

# **Getting Jobs and Moving On: lessons from Britain's 'Employment First' Welfare State**

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Paper presented to the Transitions and Risk: New Directions in Social Policy Conference,  
Centre for Public Policy, University of Melbourne, 23-25 February, 2005

## Introduction

Throughout the OECD Welfare States are under intense pressure. Radical economic and social changes have transformed labour markets, increased unemployment and economic insecurity, and generated social exclusion and welfare dependency. At the start of the 21<sup>st</sup> century those who are workless or on low incomes often must negotiate multiple and fragmented transitions in a landscape beset by continuing change in employment, demography and social structures. The welfare settlements created in the era of Keynesian full employment have been undermined and Governments of OECD countries are engaged in more or less radical strategies to reform their social security and employment systems.

The ‘Transitional Labour Market’ (TLM) approach has emerged as one way of analysing these changes and of assessing which types of institutional arrangements offer more effective strategies for managing risks and easing transitions between ‘the labour market and other social systems’ with the aim of reducing social exclusion and recreating something like ‘full employment’ (Schmid, 1998; Schmid and Schomann, 2003). The findings from the EU funded TLM research programme, carried out between 1996 and 1999, reflect in part the legacy from the recession of the early 1990s, and were aimed at informing the early phases of the European Employment Strategy (EES). Both the EES and the TLM approach acknowledge that improved economic performance needed to be augmented by reformed institutional arrangements if long term and youth unemployment were to be reduced and economic activity rates increased. Schmid placed particular emphasis on the role of active labour market programmes and benefit systems that needed radical reform with the “modernisation” of the “old-fashioned public employment service” (PES) being “crucial” (1998, p. 9).

Since the mid-1990s the pace of such reform has accelerated in many countries, partly as a result of the benchmarking and ‘policy transfer’ stimulated by the EES, the OECD ‘Jobs Strategy’, and by increasingly robust research findings into ‘what works’. Throughout the OECD member states have been pursuing diverse ‘welfare to work’ strategies to ‘reconfigure’ the ‘interface’ between those dependent on social security systems and more flexible labour markets. The emphasis has been on ‘repackaging’ tax and benefit entitlements, labour market programmes and employment regulations, to ‘activate’ benefit systems, improve work incentives and ‘make work pay’. Policy attention has also focused on implementation and reform of the employment assistance and social security systems through which reform strategies have been delivered.

This paper aims to explore lessons from the evolving ‘welfare to work’ agenda pursued by the British New Labour Government which, since 1997, has explicitly grappled with many of the key challenges identified in the TLM research programme. The British case merits attention because the strategy has explicitly drawn on both neo-liberal ‘Anglo’ and social democratic European models and because of its relative success. In 2004 the UK was experiencing the highest employment rate amongst the ‘G7’ economies and European countries that had previously viewed Britain as the example of what not to do

were starting to emulate some of its 'welfare to work' reforms (as in the case of the 'Hartz' reforms in Germany).

Much credit for the success of New Labour's strategy has been attributed to relative economic stability and adept macro economic management but Prime Minister Blair has emphasised too the contribution made by welfare reform. This paper describes the 'welfare to work' strategy that has been pursued in Britain and assesses evidence about its impacts and the challenges it faces as it enters what is often described as 'second wave' welfare reform. It considers the new combinations of employment assistance, labour market regulation, tax and benefit reforms, and learning entitlements, which have redefined the rights and responsibilities of those making transitions between worklessness, caring and employment. It discusses the strengths and weaknesses of this new British settlement and explores the contemporary challenge to build on 'employment first' and promote job retention, skill progression and advancement in the labour market.

### **The British Benefit and Employment Assistance System**

The roots of the post Second World War British Welfare State are to be found in the 'Beveridge Report' on 'Social Insurance and Allied Services'. This proposed a new social security system made up of flat-rate contributions in return for flat-rate benefits, covering everything from unemployment insurance to old age pensions. Beveridge constructed his proposals on three core assumptions. These were the creation of a universal and free National Health Service; the introduction of family allowances (now Child Benefit) to ensure, amongst other things, that the cost of children would not discourage people from taking up low paid jobs; and the assumption that the Government would maintain full employment through Keynesian demand management (Timmins, 2001).

In contrast with the federal systems of other European and 'Anglo' countries, with their complex division of policy responsibilities and fragmented social insurance and 'safety net' benefit delivery systems, the British welfare system was organised through hierarchical bureaucracies controlled by central Government Departments. At the 'front line' unemployment related benefits were delivered through a national network of Unemployment Benefit Offices (UBOs) that applied an 'availability for work' test. Individuals were expected to 'sign on' regularly to demonstrate job search and be put in contact with job vacancies. A separate social security system, with its own network of local offices, delivered benefits to all other claimants. This system of benefits was to become ever more complex as the inadequacies of flat-rate insurance benefits were exposed and as successive Governments introduced new benefit entitlements and increased 'safety net' supplementary benefit provisions to combat poverty, especially for the elderly and families with children.

Notwithstanding financial pressures, and the 'rediscovery of poverty' in the 1960s, the system was sustained by the success of the policy of full employment. Between 1945 and 1970 the British unemployment rate averaged 1.8 per cent and the focus of reform was on industrial training and 'comprehensive manpower policy' (MSC, 1974). In 1974 a

tripartite Manpower Services Commission, modelled on the German system, was introduced, and it created an additional network of 'high street' Jobcentres that provided an employment assistance system for all citizens and a free vacancy filling service for employers. This new network of offices was introduced just as the post-war boom was ending. Following the oil-price shocks of the 1970s unemployment reached a million in 1972 and while it fell back rapidly it was to become clear that at each turn of the economic cycle unemployment was 'ratcheting' upwards and not falling to the levels recorded in the previous cycle.

The setting up of Jobcentres apart from UBOs diluted the direct administrative link between job search activity and benefit receipt. The management of the system had become "passive with no responsibilities to counterbalance the right to benefit" (Wells, 2001, p. 248). This set-up was linked to a marked increase in unemployment durations. In the late 1960s the proportion of those unemployed for over a year averaged 17%, by the mid 1980s it increased to 40%. The 'risk' of unemployment had increased only slightly but it had become "a much more serious event because it takes so much longer, on average, to get back into work" (Nickell, 1999, p. 22). Data collected after the introduction of the regular Labour Force Survey revealed that a significant number of those claiming unemployment benefits were 'discouraged' and had effectively stopped looking for work.

### **The 'Thatcher Era': Workfare and New Labour's Inheritance**

In the 1980s successive Conservative Governments radically redesigned the employment assistance and benefit system. These Governments deregulated much of the British labour market, reduced trade union power, privatised nationalised industries, and enabled the contracting out of services across much of the public sector. Simultaneously, manufacturing employment declined, the service sector grew, female employment increased and the labour market was characterised by more 'flexible' part time and temporary employment contracts. Wage and social inequality increased significantly.

In this period the British approach to welfare reform and employment programmes was influenced by two international developments. There was, firstly, an emerging consensus on the importance of modernising 'passive' benefit systems so that they promoted labour market attachment and activity (OECD, 1994; EC, 1996). British politicians and policy makers also were much influenced by the US debate on welfare dependency and 'workfare' (Dolowitz, 1998). There was particular interest in the findings from experimental evaluations that suggested that welfare caseloads were more effectively reduced through a 'work first' approach. In these programmes welfare recipients were subject to strict job search requirements and immediately attached to available job vacancies (Peck, 2004).

During the 1980s Conservative reforms reduced the value and scope of insurance related benefits and simplified the social assistance (Income Support) benefit system to contain costs and increase financial incentives to work. The role of the PES, its aims and objectives and the nature of its activities changed significantly. The first trend was the

emphasis on maximising and monitoring the job seeking behaviour of the unemployed. This was underpinned by what became known as the 'stricter benefit regime' that culminated in 1996 with the introduction of a unified 'Jobseekers Allowance' for all the unemployed. JSA formalised the responsibility of the unemployed to actively look for work, to report regularly on their job search activities, and to participate in programmes. The intention was that regular administrative interventions would counteract disincentives to find work, especially 'duration dependency', i.e., the "natural tendency for morale and job search to flag the longer a person is unemployed" (Wells, 2001, p. 247).

The second trend impacting on the ES was the shift towards a 'work first' system marked by a move towards low cost employment assistance interventions aimed at immediate job search and job entry. The third trend was a performance targets regime that was increasingly geared to immediate job entry, benefits policing, the reduction of fraud and the imposition of sanctions. Finally, the ES was under constant pressure to reduce its operating costs and obtain better value for money through 'contracting out' and benchmarking with the private sector.

By 1996 the British Employment Service (ES) was promoting itself as a high performance and high achievement agency, with a reputation for implementing new national initiatives to short timescales. It was able to demonstrate that it had been administratively effective and had made a contribution to reducing unemployment, especially long term unemployment, by engineering a close link between job-broking and benefit administration. Evidence showed an immediate and longer-term impact of each of the new job search requirements implemented by the ES. The introduction of six monthly Restart interviews in 1986 reduced the unemployment count by 8.5% and the introduction of JSA was estimated to have reduced the claimant count by between 100,000 and 200,000, partly due to tighter eligibility rules but also because it had flushed out "significant numbers of employed and inactive claimants from the count" (Sweeney and McMahon, 1998: 201). Rigorous evaluation evidence, using matched control groups, revealed that, over a longer time frame, the new benefit regime stimulated active job search and was more effective at linking some unemployed people with job opportunities (Rayner et al, 2000; Wells, 2001).

There has, however, been controversy concerning some of the regime's consequences. Sanctions increased and many of the older long-term unemployed were transferred to disability benefits or encouraged to take early retirement.

New Labour articulated such criticisms as it developed a different approach to unemployment and social exclusion. The then Opposition leadership welcomed the fall in unemployment but stressed that it masked the emergence of deep-seated problems. Inter-generational unemployment, in particular, continued to blight many disadvantaged areas and one in five UK households had no one of working age in a job. Economic activity rates were generally static; indeed they had fallen for older men. By 1996 nearly one million lone parents, mainly women, were dependent on state benefits and the number of men receiving incapacity or long term sickness benefits had doubled in a decade to over

1.7 million (Gregg and Wadsworth, 1999). Unlike the unemployed, most individuals of working age receiving other benefits had little contact with services and were likely to remain long-term dependent.

## **New Labour**

In the 1980s the Labour Party opposed what it characterised as the drift towards 'workfare' but in the political transformation into 'New Labour' dropped its previous opposition to compulsory employment programmes. This change reflected a change in New Labour's macro economic assumptions and in its definition of full employment. New Labour had turned to the work of economists who challenged the view that the 'NAIRU' (the non-accelerating inflation rate of unemployment) had to be as high as it was in the UK and in Europe. The new approach suggested that, in addition to greater labour market flexibility, 'supply-side' measures such as investment in human capital and labour market programmes could significantly lower unemployment, reduce public expenditure, and help create a more effective labour market (Layard et al, 1991). Particular attention was drawn to the experience of Sweden's 'active labour market policy' (and other measures) that rendered the country able to hold its unemployment rate at round 2 per cent up to the end of the 1980s. The key principle was to prevent long term unemployment by offering individuals intensive counselling and help in the first year of unemployment and, if they then were still without work, providing them with an income only in return for participation in a work or training programme.

By 1995 Gordon Brown, the then Shadow Chancellor of the Exchequer, argued that Government should not aim to create or preserve jobs directly through macro economic management. Its role was to promote macroeconomic stability, economic growth and provide 'economic and employment opportunities for all'. The first priority was to extend opportunities for the long term unemployed and, in 1995, he committed a future Government to the introduction of a 'New Deal for Britain's Under-25s' (Labour Party, 1995).

New Labour also argued for much wider reform of the welfare system and has since followed much of the approach outlined by the 'Commission on Social Justice' (CSJ, 1994). This fundamental review of the social democratic approach proposed a new vision of an 'intelligent welfare state' that would "develop from being a safety net to being a springboard for economic opportunity". At the centre of this new vision for the welfare state was the judgement that for most working age people "the availability of paid work for a fair wage seemed the most secure and sustainable way out of poverty" (Borrie, *Progress*, September 2004).

In 1997, in his first major domestic speech after New Labour's election victory, Prime Minister Blair stated that the "greatest challenge" for his "welfare to work" Government was "to refashion our institutions to bring the new workless class back into society and into useful work" (PM, 1997).

## The main priorities: 1997 to 2004

In 1997 'New Labour' committed itself, as one of its five central manifesto 'pledges', to the introduction of a New Deal for young unemployed people and within weeks of taking office the Government gave the ES the lead in delivering its New Deal for Young People (NDYP). This programme was financed out of a £5 billion 'windfall tax' levied on the excess profits of privatised utilities (the proceeds of which underpinned many elements of the welfare to work strategy until 2004). The NDYP was followed by the introduction of a succession of New Deal programmes for the long-term unemployed, lone parents, disabled people, those over 50 and the partners of unemployed people.<sup>1</sup> The key innovation was the introduction of front line New Deal Personal Advisers (NDPAs) who 'personalised' employment assistance and worked with claimants to identify and tackle employment barriers.

The New Deals were integral to New Labour's 'rights and responsibilities' agenda. The programmes for unemployed people consolidated the 'stricter' JSA regime introduced by the Conservatives, but 'guaranteed' intensive employment assistance after a particular duration of unemployment. At that point all individual unemployed people must get a job, participate in an employment programme, or face possible benefit sanctions. In the New Deals for other benefit claimants participation is voluntary.

With unemployment falling, and evidence that the new programmes were delivering job outcomes, a more ambitious strategy emerged. In 1998 the Government outlined its "new contract for welfare" to rebuild the welfare system "around the principle of work for those who can and security for those who cannot" (DSS, 1998, p. iii). The ambition was to "change the whole culture of the benefits system" through introducing a "single gateway to work" where personal advisers (PAs) would focus on "helping people to become independent, rather than locking them into dependency" (ibid, p. 9).

The Government's strategy involved also policies to 'make work pay', including reductions in direct taxes on the low paid and in 1999 the introduction of a National Minimum Wage (NMW) and the Working Families Tax Credit. There was too gradual introduction of a complex package of 'transition' initiatives designed to minimise the 'risk' of leaving benefit and meet the immediate costs involved in starting work.

In a Green Paper, released just before the 2001 election victory, the Prime Minister directly linked welfare reform with restoring full employment. In a foreword he spoke of an "historic opportunity" to build on "economic stability and reform of the welfare state" to secure "employment opportunities for all". This was now New Labour's 'modern'

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<sup>1</sup> Despite the common framework there are significant differences in the level of resources allocated to each programme. Budget estimates show that the better funded New Deals are *mandatory* and are targeted at the registered (usually male) unemployed (HMT, 2002, Table 4.1). Fewer direct resources have been allocated to the *voluntary* employment assistance programmes aimed at lone parents and those receiving disability benefits, albeit the strategies for both these groups draw substantially on other forms of public expenditure, especially in the shape of tax credits and child care support for lone parents.

definition of full employment (DfEE, 2001, p.vi). In 1989 New Labour had also committed to ending child poverty 'within a generation'.

The Government subsequently set itself ambitious targets to increase employment rates (especially for lone parents and in the most disadvantaged areas), reduce child poverty and tackle social exclusion. Key policy developments included the extension of Working Tax Credit to more of the low paid, the separation of financial support for children through the Child Tax Credit (now paid to the carer irrespective of employment status), and the introduction of mandatory 'work focused interviews' (WFIs) for all working age benefit claimants. There was major institutional change. A Department of Work and Pensions (DWP) was created and 'Jobcentre Plus' replaced the ES and Benefits Agency (which until then had continued to deliver benefits to working age people through a separate network of offices).

Jobcentre Plus became operational in April 2002. The organisation inherited a network of 1,500 offices and 90,000 ES and BA staff. The aim is that, by 2006, the new agency will deliver employment assistance and benefit payments through a network of integrated offices where benefit claimants will be assessed and assisted by 'financial assessors' and PAs. By 2008 it is anticipated that Jobcentre Plus will comprise 1000 front line offices supported by 25 'contact call centres'. Benefits will be handled in 100 'benefit centres of excellence' that will process 1.5 million of the more "complex benefit claims" (Fletcher, 2004). Staff numbers are planned to fall to 70,000 by 2006, a reduction of over 20%. These reductions are to be secured by making extensive use of computers, call centres, telephones and on line technologies.

### **What has worked?**

New Labour has made significant progress in reducing unemployment and child poverty through its combination of active employment assistance and redistributive tax credits within the context of an adept overall macro economic strategy.

Between May 1997 and June 2004 the number of people in work increased from just over 27 million to just over 28.3 million and the number of unemployed people, calculated by the standardised International Labour Office (ILO) definition, fell from over 8 per cent to 4.7 per cent. The number of unemployed people claiming JSA fell from 1.6 million to just under a million. By 2002 long-term *continuous claimant* unemployment virtually had disappeared for those aged under 25, and by 2004 the number of long term unemployed JSA claimants aged over 25 had fallen from a peak of over a million in the mid 1980s to about 100,000. The overall working age employment rate had increased to 74.6 per cent and the employment rate for lone parents had increased from 47% to 53.4% and for people with disabilities or health problems from 43.5% to 49% (DWP, 2004).

These general developments do not distinguish the particular impacts made by the welfare to work strategy. The most comprehensive evaluation of 'net' employment effects focused on NDYP. An econometric analysis was independently reviewed by the National Audit Office which concluded that on the evidence it was "reasonable" to

conclude that in its first two years NDYP was cost effective and directly reduced levels of youth unemployment by between 25,000 and 45,000 and increased youth employment by between 8,000 and 20,000 (NAO, 2002, Part 3). These findings were broadly confirmed by a subsequent evaluation from the Policy Studies Institute (White and Riley, 2002). More qualitative survey results reported high levels of job satisfaction amongst those in work 18 months after starting the programme and reported some evidence of wage progression amongst those in employment (Bonjour et al, 2001). Subsequent evaluations of the New Deals for the over 25s and for lone parents suggest that these programmes too had modest net additional impacts on employment outcomes (Hasluck, 2002; Evans, 2003).

The strategy also increased the incomes of many of the lowest paid workers. Over 1.3 million low paid workers benefited from the initial introduction of the NMW, a pattern sustained by subsequent increases in the basic rate. The prime beneficiaries have been women, part time workers, young people, people with disabilities and some minority ethnic groups (LPC, 2003). Given the evidence of few negative employment impacts the Government has started to increase the number of people benefiting from the NMW with increases of 7% in 2003 and nearly 8% in 2004. The latest increase is predicted to be of benefit to 1.6 million low paid workers; with others likely to benefit from the 'knock on' effect on those employers who set 'mezzanine' pay rates for low paid workers just above the minimum.

By 2004 2.3 million families were also benefiting from the Working Tax Credit (HMT, 2004). A study of the combined impact of the NDLP and tax credits concluded that together they may have directly increased the lone parent employment rate by about 80,000 between 1998 and 2002 (Gregg and Harkness, 2003). The Government suggests that by 2004 the combination of increased financial support for children, the extension of child care facilities, 'making work pay', and the increase in lone parent and general employment rates had helped lift 600,000 children out of poverty (DWP, 2005, p. 6).

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

There have been less favourable assessments of the employment impact of the New Deals. Some suggest that the reduction in unemployment simply reflects the strength of the economy and others point out that many of those who participate do not get jobs and a significant minority of those who get jobs do not retain them. The problems of placement and retention are most acute for people from minority ethnic groups, for those with the greatest individual barriers, and for those living in areas of highest unemployment. One analysis of the programme for young people showed it was most successful in rural areas, especially in the South of England, where over half of participants typically entered jobs. Job entry rates in the older industrial cities and in inner city London have been as low as 30 per cent and retention rates are lower often because of the relatively poor quality of jobs available. This poor performance has been attributed to the interplay between local labour market conditions, the characteristics of participants and the capacity of local delivery systems (Sunley and Martin, 2003).

Over the life of the New Deals these trends have intensified as NDPAs have struggled to place clients with more complex barriers into employment. Currently only 45 per cent of those leaving NDYP move into sustained employment with about a third returning directly to unemployment and about one in five placed in a job returning to claim JSA within 13 weeks. Some of these young people are now entering the programme for a second or third time. This pattern of 'recycling' is likely to emerge in the other New Deals.

There has also been criticism of the 'make work pay' strategy, with employers complaining about the increased costs of regulation and Opposition Parties highlighting the bureaucratic complexity faced by those 'trapped' in the 'tax credit economy'. These criticisms have been exacerbated by some administrative failures in the payment and calculation of the credits. Paradoxically the separation of Child Tax Credit from Working Tax Credit has 'blunted work incentives', and while the highest effective marginal tax rates have been reduced the number of those in work "facing an effective marginal tax rate of over 50%" has increased by almost 900,000 (Brewer and Shephard, 2004, p. viii). Another problem has been the significant disincentive to work now faced by the partners of those in households where someone is already claiming a tax credit

Perhaps the greatest weakness in the overall 'welfare to work' strategy has, however, been the marginal impact achieved so far in reducing the numbers of working age people receiving sickness and disability benefits. The upward trend in Incapacity Benefit claimants inherited by New Labour has continued, albeit at a slower rate following the implementation of an 'all work test' developed under the Conservatives. Nevertheless the number of people of working age claiming incapacity related benefits continued to increase, to stand at some 2.7 million people, largely because those who do so are on average likely to receive the benefit for an average of twelve years. There has been intense political debate about 'sick note' Britain with the media and Opposition Parties arguing that the increase represents 'hidden unemployment' and is a testament to the failure of the New Deals (see, for example, Willets et al, 2003). There has also been much policy debate about these trends. One recent analysis concluded that both 'push' and 'pull' factors have been at work. Push factors include the collapse in demand for unskilled labour, the role of the stricter benefit regime for the unemployed and the relative laxness of medical professionals who are the 'gatekeepers' and issue required medical certificates. The pull factors include the higher level of invalidity relative to unemployment benefits both financially and in terms of weaker conditionality (Clasen et al, 2004, p. 22).

### **The next phase: New Labour's welfare reform strategy in a third term**

In many respects the 'welfare to work' strategy of a third Labour administration is embedded. A combination of policy statements on public sector reform, the continuing 'roll out' of Jobcentre Plus, and the publication of DWP's 'five year strategy', have together shaped a 'second wave' of welfare reform to be consolidated in further welfare reform legislation if Labour is re-elected. The Prime Minister has indicated that the Government now has an 'aspiration' to secure an overall employment rate of 80 per cent and, in the DWP plan this is defined as "a modern vision of full employment that will

eliminate pockets of marginalisation and extend real employment opportunity for all” (DWP, 2005, p. 6).

The key aims of the strategy involve reducing the numbers receiving sickness and disability benefits; improving the employment rate of lone parents (to 70% by 2010); reducing black and minority ethnic unemployment rates; and improving employment rates in areas that have stubborn concentrations of ‘worklessness’. There are other significant policies amongst which is a new entitlement for low skilled adults to free ‘level 2’ training and the introduction of a comprehensive youth allowance for 16 to 19 year olds. These proposals, and the new developments described below, reflect a growing ambition to address the limits to ‘employment first’ programmes with labour market trends indicating a continuing decline in the demand for unskilled labour.

Jobcentre Plus heads the strategy and the creation of a new front line system of integrated employment assistance and benefit offices will be linked with significant change that will ‘decentralise’ and ‘localise’ New Deal employment programmes. During its first phase of reform the Government prioritised a concerted drive from the centre to tackle high unemployment and give a work focus to the benefit system. The next phase requires a “centralised intervention system combined with a more decentralised approach” (DWP, 2004b). District Managers and PAs will have greater flexibility to tailor provision to meet local needs. Jobcentre Plus Districts will test the new system in 2005 prior to its extension. This process will be ‘benchmarked’ by further experimentation with private sector provision, as in Employment Zones<sup>2</sup>, to provide a further ‘spur’ to improving public sector performance.

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

The ‘Pathways’ approach will expand dramatically after the reform of IB which is to be replaced by a new ‘Rehabilitation and Support Allowance’ (RSA) for those with ‘more manageable conditions’ and a ‘Disability and Sickness Allowance’ (DSA) for those with ‘severe conditions’ (DWP, 2005). Initially claimants will be placed on a ‘holding

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<sup>2</sup> Whilst the Government gave the public sector responsibility for delivering the New Deals, it expanded the role of the private sector. The most significant variation on the New Deal model is in 15 areas where the Government introduced Employment Zones (EZs). Originally aimed at long term unemployed people over 25, these have been extended to the younger unemployed and lone parents. The EZs represent an alternative private sector led approach to the more prescriptive New Deal model.<sup>2</sup> In about one in ten EZ districts private sector contractors deliver the New Deals for the unemployed. Together these ‘private public partnerships’ represent a significant injection of competition into the employment assistance system.

benefit', paid at JSA rates, and, after medical assessment, those eligible for RSA will be paid extra only if they participate in WFIs and work related activities. DSA claimants will receive more than current IB rates and, although required to attend a WFI, will participate in other work related activities on a voluntary basis.

There remains a commitment to develop the evidence base on 'what works' in employment programmes. A new generation of pilot programmes have commenced and will test initiatives to help those with the greatest employment barriers; reduce 'recycling' through programmes; and improve employment retention and advancement (ERA). In doing so the Government has looked to other countries, in particular the USA, for models of what works, and is adapting and implementing initiatives. Two of the most significant of these pilot programmes draw directly on US experience. 'Step Up', for example, is a temporary employment programme that recruits young people who would otherwise recycle through the New Deals and is based in part on the 'transitional' and 'community' jobs programmes that have emerged in states like Washington and Wisconsin (Finn and Simmonds, 2003). There is also a major randomised 'ERA' experiment launched in 2004 that aims to implement and test what has been learned from the many US initiatives that have been targeted at improving job retention amongst welfare recipients who take up jobs.

Efforts are also being made to create better connections between Jobcentre Plus and the workforce development system that is delivered in England through 'Learning and Skills Councils'. As part of a 'New Deal for Skills' a series of reforms aim to create greater articulation between the national and local work of Jobcentre Plus and the LSCs including the co-location of guidance and skills counsellors alongside PAs in Jobcentres.

## **Conclusion**

The British Government's combination of New Deal programmes, 'make work pay', and personalised employment assistance, has contributed to employment growth and poverty reduction. The effective implementation of the 'second wave' of welfare reform in itself would represent a significant achievement but a third term Labour Government must do more than consolidate its existing strategy. It is unlikely that Jobcentre Plus can focus on employment assistance without a radical simplification of the benefit system. Otherwise the new agency could become mired in administrative complexity, exacerbated by continuing IT inadequacies. There is a challenge to develop policies, such as an 'advancement agency' to create 'ladders of opportunity' for those who 'work first' but are trapped in low paid jobs and the 'tax credit economy' (Denham, 2004). More fundamental questions concerning the future potential of tax credits to improve work incentives and reduce child poverty remain unresolved and there will be major obstacles in 'joining up' the 'employment first' system with education and training provision to create pathways to better quality jobs.

Within the UK New Labour's strategy also continues to be controversial and there are flaws. The Opposition Parties have criticised the New Deals as ineffective and expensive and if elected to power will abolish them; with the Conservatives also committed to the privatisation of the Jobcentre network. There are significant levels of opposition within

the Labour Party itself, with public sector unions campaigning against job cuts and further privatisation, and others deeply suspicious of benefit reductions and increased conditionality targeted at those on disability benefits. Critics also have questioned the equity, viability and limitations of a broad strategy that they argue places a disproportionate focus on improving employability and on paid employment being the primary route to social inclusion for all working age people (Lister, 2001). The 'employment first' strategy will quickly be discredited should it seem to devalue the unpaid tasks of caring and the position of those unable to work or facing discrimination in the labour market. Benefit levels for those unable to work are still inadequate and resources will be needed to devise alternative routes out of poverty and social exclusion for these groups.

One looming factor is that the new arrangements have yet to face the hardest test as they have so far been implemented in the context of a growing economy. Many of those getting jobs as a result of 'employment first' are likely to be amongst the first victims of any recession. The real test will then be whether they are able to get back into work faster than they otherwise would have done and whether Jobcentre Plus will be able to sustain its focus on employment assistance in a context of increased caseloads.

Notwithstanding these caveats, this analysis of the welfare reform strategy pursued by the British Labour Government indicates one way in which 'institutional arrangements' have been adapted in the context of the challenges identified by the 'TLM' approach. The strategy may in large part be a product of internal, country-specific factors, but it does represent also an increasingly rich evidence-based source of lessons for others.

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