

Welfare-to-Work: The New Deal

Research Paper 97/118

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In the Labour Government's first Budget after the May 1997 General Election, Gordon Brown, Chancellor of the Exchequer, announced a range of proposals designed to help people on benefits return to work. The schemes are to be funded by money raised by the windfall tax on the privatised utilities and form part of the Government's Welfare-to-Work strategy. This paper examines the New Deal proposals for Young People, the Long-term Unemployed and Lone Parents. It is confined to those schemes financed by the windfall tax and does not attempt to deal with other potential elements of the Welfare-to-Work strategy such as the possible introduction of earned income tax credits.

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I Summary

A programme to help move people from welfare benefits into paid employment was one of the 'Five Election Pledges' contained in the Labour Party manifesto for the 1997 General Election. The manifesto committed the party to developing schemes which would be targeted at young people, the long-term unemployed and lone parents, and which would be paid for by a windfall tax on the privatised utilities.¹ The formal announcement came in Gordon Brown's first Budget on 2 July 1997. The windfall tax is expected to raise £5.2 billion over the period 1997-9, while the Welfare-to-Work measures described in this paper are expected to cost £3.9 billion over the five years 1997-2002.²

The plans place the emphasis on recruitment subsidies as an attempt to prevent long-term unemployment, and work experience and training for the young to increase the skills base in the labour supply and reduce the risk of young people falling into long-term unemployment. Advice on benefits, child-care, training and job search techniques are central to the plans for lone parents. Proposals are to be phased in over the next 2 years. Pilot studies for the New Deal for Lone Parents began in July this year and the New Deal for Young People will be offered in the pathfinder areas from January 1998. All the schemes are expected to be available nationwide by the Autumn of 1998.

Active labour market policies have been pursued in a number of countries over the last few years and the Labour Party appears to have drawn on the experience of these schemes in developing its own policies. Critics have also analysed the effectiveness of these programmes in assessing the likely effects of the Government proposals and this paper attempts to summarise the large amount of material produced, particularly on wage subsidies. Lessons can also be learnt from the experience of pilot job subsidy schemes such as Workstart in this country.

The latest figures showing the numbers of people in each New Deal category are included as an appendix to this paper. House of Commons Library Research Paper 97/117 by Jane Dyson, Economics Policy and Statistics Section, lists the figures in the new deal categories for each Parliamentary constituency.

The New Deal proposals consist predominantly of employment and training schemes and as such they do not require new legislation. However, the Government will be seeking to amend the *Jobseekers Allowance Regulations 1996* in order to extend benefit sanctions to those claimants on the New Deal for Young People who refuse to take up one of the available options.

¹ *New Labour because Britain deserves better*, Labour's manifesto for the 1997 General Election, p 19.

² *Equipping Britain for our long-term future: Financial Statement and Budget Report*, HC 85, July 1997, p.33

II The Proposals

A. The New Deal for Young People

The programme for the young unemployed was foreshadowed in Labour Party policy documents before the 1997 General Election. One of the "five election pledges" highlighted in Labour's election manifesto was to "get 250,000 under-25 year-olds off benefit and into work by using money from a windfall levy on the privatised utilities". The formal announcement, however, came in Gordon Brown's first Budget on 2 July 1997:³

In the new economy, in which capital, inventions and even raw materials are mobile, Britain has only one truly national resource: the talent and potential of its people. Yet in Britain today, one in five of working-age households have no one earning a wage. In place of welfare, there should be work. So today this Budget is taking the first steps to create the new welfare state for the 21st century.

The welfare state was and remains a great British achievement. It was set up to provide security for all, and opportunity for all, goals that are as relevant today as in 1945. But for millions out of work or suffering poverty in work, the welfare state today denies rather than provides opportunity. So it is time for the welfare state to put opportunity back into people's hands.

First, everyone in need of work should have the opportunity to work. Secondly, we must ensure that work pays. Thirdly, everyone who seeks to advance through employment and education must be given the means to advance. So we will create a new ladder of opportunity that will allow the many, by their own efforts, to benefit from opportunities once open only to a few.

Starting from next year, every young person aged 18 to 25 who is unemployed for more than six months will be offered a first step on the employment ladder. Tomorrow, my right hon. Friend the Secretary of State for Education and Employment will detail the four options, all involving training leading to qualifications--a job with an employer; work with a voluntary organisation; work on the environmental task force; and, for those without basic qualifications, the chance of full-time education or training.

With those new opportunities for young people come new responsibilities. There will be no fifth option--to stay at home on full benefit. So when they

³ HC Deb 2 July 1997 cc 308-309

sign on for benefit, they will be signing up for work. Benefits will be cut if young people refuse to take up the opportunities. This new deal for the young is comprehensive, rich in opportunity, linked to the development of skills and has already attracted the support of some of Britain's leading companies.

I urge every business to play its part in this national crusade to equip this country for the future by taking on young unemployed men and women. I appeal to every voluntary organisation to make a further contribution to the work that they do in the community by taking on a young person. I will make it possible for every Member of the House to act as an ambassador for this venture, encouraging young people in their constituencies, consulting local businesses and bringing them together to play their part in this new deal for young people.

The New Deal for Young People will commence in 12 "pathfinder areas" in January 1998. The pathfinder areas, announced on 28 July 1997, are Tayside, Swansea and West Wales, Sheffield and Rotherham, Eastbourne, Lambeth, Harlow and Stevenage, Cumbria, Wirral, South Derbyshire, Black Country (North and South), Newcastle (including Gateshead and South Tyne), and Cornwall.⁴ The programme will be introduced nationwide in April 1998.

The Department for Education and Employment has published details of the programme in its document *Design of the New Deal for 18-24 year olds*.⁵ The programme will cover all young people aged 18-24 who have been claiming Jobseeker's Allowance (JSA) for six months or more. The stock of 18-24 year olds who will have already been unemployed for 6 months when the New Deal is introduced will enter the Gateway (the first stage of the New Deal programme) when they reach their Restart interview. These take place every 6 months. Young people who reach 6 months of unemployment after the introduction of the New Deal will enter the programme immediately. There is provision for entering the New Deal early at the discretion of the Employment Service but certain groups will be able to automatically enter early if they wish. These groups include lone parents, people whose first language is not English or Welsh, ex-offenders, those who have become unemployed as a result of large scale redundancies and people leaving care.

1. The Gateway

The New Deal will begin with an intensive period of advice, counselling and guidance known as the "Gateway" to the New Deal. This will be a period of up to 4 months during which an Employment Service (ES) personal adviser will introduce the participant to the New Deal and

⁴ HC Deb 28 July 1997 cc 49-52W

⁵ DfEE October 1997.

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explain his or her rights and responsibilities. The DfEE stress that all New Deal services will be tailored to local needs but each Gateway should contain:

- An initial phase of intensive help to find jobs
- Advice and guidance to assess the action needed to find work
- Access to independent careers advice
- Help with jobsearch techniques
- Basic skills courses and 'taster' placements on one of the 4 options for those who need them
- Help from specialist agencies for those with particular problems such as homelessness or drug dependency
- An action plan to be retained throughout the New Deal and updated as necessary.

The DfEE expect that Gateway services and options will be procured through competitive tendering.⁶ Each participant will have an ES adviser who will oversee the process.

If they are still unemployed after the Gateway, participants will be offered one of four options. The DfEE expect that young people will be able to choose which of the four options they wish to pursue and that at the very least they will be able to choose between two of the four options. The restrictions in the eligibility criteria for the Education and Training option will mean a number of people will only have access to the three remaining options. These people will choose from at least two of the remaining three options.

2. The Employment Option

When a participant has been on the Gateway for two months the personal adviser will issue a verification certificate ('voucher') that confirms the jobseeker is eligible for a subsidy if placed in a job. Once the participant is placed, the employer will receive £60 a week for up to 26 weeks. To be eligible for the subsidy the post must offer an average of at least 30 hours per week including the time spent training. Posts offering between 24 and 29 hours per week will attract a subsidy of £40 per week for a period of up to 26 weeks. Vacancies offering less

⁶ Op cit, *New Deal Design*, p. 3.

than 24 hours per week will only attract a subsidy for those participants who are unable to work more hours due to disability or caring responsibilities.

The post must also offer at least one day per week of training (or its equivalent) towards an accredited qualification. A training payment of £750 per person will be allocated to finance the associated training.⁷ The public sector will be able to recruit young people under the scheme but it is expected that "the large majority of places on the New Deal Employment option will be in the private sector reflecting the balance in the workforce as a whole".⁸

It will also be possible for the ES to contract with partner organisations, such as Training and Enterprise Councils (TECs), in order to secure employment options. In these circumstances subsidy payments will be made to the partners and they will be responsible for passing it on to the employer.

All employers (and partner organisations, if applicable) will be required to sign an employer's agreement that will include a commitment that:

- Where the participant shows the necessary aptitude, and unless agreed in advance with the ES, the post will continue unsubsidised beyond the 6 months;
- If this is not possible employers will support the participant's efforts to secure alternative employment or training;
- Existing employees are not made redundant to create jobs for people attracting a subsidy;
- Employers do not make a direct cash profit and that the New Deal employee costs in wages at least as much as they receive in subsidy, with New Deal employees receiving the normal rate for the post.

Employment agencies will also be able to take on people on the New Deal but they will also have to sign the employer guarantee and offer work and appropriate training for at least 6 months.

Some time after the New Deal had been launched in the Budget, it was announced that there will also be an option of help for young people who wish to become self-employed. Young people interested in this option can put forward a business plan during the Gateway and if this is accepted this will form the basis for a programme during the New Deal period. Specific training will be given in bookkeeping, marketing and other business areas. The ES will

⁷ *Equipping Britain for our long-term future: Financial statement and Budget Report*, HC 85, July 1997, p 31

⁸ *Op cit, New Deal Design*, p.17.

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contract out provision of specialist training and advice to other parties, such as the Prince's Youth Business Trust. Participants in this option will receive benefit plus a grant of up to £400 paid as a weekly allowance.⁹

3. Voluntary Sector and the Environment Taskforce

These options will involve a job for six months with either the Environment Taskforce or a voluntary sector employer. Both options will include day release education or training towards accredited qualifications.¹⁰ The Taskforce will engage young people on projects of benefit to the whole community, including projects to help meet the Government's targets for heat conservation and efficiency.¹¹ The voluntary sector option will include a particular emphasis on placements to provide 50,000 new trained childcarers.¹² Participants in both options will receive an allowance equivalent to benefit and will remain entitled to passported benefits. In addition, they will receive a grant of up to £400 paid in weekly or fortnightly instalments. This is equivalent to approximately £15 per week plus benefits. The provider will also reimburse participants for agreed weekly travel costs above the first £4.

The core elements of provision in these option are:

- Each placement will be for a minimum of 30 hours per week over five full days including one day or its equivalent spent on training towards an accredited qualification;
- All placements should offer participants the opportunity to demonstrate work skills likely to be attractive to employers, such as time management and team working;
- Each placement will include an induction period to explain the project and cover health and safety issues;
- A personal development plan to structure the participant's development during the placement to be agreed between the provider and the participant.

Upon completion of the placement, the participant will receive a certificate and a work reference from the provider.

⁹ "New deal to turn jobless into job creators", DfEE press release, 30 September 1997.

¹⁰ DfEE Press Release, 3 July 1997

¹¹ HC 85, July 1997, p 31

¹² Ibid

The content of each placement will vary from area to area but the Government has indicated the type of work in which it expects participants to be engaged.¹³

Work done on the Environment Task Force will contribute to the improvement of the local, regional or global environment and be compatible with sustainable development in line with the government's policies and objectives. The government is keen to encourage projects which will contribute to conserving energy and water and protecting the environment, and those which offer opportunities for young people to become involved in local communities resulting in regenerated local communities or contributing towards greening urban or fringe areas. Projects could include, for example, dealing with housing, forest and park management, and reclamation of derelict or waste land.

The voluntary sector option aims to deliver a range of benefits to the local community. These could include improving the Voluntary Sector's capacity to deliver its services to clients by reducing the risk of re-offending or drug misuse by the young people involved; by improving the availability of childcare; by establishing new programmes of community benefit; or by influencing indirect benefits such as improved community relations and greater community safety.

4. The Education Option

This option will be primarily open to those participants in the New Deal without N/SVQ Level 2 or equivalent GCSE level qualifications.¹⁴ A list of the courses and relevant qualifications that it will be possible to pursue under this option is contained in Schedule 2 to the *Further and Higher Education Act 1992* reproduced in Appendix I.

Participants in this option will be offered:

- Up to 52 weeks of full-time education and training on a course leading to an approved qualification;
- A period of structured induction;
- Training and support in job skills;

¹³ Op cit *Design of the New Deal*, p. 27

¹⁴ This is likely to be approximately 3 or 4 GCSEs at grade C or above.

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- Training within a realistic work environment;
- A personal tutor acting as the main contact;
- A record of achievement.

The approved qualifications are listed in Schedule 2 to the *Further and Higher Education Act 1992* and this is reproduced as an appendix to this paper.

Providers will be expected to cover the cost of training materials and travel expenses. They will receive funding according to categories to be established for low, medium and high cost provision. Funding will be linked to attendance whilst the participant is following the agreed course of study. The funding model is designed with the intention of reflecting the employment focus of the programme. The DfEE argues that training providers will not be penalised where participants leave early to take up employment, as a commitment by the new employer to continue participation on the agreed training plan will enable training providers to receive the full balance of funding when a qualification is obtained.¹⁵ It is less clear whether they will be able to claim for losses incurred if the new employer does not agree to continued participation. Participants will receive an allowance equivalent to their usual benefit and will retain entitlement to passported benefits such as housing benefit. A discretionary fund will be available to cover items such as exceptional travel costs or childcare.

5. Benefit Sanctions

Young people who fail to take up an option will be required to take a place identified for them by the Employment Service. If they do not, benefit sanctions will be applied.¹⁶ The standard JSA benefit sanction for failing to go on a compulsory programme or obey a jobseeker's Direction is a loss of the JSA personal allowance for two weeks or a loss of the JSA personal allowance for four weeks if a similar sanction has been imposed in the previous 12 months. This will be a 100% loss of benefits for up to four-weeks with hardship payments made in only extreme cases.

6. Cost and Numbers

¹⁵ Op cit *New Deal Design* p.23

¹⁶ DfEE Press Release, 3 July 1997

There are currently 122,000 young people who have been out of work or training for more than six months.¹⁷ Thousands more pass this threshold every month. The Government is committed to offering them each a place on the New Deal but based its original costings on a target of 250,000. The apparent likelihood that the numbers eligible for the New Deal will be significantly less by the time it goes nationwide has led to speculation that the resources allocated for this client group may be redirected. In his evidence to the Employment Committee, Andrew Smith, Employment Minister, confirmed that a continued fall in unemployment amongst young people may lead to a change of emphasis:¹⁸

If the number of young unemployed for more than six months fell significantly below our target (which is 250,000) this would release resources that could be considered for opportunities elsewhere.

A total of £3,150 million from the windfall tax has been allocated to the programme over the period 1997-02:¹⁹

| | |
|---------|-------|
| 1997-98 | £100m |
| 1998-99 | £700m |
| 1999-00 | £830m |
| 2000-01 | £770m |
| 2001-02 | £740m |

B. New Deal for the Long-term Unemployed

Labour's manifesto promised to "encourage employers to take on those who have suffered unemployment for more than two years with a £75-a-week tax rebate paid for six months, financed by the windfall levy". The formal announcement came in the Budget statement on 2 July 1997.²⁰ The programme will start in June 1998

There are two elements to the New Deal for the Long-term Unemployed:

- payments of £75 per week for 26 weeks to employers who recruit people aged 25 and over who have been unemployed for two years or more; and

¹⁷ see Appendix I

¹⁸ "Welfare to work may focus on older jobless", *Financial Times*, 26 September 1997.

¹⁹ HC 85, July 1997, p 33

²⁰ HC Deb 2 July 1997, c 309

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- opportunities for those unemployed for two years or more to study for up to twelve months in full time employment-related courses designed to reach an accredited qualification. This will be achieved by relaxing the 16 hour rule which prevents unemployed people from receiving benefit while studying full-time.

A total of £350 million from the windfall tax has been allocated to the programme over the period 1997-2002:²¹

| | |
|---------|-------|
| 1997-98 | £0m |
| 1998-99 | £100m |
| 1999-00 | £80m |
| 2000-01 | £80m |
| 2001-02 | £80m |

C. New Deal for Lone Parents

Under the New Deal for Lone Parents, claimants with school age children will be invited into their local job centre and offered help and advice on jobs, training and childcare. Each individual will have a personal caseworker who will develop an individual plan of action for the claimant and allow them access to the services provided by the Employment Service. There are currently approximately 1 million lone parents claiming benefit and the scheme will be available to half a million of these with children of school age. The programme started for 40,000 lone parents in 8 parts of the country from July 1997. The 8 areas concerned are Cambridgeshire, Warwickshire, Cardiff and Vale, Sheffield East, North Cheshire, North Worcestershire, Clyde Valley and North Surrey. The full national programme will start in October 1998.

A total of £200 million from the windfall tax has been allocated to the New Deal for Lone Parents over the period 1997-2002:²²

| | |
|---------|------|
| 1997-98 | £0m |
| 1998-99 | £40m |
| 1999-00 | £50m |
| 2000-01 | £60m |
| 2001-02 | £60m |

²¹ HC 85, July 1997, p 33

²² Ibid

The Government has also announced two changes to the childcare disregards for Family Credit, Housing Benefit and Council Tax Benefit to encourage lone parents to return to work:

- for families with two or more children the maximum allowance for childcare costs will be increased from £60 to £100;
- the maximum age of the child for eligibility for such disregards is to be increased from 11 to 12.

These changes take effect from Summer 1998. The Government's national childcare strategy is also intended to improve both the amount of provision and the cost of childcare for parents who wish to work. It is anticipated the New Deal for Young People will create places for 50,000 trainee child carers and money from the National Lottery will be used to fund after-school clubs.²³

The programme for lone parents is voluntary and those who choose not to take part will not face benefit sanctions.²⁴ However, lone parents who take part will be fast tracked for help with Family Credit by the Benefits Agency and child maintenance by the Child Support Agency.²⁵

D. Employment Zones

A proposal to create Employment Zones was included in the Labour Party manifesto.²⁶

We favour initiatives with new combinations of available benefits to suit individual circumstances. In new and innovative 'Employment Zones', personal job accounts will combine money currently available for benefits and training, to offer the unemployed new options - leading to work and independence. We will co-ordinate benefits, employment and career services, and utilise new technology to improve their quality and efficiency.

The Government is planning to create Zones in areas of high unemployment. Eight areas have been invited to bid for one of the four or five Employment Zones to be created. The

²³ HC 85, July 1997, p 30.

²⁴ Ibid

²⁵ DSS Press Release 97/099

²⁶ *New Labour because Britain deserves better*, Labour's manifesto for the 1997 General Election, p. 19.

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final number will depend on the nature of the bids received. The areas that have been invited to bid are Birmingham, Doncaster, Liverpool, Plymouth, South Teesside, Glasgow, North West Wales and Wembley. A total of £33 million has been allocated to the proposals.²⁷

It is anticipated that Employment Zones will consist of local partnerships of organisations from the public, private and voluntary sectors but it is a key criterion of all bids that the Employment Service is one of the partners. Each bid will be required to include plans for:

- Learning for Work - training and education projects;
- Business Enterprise - help with moving from welfare to self-employment;
- Neighbourhood Match - work which benefits the whole community.

In a press release inviting the bids, Andrew Smith, Employment Minister, outlined the priorities for successful bids:²⁸

"... beyond these three core strands, we want to see innovative pathways into sustainable work. For example an unemployed person might be given help gaining a specific qualification or certificate, a grant or loan for equipment or training in skills that local employers need. Employment Zones will give communities the flexibility to devise local solutions which best meet local needs."

The Employment Zones Prospectus lists the criteria to be met by bids.²⁹ Partnerships should:

- involve a range of local partners including the private sector;
- reflect a range of expertise and provision relevant to the locality;
- demonstrate an understanding of the different client groups and their needs;
- produce schemes which are innovative and flexible;
- make use of existing provisions and demonstrate value for money;

²⁷ "Employment zones: new help from welfare-to-work", DFEE Press Release 276/97, 15 September 1997.

²⁸ Ibid.

²⁹ *Employment Zones Prospectus*, Employment Service, September 1997, pp.12-14.

- demonstrate facilities to monitor the effectiveness of schemes;
- have an effective and affordable marketing and communications plan.

The prospectus suggests funding for schemes should be based on an average of £2,000 per participant and of this 50% should be met by existing funding provision. The result of the bidding process should be published at the beginning of December 1997 and projects are expected to commence on 2 February 1998.

Participation in successful schemes will be voluntary but will be open to:

- people over the age of 25 who have been claiming Jobseeker's Allowance for more than one year;
- people with disabilities;
- people who require help with basic skills;
- returners to the labour market and lone parents;
- ex-offenders, ex-regulars and victims of large scale redundancies.

Participants will receive an allowance equivalent to their benefit plus £15 per week or a wage if they are employed on a scheme.

E. Policy Responsibility and Implementation

Ministerial responsibility for implementing the Welfare-to-Work proposals lies with a Cabinet Committee chaired by the Chancellor of the Exchequer. The Committee's terms of reference are "to develop policies to get people from welfare to work and to report as necessary to the Ministerial Committee on Economic Affairs".³⁰ The Ministers with specific responsibility for Welfare-to-Work are Andrew Smith, Minister for Employment, Welfare to Work and Equal Opportunities and Alan Howarth, Parliamentary Under Secretary of State for Employment and Equal Opportunities.

³⁰ HC Deb 9 June 1997 c 307W

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There is also an Advisory Task Force on the New Deal for Young People and the Long-term Unemployed chaired by Sir Peter Davis, Chief Executive of Prudential Corporation plc. Its terms of reference are:

- to advise the ministerial Welfare to Work sub-committee on key issues of programme policy and design;
- to market the New Deal (especially to the business and voluntary sector) and stimulate action and commitment;
- to receive and advise on regular progress reports on implementation and to flag up and advise on emerging issues."³¹

There are separate task forces for Wales and Scotland.

The Employment Service has overall responsibility for delivery of the New Deal for Young People and will be expected to work locally in partnership with other organisations. These are likely to include local authorities, voluntary organisations, Training and Enterprise Councils or Local Enterprise Councils (TECs/LECs) and private companies. The newly formed partnerships will be expected to plan delivery based on knowledge of the local labour market. The *New Deal Design* document outlines three options for organising delivery:³²

- In some areas, the lead delivery partner will be the ES, in others it will be a private company or public agency. The partnership may choose to ask the ES to undertake the contracting for the Gateway services and the New Deal options on its behalf;
- A second arrangement would be for partners to form a consortium with the capacity to take forward the delivery of all or a large part of the New Deal under contract to the ES. We would expect such consortia usually to include key strategic players like the Local Authority, the TEC/LEC, careers services and private and voluntary sector organisations;
- A third option would be the emergence of consortia with which the ES would contract to take forward the delivery of specific elements of the New Deal such as the Environment Task Force."

³¹ Treasury Press Release, 5 June 1997, *Davis to Deliver New Deal*

³² p.3

Local partnerships have been asked to put forward proposals through the ES district manager and where more than one partnership is proposed a regional assessment panel will evaluate the viability of each proposal. The regional assessment panel will include as a minimum a senior representative from the ES, the Government Office (or Scottish Office or Welsh Office as appropriate) and the voluntary sector, a Task Force member and a senior private sector representative with regional knowledge. It is anticipated that the Gateway services will be procured through competitive tendering. Private sector organisations have been identified to lead partnerships in two of the pathfinder areas. Reed Personnel Services will lead the partnership delivering the New Deal in Hackney and City, and Action for Employment Ltd will lead in South Humber.³³

F. Other Measures

In his Budget statement, Gordon Brown also announced plans to help long-term sick or disabled people return to employment.³⁴

In 1997, no one in our society who wants to do some work should be excluded from the right to work because of disability or incapacity. So as a final element of our welfare-to-work strategy, we shall bring forward proposals to help those who are disabled or on incapacity benefit, and who want training or work. To fund that programme and other measures, I have set aside £200 million from the windfall fund.

A consultation on the Welfare-to-Work proposals to help the long-term sick and disabled was launched by a seminar in November 1997. In a press release to announce the event, Baroness Hollis, Social Security Spokesperson on the House of Lords said:³⁵

Today we are taking a major step forward and launching our consultation on proposals for the programme for action. This is likely to involve testing a range of schemes designed to help people move into work or remain in work. It may also involve introducing personal advisers to support those who want to move into work.

The other measures to be funded by the £200 million over 4 years set aside for "future measures" include £5 million allocated towards the start up costs of the University for

³³ HC Deb 3 November 1997 c 32W

³⁴ HC Deb 2 July 1997 c 310

³⁵ *Ministers launch Welfare to Work for sick and disabled people*, Department of Social Security, press release 10 November 1997

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Industry.³⁶ This is intended to improve the quality and availability of learning materials to individuals and small businesses through the use of new technologies. The University for Industry Design and Implementation Advisory Group, chaired by David Brown, Chairman of Motorola Ltd, will oversee the development of the project.

³⁶ DfEE Press Release 243/97, 4 August 1997.

III Reaction to the Proposals

A. Wage subsidies

A number of countries have used wage subsidies to make long-term benefit recipients more attractive to prospective employers. Most notably in Sweden and Australia, schemes have been directed at people who have been out of work for at least one year. Employers are offered subsidies to help with the perceived additional costs, such as training, of recruiting people who have been out of the labour market for long periods. Similarly, wage subsidies form an integral part of the Labour Government's New Deal proposals for both 18-24 year olds and those unemployed for more than 2 years. Dennis Snower, Professor of Economics at Birkbeck College, and a supporter of a welfare-to-work strategy, succinctly summarised the thinking behind the Government's proposals:³⁷

The underlying idea is to let these people transfer part of their unemployment benefits and related entitlements into employment subsidies for those that hire them. The unemployed become better off when they find jobs at wages well above their unemployment benefits, employers become better off when their labour costs fall, and the Government is no worse off because the money spent on employment subsidies would have otherwise been spent on benefits.

The assumptions that lie behind such a rationale have provided the framework for the debate on the effectiveness, or otherwise, of wage subsidies as a tool for reducing the numbers of long-term unemployed or the overall levels of aggregate unemployment.

The main arguments against the use of wage subsidies can be summarised as the dead-weight, displacement and substitution effects:

- **Dead-weight** is the term used to describe those who would have returned to the labour market even without the added incentive for an employer of a subsidy.
- **Displacement** refers to the situation where an employer will take on an unemployed person who attracts a wage subsidy at the expense of somebody who does not. The argument is that somebody would have been employed anyway and the effect of the subsidy has merely been to remove one person

³⁷ "Three diseases that could kill the Welfare-to-work initiative", *The Guardian*, 11 August 1997.

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from long-term unemployment and eventually replace him or her with somebody else.

- An employee may also dismiss an existing member of staff in order to employ somebody who attracts a subsidy thus decreasing their overall labour costs. It is argued that such a **substitution** effect is more likely because of the increasingly flexible labour market.

The combined effect of displacement and substitution effects can lead to high levels of "churning" of employees as people move in and out of subsidised work. This is likely to lead to an increase in job insecurity amongst both subsidised employees and those who do not attract a subsidy and therefore feel their jobs are at risk. That these factors influence the effectiveness of wage subsidies is rarely disputed but the extent of their effect is the subject of debate.

Some commentators point to comparisons with other similar schemes, both in this country and abroad, for indications of the likely effect of the wage subsidy elements of the New Deal. A report by the National Economic Research Associates (NERA) in 1995 summarised evaluations of 17 wage subsidy schemes from across 10 OECD countries.³⁸ Nearly half of the evaluations assessed deadweight but a smaller number looked at substitution and displacement. The results suggested that deadweight was substantial, often over 50%. Most of the schemes where additionality (jobs that would not have been created without a subsidy) for the target group was assessed came out with estimates of between 10% and 30%. The researchers concluded that they "are ultimately somewhat sceptical about the likely effectiveness (and cost effectiveness) of a permanent full-scale wage subsidy programme eg. for all people unemployed over 2 years. This scepticism should not be taken as hostility to or rejection of such schemes."³⁹ The report was compiled at the time of the British Workstart scheme. Piloted by the last Government in selected areas, Workstart offered employers subsidies of £60 a week for 6 months, falling to £30 a week for the following 6 months, to take on people unemployed for more than two years. Workstart can therefore be seen as a pilot for the New Deal for the Long-term Unemployed. A report by the Institute of Employment Studies on Workstart found that the scheme met its main aim of influencing employers' selection decisions in favour of the very long term unemployed.⁴⁰ However, just over half this substitution was at the expense of the shorter term unemployed. It also met its subsidiary aim of creating employment opportunities with 17% of the vacancies covered and some partial job-creating effects among a further 27%.

The OECD argues that wage subsidies can be effective if carefully targeted and controlled. In its *Jobs Strategy*, the OECD notes that an evaluation of wage subsidies in Australia,

³⁸ National Economic Research Associates, "*OECD Wage Subsidy Evaluations: Lessons for Workstart*", report by Jon Stern, Carole Willis, Nathan Francis and Rachel Goodyer, November 1995

³⁹ Ibid p.vi

⁴⁰ *Evaluation of Workstart pilots*, Institute of Employment Studies, Report 279, 1994.

Belgium, Ireland and the Netherlands produced positive results despite combined dead-weight loss and substitution effects amounting to around 90%.⁴¹ The report goes on to suggest ways of making subsidies more effective, such as combining them with a training element or restricting them to employers offering permanent employment. It can also be argued that subsidies have long-term effects in addition to creating more jobs. The long-term unemployed are kept in touch with the world of work, improving their motivation and relevant skills and thus enhancing effective labour supply. The OECD report argues that this can offset the perceived disadvantages of displacement and substitution even if the overall fall in unemployment is marginal.⁴²

For equity reasons they [subsidies] may also be intended to provide the long-term unemployed with jobs even if this happens at the expense of the short-term unemployed. These positive secondary effects may still hold if the net employment gains of these programmes are very small.

This has been described as the "silver lining" of the substitution effect.⁴³

Supporters of the New Deal proposals believe these wider economic effects of job subsidies are often ignored. They also believe that the degree of inflationary pressure from the labour market is only dependent on the level of short-term unemployment and that the level of long-term unemployment has little effect. The long-term unemployed are effectively part of a different and marginalised source of supply. Therefore if somebody who is long-term unemployed gets a subsidised job at the expense of a short-term unemployed person, short-term unemployment will rise leading to a fall in pressure on wages. It is argued therefore, that the resultant reduction in wage pressure will enable employment to expand and absorb the newly created short-term unemployed. If this is accepted, the substitution effect, whilst not to be encouraged, does not of itself justify a rejection of wage subsidies.

In a report for the Employment Policy Institute, Professor Richard Layard of the London School of Economics (LSE), argues that the overall effect of displacement and substitution is exaggerated anyway and claims that the argument that subsidies do not influence overall employment levels as a result is fundamentally flawed.⁴⁴ He maintains that any displacement effect is temporary as people who would have been hired will remain attractive to employers and will soon be taken on by other employers. He equates this situation with temporary rises in unemployment caused by business failure.⁴⁵

⁴¹ *The OECD Jobs Strategy: Enhancing the effectiveness of active labour market policies*, OECD, 1996.

⁴² Ibid page 11

⁴³ "Brown holds the key to work", *Financial Times*, 11 August 1997.

⁴⁴ *Preventing long-term unemployment: strategy and costings*, Employment Policy Institute Economic Report, Vol 11 No 4, March 1997.

⁴⁵ Ibid page 3

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This is exactly the same process as occurs when a business ceases to hire people. When hiring ceases there is of course a temporary rise in unemployment, but soon those who would have been hired fill other vacancies and the labour market adjusts. There is no permanent rise in unemployment (except perhaps in an isolated company town). Yet all traditional analysis of recruitment subsidies assume a permanent rise in unemployment in the rest of the economy. These analyses have no scientific foundation.

However, in an article for the Unemployment Unit, David Webster contests that it is exactly these economically "isolated" communities that are the problem and that separating the issues of long-term and overall unemployment is misleading.⁴⁶ He argues that there is little evidence of a certain type of unemployed person who becomes increasingly unemployable the longer he or she is out of work; the so-called "withering flower". His research shows a direct correlation between the numbers of long-term unemployed and total unemployed when a time lag of 3 financial quarters (to allow for the time lag between long-term and total unemployment) is introduced. If this correlation is accepted there is little argument for subsidising the long-term unemployed in returning to work as a decrease in overall unemployment will eventually see a proportionate decrease in the long-term unemployed. The problem is not therefore a particular type of unemployed person but areas where pockets of adult male unemployment are disproportionately high compared with the rest of the country. High long-term unemployment has persisted in the areas that lost most jobs and this analysis leads Webster to propose an alternative solution:

The key requirement to reduce long-term unemployment and related welfare payments is to promote relevant blue collar jobs in the areas of highest unemployment, particularly by facilitating investment in manufacturing through spending on derelict land reclamation, infrastructure and industrial property. Of course, such policies are not totally unknown. But to date they have rarely been pursued with much vigour. They would have been a worthy use of the windfall tax.

To an extent this argument is supported by the Australian experience as researched by the Unemployment Unit.⁴⁷ Although this research accepted the idea that the long-term unemployed find it more difficult to obtain work, it concluded that wage subsidies did little to help the "significant minority [that] are likely to be locked into occupationally or geographically segmented labour markets, characterised by low paid, temporary and part-time jobs, where there is little chance of them moving into other labour markets."⁴⁸

⁴⁶ *Welfare-to-work: why the theories behind the policy don't work*, Unemployment Unit Working Brief, June 1997.

⁴⁷ *Working Nation: welfare reform and the Australian Job Compact for the long term unemployed*, Dan Finn, Unemployment Unit, 1997.

⁴⁸ *Ibid* page 70

The Australian Compact scheme was typical of wage subsidy schemes in other countries in that it was targeted at the long-term unemployed (in this case those unemployed for more than 18 months). Other countries such as the Netherlands have used a longer period as the definition for the eligibility for their active labour market policies. The emphasis in the proposals outlined by the British Government is different from most other schemes in that it is weighted both in resources and scale towards the young unemployed. Any young person between the ages of 18 and 24 who has been in receipt of Jobseeker's Allowance for more than 6 months is defined as long-term unemployed for the purposes of the New Deal. The rationale behind this is that young people become more quickly disengaged from the labour market. Failure to integrate young people into the job market has longer term consequences for both the individuals concerned and the long term labour supply. They are also considered more likely to benefit from the training elements of all the New Deal options and thus become more employable in the future.

However, there are strong arguments for focusing help on the more long-term unemployed. Such an approach is likely to reduce the amount of deadweight because it is targeted towards those people who have already become highly marginalised from the labour market. Also, reducing the numbers of long-term unemployed is likely to cause little inflationary pressure. These arguments have led to criticism of the emphasis in the Government's proposals as summarised by Jon Stern, from the National Economic Research Associates (NERA), in his written submission to the House of Commons Sub-Committee on Employment.⁴⁹

The probability that someone aged under 25 and unemployed over 6 months in April 1996 would have left unemployment by April 1997 was 82% (or around 65% over a 6 month period). The same probability for potentially very high levels of deadweight for the under 25s under the New Deal proposals implies that a recruitment subsidy for them is likely to have significant net Exchequer costs.

The case, on employment grounds, for tilting the eligibility criteria towards the young unemployed looks weak - unless it can be demonstrated that the benefits in terms of the amount and/or quality of subsequent employment are much higher for this group than for the older unemployed.

Supporters of the general principle of job subsidies have made similar criticism of the emphasis of the New Deal job subsidies on young people. In their submission to the Sub-Committee on Employment, Dennis Snower and J. Michael Orszag, from the Department of Economics at Birkbeck College reiterate the point that "economic research shows that the vast majority of people in this category [18-24 year olds] would find employment with or

⁴⁹ *Job Subsidy Schemes, A paper for the House of Commons Sub-Committee on Employment*, NERA, August 1997, p.iv.

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without a subsidy". They argue that resources would be better used to make the subsidies for the long-term unemployed more flexible:

It is of course important to help a young person into the job market, but it is also natural for young people - who need time to match their skills with jobs - to have relatively high unemployment rates. For the young as for adults their unemployment becomes a problem if it lasts long. ...As a rule of thumb, the longer a person's duration of unemployment, the less capable that person is likely to become properly integrated in the labour market, and thus the higher the employment subsidies that person is likely to require. For this reason, it would be wise to deal with the problem of long-term unemployed through employment subsidies that rise with unemployment duration.

Again the Australian experience appears to support this as assessments of the Compact scheme reported hostility from employers to taking on the long-term unemployed with only the relatively small subsidy offered.

The propensity of the young unemployed to find unsubsidised work raises concerns about the potential displacement of older long-term jobseekers. In his evidence to the sub committee on Employment, John Philpott of the Employment Policy Institute, also argued that the Government should change its emphasis to this group and warned of "a tendency to ignore the real distress of an unskilled unemployed over 40 year old."

The general principle of job subsidies for the unemployed remains contentious but the perceived advantages become more apparent if the effect of substitution is seen in a wider context than the effects on individuals. The problems of substitution, displacement and deadweight, however, are arguably exacerbated by concentrating resources for subsidies on a section of the unemployed that is likely to be significantly more employable than other sections that attract no subsidy at all or must be unemployed for longer before they can attract a subsidy. The intensive Gateway period is a clear attempt to reduce deadweight by helping young people into employment through more cost effective methods, such as improving job search techniques. There must be some concern, though, that employers will collude with young people, and only offer them jobs once they have completed the two months of the Gateway and obtained their voucher. The success of this intensive period of counselling in weeding out those who would get jobs anyway is therefore likely to impact on the overall effectiveness of job subsidies for the young unemployed. Similarly, the employer agreement described in the Design of the New Deal states that employers will not make people redundant in order to take on somebody who attracts a subsidy. They also agree to continue to employ people beyond the 6 months of the subsidy where they have proved themselves capable of doing the job. However, it seems unlikely that this agreement will be enforceable by legislation and the goodwill of employers will be essential to the success of the subsidies.

B. The Intermediate Labour Market and Voluntary Sector Options

The Government is planning to pilot the Intermediate Labour Market (ILM) concept through the new Employment Zones and it seems likely that the experience of these pilots will influence the development of the Voluntary Sector and Environment Taskforce Options. Supporters of such an approach point to work by the Wise Group and Glasgow Works. The Intermediate Labour Market approach consists of a package of training, work experience and personal development and has been particularly targeted at the long-term unemployed. In its submission to the Sub Committee on Employment the Wise Group summarised the important features of an ILM scheme:

- Its primary aim is to offer the long-term unemployed and those who are furthest from the labour market a bridge back to the world of work.
- It combines relevant high quality vocational training with a substantial period of work experience and personal development including job search activity.
- It creates a realistic work environment for the long-term unemployed with all of the key characteristics of employment
 - A rate for the job wage
 - A contract with rights and obligations
 - Quality management and supervision
 - The work carried out is to a high quality and of real value
 - Voluntary participation
 - A work reference for future employers
- It is well managed and has a lifespan beyond the duration of any particular funding regime.
- It adds to the supply of jobs particularly where there are weak local economies.

The Wise Group programmes helped 57% of participants into a full time job or further education last year and their client group is taken from those who have been unemployed for over 6 months. This rate of success compares favourably with other publicly funded job and training schemes. However, ILMs are relatively costly with the gross costs per job ranging between £9,000 and £14,000.⁵⁰ This has attracted criticism but the Employment Policy Institute argues in its submission to the Sub Committee on Employment that a comparison of costs per job does not allow for other savings:

⁵⁰ *Intermediate labour Markets and Job Subsidies*, Submission by the Centre for Social Inclusion to the House of Commons Education and Employment Committee, September 1997.

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When one accounts for the savings that accrue from the Wise Group's superior performance in helping its participants enter jobs, the Group appears to offer a good value - if not necessarily free - lunch to the taxpayer. And when one accounts for the valuable social outputs and reduced social costs that flow from the Wise Group's activities the rate of return to the Group's ILM looks more attractive still.

However, the EPI also raises concerns of adverse macroeconomic effects of successful ILM schemes, such as raising wage pressure, pointing to evidence from an expansion of jobs programmes in Sweden in the 1980s.

The effectiveness of such schemes, and the Voluntary and Environment Task Force options in the New Deal for Young People, are likely to be particularly important in areas of high structural unemployment where there may be few employers willing to make use of wage subsidies. There must be concern that a large number of participants forced into these options in areas where there is little take up of wage subsidies may have the effect of reducing the credibility of the New Deal, particularly amongst its participants. It is argued that such community jobs do little to improve the long-term employability of participants. The EPI highlighted the reasons for this:⁵¹

Evidence seems to suggest that the problem of poor re-employment prospects arises because the pace of the work on projects run by many voluntary organisations is slow and does not adequately equip young people for a return to jobs in the regular economy. This stems in turn from the fact that voluntary organisations engaged in such schemes are normally required to undertake marginal activities in order to reduce the possibility of displacing other private and public sector enterprises and hence maximise job additionality. In other words the projects come to resemble 'make work' schemes.

The extent to which ILM approaches are used as the New Deal develops remains to be seen and this is likely to depend on the take up by employers of the job subsidy scheme and the cost effectiveness of alternative options. The core training elements of each option are an attempt to provide participants with worthwhile outcomes in terms of recognised qualifications in light of the evidence of the ineffectiveness of a sole reliance on community programme schemes as a tool to increase employability.

⁵¹ Op Cit, EPI Submission to Sub-Committee on Employment

C. The Compulsion Debate

The earliest announcements of a Welfare to Work programme as Labour Party Policy stressed that the four options available to young people would not be supplemented by a fifth option of remaining on benefit. Benefit sanctions introduced by the previous Government under the Jobseekers Allowance will be used to reduce the benefit of those who refuse to take up one of the options, through an extension of the current regulations.

As recently as 1996 there was no such consensus on the need for benefit sanctions. In its report on the Right to Work/Workfare, the Employment Committee concluded:⁵²

Though compulsion may not affect the attitude to the work offered for many people, for some it will, and these people will be capable of disrupting the opportunities for many others. If the jobs offered are attractive and interesting and valuable enough, compulsion will not, we believe, be necessary.

The principle that benefits sanctions should be applied where claimants fail to meet their "responsibilities" as benefit recipients now appears to have been accepted by all of the major political parties. However, the debate continues amongst academics and those groups involved in implementing labour market policies.

Some supporters of a compulsory element to Welfare to Work schemes argue that without such compulsion the programmes would fail to reach those who need them the most. It can be argued that the long-term unemployed need coercion as they become so dissociated from the labour market that they become unable to respond to rational incentives. One of the most trenchant advocates of this argument, Lawrence Mead, has heavily influenced American policy in this area. He argues that incentives assume a degree of competence in the long-term unemployed that does not exist and such competence needs to be engendered in somebody who has been out of the labour market for a long time before they can be offered options. This argument assumes that there is work available for the long-term unemployed if they are sufficiently motivated and have the skills to take it. It also assumes that, to a certain extent at least, the unemployed contribute to their own misfortune. In his evidence to the Employment Committee Report on Workfare, Professor Alan Deacon summarised the arguments against such an approach:⁵³

Most British commentators recoil from such uncompromising individualism. The familiar and established objection to such an approach is that it fails to address the fundamental, structural causes of unemployment. This means that

⁵² *The Right to Work/Workfare* Employment Committee Second Report 1995-6, HC 82, p.xlviii

⁵³ *Ibid* Appendix I, p.3

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it is bound to be ineffective and to damage still further the morale of the unemployed.

Instead, supporters of Government policy have emphasised the responsibilities of the unemployed to respond to the offer of high quality training and employment options, and it is these responsibilities that justify benefit sanctions. Such responsibilities, it is argued, are required to obtain the "right" to receive benefit in the long-term and help to create a "contract" between the state and the individual. In the Budget debate, David Blunkett, Secretary of State for Education and Employment reiterated this argument.⁵⁴

There is an issue here of rights and responsibilities, and of obligations. We need to ensure that people are prepared to take up those responsibilities for themselves, which is important. The ability to offer choice is at the heart of this programme. People can choose, and be guided and supported in what is right for them. For the able bodied we do not believe that it is right for them to turn down those choices and to continue drawing benefit.

It seems likely, however, that sanctions are a pragmatic necessity. The New Deal proposals are relatively costly and this, in part, explains the compulsory element. It is argued that tax payers will expect to see the unemployed work towards self reliance in return for the money that is being spent on them.⁵⁵

Critics argue that the coercive nature inherent in such a policy makes it difficult to attract support from claimants and ultimately masks any realistic analysis of its effectiveness. Compulsion would appear to carry the risk that claimants will be forced into jobs or training programmes for which they are unsuitable and consequently unmotivated. Dennis Snower argues that there may be a need for an element of compulsion in countries where unemployment benefits exceed 70% of the average wage. In Britain, benefits are far less generous and therefore claimants find it less easy to sustain self-esteem when out of work and are less likely to see life on benefits as a soft option. He concludes:⁵⁶

While it is important to make it difficult for benefit claimants to work in the black economy, labour compulsion runs the danger of forcing people into jobs at which they are unsuitable, unproductive and unmotivated. The only way to tell whether the Government's employment and training programmes are attractive is to give people the option of refusing them and then to see what happens.

⁵⁴ HC Deb 3 July 1997 c 442.

⁵⁵ "Tough love or rough treatment", *Economic Report*, Employment Policy Institute, July 1997.

⁵⁶ *Evidence to the Employment Sub-Committee: The New Deal*, J Michael Orszag and Dennis J Snower, Birkbeck College, p. 6

Similarly, all the New Deal Options have a training element and it must be questionable whether compulsory training is likely to be effective. Participants who resent having to attend courses are unlikely to behave in a way conducive to a positive learning environment.

Concern over compulsion is likely to be greatest in areas of high structural employment where the employer option may be less available to claimants than in other areas. This would result in people being obliged to take up options such as the Environment Task Force or the Voluntary Sector option. It seems probable that such a situation would lead to high levels of participant dissatisfaction as has been reported in other Government programmes such as the Youth Training Scheme. This was criticised by participants for failing to lead to any improvement in long-term job prospects for the reasons highlighted above.

D. Lone Parents - Progress Report

The New Deal for Lone Parents has commenced in 8 pilot areas and so is the only part of the New Deal proposals for which there has been any evaluation. Some early results of the New Deal for Lone Parents were published on 23 October 1997.⁵⁷ This showed 8,651 invitations to interview had been issued; 2,026 interviews had been held; 1,612 lone parents had agreed to participate; and 433 had obtained jobs. On average, lone parents in work were found to be £50 per week better off than on income support though these figures do not take into account in work costs described by the DfEE as "relatively small".⁵⁸ Iain Duncan Smith, Opposition Spokesperson on Social Security, has criticised Harriet Harman, Secretary of State for Social Security, for launching the scheme prematurely and argued that many of the lone parents would have found work anyway. He contested they tended to be separated or divorced women with work experience.⁵⁹ This appears to confirm that any evaluation of the New Deal proposals will be open to criticism if it does not attempt to quantify the deadweight and substitution effects.

The implementation of the New Deal for Lone Parents has been welcomed by a number of organisations representing single mothers. However, critics argue that changes to the benefit system that have been introduced by the Government have either done little to help lone parents return to work or have actively worked against the policy objectives. The *Social Security (Lone Parents) (Amendment) Regulations 1997* were originally proposed by the previous Government and withdraw the lone parent premium for Income Support, Housing Benefit and Council Tax Benefit from April 1998. As Housing Benefit and Council Tax Benefit are paid to those in work as well as those on Income Support, it is argued this

⁵⁷ DSS, *A New Deal for Lone Parents: Moving forward. Progress report on the first three months*, October 1997

⁵⁸ Ibid p.3

⁵⁹ *Guardian*, 24 October 1997, "Success rate of welfare to work defended"

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exacerbates the benefit trap for lone parents. In a briefing for the debate in the House of Lords on the Regulations, the National Council for One Parent Families concludes:⁶⁰

Without going into the detailed arguments about whether or not lone parents face extra costs compared to two-parent families it is clear that pushing lone parents on income support into increased poverty undermines their ability to cope and therefore undermines their ability to obtain employment.

In his Budget Statement, Gordon Brown announced an extension of the childcare disregard for Family Credit, Housing Benefit and Council Tax Benefit. The current threshold of £60 is to be raised to £100 from next Summer for families with more than two children. In a written answer published after the House had risen for the Summer recess the Government confirmed that the number of lone parents in receipt of Family Credit who would benefit from the increase in the disregard was only 2,000.⁶¹ The small scope of the concession was heavily criticised by Steven Webb MP.⁶²

This is equivalent to just three people per parliamentary constituency. The Government has made much of its national childcare strategy but in fact the scale of the programme is very modest with childcare disregard being a drop in the option. Extra money will come from the lottery and the Windfall tax but even this will be outweighed by the money the Government is taking off lone parents through benefit cuts.

Critics also point out that in concentrating resources on advice and job search assistance the New Deal for Lone Parents does little to help with the financial costs incurred by lone parents who give up benefits to return to work. Lone parents are the section of benefit claimants who are most likely to be in receipt of means tested benefits. Over 80% receive at least one means tested benefit.⁶³ They are therefore particularly susceptible to punitive benefit tapers at the margins (ie. the rate at which benefit is withdrawn as earnings rise). The problems faced by lone parents are summarised in an article for *Adviser* magazine.⁶⁴

The acid test of any scheme devised to enhance employment opportunities is how far (if at all) a person would be better off in full-time work than either out of work or in part-time work and how those who have childcare costs compare with those who have none. Because MTB (means tested benefit) rates have

⁶⁰ Social Security (Lone Parents) (Amendment) Regulations 1997, Briefing by the National Council for One Parent Families, page 3.

⁶¹ HC Deb 29 July 1997 c 255-6W

⁶² "Brown childcare boost 'helps just 2,000 people'", *Guardian*, 16 August 1997.

⁶³ HC Deb 10 December 1996 c113

⁶⁴ *Adviser*, Number 63, September + October 1997, p. 12

always been set so low and tapers set so high, however, the notorious shortcomings of the means test are merely exacerbated where a claimant needs to pay for childcare.

Possible future measures to address these problems include adjusting tapers or introducing some form of earned income tax credit system. The arguments around such "solutions" go beyond the scope of this paper.

IV Further Reading

1. *Design of the New Deal for 18-24 year olds*, Department for Education and Employment, October 1997.
2. Department of Social Security, *A New Deal for Lone Parents: Moving forward. Progress report on the first three months*, October 1997
3. *Employment Zones Prospectus*, Employment Service, September 1997
4. *The OECD Jobs Strategy: Enhancing the effectiveness of active labour market policies*, OECD, 1996
5. *The Right to Work/Workfare* Employment Committee Second Report 1995-6, HC 82
6. *Working Nation: welfare reform and the Australian Job Compact for the long term unemployed*, Dan Finn, Unemployment Unit, 1997.
7. *Employment Subsidies and the Intermediate Labour Market*, memorandum submitted to the Employment Sub-Committee of the House of Commons Select Committee on Education and Employment, September 1997, Employment Policy Institute
8. *Job Subsidy Schemes, A paper for the House of Commons Sub-Committee on Employment*, NERA, August 1997
9. *The New Deal*, Education and Employment Committee, Second Report 1997-8 [HC.263] [forthcoming]

Appendix I: Schedule 2 to the Further & Higher Education Act 1992

SCHEDULE 2

Courses of Further Education

The description of courses of further education referred to in section 3(1) of this Act are the following-

- (a) a course which prepares students to obtain a vocational qualification which is, or falls within a class, for the time being approved for the purposes of this subparagraph by the Secretary of State,⁶⁵
- (b) a course which prepares students to qualify for-
 - (i) the General Certificate of Secondary Education, or
 - (ii) the General Certificate of Education at Advanced Level or Advanced Supplementary Level (including special papers),
- (c) a course for the time being approved for the purposes of this sub-paragraph by the Secretary of State which prepares students for entry to a course of higher education,
- (d) a course which prepares students for entry to another course falling within paragraphs (a) to (c) above,
- (e) a course for basic literacy in English,
- (f) a course to improve the knowledge of English of those for whom English is not the language spoken at home,
- (g) a course to teach the basic principles of mathematics,
- (h) in relation to Wales, a course for proficiency or literacy in Welsh,
- (j) a course to teach independent living and communication skills to persons having learning difficulties which prepares them for entry to another course falling within paragraphs (d) to (h) above.

⁶⁵ Note: a list of approved vocational courses is contained in *Vocational Qualifications approved under Schedule 2(a) for the period 1 August 1997 to 31 July 1998*, DfEE

Appendix II Unemployment Data

The following is supplied by Jane Dyson, Economic Policy and Statistics Section.

Table 1 shows, for each Government Office Region (GOR),⁶⁶ the number of unemployed claimants in the following categories:

- aged 18-plus
- aged 18 to 24;
- aged 18 to 24 and unemployed for over six months;
- aged 25-plus;
- aged 25-plus and unemployed for over two years.

Table 1

Unemployed Claimants: October 1997 not seasonally adjusted

| Government Office Region | Total aged 18+ | Aged 18 to 24 | | Aged 25 and over | |
|--------------------------|----------------|---------------|--------------------------|------------------|-------------------------|
| | | All | Unemployed over 6 months | All | Unemployed over 2 years |
| South East | 116,757 | 27,304 | 7,617 | 89,453 | 18,174 |
| Eastern | 90,302 | 22,477 | 6,730 | 67,825 | 14,092 |
| London | 245,772 | 55,197 | 20,835 | 190,575 | 49,902 |
| South West | 89,337 | 22,505 | 6,141 | 66,832 | 13,240 |
| West Midlands | 128,177 | 35,829 | 12,470 | 92,348 | 22,373 |
| East Midlands | 83,049 | 22,895 | 7,124 | 60,154 | 12,603 |
| Yorkshire and the Humber | 136,630 | 38,167 | 12,642 | 98,463 | 20,874 |
| Merseyside | 55,401 | 16,451 | 6,858 | 38,950 | 11,692 |
| North West | 114,426 | 33,243 | 9,529 | 81,183 | 14,827 |
| North East | 87,314 | 24,396 | 8,602 | 62,918 | 16,568 |
| Wales | 70,629 | 20,508 | 6,328 | 50,121 | 10,327 |
| Scotland | 139,156 | 36,153 | 11,337 | 103,003 | 19,640 |
| Northern Ireland | 60,327 | 16,220 | 5,883 | 44,107 | 19,341 |
| United Kingdom | 1,417,277 | 371,345 | 122,096 | 1,045,932 | 243,653 |

Source: ONS - NOMIS database

Table 2 expresses the number of claimants in each of these categories as a percentage of the total number of claimants aged 18 and over resident in the GOR. The 15,500 unemployed people aged 16 and 17 are excluded from all the tables. This is because, at a constituency level, the numbers fall below the confidentiality threshold in many cases. To make all the tables consistent with each other, 16 and 17 year olds have been excluded from the regional tables as well.

⁶⁶ For definitions of the GORs see Research Paper 97/67, *The New Statistical Regions*

Table 2

Unemployed Claimants: October 1997
not seasonally adjusted

| Government Office Region | Total aged 18+ | Aged 18 to 24 | | Aged 25 and over | |
|-----------------------------|-------------------|---------------|-----------------------------|------------------|----------------------------|
| | | All | Unemployed over 6 months | All | Unemployed over 2 years |
| South East | 100.0% | 23.4% | 6.5% | 76.6% | 15.6% |
| Eastern | 100.0% | 24.9% | 7.5% | 75.1% | 15.6% |
| London | 100.0% | 22.5% | 8.5% | 77.5% | 20.3% |
| South West | 100.0% | 25.2% | 6.9% | 74.8% | 14.8% |
| West Midlands | 100.0% | 28.0% | 9.7% | 72.0% | 17.5% |
| East Midlands | 100.0% | 27.6% | 8.6% | 72.4% | 15.2% |
| Yorkshire and the Humber | 100.0% | 27.9% | 9.3% | 72.1% | 15.3% |
| Merseyside | 100.0% | 29.7% | 12.4% | 70.3% | 21.1% |
| North West | 100.0% | 29.1% | 8.3% | 70.9% | 13.0% |
| North East | 100.0% | 27.9% | 9.9% | 72.1% | 19.0% |
| Wales | 100.0% | 29.0% | 9.0% | 71.0% | 14.6% |
| Scotland | 100.0% | 26.0% | 8.1% | 74.0% | 14.1% |
| Northern Ireland | 100.0% | 26.9% | 9.8% | 73.1% | 32.1% |
| United Kingdom | 100.0% | 26.2% | 8.6% | 73.8% | 17.2% |

Source: ONS - NOMIS database