Koning et al. explain this effect as follows:

²⁰⁴ OECD (2002) *The Ins and Outs of Long-term Unemployment*, OECD Employment Outlook 2002, OECD, p210

²⁰⁵ For discussion see De Koning, J, Layard, R. and Nickell, S. (2004) *Policies for Full Employment*, DWP, HM Stationary Office, pp3-6

In the very short-term of course the number of jobs is fixed. For example an employer may have a vacancy which would have gone to Mrs Y but instead the employment service induce the employer to take Mr X, who was hard to place. At that instant Mrs Y stays unemployed rather than getting a job. But by definition Mrs Y is inherently employable since she would normally have got the job. If she does not get it, she will look for another one. Employers will then find that there are more employable people in the market - they can more easily fill their vacancies. This will exert downwards pressure on wages, and this will then make possible a higher level of employment at the same level of inflationary pressure. So eventually employment will rise.²⁰⁶

Structural and technological unemployment are more difficult to resolve because of their association with demand for goods and the advancement of technology. Active labour market policy can provide a temporary solution if the state acts as the employer of last resort; defined by Sawyer as 'The government offer[ing] employment to anyone who seeks work but would otherwise be without a job.'²⁰⁷ The active labour market programme would serve therefore as a gateway to these created jobs. The economic logic is that by linking compulsory schemes to compulsory [low-paid] work is the potential to drive down wage expectations, and thus boosting aggregate demand.²⁰⁸

Despite the emphasis on economic efficiency, often the pure economic rationale for mandatory active labour market policies can be over- pronounced. The individual and social problems that are caused by long spells of unemployment are often identified by governments pursuing active measures, and legitimized by the benefit dependency debates. These are not isolated, but are enforced public pressure to tackle the perceived issue of excessive welfare support where not all the unemployed are seen as

²⁰⁶ De Koning, J, Layard, R. and Nickell, S. (2004) *Policies for Full Employment*, DWP, HM Stationary Office, p11

²⁰⁷ Sawyer, M. (2003) *Employer of Last Resort: Could it Delivery Full Employment and Price Stability?* Journal of Economic Issues, v37.4 p881

²⁰⁸ For a fuller discussion of the 'employer of last resort', the theoretical impact on aggregate demand and inflation, see Sawyer, M. (2003) *Employer of Last Resort: Could it Delivery Full Employment and Price Stability?* Journal of Economic Issues, v37.4 pp881-907, and for a critique, see Mitchell, W. And Wray, L. (2005) *In Defence of Employer of Last Resort: A Response to Sawyer*, Journal of Economic Issues, v39.1, pp235-244

deserving recipients, and, whether effective or not, transforming passive welfare into interventionist programmes conveys an important political and social message.

The objective of active measures is summarised best by Quaid, which is to 'reduce welfare rolls, save money and miraculously transform welfare recipients into productive citizens.'²⁰⁹ The expectation that active labour market programmes will resolve a number of economic, social and political problems is premised on perceived inefficiencies within the labour market, the individual within it, and the distorting effects of the welfare state. The next chapter will evaluate the effectiveness of active labour measures in reducing unemployment, and then attempt to disentangle different interventions to expose which methods are the most effective across a range of objectives.

²⁰⁹ Quaid, M. (2002) *Workfare: Why good social policy ideas go bad*, University of Toronto Press, Toronto, p3

Having examined the types and causes of unemployment, this chapter will explore the literature evaluating active labour market policies. Specifically it will examine the impact of an array of measures, mechanisms and delivery methods on levels of unemployment.

This review of the literature will begin by probing the types and components of active labour market programmes, and their respective evidence bases. Because the literature will expose an array of outcomes and consequences within particular designs and components, it will be clear that no perfect 'off-the-peg' designs of active measures are available. To demonstrate this, the chapter will examine five pertinent questions:

1. Do welfare-to-work programmes generally reduce unemployment and increase employment?
2. What components are cited as 'successful'?
3. Is conditionality a necessary component of welfare-to-work programmes?
4. Should components be delivered in any particular order?
5. How should these programmes be delivered?

Do welfare-to-work programmes increase employment and reduce unemployment?

De Koning has conducted one of the most comprehensive appraisals of active labour market policy performance to date. He argues that because of market failure and distortions arising from the welfare state, long-term unemployment, frictional unemployment and a mismatch between supply and demand will exist. For De Koning, the response to these problems requires the state deploying active labour

market policies.²¹⁰ This conclusion is based on evidence taken from 130 different studies of ALMP that found that sponsored active labour market measures have produced higher employment and lower unemployment,²¹¹ providing a cautious assessment that the likelihood of participants on these schemes of finding work are between five and ten percentage points higher than those excluded from the programme.²¹²²¹³ Importantly he finds that counterproductive measures are relatively rare.²¹⁴

Kluve and Schmidt conducted a similar meta-evaluation synthesizing the evidence from a decade of European ALMPs. They found them to demonstrate positive impacts on individual participants, albeit on a modest level.²¹⁵ While the authors accept that successful treatment of the individual is one of the preconditions for predicting their impact at the national level, Kluve and Schmidt were not, unlike De Koning, prepared to offer a tentative assessment of the aggregate impact.²¹⁶ Specifically, they found that from fifty-three different European active labour market programmes, twenty-eight reported finding positive outcomes from the implementation of some form of welfare-to-work policy. They also made clear that the performance of measures were contingent on a number of variables, in particular the design of the schemes, finding jobsearch and training, to be largely effective, when compared with direct subsidies to employers, which appeared to have the weakest effect on outcomes.²¹⁷

Similar findings have been reported from American studies. In this regard, one of the most respected of the organizations involved in assessing welfare-to-work programmes is the non-partisan Manpower

²¹⁰ De Koning, J. (eds) (2007) *The Evaluation of Active Labour Market Policies: Measures, Public Private Partnerships and Benchmarking*, Edward Elgar Publishing, Cheltenham, p42

²¹¹ *Ibid*, p42

²¹² *Ibid*, p36

²¹³ The absence from this mainly quantitative undertaking is a description of the quality of measures assessed. Therefore these outcomes may be distorted by insufficient funding of a particular measure such as training or job subsidies, which tend to perform poorly in some academic evaluations, but not others. Furthermore appreciating the data as a whole, when it encapsulates such a vast range of labour market environments and participant characteristics presents obvious methodological problems in trying to attribute an estimate over the general performance of active measures.

²¹⁴ De Koning, J. (eds) (2007) *The Evaluation of Active Labour Market Policies: Measures, Public Private Partnerships and Benchmarking*, Edward Elgar Publishing, Cheltenham, p36

²¹⁵ Kluve, J. and Schmidt, C. (2002) *Can Training and Employment Subsidies Combat European Unemployment?* *Economic Policy*, v.17.35, p443

²¹⁶ *Ibid*, p442

²¹⁷ *Ibid*, p439

Demonstration Research Corporation (MDRC). In 2002 the MDRC conducted a meta-analysis from studies across eleven states over a period of five years, and report that whilst the majority of welfare recipients will eventually find work on their own, active labour market policies (compulsory or otherwise), appear to accelerate this transition.²¹⁸ In this study, the authors found that participants tended to spend less time in receipt of in-kind benefits (such as food stamps), were more likely to be in work, and more likely to observe a growth in their earnings than a similar group not participating in the State's welfare-to-work programme.²¹⁹²²⁰ Both Kluge & Schmidt and the MDRC's evaluations are unpacked below to examine what types of programme are worth pursuing.

Adding to this literature, a study for the World Bank reviewed over 100 active labour market programmes. While the effects were not universal, the authors found that in general job-search assistance is an effective and cost-efficient method of moving people back to the labour market, and that training for the long-term unemployed, can be expensive, but is also effective in a growing economy.²²¹ However, the authors warn that 'labor demand is bound to be a crucial determinant of the success of any ALMP [and] even under the best-case scenarios, payoffs are usually modest'²²²

A more recent study by Betchemen et al., examined over 150 cases, including evidence from developing countries. In this, Betchemen et al. reported findings similar to those above, but specified that 'Comprehensive packages of services, programs that are oriented to labor demand and linked to real workplaces, and careful targeting are good examples.'²²³

²¹⁸ MDRC (2002) *Moving People from Welfare to Work: Lessons from the National Evaluation of Welfare-to-work strategies*, MDRC, New York, pp10-23

²¹⁹ *Ibid*, pp24-28

²²⁰ The authors do however, note side effects, finding that the stability of post-programme employment in the American programmes to be weak, as would be expected from a work-first dominant programme. See MDRC (2010) *Moving People from Welfare to Work: Lessons from the National Evaluation of Welfare-to-work strategies*, p24 and below section's discussion of the side effects of work-first arrangements.

²²¹ Dar, A. and Tzanattos, Z. (1999) "Active Labor Market Programs: A Review of the Evidence from Evaluations," Social Protection Discussion Paper no. 9901, The World Bank. Washington, D.C, piii

²²² *Ibid*, p34

²²³ Betcherman, G, et al. (2004) *Impacts of Active Labor Market Programs: New Evidence from Evaluations with Particular Attention to Developing and Transition Countries* Social Protection Discussion Paper no. 0402, The World Bank. Washington P54.

Martin and Grubb sought to be more specific, arguing that a full programme of different interventions, including jobsearch, monitoring and benefit eligibility tests might increase the likelihood of exiting unemployment by 30-50%.²²⁴

The OECD in their *2005 Employment Outlook* report also offered a tentative estimate of different welfare-to-work programmes in which they find:

Individual labour market programmes quite frequently have evaluated impacts of about 15% on benefit caseloads. In one sense the record is held by Portland's welfare-to-work programme in the United States, where the experimental treatment group had total numbers remaining on benefit about 30% lower than the control group from the third year onwards. Large impacts only exceptionally arise directly from participation in long-term programmes (*e.g.* training or job-creation), but they can arise from packages that combine employment service interventions with potential compulsory referral to longer-term programmes for certain subgroups or for all who continue to be unemployed for long periods (*e.g.* the Danish "active period of benefits" and the UK New Deals).²²⁵

Peter Robinson's synthesis study for the Institute of Public Policy Research reinforces the view that active measures can have positive effects on the likelihood of employment entry. However, like those above, Robinson argues that there is evidence that some interventions (such as intensive job search) are more helpful than others (such as training and employment subsidies) for matching the unemployed to vacancies and accelerating labour market reintegration.²²⁶ Robinson asserts that active measures, while effective, should only be regarded as part of a broader labour market strategy. In keeping with the

²²⁴ Martin, J. and Grubb, G (2001) *What Works and For Whom? A review of OECD countries' experience with active labour market policies*, OECD Working Paper, OECD, Paris, p34

²²⁵ OECD (2005) *Labour Market Programmes and Activation Strategies: Evaluating the Impacts*, OECD Employment Outlook, OECD, Paris, pp195-196

²²⁶ Robinson, P (2000) *Active Labour Market Policies: A Case of Evidence-based Policy Making?* Oxford Review of Economic Policy, v.16.1 p24

evidence provided in the previous chapter, he explains in that it is important for governments to recognise the necessity of macro-economic management as a primary tool for reducing unemployment and manipulating the structural demands of the economy.²²⁷ Put another way, there is a debate over whether active measures perform better in stronger or weaker economies.

Kluve evaluated evidence from 100 different ALMPs and found 'surprisingly clear cut [evidence] that there is little systematic relationship between program effectiveness and a host of other contextual factors, including the country or time period it was implemented, the macroeconomic environment, and a variety of indicators for institutional features of the labour market.'²²⁸ For example, the study found that: 'A higher unemployment rate is highly significantly associated with a higher probability of [...] positive treatment effects,' and that this might be logical because 'in times of high unemployment the share of better qualified individuals in the unemployment pool will be higher, so that the estimate might result from "cream skimming" of the potentially more successful program participants.'²²⁹ This argument appears to suggest that the effects might be magnified by a weaker labour market as a result of the ability of employment services to target their efforts towards the most job ready ('cream skimming').²³⁰

Contrary to Kluve's assessment, Dar and Tzanottos argued above that labour demand was crucial. In other words, the ability of programmes to reduce unemployment tended to be contingent on the number of jobs available in a given labour market. This belief was given empirical support with research by Mosely and Muller. Examining ALMP in Germany, they discovered that a 1% increase in the unemployment rate is associated with a 0.66% decline in the reintegration rates of the German Public

²²⁷ Robinson, P (2000) *Active Labour Market Policies: A Case of Evidence-based Policy Making?* Oxford Review of Economic Policy, v.16.1 p25

²²⁸ Kluve, J. (2006) *The Effectiveness of European Active Labor Market Policy*, IZA Discussion Paper No. 2018, IZA, Bonn. pp26-27

²²⁹ *Ibid*, Bonn, p17

²³⁰ 'Cream skimming' is particularly likely where job-creation elements do not exist, because Employment Services have no last-resort destination for those furthest from the labour market.

Employment Services.²³¹ In more detail, they discovered that variations in programme performances were predominantly contingent on the capacity of the labour market to absorb the unemployed and characteristics of the individual (combined at around 70%). Comparatively, the variation in programme design (and unidentified factors) accounted for only 30% of performance variation.²³² On this understanding, the capacity of the labour market is not only significant in determining the performance of active measures, but it is also an important consideration for studies interested in establishing what impact the labour market is having on active measures, for overcoming the 'deadweight' phenomena and establishing net gains from ALMPs.²³³

While different studies have emerged that have attempted to overcome the methodological problem of calculating ALMP benefits when individuals may have found a job regardless of programme participation,²³⁴ a second, harder to isolate, issue is the heterogeneity of national social security systems. The wide differentiation between programme design and conditions attached to benefit receipt make international comparisons risky, and thus weighing up outcomes from one welfare-to-work programme against another, without a full appreciation of both the labour market and regulatory context may be superficial.

The consensus over the general utility of deploying active measures is less in evidence when the design, the mandatory emphasis or the delivery arrangements are in question. Each of these subjects are dealt with in turn.

²³¹ Mosley, H. and Muller, K. (2007) *Benchmarking Employment Services in Germany*, in De Koning, J. (eds) (2007) *The Evaluation of Active Labour Market Policies: Measures, Public Private Partnerships and Benchmarking*, Edward Elgar Publishing, Cheltenham, p281

²³² *Ibid*, p281

²³³ 'Deadweight' is the level of job-finding rates of non-participants. The net impact of ALMP can therefore only be established with a knowledge of what would have occurred without the programme.

²³⁴ For a discussion of the methodological issues, and advancements in ALMP literature see Heckman, J. Et al. (1999) *The Economics and Econometrics of Active Labour Market Programs*, in Ashenfelter, O. and Card, D. (1999) *The Handbook of Labor Economics Volume 3*, Kenneth Arrow, Stanford.

What type of programmes should governments pursue?

The simple assertion that active labour market policies can impact overall levels of unemployment and employment says little about how an optimal programme might be constructed as there are a selection of interventions available to policymakers, not all of which are consistently effective. This section therefore explores the complex realm of what it is about active measures that creates downward pressures on unemployment. At the programme level, the most basic distinction is between the human capital development (HCD) approach and the Work-First (labour market attachment) approach.²³⁵

Human Capital Development

The Human Capital Development (HCD) approach emphasises re-skilling the workforce through training and education programmes designed to make them more attractive to employers. The logic for designing active measures around this principle is addressed by Dean, who explains: 'The justification for the human capital approaches is that they prevent social exclusion by 'reinserting' those who have been marginalised from the labour market: their object is to help individuals integrate themselves into the labour market, and thereby into society.'²³⁶ Because of the wide array of options available in the human capital approach, effective evaluations are complicated, but most focus on training and education. Often in the evaluation literature, studies have found that training fares poorly in comparison to other ALMP programmes, particularly when it comes to reducing unemployment and increasing employment.²³⁷ However, the OECD, explain that:

²³⁵ Compare De Koning, J. (2007) *The Evaluation of Active Labour Market Policies*, p39 with Kluge, J. and Schmidt, C. (2002) *Can Training and Employment Subsidies Combat European Unemployment?* Economic Policy, v.17.35, p439 to MDRC (2010) *Moving People from Welfare to Work: Lessons from the National Evaluation of Welfare-to-work strategies*, pp29-32

²³⁶ Dean, H. (2003) *Reconceptualising Welfare-to-work for People with Multiple Problems and Needs*, Journal of Social Policy, V32.3, p442

²³⁷ This can partly be explained because of reduced job-search activity. This subsequently affects the timing in which their search begins, and possibly their ability to find work. Therefore, at least in the short-term, training programmes perform poorly on traditional measures.

Evaluations of training programmes often find a negative or only small positive impact on participant outcomes for the first one or two years. However, over the past decade, a number of long-term follow-up studies have been conducted and it seems that impacts followed over a sufficiently long time period after the training can in some cases become quite strongly positive.²³⁸

Card and Sullivan provide support for this view, arguing that after three years, the employment probability of participants was between 2-5% higher than non-participants.²³⁹ Furthermore, this increased employment probability came with a similar increase in employment retention.²⁴⁰

These results must be treated with caution. Kluve and Schmidt explain that the lacklustre performance of training programmes in the academic literature stems from the fact that a significant proportion of it originates from the United States. Conversely, Europe's labour market, according to the authors, operates in a different environment where 'educational credentials matter considerably.'²⁴¹

Even if the HCD model is not effective at leading to quick employment gains, it may nevertheless be achieving its objective, the skilling or re-skilling of the workforce in order that they may more be easily attached to the labour market independently. The MDRC reported a 10% increase in the proportion of participants obtaining a high school diploma or a General Educational Development certificate (GED).²⁴² The consequences of this are important. Research by Tyler, using GED and unemployment records, found that even the delayed acquisition of basic skills improved future earnings by up to 20% due to the

²³⁸ OECD (2005) *Labour Market Programmes and Activation Strategies: Evaluating the Impact*, OECD Employment Outlook 2005, p183

²³⁹ Card, D. and Sullivan, D. (1987) *Measuring the Effect of Subsidized Training Programmes on Movements in and Out of Employment*, National Bureau of Economic Research, Working Paper no.2137p37

²⁴⁰ *Ibid*, p19

²⁴¹ Kluve, J. and Schmidt, C. (2002) *Can Training and Employment Subsidies Combat European Unemployment?* Economic Policy, v.17.35, p442

²⁴² MDRC (1997) *Evaluating Two Welfare-to-Work Program Approaches: Two-Year Findings on the Labor Force Attachment and Human Capital Development Programs in Three Sites*, [online] accessed (10/11/10) <http://www.mdrc.org/Reports/JOBS2Approaches/JOBS2ApproachesExSum.html>

quality of post-qualification employment.²⁴³ Tyler found the improvement in earnings was principally a consequence of the participants improved employment chances derived from taking the GED.²⁴⁴ While training may delay jobsearch, the chances of becoming employed post-qualification improve, and the quality of employment at re-entry may help the trained enter and remain in the labour market more effectively than programmes not offering training. Entry qualifications was found to be equally important in the UK labour market, where programme entrants with Level 4 qualifications were three times more likely to enter employment against those without.²⁴⁵

Research by Dyke et al. supported one of the secondary features of human capital model, 'workers who participate in more intensive training programs experience a larger increase in earnings than workers who participate in programs designed to more quickly move workers back into the labor market.'²⁴⁶ From the perspective of state expenditure a long view is required- the rise in incomes could ease the burden on social welfare service beyond simply the reducing of benefit receipt. The variety of literature on the efficacy of training programmes shows with respect to employment prospects that 'off-the-peg' active measures are not appropriate; because the effects of basic training may be more substantial in geographies where they are more relevant. In the European labour market, training programmes appear more effective than in the US.

While capable of improving employment prospects, duration, skills and future earnings, analyses of HCD schemes have demonstrated that their costs tend to be considerably higher than work-first arrangements. As the MDRC reported, 'The average two-year net HCD cost per sample member was

²⁴³ Tyler, J.H. (2001) *What is the value of the GED to dropouts who pursue the credential?* Brown University [online] http://www.brown.edu/Departments/Education/resources/ilrr_d2.pdf, [accessed 10/11/11], p20

²⁴⁴ *Ibid*, p22

²⁴⁵ Beale, I. et al. (2008) *The Longer-Term Impact of the New Deal for Young People*, Department of Work and Pensions Working Paper no.23, p4

²⁴⁶ Dyke, A. et al. (2005) *The Effects of Welfare-to-Work Programs on Labor Market Outcomes*, Institute for the Study of Labor, Discussion Paper 1520, p24

about double that of each LFA sample member's cost.²⁴⁷ In another MDRC evaluation drawing on 20 US welfare-to-work programmes it was found that the reduction of welfare expenditure in the short-run was less for human capital models than was the case for work-first schemes.²⁴⁸ These short-run expenditure effects should be expected given that immediate exit from welfare is not given the same emphasis in HCD schemes as in work-first. Although HCD supporters, such as Peck and Theodore, emphasise the model's capacity to improve wages and the long-term prospects of welfare recipients escaping poverty and welfare dependency,²⁴⁹ it has struggled to escape the reputation of being both expensive and unproven. As explained by Peck and Theodore the popularity of the alternative model may be understood, as 'policy makers have been attracted to clearly formulated, outcomes orientated approaches. This has tended to favour [labour market attachment] systems.'²⁵⁰ Unfortunately, despite the maturity of active labour market policies the number of 3 year + evaluations is limited (because of their expense and because programmes with a rapid impact are easier to measure), which inevitable places the human capital model at an empirical disadvantage.

Making HCD-style programmes obligatory has also proven problematic. This is firstly because of the expense associated with operating large-scale education and training programmes outside of traditional school and college settings. The second problem with obligations and the large fluctuations in the labour market make matching demand for training and education to supply difficult for policymakers. This has proven particularly problematic where the private sector has been expected to provide mandatory training. For instance, Nicaise found that a shortfall of UK Youth Training places left young people not only without a training place, but also without an income as their benefit receipt was

²⁴⁷ MDRC (1997) *Evaluating Two Welfare-to-Work Program Approaches: Two-Year Findings on the Labor Force Attachment and Human Capital Development Programs in Three Sites*, [online] accessed (10/11/10)

<http://www.mdrc.org/Reports/JOBS2Approaches/JOBS2ApproachesExSum.html>

²⁴⁸ Bloom, D. and Michalopolous, C. (2001) *How Welfare-to-Work Policies Affect Employment and Income; A Synthesis of Research*, The Next Generation Project, MDRC p18

²⁴⁹ Theodore, N, and Peck, J. (2000) *Searching for Best Practice in Welfare-to-Work: The Means, The Method and the Message: Policy and Politics*, v29.1. p88

²⁵⁰ *Ibid*, p90

conditional on training participation.²⁵¹

All told, the opacity of the empirical merits of training and retraining the workforce, combined with the larger short-term costs of implementing this approach, has arguably helped clear the way for the widespread adoption of work-first approaches.

Work-First/Labour Market Attachment

The Work-First model has received a considerable amount of academic attention and the literature has provided clearer evidence to support its effectiveness in placing individuals back into the unsubsidised market than that associated with HCD. In short, Work-First is a principle that advocates the idea that ‘any job is a good job’. The core idea behind this is that the primary reason individuals remain unemployed is that they have deficient employment histories and experience of workplace practices are the core barriers to employment. Explicitly, work-first is a style of active labour market programme that emphasizes labour market attachment above any other component, characterized by Finn as marked by the use of ‘low-cost measures aimed at immediate job search and job entry.’²⁵² Sols and Hoogtanders see it as a set of ‘programmes [which] seek to move people out of welfare and into unsubsidized jobs as quickly as possible, and the job search itself is a central activity in these programmes’²⁵³

Studies have found this approach to be effective at cutting unemployment, and in particular cutting benefit receipt. A prominent and leading example for work-first programming was the restructured California GAIN programme, which prior to reform focussed on a human capital orientation.²⁵⁴

Established in 1988, GAIN was targeted at long-term benefit recipients in Los Angeles, and for the initial

²⁵¹ Nicaise, I. et al. (1995) *Labour Market Programmes for the Poor in Europe*, Avebury, California, p59

²⁵² Finn, D. in Sol, E. and Westerveld, M. (2005) *Contractualism in Employment Services: A New Form of Welfare State Governance*, Kluwer Law International, The Hague, p104

²⁵³ Sol, E. and Hoogtanders, Y. (2005) in Sol, E. and Westerveld, M. (2005) *Contractualism in Employment Services: A New Form of Welfare State Governance*, p146

²⁵⁴ For an analysis of the previous HCD system see Riccio, J. and Friedlander, D. (1992) *GAIN: Programme Strategies, Participation Patterns, and First Year Impacts*, MDRC, New York

five years of operation the programme primarily emphasised the acquisition of basic education and skills. Evaluation evidence reported that the HCD method was not cost effective²⁵⁵ and in 1993, policymakers began a three-year programme of reform. The new 'Jobs-First GAIN' system emphasised less education and quicker re-attachment to the labour market. This change in emphasis received substantial praise from its main auditors. The MDRC concluded that the switch to work-first resulted in higher levels of employment and lower levels of unemployment than would have been achieved under the previous HCD configuration. The authors asserted that the reforms had led to a nine percent increase in a participant's chance of employment, and that this was more likely to be sustained than individual who found employment but were not in the programme.²⁵⁶ Their findings also pointed to a \$1,627 expansion in earnings over two years,²⁵⁷ or an additional \$15 per week. Consequently, this resulted in substantial cost savings to the state.²⁵⁸ Analysis by Hotz et al. finds that GAIN was more effective, more quickly, than under the previous system of HCD, but that after a period of between 6-9 years, the employment and earnings effects relative to the control groups are no different, if not perhaps slightly worse.²⁵⁹

A number of other work-first initiatives have been studied by the MDRC. For instance, the evaluation of the Connecticut Jobs First programme reported similar effects to those observed in the GAIN programme, with additional benefits derived when a work-first approach was linked to time-limited benefits and measures to supplement earnings of those who entered the labour market at the low end. In fact, one study found a rise in employment of 9% for programme participants against the control group.²⁶⁰ Earnings were also increased within a similar region to those of the GAIN programme.²⁶¹ In a

²⁵⁵ Freedman, S. et al. (2000) *The Los Angeles Jobs-First GAIN Evaluation: Final Report on a Work First Program in a Major Urban Centre*, MDRC, New York, pviii

²⁵⁶ *Ibid*, p72

²⁵⁷ *Ibid*, p77

²⁵⁸ *Ibid*, p189

²⁵⁹ Hotz, V.J. et al. (2000) *The Long-Term Gains from GAIN: A Reanalysis of the Impacts of the California GAIN Programme*, NBER Working Paper 8007, NBER, Cambridge, Massachusetts, pp41-43

²⁶⁰ Bloom, D. et al. (2002) *Jobs First Final Report on Connecticut's Welfare Reform Initiative*, MDRC, New York pii

²⁶¹ *Ibid*, pii

broad synthesis report, Greenberg et al., argued:

Rigorous research in the early 1980s demonstrated that job-search-only programs sped up the entry of welfare recipients into the labor market. Typically, however, the jobs were neither long lasting nor high paying, and they did not increase family income. Furthermore, the programs generally did not benefit the most disadvantaged welfare recipients.²⁶²

In a similar way, Dar and Gill found that 'Retraining programs appear to be between two and four times more expensive than job search programs: for example, in Buffalo, job search services cost \$850 a participant, while retraining cost \$3,300.'²⁶³ In the context of current national budgetary and political pressures, the appeal should be apparent; as the authors suggest 'If, as the findings indicate, both programs have roughly the same success, job search assistance may be more cost-effective than retraining in assisting displaced workers get jobs.'²⁶⁴ Rarely do welfare-to-work programmes pay for themselves, but there have been a number of instances where work-first models have produced a net return on investment by substantial reductions in welfare receipt.²⁶⁵

The combination of reduced unemployment and lower budget outlays has attracted political interest in work-first, but not all studies have been as positive as those discussed above. Work-First schemes have acquired a large number of critics, in particular with respect to the adverse consequences mentioned by Greenberg, that 'the jobs were neither long-lasting nor high-paying, and they did not increase family income. Furthermore, the programs generally did not benefit the most disadvantaged welfare

²⁶² Greenberg, D. et al. (2009) *Welfare-to-Work Program Benefits and Costs: A Synthesis of Research*, MDRC, New York, p23

²⁶³ Dar, A. and Gill, I.S. (1998) *Evaluating Retraining Programmes in OECD Countries: Lessons Learned* The World Bank Research Observer, vol. 13.1, p85

²⁶⁴ Ibid, p85

²⁶⁵ Greenberg, D. et al. (2009) *Welfare-to-Work Program Benefits and Costs: A Synthesis of Research*, MDRC, New York, p23. It should be noted that Greenberg, D. et.al pointed out that the savings were enjoyed mainly by the state because the cost burden was carried by the participant's lower income.

recipients.²⁶⁶ Peck argues that work-first has created its own internal logic for reducing unemployment by 'crowding low-wage labour markets [which] engenders a downward pull on wages and regulatory standards'.²⁶⁷ Carpenter et al., regard this model as creating a 'race to the bottom', towards a residual welfare state, in which welfare recipients are forced to compete with foreign workers as a way to reduce the overall cost of labour.²⁶⁸

Dean suggests that from qualitative investigation there is evidence that unintended hazardous impacts are significant. The effects can inhibit individual self-confidence and social interactions by accelerating individuals into the labour market, who do not have ownership of the pace of their own reintegration.²⁶⁹

Ultimately, De Koning's thought is the most apposite:

The discussion [of flexible labour markets] assumes implicitly that the shortest route to employment is the best one. This assumption may not always be the right one. It is important for not only the person involved but also for society, that he or she finds a job that fits his or her skills and experience. Normally a person's productivity will be highest in such a job. So the unemployment insurance system should provide unemployed persons with the opportunity to look for an appropriate job.²⁷⁰

In summary, the debate over work-first and human capital models expose a difference in emphasis and approach toward dealing with the long-term unemployed. Work first, in stressing the lack of immediate labour market experience of the unemployed as being one of the core barriers to their future employment, lends more to the behavioural explanations of unemployment; that attitudes and

²⁶⁶ Greenberg, D. et al. (2009) *Welfare-to-Work Program Benefits and Costs: A Synthesis of Research*, MDRC, New York p23

²⁶⁷ Peck, J. (2001) *Workfare States*, Guildford Press, London p355

²⁶⁸ Carpenter, M. et al. (2007) *Beyond the Workfare State: Labour Markets, Equality and Human Rights*, Policy Press, Bristol p159-160

²⁶⁹ Dean, H. (2003) *Reconceptualising Welfare-to-work for People with Multiple Problems and Needs*, Journal of Social Policy, V32.3 p455

²⁷⁰ De Koning, J. et.al. (2007) *The Evaluation of Active Labour Market Policies*, p5

inadequate search behaviour is the principle barrier to their return to the labour market. HCD on the other hand, takes a longer and more patient view that the structure of the economy may not adequately match the skills of the unemployed, and that developing qualifications may improve demand for those where unemployment has been traditionally high.

The scope for hybrid programmes

Pure forms of work first and HCD models exist independently of each other, but in many examples of active labour market programmes both are used, and frequently in a particular order. A brief description of the New Deal for Young People as a part of the wider Jobseeker's Allowance regime provides a suitable example. For the young unemployed in the UK, a period of job search was permitted for six months, after this a four month intensive work-first approach was adopted, with intensive managed job search and heightened demands that jobs offered should be accepted. Only after this ten-month period did the Options Stage obligate individuals to take subsidized work, enter education or accept training. Only if work-first failed to remove the individual from the unemployment register was training and education Options active pursued.²⁷¹

According to The European Foundation, many of the programmes that exist in the United States adopt a similar approach: 'A Work-First approach means that workers are allowed to access intensive services such as training only after they prove they cannot find a job without additional skills.'²⁷² Similar combinations exist across Europe; for example, Denmark combines work-first with mandatory training for young people.²⁷³ The OECD has suggested that the most successful strategy is the mixture of HCD and Work-First, citing Portland, OR, as an example, which deployed a model with 'an emphasis on

²⁷¹ The combining of systems is also in evidence in other UK programmes such as Working Neighbourhoods and Pathways to Work. See Lindsay, C, et.al. (2007) *New Approaches to Employability in the UK: Combining 'Human Capital Development' and 'Work First' Strategies?* Journal of Social Policy, v.36

²⁷² European Foundation (2004) cited in Lindsay, C, et.al. (2007) *New Approaches to Employability in the UK: Combining 'Human Capital Development' and 'Work First' Strategies?* Journal of Social Policy v.36 p541

²⁷³ Daguerre, A. and Etherington, D. (2009) *Active Labour Market Policies in International Perspective: What works Best? Evidence for the UK*, Department of Work and Pensions Working Paper no.59 p18

employment as a goal, although the most disadvantaged clients could be enrolled in education or training.²⁷⁴ Against the control group, the programme increased employment over three years by an average of ten per cent²⁷⁵ this combination of an initial period of Work-First', with training and more intensive (and therefore expensive) services second may be the most sensible and cost-effective approach available. By using Work-First initially it may be easier to identify those in need of the most support, be it through HCD methods or otherwise.²⁷⁶

A more general point is that a combination of Work-First and HCD has the added advantage of being more sensitive to local labour market upswings and downturns, and the specific needs of customers.

Is conditionality a necessary component?

Irrespective of the structure of a state's active labour market policies, most use some form of sanctions and incentives to ensure participants engage with the targeted activity. Put another way, to receive benefit, recipients are forced to perform certain tasks, and failure to do so will result in the loss, either partially or in full, of benefit payment. Importantly therefore, conditionality and compulsion are not based on physical force, but instead, manifests itself through the benefit sanctions administered by the public employment service and the threat of these sanctions.

The obvious purpose of benefit sanctions is to act as a threat; to change the behaviour of a benefit recipient towards some perceived 'appropriate' form of behaviour. Usually this desirable behaviour is to actively seek work or to participate in a programme recommended by the Public or Private Employment Service. In this, Griggs and Evans suggest that most systems have three different stages to the

²⁷⁴ OECD (2005) *Labour Market Programmes and Activation Strategies: Evaluating the Impact*, OECD Employment Outlook 2005, OECD, Paris, p188

²⁷⁵ Bloom, D. and Michalopolous, C. (2001) *How Welfare-to-Work Policies Affect Employment and Income; A Synthesis of Research*, The Next Generation Project, MDRC p12

²⁷⁶ *Ibid*, p23

sanctioning regime:

1. First sanctions may have an effect at the inflow, where the prospect of sanctions may influence an individual's decision to claim;
2. Second where claimants are within the system the threat of sanctions may alter their behaviour while subject to the programme,
3. Third sanctions are actually applied.²⁷⁷

The first phase of the deterrence effect of sanctions is difficult to measure at the inflow²⁷⁸ but becomes easier to identify at various stages of the benefit claim. The reason is that sanctions are often linked to regular and personal activities such as intensive job search, where the failure to adhere to individual requirements results in a sanction. However, there is another more distinct deterrence effect observable with the prospect of participating in a mandatory programme.

This evidence to highlight this effect is usually demonstrated using longitudinal data comparing a 'treatment group' (subject to the threat affect regime) against another (who are not). The data is organised to indicate the behaviour of benefit recipients up to, and after, the point where conditionality increases, usually where mandatory participation in a particular programme is imminent. One example of this is shown by Black et al. utilising data from the US state of Kentucky. The authors compared one group of individuals who were warned of having to participate in mandatory activities against those of

²⁷⁷ Griggs, J. and Evans, M. (2010) *Sanctions within Conditional Benefit Systems: A Review of Evidence*, Joseph Rowntree Foundation, London, p12

²⁷⁸ The reason why examining sanctions at the inflow is problematic is because the deterrence effect at the 'signing on stage' is difficult to measure, as they are not yet subject to the sanctions. A possible demonstration of the deterrence effect of a sanctioning regime is the wide difference between the volume of claimant unemployment and ILO unemployed, where the latter group who are reported to be actively seeking work, is much larger than those claiming unemployment benefits.

similar characteristics not subject to the regime. The overall effects of the threat were substantial, with the authors observing a reduction of average benefit claims of the treatment group by 2.2 weeks.²⁷⁹

Black et al.'s findings are supported from similar research conducted in Australia. Richardson investigated the effects of warning young unemployed individuals of their imminent move from job search activities to training or workfare arrangements. Richardson reports that based on the warning alone there was a small but significant impact on the probability of the individual leaving unemployment after the issued warning.²⁸⁰ Unfortunately, the researchers provided little information concerning the destinations of the individuals who left the programme, so the impacts on employment and unemployment were not determined. The problem is that the threat may reduce benefit claims, but may not reduce unemployment; rather the identified effect was benefit deregistration. Further longitudinal evidence of the threat effect was identified by Dalton and O'Neill's study of the UK Restart Initiative. The study of Restart (which threatened recipients with mandatory interviews and counselling) sought to differentiate between the short run effects of the threat of participation and the long run effects of the treatment (counselling and interviews for example). They reported a statistically significant difference between Restart participants and the control group. Overall, benefit receipt was six per cent lower in the treatment group three years later than in the control group.²⁸¹ Dalton and O'Neill's methodology allowed them to demonstrate that while the threat worked to reduce unemployment in the short run greater effect in the long-term was attributable to Restart services.²⁸²

The series of studies suggest that the threat effect can have an important impact on reducing benefit receipt, and that this can complement programme services in reducing unemployment. King, even

²⁷⁹ Black, D. et.al. (2003) *Is The Threat of Reemployment Services More Effective Than The Services Themselves?* American Economic Review, v93.4 p1314

²⁸⁰ Richardson, L. (2002) *Impact of the Mutual Obligation Initiative on the Exit of Unemployment Benefit Recipients: The Threat of Additional Activities*, The Economic Record, V28.243, p420

²⁸¹ Dalton, P. and O'Neill, D. (2002) *The Long Run Effects of Unemployment Monitoring and Work-Search Programmes: Experimental Evidence from the United Kingdom*, Journal of Labor Economics, v20.2 p386

²⁸² Ibid, pp389-390

suggests that the threat of participation and increasing conditions on the receipt of benefit have been used by some policymakers as a mechanism of policing the welfare system to help expose fraudulent claimants. He argues that the shift towards mandatory programmes is a 'powerful mechanism with which to identify and exclude the alleged undeserving from the receipt of public assistance.'²⁸³

The Sanctions Regime, Stages 2-3.

One of the few studies to examine the effects of a sanctions regime on claimant behaviour (without sanctions having been applied) occurred in Switzerland. In this study, Lalive et al. isolated the effect of the threat of a sanction from the actual imposition of that threat. The authors identified rather a rather dramatic impact from the threat alone, noting a 25% increase in the exit rate of the threatened as compared to the unthreatened control group.²⁸⁴

Moving onto the third stage, a number of studies have shown the desired effects of sanctions moving individuals towards the labour market. For instance, Boockmann et al. used geographical data to compare German regions with tough sanctioning policies against those without sanctioning systems. The authors find that '[a] sanction increases the probability of leaving the welfare system within eight months after the benefit cut by about 70 percentage points. Similarly, the probability of taking up a job subject to social insurance contribution rises by more than 50 percentage points.'²⁸⁵

Research by Van den Berg, et al. found similar effects on post-unemployment destinations in the Dutch social security regime. Like the Boockmann study, the authors found that 'A sanction that is imposed at a relatively early stage in a welfare spell...has a substantial negative effect on the probability of an

²⁸³ King, D. (1995) *Actively Seeking Work? The Politics of Unemployment and Welfare Policy in the United States and Great Britain*, p199

²⁸⁴ Lalive, R. et al. (2005) *The Effects of Benefit Sanctions on the Duration of Unemployment*, Journal of the European Economic Association, v. 3.6: p1404

²⁸⁵ Boockmann, B. et al. (2009) *Intensifying the Use of Benefit Sanctions: An Effective Tool to Shorten Welfare Receipt and Speed Up Transitions to Employment?* IZA Discussion Paper No.4580, p21

individual becoming long-term dependent on welfare.²⁸⁶ In addition to reinforcing dropout rates, the authors also undertook to discover the destinations of jobseekers. They found that work was the most common destination, and that where a sanction was imposed, the likelihood of leaving social security for a job increased by 140 per cent against the control group.²⁸⁷ Critics might point out that such an increase, while high, does not substantially alter their general reemployment prospects, however, it is nevertheless evidence of sanctions impact. Why sanctioning achieves these results is straightforward. The deliberate effect of sanctions in a social security system is to pull away the safety net, to plunge individuals into economic hardship or expose those who do not 'need' benefits. Lacking alternative sources of income to draw on, those sanctioned have little choice but to comply:

To see why such a small change in benefits can have a large effect, note that welfare recipients have a very low income level [...] In sum, the marginal utility level of the welfare recipients may be very high, and this may explain a large change in behaviour when a sanction is imposed.²⁸⁸

The findings also suggest that the more punitive the sanction (or similarly, the longer the sanction is imposed) the more substantial the impact. Svarer, using Danish social security data, explored this idea. Evaluating the difference between a sanction of up to 3 days loss of benefits against one lasting 3 weeks, he found that the effects of the sanction is doubled, that those with longer sanctions are twice as likely to as those with shorter sanctions to enter work.²⁸⁹ This is further evidence that desired behaviours can be induced by economic punishment. However, there is evidence of longer-term negative effects associated with benefit sanctions worth identifying.

²⁸⁶ Van den Berg, G.J. et.al. (2004) *Punitive Sanctions and the Transition Rate from Welfare to Work*, Journal of Labor Economics, v22.1 p239

²⁸⁷ *Ibid*, p231

²⁸⁸ *Ibid*, p232

²⁸⁹ Svarer, M. (2007) *The Effects of Sanctions on the Job-Finding Rate: Evidence from the Denmark*, IZA Discussion Paper no 3015, IZA, Bonn, p19

Criticisms of Sanctioning and Compulsion

Sanctioning connected with mandatory programmes forces submission to the demands of employment services. The effect is to reduce unemployment, but also sanctions appear to lead to a range of undesirable side effects. For instance, Arni et al. found the sanctions regime operating in Switzerland tended to produce effects that appeared to parallel those found in Work-First regimes. Using data for the Swiss labour market (like Griggs and Evans); they distinguish between the warning of sanctions and their actual imposition. In both stages, the researchers discovered them to have an immediate negative effect on the post-unemployment earnings of the claimant.²⁹⁰ This might be a desirable outcome for a number of reasons: one, by threatening to, or actually moving the individual into material hardship the individual is induced to seek and accept any, usually lower paid, jobs in the market. The effect of threats and sanctions may continue for years. For instance, Arni et al found that:

[In terms of] the financial consequences, there is a trade-off between the positive effect of finding a job sooner rather than collecting unemployment benefits for a longer period of time, and the negative effect of finding a less well-paid job with a shorter duration. Using our estimation results, we are able to quantify this trade-off. We show that over a period of two years following the exit from unemployment, the net effect of benefit sanctions is negative. For sanctioned workers, the loss in earnings is in the order of two months whereas the gain from shorter unemployment duration is about one month.²⁹¹

Thus, after two-years the effects of benefit sanctions are equivalent to the loss of one month's earnings. Predictably, this closely parallels the effects of work-first policies, and while most active labour market policies could exist without sanctions, work-first is rendered more effective with sanctions because it can be used to enforce rapid labour market attachment to existing vacancies, where appropriate

²⁹⁰ Arni, P. et al. (2009) *How Effective Are Unemployment Benefit Sanctions? Looking Beyond Unemployment Exit*, IZA Discussion Paper no.4509, IZA, Bonn, p23

²⁹¹ Ibid, p33

vacancies are in large supply. There may be less need for sanctions in other types of ALMP.

The downward pressure on wages and employment quality exerted by compulsion has raised a number of specific concerns. Griggs and Evans at the Joseph Rowntree Foundation for example link the sanctioning of individual incomes to child poverty.²⁹² The loss of income, it was argued, would filter down to dependent children, who suffer the consequences of sanctioning, but have no control over their parents' labour market status. Further, such criticisms address the omission from the majority of evaluations of compulsory ALMPs of discussions concerning hidden social and economic costs. J.C. van Ours poses the important question of 'whether administrators should force unemployed workers to attend a programme if the effectiveness of such a programme is not obvious.'²⁹³ In spite of this, van Ours proceeds to suggest that:

The potential drawback of compulsion is that although it may reduce the duration of unemployment spells it could also have a negative effect on the quality of post-employment jobs. However, recent research suggests that one shouldn't worry too much. The bottom line is that ALMP have positive effects on the job finding rates thus reducing unemployment duration.²⁹⁴

Van Ours' statement represents an endorsement of active measures themselves, but fails to attribute this overall success rate to their mandatory nature. A very different criticism of significance is provided by Meager, who argues that there is 'not convincing evidence that compulsory participation improves the performance of active measures.'²⁹⁵ While this may be true, it may miss the political purpose of sanctions, which exist in part, to send a message that governments are 'tough' on people who refuse

²⁹² Griggs, J. and Evans, M. (2010) *Sanctions within Conditional Benefit Systems: A Review of Evidence*, Joseph Rowntree Foundation, London, p48

²⁹³ Van Ours, J.C. (2007) *Compulsion in Active Labour Market Programs*, CentER discussion paper no. 2007.74, Tilburg University, The Netherlands, p19.

²⁹⁴ *Ibid*, p19.

²⁹⁵ Meager, N. (1998) cited in Powell, M. (1999) *New Labour, New Welfare State?* The Policy Press, Bristol, P179

work or help to find it. Nevertheless, compulsion reinforced by sanctions can undermine the goals of ALMP. As discussed earlier in the chapter, mandating participation in employment programmes risks reducing independent job search time, elongating unemployment spells and expanding the break in the clients 'real' employment history, potentially making the client less employable. This is commonly known as the 'lock-in' effect.^{296 297}

Another issue is that mandatory participation risks wasting time and resources that might otherwise be targeted at more needy or willing participants. As Nicaise et al. indicate 'when unemployed people are forced – by virtue of the existing rules – into an activity, it can take a lot of energy and resources to change their attitudes for the better.'²⁹⁸ Meager argues that it may even be counterproductive as 'compulsion may further stigmatise the long-term unemployed, with employers aware that they participate in a scheme simply to secure benefit entitlement rather than through positive job search motivation.'²⁹⁹

Third, there are clear ethical challenges to sanctioning and mandatory participation. For instance, Carpenter et al. examine the human rights implications of sanctions regimes and compulsory participation, and highlight the psychological and social effects on participants drawn from socially and economically marginalised groups. Their collection of studies outline the difficulties and anxieties individuals face in entering the labour market, emphasising the redundancy of compulsion when individuals wish to work but face some form of discrimination in the labour market.³⁰⁰ Those facing

²⁹⁶ Lalive, R. et al. (2011) *Applying for Jobs: Does ALMP Participation Help?* University of Zurich Economic Working Paper Series, No.9, [available at http://www.bernd-villiger.ch/wps/wp-content/uploads/2011/10/amm_2011.pdf] [accessed 13/08/11] p5

²⁹⁷ This is an area of contention: Lalive et al. (2011) believe it should exist, they find evidence to contradict the theory. See Lalive, R. et al. (2011) p20. Contradictory evidence is supplied by Clausen, J. Et al. (2009) with respect to the lock-in effects of ALMP on newly arrived immigrants. See Clausen, Jens R.; Heinesen, Eskil; Hummelgaard, Hans; Husted, Leif; Rosholm, Michael (2008) : The effect of integration policies on the time until regular employment of newly arrived immigrants: evidence from Denmark, IZA discussion papers, No. 3849, IZA, Bonn

²⁹⁸ Nicaise, I. et al. (1995) *Labour Market Programmes for the Poor in Europe*, Avebury, California, p58

²⁹⁹ Meager, N. (1998) cited in Powell, M. (1999) *New Labour, New Welfare State?* The Policy Press, Bristol, p180

³⁰⁰ For a troubling example see Azar Sheibani's analysis of refugees in the British labour market in Carpenter, M. et.al.. (2007) *Beyond the Workfare State: Labour Markets, Equality and Human Rights*, The Policy Press, Bristol, c9.

particular barriers include homosexuals, ethnic minorities, and disabled people, who frequently identify the discriminatory behaviour of employers as barriers to labour market entry. While there are ample mechanisms to force the unemployed to take work, it is obviously more difficult to force employers to take on workers, irrespective of the volume of anti-discrimination legislation.

Conditionality, manifested through benefit sanctions and compulsory participation can lead to reduced levels of claimant unemployment. However, once the elimination of fraudulent or unwilling claimants has been achieved through the threat of sanctions, obliging benefit recipients to fulfil the demands of the employment services is only as useful as the activities themselves. For example promoting job search in a vacancy vacuum is as redundant as offering training courses for jobs that either do not exist, or are unlikely to.

The delivery of active labour market policies

Conditionality is now a common feature of most benefit systems and a cornerstone of many European and American benefit systems. A less evenly applied approach is the use of the market in delivering active labour market policies. This section explores the core questions associated with market-based measures, including

1. What types of privatisation are available?
2. How should the relationship between the purchaser (the state) and the provider (the private and/or voluntary sector) be governed?
3. What can market-based measures hope to achieve that cannot be provided by the state?

To date, little definitive is known about performance of private sector led welfare-to-work systems. This is for a number of reasons. The first and most important is that is that the shift from state provided and managed programmes to market led provider and programmes have usually occurred in parallel with freeing up private employment providers from strict process requirements. In order to capture the

effects of private provision there needs to be an isolation of the contracting out of employment services from the new freedoms enjoyed by private providers. Few studies have used experimental methods to isolate this other than the French experiment by Behagel et al. discussed below. The other reason why study remains in its infancy is that the contracting process has not proliferated to the same degree as active labour market policy in general. The few advanced nations that have notable experience with these delivery mechanisms are the USA, UK, Australia, Denmark and the Netherlands, while smaller scale projects are underway in France and Germany. The sum of these two factors has rendered the contracting process results, on the question of effectiveness, inconclusive.

What are markets and why use them?

Despite the lack of existing study data, the following section will explain why it is unlikely that employment services will prove to be an easy fit for market forces. In brief, the logic for the reorganisation of traditionally state-controlled active measures builds on a range of existing activities involving the privatisation of public industries and services. The bluntest expression of this reorganisation of public services involves strict privatisation, which Grover describes as ‘ the transfer of activities from the public sector to the private sector market’³⁰¹ This type of privatisation has occurred in sections of the UK welfare provision, but usually the introduction of private and third sector provision is more subtle and complex. Barr illustrates the depth of possibilities by outlining the variety of ways in which the public sector interacts with the private sector, using the example of education vouchers. This is where education is provided by the private sector but financed (or part financed) by the public sector.³⁰²

To help structure this analysis, it is useful to turn to Kay and Thompson, who provide a typology of public-private interaction. First, there is denationalisation, or the outright sale of publicly owned assets.

³⁰¹ Grover, C. (2009) *Privatising Employment Services in Britain*, Critical Social Policy, v29.3, p489

³⁰² Barr, N (2004) *The Economics of the Welfare State*, 4th Edition, OUP, Oxford, p90

Second, there is deregulation, which is the introduction of competition into statutory monopolies. Finally, there is contracting out, which consists of the franchising to private firms the production of state-financed goods and services.³⁰³ How each of these is manifested depends on the political and economic environment of the time. For instance, privatisation is not simply the transfer of public sector operations and assets to the private sector, rather it consists of a complex range of policy instruments, including asset sales, deregulation, public-private finance partnerships, managerial practices, expanding privately provided services, or the contracting of services.

The arguments for privatising labour market programmes have tended to be the same as those used to justify privatisation of other public organisations and assets, and are therefore intertwined with the political and fiscal pressures discussed in Chapter 2. In brief, the objective is for efficiency gains, improved quality, simplification, de-bureaucratisation and a reduction in state intervention in the market³⁰⁴ The hope is that more can be achieved for less resources, as reflected in the primary research question of this thesis. As Alford and Gullo, discuss in relation to Australian labour market experiments: 'These reforms were justified in terms of improving efficiency and overall employment outcomes through the active encouragement of competition between service providers.'³⁰⁵ The UK Labour Party justified their privatisation in much the same manner, as the then Secretary of State for Work and Pensions explained 'we will exploit the benefits of contestability and competition to drive quality, performance and value for money.'³⁰⁶

While following a similar logic to other privatisations, the particularity of benefit recipients (or service consumers) makes the transfer of services for the long-term unemployed more challenging. If they

³⁰³ Kay and Thompson (1986) cited in Grover, C. (2009) *Privatising Employment Services in Britain*, p489

³⁰⁴ Bredgaard, T, and Larsen F. (2008) *Quasi-Markets in Employment Policy; Do they deliver on their promises?* Social Policy and Society v.7.3, p344

³⁰⁵ Alford, K. and Gullo, N. (2000) *The Privatisation of Employment Services: Has it worked for most disadvantaged?* Economic Papers, v19.1, p65

³⁰⁶ Purnell, J. in DWP (2008) *Department for Work and Pensions Commissioning Strategy*, Department of Work and Pensions, TSO, London, p5.

qualify for means tested unemployment benefits then, by definition, it will usually follow that they will not have the capital necessary to purchase employment services for themselves, as would usually be the case in a typical market. This significantly narrows the privatisation mechanisms available to policy-makers because the state must remain the principle purchaser of services on behalf of the unemployed. For this reason, welfare state markets are usually quasi-markets, where as Le Grand explains, the aim is 'for the state to stop being both the funder and the provider of services. Instead it is to become primarily a funder, purchasing services from a variety of private, voluntary and public providers, all operating in competition with one another.'³⁰⁷

A number of things define this quasi-market; first 'they are 'markets' because they replace the monopolistic state providers with independent ones.'³⁰⁸ Within this a number of features differentiate them from traditional markets: 'not-for-profit organisations competing for public contracts, sometimes in competition with for-profit organisations; consumer purchasing in the form of vouchers rather than cash; and in some cases, the consumers represented in the market by agents instead of operating by themselves.'³⁰⁹

The abdication of responsibility for delivery as a necessary component of contracting does not mandate a loss of the state's administrative authority. Instead, quasi-markets can exist in both high and low-regulation environments, as Scott explains:

'It is easy to represent privatisation as a withdrawal of the state from determining key issues of public service provision [but] a central paradox of privatisation is that where the policy has been accompanied by the creation of new regulatory apparatus, as with the utilities sectors

³⁰⁷ Le Grand, J (1991) *Quasi-Markets and Social Policy*, The Economic Journal, v101, p1257

³⁰⁸ *Ibid*, p1259

³⁰⁹ Le Grand, J (1991) *Quasi-Markets and Social Policy*, The Economic Journal, v101, p1260. N.B. That the unemployed might be given vouchers to purchase services does not discount the fact that the government remains the principle purchaser of unemployment programmes.

in most countries, governments may have more information about, and greater practical capacity for control over, privatised enterprises than it did over their public predecessors.³¹⁰

In the circle of employment services however (certainly in the UK and Australia) the tendency towards privatisation has usually been coupled with a programme of deregulation in the market place, as exemplified with the contracting of the New Deal for Young People and Employment Zones in Chapter 5.

Like with many other aspects of ALMP research, reforms have occurred in unison in the privatisation agenda that make attributing success to either competitive practices or deregulatory shifts difficult. As long ago as 2005, Sol and Westerveld observed that the availability of evidence in this area was narrow, highlighting that 'few results are available from the private re-integration market, and [thus] weighing up of the pros and cons becomes extremely difficult.'³¹¹ The following section will show that statement still holds largely true.

Evidence of quasi-market effectiveness

The most appropriate place to begin an appraisal of contracted employment services is Australia. Australia introduced performance-based contracting with private sector actors in the 1990s³¹² where, between 1994 and 1996, the government implemented a range of welfare reforms aimed at bringing in a greater role for the private sector for delivering employment services.³¹³ Reforms included a series of measures where employment services were contracted out to providers who were paid predominantly

³¹⁰ Scott, C. in Moran, M. et al. (eds) (2008) *The Oxford Handbook of Public Policy*, OUP, Oxford, p 660

³¹¹ Sol, E. and Westerveld, M. (2005) *Contractualism in Employment Services: A New Form of Welfare State Governance*, Kluwer Law International, The Hague, p400.

³¹² Finn, D. (2008) *The British Welfare Market: Lessons from Contracting Out Welfare to Work Programmes in Australia and the Netherlands*, Joseph Rowntree Foundation, London, p12

³¹³ Cowling, S. and Mitchell, W. (2003) *False Promise or False Premise? Evaluating the Australian Job Network*, Australian Journal of Labour Economics, V6.2, pp214-215

on the volumes of participants moved from unemployment into work, training or some form of placement lasting in excess of 13 weeks.³¹⁴

The main conclusion drawn from the national evaluations were that the new, contracted structured job search and intensive assistance were only as effective as the programmes they had replaced.³¹⁵ In fact, a report by the DEWR a year later found that there still had been little progress on the strict measures of employment outcomes, and concluded 'a significant opportunity exists for Job Network to raise the effectiveness of its services.'³¹⁶

An alternative attempt to understand the Job Network phenomena was undertaken by Considine. Considine evaluated national data detailing the performances of the Australian Jobs Network contractors and compared them to the state counter-factual, Employment Assistance Australia (the equivalent of UK based Jobcentre Plus).³¹⁷ With a near equal division of the caseload of participants, a viable comparison could be made to establish the net gain of increasing competition in the employment services market by examining the overall effects on the performances of the actors involved. Over a period of two years the author found that while government operated employment services performed generally better at reducing unemployment than their private and voluntary sector competitors, the gap was narrowing since the establishment of the market towards parity.³¹⁸ Importantly, the study found that the net impact of the competition was that the performance distinction between public and private agencies had become negligible by the finishing point of the cohort.³¹⁹ The results also showed that, once established, it takes time for markets to reach levels achieved by the state provider, but that 'The

³¹⁴ Struyven, L. and Stuers, G. (2003) *Design and Redesign of a quasi-market for the reintegration of jobseekers: Empirical Evidence from Australia and the Netherlands*, European Journal of Social Policy, v15.3, pp218-219

³¹⁵ DEWR. (2001) *Jobs Network Evaluation, Stage 2 Progress Report*, Evaluation and Program Performance Branch, Report 2, p 89

³¹⁶ DEWR (2002) *Jobs Network Evaluation, Stage 3 Effectiveness Report*, Evaluation and Program Performance Branch, Report 1, p156

³¹⁷ Considine, M. (2002) *Selling the Unemployed: the Performance of Bureaucracies, Firms and Non-Profits*, Social Policy and Administration, v34.3 p279

³¹⁸ *Ibid*, p282

³¹⁹ *Ibid*, p287

advantages of the quasi-market appear to result from allowing more providers to experiment with different service methods.³²⁰ Unfortunately, the effects of deregulation and contracting out were not isolated, so distinguishing even limited effects is problematic. This is a common problem in quasi-market evaluations. The evidence from the Job Network experiment did not provide a convincing empirical basis for contracting out.

A study by Hasluck et al. examining performance-based contracting in the UK using the Employment Zone initiative came to a different conclusion. In the Employment Zones studied, all services were contracted on a payment-by-results basis and operated by a mixture of for-profits and charitable organisations. Partly based on the Jobs Network model, Employment Zones utilised payment by results for 13-week outcomes, multiple provider areas, and a deregulated environment to encourage innovation and competition. The researchers found that on average the private enterprise suppliers were more effective than the services delivered by the state. Importantly these findings suggested that the scheme led to better outcomes in relatively weak labour markets than similar state programmes. Specifically, Hasluck et al. found Employment Zone customers to be 14% more likely to exit unemployment than the control group of state-operated programme participants.³²¹ It is necessary to stress that problems persist with equating this higher performance to the participation of the private and voluntary providers. As Bruttel notes, Employment Zones are a predominantly work-first policy³²² distinct from the other programmes running in parallel, where these models are likely to yield faster reductions in unemployment than alternatives (see section 2 of this chapter)

Given this challenge, attributing success solely to the introduction of quasi-markets is hazardous. For instance, research undertaken in Sweden deployed an experimental model using 5000 jobseekers

³²⁰ *Ibid*, p292

³²¹ Hasluck, C. et al. (2003) *The Wider Labour Market Impact of Employment Zones*, Warwick Institute for Employment Research, p72

³²² Bruttel, O. (2005) *Are Employment Zones Successful? Evidence From the First Four Years*, *Local Economy*, v20.4, p390

randomly divided between the public employment services (PES) and a number of private sector organisations. The subjects were hard to help client groups, such as migrants or the disabled. The interventions (i.e. intensive job search) were the same, but the incentives were different; private sector organisations were incentivised through outcome payments, while the Public Employment Service was not.³²³ The results of the random assignment found no difference between the employment outcomes of the private sector and the PES.³²⁴ This result is even more surprising given that the reported intensity of job search and interview attendance was higher amongst those attending the private sector delivery organisations, and thus we might expect job finding rates to be higher as a consequence.³²⁵

A similar experimental model was developed by researchers in France, where the French government has expanded the role of both public and private sectors in delivering intensive job-search and counselling since 2005. Using data from 200,000 individuals subject to treatment by public or private agencies, Behaghel et al. found the introduction of intensive job search and counselling produced improved results across the board, but that public sector organisations achieved considerably better outcomes than the private sector over the first six months of treatment.³²⁶ The explanations for this are cautious, but have been repeated across a number of studies, where the authors argued that 'it took some time for the private providers to be operational, recruit and train the counsellors, whereas the public service could allocate some of its experienced case workers to the intensive scheme.'³²⁷

Finally, a report by Bernhard and Wolff reviewed the intensive job search programme in Germany. Again, it found no significant difference between the success of treating hard-to-help claimants by the

³²³ Benmarker, H. et al. (2009) *Effects of Outsourcing Employment Services: Evidence from a Randomized Experiment*, Institute for Labour Market Policy Evaluation Working Paper No.23, Nuremburg, p4

³²⁴ *Ibid*, p36

³²⁵ *Ibid*, p35

³²⁶ Behaghel, L. et al. (2011) *Public and Private provision of counselling to Job-Seekers: Evidence from a large controlled experiment*, Paris School of Economics, Paris p34

³²⁷ *Ibid*, p18

PES or private sector.³²⁸ However, the study did note that the limited impact of the private sector could be the result of a performance time lag. This was explained by the authors as being a 'lock-in' effect, where the private sector would need to take time to familiarise themselves with the client group, against the already familiar public sector workers.³²⁹

That the results of private and public sector would reach parity eventually in three of these studies indicate that stronger evidence one way or another may be available in the future. Fay, who observed the development of the Australian Jobs Network, appears to take this view, finding that 'initiatives to increase contestability, such as contracting out, will be subject to a learning curve before operating effectively.'³³⁰ How long evaluators should expect to wait until the private sector reaches optimal performance levels sufficient for comparisons with state provision is not clear. Fay also highlights that the establishment of markets in welfare is likely to be initially expensive due to significant transaction costs and the aforementioned learning curve.³³¹ Until more data emerges on this strategy assessing relative gains against the public employment service is going to be difficult, particularly because the public and private sector have traditionally, and often still, operate in with different regulatory environments.

Other Effects

Evidence with respect to efficacy and efficiency may be inconclusive, but these two criteria are not the only disputed effects of quasi-markets. Of the more intriguing findings common to the literature is that clients prefer attending private sector delivered programmes even amongst clients who experience of

³²⁸ Bernhard, S. And Wolff, J. (2008) *Contracting Out Placement Services in Germany: Is the Assignment of Private Providers Effective for Needy Jobseekers?* IAB Discussion Paper No. 5, IAB, Nuremberg P17

³²⁹ *Ibid*, P18

³³⁰ Fay, R. G. (1997), "Making the Public Employment Service More Effective through the Introduction of Market Signals", *OECD Labour Market and Social Policy Occasional Papers*, No. 25, OECD, Paris, p28

³³¹ Fay, R. G. (1997), "Making the Public Employment Service More Effective through the Introduction of Market Signals", *OECD Labour Market and Social Policy Occasional Papers*, No. 25, OECD, Paris, p29

both. Wright's synthesis of evidence from Australia, Denmark, the Netherlands and Germany is worth quoting at length:

Although objective measures of efficiency and effectiveness show little clear benefit of contracting out employment services, there is some evidence that unemployed people are relatively satisfied with services provided by non-government agencies. It seems that private providers in particular may have access to resources that allow the creation of a comfortable environment for jobseekers. Along with this, private companies seem to use methods of dealing with jobseekers that make people feel respected and confident that the provider is making serious efforts to assist in finding a suitable job.³³²

Griffiths and Durkin echoed these findings in the UK, explaining that young people tended to prefer the services they were receiving from private contractors and that this was due to the intensified attention they received, combined with a greater emphasis on their own aspirations.³³³ Swedish research also found a preference for private providers, who on average spent more time with their personal advisors and experienced more intensive job search.³³⁴ If participants are more comfortable at private offices and less resistant to services, and the job search activity is more intense, the evidence of work-first programmes might suggest that superior employment outcomes might be expected. The lack of convincing evidence on effectiveness is thus more surprising.

In spite of a general view that customers preferred private to public employment services, there is evidence of inequitable assistance among certain client groups. This is a likely corollary of performance-based contracting, and payment by results systems, which in looking either to maximise profitability or

³³² Wright, S. (2008) *Contracting Out Employment Services: Lessons from Australia, Denmark, the Netherlands and Germany*, Child Poverty Action Group Policy Briefing, CPAG, London, p30

³³³ Griffiths, R. and Durkin, S (2007) *Synthesising the Evidence on Employment Zones*, Department of Work and Pensions Research Report No.449, DWP, TSO, London, p50

³³⁴ Benmarker, H. Et.al. (2009) *Effects of Outsourcing Employment Services: Evidence from a Randomized Experiment*, Institute for Labour Market Policy Evaluation, Working Paper No.23, IAB, Nuremberg p20

the chance of winning future contracts, the easiest to help customers will be targeted for assistance (creaming) and the hardest to help will be left without adequate assistance (parking).³³⁵ Most systems have been designed to avoid such practices, but in reality, it is difficult to avoid. For example, in the Dutch system, a number of private providers suggested that the targeting of resources toward the 'job ready' might be the only way to remain competitive and survive in the marketplace.³³⁶ Considine's investigation of the Job Network finds similar evidence of 'parking' in Australia, where it appeared disadvantaged groups such as those with mental or physical health problems were less likely to receive adequate support than the mainstream unemployed.³³⁷ These effects are an obvious cause for concern for policy-makers, but they can be ameliorated with a variety of mechanisms such as differential pricing, or customer choice, and it is important to stress that this is not just a symptom found in the private sector. Dockery and Stromback suggest such practices have occurred equally in the public sector employment services.³³⁸

The Cost of Contracting Delivery

While there appears to be little to support the notion that contracting out of services will lead to higher employment outcomes, if services are delivered at a lower cost to the public purse, private providers may triumph on efficiency measures. It is assumed that driven by the profit motive, private sector providers are likely to have greater motivation than the Public Employment Service (PES) to produce results at a lower cost.³³⁹ Support for this assumption is offered by Crowling and Mitchell's study of the Australian Jobs Network privatisation programme. Specifically, they found that non-state providers were able to cut cost on individual reintegration from approximately A\$12,100 to A\$5,440, reducing

³³⁵ For a more detailed discussion see Mulhearn, I. and Menne, V. (2009) *The Flexible New Deal, Making it Work*, Social Market Foundation, London, p50-52

³³⁶ Van Berkel, R. and Van Der Aa, P (2005) *The Marketization of Activation Services: A modern panacea? Some Lessons from the Dutch Experience*, Journal of European Social Policy, v19.4, p341

³³⁷ Considine, M. (2002) *Selling the Unemployed: the Performance of Bureaucracies, Firms and Non-Profits*, Social Policy and Administration, v34.3, p283

³³⁸ Dockery, A. and Stromback, T.(2001) *Devolving public employment services: Preliminary assessment of the Australian experiment*, International Labour Review, Vol. 140.4, p444

³³⁹ Sol, E. and Westerveld, M. (2005) *Contractualism in Employment Services: A New Form of Welfare State Governance*, Kluwer Law International, The Hague, p389

short-term expenditure by almost 55 per cent.³⁴⁰ The authors explain that the dramatic reduction in costs was due to efficiency savings, not accelerated transitions from benefits to employment.³⁴¹ Finn stressed that the costs did not come down automatically, but were driven down as the payment rewards for outcomes were cut by the Australian government.³⁴² The Netherlands, another leader in market-based reintegration programmes, has also demonstrated the delivery of more cost efficient unemployment exits since integrating the private sector. Finn found that while at the initial stages of privatisation costs appeared to rise from €3,500 to €4,700 between 1998 and 2002; however once the market had been embedded with a stronger emphasis on payment-by-results was applied, prices were cut and the costs fell to around €2,500-€3,000 by 2007.³⁴³ The embedding of the market facilitates a greater emphasis on payment by results, because in all cases it seems apparent that the state must offer initially high prices to tempt private providers, but can subsequently reduce these costs once the market has matured. The efficiency of contracting also appears to be contingent on the processes mandated. So, if the state is paying purely for process rather than outcomes, costs do not appear to fall.

Supporting this is evidence from the UK. When the New Deal for Young People was implemented a number of private sector-led areas were established to deliver an identical programme. Even with an effective experimental environment established, researchers had trouble in discerning accurate costs of either model, because neither the expenditure of Public Employment Service (PES) nor the contracted providers were transparent. However, contrary to other studies, data has emerged that appears to suggest that the private sector led (PSL) contracts can be more expensive.³⁴⁴ For instance, the House of Commons Work and Pensions Committee issued a report stating that PSL New Deal for Young People units of delivery was on average £600 more expensive than the PES comparator areas. The pattern was

³⁴⁰ Cowling, S. and Mitchell, W.(2002) *False Promise or False Premise? Evaluating the Job Network*, Centre for Full Employment and Equity Working Paper, v02.12, Newcastle, Australia p10

³⁴¹ *Ibid*, p11

³⁴² Finn, D. (2008) *The British Welfare Market: Lessons from Contracting Out Welfare to Work Programmes in Australia and the Netherlands*, Joseph Rowntree Foundation, London, p21

³⁴³ *Ibid*, p33

³⁴⁴ Rodger, J. Et.al. (2000) *New Deal for Young People: Delivery and Performance in Private Sector Lead Areas*, York Consulting, DWP Research Archive, Sheffield P24

the same for the core programme aimed at older jobseekers, the New Deal 25+, where the gross costs per job entry were £3,532 for the PES against PSL area costs of £4,625.³⁴⁵ In support of the previous argument the original New Deals operated payments for the delivery of strict processes, with little emphasis on performance related financing.

Even in cases where privately operated programmes based on outcomes payments are found to be more effective than PES operated programmes, expenditure can still rise. In the UK, Employment Zones for Young People cost over £1,200 (a work-first, payment by results regime) per head more than New Deal for Young People.³⁴⁶ Griffiths and Durkin found that for all Employment Zones (EZs) advances, they ‘cost significantly more and offer less value for money than their New Deal comparators’ adding that ‘the better EZs perform, the less fiscally cost-effective they become and the poorer value for money they achieve.’³⁴⁷ NDYP were clearly process driven against EZ’s outcomes emphasis, but it is worth noting that the Employment Zones experiment was partially concerned with building up a private sector market in the UK, which was in its infancy. As such, the Department of Work and Pensions may have seen fit to offer generous initial incentives to tempt entrants into the market, and then to reduce them later once the market is established.³⁴⁸

Summarily, evidence from the Netherlands and the UK appear to support Fay’s contention above, that private delivery models take time to bed down, and that once the market has reached a degree of maturity the costs of reintegration may be driven down by the contracting state.

³⁴⁵ House of Commons Work and Pensions Select Committee (2009) *DWP’s Commissioning Strategy and the Flexible New Deal*, Second Report of Session 2008-2009, v1. House of Commons Library, London P23

³⁴⁶ Department for Work and Pensions (2008) *Flexible New Deal Performance Expectations and Funding Presentation*, DWP, s19 [available at] <http://www.dwp.gov.uk/docs/fnd-event-slides.pdf> (accessed 10/07/11)

³⁴⁷ Griffiths, R. and Durkin, S. (2007) *Synthesising the Evidence on Employment Zones*, Department of Work and Pensions Research Report No.449. N.B. The Employment Zones experiment was partially concerned with building up a private sector market in the UK which was very much in its infancy. As such, the Department of Work and Pensions may have seen fit to offer relatively generous incentives early on with the intention to reduce them later once the market is established. This might be evident in the substantial reduction of money available per client on the successor programme the Flexible New Deal.

³⁴⁸ Indeed, this reduction in expected costs is written into the contracts for the national programme Flexible New Deal.

Writing in 2008, Bredgaard and Larsen offer the best summation of the performance of contracting out active labour market programmes:

There is still little valid and systematic knowledge on the outcomes and effects of shifting to quasi-markets in employment policy. This makes it difficult to conclude whether quasi-markets are indeed 'better and cheaper' than the old public system. There can be no doubt, however, that contracting out results in a fundamentally different employment services system.³⁴⁹

This conclusion remains applicable. Without a larger volume of rigorous experimental evidence measuring the efficacy of contracting out, it is difficult to conclude on its own terms of costs and improved outcomes that it has been successful. Too few like-for-like studies are available to offer an indication of possible net gains, and what are often aired as savings made through the introduction of quasi-markets might equally be attributed to the often simultaneous regulatory restructuring, which employment services have undergone, and might be causing (in some cases) similar, and more cost-effective results.

Conclusion

To date, evidence indicates that active labour market policies can, and do, have an impact on levels of unemployment. Generally they do so through a two-pronged approach, the first is to make unemployment appeal less to benefit recipients, and the second is to make the unemployed more appealing to employers. Passive systems, as they were characterised in the previous chapter, were permissive of long-term unemployment spells because they did not offer assistance such as intensive

³⁴⁹ Bredgaard, T, and Larsen F. (2008) *Quasi-Markets in Employment Policy; Do they deliver on their promises?* Social Policy and Society v7.3 p350

job search, which might accelerate their attachment to the labour market, or training and qualifications, which could improve their appeal to employers. The increased use of sanctions has served to reinforce these types of assistance, principally because it forces individuals to take up these options, or available labour market opportunities. The 'help-and-hassle' approach is proven to reduce a fundamental cause of supply-side unemployment, by reducing search periods (or frictional unemployment), and reducing the plausibility of voluntary worklessness.

The literature provides no simple answers or 'off-the-peg' reform strategies; rather the selection of works offered in this chapter present a complex series of choices for policy-makers and politicians. This is a problem compounded by the increasing complexity of the active labour market policies, which often combine a complex series of components simultaneously. This makes the task of understanding which ALMP elements are effective increasingly difficult. Where components are staggered, experimental are easier to design, but understanding the interaction of components in a series of combinations is problematic. For example, training programmes might be productive in the long-run, but mandating participation in them may not. Making public policies usually requires recognition both of objectives and of what is possible. The objective of reducing unemployment is obvious in ALMP, but it is the causes of unemployment that present the policy problem. If, for example, policy-makers confront a benefit caseload of skilled but ill-motivated individuals, the obvious advice would be the deployment of mandatory intensive job-search. Alternatively, if the caseload had insufficient skills, it would be logical to advise the use of targeted training programmes. Circumstance also has a role in determining which components are practical, as opposed to desirable. For example, policy-makers may desire a large-scale training programme, or the state to be an employer of last-resort, but have only the funds to implement a cheaper, work-first style alternative.

A further complication is the state of the economy. Introducing most of the active labour market policies detailed above may bear limited fruit when the labour market is weak; for instance, Work-First is only effective if vacancies are available. Equally, training a workforce in a recession is risky if it is not clear that relevant vacancies will exist in future to absorb trainees once the labour market has cleared. Consequently, few options in a downturn may be effective, state-financed workfare style programmes may provide temporary occupation for claimants and boost economic activity, but it is expensive and is arguably most necessary at a time when the state can least afford it.

In sum, it is about suitability. The methods deployed to remedy the labour market deficiencies of the caseload must bear some recognition of the characteristics of those in receipt of these services. The literature displayed a wide series of components that policymakers might adopt and in spite of the array of choices available, two things are clear. The first is that there is an international consensus over pursuing some form of activation programmes, and second, that patterns are emerging in the types of strategies adopted. Previous data gathered by the OECD indicated that the majority of active labour market programmes focus on the supply of labour in a given labour market through methods such as intensive job search, counselling, benefit sanctions and training. These methods make up the majority of provisions for ALMPs in 18 OECD countries evaluated by De Koning, where micro-interventions into the demand for labour such as direct job creation and employment subsidies represent under a quarter of labour market provision.³⁵⁰ More up to date information from the OECD exposes patterns in the narrowing emphasis of supply-side measures showing that since 1998 there has been a decrease in public funding for training by one quarter, but an increase in placement related services by one third.³⁵¹

³⁵⁰ De Koning, J. (eds) (2007) *The Evaluation of Active Labour Market Policies: Measures, Public Private Partnerships and Benchmarking*, Edward Elgar Publishing, Cheltenham, Table 2.2, p32

³⁵¹ OECD (2011) *Public Expenditure and Participant Stocks on Labour Market Programmes*, OECD StatExtracts, authors design, [available at] <http://stats.oecd.org/Index.aspx?DatasetCode=LMPEXP> [accessed 04/12/11]

In parallel to this narrowing of the supply-side interventions the data also exposes that the level of micro-interventions into labour demand is decreasing - for instance showing expenditure on direct job creation falling from 0.13 per cent of GDP across developed states to just 0.07 per cent within a decade, a fall of nearly 50 per cent.³⁵² The trend is more apparent in the liberal Anglo-Saxon economies of the UK, Australia, Canada and New Zealand, where expenditure on training is falling more rapidly than in for example, the Nordic countries.³⁵³³⁵⁴ One explanation for this is offered by Peck who, following the model of Esping-Anderson, believes that these welfare programme types emerge out of their cultural and institutional contexts, which shape which type of programme design, or strategy national governments are likely to invoke.³⁵⁵ In this respect, the choice of policy will hinge on not only predicted outcomes and policy objectives, but also the social and historical context of welfare states.

Viewed through a wider lens, the trend towards cutting micro-demand interventions (such as direct job creation) and the narrowing of supply-side measures (towards basic job search and employment counselling methods) provides an indication that governments are focussing more narrowly on the causes of unemployment and are committing a greater proportion of (albeit small) resources towards labour market attachment methods. The explanation as to why these public expenditure and policy-making decisions are being made in the United Kingdom will be examined in the theoretical framework, which will take into account the institutional, social and economic pressures towards this recalibration of active labour market programming.

³⁵² *Ibid*

³⁵³ De Koning, J. (eds) (2007) *The Evaluation of Active Labour Market Policies: Measures, Public Private Partnerships and Benchmarking*, Edward Elgar Publishing, Cheltenham, Table 2.2, p32-34

³⁵⁴ OECD (2011) *Public Expenditure and Participant Stocks on Labour Market Programmes*, OECD StatExtracts, authors design, [available at] <http://stats.oecd.org/Index.aspx?DatasetCode=LMPEXP> [accessed 04/12/11]

³⁵⁵ Peck, J. (2001) *Workfare States*, Guildford Press, London, p73-76

CHAPTER 4 Locating British employment policy within an Incremental Model of Historical Institutionalism

The previous chapters explored the rationale for, and empirical basis of, active labour market policies. This chapter will carry this forward by outlining the development of active labour market programmes in the UK since 1979. This will demonstrate that there has been a coherent pattern to policy-making in the United Kingdom. Specifically, it will outline the tendency of labour market strategy to be focussed on increasing the responsibility levelled at the individual claimant for his or her unemployment, while simultaneously reducing the direct role of the state as both a) responsible for delivering full employment, and b) responsible for the direct delivery of employment services. To help explain this occurrence, the theoretical framework situates the development of successive governments' approaches within the public policy theory of historic institutionalism.

'Old' Institutionalism and its critics

Traditional institutional models of the policymaking process have focussed on de jure accounts of how public policies are made. These institutional accounts of the policy-making process tended to focus on how the formal legislative process led to a given policy, and neglect the role of ideas, discourse and individual agency. For instance, a formal inspection of the Westminster standard legislative process is relatively straightforward – cabinet agrees policy; (often) a green paper is issued for consultation; legislation is drafted; it is subject to readings, scrutiny by committee, then votes by both chambers and finally royal assent.³⁵⁶ Within this formal system was the ideal-typical bureaucratic machine, the 'Whitehall Model', where policy decided by politicians was to be formulated and implemented in an orderly fashion by professional, neutral civil servants and government agencies.³⁵⁷

³⁵⁶ Peele, G. (2004) *Governing the UK 4th Edition*, Blackwell, Oxford, pp219-221

³⁵⁷ For a fuller description of the Whitehall Model, see Wilson, G.K. and Barker, A. (1995) *The End of the Whitehall Model? West European Politics*, v18.4 pp131-132 (130-149)

Here, it is the formal executive and legislative institutions at the top of the system that decide policy; the bureaucracy and executive agencies exist to flesh out and implement them. The power of each of these branches of government is salient in institutional analysis because it serves to indicate what coalitions are necessary in legislating for and implementing public policies. In strong unitary systems with single party dominance, policy preferences are likely to reflect manifesto commitments; in systems that fragment power between branches of government, or political parties, policy outputs are likely to reflect greater levels of compromise. In a simplified form, the structure of government determines policy outputs, and the consequence according to Peters was that 'if an analyst could identify the salient actors or structure, he or she could 'predict' the behaviour of the system.'³⁵⁸

Traditional expressions of institutionalism are thus concerned with the study of formal institutional arrangements as explanatory of the policy process, and these remain of profound importance today; it would be impossible to discuss the US policy process without understanding the formal constitutional structure of the United States. It is due to the dispersion of power between the President, Congress, and the Supreme Court that helps to make sense of the fact that it is a considerably slower policy-making process than the unitary model of the Westminster system. The problem that emerged with this narrow focus on the rules and procedures found in the 'brick-and-mortar' institutions of the state was that insufficient attention was directed at the informal factors and structures involved in the policy-making process. For example, the perspectives of Lukes³⁵⁹ and Lindblom³⁶⁰ found that democratic institutions were producing policy-outcomes in the interests of particular individuals and groups able to express power outside the 'brick-and-mortar' of the standard institutional models.

This left 'old' institutionalism open to challenge, such as Steinmo's belief that classic institutional models were 'often normative, and the little comparative "analysis" then existing largely entailed

³⁵⁸ Peters, B.G. (1999) *Institutional Theory in Political Science: The 'New Institutionalism'*, Continuum, London, p7

³⁵⁹ See Lukes, S. (1974) *Power: A Radical View*, Macmillan, London

³⁶⁰ See Lindblom, C. (1977) *Politics and Markets: The Worlds Political Economic Systems*, Basic Books, New York

juxtaposing descriptions of different institutional configurations in different countries, comparing and contrasting.³⁶¹ The limitations of the largely formal/structural approach were exposed by the behavioural revolution of the 1950s that found that ‘the formal laws, rules and administrative structures did not explain actual political behaviour or policy outcomes.’³⁶² Traditional institutionalism lacked sufficient depth or nuance to appreciate fully the sophisticated explanations as to how, why and when public policies occur.

The New Institutionalism

The intellectual reaction to these deficiencies is commonly known as ‘new institutionalism’. This ‘new institutionalism’ was not to be a rejection of the traditional models, but instead ‘reflects many features of the older version [...] to understanding politics, but also [to] advancing the study of politics in a number of new theoretical and empirical directions.’³⁶³

While the new institutional school has a number of sub-schools, there are commonalities among them. For this thesis the most important is that new institutionalists sought to move beyond the formal descriptions of institutional behaviour by ‘looking at the actual, observable beliefs and behaviours of groups and individuals [within the policy making process].’³⁶⁴ There are two premises behind this renewed interest in the individual, the first that the study of structure, with limited attention to agency, could not fully explain policy output. The second point is that the advent of the behavioural revolution had apparently opened up new possibilities for rigorously understanding the actions and decisions of people within institutions. The behavioural revolution was associated with a new focus on individual behaviour, and in particular the testing of theories of individual behaviour with empirical

³⁶¹ Steinmo, S. et al. (1992) *Structural Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, p2

³⁶² *Ibid*, p2-3

³⁶³ Peters, B.G. (1999) *Institutional Theory in Political Science: The 'New Institutionalism'*, Continuum, London, p1

³⁶⁴ Steinmo, S. et al. (1992) *Structural Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge p3

observations.³⁶⁵ While 'new institutionalism' was not a wholesale endorsement of the behaviourist approach to policy analysis, common to its general approach is the emphasis on both the institutional characteristics, and the effects that these might have on driving the behaviour of the individuals involved in policymaking. Howlett and Ramesh summarise this position: 'Individuals, groups and classes participating in the policy making process no doubt have their own interests, but how they interpret and pursue their interests and the outcomes of their efforts are shaped by institutional factors.'³⁶⁶ This point represents the most fundamental tenet of this balancing act; that institutional mechanics still matter to the policymaking process, but individuals with their own particular behaviours and interests cannot be overlooked. The central contention of new institutionalism is that the institutions in which individuals operate are influential on their behaviour, and thus as are they on policy-outputs derived from the process. Summarily the new institutionalism is, according to Thelen and Steinmo, an attempt to balance the 'old' of institutions against the 'new' interest in rigorously explaining human behaviour.³⁶⁷

Within the broad group of new institutionalists are a number of sub-schools, which Hall and Taylor classify into historical institutionalism, rational-choice institutionalism and sociological institutionalism.³⁶⁸ This thesis will focus on historical institutionalism as the best explanatory tool for understanding why the Flexible New Deal policy came into being, and why policies similar in nature are likely to be pursued in future welfare reforms.

Historical Institutionalism

Historical institutionalism argues that the character of policy is determined by informal as well as formal institutional structures. For Hall and Taylor the institutions are defined as 'by and large...the formal or informal procedures, routines, norms and conventions embedded in the organisational structure of the

³⁶⁵ Sanders, D. in Marsh, D. and Stoker, G. (eds.)(2002) *Theory and Methods in Political Science 2nd Edition*, Palgrave Macmillan, Basingstoke, pp46-47

³⁶⁶ Howlett, M. and Ramesh, M. (2003) *Studying Public Policy: Policy Cycles and Policy Subsystems*, OUP, Oxford, p53

³⁶⁷ Steinmo, S. et al. (1992) *Structural Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, pp4-5

³⁶⁸ Hall, P. and Taylor, R. (1996) *Political Science and the Three New Institutionalisms*, *Political Studies*, v.XLIV, p936

polity or political economy.³⁶⁹ These arrangements are deemed to affect individuals as : ‘Institutions provide moral or cognitive templates for interpretation or action. The individual is seen as an entity deeply imbedded in a world of institutions, composed of symbols, scripts and routines, which provide filters for interpretation, of both the situation and oneself, out of which a course of action is constructed.’³⁷⁰

For historical institutionalism, individuals remain an important factor in the decision making process and the emergence of a particular policy, but these individuals’ decisions and worldviews are shaped by the institutions in which they operate, which are in themselves a construct of particular social and historical factors which prevailed at their genesis. Peters’ explanation of this core concept is as follows: ‘The basic, and deceptively simple, idea is that the policy choices made when an institution is being formed or when a policy is initiated, will have a continuing and largely determinant influence over the policy far into the future.’³⁷¹ Here, the policy preferences are influenced by social and ‘contextual features of a given situation often inherited from the past.’³⁷²

Within historic institutionalism, the core explanatory device for policy succession and transformation is known as ‘path dependence’. The definition of path dependence is contested,³⁷³ but Page provides a cautious offering: ‘In common interpretations, path dependence means that current and future states, actions, or decisions depend on the path of previous states, actions, or decisions. Of late, path dependence has become a popular conveyor of the looser idea that history matters.’³⁷⁴

³⁷⁰ Hall, P. and Taylor, R. (1996) *Political Science and the Three New Institutionalisms*, Political Studies, v.XLIV, p939

³⁷¹ Peters, B.G. (1999) *Institutional Theory in Political Science: The 'New Institutionalism'*, Continuum, London, p63

³⁷² Hall, P. and Taylor, R. (1996) *Political Science and the Three New Institutionalisms*, Political Studies, v.XLIV, p941

³⁷³ For a detailed discussion of this dispute see Greener, I. (2005) *The Potential of Path Dependence in Political Studies*, Politics, v25.1

³⁷⁴ Page, E. (2006) *Path Dependence*, Quarterly Journal of Political Science, Q1, p88

With the definition it is possible to deduce that, from a given identifiable starting point, policies travel along a broad trajectory that is determined by the past; in simplified terms in order to get to Policy C, Policies A and B must have been implemented previously, and that C is a product of A and B respectively. History is therefore an important influence on future policymaking institutions, in this particular case, the institutions governing the welfare state. Thus, policy in this structure also represents a degree of continuity from a given past. At a specific moment, the original policy will have emerged from a single or series of political choices within the institution, and the policies thereafter will be a reflection of, and perhaps an evolution from that original policy and original institutional calibration. These choices may reflect a number of things, for example fiscal constraints, previous policy decisions, or a particular political ideology. For historical institutionalism, there is a strong emphasis on ideas as influencing institutional arrangements and the consequent policies. As Peters illustrates:

Ideas do matter. King (1995) and King and Rothstein (1993) have illustrated this point with respect to labor market employment services and benefit offices, a fact which provides some support for the path dependency arguments; in this context, the decision of the British government to integrate these two arms of welfare policy demonstrates a revival of nineteenth-century assumptions about poverty.³⁷⁵

A path is relatively easy to demonstrate by noting consistency in policy development, but critical to identifying it is the origin of the policy path. Historical institutionalists argue that there is a flow of continuity in institutions and fields of public policy, which are ‘punctuated by “critical junctures”, i.e. moments when substantial institutional change takes place thereby creating a ‘branching point’ from which historical development moves on to a new path [or a new policy].³⁷⁶ The path along which the policy is dependent is determined by the historical and sociological context of the critical juncture as

³⁷⁵ Peters, G. et al. (2005) *The Politics of Path Dependency: Political Conflict in Historical Institutionalism*, Journal of Politics v67.4, p1291

³⁷⁶ Hall, P. and Taylor, R. (1996) *Political Science and the Three New Institutionalisms*, Political Studies, v.XLIV, p942

well as the actors and structure of the institutions. While these critical junctures may represent political, economic or military crises, they may also manifest themselves in the ascent to hegemony of an ideological force, and the landslide victory of a political party. Desmond King presents the ideological force of the New Right through the electoral victories of Thatcher's Conservative parties during the unemployment crisis of 1980s as one such turning point.³⁷⁷³⁷⁸

Over a sustained period, the process may be cyclical and critical junctures will repeat and expose a pattern known as punctuated equilibrium. The origins of this principle are located in Stephen Krasner's work, which simply explains that institutions 'are characterized by rapid change during periods of crisis followed by consolidation and stasis.'³⁷⁹ Institutional and root direction are thus open to rapid change, but then settle down into branch like patterns until the next crisis. The ideological hegemony of Keynesianism in the aftermath of the Second World War may be one example of such equilibrium, punctuated by the OPEC oil crisis and stagflation of the 1970s, and replaced with King's assertion of New Right hegemony.

The basic approach of path dependence provides a retrospective insight into how policy C may have derived from A and B, but it does not explain how, and why a policy might develop beyond these points. In this format therefore, it remains a historical descriptor rather than predictive theory. In order to be predictive it needs further elements to encapsulate why diverging from the path will continue to be problematic. To solve this problem, path dependence authors have incorporated the idea of 'increasing returns'. This is summarised by Pierson: 'In an increasing returns process, the probability of further

³⁷⁷ See King, D. in Steinmo, S. et al. (1992) *Structural Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, Chapter 8

³⁷⁸ Specifically, this transition from one ideology to another was permitted by decisions to override traditional institutional constraints in the policy-making process, allowing political actors a greater role in welfare-to-work policies, simultaneously reducing the role of civil servants who could feasibly discourage a change in policy direction. See King, D. in Steinmo, S. et al. (1992) *Structural Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, p234

³⁷⁹ Krasner, S. (1984) *Approaches to the State: Alternative Conceptions and Historical Dynamics*: Comparative Politics v16.2, p240

steps along the same path increases with each move down that path. This is because the *relative* benefits of the current activity compared with the other possible options increase over time.³⁸⁰

Thus it either becomes increasingly profitable to maintain the path, or increasingly expensive to deviate from it. Costs may be manifested literally, through for example, the attributed costs of training Jobcentre advisors rather than outsourcing employment services, or costs may be manifested in terms of less tangible resources, such as the effort required to develop a more sensible system. The resources required to change institutional attitudes and ideas might therefore be prohibitive to developing new approaches. From a political perspective, Bardach explains that 'it is easier politically to modify something already in place than to set out on a new course even if the new course is believed technically superior.'³⁸¹ The corollary is that the best policy solutions to perceived problems may not be implemented despite their merits. Peters, Pierre and King for instance explain that public policies can often outlive their utility, but persist due to the sometimes 'extreme efforts of individuals deeply entrenched in the old paradigm to defend the dominant theory of the time.'³⁸² The ideas behind the policy may be defunct, but patterns in policy-making can persist. For example, Peck's expression of 'Zombie Neoliberalism' argues that 'The brain has apparently long since ceased functioning, but the limbs are still moving, and many of the defensive reflexes seem to be working too.'³⁸³

Peck's assertion also brings to light another explanatory feature of path dependence where not only do ideas become entrenched, but so do actors. Institutions 'lock-in' certain actors and institutional norms, to the exclusion of others; reformers and critics may be 'locked-out'. The classic example of lock-in and lock-out were so-called 'iron triangles', found in policy areas such as defence and agriculture. In the American political system a military-industrial complex was said to lock in certain policies and ideas, and prove fiercely resistant to external pressure. In the British system, governments have sought to exclude

³⁸⁰ Pierson, P. (2000) *Increasing Returns, Path Dependence, and the Study of Politics*, American Political Science Review, v92.2, p252.

³⁸¹ Bardach, E. (2006) in Moran, M. (eds.) (2006) *The Oxford Handbook of Public Policy*, OUP, p349

³⁸² Peters, B, et al. (2005) *The Politics of Path Dependency: Political Conflict in Historical Institutionalism*, Journal of Politics v67.4, p1277

³⁸³ Peck, J. (2008) *Zombie Neoliberalism and the Ambidextrous State*, Theoretical Criminology, v14.1, p109

would-be obstacles to policies; Rhodes and Marsh recall that under the Conservatives ‘The trade unions were deemed the enemy within, the educational professions were ‘handbagged’ and both were excluded from the gestation and development of youth training and vocational education.’³⁸⁴

The addition of increasing returns to the historical institutionalist approach allows for some predictive capacity only if the source of these increasing returns can be identified. There are a number of obvious sources of increasing returns present in the series of welfare reforms explored below.

Consequences of Historical Institutionalism

Policymaking under a system contingent on the dominant ideas at the institutional or policy genesis (and therefore is pursuant of a particular, perhaps logical path) means that particular policy preferences and objectives become entrenched. With this model, policies not only follow a particular path, but create an environment for policy that requires ‘significant effort to divert them on to another course.’³⁸⁵

This point is explored by Peters, Pierre and King who argue that ‘Deeply embedded in the historical institutional literature lies an assumption that policy making systems tend to be conservative and find ways of defending existing patterns of policy.’³⁸⁶ The cultural explanation of individual behaviour makes the process inherently conservative according to Hall and Taylor because ‘Institutions are resistant to redesign ultimately because they structure the very choices about reform that the individual is likely to make.’³⁸⁷ Fundamentally the authors suggest that examples such as the welfare state and Keynesianism can be ‘understood as the institutionalisation of a set of persuasive ideas about social and political reality that have been successful in describing reality over long periods of time, as well as prescribing

³⁸⁴ Rhodes, R. and Marsh, D. (1992) *New Directions in the Study of Policy Networks*, European Journal of Political Research, v21, p194 (pp181-205)

³⁸⁵ Greener, I. (2005) *The Potential of Path Dependence in Political Studies*, Politics, v25.1, p62

³⁸⁶ Peters, B, et al. (2005) *The Politics of Path Dependency: Political Conflict in Historical Institutionalism*, Journal of Politics v67.4, p1276

³⁸⁷ Hall, P. and Taylor, R. (1996) *Political Science and the Three New Institutionalisms*, Political Studies, v.XLIV, p940

means of solving problems within that reality.³⁸⁸

One particular factor that the historical model emphasises in opposition to sociological and rational choice models concerns the concentration on power, in particular the presence of 'asymmetric power relations as well as the impact of long-term institutional legacies.'³⁸⁹ The concentration of power both inside and outside the institutions has an important bearing on policy-making in maintaining the broader path dependence. Where an obvious power imbalance exists in favour of the status quo the policy-process will naturally progress along a similar path or at a slower pace. Therefore, who takes part in the process matters, and who takes part may be consequent of both the structure of the institutions, and the range of actors participating at the critical juncture. The second part of this chapter will show how asymmetries of power within the policy making process explain the introduction of the conditional, market-driven Flexible New Deal.

Making Policy in Increments

Policymaking differs between political systems and policy areas, and this is contingent on their context, structure and actors inside and outside the system. As such, no homogenous policymaking method exists. Indeed historic institutionalism has been accused of not being concerned with occurrences on the ground, so long as the evidence of path dependency is actually occurring. For example Peters suggests that:

Historical institutionalists are not particularly concerned with how individuals relate to the institutions within which they function. There appears to be an implicit assumption of the approach that when individuals choose to participate in an institution they will accept the

³⁸⁸ Peters, B, et al. (2005) *The Politics of Path Dependency: Political Conflict in Historical Institutionalism*, Journal of Politics v67.4, p1276

³⁸⁹ Beland, D. (2007) *Ideas and Institutional Change in Social Security: Conversion, Layering, and Policy Drift*, Social Science Quarterly, v88.1, p21

constraints imposed by that institution... indeed there is a sense of *deus ex machina* in the historical institutionalist approach, with decisions taken at one time appearing to endure on auto-pilot, within individual behaviour being shaped by the decisions made by members of an institution some years earlier.³⁹⁰

There is merit in this critique, which seldom focussed on history's effects at the individual level. It appears to imply that the institutional arrangements brought about by ideas prevalent at the time carried along zombie-like decision makers through successive reforms. Taken to its extreme, it would reinforce what Christopher Hollis once suggested that 'politics as politicians well know is largely a matter of giving names to what is happening anyway and persuading people to vote for it.'³⁹¹ This, Pierson argues, would be to misrepresent historical institutionalism because, contesting that 'individuals choose, but the conditions that frame their decisions provide strong inducements to make particular choices.'³⁹²

Historical institutionalism, with its associated path dependence and lock-in effects can explain why policies occur, insofar as a critical juncture can be identified. The general method of policymaking however needs to be detailed to appreciate the incentives and parameters that frame choices. The typical rational policy-making models can quickly be discounted, because the following section will show that first principles, and policy options, are rarely considered on their merits alone; policymaking does not display a randomness that should be associated with policy outcomes in the rational models. Equally, several counter-rational models, such as the garbage can approach³⁹³ and policy streams are discarded for the same reason- there is little evidence of randomness in the selection and direction of policy choices in UK welfare reform. Instead, as the following section will show, welfare reform in the

³⁹⁰ Peters, B. (1999) *Institutional Theory in Political Science: The 'New Institutionalism'*, Continuum, London, p71

³⁹¹ Hollis, C. in Gamble, A. (1994) *The Free Economy and the Strong State: The Politics of Thatcherism*, p201

³⁹² Pierson, P. (1993) *When Effect Becomes Cause: Policy Feedback and Political Change*, *World Politics*, v45.4p598

³⁹³ See Cohen, M. March, J. and Olsen, J. (1972) *A Garbage Can Model of Organizational Choice*, *Administrative Science Quarterly*, v17.1, pp1-25

UK bears the hallmarks of incrementalism.

Incrementalism narrows the explanation of how individuals operate on departmental or institutional levels, and in particular the logic of pursuing and extending policy from past decisions. As outlined above, the work of Pierson provides a number of insights into these matters through 'increasing returns'. Here the literature begins to focus on the policy-making process itself within the broader context of historical institutionalism, and the ties between the two are obvious. Pierson suggests that once an initial policy choice has been made policy tangents 'lock in' because as a policy moves down a particular path, 'the costs of switching to a previously plausible alternative rise.'³⁹⁴ Under incrementalism, defined as 'political change by small steps',³⁹⁵ similar processes are apparent. The definition warrants expansion, because incrementalism is of greater use in explaining why *policies* might develop in increments.

Traditionally applied as a tool for explaining budgetary reform, incrementalism is more appropriately defined in analytical terms, as 'Analysis that is limited to consideration of alternative policies, all of which are only incrementally different from the status quo.'³⁹⁶ Describing what he calls 'strategic analysis' Lindblom suggests that policy analysis is 'limited to any calculated or thoughtfully chosen set of stratagems to simplify complex policy problems, that is, to short-cut the conventionally comprehensive 'scientific' analysis',³⁹⁷ also commonly known as 'successive limited comparisons'. This method of policymaking is pursued due to the illogic of returning to first principles each time a new policy is considered. A classic example of incrementalism is the American budgetary process, where to start from scratch each year, rather than building from the existing base, was proven too enormous a task.³⁹⁸

³⁹⁴ Pierson, P. (2000) *Increasing Returns, Path Dependence, and the Study of Politics*, *American Political Science Review*, v92.2, p252

³⁹⁵ Lindblom, C. (1979) *Still Muddling, Not Yet Through*, *Public Administration Review*, Nov/Dec 1979, p517

³⁹⁶ *Ibid*, p517

³⁹⁷ *Ibid*, p517

³⁹⁸ For a discussion of Jimmy Carter's attempted 'Zero-base Budgeting' see Peters, G.B. (2010) *American Public Policy: Promise and Performance 8th Edition*, CQ Press, Washington, pp170-172

Lindblom argued it was sensible for policy administrators to continually build out from the current set of policy parameters, and do so in small steps.³⁹⁹ The reasons for this include limited human problem solving capabilities, time and resource constraints, inadequate information and the costs of analysis.⁴⁰⁰ Another, perhaps equally powerful explanation for the use of incrementalism is as a tool for political strategy. Lindblom contends that incremental policymaking can be more effective than 'root' methods because being small implies being (relatively) uncontroversial, rather than the risks associated with more drastic change.⁴⁰¹ Therefore not only does incrementalism serve a purpose to develop policies, but also to have them approved by legislators.

The cost, effort, and intellectual resources required for returning to square one each time are considerable and inhibit an overhaul of policy. The clear connection with historical institutionalism's path dependence and 'lock-in' should therefore be apparent. For Peters, incremental decision-making 'does not involve examining sweeping alternatives to the status quo and then making a decision about the optimal use of resources. Rather incremental decision-making involves 'successive limited comparisons' about whether to make marginal changes to the status quo and decisions about whether to make those marginal adjustments to current policies.'⁴⁰² The temptation to depart from the policy path is limited because incrementalism tendency to favour the status quo, or only minor departures, and thus supporting path-dependency's notion of punctuated equilibrium. As explained below, this is evident in the development of employment-related conditionality, where successive governments have built upon existing conditions of social security, and have repeatedly amended the Jobseeker's Act rather than attempt to rewrite it. The scope for positive feedback is also enhanced by incremental decision making, in particular because administrators are conceived as capable of understanding the effects of incremental changes along a broader policy path, or to finding out 'what works' rather than

³⁹⁹ Lindblom, C. (1959) *The Science of "Muddling Through"*, Public Administration Review, v19.2, p81

⁴⁰⁰ Hill, M. (1997) *The Policy Process in the Modern State*, Prentice Hall, London, p102

⁴⁰¹ Lindblom, C. (1979) *Still Muddling, Not Yet Through*, Public Administration Review, Nov/Dec 1979, p520

⁴⁰² Peters, G.B. (2010) *American Public Policy: Promise and Performance 8th Edition*, CQ Press, Washington, p163

attempting to anticipate and test the effectiveness of a complete policy overhaul.⁴⁰³ The consequences are that first, incremental decisions making will have a tendency to preserve existing structures due to the effort and complexity of overhauling them. Second, the departure to alternative, perhaps better public policies is muted, where Lindblom argues that 'it may lead the decision-maker to overlook excellent policies for no other reason than that they are not suggested by the chain of successive policy steps leading up to the present. Hence, it ought to be said that under this method [...] policies will continue to be as foolish as they are wise.'⁴⁰⁴ Lindblom's warning is resonant to the findings of this thesis, because policy-makers in the UK continue to proceed with market driven work-first programmes, despite evidence that they are no more effective than other arrangements.

The preceding sections have exposed a number of key elements to historical institutionalism, the first that history and institutions matter. History matters because (as a result of a number of factors) it influences the policies of the future. The institutions matter because they have a clear effect on how the history of a set of policies is manifested, as it combines with the ideas and policies, which continue through changes of administration and context. Once established the development of policies in this set of institutions will normally be conservative in nature and incremental in their evolution due to the disincentives of diverting, until a critical juncture promulgates a radical overhaul of institutions and policy objectives. Both theories apply to the development of active labour market programmes in the United Kingdom, which are traced back to the 1980s reform programmes of the Conservative governments and their successor Labour governments.

Applying Theory to Reality

To demonstrate that the historical institutionalist theory applies in successive welfare reforms it has to be substantiated that A) institutions have had an effect on consecutive welfare reforms, and B) there is a distinct path of welfare reform that has occurred since a critical juncture (where policy X leads to

⁴⁰³ Hill, M. (1997) *The Policy Process in the Modern State*, Prentice Hall, London, p102

⁴⁰⁴ Lindblom, C. (1959) *The Science of "Muddling Through"*, *Public Administration Review*, v19.2, pp87-88

policies Y and Z). While the focus of the thesis is active labour market policies after 1997, the nature of path dependence requires that the study looks further into the past in pursuit of institutional influences on Labour Party policy.

Formal institutional arrangements have a clear impact on the structure and outcomes of welfare policies in the United Kingdom. At the summit of the British political system Clasen explains that the 'neoliberal policy agenda in the UK was supported by institutional capacities, such as the first-past-the-post electoral system, single-party governments, and strong central control in the House of Commons especially after the elections of 1983 and 1997.'⁴⁰⁵ At the political level Clasen contends that during the 1980s once the 'Wets' had been marginalised 'almost all policy changes affecting unemployment benefit claimants brought about retrenchment.'⁴⁰⁶ The British institutional arrangements enabled the critical juncture to occur and policies markedly to shift, but also the limited veto points within the institutional arrangements of the Westminster model facilitate an environment where policies can be entrenched (and welfare retrenched).

At the departmental level institutional reorganisations occurred which would facilitate the continuation of this path. Tonge highlights two such events:

The merger of the Departments for Education and Employment followed shifts in the policy making arena which included the increasing application of neoliberal principles to the training of the unemployed, based upon the creation of an employer-dominated system of training. The establishment of a national system of training and enterprise councils by 1990 provided the institutional means for change.⁴⁰⁷

⁴⁰⁵ Clasen, J. (2005) *Reforming European Welfare States: Germany and the United Kingdom Compared*, OUP, Oxford, p89

⁴⁰⁶ *Ibid*, p90

⁴⁰⁷ Tonge, J. (1999) *New Packaging, Old Deal? New Labour and Employment Policy Innovation*, *Critical Social Policy* v.19, p224

Further institutional shifts have consolidated the link between conditional benefits and active labour market programmes, for instance the merger of the Benefits Agency and Employment Service into the Jobcentre Plus.⁴⁰⁸ This connection of two previously separate agencies serve to institutionalise the link between labour market participation and benefit receipt, and conditions those within these institutional arrangements that this is the norm. As Brewer, Clarke and Wakefield argue, these institutional changes continue 'the steady trend throughout [Labour's] first parliament to increase the responsibilities of unemployed and inactive out-of-work benefit claimants, and introduce a consistent work-focus to all benefits.'⁴⁰⁹

The informal structure of participation is also an important factor in path entrenchment, in particular where there is an asymmetry of power within institutions in favour of the status quo. The presence of policy-networks and communities within British institutions has had an important impact on the policy path. Dolowitz notes an example, that during the development of UK active labour market policies during the 1980s, the involvement of the Institute for Economic Affairs (IEA) in promoting American style workfare schemes offered the relevant departments new sets of ideas to correspond with the overall shift in ideological hegemony.⁴¹⁰ In complement was the conspicuous absence of influential left-wing policy networks. King reports 'It is commonplace that the Labour Party has lacked innovative proposals since the 1970s despite establishing its own think tank.'⁴¹¹ The dominance of one set of actors over another reflects the asymmetry of power in policy development requisite of path dependence. An example is apparent with training and employment policies, which were dominated by employers rather than employee groups such as trades unions, where employers were capable of locking in interests, and

⁴⁰⁸ Finn, D. (2003) *The 'Employment First' Welfare State': Lessons from the New Deal for Young People*, Social Policy and Administration, v37.7 p710

⁴⁰⁹ Brewer, M., Clarke, T. and Wakefield, M. (2002) *Social Security in the UK under New Labour: What did the Third Way mean for welfare reform?* Institute for Fiscal Studies, London, p35

⁴¹⁰ Dolowitz, D. (1998) *Learning From America: Policy Transfer and Development of the British Workfare State*, Sussex Academic Press, Brighton, pp18-19

⁴¹¹ King, D. (1995) *Actively Seeking Work? The Politics of Unemployment and Welfare Policy in the United States and Great Britain*, University of Chicago Press, Chicago and London, p212

employees increasingly locked out. In particular, the abolition of the Manpower Services Commission made steps towards removing trades union participation in training delivery. In addition, Tonge argues that their role in the wider policy making network was declining, stating that: 'With the introduction of the New Deal, the Labour government has consolidated the neo-liberal employment policy framework. The employment policy network excludes opponents of moves towards workfare in that the remaining 'role' for the trade unions is a very minor position on the boards of TECs'.⁴¹² Thus, marginalising potential dissenting forces within the existing institutional arrangements facilitated the overall objectives and destination of active labour market policies.

Equally, incrementalism's propensity of 'successive limited comparisons' is encouraged because isolating potential opponents facilitates a smaller range of policies designs and objectives to be considered. Recently, the escalation of marketization in welfare-to-work has led to private sector delivery companies organising into a pressure group, the 'Employment Related Services Association', who has according to Finn, 'played a significant part in the debate on the future direction of the British welfare market'.⁴¹³ Their part, according to Davies, was to overstate the limited evidence for contracting-out in favour of their members.⁴¹⁴ This point about external actors increasingly being involved in the policymaking process at the institutional level is not trivial. If, as some had characterised, the Whitehall bureaucracy posed as the monopoly provider of neutral advice to ministers,⁴¹⁵ it is difficult to argue that this still holds. For instance, in the financial year 2010-11 the Department for Work and Pensions spent £110 million on external consultancy.⁴¹⁶

If institutional history is relevant in the policy making process it is critical to establish what history is

⁴¹² Tonge, J. (1999) *New Packaging, Old Deal? New Labour and Employment Policy Innovation*, Critical Social Policy, v.19 p226

⁴¹³ Finn, D. (2009) *The 'Welfare Market' and the Flexible New Deal: Lessons from Other Countries*, Local Economy, v24.1, p43

⁴¹⁴ Davies, S. (2008) *Contracting Out Employment Services to the Third and Private Sectors: A Critique*, Critical Social Policy, v28, pp 136-164

⁴¹⁵ See Page, E. (2010) *Has the Whitehall Model Survived?* International Review of Administrative Sciences, v76, pp408-409 (407-423)

⁴¹⁶ DWP (2012) Common Areas of Spend, HM Government [online] <http://www.number10.gov.uk/wp-content/uploads/DWP-Annex-A.pdf> [accessed 10/07/2012]

important. In the case of welfare reform in Britain it follows the well-established narrative of the effects of Thatcherism on parties and institutions at the time, and the residual effects these have had on successive rounds of welfare reform. The election of Thatcher is seen by a Kavanagh as a critical juncture, who writes that 1979 observed a 'significant agenda shift'.⁴¹⁷ In the particulars of welfare reform, according to Fowler by 1983 this begun, 'a fundamental reshaping of the system.'⁴¹⁸ As Swank reports, this agenda shift was not only Anglo-centric:

Since the mid-1970s, governments of advanced capitalist democracies have in varying degrees attempt to retrench the welfare state. In many nations, policy makers have reduced the generosity of benefits and tightened programme eligibility and they have also imposed mechanisms for cost control in service delivery, privatised some social services, and increased targeting of benefits.⁴¹⁹

The United Kingdom and the United States were nonetheless at the forefront of this trend of retrenching welfare entitlements and means testing. The explanatory factor behind trend is the 'critical juncture', where one ideological paradigm gave way to another. The ideological shift from Keynesianism to neoliberalism had a clear and specific impact on successive governments' labour market strategies. As Plant summarises:

By the 1970s it appeared Keynesian policies had run into the sand... in place of the demand-led view of the way out of unemployment both academic ...and political monetarists in Britain ... argued that inflation, at least in the longer term is the central cause of unemployment and that inflation is largely a monetary phenomenon, which is precisely the

⁴¹⁷ Kavanagh, D. (1997) *The Reordering of British Politics: Politics After Thatcher*, OUP, Oxford p5

⁴¹⁸ Fowler, N. Cited in Dolowitz, D. (1998) *Learning from America? Policy Transfer and the Development of the British Welfare State*, Sussex Academic Press, Brighton, p67

⁴¹⁹ Swank, D. in Pierson, P (2001) *The New Politics of the Welfare State*, OUP, Oxford, p197

result of governments adopting Keynesian assumptions that it was possible for governments to spend their way out of recession.⁴²⁰

This ideological shift from traditional methods of resolving unemployment created space for a new approach, which focussed on the individual as the principle cause of worklessness, an emphasis that, through the merging of key relevant departments and agencies, gained an institutional foothold. The behavioural arguments such as those provided by Murray and Mead entered this new discursive space, and provided a new intellectual foundation to support the individual focus as the primary cause of long-term unemployment. Or, as Thatcher observed ‘Welfare benefits, distributed with little or no consideration of their effects on behaviour, encouraged illegitimacy, facilitated the breakdown of families, and replaced incentives favouring work and self-reliance with perverse encouragement for idleness and cheating.’⁴²¹

This rhetoric in conjunction with neoliberal economic arguments concerning individualism and the primacy of the market mechanism served to legitimate the adaptation of welfare policy, creating initially a new critical juncture, and in the medium term facilitating the entrenchment of this new path. The rhetoric appeared successful. Research conducted by Richardson and Moon shows that in the first four years of Thatcher’s administration, despite rising unemployment, the Conservatives managed to make significant inroads into deflecting the blame for it.⁴²² Evidence of this is identified in the British Social Attitudes Survey, which asked: “How much do you agree or disagree that if welfare benefits weren’t so generous, people would learn to stand on their own two feet?” The responses over the past three decades show the perception of benefit dependency has moved from a position where 58% of people asked either disagreed, or disagreed strongly with that statement, to a position where 70% now

⁴²⁰ Plant, R. (2010) *The Neoliberal State*, Oxford University Press, Oxford, p177

⁴²¹ Thatcher, M. (1993) *The Downing Street Years*, Harper Collins, London, p8

⁴²² Richardson, J. and Moon, J. (1984) *The Politics of Unemployment in Britain*, Political Quarterly, January 1984, p29

either agree or strongly agree.⁴²³ Similar trends are visible when the public are asked whether governments should spend more or less on benefits, predictable attitudes have shifted away from more, towards a majority favouring less.⁴²⁴ Pierson suggests that where social welfare programmes are popular, a greater level of coalition within public institutions is sought in order to legitimize policy change.⁴²⁵ The declining popularity of social security systems supplies the informal institutional context for continued welfare retrenchment, and explains why, over a 30-year period, considerable but largely stable change has occurred in the UK benefits policy with relative ease.

Pierson also identifies a reciprocal relationship between external influences (e.g. the public) and the welfare institutions (which facilitate retrenchment), in suggesting that the institutionalisation of means-testing benefits is capable of reducing the numbers benefitting from the welfare state, and therefore reducing the levels of support for the institution itself.⁴²⁶ This is a key positive feedback mechanism, where restricting eligibility will reduce the defences of provident social security systems, and thus fostering a supportive environment for further tightening.⁴²⁷ The significant shift in public opinion may go some way to neutralising Hall's critique of historical institutionalism at least within the parameters of British welfare reform. Hall writes that 'While we are used to thinking of institutions as factors of inertia tending to produce regularities in politics, some kinds of institutional configurations may be biased in favour of change. The combination of the responsible cabinet government and a two-party political system that we find in Britain may be precisely such a configuration.'⁴²⁸ The competitive system offers incentives for parties to develop policies to critique the incumbent and innovate to provide a realistic

⁴²³ British Social Attitudes Survey (2011) *British Social Attitudes Information System, Table created by author*, available at <http://www.britsocat.com/BodySecure.aspx?control=BritsocatMarginals&var=WELFFEET&SurveyID=225> (accessed 11/6/2011) N.B. Don't Knows and Neither Agree nor Disagree are excluded.

⁴²⁴ British Social Attitudes Survey (2011) *British Social Attitudes Information System, Table created by author*, available at <http://www.britsocat.com/BodySecure.aspx?control=BritsocatMarginals&var=GVSPEND7&SurveyID=230> (accessed 11/6/2011)

⁴²⁵ Pierson, P. (2002) *Coping With Permanent Austerity: Welfare State Restructuring in Affluent Democracies*, French Sociology Review, v43.2, p375

⁴²⁶ Pierson, P. (2001) *The New Politics of the Welfare State*, OUP, Oxford, p433

⁴²⁷ Escalating means testing (in a static labour market) serves another purpose of reducing benefit receipt and saving money for the Exchequer, a clear sign of positive feedback in a policy of retrenchment.

⁴²⁸ Hall, P. in Steinmo, S. et al. (1992) *Structural Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, p107

alternative.⁴²⁹ Nevertheless, in the face of such public opposition to provident social security policies the incentive for parties to compete within the institutional framework may be weak. Public opinion may also reinforce the path at the Whitehall level. Without public support for generous welfare system and growing cross-party consensus about welfare retrenchment and conditionality, there are clear incentives for those charged with developing and implementing policies at the bureaucratic level to limit their fields of analysis and policy options within realistic parameters.

Finally, it is an important caveat that party competition is muted not to the whole welfare system in Britain, but to specific parts in reflection of public and political support. For instance, public support for the National Health Service and associated public expenditure remain strong, and with it political support. The fact that the NHS has over 1.7 million employees may be an important factor, as this is equivalent to just fewer than 6% of the total UK employed workforce.⁴³⁰ In straightened times the pressure to maintain expenditure on popular services applies pressure on departments in charge of unpopular ones.⁴³¹

'Winning the argument' over welfare dependency, rearranging institutions to directly connect benefit receipt with employment, and isolating potential opponents in the formal and informal institutional arrangements appear capable of institutionalising an ideology in a competitive political system such as the UK. Indeed, in spite of the inherent temptation of opposition parties to oppose core lines of policy, this seems contingent on the area of policy itself, where the exogenous context of public attitudes and caricatures of welfare recipients have clearly influenced opposition policies. Germane to this thesis is the hegemony of Conservative thinking on welfare, in particular the individualising of responsibility for

⁴²⁹ *Ibid*, p107

⁴³⁰ NHS (2011) *About the NHS*, National Health Service Website [online <http://www.nhs.uk/NHSEngland/thenhs/about/Pages/overview.aspx>] accessed 12/04/2012]

⁴³¹ Even where governments admit they will spend more on social security, it is often shrouded in terms of 'spending now to save later'.

unemployment. On this matter, the Labour party clearly decided it could not, or would not compete with direct alternatives.

The Path to Welfare to Work

The path taken since the critical juncture is largely reflective of Conservative thinking on social security and labour market policy. The common core to these changes is the general emphasis on individualising the unemployment problem with a specific emphasis on reattaching the unemployed with the labour market by decreasing the impetus to continue receiving benefits (retrenchment). Evidence of successive, incremental reform of the social security system is provided below using Botchel et al.'s list of Conservative reforms:

- **1980** Benefits uprated by prices index rather than earnings index
- **1981** Derek Reyners review recommends reintegration of job placement and benefit administration
- **1982** Abolition of compulsory registration for employment at jobcentres. Abolition of earnings-related supplements to unemployment benefits.
- **1986-88** Fowler Review leading to Social Security Act 1986 which in 1988 resulted in the replacement of Supplementary Benefit by Income Support and introduction of Family Credit, an in-work benefit for those with children working in excess of 24 hours per week.
- **1986** Restart Interviews: beginning of period review of benefit entitlement. Compulsory Restart courses for the long-term unemployed. Wage councils abolished.
- **1987** Reintegration of Jobcentres and unemployment benefit offices announced.
- **1988** Social Security Act requiring young peoples' participation in Youth Training Scheme with refusal resulting in benefit loss. Employment Act disqualified unemployed from received benefit if they withdrew from training without good cause.
- **1989** Social Security Act introduces the 'actively seeking work requirement'

- **1996 Social Security Act** replacing Unemployment Benefit and Income Support for the unemployed with Jobseeker's Allowance, a single benefit with very similar rates whether eligible through contributory or means-tested route. Contributory entitlements cut from 12 to 6 months.⁴³²

Over the 18 years of governing, the Conservative approach shown above was marked by retrenchment and activation for both ideological and fiscal reasons.⁴³³ The Thatcher government, particularly through rhetoric and incremental reforms can be seen to have laid the foundations for Major's tougher Jobseeker's regime and experiments with stricter incarnations of welfare to work.

New Labour, New Juncture?

Using Hall's analysis, after the Conservatives defeat in May 1997 the Labour government would have had a significant opportunity to recast the institutional and policy arrangements left by their predecessors.⁴³⁴ Despite this opportunity, evidence suggests that the era is best represented as being one of continuity, particularly in relation to activation and conditionality.⁴³⁵ For Clasen, the transition from Conservatives for Labour was almost seamless. Rather than deviating from this prescribed route: 'After Labour's victory in the 1997 general election, the new government maintained its predecessor's policy course and accelerated it'.⁴³⁶ Powell voices a similar view, stating that 'clear trends of policy convergence with the Conservatives can be noted, particularly in the areas of [...] the mixed economy for welfare, and welfare-to-work'.⁴³⁷ The opportunity to forge a new 'critical juncture' was not, in this policy area at least, taken. Walker and Wiseman argue that the similar politics of the two main political parties account for this continuity. The authors argue that Labour and the Conservatives broadly agreed

⁴³² Adapted from Botchel, H. et al. (2005) *Social Policy: Issues and Developments*, Pearson Education, Harlow, p82

⁴³³ Under the banner of the 'New Right' ideological and fiscal arguments are usually complementary.

⁴³⁴ Hall, P. in Steinmo, S. et al. (1992) *Structural Politics: Historical Institutionalism in Comparative Analysis*, Cambridge University Press, Cambridge, p107

⁴³⁵ Botchel, H. et al. (2005) *Social Policy: Issues and Developments*, Pearson Education, Harlow, p75

⁴³⁶ Clasen, J. (2005) *Reforming European Welfare States: Germany and the United Kingdom Compared*, OUP, Oxford, p81

⁴³⁷ Powell, M. (2000) *New Labour and the Third Way in the British Welfare State: A new and distinctive approach?* Critical Social Policy v20.1 pp56-57

over several core perceived problems, including: 'The financial cost associated with claimant numbers that had not fallen in line with employment growth, concern about dependency, crime and the risk of social unrest especially among young unemployed people, and success stories about US welfare reform that were actively promoted in London.'⁴³⁸

The political consensus argument supplies an explanation why the policy path was continued, but there are those who argue that the trajectory would have been difficult to alter regardless of mutual consent. Lodemel and Trickey offer the following assessment that: 'In spite of the high political profile surrounding the introduction of New Deal in the UK, and the fact that its introduction involves a departure from the key characteristics of pre-workfare social assistance, our evidence still suggests that policy inheritance, rather than politics, may offer a better explanation for the strategies pursued in workfare programmes.'⁴³⁹ The authors argue this position on grounds that 'the existing structure of laws, programmes and established administrative divisions of responsibility represents the 'glue' of the welfare state, often limiting the scope of possible options for change.'⁴⁴⁰ On this account, ideological preferences are secondary to existing legal and administrative structure the Labour government inherited. The subsequent evidence illustrated that Labour appeared to follow this pre-determined path.

Upon arrival, and throughout their term of office, the Labour government continued to implement active labour market and social security policies along the pre-existing parameters of individual responsibility and ungenerous cash entitlements. This convergence is visible through their continued commitment to the principles of the Jobseekers Allowance (JSA) and its use as a broader legal framework of conditionality in their key welfare to work programmes of the New Deal programmes and

⁴³⁸ Walker, R. and Wiseman, M. (2003) *Making Welfare Work: UK Activation Policies Under New Labour*, International Social Security Review, v56.1, p10

⁴³⁹ Lodemel, I and Trickey, H. (2000) *An Offer You Can't Refuse? Workfare in International Perspective*, The Policy Press, Bristol, p333

⁴⁴⁰ *Ibid*, p319

Employment Zones. The New Deals (examined in the following chapter) were essentially an expansion of their predecessor's 'structurally similar' Project Work programme,⁴⁴¹ which provided intensive 'work-first' conditional support, with a range of mandatory options after an individual was unemployed at length.

In parallel to the New Deals, the government piloted a smaller scale experiment with a purer form of 'work-first' entitled Employment Zones (EZs). Neither programme were a marked departure from existing arrangements in structure but an extension and expansion of them, where intensive job search and assistance would be offered throughout. For instance, EZs and the New Deals operated within the existing Jobseeker's Allowance framework introduced by their predecessors, and throughout the lifetime of both of these programmes, small adjustments were made to tighten conditionality and strengthen the emphasis on labour market attachment.

The New Deals and Employment Zones were also subject to a number of experiments involving the private sector, whose involvement in active labour market policies was present in their predecessor's experiments with Training and Enterprise Councils. Here, again, the development of welfare-to-work under the Labour government is a continuation of past policies. Finn recalls that 'In 1987/88 the delivery of training programmes for the unemployed was transferred to private sector led Training and Enterprise Councils.'⁴⁴² The participation of non-state actors in employment and training programmes grew over the next decade up to 1996, to the extent where Finn suggests that the Public Employment Service had:

Withdrawn from most direct programme provision and, through its Regional Offices, contracted

⁴⁴¹ Clasen, J. (2005) *Reforming European Welfare States: Germany and the United Kingdom Compared*, OUP, Oxford, p81

⁴⁴² Finn, D. (2002) *Joining Up Welfare and Work: The Role of Private Public Partnerships in British and Australian Welfare Reform*, Portsmouth Conference Paper, [available at] http://eprints.port.ac.uk/101/1/6_DFMelb_PPP_Final_07_02.pdf [accessed 12/04/10] p10

out its schemes via competitive tendering and performance related contracts to a diverse range of private providers, voluntary sector organisations, colleges, Local Authorities and religious groups.⁴⁴³

Gradually, the Labour government embarked on a similar strategy. Their flagship welfare-to-work policy, the New Deal for Young People (NYDP), was increasingly contracted out in local areas to private sector organisations over the programmes' lifetime. Employment Zones on the other hand were delivered by private and third-sector organisations from the outset and their role and remit in Employment Zones and other contracts continued to expand incrementally throughout Labour's time in office.

The increased role of the private and voluntary sectors in the implementation of these programmes creates its own institutional lock-in effects. The more capacity for public service delivery passed to the private sector, the corresponding need for parallel state provision declines. As governments remove themselves from delivering public services, their capacity to reassume this role in the future becomes more difficult and expensive. The agencies of state will lose personnel, expertise, and assets to the private and voluntary section, and the costs associated with re-establishing state power become ever higher. Pierson provides an apposite summary of this problem, that:

Recapturing ground in previously institutionalized fields of activity...will often be quite difficult. Actors do not inherit a blank slate that they can remake at will when their preferences change or the balance of power shifts. Instead, they find that the dead weight of previous institutional choices seriously limits their room to manoeuvre.⁴⁴⁴

⁴⁴³ Ibid, p11

⁴⁴⁴ Pierson, P. (2002) *Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies*, French Review of Sociology, v43.2, p373

The path of individual responsibility and marketization continued with the government's commissioning of the Freud report. The outcomes of this document were particularly indicative of both path dependency, and an explicit example of incrementalism's tendency towards 'successive limited comparisons' ('limiting of the number of alternatives considered to those that differ in small degrees from existing policies'.⁴⁴⁵). In 2006 Secretary of State for Work and Pensions, John Hutton, requested that the investment banker David Freud conduct a review of the UK's social security and employment programme regime. Freud was invited to evaluate the efficacy of the existing welfare arrangements within a number of core parameters, which were:

- a) What scope is there to accelerate conditionality and
- b) What scope is there to localise and privatize parts of the Public Employment Service? ⁴⁴⁶

Hutton's parameters were partly recycled from previous ministers' proposals. These particular ideas had been circulating in Department of Work and Pensions for a while. Hutton's predecessor, Andrew Smith, in 2004 released *Building on the New Deal: Local Solutions Meeting Individual Needs*, a paper that advocated near identical ideas.⁴⁴⁷ Either Secretary of State could alternatively have requested an investigation into exploring greater central control in active labour market programmes, expanding the role of the state as the employer of last resort, increased employer subsidies or tax breaks, or demanded an exploration of demand interventions, but neither did. Instead, they provided a narrow remit along the existing route.

⁴⁴⁵ Hill, M. (2005) *The Public Policy Process (4th edition)*, Pearson Longman, Harlow p148

⁴⁴⁶ Hutton, J. (2006) *Welfare Reform 10 Years On; 10 Years Ahead*, Speech to IPPR (online) http://www.ippr.org/uploadedFiles/events/john_hutton_ippr.pdf (accessed 10/01/2011)

⁴⁴⁷ See DWP (2004) *Building on the New Deal: Local Solutions Meeting Individual Needs*, DWP, TSO, London, p15

According to the government's own advisory committee, Freud's review was partial in its analysis,⁴⁴⁸ but arguments contrary to the dependent path are often pushed aside, and the core proposals of the review were endorsed by the Blair government in 2007 and continued when Gordon Brown became Prime Minister. Freud's core proposals were two fold, firstly to broaden the already existing emphasis on 'work-first', which facilitates conditional and rapid labour attachment. The report claimed that 'A "work first" approach, alongside the New Deal for those with longer durations, has worked for the mainstream unemployed'⁴⁴⁹ whilst also stating that 'In return for more support in obtaining employment, it would seem appropriate for the state to expect more work-related activity from those on benefit.'⁴⁵⁰ In recognition of the importance of their predecessor's input the Labour government responded in their white paper with 'welfare-to-work support, backed by a framework of conditionality built up over the last 15 years...has proved effective in moving people back to work. These policies must be kept in place to make sure that we do not, as in the last two recessions, condemn tens of thousands of people to virtually permanent inactivity.'⁴⁵¹ Paradoxically, the 'work-first' approach of the Flexible New Deal does not imply greater levels of support, but does nonetheless require greater levels of responsibility on the individual claimant.

The second core feature of the Freud report was that 'this report recommends that once claimants have been supported by Jobcentre Plus for a period of time, back-to-work support should be delivered through outcome-based, contracted support.'⁴⁵² In some length, the report describes the benefits and creation of a private sector market for the delivery of traditionally state-controlled services, using previous government measures such as Employment Zones to reinforce its case. Using the Employment

⁴⁴⁸ For example the government's own independent welfare body, the Social Security Advisory Committee remarked that 'There are many examples of complex arguments being reduced to absolutes with little recognition of the intractable nature of the problems [barriers to work].' Social Security Advisory Committee (2007) *Twentieth Report 2006-2007*, online <http://ssac.independent.gov.uk/pdf/reports/20threport.pdf> (accessed 11/04/2011) p37

⁴⁴⁹ Freud, D. (2007) *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, Department of Work and Pensions, The Stationary Office, London, p9

⁴⁵⁰ *Ibid*, p8

⁴⁵¹ DWP (2008) *Raising Expectations and Increasing Support White Paper*, Department of Work and Pensions, London, p70

⁴⁵² Freud, D. (2007) *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, Department of Work and Pensions, The Stationary Office, London, p6

Zones model, the government sought to homogenise the existing welfare arrangements and continue along the path of escalating conditionality and marketization, despite evidence that neither was particularly effective at ameliorating long-term unemployment as indicated in the earlier review of the literature. Perhaps the most important feature of Freud's recommendations germane to this framework was the advocacy of a national system of outcomes-based contracts, or payment-by-results. This model had already been used under Employment Zones, but on a national level the prospect for positive feedback and path entrenchment are considerable. In particular, payment-by-results theoretically means that states pay less for failing policies, and therefore the risk of inefficiency is partly transferred from the state to the provider of services. If Freud's proposals did not work, the state, (in theory) would not pay for that failure.

The forthcoming chapter on the Flexible New Deal (FND) will detail the government implemented these two proposals in full, continuing the trend of previous Labour government policies, and in part, Conservative government policies of the previous decades. To complement the expansion of market forces there has been a visible withdrawal of the state from direct service delivery, as evidenced by the rationalisation of the relatively new Jobcentre Plus network, where between 2007 and 2008 around 10% of Jobcentre premises were closed.⁴⁵³ The continued rollout of a market for a perpetually increasing proportion of the unemployed persons has rendered the reestablishment of state control more difficult. The establishment of a quasi-market is expensive because of the costs of incentivising companies to join the market place. Having spent considerable amounts of public funds to build a market, obvious incentives exist to maintain the built capacity. The lock-in occurs because the state has transferred personnel and resources to the private and voluntary sectors, and re-establishing state capacity, such as building up assets such as Jobcentres and training staff, becomes expensive itself.

⁴⁵³ Calculations based on McNulty, T. (2008) *Department of Work and Pensions ministerial questions*, Hansard 4th November 2008 column 262W

The path dependence of UK unemployment policies is apparent in the evolution of institutional arrangements, which have locked in the private and voluntary sector actors into programme. That this has been incremental in nature is a consequence of the difficulty of establishing a competitive market in employment programmes from scratch.

Incrementalism in practice

In 1959, Charles Lindblom wrote that 'Democracies change their policies almost entirely through incremental adjustments. Policy does not move in leaps and bounds'.⁴⁵⁴ While some, such as Jensen, treat path-dependency and incrementalism as interchangeable ideas,⁴⁵⁵ public policies in the incremental framework do not strictly need to adhere to prescribed path. For example, a series of incremental changes could dramatically alter the past direction of policy. However, path-dependency and incrementalism in the case of the development of active labour market policy in the UK are complimentary.

The most convincing explanation for incrementalism in the reform of employment services in the UK is one of political necessity. Simply, incrementalism is required to facilitate the desired path, serving politically to prepare the ground for further policy reforms. Even in a system of alternating single-party government as in the UK, incrementalism provides a relatively safe method of proceeding along a particular policy path, and is therefore a politically expedient approach. Where policy-makers have an ultimate goal in mind, say policy C, in order to be successful it may be necessary to implement policies A and B first. In political environments, as Lindblom indicates 'Incremental steps can be made quickly because they are only incremental. They do not rock the boat, do not stir up great antagonisms and paralyzing schisms as do proposals for more drastic changes.'⁴⁵⁶ To begin at the end, the conditional welfare-to-work arrangements that exist today would have been difficult to introduce during the

⁴⁵⁴ Lindblom, C (1959) *The Science of 'Muddling Through'* Public Administration Review, v19.2, p84

⁴⁵⁵ Jensen, C. (2009) *Policy Punctuations in Mature Welfare States*, Journal of Public Policy, v29.3 pp287-303

⁴⁵⁶ Lindblom, C. (1979) *Still Muddling, Not Yet Through*, Public Administration Review, Nov/Dec 1979, p520

Thatcher and Major years simply because of the historically high levels of unemployment at the time and the scale of opposition these reforms could have provoked. Pierson explains how the Conservatives were able to apply this delicate approach: 'Britain's highly centralised political system made it possible for the Thatcher government to implement carefully designed incremental cutbacks that eventually weakened these programs considerably. On the other hand, every effort at radical reform of the means-tested programs ran into major obstacles.'⁴⁵⁷

The gradualism continued through the two administrations of John Major, for whom the ultimate achievement was the Jobseeker's Act in 1996. Such was the fanfare of the Jobseeker's Allowance, all previous benefits changes and conditionality expansions appeared to build up towards this single policy. However, the Jobseeker's Act was no radical departure; rather it is best seen as an adjustment and homogenisation of the existing arrangements. For Novak the significance of the policy was that it demonstrated a continuation of a trend that began in the 1980s, which sought to regulate the behaviour of the claimant unemployed and retrench cash entitlements.⁴⁵⁸ The gradualism of the Conservatives also provided cover for the Labour Party leadership's objectives. Novak identifies the lack of opposition from the Labour Party to the Jobseeker's Act as enabling the slow procession of welfare 'dismantling' to continue.⁴⁵⁹ As Peck explains, the introduction of the JSA provided sufficient political cover for their advances of conditionality:

The debate- or rather lack of it – around the Jobseeker's Allowance laid the foundations for Britain's workfare consensus. The Labour leadership clearly saw an activated benefit system of this kind as an important component of its welfare-to-work proposals, and may even have been relieved that the legislative initiative in this sensitive area had been taken by the Conservatives.

⁴⁵⁷ Pierson, P. (1995) *Dismantling the Welfare State? Reagan, Thatcher and the politics of retrenchment*, Cambridge University Press, Cambridge, p115

⁴⁵⁸ Novak, T. (1997) *Hounding Delinquents: The introduction of the Jobseeker's Allowance*, *Critical Social Policy* v.19, p99

⁴⁵⁹ *Ibid*, pp107-108

This would allow Labour to focus on its more 'positive' programs, around which it might build support for welfare reform across the wider party.⁴⁶⁰

The reversal of the Labour Party's opposition to conditionality was not inevitable, but conditioned by the electoral defeats of 1983 and 1987 after which they underwent their own gradual internal restructuring in a manner more fitting with Thatcher's individualist and free market agenda. History was obviously having an important impact on institutionalising the path dependence. For both political parties, incremental policymaking was strategic, utilised as 'the path of least resistance'. Consequently, the political foundations that the Thatcher and Major governments laid moved the welfare debate on, where Keegan states that 'Fifteen years ago the very idea of 'workfare' was anathema to the Labour party. Now the principle has been accepted. The argument is about the detail.'⁴⁶¹ Indeed, once the broader principles of workfare had been accepted, Labour sought to continue where their predecessors had left off.

It is a similar case for the introduction of market forces. The following chapter will show that Labour's national employment programme, the New Deal for Young People gradually expanded the role of private sector delivery organisations, and introduced in parallel the Employment Zones initiative; a purer example of a quasi-market in a limited number of deprived areas. Employment Zones are a useful case in point for incrementalism; as they were the embryonic demonstration of a fully-fledged welfare market. As Finn recalls, 'commentators, especially in the public sector, suspect that the strategy with Employment Zones represents a stepping stone, creating the ground from which a full-scale privatisation could be launched.'⁴⁶² Haughton et al. were one of the groups suspicious that small steps would lead to bigger changes, regarding Employment Zones 'a Trojan Horse for privatisation and enforced

⁴⁶⁰ Peck, J. (2001) *Workfare States*, Guildford Press, London p292

⁴⁶¹ Keegan, V. (1998) cited in Powell, M. (1999) *New Labour, New Welfare State? The 'third way' in British Social Policy*, The Policy Press, Bristol, p278

⁴⁶² Finn, D. (2005) in Sol, E. And Westerveld, M. (eds) (2005) *Contractualism in Employment Services: A new form of Welfare State Governance*, Kluwer Law International, The Hague, p115

individual responsibilities, acting initially as a seemingly benign policy regime, behind which more regressive policies could be introduced.⁴⁶³

The overwhelming majorities in the House of Commons enjoyed by the Labour Party in their first two terms, coupled with the exogenous institutional influence of public backing for stronger welfare to work policies, meant that they might have been expected to pursue the rapid advancement of conditionality and market reforms. This favourable environment to pursue stronger conditionality and market mechanisms raises the question of why policymaking occurred in increments during this period. The answer would appear to be that an incremental approach was a logical method of staving off internal rebellion. After all, opposition to conditional, market-based policies was more likely to come from within the ranks of the Labour party than elsewhere in the House of Commons. Such an eventuality was not impossible – for instance, King and Wickham-Jones recall that ‘Welfare to Work ... was not discussed by the Shadow Cabinet before its launch. There was immediate concern within the Party over the adoption of such measures.’⁴⁶⁴ This argument can explain one of a number of reasons why incremental changes have taken place in welfare reform, but incrementalism has further elements creditable to it that appear active during this process.

There is also evidence under New Labour of incrementalism at the policy analysis and development level. In this domain, incrementalism is understood as the ‘limitation of analysis to a few somewhat familiar policy alternatives, of which one possible form is simple incremental analysis: consideration of alternative policies differing only marginally from the status quo.’⁴⁶⁵ The inevitable corollary is a ‘greater analytical preoccupation with ills to be remedied than positive goals to be sought’ and within this ‘A

⁴⁶³ Haughton, G. et al. (2000) *Labour Market Policy as Flexible Welfare: Prototype Employment Zones and the New Workfarism*, *Regional Studies*, v34.7, p678

⁴⁶⁴ King, D. and Wickham-Jones, M. in Powell, M. (ed) (1999) *New Labour, New Welfare State?* The Policy Press, Bristol, p271

⁴⁶⁵ Weiss, A. and Woodhouse, E. (1992) *Reframing Incrementalism: A constructive response to its critics*, *Policy Sciences* v25, p256

sequence of trials, errors, and revised trials.⁴⁶⁶ During the first two terms, both the New Deal and Employment Zones initiatives were subjected to repeated testing and adaptation because of perceived deficiencies in the design. On the one hand, this is a sensible approach to adopt – the finding out of what works, where and when - nevertheless the path dependence of incremental changes appeared exposed in the tweaking of Employment Zones, where Haughton et al. explain that their development ‘represent[s] a highly selective and possibly pre-emptive learning process from the experience of prototypes.’⁴⁶⁷ Perhaps more problematic is that incremental analysis and pre-emption implies tunnel vision, whereby other possible, and possibly more successful solutions, are isolated from policy debate, as Lindblom warned.⁴⁶⁸

Conclusion

Looking back over two decades of welfare policy in the UK has underlined the necessity of this project’s research question; having established a clear direction of travel towards market driven work-first it is sensible to consider whether this direction correlates with evidence.

Summarily, incremental policy-making framed within historical institutionalism offers two insights into this broader thesis on active labour market policy in Britain. Firstly, it has identified a path in active labour market policy where the individual accrues greater levels of responsibility for his/her labour market status, while simultaneously the agencies of the state reduce their direct involvement in executing employment services and social security through the reduction in value of cash entitlements and the marketization of employment service delivery.

⁴⁶⁶ Ibid.

⁴⁶⁷ Haughton, G. et al. (2000) *Labour Market Policy as Flexible Welfare: Prototype Employment Zones and the New Workfarism*, *Regional Studies*, v34.7, p678

⁴⁶⁸ Lindblom, C (1959) *The Science of ‘Muddling Through’* *Public Administration Review*, v19.2, p88

The foundations for this approach are located predominantly with the New Right emphasis on individualism and the primacy of the market, which emerged during the 1980s and has since consolidated. For a number of reasons these ideas have embedded themselves in the institutional arrangements and policy-making communities in order to 'lock-in' the path. Despite the institutional capacity for change in the Westminster model, the degree of consensus amongst the three major parties over the political costs of reverting to a more provident, passive welfare system may be too high. Few areas receive as little support for public expenditure as social security for the unemployed, and this looks unlikely to change.

Reinforcing path lock-in is the absence of opposing actors in the policy-making process; which, in Britain, has been devoid of any substantial and influential group or coalition capable of representing the explicit interests of the long-term unemployed. As such, active labour market policy development has been dominated by elites, networks and business interests with a relatively consistent view of the welfare state and the effects this has on individual behaviour.

Fiscal pressures must play a part where public spending constraints make expansions in expenditure, or relaxation of means testing unlikely. The political, financial, and institutional environment make the 'work first' approach a likely permanent feature of the British active labour market approach for the foreseeable future, given its relatively low cost nature and emphasis on quick exits from benefit receipt.

The same path dependence applies to the presence of a quasi-market. Successive governments have gradually expanded the role of the market in delivering active labour market programmes, and the practicality and cost associated with reintroducing the state as the dominant provider of welfare-to-work services for the long term unemployed render a significant revision of this approach unlikely. In

complement, many of the participants in the market are now embedded in the consultation and policy design process, which serve to reinforce the status quo.

At a general level, there is ideological symmetry between relying on the market to solve unemployment, and creating a market to help the long-term unemployed back into employment that may have permeated institutional thinking. Welfare 'reform' is therefore bound to remain encased within such parameters until some future critical juncture, which will revise both the general the hegemonic approach to economic policy, and also the specific attitudes towards unemployment and its perceived causes, which have served to reinforce it.

The preceding discussion has portrayed a gradual shift away from state responsibility, and an increasing reliance on the market and the individual to solve the unemployment problem. In spite of the increasing marginalisation of the public employment service, its remains a major player in the delivery of both employment programmes and benefit administration. This resilience is a reflection of difficult realities of unemployment. The first is that in the absence of a market in privately owned unemployment insurance, the state will continue to monopolise social security payments. There consequently remains a role for the state in policing the benefits system for the unemployed. This fact also explains why wholesale privatisation cannot be achieved, because without an income the long-term unemployed cannot afford to purchase reintegration services from a market; therefore, the state remains necessarily a purchaser of these services. At present, the British authorities believe the private and voluntary sector capable of delivering employment services, and thus the future of the public employment service is contingent on whether governments believe these sectors can be also trusted with the administration of cash benefits.

Summarily, the path and policymaking method are clear: since the 1980s, the UK has gradually adopted

a stronger emphasis on labour market attachment and made greater use of market forces in the delivery of employment services. The question remains, especially in light of the evidence provided in Chapter 1, 2 and 3, whether this is going to result in a more effective system for moving people from benefits into employment. The following chapter highlights the continuation of this trend, showing the specific performances of different types of ALMP, and the adjustments to them rendering them more work-first and market orientated. These will flesh out context for the case study, and provide performance benchmarks.

CHAPTER 5 New Labour's Welfare and Work Policies: Continuity or Change?

Heralding the introduction of the Flexible New Deal the Labour government demanded the following: 'We expect the Flexible New Deal to deliver a step change in performance from existing DWP employment programmes, in terms of the numbers of customers entering and sustaining employment.'⁴⁶⁹ This chapter will explore the forerunners to FND because a) they offer an opportunity to identify the performances of the welfare-to-work programmes that the FND was intended to surpass, and b) they reflect the continuation of the trend towards greater employment-related conditionality and marketization. Specifically it will cover the existing literature on the programmes with an updated analysis of the core employment outcomes data. These outcomes will serve as an invaluable benchmark to assess the expectations and performance of FND.

The three key programmes covered in this section have been examined in the chronological order of their implementation. These programmes are the New Deal for Young People (NDYP), The New Deal for the Long-Term Unemployed (ND25+) and Employment Zones (EZs). These three programmes of NDYP, ND25+ and EZs are selected for several reasons, most importantly because they were the programmes FND directly replaced. In complementing the theoretical framework, over their lifetime the programmes show a gradual shift in government thinking with the deepening of conditionality and the widening role of the private sector employment services, and lastly because features of each were incorporated into the Flexible New Deal.

New Labour and Active Labour Market Policy in Context

The Labour Party during the 1980s had shown hostility to conditional welfare-to-work programmes, in particular the Conservative government's employment experiments. By the 1990s, the party's position

⁴⁶⁹ DWP (2008) *Flexible New Deal Phase 1: Invitation to Tender; Provision Specification and Supporting Information*, Department of Work and Pensions, London, p91

on welfare-to-work was shifting. Initially this occurred under Kinnock and Smith but this gave Tony Blair's eventual leadership the political space to endorse tougher welfare-to-work strategies. Once in office, the Labour Party both entrenched the Conservatives' Jobseeker's Allowance, and surpassed Conservatives' employment programmes by implementing active labour market programmes stricter than Major's Project Work

It is important to recognise that political considerations were important to the New Labour project. As demonstrated in the previous chapter, welfare regimes have emerged out of their different social, economic, and political contexts and the development of welfare-to-work within the Labour Party serves to reinforce this notion. According to Peck and Theodore, the adoption of conditionality must also be placed in the context of the wider transformation, or 'modernisation' process occurring in the Labour Party at the time.⁴⁷⁰ The reputation of the welfare state the Labour Party had helped establish after the Second World War had deteriorated. Amid concerns of 'scroungers', which had emerged since the 1980s (partly through the language fostered by the Conservative administrations and their American counterparts) Labour was particularly concerned at looking 'soft' on welfare.⁴⁷¹ Trickey and Walker pointed to the previous administration's efforts at transforming the political lexicon, which exposed the difficulty the Labour leadership faced in changing the overall direction of welfare policy. According to their account:

Secretary of State for Social Security during the late 1980s, John Moore had introduced the term 'welfare dependency' into the British political lexicon and began to give the term 'welfare' negative rather than positive connotations. Subsequently Peter Lilly, Secretary of State until the 1997 election, succeeded in securing media consensus that

⁴⁷⁰ Peck, J. and Theodore, N. (2001) *Exporting Workfare/Importing Welfare-to-Work: Exploring the Politics of Third Way Policy Transfer*, *Political Geography*, v20.4, p449

⁴⁷¹ Novak, T. (1997) *Hounding Delinquents: the introduction of the Jobseekers Allowance*, *Critical Social Policy* v.19, p108

expenditure on benefits was too high and that social security fraud was a major problem even if one confined to the activities of a minority of claimants.⁴⁷²

Because of public and media pressure, the Labour leadership were keen to press home the language of the reform as much as reform itself. In 1997, Blair stated 'There will be no option of a life permanently on full benefit. Where there is a suitable offer, people will be expected to take this up.'⁴⁷³ Indeed Walker remarked that the leadership had accepted several of the key workfare philosophies that 'welfare has become the problem rather than the solution, destroying the work ethic and other family values.'⁴⁷⁴

To suggest the leadership's approach to workfare and stronger conditionality was merely opportunism is misleading. Blair characteristically endorsed the previous administration's strategy on Labour terms, stating that in order to ensure the enduring legitimacy of the welfare state, the nature of it had to change; 'We have reached the limits of the public's willingness simply to fund an unreconstructed welfare system through ever higher taxes and spending.'⁴⁷⁵ The remark highlights the fine balancing act as the party attempted to appeal to middle class voters while maintaining the support of both its core vote and its backbenches. In Taylor's view 'Blair was always keen to identify himself with the purposes of the New Deal, which reflected his own instinctive conviction that nobody should be able to claim something for nothing.'⁴⁷⁶

The ideological underpinnings for Labour's endorsement of conditionality were grounded in the 'Third Way'; delivering public services via a system of mutual obligation between the rights and responsibilities

⁴⁷² Trickey, H. and Walker, R. (2000) *An Offer You Can't Refuse? Workfare in an International Perspective*, Policy Press, Bristol, p186-187

⁴⁷³ Blair, T. (1997) cited in Dale, I. (1997) *The Blair Necessities*, Robson Books, London p67

⁴⁷⁴ Peck, J. and Theodore, N (2001) *Exporting Workfare/Importing Welfare-to-Work: Exploring the Politics of Third Way Policy Transfer*, , Political Geography, v20.4, p438

⁴⁷⁵ Blair, T. (1997) cited in Peck, J. (2001) *Workfare States*, Guildford Press, London, p301

⁴⁷⁶ Taylor, R. (2007) in Seldon, A. (eds) (2007) *Blair's Britain: 1997-2007*, Cambridge University Press, Cambridge, p221

shared by government and the individual.⁴⁷⁷ Through emphasising welfare rights as well as responsibilities, it was felt that the party could appeal to a wider base. This new 'social contract' was to be fixed directly into the new welfare system. For example, under the new welfare-to-work regime, the unemployed individual would be guaranteed their benefits and assistance in finding a job, in exchange for their obligated participation government-run programmes. A failure to meet these obligations would result in the government withdrawing cash benefits; tough language was to be mirrored in the policies themselves. This did however represent a rhetorical divergence from the previous Conservative strategy, which had proven particularly adept at emphasising the duties of benefit recipients without offering much language concerning welfare rights.

Looking beyond the rhetoric, the practical position on welfare-to-work might best be summarised by Carpenter as being 'mid-Atlantic' because although sharing some of the key ideas of European countries such as an emphasis on human capital investment, over time Labour gradually embraced a US style work-first strategy.⁴⁷⁸ The idea of a mid-Atlantic approach might reflect the 'third way' project's ideas, but to Wiseman the trajectory was increasingly towards to an Americanisation of welfare policy. He wrote 'Policy-makers in Britain and the US do indeed operate in very different cultural, political and institutional contexts, but that they are seeking to achieve similar objectives and draw upon a similar range of policy in order to do so.'⁴⁷⁹ In practice, this implied that benefit receipt should be contingent on taking the quickest route back to the labour market.⁴⁸⁰

⁴⁷⁷ Giddens, A. (1998) *The Third Way: The Renewal of Social Democracy*, Polity Press, Cambridge, pp65-66

⁴⁷⁸ Carpenter, M, and Speeden, S. (2007) *Beyond The Workfare State*, The Policy Press, Bristol, p140

⁴⁷⁹ Wiseman M. in Walker, R and Wiseman, M. (2003) *The Welfare We Want? The British Challenge to American Reform*, The Policy Press, Bristol, p 76

⁴⁸⁰ Caveats existed in balancing rights and responsibilities; some socio-economic groups had more rights than others, while others had more responsibilities than rights. For example the differing levels of conditionality between New Labour schemes aimed at the young unemployed and the disabled are, to Stafford, a result of 'different political realities'. It was perceived that compulsion targeted towards young people would be perfectly acceptable to the public, whereas imposing conditionality regimes on other target groups, including single mothers and disabled, may not. This point about differing rights and responsibilities arising from 'different political realities' goes deeper than a single programme; the capacity towards imposing increasing conditions on the young unemployed over the past three decades has been smoothed by their capacity at the ballot box and the limited public sympathy with their plight. More intriguingly this discrimination between groups mirrors the New Right debates concerning the 'deserving' and 'undeserving' poor.

Labour's social and economic justifications for welfare to work correlate with those outlined in Chapter 2. The inner circle of the Labour Party were convinced that work was a route out of poverty, as McKnight explains 'the programme [NDYP] was not seen as simply a welfare-to-work programme but as an investment programme that would lead to improved longer-term outcomes for [these] young people.'⁴⁸¹ The economic argument was grounded on the work of Richard Layard, who was charged with managing the detail of AMLP development. Layard's argument reinforced the new economic rationale occurring in welfare states that Western labour had priced itself out of the competitive global labour market and the way to combating this could be achieved through welfare-to-work policies:

Most opposition to active labour market measures is based on fears of displacement and substitution. In their extreme form, these derive from the 'lump-of-labour fallacy': there is only a certain number of jobs so if we enable X to get one of them, some other person goes without work. It is easily to see how the confusion arises. In the most immediate sense the proposition is true. If an employer has a vacancy and, due to a job subsidy, X gets it rather than Y, then Y remains temporarily unemployed. But by definition Y is inherently employable. If he does not get this job he will offer himself for others. Employers will find there are more employable people in the market and that they can more easily fill their vacancies. This increases downward pressure on wage rises, making possible a higher level of employment at the same level of inflationary pressure. Active labour market policy increases the number of employable workers and thus reduces the unemployment needed to control inflation.⁴⁸²

The implication of the above is that increasing labour supply creates its own demand. ALMPs achieve this in two ways through forcing down wages by either subsidy or compulsion. Explicitly ALMPs can

⁴⁸¹ McKnight, A. (2004) *A More Equal Society?* The Policy Press, Bristol, P32

⁴⁸² Layard, R (1997) cited in Peck, J. (2001) *Workfare States*, Guildford Press, London p357

reduce wage costs on the part of employers by allowing the state to subsidize employees income or training costs, while also depressing wage expectations of unemployed through requiring the workforce to take jobs at rates which they would not otherwise do so. Theoretically, this twin approach institutionalises cheaper labour, creating employment opportunities as companies see their labour costs decrease.

The economic rational was partly a result of self-inflicted constraints. In 1995, Shadow Chancellor Gordon Brown 'explicitly rejected the use of direct job creation or Keynesian demand management to stimulate economic growth.'⁴⁸³ Given this clear rejection of demand-side pump priming, the party's labour market options would be very limited without a clear supply-side policy. The new supply-side approach, according to Finn was to 'aim to tackle unemployment by improving the 'employability' of the unemployed.'⁴⁸⁴

In a summary reflection, the ideological shift that occurred in the upper echelons of the Labour Party were an important determinant of future of welfare-to-work in the UK by institutionalising broad consensus around welfare-to-work across the two traditional parties of government. Keegan had stated that 'Fifteen years ago the very idea of 'workfare' was anathema to the Labour party. Now the principle has been accepted. The argument is about the detail.'⁴⁸⁵ In the case of welfare-to-work at least, it appears that ideologically the Labour Party have given ground to the Conservatives. As Powell suggests, the Third Way appears to be at least 'leaning to the right.'⁴⁸⁶ The cornerstone of Labour's approach to welfare-to-work was the New Deal for Young People, explored below.

⁴⁸³ Finn, D. (2000) *From Full Employment to Employability: A New Deal for Britain's Unemployed?* International Journal of Manpower, v.21.5, p386

⁴⁸⁴ *Ibid*, p386

⁴⁸⁵ Keegan, V. (1998) cited in Powell, M. (1999) *New Labour, New Welfare State? The 'third way' in British Social Policy*, The Policy Press, Bristol, p278

⁴⁸⁶ Powell, M. (2000) *New Labour and the Third Way in the British Welfare State*, Critical Social Policy, v20.1 p39

The New Deal for Young People

The New Deal for Young People (NDYP) was a welfare-to-work programme implemented in 1998. Understanding it is essential to this thesis because its introduction to the statute books represented the starting phase of New Labour's continuous welfare reform programme, ultimately ending in the policy case study, the Flexible New Deal. In addition, NDYP outcomes will act as one of the multiple benchmark programmes against which the FND will be judged; principally because FND was to replace all mainstream active labour market policies by 2010. One of a number of New Deal Programmes, the NDYP is arguably the most important. As Labour's flagship welfare policy, it was their most expensive welfare programme delivered in office and consequently much political capital was invested in the scheme. The system differed from the Conservatives' Project Work experiment in two key respects: the first was that participation in the system was frontloaded for young people in that participation was brought forward from 2 years (under Project Work) to six months; second, young people were given a range of options alternative to work experience. The more subtle differences will become clear in the finer detail of the programme.

The objectives of the New Deal for Young People were consistent with most existing active European active labour market programmes – principally to prepare (young) benefit claimants for, and move them into work. Stafford adds that the NDYP 'aims both to remove barriers to immediate employment so participants move as quickly as possible into work, and to enhance longer-term employability through provision of advice/support and training.'⁴⁸⁷ The implication is of a hybrid of 'work-first' and human capital models, and the following exploration of programme mechanics highlights elements of both. For an explicit and measurable headline target, the Labour party promised in the first term of government that the NDYP would help to deliver a reduction in youth unemployment by 250,000.⁴⁸⁸⁴⁸⁹

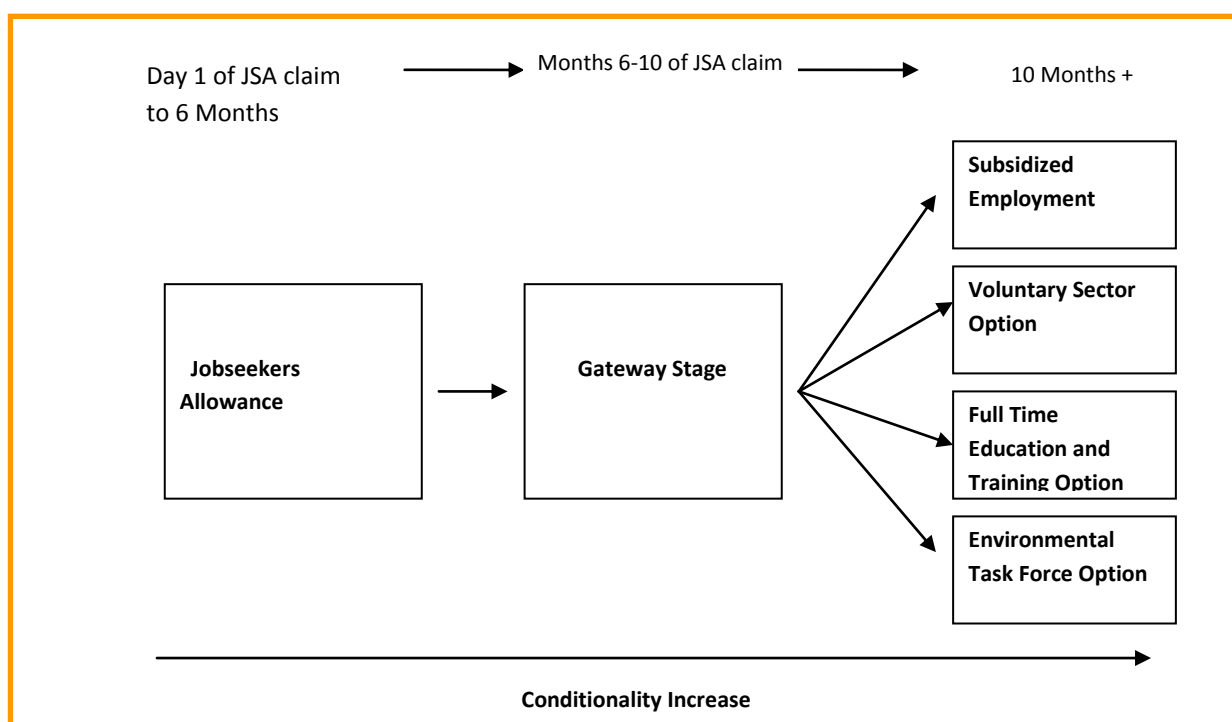
⁴⁸⁷ Stafford, B, in Walker, R and Wiseman, M. (eds.) (2003) *The Welfare We Want? The British Challenge to American Reform*, The Policy Press, Bristol, p154

⁴⁸⁸ The Labour Party (1997) *The Labour Party Manifesto 1997*, [online] <http://www.labour-party.org.uk/manifestos/1997/1997-labour-manifesto.shtml> [accessed 10/01/09]

NDYP Structure

The New Deal for Young People was intended for jobseekers aged between 18 up to and including 24 years of age. Participants in the New Deal for Young People were usually JSA recipients who had been claiming for at least six months.⁴⁹⁰ After this period, the programme divided into the two core parts shown in Figure 5.1.

Figure 5.1: Path Mechanics in the New Deal for Young People



Source: Author's construction

Figure 5.1 depicts the path experience of most clients participating in the New Deal for Young People. Eligible participants are initially subject to the (relatively) lightly regimented Jobseekers regime, which mandates regular meetings with Jobcentre Plus advisors, and evidence of job-search must be proven in order to continue benefit receipt. Participants are therefore subject to the generic activities of the mainstream unemployed on the JSA; the only difference is they are given less time to find work than

⁴⁸⁹ The headline goal was achieved; whether this principally the result of the NDYP or the wider economic circumstances is discussed below.

⁴⁹⁰ Exceptions were made for individuals with particular barriers to work including learning difficulties and drug addictions who did not qualify for other benefits within the welfare system, those exceptions normally would be brought onto the programme at an earlier stage

older client groups (such as those subject to the New Deal for Long Term Unemployed), before activities intensify. The explanation for this is connected to several of the arguments regarding the specificities of youth unemployment, but also, as its flagship programme it echoes the view held by the government's chief labour economist, Richard Layard, who felt that extended periods of jobsearch, particularly when the labour market is contracting or undergoing substantial change, were 'a subsidy to idleness.'⁴⁹¹

The NDYP begins after six months in receipt of JSA for those who have been unable to find employment with that timeframe. At the six-month point, clients are obliged to attend the stage 1 of the NDYP, the 'Gateway'. The Gateway phase was an intensified form of the JSA, with clients obliged to attend more frequent interviews and courses to address the barriers they faced in their attempts to join the labour market. Failure to submit to reasonable demands made by their individual Jobcentre Case Worker or a rejection of a reasonable employment opportunity could lead to benefit sanctions.

This 'Gateway' style of programme (of intensive jobsearch, CV building and interview techniques) was a simple and cost effective method for improving the employability of clients. The logic behind small-scale interventions was derived from surveys of employers who constantly picked up on the inadequate personal skills of clients, including the basics of communicating ones abilities with a prospective employer.⁴⁹² Research into the international deployment of these techniques has found them to be very effective at reconnecting the unemployed with the labour market.⁴⁹³⁴⁹⁴ Part of the effect of the Gateway may be attributed to the 'threat effect' where participants are likely to accelerate their

⁴⁹¹ Layard, R. (1996) in Finn, D. (2000) *From Full Employment to Employability: A New Deal for Britain's Unemployed?* International Journal of Manpower, v.21.5, p386

⁴⁹² Robinson, P. (2000) *Active Labour Market Policies: A Case of Evidence-Based Policy-Making?* Oxford Review of Economic Policy, v16.1, p22

⁴⁹³ De Koning, J. (eds) (2007) *The Evaluation of Active Labour Market Policies: Measures, Public Private Partnerships and Benchmarking*, Edward Elgar Publishing, Cheltenham, p43

⁴⁹⁴ This perhaps counterbalances the argument that the long-term unemployed are some distance away from the labour market.

employment efforts in appreciation of the alternative, namely participation in a mandatory work or training regime.⁴⁹⁵

If clients did not obtain employment after a further four months Walsh notes that 25% of clients were in the process for five, or even six months)⁴⁹⁶ they would progress to the 'Options stage'. This section of the programme is valuable, as it is the part that has been subject to fundamental reform, where the gateway stage in the replacement programmes was largely maintained. In the 'Options', clients are obliged to take part in an option, which was felt to facilitate their employability. These options were as follows:

- Subsidised Employment
- Full Time Education and Training
- Voluntary Sector Placement
- Environmental Task Force

Participation in the Options stage was mandatory; however, participants were offered a degree of freedom to select which of the four main options they wanted to participate in. Nevertheless, this stage signified the unequivocal introduction of workfare in the UK. As an advisor to the department for Education and Employment remarked 'workfare is rarely implemented in its harshest, strictest form of work and you get cash. It's normally a portfolio of options.'⁴⁹⁷ The selection of an Option was mandatory and in part aimed at finding something that suited the client's needs, capabilities and career preferences. In practice, Jobcentre staff and other personal advisors 'played a key role in determining the Option and placement allocated to individual participants.'⁴⁹⁸

⁴⁹⁵ Geerdsen, L. (2003) *Is there a threat effect of labour market programmes?* Danish National Institute of Social Research, [available at] <http://www.sfi.dk/graphics/SFI/Forskerfiler/LarsPicoGeerdsen/geerdsen2005.pdf> [accessed 20/03/10]

⁴⁹⁶ Walsh, K. et al. (1999) *The New Deal Gateway: A Labour Market Assessment*, Institute for Employment Studies, Brighton, p7

⁴⁹⁷ Anonymous Advisor to DfEE (1999) in Peck, J. (2001) *Workfare States*, Guildford Press, London, p329

⁴⁹⁸ Woodfield, K. et al. (2000) *The New Deal for Young People: The National Options: Findings from a qualitative study amongst individuals*, National Centre for Social Research, London p21

As Woodfield et al. found, such a matter is not trivial; 'The amount of time given to the Option allocation process and the extent to which individuals felt they had been fully involved in that process was of vital importance to their overall satisfaction with the eventual choice made.'⁴⁹⁹ In part technical necessity required a series of Options to allow a degree of systemic flexibility to address 'perceived failings of previous, nationally operated, 'one-size-fits-all' programmes, that were insensitive to the needs of clients or localities.'⁵⁰⁰ As with the Conservatives' Youth Training Scheme, availability was spatially uneven with certain Options not optional at all in a number of geographical locations.⁵⁰¹ That said, with a menu of Options, at least some degree of service could be guaranteed.

The four options were comprised as follows: First, the subsidized employment option (SEO) is a job with the private sector. This job is usually full time, but with one day set aside for accredited training. The government spent considerable time persuading employers to contribute placements for the SEO,⁵⁰² and to encourage them the government intervened on the demand-side, through paying £60 per week subsidy towards the client's wages, and a substantial contribution to training costs. This demand intervention was minor however, as the National Audit Office discovered only half of employers who took on clients at this stage were motivated by the subsidy.⁵⁰³ This option typified the 'work-first' approach, designed to facilitate rapid labour market attachment in the belief that the client's fundamental problem is the absence of recent, or any, work experience. As the most 'welfare-to-work' orientated option, this was to be the government's preferred option for clients because, as Cebulla comments, 'New Labour was advised, and believed, that moving away from large scale training programmes towards welfare-to-work programmes would be more effective and less costly to public

⁴⁹⁹ *Ibid*, p21

⁵⁰⁰ Peck, J. and Theodore, N (2001) *Exporting Workfare/Importing Welfare-to-Work: Exploring the Politics of Third Way Policy Transfer*, Political Geography, v20.4, p441

⁵⁰¹ Trickey, H. and Walker, R. (2000) *An Offer You Can't Refuse? Workfare in International Perspective*, The Policy Press, Bristol, p203

⁵⁰² King, D and Wickham-Jones, M. (1999) in Powell, M. (eds.) (1999) *New Labour, New Welfare State?* The Policy Press, Bristol, p272

⁵⁰³ Jones, J. et al. (2002) *The New Deal for Young People*, Report by the Comptroller General, National Audit Office, TSO, London, p29

finances.⁵⁰⁴ The SEO was clearly intended for those clients closest to the labour market, and consequently these individuals were often gently nudged towards selecting the SEO if their advisors believed them to be ready.

In the second option, Full Time Education and Training (FTET), clients were directed towards labour market specific education qualifications and participants could continue to claim their benefits with an extra £10 on top for a maximum of twelve months. With this option as an alternative to the SEO, the government could point out to its critics that the NDYP was not simply a workfare, or even work-first regime, and that they were influenced by the human capital model. Four weeks' work experience were required while participating in this Option, pressing the government's emphasis on some form of work experience. As Stafford points out, the balance struck between work-first and human capital development appears to have changed over time, with the need for clients to obtain paid work increasingly being stressed.⁵⁰⁵ This changing emphasis may well have been propelled by findings that the FTET produced a relatively low labour market attachment rate,⁵⁰⁶ though this outcome is tempered because the FTET was targeted however at some of the least job-ready of clients, who suffered from marked literacy and numeracy failings.⁵⁰⁷

The third, the Voluntary Sector Option (VSO), paid the same as the FTET and clients were placed with various voluntary sector organisations and charities for up to six months, providing effectively free labour to voluntary agencies. As with other options, the VSO included at least one days' training per week towards an approved qualification, but was targeted towards clients who were not considered 'job-ready' but did possess some basic qualifications.

⁵⁰⁴ Cebulla, A. (2005) *Welfare-to-Work: New Labour and the US Experience*, Ashgate, Aldershot p23

⁵⁰⁵ Stafford, B. (2003) in Walker, D. and Wiseman, M. (2003) *The Welfare We Want? The British Challenge for American Reform*, The Policy Press, Bristol p155, p155

⁵⁰⁶ Bonjour, D. et al. (2001) *New Deal for Young People; National Survey of Participants Stage 2*, Employment Service, Sheffield , p21

⁵⁰⁷ *Ibid*, p14

The final and least preferred option (at least on the part of the government) was the Environmental Task Force (ETF). The ETF comprises a range of localised projects where clients worked cleaning streets, planting shrubberies and initiating energy saving strategies, with time available for obtaining qualifications. Its classification as workfare is complicated because EFT clients could either be paid a wage or have their benefits topped up, but this depended on the supplier of the local ETF scheme. Like the SEO and VSO, this option also included one day per week accredited training.

The Options Stage was a clear example of a hybrid programme, combining elements of work-first and human capital development, but the individual's experience will usually be of one or the other. Of significance is Stafford's indication of a gradual change in emphasis in the Options stage from human capital development to work-first during the programmes lifespan, as Options became more work-orientated. The shifting emphasis was a clear indication of the direction Labour's welfare reforms were set to take, following the path set by their predecessors.⁵⁰⁸

Compulsion

The use of the JSA framework shows continuity with the previous Conservative government; however, NDYP was a manifestly stronger intervention because it accelerated participation in mandatory work or activity after only 10 months, whereas previous schemes only mandated such activities after 2 years.⁵⁰⁹

The mandatory Options were workfare in its purest form administered in the UK. Operating within the JSA framework, claimants were required to sign a Jobseekers Agreement from day one registering for the JSA, which put into a contractual format their commitment to seek work. A breach of this 'provides prima facie evidence that the young person is not actively seeking work and [is] grounds for the

⁵⁰⁸ Stafford, B. (2003) in Walker, D. and Wiseman, M. (2003) *The Welfare We Want? The British Challenge for American Reform*, The Policy Press, Bristol p155

⁵⁰⁹ The Employment Training programme, in spite of being promoted after the mandatory 6 month Restart interview process, remained a voluntary programme. Even the Project Work pilot, which represented the Conservatives' truest step towards a workfare programme, was targeted only at individuals who had been in receipt of benefit for 24 months.

temporary removal of benefit.⁵¹⁰ It was this Agreement which provided the conditionality parameters for the Gateway stage for young unemployed people, and the Agreement continued to hold effect throughout the Options stage where refusal to participate could lead to a termination of benefit for up to 26 weeks, hence former Prime Minister Blair's popular mantra of 'no fifth option of a life on benefit.'⁵¹¹

Sanctioning noncompliant recipients was an important mechanism for the government's active labour market policies. Whether sanctioning is generally effective was discussed in Chapter 3, but evidence shows that under NDYP they were widely deployed to enforce behaviour. According to data up to 2004 around 831,000 individuals had participated in the New Deal for Young People⁵¹² and within that period 83,505 benefit sanctions had been issued to NDYP participants.⁵¹³⁵¹⁴ Research by Peters and Joyce found that New Deal for Young People participants were particularly likely to receive sanctions relative to other UK ALMP participants, and that this was principally a consequence of refusing to participate in a mandated Option.⁵¹⁵ With no access to hardship payments or mitigating income, the NDYP people were particularly vulnerable to the effects of sanctions, possibly rendering the programme more effective in facilitating compliance.⁵¹⁶ One ethical question concerning sanctioning of the Options is that it may only legitimately avoid accusations of punishing clients if the 'rights' are of actual assistance, rather than an expensive distraction from other employment related activities such as job search. In the case of some of the Options (discussed below) the benefits of participating were not obvious.

⁵¹⁰ Stafford, B. (2003) *The Welfare We Want? The British Challenge for American Reform*, The Policy Press, Bristol, p158

⁵¹¹ Blair, T. (1997) cited in Finn, D. (2000) *From Full Employment to Employability: A New Deal for Britain's Unemployed?* International Journal of Manpower, v.21.5, p390

⁵¹² Kennedy, J. (2004) *Parliamentary House of Commons Debates 24th June 2004*, Hansard, C1441W, available at <http://www.publications.parliament.uk/pa/cm200304/cmhansrd/vo040623/text/40623w11.htm> [accessed 10/05/2011]

⁵¹³ *Ibid*

⁵¹⁴ This does not mean that 10% of participants were sanctioned, as participants may be sanctioned multiple times per year, and may have participated in the programme multiple times.

⁵¹⁵ Peters, M. and Joyce, L (2006) *A Review of the JSA Sanctions Regime: Summary Research Findings*, DWP Research Report 313, Corporate Document Services, London, p49

⁵¹⁶ *Ibid*, p66

The continuation and expansion of mandatory participation reinforced by benefit sanctions is one area of continuity in the development of welfare-to-work, another is in experimentation with private sector delivery.

Programme Delivery – New Labour’s First Attempt at Private Sector Administration

Initially the delivery of the programme remained predominantly in the hands of public agents, in spite of the government arriving in power announcing that they were ‘wholeheartedly committed to competition as the principle spur to greater efficiency.’⁵¹⁷ The early stages of NDYP reflected the ‘old’ Labour values of state management, representing what was fundamentally a ‘traditionalist policy, top down, nationally defined.’⁵¹⁸ In its early stages the New Deal for Young People was delivered almost entirely by the Benefits Agency and Employment Service, which from 2002 were merged to form the Jobcentre Plus (an important step in Labour’s alignment of benefit receipt to work).

Separated out into units of delivery (UoDs), the NDYP was established in 144 areas covering Great Britain. The rationale of the UoDs was to allow the tailoring of services to local labour markets. Nevertheless, UoDs designed and delivered the NDYP under the New Deal framework, and flexibility of this framework was limited.⁵¹⁹ New Labour decided early on however to experiment with different methods of service delivery, cautiously offering two of the 144 areas out to private tender. Despite early reports that private sector service delivery yielded relatively underwhelming results⁵²⁰ by 2002 private sector delivery had expanded to 10 out of 142 UoDs⁵²¹ and by 2005 private sector delivery of the New Deal had reached some 10% of total service delivery.⁵²²

⁵¹⁷ Owen, G. (2001) *The Blair Effect 1997-2001*, Little Brown Company, London, p209

⁵¹⁸ No 10 Policy Unit Advisor (1998) in , J. and Theodore, N (2001) *Exporting Workfare/Importing Welfare-to-Work: Exploring the Politics of Third Way Policy Transfer*, Political Geography, v20.4, p446

⁵¹⁹ McVicar, D. and Podivinsky, J.M. (2009) *How Well has the New Deal for Young People Worked in the UK Regions?* Scottish Journal of Political Economy, v56.2P8

⁵²⁰ Hasluck (2000) cited in Walker, R. And Wiseman, M. . (2003) *The Welfare we Want? The British Challenge to American Reform*, Policy Press, Bristol, p156

⁵²¹ Jones, J. et al. (2002) *The New Deal for Young People*, Report by the Comptroller General, National Audit Office, London, p11

⁵²² Finn, D. (2005) *The Role of Contracts and the Private Sector in Delivery Britain’s ‘Employment First’ Welfare State*, p8

The result of the experiments was a growth in confidence at Department of Work and Pensions in contracting employment services, where subsequently there emerged three modes of delivery for the NDYP. In type 1, the system would be controlled by the public sector through the Employment Service (or Jobcentre Plus), where public sector agencies were in charge of Gateway delivery and orchestrated external partnerships with agents to deliver the Options stage. Under Type 2, the system would be delivered by the private sector, with for-profit companies managing the Gateway phases and developing their own partnerships to deliver the Options. Type 3, what Stafford calls a ‘consortia led approach’ was a hybrid, where public, private and voluntary sectors worked together to provide the Options stage while allowing the Employment Service to deliver the Gateway.⁵²³⁵²⁴ To the government’s disappointment, this structured framework did not yield results that maximised the potential of the private sector. Too often ‘contracts were small scale, had a multiplicity of requirements and start and finish dates, and were too short, discouraging providers from making the investment necessary to improve performance.’⁵²⁵ Furthermore, evidence also points to the fact that operating costs of private sector led areas were higher than those of the PES.⁵²⁶ Such a rigid structure on such a small scale however may not have been appropriate to harness the power of large and unregulated private companies.

⁵²³ Stafford, B. in Walker, R. and Wiseman, M. (2003) *The Welfare we Want? The British Challenge to American Reform*, Policy Press, Bristol, p156, Table 6.1, p152

⁵²⁴ Delivery of the Gateway phase then was dependent on the selected provider and their subcontractors; however delivery of the options stage was wider than the gateway, but certain options shared key characteristics. For example the VSO was again coordinated by the Jobcentre in conjunction with a variety of voluntary sector organisations through municipal Councils for Voluntary Services (CVS). The full time education and training option was originally coordinated by the Jobcentre hand-in-glove with FE colleges. As a consequence of these variety of delivery methods it is no surprise that the availability, emphasis on and indeed quality of Options varied by Unit of Delivery. The most obvious example is the delivery of the Subsidized Employment Option, the availability and success of which is naturally contingent on local labour market conditions.

⁵²⁵ Finn, D. (2009) *The Welfare Market: The Role of the Private Sector in the Delivery of Benefits and Employment Services*, in Understanding social security: Issues for policy and practice. Policy Press, Bristol, UK, p8

⁵²⁶ House of Commons Work and Pensions Committee (2009) *DWP’s Commissioning Strategy and the Flexible New Deal*, Second Report of Session 2008-2009, Volume 1, The Stationary Office, London, p23

New Deal for Young People Outcomes

The most important concern for this thesis is the utility of active labour market policy. The New Deal for Young People, Robinson argued, was a clear example of 'evidence based policy', with strong evidence behind the Gateway and somewhat more mixed evidence behind the individual Options.⁵²⁷ Of all of the UK programmes discussed in this thesis, the NDYP has probably received the greatest volume of academic attention from both quantitative and qualitative perspectives. To begin with the former, there are two major quantitative evaluations from the National Audit Office and the National Institute for Economic and Social Research (henceforth NAO and NIESR). Both attempt to isolate the deadweight effect (the volume of individuals who would have found employment without the programme). Riley and Young at the NIESR looked to establish the net gain on employment and unemployment by comparing the NDYP 'treatment' group to older 'untreated' welfare recipients between the introduction of the programme and February 2000. The report suggests that the overall effect during the 16-month period of analysis was a reduction in long-term youth unemployment of 35,000 and an increase in youth employment of 15,000.⁵²⁸ Jones et al. at the National Audit Office advocated caution on these predictions and criticized the study's results as 'not being very robust.'⁵²⁹ The NAO, adapting the NIESR model, suggested that the gains for youth employment might be somewhere in the range of 8-20,000 and the youth unemployment gains to be within the range of 25-45,000.⁵³⁰ These wider projections still suggest that the NIESR results are possible, and largely central. As Stafford correctly indicates, these reductions in long term youth unemployment must be qualified in that the NDYP is estimated to increase short-term youth unemployment by 10,000 due to the diversionary effect of scheme participation on overall jobsearch time which have the potential to delay employment entry.⁵³¹

⁵²⁷ Robinson, P. (2000) *Active Labour Market Policies: A Case of Evidence-Based Policy-Making?* Oxford Review of Economic Policy, Vol. 16(1), p24

⁵²⁸ Riley, R. and Young, G. (2001) *Does Welfare-to-Work increase employment? Evidence from the UK New Deal for Young People*, National Institute of Economic and Social Research, p30

⁵²⁹ Jones, J. et al. (2002) *The New Deal for Young People*, Report by the Comptroller General, National Audit Office, TSO, London, p18

⁵³⁰ *Ibid*, p20

⁵³¹ Stafford, B. (2005) *The Welfare we Want? The British Challenge to American Reform*, Policy Press, Bristol p164

Since these reports, little quantitative research has been published. Of the few, Beale et al. analysed the longer-term impact of programme participation with a study focusing on a cohort over a four-year period. In this they found that benefit receipt amongst NDYP participants was 12% lower over that period than other comparable groups.⁵³² In spite of general success, the programme appeared not to benefit all candidates. For example, research has found that a third of New Deal clients have been through the programme at least twice,⁵³³ producing a 'carousel effect' where participants cycle between periods of short term employment and programme participation. As should be anticipated, the individual options yielded different results. Beale et al. found that the Employment Option was the most effective at reducing future benefit receipt, where against other Options Employment Option participants spent 7% longer in employment than FTET, and longer still against the ETF and VSO.⁵³⁴

Such findings are supported by those of Lissenburgh, who found from surveying Scottish clients that just under three quarters of SEO participants had left the Jobseekers Allowance by 2001, whereas for the FTET and VS Options this figure was narrowly above two-thirds. The figure dropped to under three-fifths for those on the ETF,⁵³⁵ bolstering the government's view that this New Deal Option was the least ideal for clients. Nevertheless, as Lissenburgh rightly clarifies, 'these figures take no account of the differences in characteristics between participants in each option',⁵³⁶ and Option performance may be distorted by the selections of particular Options on the basis of individual 'job readiness' of clients. Furthermore, Lissenburgh found that not only was the SEO best for moving clients from unemployment,

⁵³² Beale, I. et al. (2008) *The Longer-Term Impact of the New Deal for Young People*, DWP Working Paper No.23, HM Stationary Office, p3

⁵³³ Field, F. and White, P. (2007) *Welfare isn't working: The New Deal for Young People*, Reform, [online] http://www.reform.co.uk/client_files/www.reform.co.uk/files/new_deal_for_young_people.pdf [accessed 10/03/2009] p30

⁵³⁴ Beale, I. et al. (2008) *The Longer-Term Impact of the New Deal for Young People*, DWP Working Paper No.23, HM Stationary Office, p3

⁵³⁵ Lissenburgh, S. (2004) *New Deal Option Effects on Employment Entry and Unemployment Exit*, International Journal of Manpower, p419

⁵³⁶ *Ibid*, p420

but also subjection to the SEO is more likely to keep individuals from returning to the Jobseekers Allowance.⁵³⁷

Interestingly, a survey-based report for the Employment Service yielded different results, finding that the propensity to move into unsubsidized employment was strongest amongst those who had undertaken the SEO Option, while the FTET had moved to the bottom of the ranked Options.⁵³⁸ This was apparently because it encourages participants to pursue further qualifications, which is seen as distracting the individual from an active engagement with their jobsearch.⁵³⁹ SEO also outperformed all other options in Northern Ireland. Data from Northern Ireland reveal that the chances of moving into unsubsidized work are more than triple those of VSO and ETF options, and SEO clients are two-thirds less likely to return to benefits than those on the other options,⁵⁴⁰ but again, this may relate to the characteristics of clients. This is implied using evidence from Dorsett, who reported that male clients on the SEO tend on average to have signed on to the JSA less than their counterparts on other options and tend to have a shorter claim history.⁵⁴¹ In a similar way, research undertaken for the employment service found that client characteristics were important determinants of the performance of each Option. Bonjour et al. found that those participating in the SEO would have fared fine on the other Options (excluding the FTET) finding work at the end of the programme, whereas those participating on the other Options would have had better chances of finding work had they participated in the SEO.⁵⁴² Finally, at the general level, McVicar found that NDYP may have had a stronger impact on employment entry for the most 'job ready' clients,⁵⁴³ indicating at the very least that the NDYP produces an

⁵³⁷ *Ibid*, p425

⁵³⁸ Bonjour, D. et al. (2001) *New Deal for Young People; National Survey of Participants Stage 2*, Employment Service, Sheffield, table 4.19, p92

⁵³⁹ *Ibid*, p93

⁵⁴⁰ Department for Employment and Learning Northern Ireland (2008) *Statistical Bulletin: New Deal for 18-24 Year Olds in Northern Ireland*, available from www.delni.gov.uk/1824_statistical_bulletin_sep08.pdf, [accessed 01/04/2008] figure 2, p3

⁵⁴¹ Dorsett, R. (2006) *The New Deal for Young People; Effect on the Labour Market Status of Young Men*; Labour Economics, v13, Table 3.1, p410

⁵⁴² Bonjour D. et al. (2001) *New Deal for Young People: National Survey of Participants Stage 2*, p73

⁵⁴³ McVicar, D. and Podivinsky, J.M. (2009) *How Well has the New Deal for Young People Worked in the UK Regions?* Scottish Journal of Political Economy, v56.2, p193

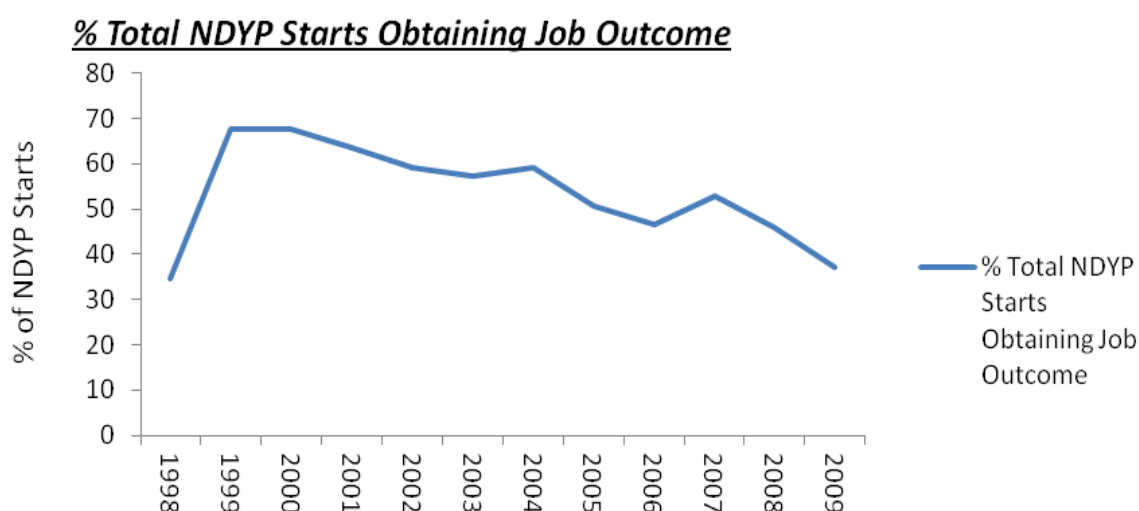
accelerant effect on clients (not dissimilar to the studies in the Restart scheme).

Summarily the NDYP evaluation literature found a modest, but positive impact on levels of youth employment. The stronger effect was identified on the unemployment side where participation encouraged deregistration for benefits on a larger scale than employment entry. The literature also identified that the NDYP Options were not equal – the preferred Option was the SEO, and this performed well in all evaluations, with more mixed outcomes for education and training, and weaker outcomes for voluntary and environmental placements. It was also evident that the programme benefitted those closest to the labour market, while the less successful were likely to experience repeated cycles of programme participation and short-term employment.

The studies discussed above are now dated and miss important trends in programme performance. Using data from across the programme it can be observed that there was a noticeable decline in the numbers entering the Employment Option, and by the final years of the programme, the other three Options had significantly more participants, despite the government's preference towards the Employment Options.⁵⁴⁴ Indeed, a downturn in programme performance can be observed using data over the lifetime of the programme which might explain the impetus for reform. Not only were the numbers entering SEO declining but also the number of those finding any work through the programme also declined in later years.

⁵⁴⁴ DWP (2011) *DWP Research and Statistics Tabulation Tool*, DWP Statistics Research Hub, [online] http://83.244.183.180/new_deals/ndyp/live/yp_p/ccdate/l_status/a_stock_r_ccdate_c_l_status.html [accessed 10/01/12]

Figure 5.2 Job Entry Rate of New Deal for Young People Participants



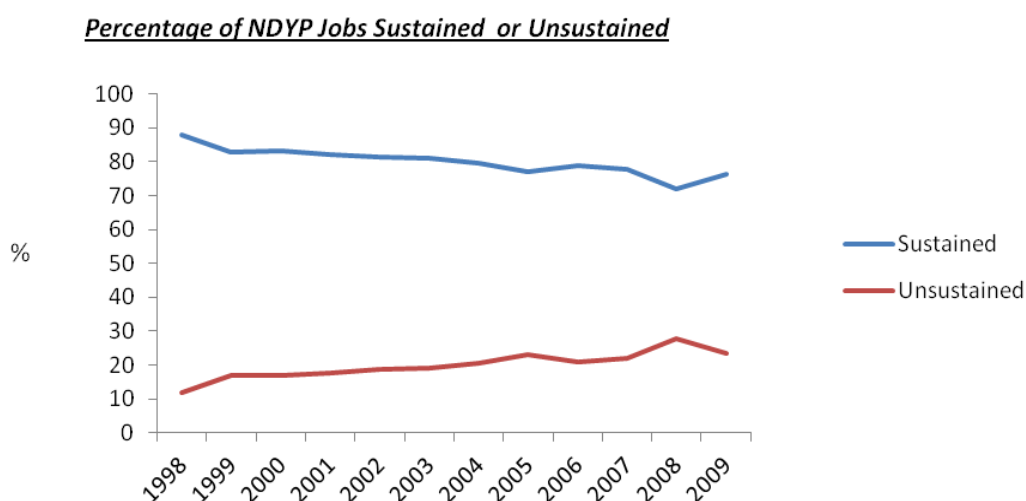
Source: Adapted using data from DWP Statistics Hub⁵⁴⁵

Using data gathered from DWP databank, Figure 5.2 was assembled to assess the performance of the key objective of NDYP (employment entry). The initial peak between the years 1998 and 1999 shows the strong start with a noticeable opening burst of employment outcomes. The years following however show a general downward trend of the proportion of those entering the programme leaving for employment, this in spite of more individuals starting the programme in 2008 than in 2001. A number of explanations are possible, including the labour market, and the quality of programme participants in later years. The explanations for decline and reform are dealt with in the following chapter.

Coupled with falling job entry are the sustainment figures. According to DWP criteria a job is sustained if it lasts for a period of at least thirteen weeks, but is unsustainable if within that limit. Using DWP data gathered on type of employment gained, Figure 5.3 shows NDYP suffering similar trends to Figure 5.2, showing a gradual decline of sustained employment.

⁵⁴⁵ DWP (2011) *DWP Research and Statistics Tabulation Tool*, DWP Statistics Research Hub, [online] http://83.244.183.180/new_deals/ndyp/live/tabtool.html [accessed 10/01/12]

Figure 5.3 New Deal for Young People Proportion of Jobs Sustained for 13-weeks



Source: Source: DWP Statistics Hub⁵⁴⁶

The issue of sustainability was raised by the House of Commons Committee on Employment and Education as early as 2000 but was dismissed by the government. The official response was that ‘The experience [of unsustained employment] may still transform their confidence, their ability to work, and their prospects of getting another job with recent work experience to show to their next employer.’⁵⁴⁷

The obvious effect of a lower proportion of the stock of unemployed is that it hampers the government’s other principle goal of moving young people off benefits. However, the more extreme is evident in the job entry measure than in sustainment, which could suggest that the bigger challenge to the programme was finding jobs for participants rather than keeping them there.

⁵⁴⁶ DWP (2011) *DWP Research and Statistics Tabulation Tool*, DWP Statistics Research Hub, [online] http://83.244.183.180/new_deals/ndyp/live/tabtool.html [accessed 10/01/12]

⁵⁴⁷ HM Government (2000) Response from Department of Education and Employment to HoC Education and Employment Committees 8th Report, Session 1999-2000, available online at <http://www.publications.parliament.uk/pa/cm199900/cmselect/cmduemp/969/96904.htm>

The New Deal for Long Term Unemployed People (ND25+)

As the under 25s are not the only group of longer term unemployed, the government also introduced a group for older ages, the New Deal for Long-Term Unemployed (NLTU/ND25+). There is significant duplication of NDYP in the ND25+ framework, so the programme only warrants a brief discussion. First, the New Deal for the Long-term Unemployed was for those over the age of 25, who had usually been unemployed for a period of two or more years. Like with NDYP, participants would be subject to the Jobseekers Allowance framework, and the generic obligations expected of those in receipt of that benefit, such as the requirement to be available, and looking for work. It also included two of the 'Options' from the NDYP, which were subsidized employment, and full time education and training.⁵⁴⁸

The ND25+ has received limited academic attention, possibly because of the following factors. First, much of the NDYP is replicated in the ND25+ framework. Second, less funding, fanfare, and client volumes, has meant that there is markedly less literature on ND25+ than its sister programme for younger participants. Third, the programme has undergone several rounds of reform in its first five years, making methodological design highly problematic. Because of these reforms, even less of the studies are of relevance to the analysis of the ND25+ as few provide up to date information on its latest state. Notwithstanding this problem, the following will explore programme transformations; focussing predominantly on its final format by looking at a number of studies to identify what impact, if any, it had on its client group.

Structure Pre-2001: the National Programme

Originally the ND25+ was for JSA recipients over the age of 25 who had usually been claiming Jobseekers Allowance for two or more years. Like with NDYP, participants would be subject to the Jobseekers Agreement, and the generic obligations expected of those in receipt of unemployment

⁵⁴⁸ Jarvis, T. (1997) *Welfare-to-Work: The New Deal*, Research Paper 97/118, House of Commons Library, pp13-14

benefit, such as the requirement to be available, and looking for work. At first, the New Deal for the Long-term Unemployed operated two simultaneous models of delivery, the first was the National provision, and the second were a series of pilot projects, known as the November Pilots.

The National provision required that after 2-years of JSA receipt, participants would have to attend a series of interviews at the Jobcentre, similar to the Restart process under the previous Conservative administration. According to the Tavistock Institute this is 'intended to be a period of advice, guidance and counselling with a Personal Adviser involving between 5 and 7 interviews over 3-6 months. During this period the intention is to:

- help clients into unsubsidized work through supporting and refocusing job search activities;
- enable clients to reassess their skills and abilities in the context of the local labour market;
- identify any barriers to employment;
- consider how existing provision from ES and TECs/LECs may overcome those barriers; and
- decide whether additional New Deal opportunities are appropriate.⁵⁴⁹

Participation in the interview process was mandatory as non-compliance or non-attendance would result in a sanction. As with the NDYP Gateway stage, intensive activity and greater support was offered to assist independent job search. If this 3-6 month period did not lead to employment, participants would be subject to one of two opportunities, similar to those offered in the NDYP: the first, entry to some form of subsidized employment, and the second, entry into full time education and training.⁵⁵⁰ Specifically these were either: A subsidized job with a job voucher - £75 for full time employment (over 30 hours) provided the wages are equal to this amount and £50 for a part time post (16-30 hours); Or entering the Education and Training Option (ETO), which offered a range of courses as long as the course is job focused and usually up to NVQ level 3. The course can last up to 12 months and is college

⁵⁴⁹ Blackburn, V. et al. (1999) *Case Study Evaluation of the New Deal for Long Term Unemployed: A review of progress in five units of delivery*, Evaluation Development and Review Unit, Tavistock Institute, p9

⁵⁵⁰ Jarvis, T. (1997) *Welfare-to-Work: The New Deal*, Research Paper 97/118, House of Commons Library, London, p12

based.⁵⁵¹ In effect, these were the same options as the SEO and FTET from the New Deal for Young People, but the notable distinction was that these options were not mandatory. Rather the only mandatory stage of the National Provision was the attendance at interviews.

The November Pilots

The November Pilots operated a different model, which appeared to have the objective of understanding whether a similar model to the NDYP would be appropriate for those over the age of 25.

The Tavistock Institute recall the following objectives:

- the focus is on getting people back to work as soon as possible and helping them stay in work;
- recognising existing skills and experiences and building upon them, while offering greater opportunities for those with greater training needs;
- a range of help which matches the needs of the client group;
- offering the widest scope for tailoring to individual need;
- learning from the New Deal for 18-24 year olds incorporating a Gateway and a follow through; and
- no option for eligible clients to continue on benefits without taking steps to improve their employability.⁵⁵²

The main difference between the national and piloted provision was the degree of compulsion and stricter focus on labour market attachment in the pilots. This was implemented by bringing forward participation in some areas to 12 months continuous JSA receipt, and in others 18 months.⁵⁵³ This was to be followed by an Intensive Activity Period rather than simply the two Options; this was a menu of employment related activities (explored below), which were mandatory. Finally, a mandatory follow

⁵⁵¹ Blackburn, V. et al. (1999) *Case Study Evaluation of the New Deal for Long Term Unemployed: A review of progress in five units of delivery*, Evaluation Development and Review Unit, Tavistock Institute, p9

⁵⁵² *Ibid*

⁵⁵³ Wilkinson, , D. (2003) *The New Deal for People aged 25 and over: A Synthesis Report*, The Policy Studies Institute, DWP Research Report 161, p1

through period would occur if the Intensive Activity Period did not result in employment. The effect of these requirements was to enforce the final objective outlined above, that there would be 'no option for eligible clients to continue on benefits without taking steps to improve their employability', not dissimilar to the NDYP mantra of 'no fifth option of a life on benefits.' The similarities of the piloted areas to NDYP are apparent, and the intensified emphasis on reemployment and mandatory participation were adopted in the reforms at the turn of the century.

ND25+ After 2001 Reforms

The ND25+ underwent a series of incremental adjustments, and by 2001 the national programme had changed in substance. The rationale for amending the character of the ND25+ so swiftly after its introduction was outlined by Evans, who showed how over the first two years the movement from the Advisory Interview Process into jobs had halved and the proportion of programme participants returning directly to benefits was up to 56%.⁵⁵⁴ Consequently the reforms embraced the same mandatory Gateway model lasting for the same time period (16 weeks) as the New Deal for Young People. This was partly a re-branding of the interview processes, but there were some alterations such as increased interaction with personal advisors and a more structured focus on the skills barriers which faced clients.⁵⁵⁵

The second change was the frontloading of the programme, where participation in the Gateway stage was mandatory for all customers after a period of 18 months JSA receipt, and, unlike the previous model, participation in activities after the Gateway was also made mandatory for all participants between the ages of 25 and 49. The consequences of these changes, according to Wilkinson were that:

⁵⁵⁴ Evans, M. (2001) *Britain: Moving Towards a Work and Opportunity-focussed Welfare State?* International Journal of Social Welfare, v10 p264

⁵⁵⁵ Hasluck, C. (2003) *The Reengineered New Deal 25 Plus: A summary of recent evaluation evidence*, Warwick Institute for Employment Research, p i

The re-engineered programme introduced in April 2001 addressed some of the identified problems with the earlier programmes creating an individually tailored package of provision for participants and greater flexibility for Advisers. The change to mandatory programme participation after the Gateway meant that many more participants took an active role in the programme.⁵⁵⁶

In its final form, ND25+ participants would join the programme usually after 18 months of JSA receipt. After this period they would enter the Gateway Phase, which at the start would focus on diagnosing the barriers the participant faced to immediate employment. The “Gateway”, lasts up to 16 weeks and focuses on helping the individual in their job search by providing advice and regular meetings with a personal adviser. During the middle of the Gateway stage, participants would be sent on short courses of CV building, job search training and interview skills. If they remained unemployed by the end of the Gateway, focus would shift towards the impending Intensive Activity Period (IAP). The Intensive Activity Period is an intensive form of the Gateway stage, which according to Hasluck: ‘Is designed to give people the skills and experience needed to obtain employment by offering tailored, full-time, intensive provision. Such provision includes Basic Employability Training (BET), work placements, work-focused training and help with motivation and ‘soft’ skills.’⁵⁵⁷ The IAP lasted a further 13 weeks, where, following discussion with the personal adviser, the participant was offered a selection of support activities. These included training, help with soft skills, and work experience placements. For those aged 25-59 participation in the IAP is mandatory; for those aged over 60 it is voluntary (although participation in the Gateway period is compulsory). The IAP offered a number of options that were available on the NDYP, including full time education and training, subsidized employment, and work experience.⁵⁵⁸ As with the Gateway, this stage of the ND25+ is mandatory and supported by sanctions. The last stage, “follow-

⁵⁵⁶ Wilkinson, D. (2003) *The New Deal for People aged 25 and over: A Synthesis Report*, The Policy Studies Institute, DWP Research Report 161, p4

⁵⁵⁷ Hasluck, C. and Green, A. (2008) *What Works and For Whom? A Review of Evidence and Meta-Analysis for the Department of Work and Pensions*, DWP Research Report 407, HMSO p41

⁵⁵⁸ *Ibid*, p47

through”, for those who have not found work at the end of the IAP, lasts up to six weeks and offers extra help and support to those still unemployed.⁵⁵⁹

Finally, a key feature of the reengineered ND25+ was the increased ‘work-first’ tone of the programme. Wilson explains that: ‘The re-engineered ND25 plus programme is much more job outcome oriented than its predecessor. The client’s needs are to be assessed in terms of what they need to obtain a job as quickly as possible, rather than what they would like to do regardless of feasibility.’⁵⁶⁰

The two main differences between the NDYP and ND25+ were the extra year for those over 25 before entering the Gateway, and the limited equivalent of an ‘Options’ stage at the end through IAP. The IAP opportunities however did not include an equivalent of the NDYP’s Environmental Task Force where the state would act as the employer of last resort.

All told, over the course of several fundamental reforms, the ND25+ came to share a similar structure with the NDYP for older clients to join 12 months later, albeit with a stronger work-first emphasis.

Performance of the New Deal for the Long Term Unemployed

Against programme objectives, the literature reveals the ND25+ as a general success. First, Hasluck refers to qualitative evidence from ND25+ staff that that the programme had become intensified and job-focused, as was intended by the reform programme.⁵⁶¹ More importantly, homogenizing reforms have delivered improved outcomes on the preceding schemes. The effects of reform were evaluated by two major pieces of research. Hasluck provides data, which shows the probability of leaving the programme under the original system and under the reformed system. The data appears to indicate that after 6 months the number of people to leave the reformed ND25+ was 10% higher than under the

⁵⁵⁹ Harari, D. (2010) *Welfare to Work Programmes: An Overview*, Standard Note SN/EP/55627, House of Commons Library, London, p4

⁵⁶⁰ Wilson, P. (2002) *Evaluation of the Reengineered New Deal for the Long Term Unemployed*, Institute for Employment Research, University of Warwick, p29

⁵⁶¹ Hasluck, C. (2003) *The Reengineered New Deal 25 Plus: A summary of recent evaluation evidence*, Warwick Institute for Employment Research, Warwick, piv

original system.⁵⁶² Consequently the mean time spent on NTLTU was less than under the original system.⁵⁶³ The overall net effects of the New Deal for the Long-term Unemployed amongst men were around 4% percent above the deadweight – or the non-intervention rate; this translates as men entering the programme were 4 percent less likely to be unemployed after participating in the programme than non-participants.⁵⁶⁴ The impact amongst women was apparently negligible, but explanations for this were not forthcoming in the report.⁵⁶⁵

The reformed programme had yielded improved job outcomes than its earlier design phases, but despite sharing some similar characteristics to the New Deal for Young People, the New Deal for Long-term Unemployed was found to be less effective. This was explained by the participation lag however rather than programme design, where: '25+ year olds enter the programme after 18 months claiming unemployment-related benefits, whereas 18-24 year olds enter after only 6 months. These generally longer spells on benefits are likely, in and of themselves, to impact negatively on the chances of 25+ year olds entering employment.'⁵⁶⁶ There is also marked difference in the programmes achievements over its lifetime. As Figure 5.4 indicates, the outcomes of the ND25+ over time, where outlined below is the number of participants, finding and sustaining employment for at least 13 weeks, which was the key objective of the piloted and reengineered provision.

⁵⁶² *Ibid*, p17

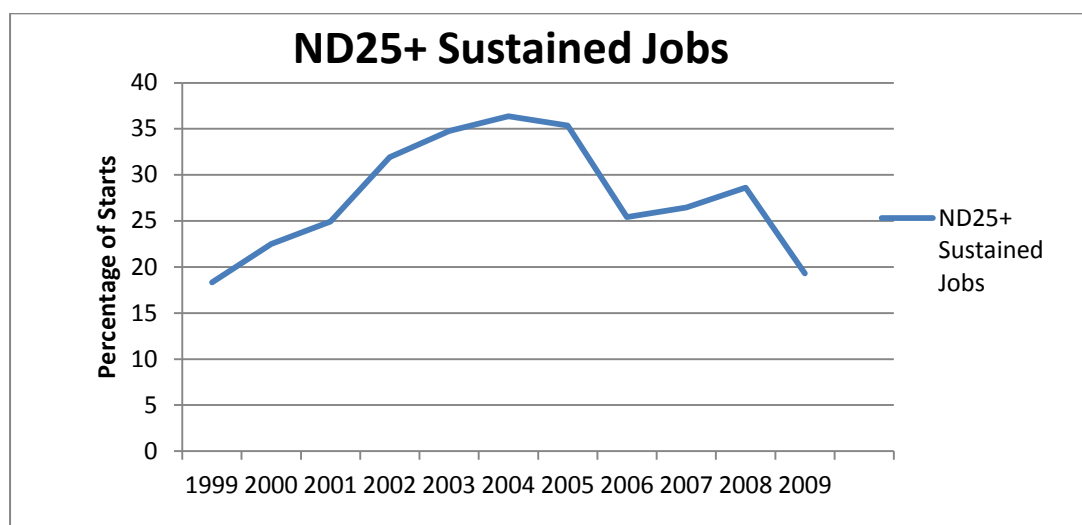
⁵⁶³ *Ibid*, p18

⁵⁶⁴ Wilkinson, D. (2003) *The New Deal for People aged 25 and over: A Synthesis Report*, The Policy Studies Institute, DWP Research Report 161, DWP, TSO, London, p31

⁵⁶⁵ *Ibid*, p31

⁵⁶⁶ PWC (2004) *New Deal 25+ Evaluation Report Number 9*, Department for Employment and Learning Northern Ireland, PWC, p23

Figure 5.4 Proportion of Starts Entering Employment Lasting 13+ weeks



Source: Adapted from DWP Statistics Hub⁵⁶⁷

Figure 5.4 illustrates that throughout the major reforms of the ND25+ the proportion of jobs sustained for 13-weeks or longer grew until 2004, after which, it began to decline. The acceleration after the 2001 reforms can partially be explained by the fact that participants were entering the programme earlier.⁵⁶⁸ However, explaining the substantial decline after 2004 is a bit more difficult. PriceWaterhouseCoopers offer the suggestion that the client group has become more difficult to manage, as those easy to help are moved quickly into work, those remaining in the programme represented a hard-core group that had multiple barriers to employment making them more difficult to place in the regular job market.⁵⁶⁹ In addition, they suggest that encouraging employers to accept participants had become more difficult, citing increasing insurance costs and a rising administrative burden dissuading employers from participating in the scheme.⁵⁷⁰

⁵⁶⁷ Data adapted from DWP (2011) *DWP Tabulation Tool*, Research and Statistics, DWP, [online]

http://statistics.dwp.gov.uk/asd/asd1/tabtools/index.php?page=tabtool_nd [accessed 10/11/11]

⁵⁶⁸ As the literature review reported, those with shorter unemployment spells are more likely to reenter employment.

⁵⁶⁹ PWC (2004) *New Deal 25+ Evaluation Report Number 9*, Department for Employment and Learning Northern Ireland, PWC, p23

⁵⁷⁰ *Ibid*, p136

The decline after 2008 can perhaps be explained by the recession, and that specific decline is common amongst each of the programmes studied in this chapter. Before this point however, in the context of an expanding labour market, the decline in outcomes is more difficult to explain.

ND25+ Summary

The New Deal for the Long-term Unemployed received limited academic attention and the research investigating its effects, pertained largely to the programme before it underwent its reform. These reforms had the effect of adopting a stronger 'work-first' emphasis, where immediate labour market attachment was emphasized through a series of focused and compulsory work related activities and an escalation of participant expectations earlier in the unemployment spell. The reforms also served to homogenize the system, where the differences between services aimed at those above the age of 25 and those below became increasingly blurred.

The impact of the programme on the stock of starts appears smaller than the New Deal for Young People. This could be explained by a number of factors. First, despite reforms, the Gateway did not begin until 18 months of JSA receipt, a whole year later than the NDYP. Older groups of jobseekers were therefore given more time to seek work independently, and as chapters 1 and 2 explained, those out of work for longer periods of time are more difficult to assist than those of shorter unemployment spells. Second, the programme for older workers included no option where the state would act as employer of last resort, which serves to reduce the possible destinations of those exiting the programme.

Employment Zones – Market driven work-first

Almost as soon as the New Deals were introduced, the government began experimenting with alternative employment programme delivery mechanisms. With the New Deals, the private delivery models were largely unsuccessful in surpassing the Jobcentre Plus's performances, but as delivery organisations were paid on delivering processes rather than outcomes, it was difficult for the state to incentivise improved performance. The approach to Employment Zones was quite the opposite. Despite operating in only 15 areas in the UK,⁵⁷¹ Employment Zones are important to this project because they share many similarities to the Flexible New Deal, including a quasi-market driven by outcome-based payments, a 'black box' approach with a strong incentive to deliver 'work-first' style employment services. The New Deals and EZ worked with different claimant groups, with Employment Zones being targeted at a wider variety of unemployed participants, including single parents (through voluntary participation), young people who had been through the NDYP and failed to gain employment, as well as the mainstream unemployed. An exploration of the strengths and weaknesses of EZs should highlight two things. First, assessing the outcomes EZs should provide some indication of likely FND performance and second, identifying key differences between EZs and FND will provide insight into where the source of effectiveness and efficiency gains lies in replacing one with the other.

Employment Zones were special employment programmes designed to target communities with disproportionately high levels of unemployment compared to the rest of the UK. Fundamentally, they were a pilot project, an experiment to test the utility of deploying market forces through private sector delivery and competition as a means of boosting the pace of transition from welfare to work. Initially, the first phase of Employment Zones was 'characterized by voluntary jobseeker participation, a strong

⁵⁷¹ Birmingham, Doncaster, Haringey, Heads of the Valleys and Caerphilly (HOVAC), Newham, Nottingham City, Plymouth, Southwark, Brent, Brighton and Hove, Glasgow City, Liverpool & Sefton, North West Wales, Middlesbrough with Redcar & Cleveland, and Tower Hamlets.

focus on local partnership and the involvement of community based organisations.⁵⁷² However, the emphasis quickly changed to mandatory participation for certain client groups and rapidly evolved into a market driven 'work first' regime, largely as a result of the schemes initial expense.⁵⁷³ The mandatory Employment Zones were the longest running system, were researched more thoroughly, and relevant to this thesis because of their similarities with FND. Under EZs, the DWP began experimenting with contracting welfare-to-work to test whether a) a market existed amongst the 'for-profit' sector, and b) how to implement a system of payment-by-results. In line with international evidence, the DWP learned that 'reintegration services are marketable [and] the knowledge of reintegration is available in the private market or can at least be developed.'⁵⁷⁴

The development of a quasi-market involved several mechanisms. The first utilised single contract areas (one provider per location) to deliver DWP targets with payments by results. The areas would be operated by either private or voluntary sector by companies, such as Serco. Interestingly, at this stage the state had also entered the market, with the DWP creating an arms-length delivery organisation to compete with existing private sector companies, a public-private partnership under the name of *Working Links*, who subsequently won the majority of EZ contracts.

The participation and further interest expressed from private sector companies spurred on the DWP to initiate phase three of Employment Zones, which continued to develop the quasi-market. From April 2004 the DWP introduced direct competition between delivery organisations in 'Multiple Provider Zones'.⁵⁷⁵ Multiple Provider Zones were introduced to the largest six of the 15 EZ areas.⁵⁷⁶ In these six, usually two (but up to three) providers would directly compete on delivering fast and effective labour-market reintegration services. Each provider would be given a fixed market share and clients in most

⁵⁷² Bruttel, O. (2005) *Are Employment Zones Successful?* Local Economy v20.4, p391

⁵⁷³ *Ibid.*

⁵⁷⁴ Bruttel, O. In De Koning, J. (eds) (2007) *The Evaluation of Active Labour Market Policies: Measures, Public Private Partnerships and Benchmarking*, Edward Elgar Publishing, Cheltenham, p187

⁵⁷⁵ Hirst, A. et al. (2006) *Evaluation of Multiple Provider Employment Zones: Early Implementation Issues*, DWP Research Report No. 310, DWP, The Stationary Office, London, p1

⁵⁷⁶ Griffiths, R. and Durkin, S (2007) *Synthesising the Evidence on Employment Zones*, DWP Research Report No.449, DWP, The Stationary Office, London, p2

cases would be automatically allocated to them through the 'Random Assignment Tool',⁵⁷⁷ a system carried through to Flexible New Deal.

In the initial stages, a fixed market share may limit the element of direct competition; nevertheless it was in the providers' interests to surpass competitor's outcomes with a view to obtaining future DWP contracts or expanding their coverage in Employment Zone areas. For the DWP fixing allocation numbers was a safe and steady way of building and testing a competitive private sector market without running the high risk of providers exiting the market, or the market failing (though this did occur with several providers). The random allocation of a fixed number of participants was also done for evaluation purposes because the DWP believed that distributing a similar quality and quantity of participants would simplify the process of identifying which provider performed best.⁵⁷⁸

The design of provider services remained largely under the provider's control. This approach is premised on the idea that transferring process-managed employment services to the private and voluntary sectors was unlikely to make any difference but, by releasing non-state delivery organisations from both bureaucratic obligations and state control, services could actually improve the chances of clients finding work.⁵⁷⁹ In effect, this was deregulating employment services. The DWP saw fit to restrain their regulatory capacity with the aim of fostering innovation and delivering private-sector practices to employment services. This approach of regulation permissive of significant provider autonomy is commonly called the 'black box' method.⁵⁸⁰ Not all are impressed by this approach, for example, Crighton et al. describe the 'black box' strategy as signified by a lack of any strategy at all.⁵⁸¹ The 'black box' approach to regulation has been adopted in most welfare to work programmes in the UK today

⁵⁷⁷ Hirst, A. et al. (2006) *Evaluation of Multiple Provider Employment Zones: Early Implementation Issues*, DWP Research Report No. 310, DWP, The Stationary Office, London, p26

⁵⁷⁸ *Ibid*, p25

⁵⁷⁹ Griffiths, R. and Durkin, S (2007) *Synthesising the Evidence on Employment Zones*, DWP Research Report No.449, DWP, The Stationary Office, London, p11

⁵⁸⁰ In general, the black box is associated with a large degree of autonomy of what and how services are delivered.

⁵⁸¹ Crighton, M. et al. (2009) *Tensions in Localising Welfare to Work to Britain's Cities*, Local Economy, v24.1, p55-56

therefore this criticism needs to be addressed. First, the 'black box' approach principally applies to the contract tendering stage, where contractors will outline in detail the processes they will adopt to deliver on government targets, including job-search, any minimal training provisions, details of subcontractor arrangements for specific client groups and their approaches to imposing conditionality through benefit sanctions. These plans are then approved (or rejected) by those charged with tendering at the DWP. As such, while at the tendering stage it may appear that the government will permit schemes where anything (or nothing) goes, this is obviously not the case. Rather the government ask for a range of different approaches from private contractors and approve them according to appropriateness. At the implementation stage, the DWP assumes to know what is going on 'on the ground' because it has had the processes outline to them.

Logically having emphasised freeing up the private and voluntary sectors to use their own methods to maximise productivity through the 'profit motive', service payments, which traditionally went towards financing processes, were to be limited. The payment system for EZs was complex, but in essence, contractors were given an upfront service fee of 20% of anticipated full payment per customer, and the rest was to be paid on the basis of outcomes.⁵⁸² There was considerable experimentation with financing of EZ providers throughout the lifetime of the programme, but, befitting the general marketization of employment services, upfront payments were gradually curtailed in terms of both monetary value and percentage of reward. This demonstrates over time that there was a slow transfer of responsibility and risk from the public sector to the private.

One of the more innovative payment structures to emerge from Employment Zones was the passing of the equivalent of half of the client's annual benefit entitlement, (26 weeks) to the private sector to

⁵⁸² For NDYP service fees, providers were mainly rewarded for delivering processes such as Gateway delivery, moving clients into an Option, completing interviews and entry to Follow-On, with a smaller emphasis on outcomes and performance related aspects. See Rodger, J. et al. (2000) *New Deal for Young People: Delivery and Performance in Private Sector Lead Areas*, York Consulting, DWP Document Service, Sheffield, p7

administer. The logic was that the quicker they could move participants into work and keep them there, the larger amount that the provider could retain.⁵⁸³ However, this incentivising of outcomes appears to create perverse incentives for the provider and the client. The literature review referred to two of these, creaming and parking, which is the cherry picking of the easiest to help, and ignoring the hardest. The DWP attempted to dis-incentivize cherry picking by mandating that any benefits saved this 21-26 week period could be kept by the provider, but if the participant remained unemployed after this period, the provider would have to cover the cost of the participant's continued benefit entitlement.⁵⁸⁴ Nevertheless, the majority of the financial reward was to be obtained through the bonus payments of achieving job outcomes and sustaining these employment periods for thirteen weeks. Having the money attached to individual customers, rather than the delivery process as a whole, was part of the wider strategy of personalising the service, in order to treat clients as units rather than as cohorts. Similar payment structures and incentives were carried forward to the FND.

Further elements of EZ's were adopted for FND. Under EZs customer choice was introduced for a small section of the clientele, namely single parents, who attended EZs on a voluntary basis. From April 2007 this was extended to mandatory groups in Multiple Provider Zones. The introduction of choice for mandatory clients enhanced the direct competition between providers. Now, providers were directly competing for client custom, with the previous system of fixed market share disappearing to be replaced with a fluctuating supply of clients based on who their preferred provider. In doing so the DWP had progressed to its next stage in mimicking competitive markets through their having providers directly compete for custom. This change led to considerable fluctuations in provider caseloads, which according to one provider lead to market share shifts of up to 35%.⁵⁸⁵ The delivery organisations that

⁵⁸³ Finn, D. in Sol, E. and Westerveld, M. (2005) *Contractualism in Employment Services: A New Form of Welfare State Governance*, Kluwer Law International, The Hague, p110

⁵⁸⁴ *Ibid*, p110

⁵⁸⁵ Employment Zone Provider cited in Connolly, A. et al. (2010) *The Operation of Choice in Multiple Provider Employment Zones*, DWP Research Report no. 650, National Centre for Social Research and DWP, The Stationary Office, London, p63

could attract clients saw their businesses expand, where those who failed to do so were forced to scale down their businesses and make redundancies.

Summarily, compared to the New Deals the distinctive features of the Employment Zones experiment were 'payment by results, minimum regulation, operational and financial flexibilities, provider competition and customer choice.'⁵⁸⁶ Every one of those features were adopted with the programme to replace both EZs and all of the New Deals, the Flexible New Deal. While a few technical differences exist, the successor programme, FND, is an uploading of EZs into the national unemployment strategy.

Employment Zone Performance

Given the noted similarities shared by EZs and FND, the performance of the former is of great interest. Many of the EZ evaluations have compared the employment outcomes to programmes with similar client groups such as the New Deal for Lone Parents and the New Deal for 25+. The comparisons do not match perfectly, because EZs are dealing with slightly different client groups in areas with unusually high levels of unemployment. The geographic and demographic differences should suppose weaker EZ results because of the harder task the providers face.

The studies tend to agree that against comparator New Deal programmes, Employment Zones deliver more sustained employment outcomes. Compared to the public employment service, EZ providers were found to deliver 6% more job starts for clients.⁵⁸⁷ In terms of the sustainability of employment outcomes, EZ contractors were around 10% more effective in producing these 13 week outcomes than their comparators.⁵⁸⁸ The second achievement has an important qualification, as this target was explicitly linked to a payment structure that was not applied in the other New Deal programmes. For instance, without that specific objective New Deal providers were expected to find subsidized

⁵⁸⁶ Griffiths, R. and Durkin, S (2007) *Synthesising the Evidence on Employment Zones*, DWP Research Report No.449, DWP, The Stationary Office, London,, p11

⁵⁸⁷ Employment Zone Database cited in Freud, D. (2007) *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, Department of Work and Pensions, The Stationary Office, London

⁵⁸⁸ Bruttel, O. (2005) *Are Employment Zones Successful?* Local Economy v20.4, p399

employment lasting at least 6 months, and therefore may have been more selective in the employment opportunities found for participants. The EZ emphasis on quick outcomes was identified by Griffiths and Durkin who indicate that that the jobs obtained were of relatively poor quality, and that the 13-week target was not perhaps challenging enough.⁵⁸⁹ This advice appears to have been noted for the FND design, as payment structures were revised to incentivise 26 weeks' work.

The third phase expansion from single contract areas to Multiple Provider Zones does not appear to have produced manifestly different outcomes or services, but as Griffiths and Durkin argued that having been introduced only in 2007 it had yet to be subjected to proper quantitative evaluation.⁵⁹⁰

Internal DWP evidence was particularly insightful when it came to comparisons between EZs and the state run New Deal for Young People, and found that purely in terms of outcomes the Employment Zones posted significantly better results with the same client group (which in this case were NDYP 'retreads'), Griffiths and Durkin phrase its success in the following manner:

'If we imagine 100 young people starting on EZ and 100 starting on New Deal, around 10 to 15 more people will be placed into work in the EZ than in New Deal comparator areas, and roughly ten or more EZ starters will get a sustained job'.⁵⁹¹

This is consistent with the literature presented in Chapter 3 that shows this would be predicted; as a pure work-first programme, Employment Zones were explicitly more work orientated than the New Deals, with the education and training options had elements of human capital development within it, and mandatory workfare to distract participants from full-time jobsearch activities. The context of the outcomes is also impressive as the results were achieved in tougher labour market conditions than the

⁵⁸⁹ Griffiths, R. and Durkin, S (2007) *Synthesising the Evidence on Employment Zones*, DWP Research Report No.449, DWP, The Stationary Office, London, p74

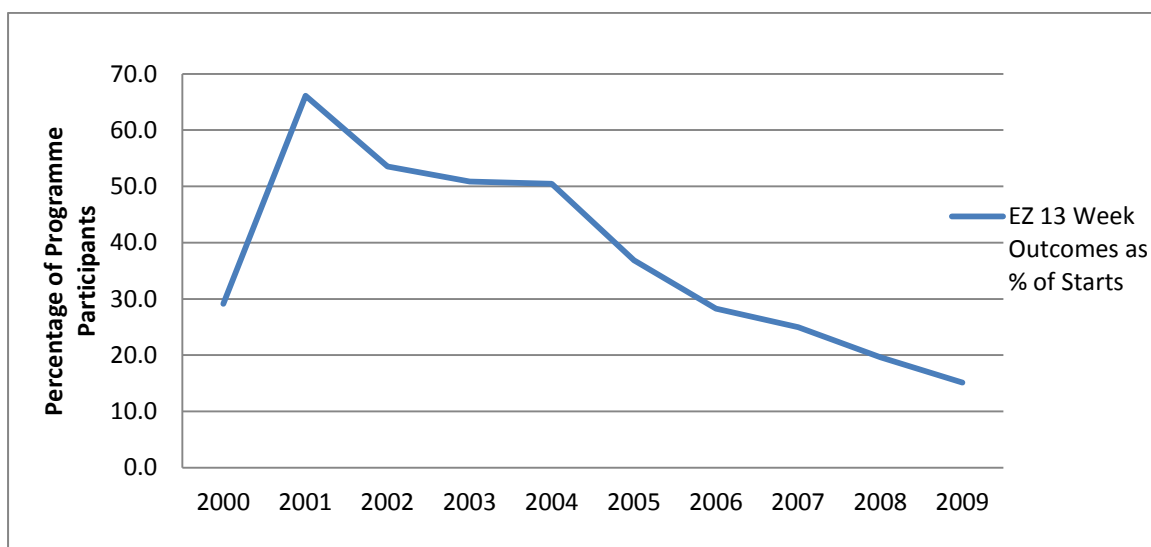
⁵⁹⁰ *Ibid*, p69

⁵⁹¹ *Ibid*, p26

New Deals. Predictably, however, the quality of post-participation jobs was of a lower standard, often temporary and poorly paid.⁵⁹²

Bringing the outcomes up to the point of FND implementation, between the years 2000 and 2009, Employment Zones worked with over 220,000 participants and moved around 58% of them into work, with a starts-to-13 week outcomes percentage of 37.5%.⁵⁹³ However, as with the other two ALMPs discussed, the results of the Employment Zones weakened over time. The following graph shows a familiar pattern where the proportion of programme starters achieving outcomes lasting 13 weeks or more fell, in this case, quite dramatically.

Figure 5.5 Employment Zones 13-Week Outcomes as a Proportion of Participants



Source: Adapted from DWP Statistics Hub data⁵⁹⁴

As the active labour market policy with the most in common with the Flexible New Deal, with its strong emphasis on work-first rather than training, education and subsidized work, and its administration by the private and voluntary sectors incentivised by outcome payments, the performance of Employment

⁵⁹² Finn, D. in Sol, E. and Westerveld, M. (2005) *Contractualism in Employment Services: A New Form of Welfare State Governance*, Kluwer Law International, The Hague, p113

⁵⁹³ Data adapted by author from DWP (2011) *DWP Tabulation Tool*, Research and Statistics, DWP, [online] http://statistics.dwp.gov.uk/asd/asd1/tabtools/index.php?page=tabtool_nd [accessed 10/11/11]

⁵⁹⁴ *Ibid*

Zones is perhaps the most appropriate indicator of Flexible New Deal performance. This is a view shared by the DWP. However, judging by Figure 5.5, the decline in sustained job outcomes is not an encouraging sign for the incoming programme.

Looking beyond the numbers, evidence showed that participants, particularly those who had already experience the NDYP, were generally positive about the more personalised support available in the Employment Zones (in spite of this also being an important component in the NDYP).⁵⁹⁵ Griffiths and Durkin also point to what appears to be ‘programme fatigue’, where those of low skills and experience who had experienced NDYP perhaps had a ‘greater acceptance of low wages [making] them attractive recruits.’⁵⁹⁶ Exhausting customers into accepting lower wages may increase their chances of employment, but as indicated above, the chances of this employment being of a quality capable of sustaining the customer’s interest or providing for their financial security raises questions about this method’s efficacy in resolving the carousel effect of cycling between short-term jobs and benefit receipt.

The higher employment outcomes and more popular services came at a price. The report to the DWP states that ‘Though EZs may be more customer focused and achieve better results than comparative New Deals, these benefits come at a price... EZs cost significantly more and offer less value for money than their New Deal comparators.’⁵⁹⁷ This assertion was disputed by Freud, whose unreferenced comparison of the EZs and their main comparator finds for sustained outcomes EZs are better value for money, and describes them as being only ‘somewhat more expensive than comparator areas.’⁵⁹⁸

In summary, the results of the privatised delivery of the Employment Zones initiative were to prove a surprise in light of the disappointing performance of private sector led New Deals. For policy-makers in

⁵⁹⁵ Griffiths, R. and Durkin, S (2007) *Synthesising the Evidence on Employment Zones*, DWP Research Report No.449, DWP, The Stationary Office, London,p50

⁵⁹⁶ *Ibid*, p51

⁵⁹⁷ *Ibid*, p73

⁵⁹⁸ Freud, D. (2007) *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, Department of Work and Pensions, p55

the Department of Work and Pensions, their experiment with a 'black box' approach showed that it was more effective to offer private companies freedom to operate, rather than having them duplicate services. This black box approach led to a more individualised service for the client compared to the centrally mandated NDYP and was therefore more sensitive to local labour market conditions and the specific requirements of benefit recipients.

Employment Zones were not however the finished product. The temporary nature of the jobs participants acquired meant that they often reverted back to benefit receipt at the termination of the contract. As concerning was the evidence from Finn that in order to deliver profits, private sector companies had in some cases reduced services for those furthest from the labour market and resources focussed on the easiest to help.⁵⁹⁹ This may partly have been a natural response to the profit motive in light of the contract structure, which did not significantly discriminate between types of client within given age categories, nor stipulate sufficiently ambitious sustained employment targets.

Legacy Employment Programmes Compared

If we look at each of the legacy programmes together over the years running up to the Flexible New Deal, it is possible to gauge expectations from future programmes. The following table shows the starts to outcome proportions for the three programmes against two measures, 13 Week Employment Outcomes (Short Job Outcomes/SJO) and 26 Week Employment Outcomes (Sustained Job Outcome/LJO) – these are essential because the Flexible New Deal was measured against these benchmarks. The conversion rate of 13 week to 26 week outcomes is also included to indicate what proportion of Short Job Outcomes might be converted into Sustained (26 week) Outcomes (LJO).

⁵⁹⁹ Finn, D. in Sol, E. and Westerveld, M. (2005) *Contractualism in Employment Services: A New Form of Welfare State Governance*, Kluwer Law International, The Hague, p115

Table 5.1 13 and 26 Week Job Outcomes by Programme

ALMP	Starts Obtaining	2006-2007 (% of starts)	2007-2008 (% of starts)
EZ25+	SJO	24.0	23.5
EZ25+	LJO	18.0	15.0
	Conversion Rate	75.0	63.8
ND25+	SJO	25.7	26.2
ND25+	LJO	12.0	12.0
	Conversion Rate	46.7	45.8
NDYP	SJO	42.1	33.1
NDYP	LJO	17.0	17.0
	Conversion Rate	40.4	51.4

Source: Adapted from DWP Statistics Hub data⁶⁰⁰

The programmes with the most in common with the Flexible New Deal, ND25+ and EZ25+ were both achieving Starts-13 Week Outcomes of around 25% before the onset of the recession at the end of 2008. The New Deal for Young People, with its 6-month employment subsidy, was achieving outcomes noticeably higher, but this would be expected given the additional incentives and early participation dates.

Concluding Remarks

The chapter has explored the designs and outcomes of the three primary welfare-to-work programmes established under the Labour government. Each programme began with very different structures, however through reforms and changes in emphasis work-first gained more prominence in both latter stages of NDYP and reforms of the New Deal for Long Term Unemployed. Both of these programmes also underwent contracting experiments, where all or part of the programme was delivered by private and voluntary sector organisations, both features common to the later incarnations of Employment Zones.

⁶⁰⁰ DWP (2011) *DWP Tabulation Tool*, Research and Statistics, DWP, [online] http://statistics.dwp.gov.uk/asd/asd1/tabtools/index.php?page=tabtool_nd [accessed 10/11/11]

Evidence from all three programmes showed each enjoying a strong start but gradually the employment outcomes tailed off. The perceived reasons for this, and hence the systemic reform are explored in the next chapter, where the official justifications for reform are provided.

The New Deal for Young People was a large scale and costly labour market intervention, under which the state held the capacity to eliminate long-term youth unemployment by acting as the employer of last resort in the Options Stage. However, while it might technically have eliminated the youth unemployment problem, many found themselves returning to benefits after a short stint in work. Broken but repeated benefit claim is as much a problem for the government as any technical measurement of long-term unemployment.

The New Deal for Long-Term Unemployed went through various waves of reform, and achieved outcomes similar to Employment Zones, with a similar client base. By the end of its 12 year lifespan ND25+ had adopted the Gateway element, and several of the mandatory activities present in the Options stage. However, it had also adopted the strong work-first emphasis present in Employment Zones. Both programmes over time saw private-sector organisations take some or all delivery responsibilities in a number of areas of the UK.

Employment Zones underwent a similar, albeit more rapid evolution, and quickly became a testing ground for the DWP to experiment with contracting out employment services, to test cost-efficiency and build up a market for employment services in the future. In doing so they allowed for contractors to experiment with tailored support for the long-term unemployed by deploying a 'black box' approach, rather than the highly regulated delivery expected of the NDYP. The development of each of these policies during their lifetime showed evidence of incrementalism, where programmes were tested, evaluated and adapted gradually to involve more market forces, and a greater emphasis on labour market attachment reinforced by strong and escalating conditionality. Yet, despite these changes, the

slow decline of each AMLP's delivery of sustained employment outcomes signalled a need for reform. The more marked decline of EZ's would point to the continuation of NDYP/ND25+ style programme, but instead, and in fitting with path dependence, reform followed the Employment Zone model.

The following chapter will examine these reforms, outlining the design of the Flexible New Deal, and showing how many of the features of existing programmes have been adopted to build the programme.

CHAPTER 6 The Flexible New Deal: features and outcome potential

The previous chapter explored and analysed the Labour Party's flagship active labour market programmes. This chapter now turns to the final round of welfare reform introduced during their last term in office. Specifically, this section will explain the link between past initiatives and the introduction of the Flexible New Deal (FND). As the prime focus of this thesis the logic for and structure of, the Flexible New Deal are examined in detail. The chapter will discuss the arguments for welfare reform, the nature of the reforms as an evolution from past welfare programmes, and the estimated advantages, potential outcomes and risks of this type of active measure. These will subsequently inform the collection and analysis of the primary qualitative and quantitative data used in this thesis.

The Path to the Flexible New Deal and the Rationale for Reform

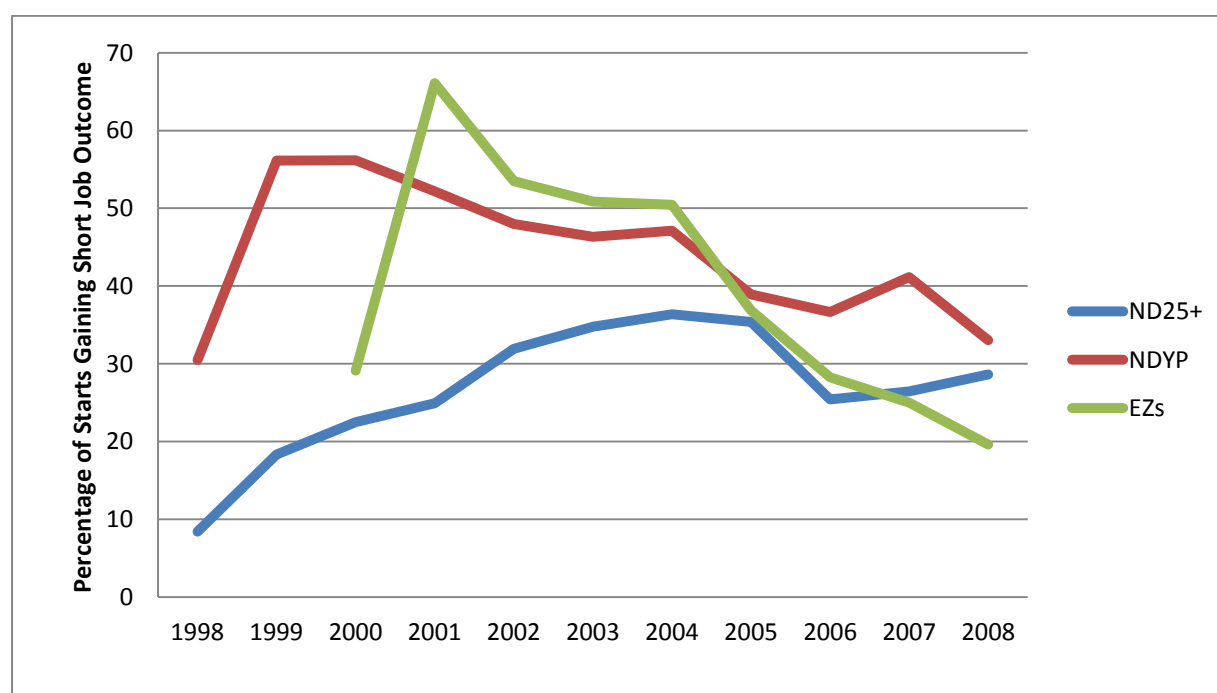
The academic research offered in the previous chapter outlined that both New Deal for Young People and Employment Zones enjoyed a degree of success. The urgent need for reform of active labour market policy in the UK was not therefore apparent. Nevertheless, by 2005 the Labour government was keen to adjust the existing arrangements, in particular the New Deal programmes. The official rationale for change, outlined by Thomas, is offered as follows:

- The labour market has changed
- Jobseekers increasingly have more complex barriers to employment
- The proportion of young people recorded as leaving NDYP to employment has fallen over recent years
- NDYP has been less successful with some ethnic groups, women and jobseekers with low qualifications
- NDYP has focused on getting people quickly into work, but job sustainability has become an increasing priority

- Some people frequently move in and out of unemployment⁶⁰¹⁶⁰²

There is evidence in DWP administrative data supporting several of these arguments. In particular graphs 6.1 and 6.2 provided show that both the NDYP and Employment Zones were gradually failing in their ability to place individuals into long-term employment.

Fig 6.1 ALMP 13 Week Outcomes over 10 Years



Source: Adapted from DWP Statistics Hub⁶⁰³

Looking at Figure 6.1, the different welfare to work programmes show similar declining trajectories, with small performance upturns in 2004 and 2007. The ND25+ line is problematic given the quite fundamental changes it underwent in the early 2000s which brought forward participation from 24

⁶⁰¹ Thomas, A. (2009) *Benchmarking Employment Programmes*, (presentation) International Labour Organisation, [online] <http://www.ilo.org/public/english/employment/yen/downloads/events/3lc/3lc-thomas.pdf> [accessed 10/10/10]

⁶⁰² For example over the NDYP lifespan over one quarter of those who left the programme immediately returned to the Jobseeker's Allowance or other benefit programme.

http://83.244.183.180/new_deals/ndyp/live/yp_l_s/i_lvdate/k_newdest/a_stock_r_j_lvdate_c_k_newdest_nov09.html

⁶⁰³ Data sourced from DWP (2010) *DWP Statistics Hub* [online] <http://research.dwp.gov.uk/asd/index.php?page=tabtool> [accessed 10/11/11]

months to 18 months. This general decline in performance was, officially, the main driver of the government's reform programme, particularly in light of the fact that sustained long-term employment has a considerable impact on future benefit duration, labour market progression, and consequently government expenditure.

In a report reflecting many of the views voiced above, the National Audit Office (NAO) explained that "The work-first" approach has helped many people into work, however there is a need for programmes to be developed to help people stay in work.⁶⁰⁴ Using data from the DWP, the NAO showed that the longer the period of the employment an active labour market programme achieves, the greater the net fiscal benefit the programme achieves. For example, if all of the additional job outcomes achieved by the NDYP were to last 3 months, the cost to the Treasury would be £176 million pounds per annum. If these additional jobs lasted 12 months, the cost would be £91 million to the Treasury, but if jobs were sustained for 2 years, the Treasury would gain £30 million pounds in additional tax receipts above the cost of the programmes.⁶⁰⁵⁶⁰⁶

Reflecting upon employment programmes data, the Secretary of State for Work and Pensions John Hutton, ordered a review of active labour market provision, citing as his core concern the 'sustainability of employment.'⁶⁰⁷ In pursuit of this, Hutton wished for a system to foster innovation in the welfare-to-work model, and attack a perceived 'can work – won't work' culture, appointing the former investment banker David Freud to conduct the review. The report was commissioned to discover new ways to encourage the jobless back to work, keep them there, and to find ways of encouraging those helping the jobless to do more. Hutton announced three parameters for the review:

⁶⁰⁴ NAO (2007) *Sustainable Employment: Supporting People to Stay in Work and Advance*, London, The Stationary Office, p8

⁶⁰⁵ *Ibid*, p9

⁶⁰⁶ The NAO also found that Employment Zones would not achieve a net fiscal position even after 2 years sustainment, consequent of the difficult labour market environment and individual barriers characteristic of the operating areas (see p9).

⁶⁰⁷ Hutton, J. (2006) cited in Grover, C. (2007) *The Freud Report on the Future of Welfare to Work: Some critical reflections*, Critical Social Policy, p535

1. "Firstly, the design of welfare to work policy. The balance between rights and responsibilities; whether and how we should strengthen incentives to work; and whether there is a role for greater conditionality within the system. It will look at the steps we can take to promote social mobility, especially by supporting progression through work and through an integrated approach to skills.
2. "Secondly, to consider the devolution of welfare – building on the City Strategy and other local initiatives to open up new opportunities for delivering employment services to some of our most disadvantaged communities.
3. "And thirdly, to examine the delivery of welfare in Britain over the next ten years. How we can build a more effective market in the provision of employment services – with a more customer-focused welfare delivery system that better reflects the Government's wider public service ambitions of greater choice and empowerment."⁶⁰⁸

The parameters were narrow and in keeping with the overall direction of welfare reform, asking what scope was there to accelerate conditionality, and what opportunities there were to incorporate the private sector into employment service delivery?

Responding to the first question, David Freud endorsed the work-first philosophy to facilitate labour market attachment by the fastest route, combined with increased conditionality to ensure compliance, on the basis that 'the combination of labour market contact, work experience and in-work training has been found to be most effective for people with low skills'⁶⁰⁹

His response to the second question was the endorsement of a quasi-market in employment services.

The report recommended that 'once claimants have been supported by Jobcentre Plus for a period of

⁶⁰⁸ Hutton, J. (2006) *Welfare Reform 10 Years On; 10 Years Ahead*, Speech to IPPR (online) http://www.ippr.org/uploadedFiles/events/john_hutton_ippr.pdf (accessed 10/01/2011)

⁶⁰⁹ Freud, D. (2007) *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, Department of Work and Pension p53

time, back-to-work support should be delivered through outcome-based, contracted support.⁶¹⁰

Specifically it argued:

The private and voluntary sector would be responsible for intensive case management and for providing individual, tailored help for individuals to re-engage with the labour market. The contracting regime would set a core standard that everyone would receive, but beyond this there would be freedom between the provider and the individual to do what works for them.⁶¹¹

It was these recommendations that became the blueprint for the Flexible New Deal. However, Freud did advise certain limitations on the structure of a quasi-market. Citing evidence provided by the DWP, Freud cast doubt on the utility of direct competition in the provision of jobseekers services for two key reasons. First, he argued that where providers operated in the same areas against each other, this would result in duplicated services, increasing costs to the taxpayer. Secondly, clients would not exercise the choice between prime contractors effectively, citing problems arising in the New Deal for Disabled People, and in the Australian Jobs Network.⁶¹² This was to be one of the few aspects of the Freud report that was rejected by the government.

The proposals in *Reducing Dependency, Increasing Opportunity* received a mixed reception. In the upper echelons of government, there was incongruity. The outgoing Prime Minister, Tony Blair, was in favour of the proposals, while the Chancellor of Exchequer and heir apparent Gordon Brown had serious reservations, specifically over the expansion of private sector delivery in the welfare market.⁶¹³ The then Secretary of State for Work and Pensions, Peter Hain, shared Brown's concerns, as reported in the

⁶¹⁰ Freud, D. (2007) *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, Department of Work and Pension, p6

⁶¹¹ *Ibid*, p6

⁶¹² Freud, D. (2007) *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, Department of Work and Pensions, p64

⁶¹³ Driver, S. (2009) *Work to be done? Welfare Reform from Blair to Brown*, Policy Studies, v30.1, p76 and Woodward, W. (6th March, 2007) *Blueprint for Big Welfare Shakeup gets backing of Blair and Brown*, Guardian Online, <http://www.guardian.co.uk/politics/2007/mar/06/uk.socialexclusion>

Financial Times, he was 'cool' about increasing the role of the private sector.⁶¹⁴ The change of the ministerial team at the Department of Work and Pensions, including the appointment of James Purnell, caused a change in attitudes, who announced a personal commitment to implement the majority of its recommendations.⁶¹⁵ Purnell's endorsement of the Freud Report is reflected in the similarities between Freud's blueprint and the design of the Flexible New Deal. The Jobcentre Plus was to remain responsible for the short-term unemployed, but for those long-term unemployed the Options stage of the NDYP was to be replaced by private contractors incentivised through payment structures to facilitate rapid transitions from unemployment benefit to sustained, unsubsidized employment.

Reactions from outside of government circles were also mixed. The government's arms-length Social Security Advisory Committee took issue with the empirical basis for the review. Questioning the evidence, the report said 'There are many examples of complex arguments being reduced to absolutes with little recognition of the intractable nature of the problems [barriers to work].'⁶¹⁶

The Institute of Public Policy Research (IPPR) took issue with the expansion of work-first along similar lines to those reported in the literature review. Kate Stanley, the then IPPR director of research, argued that the proposals offer 'no mechanism to allow for changes in the wider economic environment (such as reduced labour demand). Nor is any account taken of regional variations in current and future performance.'⁶¹⁷ These concerns were voiced also by the Child Poverty Action Group (CPAG) who argued that 'providers will be reliant upon many factors that are beyond their control – such as the availability of flexible, well remunerated, sustainable and accessible jobs'.⁶¹⁸ CPAG also warned of the perverse incentives an outcomes-based market might create, arguing that 'Given the financial risks involved for providers, it is likely that that the larger regional contracts will be given to private sector

⁶¹⁴ Hain, P. (2007) in FT (2007) *Hain Cool on Private Sector Job Contracts*, Financial Times Online, <http://www.ft.com/cms/s/0/d01b0908-3edc-11dc-bfbc-0000779fd2ac.html#axzz1jjAFErAY> [accessed 10/11/10]

⁶¹⁵ Purnell, J. (2008) *DWP Commissioning Strategy*, Department of Work and Pensions, p4-5

⁶¹⁶ Social Security Advisory Committee (2007) *Twentieth Report 2006-2007*, SSAC, Corporate Document Services, Leeds, p37

⁶¹⁷ Stanley, K. (2007) *The Freud Report and Welfare Reform*, IPPR Online available at (<http://www.ippr.org/articles/56/929/the-freud-report-and-welfare-reform>) [accessed 10/10/10]

⁶¹⁸ CPAG (2007) *The Freud Review*, Child Poverty Action Group Response, [online] www.cpag.org.uk/info/.../CPAGFreudReviewSubmissionCPAG250507.doc [accessed 10/10/10] p13

providers, whose motivation will understandably be driven by profit rather than social conscience. This may result in variable, possibly erratic and sometimes short-term provision.⁶¹⁹

Potential providers on the other hand appeared supportive. Working Links, a company initially established to deliver Employment Zones, was generally welcoming of the report, though argued that it might have gone further, bringing in the private and voluntary sectors at an earlier stage.⁶²⁰

WorkDirections (now Ingeus Deloitte) were equally welcoming of the report, advocating large, long-term contracts, of which they had developed experience in the Australian Jobs Network, and recommended the immediate testing of financing models.⁶²¹

FND Objectives

Ahead of exploring the design of the Flexible New Deal, it is appropriate to consider briefly the objectives of the programme; only then can a judgement be made as to whether the scheme is likely to achieve these targets. At the core is the desire to shift a larger section of the welfare caseload into sustained employment. Broadly, the Department of Work and Pensions sets out five key targets:

1. A stronger framework of rights and responsibilities to move benefit customers from being passive recipients to active jobseekers
2. A personalised and responsive approach to individual customer needs which will provide tailored employment and skills support to meet the needs of both customers and local employers
3. A partnership approach with public, private and third sector organisations working together to maximise innovation, leading to more and better outcomes

⁶¹⁹ CPAG (2007) *The Freud Review*, Child Poverty Action Group Response, [online] www.cpag.org.uk/info/.../CPAGFreudReviewSubmissionCPAG250507.doc [accessed 10/10/10] p13

⁶²⁰ Working Links (2007) *Our Freud Report Response*, Working Links Online, http://www.workinglinks.co.uk/about_us/our_responses/freud_report.aspx [accessed 10/10/10]

⁶²¹ WorkDirections (2007) *Reducing Dependency, Increasing Opportunity: A Response from WorkDirections*, Ingeus Online [accessed 10/10/10] pp2-10

4. Devolving and empowering communities for future sustainable employment which will be at the heart of neighbourhood renewal
5. Not just jobs, but jobs that pay and offer opportunities for progression, with an emphasis on sustaining and progressing in work to ensure all customers who need help to develop their skills have access to the relevant pre-employment and in-work training⁶²²

These objectives go beyond the traditional pursuit of increasing employment and decreasing benefit receipt, to include community renewal, and an emphasis on in work progression and pay. The question of whether these additional objectives could become tangible pursuits is perhaps answered in the more narrow and measurable objectives required of suppliers. These are the targets, or 'Critical Success Factors', to be implemented:

1. Suppliers will meet or exceed the Short Job Outcome targets (13 weeks actual work) agreed in their contract;
2. Suppliers will meet or exceed the Sustained Job Outcome targets (26 weeks actual work) agreed in their contract;
3. Suppliers will ensure every customer receives a level and type of support appropriate to their individual needs, including those customers with more substantial or specialist needs;
4. Suppliers will deliver a service that represents excellent value for money and a step-change improvement in performance compared with previous programmes; and
5. Suppliers will deliver high quality provision to all customers in line with the DWP Quality Framework and achieve high standards at external inspection by developing their continuous improvement strategy in line with the relevant Common Inspection Framework. Section 3 describes in more detail elements of the service requirement that relate to quality, evaluation,

⁶²² DWP (17/01/2010) *Flexible New Deal Phases 1 & 2*, <http://www.dwp.gov.uk/supplying-dwp/what-we-buy/welfare-to-work-services/flexible-new-deal/>

performance and contract management.⁶²³

The critical success factors are more relevant than the broader objectives because it is these that providers were expected to implement. Critical Success Factors 1 and 2 will be explored further in this chapter, and represent the benchmark against which the programme's actual performance will be compared, but it is Success Factor 4 which is the most ostensibly ambitious, seeking to surpass existing programmes at a lower cost to the exchequer. Notably absent in the demands of providers is any mention of human-capital development pertaining to education or training or indeed reference to 'jobs that pay and offer opportunities for progression', even though the structure of the programme dictates that only the provider could deliver on such a target. The discrepancy between the targets set and instructions given to providers exposes a common cleavage between the rhetoric of welfare reform and practice. The emphasis in the first section on developing human capital is entirely omitted from performance indicators.

In summary, notwithstanding the discrepancies between the objectives, they present a series of ambitious goals for Flexible New Deal. The most ambitious of all is the aspiration for a significant improvement of long-term employment outcomes, at lesser cost. Whether the structure of the Flexible New Deal is equipped to deliver on these is assessed in the following sections.

The Design of the Flexible New Deal

In accepting the thrust of the Freud proposals, the government were gradually to dismantle the large and complex array of existing welfare-to-work arrangements and replace them with a single unified programme: the Flexible New Deal.

⁶²³ DWP (2008) *Flexible New Deal Phase 1: Invitation to Tender, Provision Specification and Supporting Information*, DWP. p15

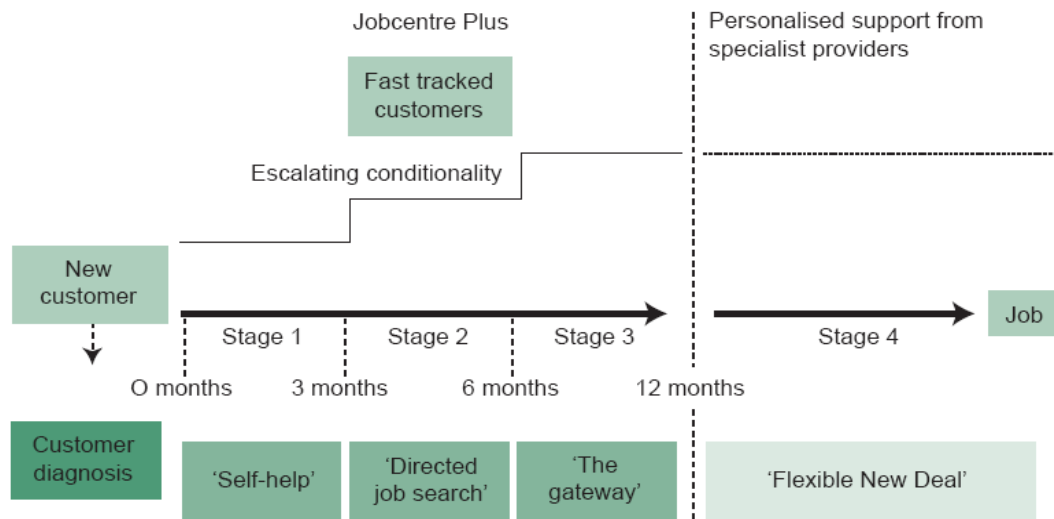
In spite of the considerable administrative overhaul required, the introduction of the Flexible New Deal displayed many hallmarks of the incremental approach to policy-making where many of the existing structures were maintained, homogenised and adapted into one programme. In the previous structures, clients would participate in the generic JSA programme for the first six months of their claim. A failure to enter work by this point resulted in participation within the (usually) Jobcentre led 'Gateway' stage for a further four months. The Gateway stage offered clients more personal interaction with their jobcentre advisors through intensive and directed help tackling the barriers they face to entering the labour market. With more 'hands-on' help in the process of getting them into work, and therefore greater expectations of participation, and the acceptance of job opportunities reinforced by sanctions.

The reported success of the Gateway stage under NDYP resulted in its retention under the FND regime with the minor adjustment that younger clients were to join the Gateway two months later than on NDYP before joining the specialist private and third sector providers.⁶²⁴ This would perhaps expose the resilience of the Public Employment Service in delivering intensified job search, but scrutiny of the detail exposes that while clients aged between 18-24 have an additional two months with the PES than they did with the NDYP, older clients over the age of 25 have their period with Jobcentre Plus reduced by six months to unify the system. On this evidence therefore, the Flexible New Deal is continuing the trend of the state incrementally withdrawing from the delivery of employment programmes for the vast majority of long-term unemployed.

With the extension of the Gateway for clients under 25 and the contraction for those over 25, the FND also changed the conditionality regime. For the over 25s who were used to longer periods of the (relatively) passive jobsearch regime, enhanced conditionality arrived six months earlier than under the New Deal for Long Term Unemployed (or ND25+). Figure 6.2 illustrates that the conditionality regime has been enhanced for all customers.

⁶²⁴ Freud, D. (2007) *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, Department of Work and Pensions, p108

Figure 6.2 Stages of Flexible New Deal



Source: Work and Pensions Select Committee⁶²⁵

As seen in Figure 5.1, once a client has exhausted their time with the Jobcentre they move on to stage four, and the Flexible New Deal begins. It is this stage that represents the fundamental shake-up of the welfare system by contracting out employment services for those out of work for a year. Before a discussion of the market takes place, there is a need for clarification of what customers could expect from the fourth stage beyond 'personalised support'.

What is in the black box?

If individuals (now referred to as customers) have not found employment after 52 weeks, they are transferred onto the Flexible New Deal, which lasts up to another minimum of 52 weeks. There is the possibility to extend FND provision beyond a year, to an additional 26 with the consent of both customer and provider. After their first 52 weeks on the Jobseekers Allowance, customers leave the Jobcentre Plus and are allocated (randomly or deliberately) to a private or voluntary sector 'prime

⁶²⁵ Sourced from House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009*, The Stationary Office, London, p7

contractor'.⁶²⁶ What occurs during this stage varies is contingent on the capabilities and structures of the individual provider, with the general consent of the Department of Work and Pensions. Discussed as a 'black box' approach Mulhearn and Menne explain its possible advantages as follows:

The 'black box approach' of FND means that there are very few process requirements on the contractor. Rather, they are allowed the freedom to try different approaches to getting people back to work. The combination of few restrictions and outcome-based payment gives contractors strong incentives to find out what works best for each client.⁶²⁷

The FND does not allow delivery organizations absolute discretion with respect to the program of activities. A number of processes are explicitly mandated to ensure a degree of quality control, and to ensure that customers are required to participate in some form of activity. These are explained in the statutory instruments where they were introduced, mandating that the FND customers experience on or more of the following:

- (aa) assisting in the completion of an action plan to record the activity that he will undertake whilst attending the programme in order to improve his employment prospects or to obtain employment
- (bb) a work placement, training or other work-related activity lasting for a continuous period of at least four weeks;
- (cc) other work experience or training, guidance, support, motivation, assistance with job search or in pursuing self-employed earner's employment or other activity designed to assist him to select, train for,

⁶²⁶ N.B. Customer's are still required to visit the Jobcentre Plus on a fortnightly basis to register for the Jobseeker's Allowance. See Vegeris, S. et al. (2010) for criticism.

⁶²⁷ Mulhearn, I. and Menne, V. (2008) *The Flexible New Deal: Making it Work*, Social Market Foundation, London, p32

obtain and retain suitable employment.⁶²⁸

In detailed guidelines intended for the delivery organisations, the DWP set out the minimal programme requirements for the FND. The general guidance and demands were as follows:

‘It is for you to assess and decide the best training and support tailored to the customer’s individual needs. During this time we expect that:

- You will invite customers to a face-to-face initial meeting, ensuring the customer is aware of possible sanction activity if they fail to attend. When the customer attends, you will undertake an individual assessment to assess their needs, agree an action plan and notify JCP of their start;
- If a customer fails to attend/ comply/ participate, or if the customer’s actions bring about doubts of their entitlement to JSA, you will consider if a referral to JCP for sanction activity is appropriate;
- You undertake meaningful fortnightly contact with each customer;
- You will ensure that every customer undertakes a minimum of four weeks continuous full-time work-related activity within their 52 weeks of participation if the customer has not previously had at least four weeks continuous full-time paid work since starting FND.’⁶²⁹

It was with the fourth requirement that the DWP have written workfare into the contracts.⁶³⁰ The purpose of this regulation could be threefold. First, it serves as a threat of the type described in Chapter 3. Second, it ensures customers have, after 52 weeks, at least something on their CV. Third, it prevents

⁶²⁸ HM Government (2009) *The Social Security (Flexible New Deal) Regulations 2009*, Statutory Instrument Number 490, UK Parliament, p3

⁶²⁹ DWP (2009) *Flexible New Deal Guidance*, Department of Work and Pensions, available at <http://www.dwp.gov.uk/docs/fnd-section-1.pdf> [accessed 10/09/11] pp4-5

⁶³⁰ DWP (2009) *Flexible New Deal Phase 2: Provision Specification and Supporting Information*, Department of Work and Pensions, available at <http://www.dwp.gov.uk/docs/flexible-phase2-itt-prov-spec-support-info.pdf> [accessed 12/09/11] p11

the parking of customers who are furthest from the labour market, as appeared to be occurring in previous programmes.⁶³¹ Indeed as workfare tends to be expensive, and the costs will be borne by providers, it provides an additional incentive to assist all of the caseload.

Putting aside the workfare regulation, requirements on providers were intended to be minimal. This should not imply the 'black box' left the DWP unaware or uninterested in what their suppliers were doing. Though the DWP resisted instructing providers from the outset what practices (beyond those above) were expected of them, the awarding of contracts was made on the basis of providers' submitted plans. These detailed how different customers were to be treated, and what services were to be provided (either directly by the provider or indirectly via sub-contractors). These submissions would inform the DWP's contracting decisions,⁶³² and also providers were expected to stick to them.

Commonalities amongst all prime contractors were to be expected. As explained in the following chapter, the processes undertaken by contractors were very similar to those of Jobcentre Plus during the Gateway phase, and providers of Employment Zones, including intensive jobsearch supported by sanctions, CV redrafting, practice interviews and work experience.

Given these commonalities, an obvious question arises as to the necessity of contracting at all. For instance, why could Jobcentre Plus and local government not deliver a 'black-box' system? This very question was put to Employment Minister Tony McNulty before the House of Commons Work and Pensions committee. This was his response:

I do not doubt that it could [deliver the 'black box' system] but I am told that we would probably be here about two or three years just going through the legislation to get us from

⁶³¹ For example see Heinrich, C. And Choi, T. (2007) *Performance-Based Contracting in Social Welfare Programmes*, The American Review of Public Administration, v.37 p417

⁶³² See House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal*, Second Report of Session 2008-2009, The Stationary Office, London, p16

where Jobcentre Plus is now to a period of absolute individualisation and specialisation, literally building a package around each and every individual, and I do not think that there is merit in that.⁶³³

The apparent, relative, ease of contracting over legislating appears to provide the sufficient positive feedback mechanism necessary to enshrine the path towards more private involvement in employment programmes.

(Re) inventing the Quasi-market

The deployment of a quasi-market in employment services with 'black box' regulation was not a novelty; both were used for the contracting arrangements of Employment Zones. Unique to the Flexible New Deal was the scale of the undertaking- no quasi-market in national provision had existed for such a large proportion of the unemployed.

The decision to proceed with a market of such a scale was nonetheless courageous, particularly given the architect's remark that 'there is no conclusive evidence that the private sector outperforms the public sector on current programmes'⁶³⁴ and the junior minister in charge noting that 'the evidence base for public provision versus private and voluntary provision is limited.'⁶³⁵ Further still, the UK's experience of privatisation was mixed at best. As Hasluck explained, experiments with private delivery have proven problematic, with the DWP's preferred performance indicators showing that private sector

⁶³³ McNulty, T. (2008) before the Work and Pensions Select Committee (2008) *Uncorrected Transcript of Evidence on the Department of Work and Pensions Commissioning Strategy and the Employment Programme Market*, HoC Work and Pensions Committee available online <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmworpen/uc59-i/uc5902.htm> (accessed 10/07/2011)

⁶³⁴ Freud, D. (2007) *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, Department of Work and Pensions, p6

⁶³⁵ McNulty, T. (2008) in House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009*, The Stationary Office, London, p13

led delivery had proven relatively poor.⁶³⁶

Despite the concerns, the DWP had invested considerable time and money building up a welfare market and experimenting with contracted delivery. For the DWP, Employment Zones had proven that government could work with private sector providers, and that the private sector could deliver whole programmes, and in some cases at least as effectively as the state, if not more so.⁶³⁷

The Flexible New Deal market, like EZs, sees the government retaining primary financial responsibility for the programme as purchaser of the services, and delivery is supplied by the private and voluntary sectors. As with Employment Zones in the UK, and the Job Network in Australia, suppliers will earn a proportion of their income by achieving specified employment outcomes.

To allow for competition between a large number of providers, the DWP carved up the UK into 28 different areas, known as Contract Zones. Phase 1 of the roll out established delivery contracts in 14 of these areas, with Phase 2 expected to implement the remaining 14 contracts in October 2010. These contracts tendered were to be larger and longer than had previously been issued by the DWP, and for two reasons. One, it was believed that larger 'prime contractors' could deliver the capital and economies of scale in ways previous programmes could not. Second, the DWP was looking for ways they could to reduce the vast number of contracts they had to oversee.⁶³⁸ As the Work and Pensions Committee iterate, the large prime contractor model was familiar to the DWP, having used it with both New Deal for Young People and Employment Zones; the difference was that such a model was to be implemented across the entire country.⁶³⁹ With fewer contractors operating a national programme across wide geographical boundaries, it should be easier for the DWP to determine contractor

⁶³⁶ Hasluck, C. (2000) *The New Deal For Young People; 2 Years On*, p15

⁶³⁷ Freud, D. (2007) *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, Department of Work and Pension, Table 5, p55

⁶³⁸ House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009*, The Stationary Office, London, p14

⁶³⁹ Ibid.

performance, rather than having to assess hundreds of small contracts.

Subcontractors were to play little role in the bidding for contracts, but a significant role in delivering the Flexible New Deal. The terms of these relationships were largely dictated by the prime contractors and not the DWP. As such by design the prospects for smaller contractors was to become dependent on the primes for business rather than the DWP. This did not mean that business was consumed entirely by the primes; rather relationships were often developed between the prime bidders and subcontractors as part of the bidding process.

The contracting process was itself achieved through a private auction. Sealed bids were submitted to the DWP outlining the services, costs and employment outcome each provider believed they could deliver in each region they bid for. In Phase 1, of the 14 contract zones 10 were designated dual contract zones. In Phase 2, nine of the 14 Contract Zones were designated dual contract areas.⁶⁴⁰ In dual contract areas bids were awarded to two providers and these 'prime contractors' were expected to compete with each other over outcomes and costs, and inevitably future contracts. A single contractor ran the four remaining Phase 1 zones, with the commercial pressure principally being the prospect of future DWP contracts. The change of government in May 2010 heralded the end of FND contracting for Phase 2. However, as contracts had already been commenced in Phase 1 areas, these remained in place until new policy was legislated and transitional arrangements were brought into force.⁶⁴¹

While auctioning is common practice in tendering public services, the decision to auction the FND contracts was not without its critics. Mulheirn and Menne argued that such a system creates a race to

⁶⁴⁰ DWP (2009) *Flexible New Deal Phase 2: Provision Specification and Supporting Information*, p32
<http://www.dwp.gov.uk/docs/flexible-phase2-itt-prov-spec-support-info.pdf>

⁶⁴¹ In renegotiating contracts with Prime Contract providers, the DWP ran the risk of causing market instability, one of the key threats to a successful welfare market. This instability had been observed from several contractors exiting the market during the Employment Zones contracts, resulting in the state having to step in or another more dominant provider gaining a disproportionate share of the market.

the bottom, where 'the more ambitious the bidding prime contractor, in terms of the anticipated number of outcomes it will achieve, the less money it will have to spend on each client'.⁶⁴²

As an attempt to mitigate the 'promise high – achieve low' problem, two key targets have been built into the financial remuneration to ensure basic programme objectives are achieved. The performance expectations are for 55% of their annual clients to have achieved a 'Short Job Outcome' (13 weeks of employment) and for 50% to achieve a 'Sustained Job Outcome' (26 weeks of employment).⁶⁴³ⁱ These targets are ambitious; between the years of 2004 and 2008, the NDYP achieved average job outcomes of 39%, sustained or otherwise.⁶⁴⁴ The DWP however recognised that the deteriorating state of the labour market and the considerable differentiation between local labour markets means that these targets constitute a national average, where some will be higher and others lower.

Outturn of Market Design and Black Box

The DWP had hoped for a variety of delivery methods amongst the prime providers, classified by the degree of control the provider exerted over the entire Flexible New Deal process. In some instances, the primary contractor took a backseat, principally of managing a complex supply chain of subcontractors. Other contractors chose to deliver all services in house. Armstrong et al. found that the most common approach from the contract process 'consist[ed] of a proportion of programmes and services delivered directly by the prime provider with the remainder delivered by subcontractors'.⁶⁴⁵

Of the 14 prime providers delivering the Flexible New Deal, the majority delivered the bulk of services for the mainstream unemployed, though this was done using a significant variation in the structure of delivery.⁶⁴⁶ Under this model, subcontractors were deployed where clients appeared to have more

⁶⁴² Mulheirn, I. And Menne, V. (2008) *The Flexible New Deal: Making it Work*, Social Market Foundation, London, p39

⁶⁴³ DWP (2009) *Flexible New Deal Phase 2: Provision Specification and Supporting Information*, p35

<http://www.dwp.gov.uk/docs/flexible-phase2-itt-prov-spec-support-info.pdf>

⁶⁴⁴ DWP (2010) *New Deal for Young People – Leavers*, DWP Tabulation Tool,

http://83.244.183.180/new_deals/ndyp/live/yp_l_i/k_newdest/i_lvyear/a_stock_r_k_newdest_c_i_lvyear_may09.html

⁶⁴⁵ Armstrong, D. et al. (2011) *Welfare-to-Work Commissioning: Wave Two Provider Survey*, DWP Research Report No 757, PWC. p27

⁶⁴⁶ Armstrong, D. et al. (2011) *Welfare-to-Work Commissioning: Wave Two Provider Survey*, DWP Research Report No 757, PWC. p33

complex obstacles to their labour market entry such as; drug addiction, alcoholism, or emotional, physical, or mental difficulties. In a similar vein, where contracts were to be delivered in largely rural areas the volume of subcontracting was usually higher.⁶⁴⁷

The contracting arrangements would accordingly influence the typical journey of the customer through the programme. Where subcontracting was a core part of the contractor's approach, the customer's time on FND would likely be divided into different stages of support, and the individual would pass through different suppliers; usually starting with the prime's 'in-house' arrangements, and then would be referred for specialist support where necessary. In some respects this fulfils the government's desire to centre welfare-to-work services around individual clients, but how personalised this would be in reality would depend on what was in each 'black box'.

Additional Market Drivers: Star Ratings, Market-Sharing and Choice

The tendering process was designed to introduce a market and some base standards into the FND. However, the tender itself is not sufficient to ensure quality services are implemented once the contract was issued. To compensate for this problem the DWP included a number of additional mechanisms to ensure that standards could be maintained throughout the lifetime of the contract, without the need to introduce market regulations. The first of these consisted of direct checks on services by the UK schools inspectorate, Ofsted. According to the DWP Ofsted were to '[undertake] independent assurance of the quality of what is being provided against their own frameworks so we [DWP] have got assurance that the quality of the systems that the providers are using are also up to the levels that are viewed as being acceptable.'⁶⁴⁸ Inspections, in particular spot-checks, were designed to identify both good and bad practice. The use of Ofsted was a curious decision, given that the emphasis of active labour market policy in general, but particularly under the Flexible New Deal, has moved away from providing education and training in favour of the work first approach. Perhaps this was recognised as not long

⁶⁴⁷ *Ibid*, p33

⁶⁴⁸ House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009*, The Stationary Office, London, p37

after FND implementation, Ofsted was replaced with the DWP's own inspectorate. The DWP's inspectorate were charged with 'the remit to cover, in a light-touch way, some of the quality issues that formed part of external inspections' alongside a new system of self-assessment.⁶⁴⁹ Whatever is thought of Ofsted, the decision to switch from a body required to provide publically available inspection reports, to an internal DWP inspectorate contradicts one of the purposes of contracting services: to provide greater accountability. None of these internal reports have been made available, and thus it is difficult to assess whether this is sufficient to ensure the quality of services.

The inspection results were to be used to form a part of the Star Ratings system. Like Michelin stars, these were to publicise the quality of individual suppliers. Providers were to be rated on a scale running between 1-4 Stars. The score of contractors was decided principally on the number of clients the provider historically placed in employment. In addition to historic placement records the Star rating incorporated quality measurements, such as (originally) Ofsted reports and customer surveys.⁶⁵⁰ The ratings had a number of possible implications, the first, that a company's Star Rating would influence the DWP's decision to increase/decrease the flow of participants to the provider; with more participants (theoretically) the more employment outcomes could be gained, and therefore more profit.⁶⁵¹ Initially to protect smaller contractors, foster innovation, and stabilise the new welfare market the DWP introduced a fixed market share (bandwidth) where the two contractors received half of the caseload each. Using a range of data including Star Ratings, the prime contractor could be allotted additional 5% more customers by the DWP if it rated the contractor as providing an outstanding set of services.⁶⁵² The DWP summarized their plan as follows: 'We will incentivise suppliers to improve performance by moving market share from poorer performers to stronger performers. More market share for a supplier

⁶⁴⁹ House of Commons Work and Pensions Committee (2010) *The Management and Administration of Contracted Employment Programmes, Government Response to Second Report of Session 2010-2011*, The Stationary Office, London P9

⁶⁵⁰ DWP (2009) *Flexible New Deal Guidance for Contractors*, section 13, p4

⁶⁵¹ N.B. Naturally a system where the number of customers could be controlled was only possible in Dual Contract Areas. In Single Contract Areas Star ratings were still to be applied.

⁶⁵² DWP (2009) *Flexible New Deal Guidance for Contractors*, DWP, London, section 13, p7

means the potential to deliver their services to more customers',⁶⁵³ and most obviously to make more money.

Star Ratings also had the potential to be used as indicators of future contracting decisions, while shaming contractors with low ratings to improve their performance and the quality of services. This was because it was assumed that, as with Employment Zones, the ratings of each prime provider would be publically available. In sum, the Star Ratings and market allocation tool offer incentives for providers to maintain standards in a deregulated 'black box' market.

Customer Choice

The final tool to control and incentivise quality consisted of customer choice. Allowing customers to choose their welfare to work provider is at the cutting edge of the personalisation agenda, and like Star Ratings were piloted in the Employment Zones. Choice would top-up market share offering a further potential increase in the allocation of the caseload. After 12 months, participants (or perhaps 'customers') in dual contract areas were to be asked to select their FND provider.

In the early stages, the share of customers was to remain fixed to a 50:50 split, so those choosing might not get their preference, but after several years, choice could facilitate market dominance, where market share could increase to 70% or fall to 30%.⁶⁵⁴ This is a significant step in the UK welfare to work market, because through the combined mechanisms of choice and payment by outcomes, the money can follow the customer. As with real markets, providers offering services customers do not want could be punished by a fall in 'customers', and forced to find ways to attract participants again; another potential incentive to improve the quality and appropriateness of services offered.

To ensure all individuals were active, the DWP automatically allocated customers to a provider if they failed to exercise a choice on their own. The risks associated with automatic allocation are similar to the

⁶⁵³ DWP (2009) *FND Phase 2 Invitation To Tender: Provision Specification and Supporting Information*, Department of Work and Pensions, p39

⁶⁵⁴ *Ibid*, p38

criticisms levelled at the secondary school selection process, where the parents not making a choice for their children are more likely to end up in a poorer performing school. Allocating those not making a choice to the weaker supplier may magnify contractor results and distort the assessment process. This is because those not making a selection tend to be furthest from the labour market⁶⁵⁵ and the way that choice was based upon Star Ratings, the practitioner with the smaller market share could be more likely to be allocated the harder to help, or less engaged clients. The DWP may take comfort from the Australian experiments with choice, where, few clients used this criterion as the basis of their decisions.⁶⁵⁶ Nevertheless, should clients decide to ignore the Star Ratings system and opt to select the weaker supplier en masse, the DWP have said it will protect the better performing practitioner's market share and terminate consumer choice.⁶⁵⁷

The combination of customer choice, inspections and Star Ratings were formulated to maintain quality in a deregulated welfare market to prevent corner cutting and the 'parking' of harder to help clients, which non-discriminatory outcome payments reportedly incentivise.⁶⁵⁸

Views on Market Management Measures

There was a range of views concerning the government's interventions in the market post-tendering. Some, such as the Social Market Foundation, considered that it might serve the competitive market and customer better were the Department to regulate further, for example with a system to differentiate between types of customers to prevent 'parking' and 'creaming', or imposing fines on contractors for each jobseeker who remains unemployed after the allotted year.⁶⁵⁹

Gingerbread, a third-sector organisation specialising in single-parent families, were unconvinced by quality control measures and prospects for a good customer experience, and argued for the

⁶⁵⁵ Mulheirn, I. And Menne, V. (2008) *The Flexible New Deal: Making it Work*, Social Market Foundation, London p64

⁶⁵⁶ Branosky and Morrell (2005) cited in Crighton, M. et al. (2009) *Tension in Localising Welfare-to-work to Britain's Cities*, Local Economy v24.1, p56

⁶⁵⁷ DWP (2009) *Flexible New Deal Guidance for Contractors*, DWP, London, section 13, p8

⁶⁵⁸ Mulheirn, I. And Menne, V. (2008) *The Flexible New Deal: Making it Work*, Social Market Foundation, p53

⁶⁵⁹ SMF Written Submission (2009) House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009, Written Evidence*, The Stationary Office, London, p75

establishment of a local, independent ombudsman within each region, who would be tasked with investigating complaints about unfair, discriminatory, or degrading treatment by flexible New Deal providers.⁶⁶⁰

Providers approached participant choice with mixed degrees of enthusiasm. For instance, Serco submitted a memorandum to the Work and Pensions Committee stating:

Customer choice is only meaningful where there are distinguishable alternatives from which to choose. The characteristics of effective welfare to work provision are really quite simple – it is the provision of a capable and motivated Personal Advisor. Given this simplicity, there is often little to choose between the providers.⁶⁶¹

Reed, another major contractor, had doubts that customer choice would drive performance, largely due to fears that while some customers might utilise the information given to them about different providers, such as Star Ratings and reputation, others might make decisions ‘based solely on issues such as the proximity of the nearest office.’⁶⁶²

Those contractors less sceptical of ‘on paper’ choice have nonetheless expressed public concern over the systems of consumer choice the DWP have chosen to implement. Austin Hardy from the Wise Group (one of the FND contractors) told the Committee on Work and Pensions that ‘Jobcentre Plus will refer you to one of two providers, 50/50. It is not really a choice, you will be allocated to one or the other.’⁶⁶³

⁶⁶⁰ Gingerbread written submission (2008) House of Commons Work and Pensions Committee (2009) *DWP’s Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009*, Written Evidence, p128

⁶⁶¹ Serco (2008) *Memorandum submitted by Serco*, Written Evidence for House of Commons Work and Pensions Committee (2009) *DWP’s Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009* p5

⁶⁶² Reed (2008) Written Evidence for House of Commons Work and Pensions Committee (2009) *DWP’s Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009*, Written Evidence p85

⁶⁶³ Work and Pensions Committee (Oct 29th 2008) *Uncorrected Minutes of Evidence*, UK Parliament, available at http://www.publications.parliament.uk/cgi-bin/newhtml_hl?DB=semukparl&STEMMER=en&WORDS=flexibl%20new%20deal%20choic&ALL=flexible%20new%20deal%20choic&ANY=&PHRASE=&CATEGORIES=&SIMPLE=&SPEAKER=&COLOUR=red&STYLE=s&ANCHOR=muscat_highlighter_first_match&URL=/pa/cm200708/cmselect/cmworpen/uc1129-ii/uc112902.htm [accessed 17/02/2010]

Summarily, when governments encourage welfare-to-work provider outcomes by the profit motive, in an regulatory environment where process requirements are minimal perverse incentives are inevitable. 'Creaming' and 'Parking' are specific risks in this environment, but generally there is the recognition that a set of minimum standards must be enforced to maintain quality across the board. Whether the measures of choice, inspections and Star Ratings fulfilled the DWP's aspirations of high quality services and the application of minimum standards of provision for all jobseekers will be explored in the forthcoming chapter.

Projected Costs

The final aspect of the Flexible New Deal for consideration is the level of estimating the costs of outcome-based contracting has difficulties, because the programme is predominantly based on outcome incentives, the more jobseekers the contractors move into sustained employment, the more the programme will cost (gross) the taxpayer. As the National Audit Office highlight however, the more individuals who move into and remain in work the larger the return on investment the government can yield.⁶⁶⁴ This section will examine the projected costs for the programme as a whole, and the unit costs for moving individuals into work.

Projected Outcomes

When the government initially tendered the contracts for the Flexible New Deal, the maximum predicted cost for Phase 1 was £236 million per annum; had Phase 2 been commissioned the combined projected annual expenditure could have been up to £600 million per annum. Assuming targets are achieved (at 55% and 50% of starts into sustained employment) the expenditure on Phase 1 would actually fall closer to the £147 million pounds per annum range.

⁶⁶⁴ NAO (2007) *Sustainable Employment: Supporting People to Stay in Work and Advance*, National Audit Office, The Stationary Office, London, p8

The way contractors are paid however is more complicated than it first appears. First, as a consequence of the capital requirements associated with start up costs, a proportion of the contract money is paid up-front through service fees. Service fees are paid at 20% of total contract value, so at 20% of £236 million per annum totals just over £47million per year in service fees would be paid to contractors over a seven-year period. However, the stipulation is that 58% of the annual contract value will be paid as service fees in the first six months of the contract, 32% in the next six months and in years 2, 3 and 4, service fees of 13.8% of the annual contract value will be paid in service fees, with nothing in years 6 and 7.⁶⁶⁵ The below table indicates how the programme was to be capitalised with service fees:

Table 6.1 Projected Service Fee Outlay During Contract Years at 20%

Stage of Programme	Service Fee
Months 0-6	£137.22 million
Months 7-12	£75.708 million
Year 2	£32.64 million
Year 3	£32.64 million
Year 4	£32.64 million
Year 5	£32.64 million
Year 6	£0
Year 7	£0
TOTAL	£343.448 million

Source: Adapted from DWP Invitation to Tender⁶⁶⁶

Upfront fees were designed to help companies finance initial programme costs, such as building administrative capacity, IT systems and other initial expenses, but principally the frontloading of fees

⁶⁶⁵ DWP (2008) *Flexible New Deal Invitation to Tender: Provision Specification and Supporting Information*, DWP, p12

⁶⁶⁶ Authors figures using DWP (2008) *Flexible New Deal Invitation to Tender: Provision Specification and Supporting Information*, DWP, p90 and p12

alleviates the significant pressure on contractors in the early stages of the programme, because it will take at least 3 and 6 months respectively to earn any outcome based payments.⁶⁶⁷ Nevertheless, the arrangement created an odd incentive. For instance, if, providers moved *all* people into sustained work would in year one they could earn between them £236million. However, because of the service fee structure, in during year one, companies would have been paid 89% of the total contract value without moving a single individual into work. As the table shows however, it also incentivises long-term planning because fees quickly disappear over the life of the contract. It would therefore only be problematic if the programme was cancelled, or the provider exited the market, early on.

The total expenditure portrays a substantial investment on the government’s part in welfare to work. When calculated on a per participant basis, using the projected number of participants and contract values from the Invitation to Tender, the expenditure is £1577 per FND starter.⁶⁶⁸ As Table 6.2 shows, when compared to other private sector-led programmes the Flexible New Deal is potentially generous.

Table 6.2 Cost of Flexible New Deal Compared to Legacy Programmes

ALMP	Expenditure Per Participant
EZ NDYP	£1,296
EZ ND25+	£1,167
EZ NDLP	£1,265
PSL NDYP	£1,177
PSL ND25+	£1,177
Flexible New Deal	£1,577 (potential)

Source: Adapted from House of Commons Work and Pensions Committee Data⁶⁶⁹

⁶⁶⁷ For the full summary of the financial structure see DWP (2009) *Flexible New Deal Phase 2: Provision Specification and Supporting Information*, c4, p31-37

⁶⁶⁸ DWP (2008) *Flexible New Deal Invitation to Tender: Provision Specification and Supporting Information*, DWP, London, p90

⁶⁶⁹ House of Commons Work and Pensions Committee (2010) *The Management and Administration of Contracted Employment Programmes*, Government Response to Second Report of Session 2010-2011, The Stationary Office,

Calculated as the cost per achieved sustained outcome a significantly different picture emerges. The Social Market foundation calculated that per 13 Week Outcome the Flexible New Deal would actually cost in the region of £2,800.⁶⁷⁰ £2,800 per Short Outcome may appear a large amount of money, but participants in the Flexible New Deal are those furthest from the labour market, largely the least employable individuals in their age group. Many will have limited experience of paid work and the majority will lack good qualifications. Attempting to integrate these individuals with the labour market is therefore expensive. Moreover, when compared with other employment programmes such as the Employment Zones experiment, the costs-per-outcome appear optimistic. Using the same calculations, the Social Market Foundation suggested that the Employment Zones initiative was significantly more expensive at £5110 per 13 week Outcomes. Indeed, the Employment Zones cost figure was in respect of 13 week sustainment, whereas FND providers, albeit with more time to work with clients, are expected to achieve both short and sustained job outcomes. This led the Social Market Foundation to conclude that FND contractors are asked to do much more on a much smaller budget.⁶⁷¹ Clearly therefore the DWP believe that there are significant efficiencies that could be found in the welfare-to-work market.

Whether this strategy will work hinges on the question of what level of investment is necessary to yield employment outcomes. If the DWP are correct, then they will have successfully identified a new benchmark for achieving employment outcomes at a lower cost. If the level of investment is inadequate however, the DWP are likely find that a) they will not meet their ambitious targets, and b) the quality of service received by individual jobseekers may suffer.

Quantifying the ‘Step Change’

The Flexible New Deal includes many elements that the literature associates with success, including operating as a work-first regime to attach people rapidly to the labour market and providing incentives for companies to achieve sustained outcomes (thus potentially mitigating the ‘carousel’ effect of where

⁶⁷⁰ Mulhearn, I. and Menne, V. (2008) *The Flexible New Deal: Making it Work*, Social Market Foundation, London, p42

⁶⁷¹ *Ibid*, p42

the unemployed often cycle between short period of work and benefit receipt). This design should work in the customers' favour, as providers should be incentivised to find work appropriate to programme participant, so that they are more likely to wish to remain in it. The Flexible New Deal also operates within a strong conditionality framework, reinforced by sanctions for refusing compliance or work opportunities. This should help to reduce the number of spurious claimants, drive down benefit receipt and ensure customers submit to programme elements and opportunities the provider believes will be in their best interest. A further element that has been integrated into the FND is the use of outcomes-based contracting, which according to the literature may deliver results similar to the Public Sector, but possibly at a lower cost. The presence of these features offers grounds for optimism that on the chief objective of moving people off benefits into sustained work, the programme may be appropriately designed.

In order to come to some understanding of the performance levels that expected from the FND, comparisons with similar existing programmes were necessary. Private sector delivery had already been established in the employment delivery sector, and as the previous chapter noted, Employment Zones were one of the models used to inform the Flexible New Deal and establish its performance expectations.⁶⁷² In recognition of the similarities of the two initiatives,⁶⁷³ the DWP argued that 'These [performance] estimates were based in part upon the best performing Employment Zone contracts but also reflect a considered view of what DWP thinks FND providers should be able to achieve, using their skills and the innovation that the new approach allows for.'⁶⁷⁴ The DWP contend that the best EZ 13 week performance was 38%, and that this is the starting point for the FND.⁶⁷⁵

⁶⁷² See Thomas, A. (2008) *Flexible New Deal Performance Expectations and Funding Presentation*, DWP [online] <http://www.dwp.gov.uk/docs/fnd-event-slides.pdf> [accessed 10/10/11]

⁶⁷³ For example Employment Zones were targeted at disadvantaged communities where the unemployed faced multiple barriers to work, including the labour market itself. It would be reasonable to expect that the Flexible New Deal, as a national programme, could deliver higher average outcomes across the whole of the economy.

⁶⁷⁴ House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal: Government Response to the Committee's Second Report of Session 2008-2009, Second Report of Session 2008-2009*, House of Commons, p6

⁶⁷⁵ Thomas, A. (2008) *Flexible New Deal Performance Expectations and Funding Presentation*, DWP, pp1-12

The added performance pushing FND expectations beyond the 38%, and thus contributing to the 'step change' in performance were modelled on a number of factors outlined by the DWP to potential providers. These include extended programme length, earlier access for some jobseekers, and the fact that FND is a national programme.⁶⁷⁶ The sum of these factors amount to a performance boost of 13% above EZs, i.e. 51% of FND Starts should be entering 13 weeks of continuous employment.⁶⁷⁷ The final 4% to bring outcomes to target is cited as a 'performance boost', but explained no further.⁶⁷⁸ Thus, if the expectations are realised, the FND 'step change' should be equivalent to shifting 17 more individuals for every 100 starting the programme above that achieved by the Employment Zones. This is ambitious, and unlikely for a number of reasons.

Using best performances is a risk for establishing national performance targets, as the next chapter will show, there is significant volatility in outcomes and even variation between weaker labour markets. The yearly 13-week outcomes for EZ25+ are shown in table 6.3 as an example. Had the DWP used the total annual outcomes of the best performing part of Employment Zones, as Table 6.3 shows, they would have established lower, more realistic targets. Using 'best in contract' data is likely to manufacture artificially high expectations, whereas the total EZ25+ programme performance suggests that, through good and poor periods a performance of around the 30% mark might have been the minimum achievable annual outcome level for similar ALMP. To reach the FND targets performance against the mean of the annual EZ25+ outcomes would have required an increase by just short of 90%.

⁶⁷⁶ See DWP (2009) *Flexible New Deal Phase 2: Provision Specification and Supporting Information*, Department of Work and Pensions, pp81 -82

⁶⁷⁷ The working out of this performance boost is supplied by Thomas (2008) cites earlier eligibility provides a factor of 1.02, the extended length of the programme provides a factor of 1.27 and the national labour market context provides a factor of 1.04.

⁶⁷⁸ Thomas, A. (2008) *Flexible New Deal Performance Expectations and Funding Presentation*, DWP [online] <http://www.dwp.gov.uk/docs/fnd-event-slides.pdf> [accessed 10/10/11]

Table 6.3 Employment Zones 25+ 13 Week Sustainment as percentage of Starts (Spells)

Year	13 Week Outcomes as % of Starts
2000	14.7
2001	32.9
2002	31.3
2003	31.8
2004	40.7
2005	28.7
2006	26.7
2007	28.3
2008	27.9
Mean	29.2

Source: Adapted from DWP Statistics Hub⁶⁷⁹

The DWP assumptions are problematic for a number of other reasons. For one, the DWP assumptions are based on the performance of only one part of the Employment Zones initiative, for participants over 25 (EZ25+). As the invitation to tender recognises, ‘the performance expectations for the Flexible New Deal are for all customer groups’⁶⁸⁰, and thus, the outcomes of *all* Employment Zones together must be taken into account to judge performance expectations, rather than the best performing aspect. The figures for this are lower, at a mean of 24% for all participants between 2000 and 2008.⁶⁸¹ Even with the above factors taken into account, if the results continued along EZ lines, the Flexible New Deal would only be achieving 61% of its target, with 34% of Starts achieving 13 week outcomes.

An equally substantial challenge is the assumption of the conversion rate (the proportion of participants turning a 13-week employment spell into one lasting 26 weeks). The performance expectations laid down by the DWP assume that 91% of all starters who achieve a 13-week outcome will remain in

⁶⁷⁹ Data sourced and adapted from DWP (2010) *DWP Statistics Hub*, DWP, available at <http://research.dwp.gov.uk/asd/index.php?page=tabtool> [accessed 10/11/11]

⁶⁸⁰ See DWP (2009) *Flexible New Deal Phase 2: Provision Specification and Supporting Information*, Department of Work and Pensions, p81

⁶⁸¹ Data sourced and adapted from DWP (2010) *DWP Statistics Hub*, DWP, available at <http://research.dwp.gov.uk/asd/index.php?page=tabtool> [accessed 10/11/11]

employment for 26 weeks of a 30 week period.⁶⁸² This conversion rate did not materialise in any other employment programme. In table 5.1 of the previous chapter the conversion rate for Employment Zones was around 70% and falling, and for New Deals was approximately 45%. Such a growth in performance is also unlikely because survey work undertaken for the DWP suggests that one of the principle reasons for the unemployed returning to benefit is because the nature of the work taken is temporary. 48% of respondent in a sample of 2,725 jobseekers cited the reason for returning to JSA was that their temporary work had come to an end,⁶⁸³ and the tendency for this to occur rose amongst those who had been on Jobseeker's Allowance multiple times. The author argues that the 'findings confirm that temporary work has a prominent impact on the causes of recycling through JSA.'⁶⁸⁴ The implication is that the nature of work in the UK labour market that is a significant explanation for the carousel effect. Thus, financial incentives for companies to maintain labour market attachment may therefore not be enough to resolve the sustainability problem, even with more realistic conversion targets.

The adjustments necessary for comparison will be discussed in detail in the results chapter, but at this stage it is necessary to reiterate that outcomes of this magnitude had at no point been achieved consistently in the UK. This was stressed by the House of Commons Work and Pensions Select Committee, who concluded:

It is right that DWP should attach challenging targets to the Flexible New Deal (FND) programme but it is important that these are realistic. Evidence to us suggested that the FND targets would require a 37.5% improvement in job outcome performance over what has been achieved by

⁶⁸² NB. 91% is the conversion rate as $((1/55)*50) = 0.91$ (with rounding).

⁶⁸³ Carpenter, H. (2006) *Repeat Jobseeker's Allowance Spells*, Department for Work and Pensions Research Report, No. 394, HM Stationary Office, Norwich, p38

⁶⁸⁴ *Ibid*, p38

DWP contractors in the past and this is to be done with a significant reduction in funding compared to the best performing DWP programmes.⁶⁸⁵

As argued by the Committee, there is a clear risk that government may be disappointed by FND employment outcomes. Predictably a number of those bidding for contracts complained that the financial model was not viable they were expected to deliver more than before with significantly less resources.⁶⁸⁶ Their grievances became increasingly relevant as recession began to bite in 2008 and unemployment increased.⁶⁸⁷ In an interview with the Guardian, the managing director at Serco predicted that unemployment would at least double during the recession,⁶⁸⁸ leading to the fear that the numbers joining the FND would balloon while the reward remained fixed. The economic situation, and the pressure from providers forced the DWP to revise both the contracts and its own expectations of programme outputs as several applicants withdrew from bidding in a number of contract zones.⁶⁸⁹

Soft Outcomes

The primary object of FND was to improve transitions to, and retention of, employment. However, it had potential for positive impacts in other areas. As with Employment Zones, services could be tailored more towards the individual needs and expectations of the client, where customers will be able to enjoy more tailored solutions to their employment barriers, for longer periods, than those a 'one-size-fits-all' national scheme. The Child Poverty Action Group suggests that customers tend to prefer private sector operations than those of the state, indicating that:

⁶⁸⁵ House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009*, p24

⁶⁸⁶ Department for Work and Pensions (2008) *Flexible New Deal Performance Expectations and Funding Presentation*, DWP, s19 available at <http://www.dwp.gov.uk/docs/fnd-event-slides.pdf> (accessed 10/07/11)

⁶⁸⁷ For a discussion of the recession see Elsby, W. And Smith, J. (2010) *The Great Recession in the UK Labour Market: A Transatlantic Perspective*, National Institute Economic Review, v214, pp26-37

⁶⁸⁸ Helm, T. and Syal, R. (08/02/2009) *Key Labour Employment Plan Close to Collapse*, Guardian Online, <http://www.guardian.co.uk/money/2009/feb/08/labour-welfare-jobs-plan>

⁶⁸⁹ Timmins, N. And Barker, A. (2008) *Crisis Fails to Put Off Bids for Contracts*; Financial Times, available at http://www.ft.com/cms/s/0/7e60dda8-b4fc-11dd-b780-0000779fd18c.html?nclick_check=1 [accessed 10/07/11]

It seems that private providers in particular may have access to resources that allow the creation of a comfortable environment for jobseekers. Along with this, private companies seem to use methods of dealing with jobseekers that make people feel respected and confident that the provider is making serious efforts to assist in finding a suitable job.⁶⁹⁰

The outcome-based financial arrangements may also be capable of ensuring that the customer's needs and career ambitions are taken more into account. With a new emphasis on longer-term employment targets of six months, it may ensure that the provider considers longer and harder the type of employment that is being considered for the customer: knowing that the client will like the job, or the financial benefits accrued from it, increases the chances of it being sustained. This may also prevent the private companies coercing customers into seasonable employment which by nature is temporary, thus entrenching the carousel effect, preventing opportunities for promotion, and in any case much of the seasonal work tends to be of low quality and pay. Despite the emphasis on the 'personal', there is considerable risk that the financial structure facilitates a number of perverse incentives, where the 'black box' may lead to a good experience for some customers, but poor treatment for others. As the Social Market Foundation stress

Uniform outcome payments encourage providers to ignore, or park, the hardest-to-help clients. In practice, this means directing only minimal resources towards helping any client where the costs associated with finding them work are expected to exceed the outcome payments in case of success. Parking is therefore a concern from a social justice perspective, since some people will receive only minimal help from the contractor when they should, arguably, be entitled to at least the same level of support, if not support proportionate to their needs.⁶⁹¹

The minimum service requirements may not be adequate to prevent a poor level of support for those

⁶⁹⁰ Wright, S. (2008) *Contracting Out Employment Services: Lessons from Australia, Denmark, Germany and the Netherlands*, Child Policy Action Group Policy Briefing, CPAG, London, p30

⁶⁹¹ Mulhearn, I. and Menne, V. (2008) *The Flexible New Deal: Making it Work*, Social Market Foundation, London, p52

most in need of it. The standards of service received are addressed through direct interviews with former customers.

In sum, there are grounds for optimism that FND will achieve better results than those before it, as a larger cohort of customers will have access to services tailored to support them over a longer period. The conditionality regime, if enforced, should be sufficiently robust to ensure compliance with activities, such as jobsearch, which the literature review reported, accelerate labour market transitions. However, the programme's design carries a number of risks, principally that it is subject to the conditions of the labour market. With the UK entering recession during the FND implementation, the very optimistic targets are even less likely. The more difficult these outcomes are to achieve, there is an increased likelihood of a knock on effect on the quality of services provided, in particular for those furthest from the labour market.

Conclusion

The Flexible New Deal represents an evolution of welfare-to-work in the UK, not a revolution. Looking back over the last few decades of welfare policy under Conservative and Labour governments, the use of conditionality and contracting-out have developed in increments. Much of the structure of FND existed in the New Deals and Employment Zones programmes, and many of the features of these programmes were running in programmes developed under past administrations.

This is not to underestimate the achievement of such a programme – deploying a welfare market of this scale, where one has never existed before, is an impressive administrative feat. With the implementation of Flexible New Deal the Labour Government had created a work-first programme of unprecedented conditionality, and privatised a significant proportion of support for the unemployed. With both strong conditionality and privatisation traditionally (and continuously) associated with the Conservative party, there is an apparent Westminster consensus about the directional future of active

labour market programmes in the UK.⁶⁹² The eventual consensus amongst the upper echelons of Britain's political elite does not however vindicate the Flexible New Deal approach. For one, the application of mandatory, contracted-out work-first carries significant risks both technical and political in nature.

The technical aspects concern a tension in the personalisation agenda. The work-first strategy fits comfortably with basic reintegration methods to overcome simple defects in the participants' employment profiles, but the 'any job is a good job' modus operandi within the one-size-fits-all funding approach entrenched by FND financial arrangements both encourages and inhibits the private sector to consider individual needs, capabilities and career aspirations of their customers. In accordance with the path dependency outlined in Chapter 4, the narrowing supply-side approach of mandatory work-first delivered by contracted agents further shifts the responsibility for unemployment away from the state and onto the individual and the market. In doing so this approach leaves the state's objectives of higher employment and lower benefit receipt vulnerable to the conditions of the labour market. In a buoyant market, this can accelerate transitions by reducing frictional unemployment, but in the recessionary climate, compulsory jobsearch and work related activities may be futile without sufficient vacancy destinations. Such conditions also pose challenges for fostering a sufficiently competitive market because under the current financial arrangements the majority of provider income is derived from outcomes. If there are not the quantity of destinations available in the labour market for companies to meet these outcome targets, the state is either paying providers to do nothing, or is risking market failure.⁶⁹³

This problem was compounded by the fact that funds available were inadequate for an investment in human capital, or job creation of any scale. Under the relatively tight funding arrangements, the

⁶⁹² Finn, D. (2008) *The British Welfare Market: Lessons From Contracting Out Welfare to Work Programmes in Australia and the Netherlands*, Joseph Rowntree Foundation, London p10

⁶⁹³ This risk was recognised as the decision was made to frontload the large proportion of service payments.

competing companies were to be forced to adopt the cheapest methods of reintegration such as intensive jobsearch, mentoring and small-scale training in order to achieve profit. Even in a buoyant labour market, FND targets would have been highly challenging with the given resources. In a tight labour market where jobs are not readily available and profit margins are consequently very small, the quality of services rendered would be under pressure.

The contracting-out of the FND also created a series of political problems. The first concerns accountability. On the one hand, introducing individual contractors to an area of policy traditionally dominated by a state monopoly could have improved accountability through the increasing the transparency of welfare to work. The competitive market should illuminate which providers performed well, and which did not, while in a state monopoly performance comparisons may be more difficult to discern. However, citing evidence from the Australian and Dutch programmes, Finn warns that ‘Contracting out [...] fragments programme responsibility among multiple contractors, changes the relationship between those who design policy and those who deliver front-line services, and blurs lines of responsibility and accountability.’⁶⁹⁴ Firstly, legislative oversight has been diluted in the contracting process. The legislation needed to implement the Flexible New Deal was limited, and generally amended existing social security legislation to incorporate the new FND conditionality framework. The general structure of the programme could therefore be achieved without substantive primary legislation, as the programme was to be delivered through contracted agents rather than statutory public bodies. Secondly, knowing where ‘the buck stops’ is increasingly difficult, where blame can be passed between the state and contracted agents.

A final problem of substance linked to accountability is transparency. There is a considerable tension in contracting-out as the conduct of for-profit business often involves a necessary degree of secrecy in order to maintain an edge over competitors; deals and contracting arrangements are therefore opaque

⁶⁹⁴ Finn, D. (2008) *The British Welfare Market: Lessons From Contracting Out Welfare to Work Programmes in Australia and the Netherlands*, Joseph Rowntree Foundation, London p5

if not completely confidential. This has been reflected in the winding up of the Flexible New Deal contracts, where confidentiality clauses have prohibited FND providers from informing the Public Accounts Committee the extent of compensation awarded to them at the point of contract termination.⁶⁹⁵ Without the capacity to scrutinise detail, or in this case even establish public expenditure, the task for politicians to make informed judgements concerning the quality of their own policies is impossible.

⁶⁹⁵ House of Commons Public Accounts Committee (2011) *The Introduction of the Work Programme*, Public Accounts Committee Meetings, Wednesday 8th February [online] <http://www.parliamentlive.tv/Main/Player.aspx?meetingId=10079> [accessed 12/02/2011]

CHAPTER 7 Flexible New Deal Results and Analysis

This chapter will evaluate the efficacy of the Flexible New Deal. It will do so in stages, beginning with a review of the Flexible New Deal against national targets assigned to it by the government. The second stage reviews the Flexible New Deal's performance against comparable welfare to work programmes the FND was intended to replace, and thus addressing the second question. The third stage involves examining the local labour market performance of competing contractors in each contract, and the labour market variables determining their performance, addressing the two supplementary questions. The final stage will examine the resources of the programme to determine whether the financing of FND explains its performance, addressing the second part of the primary question.

McConnell, in appraising the success or failure of public policy, stated that the 'first basis, and the one most in line with the formalities of policy processes is [the] original intentions.'⁶⁹⁶ For this project policy-makers have clearly outlined the objectives for the Flexible New Deal in the format of five critical success factors (CSF) circulated to all of the selected delivery organisations:

1. Suppliers will meet or exceed the Short Job Outcome targets (13 weeks employment) agreed in their contract;
2. Suppliers will meet or exceed the Sustained Job Outcome targets (26 weeks employment) agreed in their contract;
3. Suppliers will ensure every customer receives a level and type of support appropriate to their individual needs, including those customers with more substantial or specialist needs;
4. Suppliers will deliver a service that represents excellent value for money and a step-change improvement in performance compared with previous programmes;

⁶⁹⁶ McConnell, A. (2010) *Understanding Policy Success: Rethinking Public Policy*, Palgrave Macmillan, p105

5. Suppliers will deliver high quality provision to all customers in line with the DWP Quality Framework and achieve high standards at external inspection by developing their continuous improvement strategy in line with the relevant Common Inspection Framework.⁶⁹⁷

Critical success factors 1, 2 and 4 are germane to the core research question because the FND job outcome targets exceeded those achieved by the legacy policies discussed in Chapter 5. The fourth CSF is in effect the primary research question – as it demands suppliers achieve ‘a step change improvement in performance compared with previous programmes.’ The other two factors, three and five, are beyond the scope of this thesis for two reasons; first, they are not directly related to either primary or sub-questions. Second, both are subject to review by other bodies, where the third factor is part of an ongoing research project by the Policy Studies Institute on behalf of the Department of Work and Pensions the fifth factor was an internal review procedure, the results of which have not yet been made public.

Analytical Approach

The methodology utilises data published by the government, and other internationally recognised labour market bodies, in order to provide an analysis of FND. In particular, it focuses on data that can combine national and local labour market information to elicit the actual performance of the programme. An analysis of the CSFs 1 and 2 is without methodological controversy given that the Department of Work and Pensions issued the full dataset recording the programmes’ operating achievements. This dataset is the cornerstone of the analysis. The more challenging analysis concerns the fourth success factor. Certainly, the achievements of factors one and two are part of the answer to factor four as the targets were set above previous achievements of UK active measures. Typically,

⁶⁹⁷DWP (2008) *Flexible New Deal Phase 1 Invitation to Tender*, Department of Work and Pensions <http://www.dwp.gov.uk/docs/fnd-for-info-specification.pdf> (accessed 10/09/2011) p15

according to De Koning, addressing the net benefits of a programme involves experimental methods using a treatment group and a non-treatment group and assessing the differences using longitudinal data.⁶⁹⁸ This type of data was requested from the DWP, and subsequently acknowledged and rejected upon grounds of data protection legislation. Nevertheless, simultaneous programme comparisons remain possible through the amalgamation of multiple programme performance indicators, and these are explored later in the chapter.

Data Collection

The fundamental source of programme performance is the Delivery Directorate Performance Report (DDPR). The DDPR was a database established by the Department of Work and Pensions and organised, by them. The database was divided by the DWP into the fourteen different contract areas. A single provider served four of the areas, while the remaining ten were served by two competing providers. In total therefore, the DDPR's report offered detailed information from 24 different Flexible New Deal operations.

The providers in each of these 14 geographic districts collect the data and the recording of it was a legal obligation of the provider organizations, managed through the Provider Referrals and Payments System (PRaP) (the IT network which the DWP uses to exchange personal information with contractors). The DWP supplies the providers with each new customer's personal information, their Jobcentre agreements, and any notes on the customer that might be necessary (e.g. the customer has a history of violence). In exchange, and as a condition of their payment, providers were expected to supply information on a range of basic factors, including:

- Acknowledge and Accept referral;
- Notify start; notify did not start;

⁶⁹⁸ De Koning, J. (2007) *The Evaluation of Active Labour Market Policies*, p35

- End provision (e.g. job outcome, transfer, no longer engaged);
- Short Job Outcome;
- Sustained job outcome.⁶⁹⁹

The accuracy of the contractors' submissions can then be verified in two ways; first, the data can be verified by checking whether the customer has left the Jobseekers Allowance. This process is automatic and can be used repeatedly to check whether the customer has left the JSA for a sufficient period to merit the job outcome criteria. The second check was undertaken by a DWP inspectorate, the Provider Assurance Team, which visited providers to check their physical records⁷⁰⁰

The DDP contains essential PRaP data that has been transformed into the three core elements that form the basis of analysis:

1. Starts – According to the Department of Work and Pensions 'Starts are the numbers registered by the providers as starting on Flexible New Deal. Figures do not include those who have been referred to the same provider more than once during their time on provision but do include those who have been referred to a different provider or had more than one spell on provision.
2. Short Job Outcomes (SJO) - 'Short Job Outcomes are defined as those jobs that have lasted 13 weeks with a minimum of 16 hours each week. Only one Short Job Outcome can be claimed by any one provider during the participant's time on provision.

⁶⁹⁹ DWP (2010) *Provider Referrals and Payments System Q&A*, Department for Work and Pensions, available at <http://www.dwp.gov.uk/docs/prap-qanda.pdf> [accessed 03/10/11] , p3

⁷⁰⁰ *Ibid*, p6

3. Sustained Job Outcomes (LJO) - 'Sustained Job Outcomes are jobs of a minimum of 16 hours per week in employment for at least 26 weeks out of 30 with breaks in employment totalling 4 weeks or less.'⁷⁰¹

There are obvious variables absent from the Delivery Directorate report discussed in the introduction of this thesis (e.g. gender and age), but the above three categories are capable of providing a vast amount of information over the operating period of twenty-three months, and are the cornerstone of the quantitative analysis employed through the remainder of this chapter.

Three core elements are used to assess whether the two primary quantitative targets have been achieved:

- 55% of FND Starts should achieve 13 weeks uninterrupted employment (Short Job Outcome).
- 50% of FND Starts should achieve 26 weeks employment (Sustained Job Outcomes).

It should be noted that since the Flexible New Deal was commissioned the Department of Work and Pensions were acutely aware of the deteriorating labour market conditions in the UK, but were equally reluctant to alter the national targets. In fact, The DWP told the House of Commons Work and Pensions Committee that 'it accepts that its performance expectations may not be possible during the early stage of the contracts, or in every labour market, and it has asked potential providers to review their performance offers. However, DWP will maintain the 55% and 50% targets as their goal.'⁷⁰² Since the programme ended in August 2011, and the last customers expected to be accepted onto the programme in May 2011, the lifetime achievements of the programme can be explored against these principal targets.

⁷⁰¹ DWP (2010) *Flexible New Deal Information Note*, online http://statistics.dwp.gov.uk/asd/asd1/ddfnd/fnd_info_nov2010.pdf (accessed 11/04/2011) p1

⁷⁰² DWP submission to House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal*, House of Commons Work and Pensions Committee Report for Session 2008-2009 V.1, p21

Analysing the Flexible New Deal data

There are a couple of methods available for analysing the FND Delivery Directorate data. The first approach to the analysis of the Flexible New Deal evaluation statistics would be simply to add together the total 'Starts', and divide this figure by the number of 'Short Job Outcomes', and 'Sustained Job Outcomes', respectively. These are converted into percentages to render them comparable with other programmes with differing volumes of participants. This is a commonly used technique to show the proportion of participants who have begun the programme and achieved a job outcome lasting 13 or more weeks. This was the method used in Chapter 5 for each UK active labour market programme and was used in the DWP specifically to develop FND contract targets (see Chapter 6). Applying this formula to the final set of data FND statistics, released on 16 November 2011 in the Delivery Directorate Report, the sum follows:

$$100 / 407,690 \text{ (Programme Starts)} \times 75,280 \text{ (Short Job Outcomes)} = 18.5\% \text{ (Proportion of Starts registering a 13-Week Short Job Outcome)}$$
$$100 / 407,690 \text{ (Programme Starts)} \times 49,740 \text{ (Sustained Job Outcomes)} = 12.2\% \text{ (Proportion of Starts registering a 13-Week Short Job Outcome)}^{703}$$

These national outcomes show the Flexible New Deal performing at a level less than half of the national targets. The Department for Work and Pensions hoped for every 100 participants starting the Flexible New Deal, 55 would move into employment lasting 13 or more weeks, and one in every two participants would find work lasting for 26 weeks. These results show that Starts-to-Short Job Outcomes were closer to one in five, and for Sustained Job Outcomes one in eight. The explanations for this shortfall are

⁷⁰³ This and all subsequent FND data consolidated from DWP (2011) *Delivery Directorate Performance Report*, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011)

discussed in detail below.

Continuing with the performance totals it is possible to begin to examine the effects of competition by partitioning the totals of the two contract models. The above method was applied to the sum of all four single contract areas and all ten dual contract areas, where Single Contract Areas had a monopoly over Flexible New Deal delivery in an assigned region, whereas and Dual Contract Areas had two contractors competing directly against each other. The result of this process is shown in Table 7.1.

Table 7.1 Flexible New Deal Employment Outcomes Totals and Contract Type Totals

Contract Package Area	Starts	Short Job Outcomes	Sustained Job Outcomes	Short Job Outcomes as % of Starts	Sustained Job Outcomes as % of Starts
Single Contract Areas (4)	84290	15310	9900	18.2	11.7
Dual Contract Areas (10)	323440	59990	39860	18.5	12.3
Total	407690	75250	49740	18.5	12.2

Source: Adapted from DWP Delivery Directorate Report⁷⁰⁴⁷⁰⁵

Partitioning the data has supplied important insight into the competition dynamic. As is visible above the difference between single and dual contract zones is small, where dual contract zones outperform single contract zones by 0.3% for Short Job Outcomes at 18.5% and 18.2% respectively; similarly for Sustained Job Outcomes 12.3% and 11.7% provides only a marginal outperformance of 0.7%.

The lack of a large distinction between the single and dual contract areas is important given the expectation that direct competition would facilitate a step-change in performance. In dual contract areas the competition dynamic was originally to be driven by the incentive of a shifting market share of participants (see discussion presented in previous chapter). Shifting customer volumes for each provider was intended to incentivise contractor competition by offering better performers more customers, and

⁷⁰⁴ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions Statistics Hub, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011)

⁷⁰⁵ Totals may not match not calculate due to DWP's data rounding policy.

therefore potentially higher profits. A closer inspection of the total volumes of clients allocated to contractors show evidence of variation, with some contractors being responsible for 10% more Starts than others. However, this did not appear to be linked to performance, as the best performing contractor (Maximus Employment) had fewer Starts than its contract area competitor, Skills Training UK. This was also the case in the Birmingham and Solihull contract, where Seetec outperformed Fourstar E&S, but had 1,700 less Starts. The given evidence therefore shows that market sharing, one of the core drivers of competition, was never implemented.

The other driver of competition intended to give Dual Contract Areas the edge over the Single Contract Area was the mechanism of customer choice. Allowing participants to choose their contractor had been expected to drive performance and quality through the system, but as discussed in the previous chapter (6) this element was also abandoned. Thus, the two distinct features intended to push up performance in Dual Contract Areas through direct competition were abandoned. Ultimately therefore, the resulting competition incentives reflected the suspicions of the Social Market Foundation that 'the concentrated prime contractor structure places more weight on the re-tendering process to keep contractors' power in check'⁷⁰⁶ rather than direct competition between contractors. As the implementation of FND was different from what the original policy documents had intended, and the difference between Single and Dual Contract Areas was limited, the little distinction between the respective performances should not be unexpected.

The unadjusted totals show results considerably below national targets and that the competition dynamic had yet to expose strongly the merits of direct competition between contractors. However, the national outcomes presented by this method are unfair. The unadjusted totals disguise an obvious methodological weakness; they do not offer sufficient time for the programme to reach a steady state, a

⁷⁰⁶ Mulhearn, I. and Menne, V. (2008) *The Flexible New Deal: Making it Work*, Social Market Foundation, p99

problem recognized by the DWP.⁷⁰⁷ The risk of using unadjusted totals is explained by the Employment Related Services Association:

Taking the total number of referrals and comparing them with the total numbers of job outcomes does not give an accurate picture. As job outcomes can only be paid after three and six months in work, the fluctuations in customer referrals mean there are three and six months worth of referrals that are simply not eligible for job outcomes.⁷⁰⁸

The methodological implications are that looking solely at outcomes as a proportion of total starts offers a distorted picture of FND performance. Specifically the adoption of the original method unnecessarily dampens the performance of the programme because those entering the Flexible New Deal with either three or six months to go would not have been able to have obtained a 13 week or 26 week employment outcome. For the 13-week category, or Short Job Outcome, there were 2,660 joining the programme in the final three months, for whom the achievement of a Short Job Outcome could not have been claimed by the end of the programme.⁷⁰⁹ Naturally therefore, the problem is greater for achieving 26-week outcomes, where a total 36,070 customers joined the programme in its final six months left providers unable to claim the achievement of Sustained Job Outcomes for this cohort. For the latter category of outcomes at least, of a total of 407,700 programme participants, 36,070 is not an insignificant proportion. This issue will hereafter be referred to as the outcome lag.

To account for the outcome lag, and provide a more balanced depiction of the Flexible New Deal's performance it is necessary to adjust for this problem. With the Flexible New Deal terminating in August 2011 the number of programme entrants (start totals) that could not qualify for both Short and

⁷⁰⁷ Department of Work and Pensions (2010) *Flexible New Deal Information Note*, online http://statistics.dwp.gov.uk/asd/asd1/dfnd/fnd_info_nov2010.pdf (accessed 11/04/2011) p1

⁷⁰⁸ ERSA (2011) *ERSA Commentary on the DWP Delivery Directorate Performance Report*, p4

⁷⁰⁹ It should be noted that it would have been possible for the FND participant to sustain the employment for 13/26 weeks regardless of the FND's termination, the point is that the data on the programme could not accommodate this as Short Job Outcomes and Sustained Job Outcomes could not be achieved after termination date.

Sustained Job Outcomes must be removed from the final months of the programme. For the 13-week category, this means removing all who began the programme in June, July and August of 2011, and for the 26-week category it requires the removal of the data for March, April, May, June, July and August of 2011. As disclosed above, these figures were 2,660 exemptions for Short Job Outcomes and 36,070 for Sustained Job Outcomes. The elements of the first equation remain the same, but with reduced start totals reflecting the exemptions recorded above.

Adjusted Method

$$100 / 405,040 \text{ (Total Starts – Final 3 month starts)} \times 75,250 \text{ (Short Job Outcomes)} = 18.6\%$$

$$100 / 371,630 \text{ (Total Starts – Final 6 months starts)} \times 49,740 \text{ (LJO)} = 13.4\%$$

The resulting method provides the table below with an additional column being added to differentiate between total Starts:

Table 7.2 Adjusted Flexible New Deal Sustained Employment Outcomes

Contract Area	Package	Starts Adjusted for - 3 Months	Starts Adjusted for - 6 months	Short Job Outcomes	Sustained Job Outcomes	SJO as % of Starts	LJOs as % of Starts
Single Contract Area		83,890	76,910	15,310	9900	18.2	12.9
Dual Contract Area		321,460	294,970	59,990	39860	18.6	13.5
Total		405,040	371,630	75,250	49,740	18.6	13.4

Source: Adapted from DWP Delivery Directorate Report⁷¹⁰

Inevitably, the results show a marginal increase on the national employment outcomes totals with a 0.1% rise in Short Job Outcomes, and a 1.2% rise for the Sustained Job Outcomes. The greater increase in the latter is a consequence of the larger volume of individuals joining in the final six months, as

⁷¹⁰ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions Statistics Hub, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011)

opposed to the final three. Even with the necessary revisions the totals demonstrate that the new delivery mechanism perform substantially below the Department of Work and Pensions' target of 55% and 50% respectively.

Table 7.3 illustrates these findings in relation to stated national targets. For this part of the analysis the outcomes will be calculated and shown as a percentage of the national Short Job Outcome targets of 55% and Sustained Job Outcomes of 50%.

Table 7.3 Adjusted Method FND Outcomes as Percentage of National Targets

Contract Type	% of 3M Target (55%)	% of 6M Target (50%)
Single Contract	33%	26%
Dual Contract	34%	27%
Total	34%	27%

Source: Adapted from DWP Delivery Directorate Report⁷¹¹

The above table shows the extent of the shortfall in employment outcomes. The reasons why the expectations-outcomes gap occurred was accounted for in the previous chapter (Chapter 6), principally that the Flexible New Deal national targets were premised on a narrow section of Short Job Outcomes achieved by one part of one employment programme. The following section looks at the performance of FND against the other employment programmes it was destined to replace to see whether the quasi-market, while performing below expectations, was more effective than the New Deals and Employment Zones.

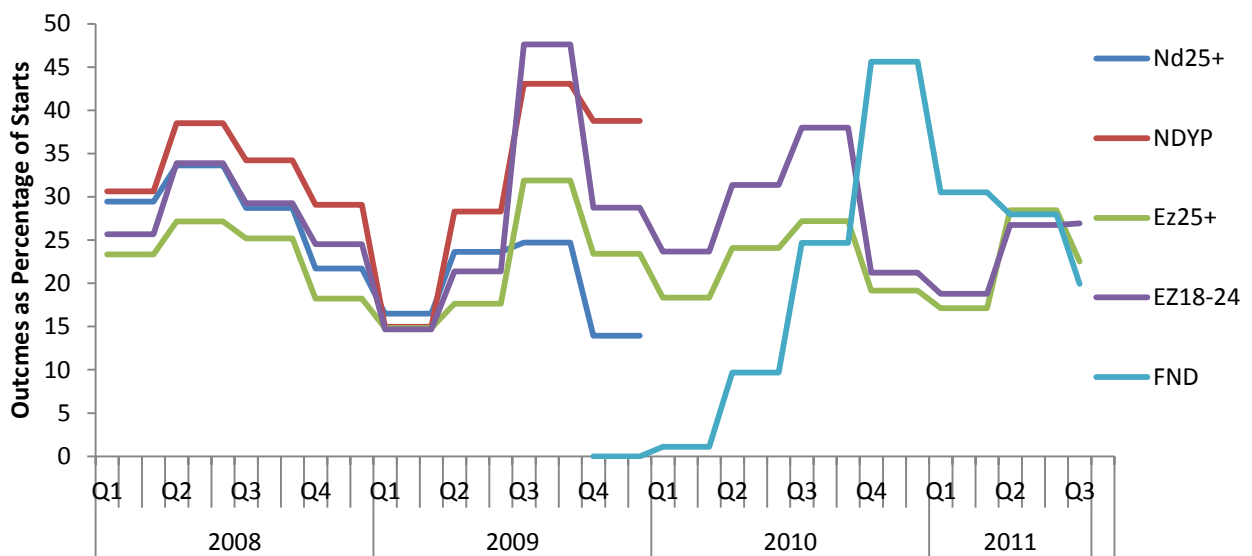
The FND, the New Deals and Employment Zones

To appreciate whether FND was more effective than the legacy employment programmes this section turns to programme comparisons. As Chapter 6 discussed, the most suitable programme for comparison

⁷¹¹ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions Statistics Hub, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011)

with the Flexible New Deal is Employment Zones, as they operate a broadly ‘black box’ approach reinforced by payment by results contracted out to the same broad selection of providers. Included in the comparative analysis are other programmes operating around the time of the Flexible New Deal to illustrate relative performance. Figure 7.1 charts the performance of five programmes over a four-year period using identical calculations of 13-week employment entry as a proportion of starts.⁷¹² The outcomes of the New Deals and Employment Zones often show volatile swings in performance and consequently these were transformed into quarterly totals for the quarter for the purposes of visualisation. As figure 7.1 illustrates, the Flexible New Deal, as alleged by Mulheirn, endured a slow start,⁷¹³ taking nearly a year to catch up with either modes of Employment Zone provision.

Figure 7.1 UK ALMP Quarterly 13-week Outcomes as a percentage of Starts since 2008



Source: Adapted from DWP Delivery Directorate Report and DWP Statistics Hub⁷¹⁴

Further evidence to support Mulheirn’s assertion was drawn from an interview with a business manager at one of the providers. This individual argued ‘I truly think that the thought behind the national

⁷¹² Short Job Outcomes calculated by Number of Starts (Ns) divided by the job entry rate (JER) and multiplied by the sustainment for 13 weeks.

⁷¹³ Mulheirn, I. (2011) *Will the Work Programme Work? Examining the Future Viability of the Work Programme*, SMF Analysis Briefing, Social Market Foundation, p9

⁷¹⁴ Data sourced from DWP (2011) *Resource Centre*, Department and Work and Pensions [online] http://research.dwp.gov.uk/asd/asd1/tabtools/index.php?page=tabtool_nd accessed 11/11/11 and FND data consolidated from DWP (2011) *Delivery Directorate Performance Report*, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011)

milestones and markers needs looking at, because they [the DWP] seem to expect the contract to run, and be up and running and hitting levels that really are not going to happen, even the larger boys [contractors] than us...struggled.⁷¹⁵ The lag occurs, according to the interviewee, because of systems problems, attempting to build up a base of contacts, establishing IT systems, and problems with the clarification of provider guidance to name only a few.⁷¹⁶

Putting aside the slow start, it is also observable that the Flexible New Deal produced results similar to those achieved by the New Deal for Young People and Employment Zones for Young People during the recession, but exceeded both Employment Zones achievements during the final quarter of 2010. However this quarter's results are not necessarily appropriate for comparison as in December 2010 the number of programme entrants unexpectedly fell to around half of the average months entrants, which exerted a strong upward pressure on that quarters Starts-to-Outcomes ratio. The lack of simultaneous data for the New Deals is unfortunate, but survey research undertaken by the Policy Studies Institute appears to support the trends in the above graph. The authors state: 'Customers ages 25+ were equally likely to be in paid work in Phase 1 [FND] and Phase 2 [New Deal LTU] (29% in both areas), a slightly - but significantly- higher proportion of FND customers were claiming JSA at the time of interview than was the case in Phase 2 comparison areas (55% Phase 1, 51% phase 2).'⁷¹⁷ Research by the National Audit Office offers a similar set of results. The NAO reported that the Flexible New Deal performed marginally worse than the non-intervention outcomes of Jobseekers Allowance for those over 25.⁷¹⁸ Research by the PSI found that the younger group of Jobseekers (18-24 year olds) in NDYP areas were

⁷¹⁵ Interview by Author, Business Manager of FND Contract, undertaken November 14th 2011

⁷¹⁶ Interview by Author, Business Manager of FND Contract, undertaken November 14th 2011

⁷¹⁷ Vegeris, S. et al. (2011) *Flexible New Deal Evaluation: Customer Survey and Qualitative Research Findings*, Policy Studies Institute and Department of Work and Pensions, Research Report No 758, p121

⁷¹⁸ The work by the NAO is based on a series of complex assumptions about how the FND did, and would perform over the life of the contract. For more information see NAO (2012) *The Introduction of the Work Programme*, Report by the Comptroller and Auditor General, HC1701, The Stationary Office, London, p24

more likely to be in paid work (by 6%) than FND comparator areas, and 8% less likely to be claiming the Jobseekers Allowance.⁷¹⁹

Against the simultaneous legacy programmes, the outcomes of Flexible New Deal and Employment Zones are shown in Table 7.4 for the FND operating period. The slow start is obviously a factor in the weaker FND results, but isolating the start is an arbitrary exercise and each programme was subject to the same effects of abrupt termination resulting in a large proportion of their customer base rendered ineligible for job outcomes.

Table 7.4 Active Labour Market Short Job Outcomes Compared

ALMP	Employment Zones for 18-24 year olds	Employment Zones for 25+ years	Flexible New Deal
Proportion of Starts achieving 13-weeks employment	21.4%	25.7%	18.5%

Source: DWP Delivery Directorate Report and DWP Statistics Hub

Putting the results of the programmes into context, the local economic profiles across the simultaneous Employment Zones were weaker than across the FND contract areas. The specifics of local labour market performance are explored later, but EZ areas had a higher Claimant Count rate of 6.0% to FND areas' 4.2%,⁷²⁰ and a higher proportion of the population without any recognised qualifications, at 16.1% against FND's 13.5%.⁷²¹

⁷¹⁹ Vegeris, S. et al. (2011) *Flexible New Deal Evaluation: Customer Survey and Qualitative Research Findings*, Policy Studies Institute and Department of Work and Pensions, Research Report No 758, p84

⁷²⁰ Data acquired from NomisWeb (2011) *Claimant Counts by Local Authority*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=24> (accessed 10/10/11)

⁷²¹ NomisWeb (2011) *Annual Population Survey: Qualifications*, Nomis Local Labour Market System [online] <http://www.nomisweb.co.uk/query/construct/summary.asp?mode=construct&version=0&dataset=17> (accessed 10/10/2011)

Had the FND been in operation longer it might have achieved better results, as during the best 6-month period it delivered outcomes consistently above 30%. However, by the final two quarters of operation outcome levels were similar to the other two terminating AMLPs. These findings were expected since the three ALMP programmes were built on a similar modus operandi; private and voluntary sector organisations paid to deliver on the basis of sustaining employment outcomes.

The above results have not thus far indicated that the Flexible New Deal achieved 3 of its five principal goals. It failed to meet the 55% and 50% targets respectively for Short and Sustained Job Outcomes, and from the data presented, nor did it deliver on Critical Success Factor 4. As stated in the previous chapter, the 'step-change' in performance was quantified at a rise of a minimum of 13% above Employment Zones outcomes. Even if the slow start is ignored, and the first six months of FND outcomes excluded, FND yields Short Job Outcome levels at only 27%, around 2% higher than the best performing part of Employment Zones (DWP's preferred measure).

The Sustained Job Outcomes (26-Weeks+) performance produces similar results. Full data on the outcomes of 26-Weeks+ has not been made publically available for the four legacy programmes. Nevertheless, Table 7.5, supplied by the Department of Work and Pensions provides part of the picture. Using the published results of 26-week employment outcomes up to the period when the Flexible New Deal was implemented it is possible to see what should be expected of the Flexible New Deal.

Table 7.5 Proportion of Programme Starters Attaining 26 week Job Outcomes by UK Active Labour Market Programme

ALMP	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
EZ25+	14%	16%	14%	15%	18%	15%
ND25+	11%	12%	12%	14%	12%	12%
NDYP	19%	19%	19%	18%	17%	17%

Source: Department of Work and Pensions⁷²²

The Flexible New Deal 26-week results were 12.2% of Starts or 13.4% using the adjusted measure. Looking at the data in Table 7.5, this puts the Flexible New Deal close to the ND25+ and below NDYP and EZs.

An alternative method for understanding Sustained Job Outcome performance is to examine the conversion rate achieved by other programmes. The conversion rate is the proportion (as a percentage) of 13-week employment outcomes which last up to or beyond 26-weeks. Recall also that this was important to the DWP who, as part of the ‘step-change’ ambition reflected in their targets, hoped that 91% of participants lasting 13 weeks in work would remain in work for 26 weeks.

From the Delivery Directorate Report we know that 49,740 out of 75,250 Short Job Outcome participants sustained employment for the further 13-weeks, and thus FND providers achieved a conversion rate of 66.1%. For comparative purposes, the conversion rates for other ALMPs are supplied in Table 7.6.

⁷²² Adapted from Thomas, A (2009) *Flexible New Deal Contractor Event Slides*, Department of Work and Pensions <http://www.dwp.gov.uk/docs/fnd-event-slides.pdf> [accessed 10/07/10] p11

Table 7.6 Proportion of Participants Sustaining 26 Weeks of Employment

ALMP	Starts Obtaining	2006-2007	2007-2008
EZ25+	Short Job Outcome	24.0	23.5
EZ25+	Sustained Outcome	18.0	15.0
	Conversion Rate	75.0	63.8
ND25+	Short Job Outcome	25.7	26.2
ND25+	Sustained Outcome	12.0	12.0
	Conversion Rate	46.7	45.8
NDYP	Short Job Outcome	42.1	33.1
NDYP	Sustained Outcome	17.0	17.0
	Conversion Rate	40.4	51.4

Source: DWP and Work and Pensions Select Committee Data⁷²³

Using the data from Table 7.6 it can be seen that the FND achieved a higher conversion rate than NDYP and ND25+ had delivered in the preceding years, whereas it produced similar results to what Employment Zones had achieved before. Given that the objectives for EZ25+ were similar to those of the FND it might not be surprising that similar results were found. However, the Flexible New Deal was the first national employment programme to incentivise an explicit 26-week sustainment target, rather than the shorter 13-week objective applicable to Employment Zones. Thus, the struggle to turn 13-Week employment spells into ones lasting 26 weeks challenges the idea of a ‘Step Change’ in sustained outcomes.

Contract Level Performances

Headline figures display, with some clarity, sub-target results at a programme-wide level, but disguise important regional variations in the data. In particular, the purpose of establishing a competitive welfare market was to establish first, whether the private sector was more effective than the public employment service at moving the long-term unemployed into work, and second which contractors are

⁷²³ Adapted from Thomas, A (2009) *Flexible New Deal Contractor Event Slides*, Department of Work and Pensions <http://www.dwp.gov.uk/docs/fnd-event-slides.pdf> [accessed 10/07/10] p11 and DWP (2011) *Resource Centre*, Department of Work and Pensions [online] http://research.dwp.gov.uk/asd/asd1/tabtools/index.php?page=tabtool_nd [accessed 18/01/12]

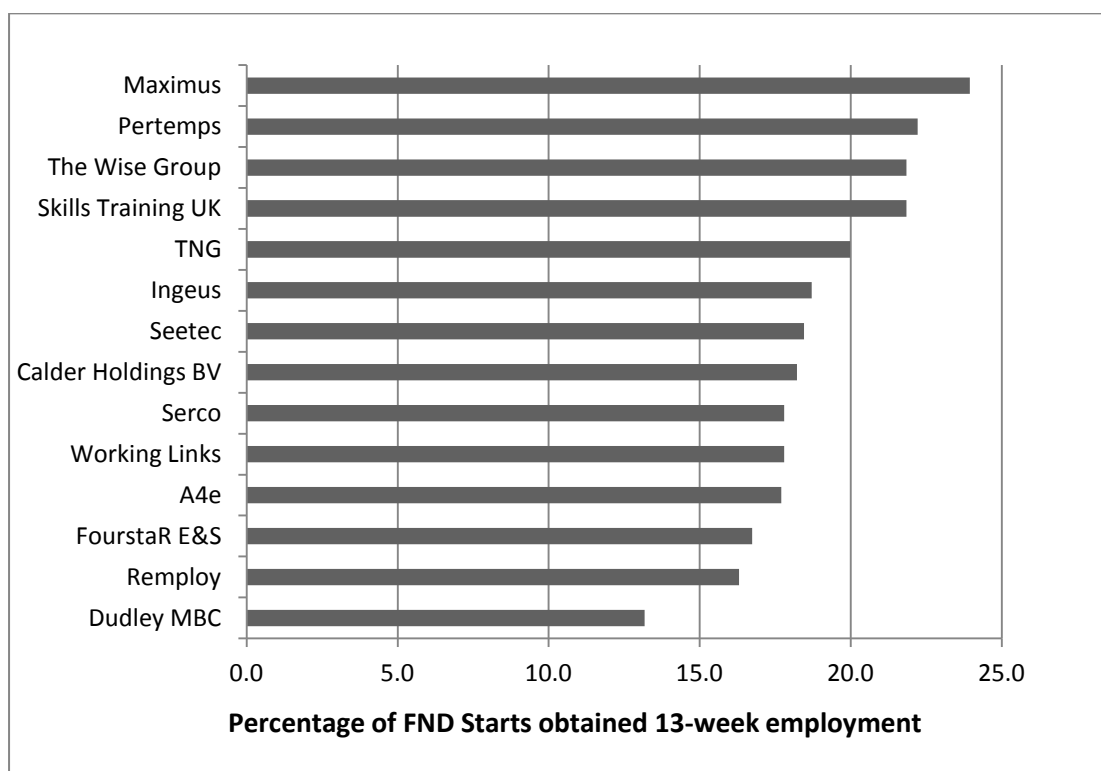
the best at doing so. This information is essential for policy-makers, whose role in a 'black box' quasi-market is not to dictate how providers move people into work, but rather to evaluate which providers should have contracts and which should not. As such, by making contractors compete against each other, nationally or directly (as in Dual Contract Areas), policy-makers hoped to observe which providers are doing well and why, and which are not and why not. This information assists in the aim of terminating the accounts of poor performers, and providing a bigger share of the market to those doing better.⁷²⁴

To begin, when the national Delivery Directorate data is broken down to contract level, there are some noticeable variations in the performance of contractors. Figure 7.2 shows the performance and ranking of provider's on account of the Short Job Outcomes each achieved. Where providers operated several contracts (3 of the 14 contractors operated 2 or more FND contracts) a mean of their performance was used.⁷²⁵

⁷²⁴ DWP (2008) *DWP Commissioning Strategy*, Department of Work and Pensions, Cabinet Office, London p21

⁷²⁵ The mean was used because in this case it was the most appropriate measure of central tendency. The mean is only inappropriate when it subject to the distortions of outliers. In this case, there are no extreme values at either end of the Short or Sustained Job Outcome's distribution. For a discussion see Bryman, A. (2008) *Social Research Methods 3rd Edition*, Oxford University Press, Oxford, p325

Figure 7.2 Provider Organisation Short Job Outcome Performance



Source: Adapted from DWP Delivery Directorate⁷²⁶

Figure 7.2 shows that Maximus Employment, an Australian company, was the most successful company at achieving 13-week employment for their customers. At the other end of the scale Dudley Metropolitan Borough Council performed notably below average on both SJO and LJO measures, and was 10.7 percentage points behind Maximus.⁷²⁷ At first glance, it is possible to identify (relatively) successful contractors based on the first two critical success factors, namely their outcomes' proximity to the national targets of 55% and 50% respectively. In this manner the implementation of a quasi-market has fulfilled one of its objectives, by singling out which providers are the most and least effective. In the case of Short Job Outcomes, the best delivery organisation performed 75% better than the weakest. If we look at individual providers who won a number of contracts, there is some wide

⁷²⁶ Data adapted from DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011)

⁷²⁷ It is worth noting that Dudley Metropolitan Borough Council was the only public organisation to act as a prime contractor.

variance visible. Taking A4E as one example, the contractor had five Flexible New Deal contracts, but their performance was around 30% higher in the Cambridgeshire contract zone than it was in the Black Country (21.8% and 16.7% Short Job Outcomes respectively). Taking Working Links as another example, of their five contracts, their best performance was 19.6% and their worst was 15.3%.

The inter-contract variance is much wider than the intra-contract variance. When looking at the difference between the two competing providers in dual contract areas, the job outcome differentials are smaller. The largest gap within a contract area was observed in the Black Country contract, with a Short Job Outcome performance difference of 3.5% where A4E moved 16.7% of customers into 13-week employment to Dudley MBC's 13.2%. The Black Country example was the largest difference between providers; typically however, the difference between performances in dual contract zones was smaller. Taking a mean of the ten contracts, the average difference between providers within a dual contract area was 1.8%. The range between providers within dual contract zones is narrower still for 26-week outcomes, with a mean of 1.4% difference between the stronger and weaker contractor. Policy makers face a particular difficulty when faced with two contractors in an area who have produced broadly similar results. The smallest intra-contract variance for 13-week outcomes occurred in the Leicestershire, Nottinghamshire and Northamptonshire contract area, where Ingeus Deloitte outperformed Working Links by 0.2% for Short Job Outcomes. Here, Ingeus Deloitte moved 3,180 jobseekers into 13-week compared to Working Links' 3,110. However, Working Links managed to get 150 more jobseekers to remain in work for the 26-week target than Ingeus Deloitte. Clearly, on this evidence, picking the best contractor is not straightforward.

There is more to the variance picture than this first inspection brings to light. As Maximus Employment moved a higher proportion of participants into 13-week employment than any other provider, their primary regional competitor, Skills Training UK, also produced above average results (23.9% and 21.9%).

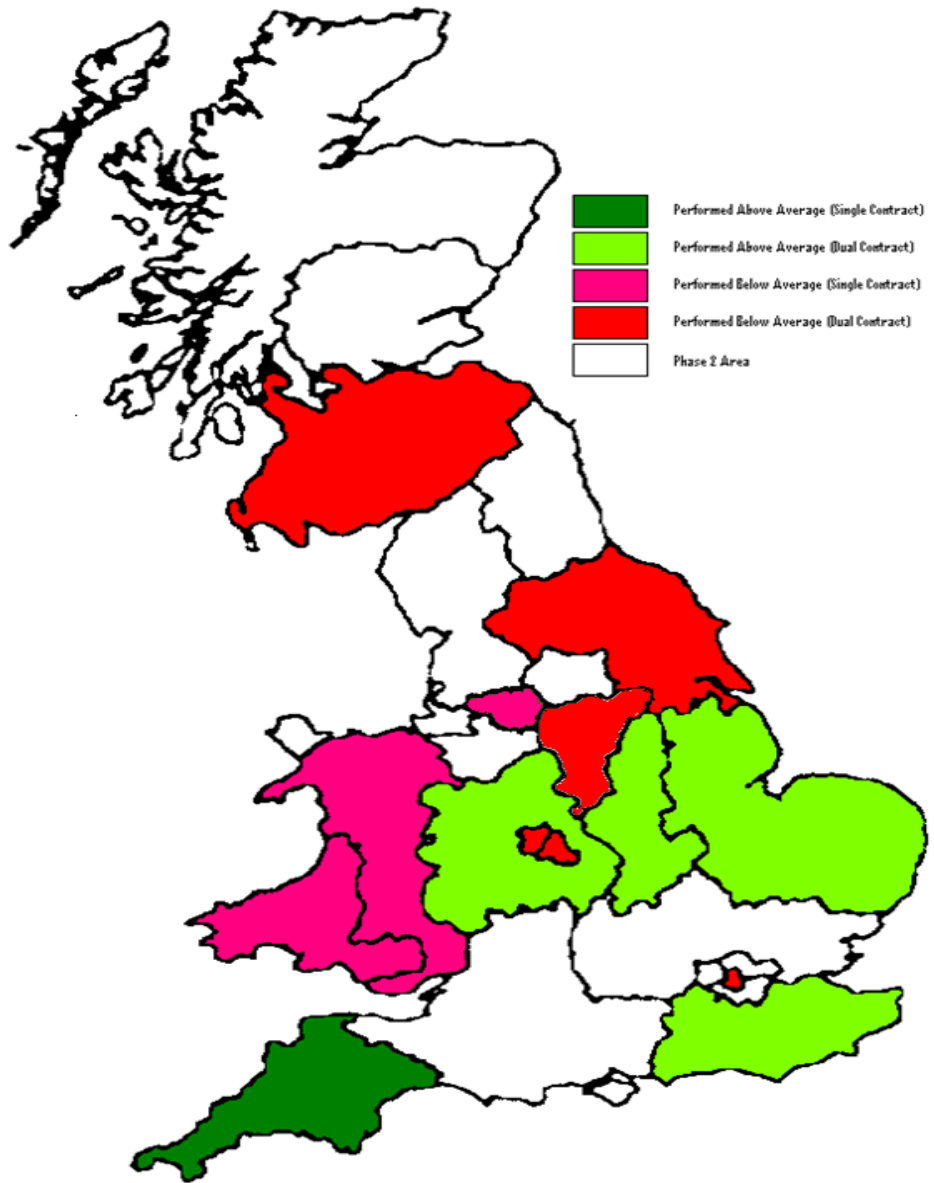
At the other end of the scale, the Black Country contract area saw Dudley MBC post the weakest results, but their competitor, A4E, also posted outcomes below national average (13.2% and 16.75% respectively). The following section will show the depth of connection between the location of the contract and the performance of providers within it.

The implications of these contract specific findings are twofold, the first is that these are not large differences in the performance of providers in dual contract areas, it therefore suggests that the improved effectiveness gained by cutting out the poorer performing providers and giving the better performing provider a larger market share may be small. The findings that intra-contract (within dual contract areas) variance is considerably smaller than inter-contract (across all areas) variance implies other factors are more strongly influencing provider performance than their own abilities.

The Labour Market Context of FND Performance

Having demonstrated clear differentiation in the performance of contractors it would be tempting to suggest that the worst performing providers in the market are not effective. But, as the above also showed, the intra-contract variance was smaller than the inter-contract variance. It is thus necessary to explore the apparent causes of this. A sensible place to start is to explore whether the location of the contract is influential on the level of job outcomes that providers achieved. As an initial demonstration of this, the following map (Figure 7.3) was created to show the location of Short Job Outcomes achieved against the programme average. Those in pink (Single Contract Area) and red (Dual Contract Area) produced lower proportions of Short Job Outcomes than the programme average; the dark green (Single Contract Areas) and light green (Dual Contract Areas) produced Short Job Outcomes above programme average.

Figure 7.3: Short Job Outcome Performances against the programme average by contract location



Source: Template from Social Market Foundation; authors calculations⁷²⁸

The immediate conclusion that emerges from Figure 7.3 is of a North-South divide in contractor performance; contractors in general achieved a greater proportion of Short Job Outcomes in the South than the North. This finding is reflected in the British labour market literature, such as that of Brown and Sessions who state that:

⁷²⁸ Mulheirn, I. and Menne, V. (2008) *The Flexible New Deal: Making it work*, Social Market Foundation, London, p30

‘There is without doubt a higher *average* risk of unemployment associated with the northern regions relative to the South East, and this differential remains to a large extent even when one controls for the differing profiles of individuals resident within the various regions.’⁷²⁹

Figure 7.3 also reflects the labour market research of Gilmartin and Korobilis, who identify high levels of unemployment in regions comprising major cities including London and Birmingham.⁷³⁰ Given the apparent connection between the location of contractors and their performances, it might have been appropriate for the DWP to have developed regional targets for Short and Sustained Job Outcomes, rather than recognising that ‘performance expectations may not be possible...in every labour market.’⁷³¹ The indication that Short Job Outcomes are contingent on labour market factors raises the question of the efficacy of work-first, but these factors need to be explored further to understand why the regional inequalities are occurring. For this analysis a range of labour supply and demand factors are explored in greater depth, beginning with Contract Area unemployment levels.

The International Labour Organisation produces the widest measure of unemployment in the United Kingdom. This method involves surveying the labour market at national and regional level across its membership. ILO figures tend to be preferred by those studying unemployment because it uses surveys rather than benefit receipt (which underestimates unemployment due to the large volume of people who through choice or exemption are not in receipt of Jobseekers Allowance) to measure levels of unemployment. The survey is conducted using interviews with 50,000 families, every 3 months,

⁷²⁹ Brown, S. and Sessions, J. (1997) *A Profile of UK Unemployment: Regional versus Demographic Influences*, Regional Studies v31.4, p363

⁷³⁰ Gilmartin, M. and Korobilis, D. (2012) *On Regional Unemployment: An Empirical Examination of the Determinants of Geographic Differentials in the UK*, Scottish Journal of Politics Economy, v.59.2 pp179-195

⁷³¹ DWP submission to House of Commons Work and Pensions Committee (2009) *DWP’s Commissioning Strategy and the Flexible New Deal*, House of Commons Work and Pensions Committee Report for Session 2008-2009 V.1, p21

reporting a 95% confidence level in its findings.⁷³² The ILO data is accurate down to the regional level, but the Local Government Association point out that ‘the Labour Force Survey is a sample survey and the results for smaller districts have a wide error range.’⁷³³ The data can offer a general impression of the intensity of labour market competition in the region within which the contract zone broadly sits. The unemployment levels appropriate for contract areas are shown in Table 7.7.

Table 7.7 Contract Area Performance and ILO Unemployment Compared

Contract Areas	Short Job Outcomes %	ILO Regional Unemployment (2009-2011)
Surrey, Sussex and Kent	22.9	4.3
Coventry and Warwickshire, The Marches and Staffordshire	21.2	5.9
Cambridgeshire and Suffolk, Norfolk and Lincolnshire & Rutland	20.9	4.6
Devon and Cornwall	19.4	3.7
Leicestershire, Northamptonshire and Nottinghamshire	18.6	4.5
National Average	18.5	5.8
Edinburgh, Lothian and Borders, Lanarkshire and East Dunbartonshire, Ayrshire, Dumfries, Galloway and Inverclyde	18.3	8.8
South Wales Valleys and South West Wales	18.3	5.3
Greater Manchester Central and Greater Manchester East and West	18.0	6.0
North and Mid Wales and South East Wales	17.6	5.3
Birmingham and Solihull	17.6	5.9
South Yorkshire and Derbyshire	17.2	6.3
Central London, Lambeth, Southwark and Wandsworth	16.9	9.2
North and East Yorkshire, Humber and Tees Valley	15.9	7.7
Black Country	14.9	5.9

Source: Nomis Local Labour Market System and DWP Delivery Directorate Report⁷³⁴

⁷³² ONS (2011) *Topic Guide to Unemployment*, Office of National Statistics Online at <http://www.statistics.gov.uk/hub/labour-market/people-not-in-work/unemployment/index.html> (accessed 13/09/11)

⁷³³ LGA (2009) *The Growth of Claimant Unemployment to Vacancy Ratio by Area*, Local Government Association, <http://www.lga.gov.uk/lga/aio/2320650> (accessed 10/10/11) p19

⁷³⁴ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011) and NomisWeb (2011) *Jobcentre Plus Vacancies*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=29> (accessed 10/10/2011)

The figures generally underline the assertion that the level of labour market competition is important to the performance of active labour market policy, because those areas which performed best tended to have an unemployment level lower than the national average, and those which performed worse tended to have higher ILO defined levels of unemployment. While illustrative of the wide variation in unemployment across the country, this analysis is inadequate as the designated contract areas often overlapped multiple regions.

Claimant Count as a Measure of Labour Market Competition

Relative to the ILO method, the Claimant Count measurement is a narrower, but more accurate depiction of labour market conditions at the local level, in this case individual contract areas. The Claimant count measure records the number of individuals claiming and subject to the regulations of Jobseekers Allowance.⁷³⁵ This measure is weaker at the national level because of the many unemployed who do not register for benefits, but because it is based on actual Jobseekers Allowance claimants rather than the estimates provided by the ILO it is accurate down to the smallest geographical levels and not subject to the error margins of survey data. In particular, it is essential to the study of the Flexible New Deal because participants can only enter the programme after a year of JSA receipt. Consequently, the Claimant Count level of unemployment within a particular area was relevant to the contractors because only JSA claimants become FND participants. For the analysis the Claimant Count data was drawn from the NOMIS labour market data bank, and consolidated local authority-by-local authority into the exact JSA claimants in each contract area during the period of FND operation (October 2009 - May 2011).⁷³⁶ The Claimant Count level of each contract area was then plotted against

⁷³⁵ ONS (2011) *Topic Guide to Claimant Count*, Office of National Statistics Online at <http://www.statistics.gov.uk/hub/labour-market/people-not-in-work/claimant-count> (accessed 13/09/11)

⁷³⁶ The labour market data ends with May 2011 because no job attachments after this month would qualify for Short Job Outcomes.

the Short Job Outcomes achieved by each contractor; the relationship has been demonstrated using Figure 7.4.⁷³⁷

Figure 7.4 Contractor Short Job Outcomes and Contract Area Claimant Count Unemployment compared



Source: Nomis Local Labour Market System and DWP Delivery Directorate Report⁷³⁸

Figure 7.4 shows that Short Job Outcomes and the Claimant Count are closely, though negatively associated. The negative association implies the higher the proportion of the population in the contract area on the Jobseekers Allowance, the lower the levels of Short Job Outcomes achieved, and vice versa. The correlation between the two variables is statistically strong.⁷³⁹

⁷³⁷ Data acquired from NomisWeb (2011) *Claimant Counts by Local Authority*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=24> (accessed 10/10/11)

⁷³⁸ DWP (2011) *Delivery Directorate Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011) and NomisWeb (2011) *Claimant Counts Rates and Proportions*, Nomis Local Labour Market System [online]

<http://www.nomisweb.co.uk/query/construct/summary.asp?mode=construct&version=0&dataset=1> (accessed 11/11/2011)

⁷³⁹ The conventional understanding of strength is that correlations of in the range of +/-0.1 to +/-0.3 are described as weak, 0.4-0.6 as moderate, and 0.7-0.9 as strong. See Bryman, A. and Cramer, D. in Bryman, A. and Hardy, M. (eds) (2004) *The Handbook of Data Analysis*, Sage, London, pp27-28

Table 7.8 Correlation of Contract Area Claimant Count Unemployment and Contractor Short Job Outcomes

		Claimant Count Unemployment	Short Job Outcomes
Claimant Count Unemployment	Pearson Correlation	1	-.759
	Sig. (2-tailed)		.000
	N	24	24
Short Job Outcomes	Pearson Correlation	-.759	1
	Sig. (2-tailed) ⁷⁴⁰	.000	
	N	24	24

Source: SPSS using Nomis Local Labour Market System and DWP Delivery Directorate Report⁷⁴¹⁷⁴²

As a measure of labour market competition the Claimant Count data supports the theory that the greater the intensity of competition for jobs, the more difficulty contractors will face in trying to move the long-term unemployed back into work. This appears to be a consequence of the long-term jobless competing not only amongst themselves for existing jobs, but also with those recently out of work. Thus, the larger the pool of claimants the greater difficulty the long-term unemployed will have finding work, as summarised by Machin and Manning:

⁷⁴⁰ Though included in each correlation table, the statistical significance data is not applicable in most cases as nearly all variables are 'whole population' data rather than sample data. Where sample data is used, the statistical significance is not.

⁷⁴¹ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011) and NomisWeb (2011) *Jobcentre Plus Vacancies*, Nomis Local Labour Market System [online]

<http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=29> (accessed 10/10/2011)

⁷⁴² Correlations are operable with as few as 10 data points, here there are 24 comparable points from two variables.

Virtually all countries exhibit negative duration dependence (i.e. if one takes two unemployed people at random, one would expect the one with the shorter unemployment duration to leave unemployment more quickly). This negative duration dependence contributes to the incidence of long-term unemployment.⁷⁴³

In the Black Country, the contract zone with the weakest performance of 14.9% starts achieving Short Job Outcomes, 6.6% of the working population were claiming JSA, compared with the best performing area, Surrey, Sussex and Kent achieved a Short Job Outcome rate of 22.9% with only 3% of the working age population registered unemployed.⁷⁴⁴

The regression also supports the research by Mosley and Muller of the German welfare-to-work system, who identified that a 1% expansion in the unemployment rate was associated with a 0.66% decline in the reintegration rate.⁷⁴⁵ In this case, a 1% rise in the Claimant Count is associated with a 3% fall in Short Job Outcomes obtained. The effects of unemployment on the Short Job Outcomes should be larger than the German findings because of the more challenging task providers have in not only finding jobs for participants, but that these must also last for 13 or more weeks.

Contract Performance and the JSA-Vacancy Ratio

A more sophisticated understanding of local labour market competition and its impact on active labour market policy can be made by matching Claimant Count volumes with the number of unfilled job vacancies in that area. The number of job vacancies provides an indication of demand in the local economy. The data used in this analysis is again drawn from the NOMIS

⁷⁴³ Machin, S. and Manning, A. (1999) *The Causes and Consequences of Long Term Unemployment in Europe*, Handbook of Labour Economics, v.3 [ebook] P3107

⁷⁴⁴ NomisWeb (2011) *Claimant Counts Rates and Proportions*, Nomis Local Labour Market System [online] <http://www.nomisweb.co.uk/query/construct/summary.asp?mode=construct&version=0&dataset=1> (accessed 11/11/2011)

⁷⁴⁵ Mosley, H. and Muller, K. (2007) Benchmarking Employment Services in Germany, in De Koning, J. (2007) *The Evaluation of Active Labour Market Policies*, p281

Labour Market System, and is compiled by the public employment service, Jobcentre Plus. They were statutorily responsible for collecting, recording and reporting all job vacancies notified to them.⁷⁴⁶ While this 'vacancy count' does not reflect the total demand in the labour market, it does provide the best publically available data on the number of vacancies available at the local level.⁷⁴⁷ Furthermore, because they are advertised through Jobcentre Plus, the vacancies were explicitly (though not exclusively) made available for Jobseekers. As such, this data provides a more direct indication of labour market competition for FND customers than Claimant Count data alone. The claimant-to-vacancy data was recorded as a ratio and calculated on a month-by-month basis.

If local labour market competition is linked to FND contractor performance, it should be expected that a statistical relationship should emerge between the level of job outcomes for a particular contract area and the intensity of competition that exists for existing vacancies within that area. Using the same method as before with Claimant Counts, contractors' Short Job Outcomes were plotted against the claimant-to-vacancy ratios in the individual contract areas. The results of this exercise are shown in Figure 7.5.

⁷⁴⁶ DWP (2005) *Technical Report on Publication of Jobcentre Plus Vacancy Statistics*, via Nomis Local Labour Market System, p6 online at <http://www.nomisweb.co.uk/articles/ref/vacs/LMT%20200506-363.pdf> (accessed 13/09/11)

⁷⁴⁷ Adams, L. and Kuechel, A. (2008) *Jobcentre Plus Annual Employer Survey 2007-2008*, Department of Work and Pensions Report No. 541 p42

Figure 7.5 Relationship between Contract Area JSA-Vacancy Ratio and Contractor Short Job Outcomes

Outcomes



Source: *Nomis Local Labour Market System and DWP Delivery Directorate Report*⁷⁴⁸

The relationship between the intensity of competition for existing vacancies is negatively associated with the performance of contractors. The higher the ratio of jobseekers to jobs in the contract areas, the lower the proportion of Short Job Outcomes providers achieved. As can also be seen with the following table (7.9) the relationship between the two variables is moderate to strong.

⁷⁴⁸ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011) and NomisWeb (2011) *Jobcentre Plus Vacancies*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=29> (accessed 10/10/2011)

Table 7.9 Relationship between Contract Area Claimant-Vacancy Ratios and Contractor Short Job Outcomes

		Short Job Outcomes	JSA to Vacancy Ratio in FND Contract Area
Short Job Outcomes	Pearson Correlation	1	-.686**
	Sig. (2-tailed)		.000
	N	24	24
JSA to Vacancy Ratio in FND Contract Area	Pearson Correlation	-.686**	1
	Sig. (2-tailed)	.000	
	N	24	24

** . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS using Nomis Local Labour Market System and DWP Delivery Directorate Report⁷⁴⁹⁷⁵⁰

The growing evidence of this chapter is presenting a picture that the Flexible New Deal was more effective in some areas than others, and that this appears to be closely tied to the conditions of the labour market. Indeed, the regression line across Figure 7.5 permits the observation that with each additional jobseeker competing for one vacancy, we can expect a 3% fall in the Short Job Outcome rates. This may present a more sophisticated picture of labour market contingency than the Claimant Count alone by taking into account both supply of labour and demand for it.

This relationship is profoundly important for all three of the research questions. First, having identified the FND as not demonstrably more effective than preceding active labour market policies, it is also clear that in some areas it is much less effective than in others. Second, the apparent contingency of suppliers performances on the labour market makes it challenging for policy makers to identify which contractors to eliminate. The wide differences in labour market conditions may therefore disguise successful providers in areas where conditions are weaker, and vice versa. Third, the evidence indicates that

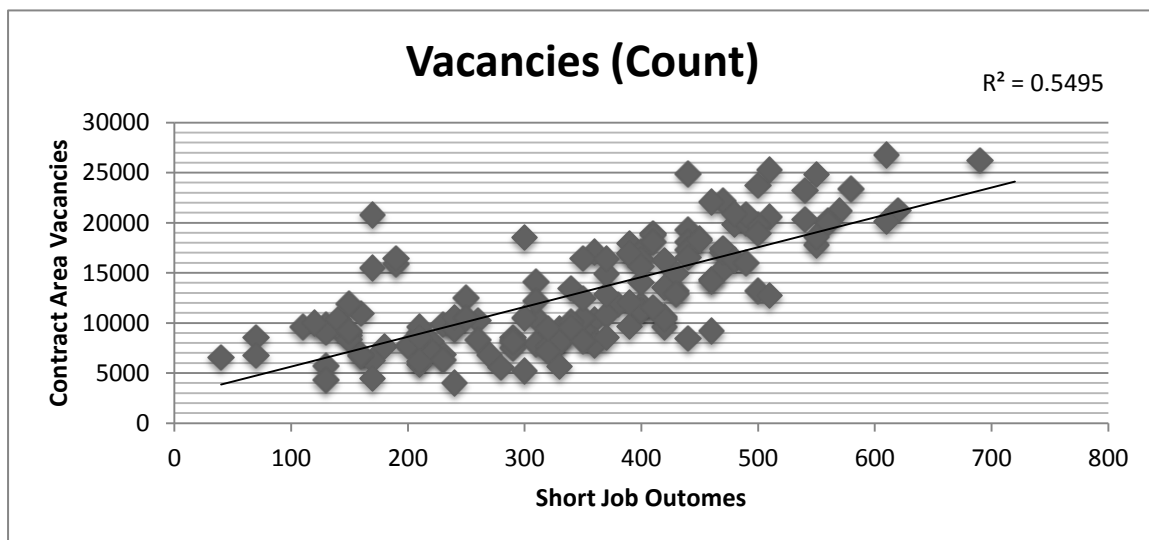
⁷⁴⁹ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011) and NomisWeb (2011) *Jobcentre Plus Vacancies*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=29> (accessed 10/10/2011)

⁷⁵⁰ Correlations are operable with as few as 10 data points, here there are 24 comparable points from two variables.

policies that try to attach people to existing vacancies will be more effective when there is less competition for them. That work-first reflects the inequalities in the labour market rather than ameliorating them suggests that this may not be the most effective strategy across all labour markets, and certainly not the most equitable.

The relationship between vacancies and outcomes has been explored in greater detail using contract area vacancy volumes drawn from the NOMIS databank. To offset the distorting effect of the apparent 'slow start' to FND, the central 12-months of total Short Job Outcomes (July 2010-June 2011) in each contract area were against the vacancy volumes in each contract area (April 2010- March 2011).⁷⁵¹ The results of this exercise are presented in Figure 7.6:

Figure 7.6 12 Months Contract Area Vacancy Volumes and Contractor Short Job Outcome Volumes Compared⁷⁵²



Source: Adapted from Nomis Local Labour Market System and DWP Delivery Directorate Report

⁷⁵¹ Comparing Short Job Outcomes in one month against vacancies three months earlier is necessary because the individual achieving a Short Job Outcome, must, by definition, have found the job in the labour market 13 weeks before.

⁷⁵² Data combined from NomisWeb (2011) *Jobcentre Plus Vacancies*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=29> (accessed 10/10/2011) and DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011)

Graph 7.6 shows a clear relationship between the two variables indicating that the numbers of vacancies available in month X were closely related to the number of job outcomes achieved 3-months later. This adds to the evidence that work-first may be an effective strategy where vacancies are in large supply, but not where vacancies are lacking. In fact, the actual relationship may be closer than the data suggests. A hint at this comes from the ERSA, which explains that: 'For both starts and job outcomes there is a delay between the occurrence and the recording on PRaP.'⁷⁵³ This delay in recording Short Job Outcomes may therefore disguise a tighter connection between the two.

These findings are consistent with economic literature discussing the relationship between the number of vacancies and the level of unemployment found in any given area, in particular the Beveridge Curve. This curve presents the relationship between high levels of vacancies and lower levels of unemployment (and vice versa).⁷⁵⁴ The Beveridge Curve predicts that unemployment is likely to be lower in areas represented by more vacancies and higher when fewer opportunities exist (i.e. a positive correlation and upward sloping regression line). If we apply Beveridge Curve theory to the Flexible New Deal it suggests that the capacity of individuals, or indeed their providers, to find work is contingent on the number of vacancies available. The degree to which unemployed individuals found new employment while participating in the FND is strongly correlated to the number of jobs available in the local economy.

It is important to consider the direction of causation. The variation in contractor outcomes is highly likely to be the result of the demand for labour rather than the reverse. There are a number of reasons for this. First, FND contractors can exert a degree of downward pressure on the number of claimants by

⁷⁵³ ERSA (2011) *ERSA Commentary on the DWP Delivery Directorate Performance Report*, Employment Related Services Association Online

http://www.ersa.org.uk/downloads/ERSA_commentary_on_DWP_Delivery_Directorate_Performance_Report-lFg3n9.pdf [accessed 12/11/11] p4

⁷⁵⁴ For a fuller description and discussion see Ball, L. and Mankiw, N.G. (2002) *The NAIRU in Theory and Practice*, Journal of Economic Perspectives, v.16.4 pp132-133

moving them into vacancies advertised in local Jobcentre Plus offices (or elsewhere). However, FND participants comprise only a small proportion of this total and therefore it cannot predominantly be the success of providers that account for lower levels of competition in the labour market. To support this the Department of Work and Pensions outlined in the FND Invitation to Tender documents that 90% of JSA claimants had either left JSA or that they had managed to find work within 52-weeks.⁷⁵⁵ When coupled with the fact that FND moved only 18.2% of participants into 13-week employment the impact of even successful contractors on the claimant-vacancy ratio will be limited.⁷⁵⁶ Quite simply, the number of successful FND participants is such a small fraction of the total Claimant Count, and thus claimant-to-vacancy ratio that Short Job Outcomes cannot significantly determine labour demand.

The only other discernible downward pressure exerted by the FND on reducing the claimant to vacancy ratio has been the threat effect (as outlined in Chapter 2). However, given that this effect should occur prior to FND participation, it should only affect the number of starts and will exert little to no impact on contractor outcomes. In addition if the claimant-vacancy ratio is one indicator of labour demand, we would expect that in areas of lower labour demand, the outcomes for the FND contractors would be lower, which is as the results display. Given these points, the number of available vacancies and the intensity of competition in the labour market is more likely an explanation in the variation in contractor results than vice versa.

The reason this direction of causation is important is two-fold. First, during periods, or in areas where the labour market competition is such that vacancies cannot absorb the unemployed, enforced job search of the type mandated by FND will be of limited utility. Second, judging how successful contractors have been becomes more difficult when local labour market conditions are noticeably

⁷⁵⁵ DWP (2008) DWP (2008) *Flexible New Deal Phase 1 Invitation to Tender*, Department of Work and Pensions <http://www.dwp.gov.uk/docs/fnd-for-info-specification.pdf> (accessed 10/09/2011), p80

⁷⁵⁶ This is around 2% of all claimants, as 90% would clear before the 52 weeks where FND begins, and less than 20% FND customers entered work.

affecting outcomes; if around half of the variance in outcomes is associated with labour demand (through vacancies) the already narrow difference between contractor performance narrows further still. Thus, identifying who has done well, and who less so, for the purposes of future contracts becomes problematic. The ramifications for the research question are equally clear, that the FND performance is contingent predominantly on the labour market helps to explain why it did not exceed the performance of previous programmes. This gets to the crux of the problem that the establishment of a quasi-market cannot circumvent the primary weakness of work-first programmes.

The Supply Quality Context

The previous section has discussed the importance of labour market demand for helping to explain the overall performance of the Flexible New Deal on a general level and particularly observed outcomes at the local level of individual contract areas. It did this with an analysis that indicated the importance of the level of labour market competition (Claimant Count) and the claimant-to-vacancy ratios in helping to explain contractor performance. However, another feasible explanation for the performance of Flexible New Deal contracts is the quality of labour supply, i.e. the capabilities of the claimants themselves. For example, a poorly performing contractor might complain that the skill levels or past labour market experience of their clients, were below that of their competitors' clients. Two possible determinants of supply quality have been selected; local skill profiles and length of benefit receipt.

A standard measure of supply quality is educational attainment and skills profiles. Educational attainment is an important determinant of unemployment probability, because the uneducated are more likely to be unemployed. In this, the literature is consistent that skills are a key determinant of labour market attachment. As Borjas summarises:

Education lowers unemployment rates for two distinct reasons. First, educated workers also invest more in on-the-job training. Because specific training 'marries' firms and workers, firms are less likely to lay off educated workers when they face adverse economic conditions. In addition, when educated workers switch jobs, they typically make the switch without suffering an intervening spell of unemployment.⁷⁵⁷

In effect, the uneducated are often the last into work, the first put out of work, and the last back into employment. As such, the unskilled have a higher incidence of unemployment than their skilled counterparts⁷⁵⁸ and are more prone to repeated cycles of claiming benefits than the skilled.⁷⁵⁹ In light of this, it should be apparent that the higher level of skills in the local population, the lower the level of unemployment (and vice-versa). The evidence of this relationship has been identified using the Nomis Labour Market system, where the educational qualifications profiles of each contract area have been obtained. To examine this relationship, the proportion of the contract area population without any qualifications was plotted against Claimant Count data in each contract area. The statistical relationship of the two variables is shown in Table 7.10.

⁷⁵⁷ Borjas, G. (1996) *Labor Economics*, McGraw Hill, Singapore, p437

⁷⁵⁸ For example see Nickell, S. and Bell, B. (1995) *The Collapse in Demand for Unskilled Labour Across the OECD*; Oxford Review of Economic Policy v.11.1, p 41

⁷⁵⁹ Carpenter, H. (2006) *Repeat Jobseeker's Allowance Spells*, DWP Research Report, No. 394, HM Stationary Office, Norwich, pp66-68

Table 7.10 Correlation of Contract Area population without qualifications and Contract Area Claimant Count

		Claimant Count Unemployment	Percentage of Population Without Qualifications
Claimant Count Unemployment	Pearson Correlation	1	.803**
	Sig. (2-tailed)		.000
	N	24	24
Percentage of Population Without Qualifications	Pearson Correlation	.803**	1
	Sig. (2-tailed)	.000	
	N	24	24

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Nomis Local Labour Market System⁷⁶⁰

In accordance with the literature, the positive relationship between the skills profile of the contract area and the proportion of unemployment within it is statistically strong. We would therefore expect (given the close relationship between the Claimant Counts and Short Job Outcomes) a firm statistical relationship between qualifications profiles of contract areas and the FND provider’s Short Job Outcomes.

Data on the qualifications of Flexible New Deal participants in individual contract areas is not available, and nor are qualifications data matched with unemployment duration. We know however from ONS data from 2004 that ‘Unemployment rates are highest for people with no qualifications, and so is the likelihood that they will have a longer length of unemployment.’⁷⁶¹ We also know from the large sample of FND customers used by the Policy Studies institute that 34% of their FND interviewees reported

⁷⁶⁰ NomisWeb (2011) *Annual Population Survey*, and *Claimant Counts by Ward* Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=29> (accessed 10/10/2011)

⁷⁶¹ ONS (2004) *Labour Market Characteristics of Short-term and Long-term Unemployed*, Analysis in Brief, Labour Market Trends April 2004, p142

having no qualifications,⁷⁶² more than double the proportion of the contract area population without qualifications, which across all contract areas is a mean of 13.1%.⁷⁶³⁷⁶⁴ Thus, it is reasonable to expect that the proportion of people without qualifications in the contract area will be influential on the Short Job Outcomes achieved by providers. By plotting the available data of contract area population with no qualifications against the Short Job Outcomes of contractors, an observable relationship between the variables exists. The relationship is moderate and statistically significant at the 95% level, as shown in Table 7.11.

Table 7.11 Correlation of Contract Area Population Without Skills and Contractor Short Job Outcomes.

		Short Job Outcomes	Percentage of Population Without Qualifications
Short Job Outcomes	Pearson Correlation	1	-.478*
	Sig. (2-tailed)		.018
	N	24	24
Percentage of Population Without Qualifications	Pearson Correlation	-.478*	1
	Sig. (2-tailed)	.018	
	N	24	24

*. Correlation is significant at the 0.05 level (2-tailed).

Source: *Nomis Local Labour Market System and DWP Delivery Directorate Report*⁷⁶⁵

The relationship was, as expected, negative, and statistically significant to the 95% level. The findings show that the more people with no qualifications in the contract area was associated with lower Short

⁷⁶² Vegeris, S. et al. (2011) *Flexible New Deal Evaluation: Customer Survey and Qualitative Research Findings*, Policy Studies Institute and Department of Work and Pensions, Research Report No 758, p155

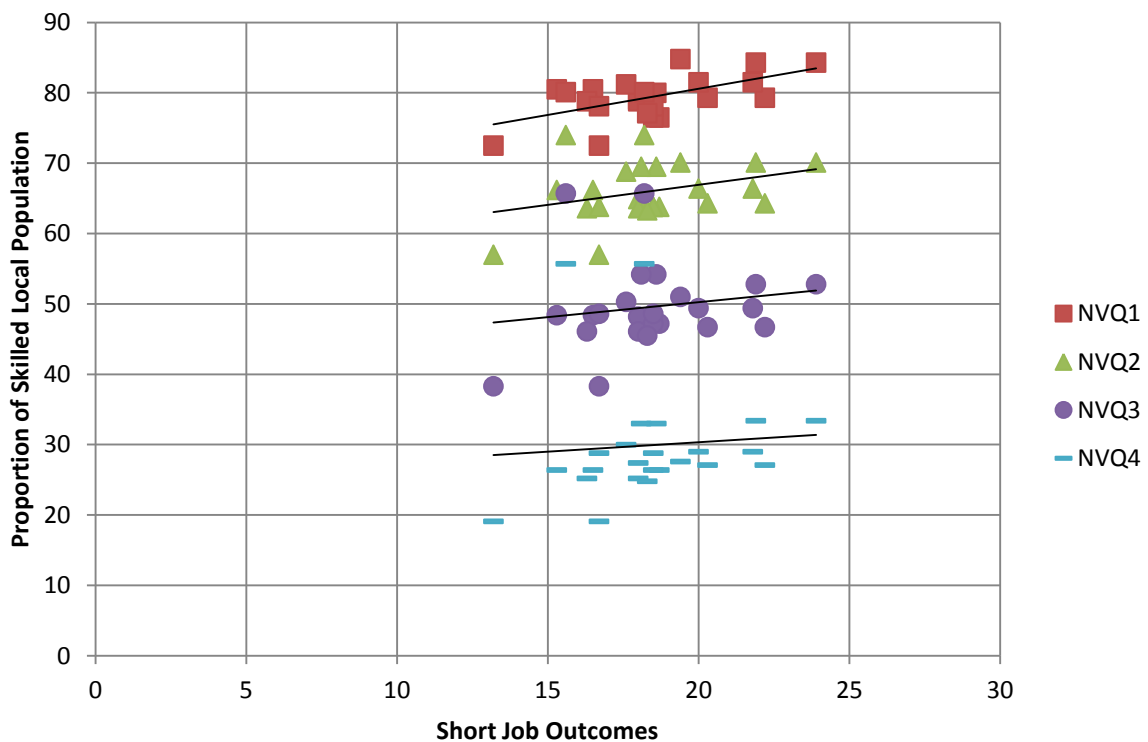
⁷⁶³ Author's analysis of NomisWeb (2011) *Annual Population Survey*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/construct/components/variableComponent.asp?menuopt=7&subcomp=130> (accessed 10/10/2011)

⁷⁶⁴ At the other end of the spectrum, only 4% of the survey sample had a degree level qualification or higher.

⁷⁶⁵ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011) and NomisWeb (2011) *Annual Population Survey: Qualifications*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/construct/components/variableComponent.asp?menuopt=7&subcomp=130> (accessed 10/10/2011)

Job Outcomes. Despite the connection, the relationship between contractor performance and educational attainment is problematic, due to the inadequate fit of the data; specifically the educational attainment data applies to the entire population and not the profile of Flexible New Deal customers. This is something that is not easily corrected since skills profiles of FND customers are not available at the Contract Area level. Further corroboration of the relationship is found by plotting each level of qualifications of the Contract Area (NVQ1, 2,3, and 4+) against Short Job Outcomes contracts achieved, as shown below in the four positive regression lines on Figure 7.7.

Figure 7.7 Contract Area Skills Profiles and Contractor Short Job Outcomes



Source: Nomis Local Labour Market System and DWP Delivery Directorate Report⁷⁶⁶

Figure 7.7 shows that areas with high skills profiles tend to be associated with higher Short Job

⁷⁶⁶ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011) and NomisWeb (2011) *Annual Population Survey: Qualifications*, Nomis Local Labour Market System [online] <http://www.nomisweb.co.uk/query/construct/summary.asp?mode=construct&version=0&dataset=17> (accessed 10/10/2011)

Outcomes. With more data specifying the qualifications profiles of Flexible New Deal Customers more could be understood of the influence of the quality of participants on Short Job Outcomes, and this data should be made publically available for analysis because this would serve to identify, and factor out, what influence labour supply was having on active labour market policy performance. Without this, it is only possible to speculate that qualifications of the pool of FND customers in each contract area are of lesser influence than the demand for labour. What is clear is that qualifications are associated with not only the quality of supply, but also volume of supply (shown in Table 7.10). The literature also suggests that labour demand can also influence skills profiles, as areas that have more vacancies attract people with higher skills while low skilled individuals tend to be less geographically mobile.⁷⁶⁷

LTU Proportions as a performance determinant

In light of the poor fit of the data discussed above, a better indication of client supply quality might be found in the claimant count data. The evidence provided in Chapter 2 explained that deficient or protracted work histories make the reemployment of customers more difficult, and in particular lengthy unemployment spells are likely to make the long-term unemployed less attractive to employers.⁷⁶⁸ In order to assess the effects of unemployment history, data relating to the length of claimant unemployment is therefore an instructive indication of the quality of supply in individual labour markets. Using the Nomis Local Labour market system the fit of the data is stronger than the skills sets, because all of those claiming the Jobseekers Allowance for 12-months or more in the defined contract areas were eligible for Flexible New Deal. The total number of Jobseekers Allowance claimants over 12 months for each contract area was calculated for the period of operation (October 2009-May 2011). The process was repeated for those out of work for 24-months, and 24-month claimant volumes were recorded as a percentage proportion of the 12-month volumes for each contract area. These were then

⁷⁶⁷ See for example Borsch-Supan, A. (1990) *Education and its Double-Edged Impact on Mobility*, Economics of Education Review, v91. Pp39-53

⁷⁶⁸ Manning, A. (2002) *Pretty Vacant: Recruitment in Low-Wage Labour Markets*, Oxford Bulletin of Economics and Statistics, v62, pp766-768

correlated against contractor’s Short Job Outcomes. The association between the proportion of 24-month claimants and Short Job Outcomes can be seen in Table 7.12

Table 7.12 Correlation between Contract Area Proportion of JSA claimants out of work for two or more years and Contractor Short Job Outcomes

		Short Job Outcomes	Proportion of FND eligible out of work for 2 Years +
Short Job Outcomes	Pearson Correlation	1	-.259
	Sig. (2-tailed)		.222
	N	24	24
Proportion of FND eligible out of work for 2 Years +	Pearson Correlation	-.259	1
	Sig. (2-tailed)	.222	
	N	24	24

Source: Nomis Local Labour Market System and DWP Delivery Directorate Report⁷⁶⁹

Table 7.12 reveals a surprisingly weak relationship between long-term unemployment and contract performance.⁷⁷⁰ While negative (as expected), it is not statistically significant.⁷⁷¹ There are several possible explanations why such a weak relationship was identified. The first is that the proportions of those claiming benefits for two years is not a large enough proportion of the total to impact the data (as, on average, less than a quarter of those out of work for one year continue to be unemployed for two or more years). Further evidence is displayed by looking to the base of the second column on Table 7.13, which indicated only a very moderate relationship between the Claimant Count and 24-month+ Claimant Count. An alternative explanation is that it could provide evidence of ‘cherry picking’ of clients – we would expect a higher proportion of 24-month+ claimants to drag on a providers outcomes; that

⁷⁶⁹ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011) and NomisWeb (2011) *Jobcentre Plus Vacancies*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=29> (accessed 10/10/2011)

⁷⁷⁰ In the Scottish Contract Area, 18% of those unemployed for 12 months continued to be unemployed at least a further 12 months, in Birmingham and Solihull the proportion was 35%.

⁷⁷¹ For example see Machin, S. and Manning, A. (1999) *The Causes and Consequences of Long Term Unemployment in Europe*, Handbook of Labour Economics, v.3 [ebook] P3107

they do not may give grounds to speculate that results are unaffected as providers focus on those closest to the labour market as discussed in Chapters 3 and 6.

Table 7.13 illustrates the relationships between these factors. As can be seen, most of the variables present are co-dependent. The Claimant Count is both a constituent part of the JSA-Vacancy Ratio, and the proportion claiming JSA for over 2-years. The only purely distinct independent variable is the no-qualifications variable, which as predicted, is closely associated with local Claimant Count, but less associated with Short Job Outcomes. Summary, it is difficult to say with any certainty the exact effect of Claimant Count unemployment on Short Job Outcomes due to the colinearity of skills and unemployment. From the data it is safer to assume that skills influence labour demand, which more heavily influences the Short Job Outcomes achieved by suppliers.

Table 7.13 Triangular Correlation Matrix of Contractor 13-Week Outcomes and Key Contract Area Labour Market Variables

	Short Job Outcomes	Claimant Count Unemployment	JSA to Vacancy Ratio in FND Contract Area	Population without Qualifications	Proportion of FND eligible out of work for 2 Years +
Short Job Outcomes	1.000				
Claimant Count Unemployment	-.759	1.000			
JSA to Vacancy Ratio in FND Contract Area	-.686	.745	1.000		
Population Without Qualifications	-.478	.803	.365	1.000	
Proportion of FND eligible out of work for 2 Years +	-.259	.421	.376	.194	1.000

Source: Nomis Local Labour Market System and DWP Delivery Directorate Report⁷⁷²

⁷⁷² DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011) and NomisWeb (2011) *Jobcentre Plus Vacancies*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=29> (accessed 10/10/2011)

While limitations in the data indicate that the evidence must be treated with caution, there are several observations that can be made. First, the variance in contractor performance can be accounted for by the demand and supply-side factors identified in this chapter, and these seem to account predominantly for the variance.⁷⁷³ The influence of the labour market on programme performance is also evidence when considering that the variance was considerably wider across the programme than within dual contract areas (10.7% against 3.5% respectively). These factors not only imply that the work-first system is highly contingent on the local environment, but it also renders the identification of successful providers deserving of future contracts very difficult. If one performed well, but in a (relatively) healthy labour market, against another who performed badly in a weak area, the government face difficulties in establishing (as is intended of a contracted quasi-market) the stronger performer out of the two. As Glennester argued, the purpose of contracting out services is based on the following logic: 'Those who seemed to offer the most efficiently run services would get the contracts. Regular tendering for new contracts would ensure that if a company or public agency were not performing well, it would lose its contract. X-inefficiency would be squeezed from the service.'⁷⁷⁴

Nevertheless, all performed below expectations of both 13-week and 26-week sustained employment outcomes, and performances were strongly associated with where they were operating (A4E for instance moved 15.6% of starts in SJOs in London, but 21.8% in Cambridgeshire). Caution must be applied in explaining why this is the case, but from the data available it can be suggested that the relationships between supplier outcomes and quantity of demand variables were stronger than quality of supply variables, as presented in this summary of correlations:

⁷⁷³ A multiple regression of all of the supply and demand factors was undertaken and returned an r-square of 0.71, implying that 71% of variation in Short Job Outcomes is accounted for labour market factors. The remaining 29% is attributable to factors not identified, including provider performance. However, the colinearity of all but one of the variables rendered the multiple regression model open to the risk of over-pronouncing the effects of the of the predictors.

⁷⁷⁴ Glennester, H. (2003) *Understanding the Finance of Welfare: What Welfare Costs and How to Pay for It*, The Policy Press, Bristol, p30

Table 7.14 Summary of Correlations

	Claimant Count	ILO Unemployment	JSA to Claimant Vacancy Ratios	Population Without Qualifications	Proportion of Population years unemployed	of 2
Correlation with Short Job Outcomes	-0.759	-0.628	-0.686	-0.477	-0.259	
R ²	0.576	0.394	0.471	0.227	0.067	

Source: *Nomis Local Labour Market System and DWP Delivery Directorate Report*⁷⁷⁵

On each measure, the quantity of demand for labour on the Claimant Count, JSA-Vacancy Ratios, and ILO Unemployment was consistently lower in poorly performing contract areas than in those producing above average outcome. The consequences of this have been explored in the final chapter.

Expenditure as a determinant of sub-target performance

From the evidence presented above the Flexible New Deal appeared not to deliver a ‘step-change’ in Employment Outcomes relative to other simultaneous and previous. This section briefly covers whether the level of expenditure was responsible for the programmes performance by exploring the gross cost per participant and comparing this to other programmes.

An analysis of the cost of the programme relative to its outcomes a common tool for understanding the relative efficacy of a programme. As Smith indicates, it also serves to remove some of the subjectivity in

⁷⁷⁵ DWP (2011) *Delivery Directory Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011) and NomisWeb (2011) *Jobcentre Plus Vacancies*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=29> (accessed 10/10/2011)

declaring policy success or failure in terms of its consumption of public resources.⁷⁷⁶ This is because ‘the central objective of most forms of cost analysis is to estimate the *relative* efficiency of competing policy alternatives.’⁷⁷⁷ It therefore does not assert that one programme is good, and another bad, rather than being a useful tool for implying that, on a set of given objectives, one programme might be more efficient than another. This section is not a Cost-Benefit Analysis per se; cost benefit analyses in employment programmes have traditionally undertaken a net impact on government expenditure, inclusive of both the direct cost of the programme, and the fiscal impact of the reduction in benefit receipt in increase in tax receipt. Without the longitudinal data pertaining to FND net impact, such an exercise is not possible. However, it is common to calculate the gross expenditure per participant, per year, to calculate the costs of the programme, with the DWP doing exactly this in its representations to the Work and Pensions Select Committee in establishing estimated cost of FND⁷⁷⁸ as have the Centre for Economic and Social inclusion in providing estimates for the cost of FND.⁷⁷⁹

To establish the costs of the Flexible New Deal requires two elements; an understanding of the overall costs of the programme, and the number of units the expenditure is to account for. The second part is already known, that 407,730 participants joined the Flexible New Deal. The cost of the programme is complicated by the way payments were made. There were three elements to the funding of Flexible New Deal that organisations were paid for:

1. The Service Fee (20% of annual contract value);
2. The Short Job Outcome Fee (50% of annual contract value divided by expected FND customers);

⁷⁷⁶ Smith, K.B. in Moran, M. et al. (eds) (2006) *The Oxford Handbook of Public Policy*, Oxford University Press, p737.

⁷⁷⁷ Smith, K.B. in Moran, M. et al. (eds) (2006) *The Oxford Handbook of Public Policy*, Oxford University Press, p737.

⁷⁷⁸ For instance, see DWP (2009) *Flexible New Deal Invitation to Tender and Provision Specification*, Department of Work and Pensions [online] <http://www.dwp.gov.uk/docs/fnd-for-info-specification.pdf> [accessed 12/03/12] p23

⁷⁷⁹ Vaid, L. (2010) *Counting the Cost: A Worklessness Costs Audit for London*, Centre for Economic and Social Inclusion, London, p14

3. The Sustained Outcome Fee (30% of annual contract value divided by expected FND customers).⁷⁸⁰

The contract value is set by the Department of Work and Pensions and is calculated by the cost of anticipated outcomes. On the national level this was expected to amount to £236.59million maximum spend per contract year, for a period of at least five, but up to seven years. In order to ensure a healthy level of liquidity to absorb some of the start-up costs associated with the implementation of an outcomes based contract programme (such as the purchase of offices, equipment and the employment of staff) the annual service fee was front-loaded. As the DWP advised potential providers:

In recognition of this, the service fee payments will be front loaded, to assist suppliers with their cash flow in the early part of the contract life, and will be paid at four rates over the life of the contract:

- 58 per cent of the average annual contract value for the first six months of the contract;
- 32 per cent* of the average annual contract value for the next six months; and
- 13.8 per cent* of the average annual contract value during years two to five; and
- 0 (zero) per cent for years six and seven.⁷⁸¹

Initially, it was recognised that the early years the programme would cost Exchequer considerably more than later years. Table 7.15 provides the governments estimated service fee by year, but due to a change in the economic and market climate during the initial phases of the programme service fees were revised upwards to account for a predicted rise in FND volumes of 300%.⁷⁸² As such, the service

⁷⁸⁰ DWP (2009) *Flexible New Deal Invitation to Tender and Provision Specification*, Department of Work and Pensions [online] <http://www.dwp.gov.uk/docs/fnd-for-info-specification.pdf> [accessed 12/03/12] p98

⁷⁸¹ *Ibid*, p12

⁷⁸² House of Commons Work and Pensions Committee(2009) *DWP's Commissioning Strategy and the Flexible New Deal*, Second Report of Session 2008-2009, House of Commons v1, p26

fee was altered from 20% of the annual contract value to 40% of the annual contract value. On the basis of DWP projections of caseload volumes, a doubling of the fee for a tripling of the customers might have risked the quality of services delivered, and risked the health of the immature welfare market. In reality, caseload volumes rose only 49% above initial projections.⁷⁸³ This change was to last for the first two years of contracts and then return to 20% thereafter. The revised outcomes payments are presented alongside the original fees in Table 7.15.

Table 7.15 Intended and Revised Flexible New Deal Service Fees by Contract Year

<i>Stage of Programme</i>	<i>Service Fee at 20% (Millions)</i>	<i>Service Fee at 40% (Millions)</i>
Year 1	£212.93	£425.86
Year 2	£32.64	£65.28
Year 3	£32.64	£32.64
Year 4	£32.64	£32.64
Year 5	£32.64	£32.64
Year 6	£0	£0
Year 7	£0	£0
TOTAL	£343.49	£589.06

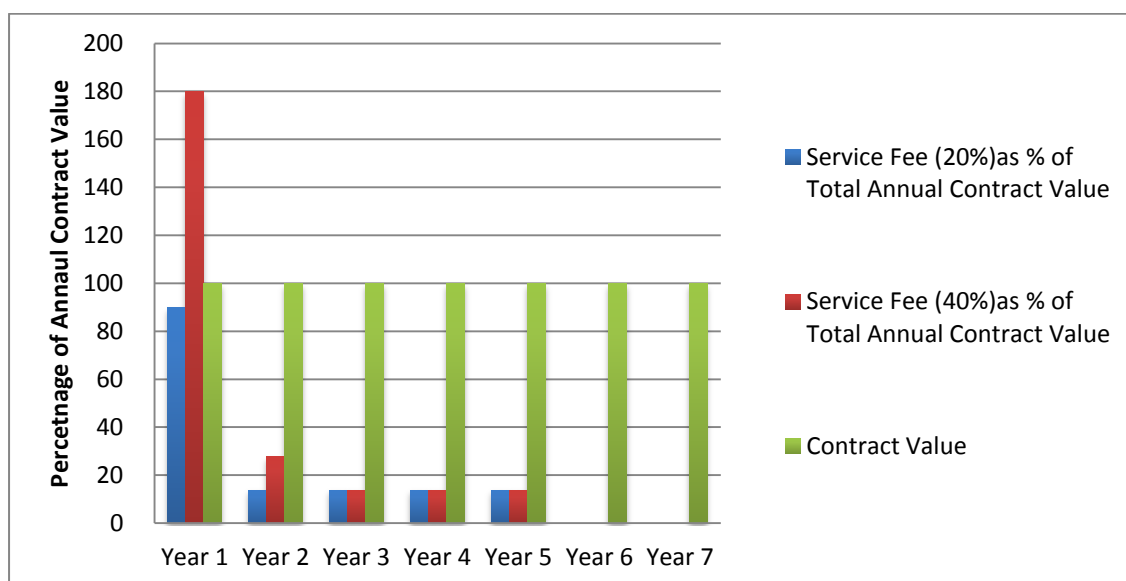
Source: Adapted from DWP Flexible New Deal Invitation to Tender⁷⁸⁴

As Table 7.16 illustrates the revised figures added considerably to the overall costs of the programme, particularly as frontloaded fees would not have to be repaid to the government, despite the cancellation of the programme within the second year of contract. This appears to have created some perverse incentives in the market. Figure 7.8 provides an indication of this problem.

⁷⁸³ Figures based on a comparison between anticipated caseloads in DWP (2008) *Flexible New Deal Phase 1 Invitation to Tender*, Department of Work and Pensions <http://www.dwp.gov.uk/docs/fnd-for-info-specification.pdf> (accessed 10/09/2011), p90 and final caseload volumes in DWP (2011) *Delivery Directory Performance Report*, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011)

⁷⁸⁴ DWP (2009) *Flexible New Deal Invitation to Tender and Provision Specification*, Department of Work and Pensions [online] <http://www.dwp.gov.uk/docs/fnd-for-info-specification.pdf> [accessed 12/03/12] p90

Figure 7.8 Service Fee Expenditure Before and After DWP Changes



Source: Adapted from *DWP Flexible New Deal Invitation to Tender*⁷⁸⁵

Observable from the graph is that the revision of service fees over the first two years resulted in payments equal to the total contract values for both years of operation. Therefore, in order to make profit during the first (and only) two years of the Flexible New Deal, contractors did not need to move a single individual into work. This adds further texture to understanding why the quasi-market did not deliver more outcomes exceeding the legacy employment programmes, because, in the knowledge that the programme was abolished a year into the contract, the pressure associated with an payment-by-outcome system had been largely removed. Summarily, the doubling of service fees rendered a quasi-market intended to be driven by market signals subject to severely perverse incentives.

Moving onto total expenditure, the DWP provided the following breakdown of Flexible New Deal gross costs, shown in Table 7.17.

⁷⁸⁵ DWP (2009) *Flexible New Deal Invitation to Tender and Provision Specification*, Department of Work and Pensions [online] <http://www.dwp.gov.uk/docs/fnd-for-info-specification.pdf> [accessed 12/03/12] p90

Table 7.17 Flexible New Deal Total expenditure

Costs by Category of Payment (nearest £1m)	
Service Fee	£626,000,000
Short Job Outcomes	£105,000,000
Sustained Job Outcomes	£39,000,000
Total	£770,000,000

Source: Department of Work and Pensions⁷⁸⁶

These final costs have been revised down to a total of £749.8million.⁷⁸⁷ With 407,690 participants on the entire programme, this equates to a gross expenditure per programme start of £1,839. These costs differ per year; in year one expenditure was £505.8 million with 299,250 participants, at a cost of £1690 per individual, and in year two the total costs came down significantly, due to the fall in service fee outlay, to £244 million. The dramatic decline in the number of participants joining the Flexible New Deal, to just 108,450 in year 2 rendered the cost to the Department for Work and Pensions actually higher on a gross spend per individual, at £2249. This was close to the Centre for Economic and Social Inclusion's original estimate of gross expenditure per participant of £2,200 per unit.⁷⁸⁸ Put into comparative context, the latest figures provided by the Department of Work and Pensions based on the same calculations are from 2005-2006 and are given in Table 7.18.

⁷⁸⁶ DWP (2012) *Ad Hoc Analysis of Flexible New Deal Costs*, Department of Work and Pensions Research Hub, [online] http://statistics.dwp.gov.uk/asd/asd1/adhoc_analysis/2012/fnd_costs_1201.pdf [accessed 12/04/12] p3

⁷⁸⁷ Grayling, C. (2012) *Written Answers to Questions, 31st of January 2012, Column 522W*, Hansard [online] <http://www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120131/text/120131w0001.htm> [accessed 12/03/12]

⁷⁸⁸ Vaid, L. (2010) *Counting the Cost: A Worklessness Costs Audit for London*, Centre for Economic and Social Inclusion, London, p14

Table 7.18 Gross Expenditure per participant of active measures (2005-2006)

ALMP	Cost per participant
NDYP	£866
ND25+	£983
PSL NDYP	£1,177
PSL ND25+	£1,177
EZ 18-24	£1,296
EZ 25+	£1,167

Source: Adapted from House of Commons Work and Pensions Committee⁷⁸⁹

As is evident from the table, even after accounting for inflation, the Flexible New Deal had a higher level of expenditure per head than the legacy employment programmes. Many before had argued that the step-change in performance would be unachievable with the level of funding attached,⁷⁹⁰ but it is apparent that the FND had a higher spend per head than other programmes and yet did not produce a higher proportion of outcomes to reflect this. Thus, on the question of efficiency, during the length of the programme the FND had not demonstrated greater efficiency than the legacy policies.

Conclusion

A number of conclusions have emerged from the data analysis presented in this chapter in relation to the performance of the Flexible New Deal. Foremost, it is clear that the government did not achieve what it set out to do with its market experiment in the delivery of the FND. Recall, it wanted:

⁷⁸⁹ House of Commons Work and Pensions Committee(2009) *DWP's Commissioning Strategy and the Flexible New Deal*, Second Report of Session 2008-2009, V.II Oral and Written Evidence, , EV161

⁷⁹⁰ For example, Simmons, D. (2008) *A time for urgent measures*. Working Brief v198, Centre for Economic and Social Inclusion, London, p3, and Serco (2008) Written Evidence to House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal*, Second Report of Session 2008-2009, V.II Oral and Written Evidence, , EV177

1. Suppliers to meet or exceed the Short Job Outcome targets (13-weeks actual work) agreed in their contract;
2. Suppliers were to meet or exceed the Sustained Job Outcome targets (26-weeks actual work) agreed in their contract;
3. Suppliers were to deliver a service that represented excellent value for money and delivered a step-change in FND performance as compared to previous programmes;

In relation to the first two success factors, the evidence presented in this chapter is clear that the FND did not meet either of these DWP objectives. In Northern Britain and the West Midlands, some providers were even further away from achieving these than others (e.g. Dudley MBC). This exposes a problem not uncommon to public policies that a solution to a problem in one area may not be a sufficient response in another. Taking McDonnell's view, 'the success or otherwise of policies cannot easily be separated from their contexts.'⁷⁹¹ Thus to consider the Flexible New Deal as a national 'failure' might be inaccurate; the Flexible New Deal produced in the aggregate results more or less equivalent to those of the simultaneous programmes examined. Yet, it is clear that, first, it fell far short of its national targets, and second that some labour markets provided riper terrain for work-first initiatives than others, and therefore while the FND operation in the Black Country might be considered a failure, this is less the case in the Surrey contracts.

The first conclusion to be drawn is that the targets established were optimistic, and when examined against performance of other schemes, both in circumstances, they appear to be excessive. This point was made prior to implementation by the Work and Pensions Select Committee, which remarked:

⁷⁹¹ McDonnell, A.(2010) *Understanding Policy Success: Rethinking Public Policy*, Palgrave Macmillan, Basingstoke, p93

It is right DWP should attach challenging targets to the Flexible New Deal programme but it is important that they are realistic. Evidence to us suggested that the FND targets would require a 37.5% improvement in job outcome performance over what has been achieved by DWP contractors in the past and this has to be done with a significant reduction in funding compared to the best performing DWP programmes.⁷⁹²

When asked by the Committee (in writing) to explain the calculations on which targets were based, the Department responded that they were based on the best performances of Employment Zones and that 'they reflect a considered view of what the new approach allows for'.⁷⁹³ That a contractor might (once the programme outputs had matured) have been able to achieve a target of 50% of short job outcomes appears on the Employment Zones evidence to be difficult, if not impossible. The expectation that 91% of those achieving 13-week employment would continue to in work at the 26-week point was, on the other hand, highly unlikely given that this demanded an increase exceeding 100% of past performances.

While poorly conceived targets reflect badly on the Flexible New Deal, these cannot be responsible for why a 'step change' in employment outcomes did not occur. Instead, there were a collection of reasons as to why the policy did not make any significant advances on its predecessors, and these are considered below.

Reflecting first on the contracting of active labour market policy, the establishment of a quasi-market in welfare-to-work did not appear to be either the problem or solution. The isolated effects of the quasi-market were empirically difficult to gauge without a simultaneous counterfactual, but three points can be made. First, the market-based policy did not yield more effective outcomes than the state run policies of before. Second, the quasi-market did not use fewer resources per head than previous

⁷⁹² House of Commons Work and Pensions Committee(2009) *DWP's Commissioning Strategy and the Flexible New Deal*, Second Report of Session 2008-2009, House of Commons v1, p22

⁷⁹³ House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal: Government Response to the Committee's Second Report of Session 2008-2009*, Second Report of Session 2008-2009, House of Commons , p6

schemes, and third the market did not with any great clarity distinguish the poorer providers from the better.

The core weakness of the quasi-market was not the presence of private sector contractors, but rather the incentives structure they faced. As Bredgaard and Larsen argue 'When responsibility for financing activities lies with the provider, there is a clear tendency toward under-investment in long-term and uncertain instruments, and a clear orientation towards work-first approaches.'⁷⁹⁴ The incentives structure served to institutionalise work-first where the outcome payments available were attached predominantly to labour market sustainment. The work-first emphasis was compounded through payment-by-results for 13-week and 26-week employment, which serves to limited the incentive to invest in extensive retraining programmes. Consequently, the 'black-box' approach which (theoretically) opened up a much wider scope for hybrid programmes where a combination of education, training, subsidies *and* employment outcomes could have been operated, in practice only emphasised labour market attachment.

The risks of using work-first are well-catalogued (see Chapter 3 part 2). The most relevant of these criticisms is that in difficult economic conditions vast numbers of jobseekers will be left idle, which is the result of insufficient vacancies in the market combined with a lack of retraining opportunities that might allow the unemployed to have the requisite skills to fill existing vacancies. The consequence is that the entire *raison d'être* of work-first programmes, where inadequate employment experience is responsible for the individual's unemployment, is undermined. Where the labour market cannot absorb the unemployed, individuals are moved further from the labour market in a downturn and the gaps in their employment record are extended. Jochem summarised this problem succinctly:

⁷⁹⁴ Bredgaard, T, and Larsen F. (2008) *Quasi-Markets in Employment Policy; Do they deliver on their promises?* Social Policy and Society v7.3, p350

Active labour market policy is no panacea against unemployment or falls in employment. The instruments of labour market policy are mainly directed towards improving matching processes in the labour market in an effort to ensure that employment demand on the part of companies is satisfied by qualified workers.⁷⁹⁵

This data analysis has observed that the results of the Flexible New Deal appear to reflect, rather than ameliorate the prevailing economic conditions of local labour markets. Indeed, Peck makes this exact point arguing that ‘work-first systems are predicated on specifically local labor-market conditions, such that their outcomes are quite different in buoyant as opposed to depressed job markets.’⁷⁹⁶ He follows this with the astute observation that ‘in some senses, the purchase of the work-first policy package is weakest in precisely those areas where effective welfare-to-work programs are needed most: high unemployment areas.’⁷⁹⁷ This chapter has demonstrated with some clarity that areas of highest unemployment in the UK delivered the weakest Short Job Outcome performances. The FND was implemented in full knowledge of declining labour market conditions. Evidence of this fact was presented above in the form of the financial adjustments made by the Department of Work and Pensions in response to predictions that the downturn in the labour market beginning in 2008 would lead to a 300% expansion in caseload volumes.⁷⁹⁸ If any downturn in labour market conditions (predicted or otherwise) can be considered unfortunate, the problem was nevertheless treated with an insufficient solution.

To texture understanding of why the FND did not outperform the legacy programmes, a number of implementation decisions have been identified. Throughout the FND’s 23-month operation, policymakers had unpicked many of the planned mechanisms that might have aided success. In

⁷⁹⁵ Jochem, S (2011) *Scandinavian Labour and Social Policy: Models for a Preventative Welfare State*, International Policy Analysis, Berlin, online <http://library.fes.de/pdf-files/id/ipa/07785.pdf> [accessed 17/04/12] p8

⁷⁹⁶ Peck, J. (2001) *Workfare States*, Guildford Press, London, p356

⁷⁹⁷ *Ibid*, p356

⁷⁹⁸ House of Commons Work and Pensions Committee(2009) *DWP’s Commissioning Strategy and the Flexible New Deal*, Second Report of Session 2008-2009, House of Commons v1, p26

particular, in a policy realm dominated by the 'incentives' rhetoric, policy-makers removed many incentivising forces. The direct competition between providers was intended to be one of these driving forces, and it is clear that successive governments' believed that direct competition would stimulate enhance performance because multiple contract areas are features of both FND, and its successor, the Work Programme. The decision to limit the use of 'market-sharing', and the wholesale abandonment of consumer choice all but removed the idea of direct competition between providers. Putting aside the disincentives, weakening direct competition also engendered two problems. The first is that it rendered Single Contract Areas effectively identical to Dual Contract Areas, which made gathering evidence to use one model, rather than another difficult. The second problem is linked to the first, in that the lack of the competition dynamic to drive performance in Dual Contract Zones rendered the identification of future providers (or eliminating prospective providers) even less transparent.

Another clear disincentive came from the adjusted financial arrangements. The fear of tripled caseload volumes mentioned above prompted the DWP to double the amount of already frontloaded service fees (monies paid regardless of outcomes) from 20 to 40%. In spite of being technically a system of payment by results, the funding arrangements in the first (and only) two years of the programme were weighted heavily towards the service fee payments. The announced abandonment of the contracts in the autumn of 2010 meant that the commercial pressure of profit derived payment-by-results based on volumes moved into work was not fully embedded. In contractual language, the state never properly transferred the 'risk' from the public to the private sector and the result was that, like under the problematic NDYP contracting model, payment was focussed at the input, and not at the output. There is an obvious tension in welfare markets between ensuring that contractors have sufficient capital stocks to take on risk, whilst also attempting to provide the sufficient profit incentive to shift individuals

into lasting employment.⁷⁹⁹ It was not obvious that this tension was successfully navigated under the Flexible New Deal.

The last significant disincentive was the Coalition government's announcement of the cancellation of the Flexible New Deal, while allowing it a further 12 months to operate. The DWP admitted to the Work and Pensions committee that this would inevitably cause 'some disruption.'⁸⁰⁰ Indeed, from field visits to FND contractor premises during the final months it was apparent that services were being demobilised and staff transferred before services were terminated officially.

McConnell argued that the 'first basis, and the one most in line with the formalities of policy processes, is original intentions.'⁸⁰¹ If from the perspective of the policy makers the first test of a policy is whether it meets its own objectives, on three of the five Critical Success Factors, the FND did not. If we take Etzioni's two-prong approach to organisational success that a) 'The actual effectiveness of a specific organisation is determined by the degree to which it realizes its goals' and b) 'The efficiency of an organisation is measured by the amount of resources used to produce one unit of output',⁸⁰² on both of these measures the data analysis has shown the network of providers have not achieved the established goals and costs reductions by a considerable margin.

Ultimately, against the research questions the empirical analysis showed that the national implementation of a quasi-market in employment services did not lead to a demonstrably more effective system for transferring jobseekers from long-term benefit receipt to sustained employment. The market incentivised a work-first system that appeared to reflect the regional inequalities in the UK labour market, performing at their weakest in areas where vacancies were in the shortest supply. The

⁷⁹⁹ Bredgaard, T, and Larsen F. (2008) *Quasi-Markets in Employment Policy; Do they deliver on their promises?* Social Policy and Society v7.3, p345

⁸⁰⁰ House of Commons Work and Pensions Committee (2011) *Work Programme: Providers and Contract Arrangements*, Fourth Report of the Committee Session 2010-2012, House of Commons Library, p51

⁸⁰¹ McConnell, A.(2010) *Understanding Policy Success: Rethinking Public Policy*, Palgrave Macmillan, Basingstoke, p105

⁸⁰² Etzioni, A. (1964) *Modern Organisations*, Prentice-Hall, New Jersey, p6

reflection of these regional inequalities rendered opaque the process for identifying the strongest, and weakest, employment service providers.

Conclusions: General and Specific

This final chapter will reflect upon the evidence presented in this thesis, and consider the practical uses of the findings to policy-makers. It will begin with a summary of the key findings of this project concerning the capacities of active labour market policy, the labour market attachment model, and the contracting out of active measures. It will go on to detail the implications of the key findings, limited to several areas where lessons can be learned and where research might be explored further. Before exploring the specific conclusions of this thesis, there are a few broad observations to make.

The first observation is that active labour market policies, in particular work-first policies have become a central tenet of the British labour market strategy. This has occurred for a series of reasons outlined in Chapter 2, which collectively are intertwined with the UK's macro-economic performance. While not unique to the United Kingdom,⁸⁰³ over the past four decades the British economy has faced a series of complex and interconnected challenges, where demographic changes are applying pressure to public services, and global economic competitiveness are applying pressure on the UK labour market. The welfare state has consequently had to adapt, to shift priorities, and reorganise to respond to these endogenous and exogenous challenges.⁸⁰⁴ Active labour market policies, rightly or wrongly, have been deployed as one solution to the problems facing both the UK economy, and the UK welfare state.⁸⁰⁵

As the problems that confront the UK economy emerged gradually, so did active measures to respond to them. Since the Conservatives introduced the Restart programme in 1986, Chapters 4, 5 and 6 demonstrated that active labour market policies have developed in increments to enhance the conditions on benefit recipients and retrench entitlements, while in turn having been opened up gradually to a wider range of delivery organisations. The gradualism apparent does not mean profound

⁸⁰³ Lodermel, I. and Trickey, H. (eds) (2000) *An Offer You Can't Refuse? Workfare in an International Perspective*, Policy Press, Bristol, p2

⁸⁰⁴ O'Brien, M. and Penna, S. (1998) *Theorising Welfare: Enlightenment and Modern Society*, Sage, London, p221

⁸⁰⁵ Walker, R. and Wiseman, M. (2003) *Making Welfare Work: Activation Policies Under New Labour*, International Social Security Review, v56.1pp4-5

change has not occurred; today, British activation programmes utilise unprecedented conditionality, and are delivered by a burgeoning network of multinational contractors, in a manner that would be unfamiliar to a citizen of the 1970s.

Complementing the first observation is that the thesis, in Chapter 4, exposed a shift in elite approaches to the causes of unemployment in the British labour market. Four decades ago, British governments were predominantly concerned with boosting the demand for labour using Keynesian-style investment policies as the dominant mechanism for resolving unemployment; today, the primary concern is boosting the supply of labour.⁸⁰⁶ The endogenous and exogenous pressures on the economy and welfare state are part of the explanation for this, but, as demonstrated in Chapter 4, shifting ideological preferences and institutional structures are pertinent to this change of approach, as are they in determining the choices of certain styles of active labour market policies over others.

The compound of these changes is a transformation of the way the British state interacts with the unemployed citizen.⁸⁰⁷ The shift is one from macro- to micro- level, where the state once sought to remedy long-term unemployment by intervening in the labour market, the state now predominantly (seeks to) remedy long-term unemployment by intervening in the lives of the claimant citizen. Active labour market policies in conjunction with the benefit system are now the tools of this intervention. The question posed by the shift of focus is whether this different approach to the unemployment problem can rescue the UK economy, and welfare state, from pressures within and without.

The Flexible New Deal, the Quasi-Market, and Competition

The primary question of this study was whether the transition to a national contracted market in labour market attachment created a more effective and efficient system for transferring the unemployed from

⁸⁰⁶ Trickey, H. and Walker, R. in Lodermeil, I. and Trickey, H. (eds) (2000) *An Offer You Can't Refuse? Workfare in International Perspective*, Policy Press, Bristol, pp186-190

⁸⁰⁷ This argument was also made by Powell in the broader appraisal of Labour's welfare state reforms, see Powell, M. (ed) (1999) *New Labour, New Welfare State?* The Policy Press, Bristol, p289

benefits into work than those policies that came before. The measure of FND effectiveness was understood as the transfer of a greater proportion of jobseekers into 13-week employment, and efficiency understood as to do so using less financial resources. Before the FND was introduced, the international evidence on the matter of effectiveness favouring a quasi-market in work-first was limited. With respect to efficiency, some evidence of quasi-market advances in this area had been found, but no evidence from UK policies. The data analysis of the Flexible New Deal showed that, in this case at least, these conclusions still stand; the data produced no evidence of enhanced effectiveness or efficiency to support the transition to a national quasi-market in employment services.

On the evidence from the Delivery Directorate Performance Report, contracting out to private and voluntary sector agents has not yielded the anticipated 'step change' in performance beyond existing ALMPs. The DWP had hoped for a minimum 13% 'step change' increase in 13-week outcomes above the best results of Employment Zones.⁸⁰⁸ This did not occur. Instead, the results chapter presented similar, if slightly weaker, results to those attained by Employment Zones. Given their similarities explained in Chapter 5, the similarity of their employment outcomes was not improbable. Less expected were the survey evidence findings from the Policy Studies Institute, who observed that FND participants were either equally, or less likely to have entered work than the predominantly public-sector delivered New Deal programmes' participants.⁸⁰⁹ This also raises the question of whether a looser regulation of processes through the 'black box' (which also distinguished FND from the New Deals) will contribute to an improvement in employment outcomes. At present, the literature on the effectiveness of contracting out welfare-to-work services to the private sector remains without definitive conclusion. The evidence presented in this thesis serves to suggest that, for now, private provision has yet to attain its primary objective of improving employment outcomes and delivering the expected gains the theoretical literature suggests. With respect to efficiency, contracting out was costing the Exchequer more than in-

⁸⁰⁸ Thomas, A. (2008) *Flexible New Deal Performance Expectations and Funding Presentation*, DWP [available at] <http://www.dwp.gov.uk/docs/fnd-event-slides.pdf> [accessed 10/10/11]

⁸⁰⁹ Vegeris, S. et al. (2011) *Flexible New Deal Evaluation: Customer Survey and Qualitative Research Findings*, Department of Work and Pensions Research Report no.758, Policy Studies Institute and IFF Research, p84-86

house delivery, though with longer to run in the contract and service fees falling year on year, the costs of the programme were set to decline to levels similar to public sector provision. The decision of the coalition government to abort the programme after only two years prevented costs from falling, and arguably made FND appear more inefficient than it was to become.

One of the secondary objectives of contracting out was the identification of strong and weak providers, in order to adjust future contracts accordingly to improve the efficiency of the whole market.⁸¹⁰ A key contribution of this research was in exposing the complexity of identifying the successful contractors from the unsuccessful. The Social Market Foundation wrote that 'The theoretical advantage of a competitive tendering process, such as that now underway for Phase 1 contracts, is that DWP will be able to identify those firms that are able to operate most efficiently.'⁸¹¹ In turn, 'the process of re-contracting therefore acts as a surrogate market mechanism, forcing poorly performing companies to exit and rewarding better performing ones with more business.'⁸¹² Yet, despite of the wealth of information regarding the performance of contractors, the data analysis of individual contractor performance supplied in Chapter 7 showed the differences in contracted performance in the competitive, dual contract areas, to be small. The widest gap between contractors in any Dual Contract Area was 3.5%, but typically the difference in performance between the competing providers was 2% for Short Job Outcomes or less, and narrower still for Sustained Job Outcomes. In two areas, the performance differentials were particularly opaque. The Nottinghamshire Contract Area difference was only 0.2% on 13-week outcomes in favour of one provider, and 1.1% 26-week outcomes in favour of the other. In the Edinburgh Contract area, a similar occurrence was apparent, where one provider outperformed the other on 13-week outcomes by 0.5%, but the other contractor were more effective by 0.1% with respect to 26-week outcomes.

⁸¹⁰ DWP (2008) *DWP Commissioning Strategy*, DWP, Cabinet Office, London, p21

⁸¹¹ Mulhearn, I. and Menne, V. (2008) *The Flexible New Deal: Making it Work*, Social Market Foundation, p38

⁸¹² *Ibid*, p66

The data analysis also showed that the main difference between provider outcomes at the intra-contract level was predominantly associated with the local labour market variables. Given the individual labour market characteristics of each of the contract areas, it is feasible that a provider in the worst performing contract area would have matched the performance of the providers in the best, had the labour market characteristics been different. The identification problem is even greater in Single Contract Areas, where the basis for measuring performance is solely against the meeting of targets (against which all providers fell far short).

As a practical recommendation the DWP need to develop a system that is capable of identifying, and therefore compensating for the performance of contractors in different labour markets. Without stronger tools to identify local context, the contracting process risks inaccuracy, as well as inequity. At present under the Coalition's Work Programme, the DWP have maintained national targets, but at a lower, more realistic 13-week outcome rate of 36%.⁸¹³⁸¹⁴

In offering an appraisal of direct competition within areas as a performance driver, the data analysis also showed a limited difference between the performance of monopoly provider areas and dual contract areas. As the results of contractors were predominantly contingent on labour market variables, judging the performance of a monopoly provider in one area against one in a dual contract area is challenging. The 0.2% difference between Single Contract Areas and Dual Contract Areas on the measure of 13-week outcomes does not represent a clear endorsement for direct competition within the welfare market. The important caveat to this, as Chapters 6 and 7 established, is that the implementation of FND differed markedly from initial plans, where the proposed drivers of performance (shifting market-share, and customer choice) were abandoned.⁸¹⁵ This rendered the competitive

⁸¹³ Caulfield, T. et al. (2012) *The Introduction of the Work Programme*, Report by the Comptroller and Auditor General, National Audit Office, TSO, London, p20

⁸¹⁴ As discussed below, the national targets may still be excessive.

⁸¹⁵ Armstong, D. et al. (2011) *Welfare to Work Commissioning: Wave Two Provider Survey*, DWP Research Report no 757, HMSO, London, p83

characteristics of Single and Dual Contract Areas largely homogenous.⁸¹⁶ The lack of distinguishing features looks therefore to explain the absence of a significant edge in dual contract areas.

To appreciate why the FND was no more effective than preceding programmes goes further than the competition elements. The similarities between the FND and EZs may have explained their similar results, but several differences were expected to boost the performance of FND. The longer, larger 'black box' contracts than those of EZ's were believed to facilitate an environment that would foster investment and innovation.⁸¹⁷ Innovation however, did not appear to occur. The Policy Studies Institute offered a clear summary in this respect:

A minimum prescription ('black box') approach to contracting employment services does not necessarily equate to more innovation and a wider choice or variety of services. The main observation of this research was that the intensity of advisory support varied between customers and during the 12-month period of participation. Despite limited prescription on what providers should deliver, little innovation was evident in the design and content of services.⁸¹⁸

According to Bredgaard and Larsen, this is a common problem facing quasi-markets where 'the general impression is that, in spite of the freedom to choose their own methods, providers hardly ever come up with innovative solutions. Rather than developing new methods and innovating services, the providers' primary focus is on survival.'⁸¹⁹ Interviews with participants in the programme reflected this observation, where interviewees identified little difference between provider companies and the Jobcentre Plus. A large-scale survey of FND providers by PriceWaterhouseCoopers found that despite

⁸¹⁶ The opportunity to test direct competition against area monopolies at the contract level now appears lost as the new Coalition Work Programme has installed Dual or Multiple Contract Areas across all contract districts and no Single Contract Areas remain.

⁸¹⁷ House of Commons Work and Pensions Committee (2009) DWP's Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009, The Stationary Office, London, pp5-6

⁸¹⁸ Vegeris, S. et al. (2011) Flexible New Deal Evaluation: Customer Survey and Qualitative Research Findings, Department of Work and Pensions Research Report no.758, Policy Studies Institute and IFF Research, p6

⁸¹⁹ Bredgaard, T, and Larsen F. (2008) *Quasi-Markets in Employment Policy; Do they deliver on their promises?* Social Policy and Society v7.3, p345

some pockets of innovation that could boost effectiveness, '[these] examples of innovation were somewhat isolated, suggesting that there is further scope for the development of innovative approaches under black box.'⁸²⁰ The consequence is that if services provided by FND suppliers are similar to those already present in the UK ALMP it is difficult to identify the source of enhanced effectiveness. Furthermore, the prospects for innovation in the future appear dim. Taking Bredgaard and Larsen's perspective, the stronger emphasis on outcome payments under the replacement for FND will serve only to enhance the survival instinct of using tried and tested methods (mainly work-first) to ensure that profits can be assured.

In sum, the FND did not deliver a 'step change' in performance, principally because of its similarities with Employment Zones, but additionally the market features intended to boost performance were only partially implemented (e.g. market sharing and choice), or unharnessed (e.g. innovation).

Reflections on work-first

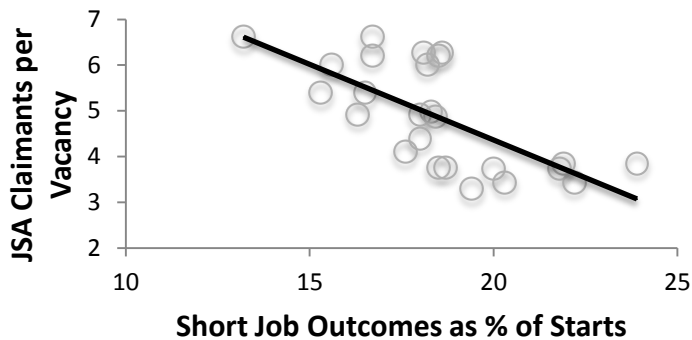
The competition dynamic may not have yielded the expected gains over preceding policies, but it is important also to consider why Flexible New Deal was so far from attaining its own targets, and why only 18 of every 100 participants found work lasting 13 or more weeks. The clear explanation for this is that the outcomes of FND were contingent on the prevailing economic conditions. Through the analysis of local labour markets and provider outcomes, the results serve to support the existing theory that work-first may be an effective counter to frictional unemployment where jobs are plentiful, but 'employability based programmes will yield only limited effects when operated in slack labor markets.'⁸²¹ In the summer of 2008, a year before FND was implemented, Claimant Count Unemployment stood at 924,000; by the time FND was implemented, the Claimant Count had risen to 1.6million. FND targets were extremely challenging in stronger economic circumstances, and the distance between targets and outcomes at the national level showed these targets to be simply

⁸²⁰ Armstong, D. et al. (2011) *Welfare to Work Commissioning: Wave Two Provider Survey*, DWP Research Report no 757, HMSO, London, p80

⁸²¹ Peck, J. (2001) *Workfare States*, Guildford Press, London, p347

unrealistic during recession. At the local level, the distance from targets was even further in some contract areas. Figure 8.1 serves as a reminder of the evidence presented in Chapter 7.

Figure 8.1 Contract Area JSA-Vacancy Ratio and Contractor Short Job Outcomes



Source: *Nomis Local Labour Market System and DWP Delivery Directorate Report*⁸²²

What the evidence drawn from the individual contract zones has shown is that work-first is more appropriate in some labour markets than others. The correlations revealed that the relatively poor performance of contractors was closely associated with high volumes of jobseekers and low volumes of vacancies to absorb them. This was most visible in the evidence of a North-South divide in contractor performance. The policy consequences are nontrivial, that an emphasis on labour market attachment is markedly less likely to transform the prospects of those participants in Bromsgrove, Walsall and West Bromwich, than it is in Surrey, Sussex, Brighton or Hove, to the extent that the chances of entering employment lasting 13 weeks or more were 35% higher in the Surrey contract area. This is not a surprise, but it does have some important implications and raises several political issues that are discussed below.

⁸²² DWP (2011) *Delivery Directorate Performance Report*, Department of Work and Pensions, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> [accessed 11/04/2011] and NomisWeb (2011) *Jobcentre Plus Claimant Counts and Vacancies*, Nomis Local Labour Market System [online] <http://nmweb.dur.ac.uk/query/select/getdatasetbytheme.asp?theme=29> [accessed 10/10/2011]

Ultimately, the results of the weaker outcomes in weaker labour markets highlight the contradiction in work-first: that if the explanatory factor for the individual's unemployment is his/her inadequate employment history, then where work placements and employment are in short supply, the employment profiles of participants will worsen, not improve. Ironically, therefore, in order to help the long-term unemployed compete in the labour market when economic circumstances have improved, providers or governments may need to incentivise employers to take these workers on. This may involve wage subsidies, or employment related training; both of which were features of the old, public-run New Deals.

History Matters: Quasi-markets and positive feedback mechanisms

The failure of FND to meet the expectations established for it by the DWP would not be of much consequence, were a departure from this strategy apparent. However, the continued deployment of quasi-market work-first in post-FND Britain reiterates the path dependency described in Chapter 4. Having been embedded by institutional decisions taken in the past and legitimated by public opinion, a departure from seemingly unsuccessful welfare reforms was improbable. For instance, the embedding of a 'black box' welfare market where processes are not rigorously governed by the central agency (in this case the DWP) results in an inevitable loss of control at the centre. Donahue and Zeckhauser warned that transferring state control can also lead to 'unanticipated or unrecognized losses of control.'⁸²³

Historical institutionalism frames the effects contracting will have on control, not only now, but in the future. The path-dependency argument of Chapter 4 recognised that there are intertwined ideas embedded in the incremental route to stricter work-first requirements and contracting out. The continued progress towards reducing governmental responsibility for unemployment appear a likely

⁸²³ Donahue, J.D. and Zeckhauser, R.J. (2006) in Moran, M. et al. (eds.) (2006) *The Oxford Handbook of Public Policy*, OUP, Oxford, p507

outcome of repeated welfare reform rounds, because straying from the approach is increasingly difficult as certain policy approaches and actors are 'locked in' to the policy-making process, which other actors and policy options are locked out. The institutional arrangements influence this unrecognised loss of control, where one step towards a market in employment services renders a reverse step more difficult. Therefore, while the New Labour government may have wished to utilize the private sector 'not to replace the welfare state but to augment the public mechanism for the delivery of welfare services'⁸²⁴, where competencies are lost they can be difficult to reacquire. The competencies might be personnel, (it is worth noting that during FND implementation the Jobcentre Plus were reducing their headcount), expertise, and also estate capacity as premises are sold or mothballed.⁸²⁵ A loss of skills, headcount and premises can make re-establishing delivery through the public employment service resource-intensive, and thus unattractive relative to the established market. This loss of capabilities is compounded by the use of payment-by-results that depress the costs of pursuing active labour market policies as (theoretically) the government will only pay for successful provision, and therefore contracting a outcomes-based market, in theory, is cheaper than established large, state-operated active labour market policies. Both examples are typical of positive feedback mechanisms, which serve to reinforce path-dependency. Donahue and Zeckhauser summarise this problem effectively:

'Opting for indirect production may discourage or even preclude the maintenance of capacity for direct government action. Any contractor knows that today's contract tends to build market power on a contract for tomorrow. To the extent that government becomes dependent on

⁸²⁴ Smith, M.J. in Ludlam, S. and Smith, M.J (eds.) (2004) *Governing as New Labour: Policy and Politics under Blair*, Palgrave Macmillan, Basingstoke, p223

⁸²⁵ Details of the shrinking of the Jobcentre estate are complex, but show nevertheless a significant downscaling, for example see Timms, S. (2008) Answer to Written Parliamentary Question, 28 Apr 2008 : Column 45W, Hansard House of Commons Debate, UK Parliament Online available at <http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080428/text/80428w0010.htm#08042838000578> [accessed 06/06/12]

private capabilities, it puts itself in a disadvantaged position in future rounds of negotiation with its agents.⁸²⁶

The erosion of the government's position of power is not a new concept, and reflects a broader account of a loss of central control that might be difficult to claw back. Rhodes wrote the seminal *Hollowing Out* argument back in 1994 to explain the diminishing role of centralized authority through the fragmentation of power in the British state: as the role of autonomous agencies and private service providers expands, the capacity of government to control them shrinks.⁸²⁷ Central control, once relinquished to a network of private providers, may be difficult to regain; and therefore the likely preference of market delivery over state delivery is enhanced.

At present, the position of the state is not irreversible but its position of power continues to weaken. At present, it retains a large role in the administration of employment programmes for the short- and long-term unemployed through the public agency, Jobcentre Plus, and retains responsibility for the distribution of benefits. In the contracting process the state retains a reasonable negotiating position with contractors because it is, at least partially, able to provide a service to all unemployed people. However, Deakin and Walsh raised a valuable point in relation to contracting social care that seems pertinent to this dilemma:

The degree to which risk is borne by the purchaser or the provider will partly depend on power. In social care, for example, those local authorities with fewer providers have tended to bear more of the contractual risk. In the second year of community care contracting some authorities have cut the price they are willing to pay simply because they know that providers will not be

⁸²⁶ Donahue, J.D. and Zeckhauser, R.J. (2006) in Moran, M. et al. (eds.) (2006) *The Oxford Handbook of Public Policy*, OUP, Oxford, p508

⁸²⁷ Rhodes, R. (1994) *The Hollowing Out of the State: The Changing Nature of Public Service in Britain*, *The Political Quarterly*, v65.2pp146-148

able to do anything about it. The pattern of contracts that is developing is not dependent simply on efficiency but also power considerations.⁸²⁸

The long-run ability of the state to retain a dominant position over contractors will therefore hinge on the direction of dependence in their relationship. If the state continues to reduce its own capacity to deliver labour market policies by reducing the services it provides, and handing delivery to non-state actors then its bargaining position will inevitably weaken as the state becomes dependent on essential, institutionalised contractors. This could in the long-run push up the costs of contracted delivery.

The consequence of the weakening central control is that, despite the data analysis showing that the efficiency gains expected of quasi-market work-first were not realised, a reversal of policy (despite repeated claims by Labour and Coalition governments of adherence to an evidence-based policy approach) is unlikely.⁸²⁹

History Still Matters – The Coalition and the Work Programme

The continuation of the path is observed with the change of administration in Westminster. The termination of FND over the autumn of 2010 by the new Coalition government⁸³⁰ was an opportunity for a different approach (perhaps more centralised/regulated control) to be established. A departure might also have been an expected consequence given the public mauling levelled at the Flexible New Deal by various members of the incoming cabinet.⁸³¹ However, the path was further entrenched during the FND wind-up period, where contractors were invited to bid for a new active labour market policy: the coalition government's Work Programme.

⁸²⁸ Deakin, N. and Walsh, K. (1996) *The Enabling State The Role of Markets and Contracts*, Public Administration 74.1, p41 [33-45]

⁸²⁹ Davies, P. (2012) *The State of Evidence-Based Policy Evaluation and its Role in Policy Formation*, National Institute Economic Review, V.219, p41

⁸³⁰ Grayling, C. in Work and Pensions Committee (2011) *Uncorrected Transcript of Oral Evidence: Work Programme Providers and Contracting Arrangements*, UK Parliament, online <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmworpen/uc718-iii/uc71801.htm> (accessed 13/04/11) p5

⁸³¹ For example, David Cameron described it as a 'revolving door for young people who need employment.' Cameron, D. (2011) Prime Minister's Questions, House of Commons Debate, Q5. [42577], March 2nd 2011, Hansard [online] <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110302/debtext/110302-0001.htm#11030269000916> [accessed 12/06/12]

The Work Programme is a mandatory, work-first active labour market programme provided principally by private sector providers. In all of its essentials, it is identical to the Flexible New Deal; private sector contractors will work with the largest group of long-term unemployed (age 25+) when they have been in receipt of the Jobseeker's allowance for 12 months.⁸³² Young jobseekers will join the programme at 9 months and there will be flexible arrangements to fast track other claimant groups. Furthermore, according to the prospectus 'The Work Programme will be a 'black box' contract with no prescribed way of working. It will be for the prime contractors to determine in discussion with partners, including Jobcentre Plus, how they will work collaboratively to deliver the programme.'⁸³³

The funding arrangements contain three core components of a) an attachment fee, b) a job outcome fee, and c) sustainment fees contingent on how long the individual stays in work,⁸³⁴ a configuration remarkably similar to the Flexible New Deal, as is the expectation contractors will compete within geographical areas over quality and claimant volumes. Even on the ground, the programmes appear little different. A participant who had been on both the Flexible New Deal and Work programme recalled 'There is no difference. I'm not entirely too sure, but it is the same structure [as] when I was on the FND.'⁸³⁵

The similarity between the Flexible New Deal and the Work Programme has received little academic attention, an unusual fact given that the best indication of the performance of the new programme is the performance of the FND. Ian Mulheirn (director of the SMF and author of the only substantive critical report into the Flexible New Deal) identified this very point and argued that: 'if the [DWP]

⁸³² Deacon, A. and Patrcik, R. (2011) *A New Welfare Settlement? The Coalition Government in Welfare to Work*; in Bochel, H. (eds) (2011) *The Conservative Party and Social Policy*, The Policy Press, Bristol, p167

⁸³³ Department of Work and Pensions (2010) *Work Programme Prospectus*, online <http://www.dwp.gov.uk/docs/work-prog-prospectus-v2.pdf> (accessed 13/04/11) p11

⁸³⁴ Ibid.

⁸³⁵ *Author Interview with Participant reference M2. See Annex 2.*

believes providers are doing a poor job, that augurs ill for the Work Programme, which builds on exactly the same principles as the Flexible New Deal.⁸³⁶

Interim data appears to support this argument. Full first year results for the Work Programme are due in late autumn, but figures leaked to Channel 4 News show one of the leading providers, A4E, as having achieved a Short Job Outcome rate of 3.5%.⁸³⁷ From the first 10 months of operation, the company moved 4000 out of 115,000 participants into work lasting 13 or more weeks.⁸³⁸ The opening 10 months of the Flexible New Deal programme were slightly ahead of this in spite of accusations of a 'slow start'. Between October 2009 and July 2010, providers moved 13,760 of the 260,092 participants into Short Job Outcomes.⁸³⁹ This is a rate of 5.28%. To compare like-for-like, A4E handled 51,270 of these starts, and moved 2,710 into work in the first 10 months, an identical proportion of Short Job Outcomes at 5.28%. With the Work Programme struggling to get off to a strong start, Mulheirn adopts a similar argument to this thesis, arguing that the labour market is the key determinant of performance:

At the root of [the problem] is the fact that providers are on the hook for something they can't control – the labour market. A scheme that was supposed to hold providers accountable for their performance has ended up holding them accountable – and penalising their customers – for the performance of the economy. The programme was designed in a boom. Is it any wonder that it can't cope with economic stagnation on a scale not seen for 80 years?⁸⁴⁰

Mulheirn's assertion that providers are bearing the burden of the UK's recession is an important factor in the continuation of path dependency. The Work Programme's stronger emphasis on payment by results than FND will continue to feed path-dependency. The greater proportion of financing that is

⁸³⁶ Mulheirn, I. cited in Timmins, N. and Barker, A. (2010) *Minister Attacks Labour Work Scheme*, Financial Times online <http://www.ft.com/cms/s/0/77c9f4da-f2a2-11df-8020-00144feab49a.html> (accessed 30/11/2010)

⁸³⁷ Channel 4 News (2012) *A4E Finds Jobs for 3.5% of job-seekers*, Channel 4 News [online] <http://www.channel4.com/news/exclusive-a4e-finds-jobs-for-3-5-per-cent-of-job-seekers> [accessed 02/07/12]

⁸³⁸ *Ibid*

⁸³⁹ FND data from DWP (2011) *Delivery Directory Performance Report*, online <http://statistics.dwp.gov.uk/asd/index.php?page=ddfnd> (accessed 11/04/2011)

⁸⁴⁰ Mulheirn, I. (2012) *The Work Programme Design is Flawed*, Guardian CIF, available at <http://www.guardian.co.uk/commentisfree/2012/jul/02/a4e-job-agencies-payment-performance> [accessed 02/07/12]

contingent on employment outcomes, the greater the burden of financial risk is transferred to the delivery organisations. This makes failing employment programmes appear directly inexpensive, and naturally makes paying for process comparatively unappealing. Thus, without a critical juncture involving a seismic political event, the collapse of the welfare market, or a paradigm shift in ideology, the loss of control at the centre will continue, the quasi-market will expand, and employment-based conditionality will deepen.

Practical Matters

There are a few practical issues to consider before exploring areas of future research. First, it is notable that much of the policy-making community and academic research in this field recognize that active labour market policy is not a panacea. Unfortunately, it is not clear that politicians of all stripes recognize this.

Part of this appears reflected in the attitudes to unemployment and the unemployed in the UK. The regular emphasis on increasing conditionality and benefit sanctions on the unemployed during each round of welfare reform logically assigns the responsibility for labour market status with the individual, with little or no emphasis on the responsibilities of market or state. As chapters 1 and 2 highlight, the purpose of active labour market policy in the short to medium term is to solve frictional unemployment, rather than resolve some of the other persistent causes of unemployment, such as structural change in the local or national economy where communities are rendered redundant by falling demand for goods and factory closures. The impact, at the least in the short term, that can be made by active labour market programmes on demand side is unproven, and remains a theoretical premise. The implication is that policymakers should demonstrate more caution in conflating solutions to frictional unemployment with solutions to demand-deficient unemployment. In doing so, it could encourage a more holistic assessment of unemployment's causes and use a multi-pronged approach.

In recognising that welfare-to-work programmes are not a panacea,⁸⁴¹ programmes should be set with targets that are more realistic, and more sensitive to the local environment. National targets are blunt instruments that make providers in weaker areas look like underperformers, while exaggerating the performance of those in stronger markets. The model in Figure 8.1 could be a good starting place for establishing these targets.

If work-first is here to stay, as path-dependence would suggest, in a deteriorating labour market something more is needed because vacancies will not exist on a level to absorb the unemployed, thus extending the gaps in the participants' CVs, making them less employable in the future. What form this should take is open to question. The Centre for Economic and Social Inclusion have argued for an expansion of apprenticeships, to prepare the young unemployed for the upturn, and a series of targeted subsidies for private sector employers.⁸⁴² This would be a 'work-first plus' model, but in effect it would bring back the Subsidized Employment Option of the New Deal for Young People, and partly return to the education and training models adopted by both New Deal programmes.

What is certain is that the regional inequities in the UK labour market highlighted in this dissertation cannot be resolved by a pure work-first strategy. The inequities are a consequence of the regional imbalance in the British labour market, and it may be necessary for the state in some cases to act as an employer of last resort (as was the case in the NDYP) if it wishes to begin even to temporarily redress this structural weakness.⁸⁴³ Being realistic, the current economic climate of fiscal retrenchment will not make this an option for British policy-makers in Whitehall.

If the quasi-market is here to stay, as its strengthening position would imply, the competitive elements need implementing in full; otherwise, competition is limited to the pursuit of future contracts, and does

⁸⁴¹ Martin, J. And Grubb, G (2001) *What Works and For Whom? A review of OECD countries' experience with active labour market policies*, OECD Working Paper, OECD, Paris, p36

⁸⁴² Bivand, P. et al. (2011) *Youth Unemployment: One Million Reasons to Act*, CESI, London, pp1-6

⁸⁴³ For discussion of the 'employer of last resort', see Sawyer, M. (2003) *Employer of Last Resort: Could it Delivery Full Employment and Price Stability?* Journal of Economic Issues, v37.4 pp881-907, and for a critique, see Mitchell, W. And Wray, L. (2005) *In Defence of Employer of Last Resort: A Response to Sawyer*, Journal of Economic Issues, v39.1, pp235-244

not encourage the driving up of service standards. The failure of the Flexible New Deal to meet targets reflected a multiplicity of factors, but some interesting competitive elements such as choice, market-sharing and Star Ratings introduced in other programmes in the UK and abroad could have pushed performance upwards. Having contractors compete over the price of reintegration is inevitably tempting for the state, particularly under the current fiscal circumstances. However, price competition creates problems and perverse incentives.⁸⁴⁴ For instance, if future governments set outcome prices too low in future, service quality would be put at risk, the creaming and parking of participants rendered more likely, and providers may be dissuaded from bidding for contracts. On the other hand, while providing contractors with ample resources may facilitate innovation and experimentation, it also diminishes the purpose of contracting to identify efficiency and incentivise performance; for instance the financial (dis)incentives that applied to the final year of the FND were clearly not helpful. Similar tensions exist in re-regulating the market. Demanding processes from providers could drive up costs and stifle innovation; loosening regulation could put service quality at risk, and increase the likelihood of parking. Clearly therefore, there is a balance to be struck between incentivising providers and regulating their activities.

Future Research

This thesis has contributed to a comparative understanding of the performance of the Flexible New Deal, and has begun the process of triangulation with survey data, which indicates, as the results in Chapter 7 portrayed, that the Flexible New Deal performed as well, if not slightly worse than other legacy active labour market programmes. Further research is underway by the Policy Studies Institute which will complete the quantitative research by establishing what, if any, net impact was accrued by the Flexible New Deal through the analysis of longitudinal data gleaned from benefit off flow data.

⁸⁴⁴ Finn, D. (2008) *The British Welfare Market: Lessons from contracting out welfare to work programmes in Australia and the Netherlands*, Joseph Rowntree Foundation, London, p40

The limited differences between the recent outcomes of the programmes explored in this thesis serve to question the efficacy of quasi-markets in employment services. Indeed, the review of the literature and the results presented provide little convincing evidence that private provision is more efficient, less still more effective at moving individuals from benefits and into work. Thus, Bredgaard and Larsen's conclusion in 2008 still holds:

There is still little valid and systematic knowledge on the outcomes and effects of shifting to quasi-markets in employment policy. This makes it difficult to conclude whether quasi-markets are indeed 'better and cheaper' than the old public system. There can be no doubt, however, that contracting out results in a fundamentally different employment services system.⁸⁴⁵

That this statement continues to stand is a consequence of the common simultaneity of welfare reforms. Specifically, researchers have found it challenging to isolate the impact of the quasi-market because it has often occurred in parallel to the relaxing of process regulations (or the 'black box' approach). The development of experimental methods akin to those used by Behagel et al. in France are recommended, but the circumstances have to be similar, where the 'black box' approach to regulation has to be applicable to the Public Employment Service in equal measure and appropriate counterfactuals must be chosen.⁸⁴⁶

In short, more experimentation is required in a quasi-market that implements the full range of competitive forces. Without more data, the commitment to expanding the size and remit of a quasi-market in active labour market policies will remain ideological, not evidence based.

⁸⁴⁵ Bredgaard, T. and Larsen F. (2008) *Quasi-Markets in Employment Policy; Do they deliver on their promises?* Social Policy and Society v7.3 p350

⁸⁴⁶ See Behagel, L. et al. (2011) Public and Private provision of counselling to Job-Seekers: Evidence from a large controlled experiment, Paris School of Economics [online] http://www.parisschoolofeconomics.com/behagel-luc/PrivatePublicCounseling_%2020110331.pdf [accessed 10/11/11] pp7-8

Annex A Delivery Directorate Data

Contract Package Area	Starts (Non-Adj)	3 months	6 Months	% 3M
Edinburgh, Lothian and Borders, Lanarkshire and East Dunbartonshire, Avshire, Dumfries, Galloway and Inverclyde	15,400	2,860	1,690	18.6
Edinburgh, Lothian and Borders, Lanarkshire and East Dunbartonshire, North and East Yorkshire, Humber and Tees Valley	14,640	2,650	1,620	18.1
North and East Yorkshire, Humber and Tees Valley	20,210	3,340	2,170	16.5
North and East Yorkshire, Humber and Tees Valley	18,210	2,790	1,870	15.3
Greater Manchester Central and Greater Manchester East and West	38,050	6,860	4,440	18.0
South Yorkshire and Derbyshire	16,840	2,750	1,820	16.3
South Yorkshire and Derbyshire	18,290	3,290	2,280	18.0
North and Mid Wales and South East Wales	19,010	3,350	2,080	17.6
Coventry and Warwickshire, The Marches and Staffordshire	16,040	3,250	2,090	20.3
Coventry and Warwickshire, The Marches and Staffordshire	16,650	3,700	2,470	22.2
Leicestershire, Northamptonshire and Nottinghamshire	16,990	3,180	2,030	18.7
Leicestershire, Northamptonshire and Nottinghamshire	16,800	3,110	2,180	18.5
Cambridgeshire and Suffolk, Norfolk and Lincolnshire & Rutland	14,860	2,970	1,960	20.0
Cambridgeshire and Suffolk, Norfolk and Lincolnshire & Rutland	14,810	3,230	2,150	21.8
Birmingham and Solihull	15,120	2,790	1,900	18.5
Birmingham and Solihull	16,840	2,820	1,900	16.7
Black Country	13,120	1,730	1,150	13.3
Black Country	14,720	2,460	1,740	16.7
South Wales Valleys and South West Wales	16,800	3,080	2,080	18.3
Central London, Lambeth, Southwark and Wandsworth	12,790	2,000	1,350	15.6
Central London, Lambeth, Southwark and Wandsworth	14,210	2,580	1,820	18.2
Surrey, Sussex and Kent	18,000	4,310	2,910	23.9
Surrey, Sussex and Kent	18,900	4,130	2,760	21.9
Devon and Cornwall	10,430	2,020	1,300	19.4
Total	407,690	75,250	49,740	18.5
Single Contract Average	21073	3828	2475	18.3
Dual Contract Average	16172	2998	1993	18.5

Annex A. Adjusted Delivery Directorate Data.

	Starts (Non-Adj) for 3 Months	Starts (Adj-3 Months) for 3 Months	6MUS 3 months	6 Months %	3M %
ire and East Dunbartonshire,	15,400	15,280	2,860	1,690	18.6
de					
ire and East Dunbartonshire,	14,640	14,580	2,650	1,620	18.1
de					
ees Valley	20,210	20,010	3,340	2,170	16.5
ees Valley	18,210	18,050	2,790	1,870	15.3
Manchester East and West	38,050	37,900	6,860	4,440	18.0
	16,840	16,630	2,750	1,820	16.3
	18,290	18,160	3,290	2,280	18.0
les	19,010	18,930	3,350	2,080	17.6
and Staffordshire	16,040	15,970	3,250	2,090	20.3
and Staffordshire	16,650	16,570	3,700	2,470	22.2
inghamshire	16,990	16,820	3,180	2,030	18.7
inghamshire	16,800	16,750	3,110	2,180	18.5
ncolnshire & Rutland	14,860	14,780	2,970	1,960	20.0
ncolnshire & Rutland	14,810	14,740	3,230	2,150	21.8
	15,120	15,070	2,790	1,900	18.5
	16,840	16,820	2,820	1,900	16.7
	13,120	13,100	1,730	1,150	13.2
	14,720	14,660	2,460	1,740	16.7
ales	16,800	16,690	3,080	2,080	18.3
Wardsworth	12,790	12,700	2,000	1,350	15.6
Wardsworth	14,210	14,120	2,590	1,820	18.2
	18,000	17,850	4,310	2,910	23.9
	18,900	18,800	4,130	2,760	21.9
	10,430	10,370	2,020	1,300	19.4
	407,690	405,040	75,250	49,740	18.5
	Starts (Non-Adj) for 3 Months	Starts (Adj-3 Months) for 3 Months	6MUS 3 months	6 Months %	
	21073	20973	3828	2475	18.3
	16172	16073	2998	1993	18.5

Annex B Participant and Staff Interviews



Participant Questionnaire

Participant Ref _____

Employment Status

- Age _____ years Gender (**Male-Female**)
- Are you currently on the Jobseekers Allowance? (YES/NO)
- How long would you estimate your total time on the JSA has been? ____ Years ____ Months

4. How many times have you been on the Jobseeker's Allowance?
5. Are you currently in paid work / have you recently been in employment?
 - i) What is your job title?
 - ii) How did you find the job?
 - iii) How many hours a week do you work?
 - iv) How do you feel about your current job?

Jobcentre Plus

INTRO *This section asks you about how you remember your time with the Jobcentre Plus organisation.*

6. Do you recall your first visit to the Jobcentre Plus? (YES/NO)
 - i) What were you asked to do at your first meeting?
7. Do you remember discussing the Jobseeker's Agreement?
8. Do you remember what was agreed in the Jobseeker's Agreement? **Probe: e.g.** types of work you were looking for, or what wages you were looking for?
9. Do you think they considered your specific circumstances when discussing the jobseekers agreement?
10. Was your jobseeker's agreement changed at a later date?
 - i) What about it changed?
 - ii) How did you feel about these changes?
11. What type of assistance were you offered at the Jobcentre? **Probe:** help looking for work, reworking your CV, discussion of skills, etc.
12. How many contact hours did you have with them per week?
13. Would you have liked more time with them, or less? Why?
14. Did you discuss your career aspirations with your jobcentre advisor?
 - i) Were these considered when they were helping you find work?
15. Did you think you needed some kind of training to do the job you wanted?
 - i) Was this training offered to you?
 - ii) If not what type of training was offered?
16. What types of jobs were the Jobcentre encouraging you to look at? Please provide a list of examples.
17. Did you think these jobs were appropriate for you?
 - i) If not, why?
18. Did you take any of the jobs?
 - i) what was the job?

- ii) how did you feel about it?
 - iii) how long did you keep the job?
19. Did you ever have your benefits sanctioned by the Jobcentre Plus?
- i) If so were you given warning that they would do so?
 - ii) Did you think that their sanctioning was fair? Why?

20. Describe your relationship with your main Jobcentre Advisor?

(PROBE) Did you get on with them?

How did you feel you were treated by them?

Flexible New Deal

INTRO *This section is about your direct experience of the Flexible New Deal programme. The line of questioning follows a similar pattern as the previous section.*

21. When did you join Flexible New Deal programme?
22. How long have you been/ were you on the Flexible New Deal?
23. Prior to joining the FND Did you feel you had sufficient time with the Jobcentre? Was additional time available to you?
24. Were you told you would be sent from the Jobcentre to a specialised company after a year?
- i) If so, what information did you receive about it?
25. How did you find moving from the Jobcentre Plus to the provider?
26. How might it be improved?
27. Could you explain to me your experience of the FND programme?
28. Do you remember discussing and agreeing a Flexible New Deal Action Plan?
- i) If so, what was in it/ how did it differ from the Jobseekers Agreement?
29. Did you discuss your career aspirations with your new advisor?
30. Were these considered when they were helping you find work?
31. Did you think you needed some kind of training to do the job you wanted?
32. Was this training offered to you?
- i) If not what type of training was offered?

33. What types of jobs were the specialist provider encouraging you to look at? Please provide a list of examples.
34. Did you think these jobs were appropriate for you?
i) If not, why?
35. Did you take any of the jobs?
i) what was the job?
ii) how did you feel about it?
iii) how long did you keep the job?
36. Did the provider ever attempt to have your benefits sanctioned?
i) If so were you given warning that they would do so?
ii) Did you think that their sanctioning was fair? Why?
37. Describe your relationship with your specialist provider Advisor?
38. What was different about your advisor at the specialist provider and the jobcentre plus?
39. Were you required to attend any mandatory training schemes or work placement schemes?
i) What were you asked to do?
iii) How useful did you find these tasks/training/placements ?
iii) If not, what did they require you to do?
- 25 Did you feel that they tailored their overall service to suit you?
- 26 What differences did you notice about the provider you were sent to and the Jobcentre Plus?
- 27 Did you think the provider was more helpful, less, or about the same as the Jobcentre plus?
- 28 If there were a number of providers in your area, would you like to be able to pick which one you used?

Rights and Responsibilities

This section seeks to ask you how you feel about the social security system more generally, what you expect from it, and what it would provide for you in an ideal world.

- 29 Do you feel you have a responsibility to work?
i) If so, why?
- 30 Do you think that if there are not suitable jobs available, the government should provide/create them?

- 31 Do you think you have a right to receive benefits?
- i) If so, why?
- 32 Do you think your benefits are enough, too little, or too much for your needs?
- 33 Did/do you find the level of your benefits a motivating or demotivating factor in finding work?
- 34 What kind of help do you think you should be entitled to when you become unemployed?
- 35 Do you feel that during your whole period of receiving jobseekers allowance you were offered you sufficient attention and support?
- i) If so, which parts/areas/periods did you find particularly helpful?
- ii) If not, what is missing? What should be included in the programmes?
- 36 Do you think there is a fair balance between your rights and responsibilities for jobseekers?
- 37 Do you think the conditions imposed on you throughout the scheme were reasonable?

Unemployment (general)

INTRO *This section is the last, and it is about your job prospects more generally.*

- 38 What do you want to do, career wise?
- 39 What do you think you need to do to achieve this?
- 40 Why do you think you have struggled to find work?
- i) Do you think the services you have received or programmes you participated in helped to solve some/any of these?
- 41 What role should the government play in helping to solve this?
- 42 **Finally is there anything that you would like to add?**

Interview Terminates

Section 1: General

- 1) How long have you been working in the welfare-to-work sector?
- 2) Have you worked for a number of different welfare to work organisations?

Section 2: First Impressions

- 3) What were your initial impressions of the Flexible New Deal when it was announced?
- 4) From these initial thoughts, how different was it from previous interventions such as Employment Zones, of the New Deal deals? And was it likely to be better (in terms of unemployment reductions, employment increases) Yes/No.

Section 3: Targets

- 5) Were you familiar with the core objectives of the FND programme?
- 6) Were you familiar with the specific targets to short and sustained job outcomes? (i.e. 55% and 50% respectively)
- 7) Did you think that these were achievable?
 - If so/not why/not?
- 8) Were adjusted targets, presumably lower, agreed between contractors and DWP?

Section 4: Implementation

- 9) Did the programme get underway smoothly? Teething problems?
- 10) Why do contracted programmes take time to reach reasonable levels of performance?
- 11) Did the size of your caseload meet, fall short of, or exceed your expectations?
- 12) How were vacancies sourced? Formal, informal channels. How important to performance were formally advertised vacancies?
- 13) Did you feel that you were competing against the other welfare to work provider in the area, or was a cooperative relationship between the two of you?

- 14) What was in the 'black box' from your experience, i.e. common tools used?
- 15) What emerged as the main advantages of the Flexible New Deal system over previous government welfare to work initiatives?
- 16) What did you consider to be its main weaknesses? Was it missing anything?
- 17) The Flexible New Deal was cancelled with the change of government. Were you under any impression that remaining year of operation was affected by this?

Section 4: Unemployment

- 18) What do you regard as the principle causes of unemployment?
- 19) What were the main characteristics and labour market barriers of the majority of your caseload?
- 20) Did you think that the Flexible New Deal was sufficiently designed to cure these?
- 21) Do you think that the state/public sector should operate as an employer of last resort?

Section 5: Final Thoughts

- 22) What do you consider to be the differences between FND and the Work Programme?
- 23) Are these of substance?
- 24) Is there anything in the welfare to work sector that requires particular attention? Any marked failures, or indeed successful practices that policy makers appear to be ignoring? What do active measures need in their fundamentals to be effective?
- 25) Is there anything you would like to add?

Interview Terminates.

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