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# Not Working

Why Workfare Should Replace the New Deal

Adam Bogdanor



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## **About the Author**

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## Executive Summary

“We will give 250,000 under-25s opportunities for work, education and training”

Labour Party General Election Manifesto 1997

“Within the New Deal programmes, performance needs to improve . . . there is a consensus that New Deal can and should deliver higher performance.”

House of Commons Work and Pensions Select Committee Report, 31st July 2002<sup>1</sup>

Over a million young people have taken part in the New Deal. The New Deal for Young People was one of the Labour Party’s five “early election pledges” in 1997 and remains at the heart of the Government’s welfare-to-work programme. The Government claimed that the reduction in long-term youth unemployment by three-quarters since 1997 is a result of the New Deal<sup>2</sup>; in fact, it is mainly a product of the economic boom of the late 1990s. Indeed, more than 42% of this fall happened before the New Deal had even started.

The facts are as follows:

- youth unemployment fell at a slower rate after the New Deal for Young People was introduced than before;
- youth employment was only 15,000 higher after two years as a result of the New Deal;
- compared to supported job-search, the training element of the New Deal actually reduces New Dealers' chances of leaving welfare and finding work;
- only 40% of New Deal leavers enter sustained unsubsidised jobs;
- the cost of every youth job created by the New Deal is over £22,000.

The New Deal isn't working because it puts too much emphasis on often irrelevant government-run training programmes, and too little on the provision of actual work experience. Nevertheless, to abolish the programme without replacing it with something better would be to squander an opportunity to improve the lives and prospects of the young unemployed, and other jobseekers and benefit claimants.

There is a feasible alternative to the New Deal, based on the idea that all able-bodied people of working age should be required to earn their benefits through real work. Workfare, as it is sometimes called, is not about saving taxpayers' money, although it certainly does that. It is not even about eliminating fraud and enforcing work requirements, although it does that too. It is about giving the unemployed something the current system has denied them for too long – the dignity, independence, self-respect and opportunity that comes with a real job.



The workfare system in Wisconsin, USA is based on three principles:

- Benefit claimants are required to work, either in the private sector or in the community.
- Subsidised training complements work requirements rather than replacing them.
- Social security offices are forced to compete with private sector agencies.

The results of Wisconsin's reforms are nothing short of spectacular:

- welfare rolls are down by 94%;
- 70–80% of those leaving the welfare rolls leave for work;
- child poverty is down by 20%; and
- the cost of welfare has halved in real terms.

Instead of yet another government training programme, the unemployed should be given the opportunity to play their full part in the world of work. Wisconsin shows how this can be done.

# **1 . What is the New Deal for Young People?**

The New Deal for Young People (“NDYP”), launched nationwide in April 1998, consists of three stages. Young people out of work and claiming Jobseeker’s Allowance (“JSA”) continuously for over six months enter the programme through the “Gateway”. New Deal Personal Advisers help each participant develop a plan to find a job, enhance their employability or prepare for the New Deal “Options”. During the Gateway period, which should last for a maximum of four months, participants remain on JSA. The second stage in the NDYP is the four Options:

1. Subsidised Employment (a job where the employer receives a subsidy for six months)
2. Full Time Education and Training (up to 12 months)
3. Voluntary Sector work (up to six months)
4. Environmental Task Force (a project lasting up to six months).

Which Option the young person enters is largely a matter of his or her own personal choice, combined with the advice of the Personal Adviser. All four Options involve a training element intended to lead to a recognised qualification.

Finally, eligible young people who have reached the end of their Options without finding employment enter the “Follow-Through” stage of the programme. This period, which can last up to four months, involves further intensive help from the Personal Adviser while participants continue to claim JSA. Young people who have not found employment after the Follow-Through stage and who continue to claim JSA for another six months are required to re-enter the programme and start the process all over again. The programme is mandatory – those who refuse to attend may have their JSA withdrawn for two weeks. However, NDYP does not actually require young people to work – young people are free to choose full-time training.

The New Deal has been evaluated through a wide range of research projects, many commissioned by the Department of Work and Pensions (“DWP”) or the Employment Service. It is now possible therefore to provide a definitive answer to the question ‘Is the New Deal working?’

## **2. How Effective is the New Deal?**

### **Welfare-to-nowhere**

The National Audit Office report on the New Deal for Young People in 2002 stated that the DWP should re-assess the cost-effectiveness of the New Deal Options other than subsidised employment, in the light of evidence of their “more limited effectiveness” in helping participants into sustained employment<sup>3</sup>. The evidence is as follows.

In 2001 the Employment Service commissioned a comprehensive report from the Policy Studies Institute into the effect of the New Deal Options on the likelihood of being in work and claiming Jobseekers’ Allowance (JSA)<sup>4</sup>. The Policy Studies Institute carried out a survey in February - May 2000 of those who had entered the NDYP 15-21 months earlier, and used “matching” methodology to compare the proportion employed among those who had previously participated in a particular New Deal Option, with those of similar characteristics who had not participated in that Option.

The survey found that only a **third of respondents entering the**

New Deal in spring 2000 were in work 15-21 months later - half were either still claiming JSA (22%) or were still on the New Deal (29%)<sup>5</sup>. Moreover, except for the (subsidised) Employment Option, people are no more likely to get a job if they enter a New Deal Option than if they remain on the Gateway<sup>6</sup>. The report also presents a surprising conclusion on the effectiveness of the Options in getting people off benefit – compared to remaining on the Gateway<sup>7</sup>:

“participating in one of the non-employment Options would have actually reduced the chances of moving away from JSA or New Deal.”<sup>8</sup>

Separate research commissioned by the National Audit Office confirms the failure of international programmes similar to the New Deal to increase employment rates, other than through subsidised employment.<sup>9</sup>

These startling findings show, without doubt, that at least three of the four New Deal Options do not help people to find private sector work, even though these are the most expensive parts of the New Deal<sup>10</sup>. The Work and Pensions Select Committee last year:

“heard compelling evidence about the need to change the prescriptive, fixed design elements of programmes, such as the four options in the New Deal for young people . . .

We recommend that the Government considers removing the different options and pilot programmes within the various New Deals, and instead allow advisers much more flexibility to design support around the needs of the individual. In doing so, they should draw on the more devolved models evident in our evidence on Employment Zones, Action Teams and the US”<sup>11</sup>.

One of the key drawbacks to the New Deal is that advisers are not given the flexibility to tailor help to the circumstances of the individual, or to place him into private sector work where possible. As discussed below, welfare initiatives in the US allow local welfare agencies much greater freedom to experiment and innovate within an overarching framework of principles – something recommended by the House of Commons Social Security Committee that looked into Wisconsin’s reforms in 1998<sup>12</sup>. In addition, the programme in Wisconsin aims to place claimants into work, rather than giving them the option to engage in full-time training instead.

## **Training**

The most popular Option (with over half now choosing it<sup>13</sup>) is full-time education and training. Unfortunately, it is also the least effective Option in getting people off benefit and into work.

The Education and Employment Select Committee had this to say about it in 2001:

“Fewer than 20% of those entering the option achieve the qualification for which they were aiming, 45% complete a course and obtain a qualification, and a lower proportion of leavers from the FTET (Full Time Education and Training) option enter work than those leaving from the other options. . . Research shows that clients entering the FTET option were too often unprepared and the option was experiencing high dropout rates, with poor records of attendance.”<sup>14</sup>

The following year, the Adult Learning Inspectorate found that only 31% of the clients on this Option achieve a qualification and only a

quarter find a job<sup>15</sup>. The latest New Deal figures confirm that to date only one in three have left this Option for unsubsidised employment<sup>16</sup>.

The problem is partly that the State does not know what individual employers are looking for, and cannot therefore provide the job-specific training that employers value. Hence in part high drop-out rates – three-quarters of clients drop out of their training course<sup>17</sup>. But training also fails to give job-seekers the “soft skills”, such as commitment, reliability and punctuality, that employers seek, as independent research has shown<sup>18</sup>. It is worth reading what the Work and Pensions Select Committee said last year:

“Government funded training should not substitute for skills development that an employer is already prepared to pay for and which is specific to that firm. Instead, Jobcentre Plus should aim to develop more portable skills (“soft skills”) . . . policymakers in Oregon commented that the classroom was not the ideal setting to acquire work-related skills; they have found that people learned faster when placed in a work environment.”<sup>19</sup>

Research in the US similarly demonstrates that full-time training often fails to help people into work or increase their earnings: one of the largest studies of welfare-to-work programs ever conducted concluded that “Employment-focused programmes generally had larger effects on employment and earnings than did education-focused programs”<sup>20</sup>. In fact, by raising jobseekers’ wage demands above what employers are prepared to pay, training may mean that they actually spend longer out of work.

For many welfare recipients, lack of consistent work experience is the most common barrier to becoming employed; self-evidently,

only actual work can provide that experience. By keeping jobseekers disconnected from the world of work, training can actually prolong unemployment<sup>21</sup>. As an Institute of Fiscal Studies (IFS) report noted in 2001, “Generally, the outcomes of evaluations of training programs for young men have been disappointing.”<sup>22</sup> A recent IMF Working Paper concluded that “expenditures on training programs seem to have been largely ineffective.”<sup>23</sup>

Training is increasingly seen as the New Deal’s soft option, both jobseekers and employers research has shown that it is the slowest of the options in moving people into unsubsidised employment<sup>24</sup>. As the Policy Studies Institute report of 2001 put it, the full-time training option “scored relatively low on attachment to the labour market, and in its ratings of New Deal’s helpfulness, both in relation to job search and jobs, and to self-confidence.”<sup>25</sup> The danger is that claimants begin to perceive the New Deal as a potentially endless succession of training programmes with little intrinsic value, and that employers feel, rightly or wrongly, that claimants in the New Deal Full-Time Training and Education Option are merely trying to avoid work requirements or postpone the start of work. This might explain why nearly a fifth of New Deal participants have been on the programme more than once<sup>26</sup>. As the commentator Stefan Theil observed about training programmes in Germany:

“According to the experts, not only does Germany’s vast and expensive retraining bureaucracy *not* help the jobless find work, but often even *reduces* their chances. Reason: they drop out of the work force so long, learning inappropriate or outdated skills, that they end up being less employable than when they began their retraining.”<sup>27</sup>



Unfortunately, Britain has followed Germany's model, with the predictable result that only a quarter of people on the training option were in work 15-21 months after entering the New Deal<sup>28</sup>.

## **Environment Task Force / Voluntary Sector**

This Option involves work with a voluntary sector organisation, aimed at benefiting the individual, the organisation, the wider community and/or the community's physical environment. The young person receives an allowance equivalent to their Jobseeker's Allowance and continues to receive any linked benefits, plus a grant of £400 payable over the six months. £750 is also available towards the cost of providing the young person with training, equivalent to one day per week, towards an approved qualification. Currently 39% of New Dealers choose the Environment Task Force / Voluntary Sector Option, making it the second most popular Option after Full-Time Training.

Projects under the Environment Task Force scheme are run in partnership with local authorities, and include improving community facilities, bringing derelict land back into use and making town centres cleaner, safer and more attractive. The Government claims that this Option is helping to regenerate deprived areas, by improving the urban environment as well as by alleviating unemployment and improving the skills base of communities.

The Environment Task Force / Voluntary Sector Options are less likely to lead to private sector work than the (subsidised) Employment Option<sup>29</sup>. A report commissioned by the Government<sup>29</sup> admitted that "The New Deal Evaluation Database points to around 10% of clients having moved directly into employment from ETF (almost the same

as the Voluntary Sector option), although case study evidence indicates that in some areas 18% is achieved . . .”<sup>30</sup> Overall, official statistics show that to date only one in three leave these Options for unsubsidised employment<sup>31</sup>. Based on research from the Policy Studies Institute, the National Audit Office concluded:

“There was little evidence that job creation programmes (similar to the Environmental Task Force and Voluntary Sector Options) had any effect on employment rates.”<sup>32</sup>

However, according to the Policy Studies Institute report of 2001 the New Deal Voluntary Sector Option “performed consistently well on the employability measures. It scored highly on number of job search methods used, and on self-confidence, while on human capital and perceived helpfulness of New Deal it was bracketed with or close behind the Employment Option.” In other words, the Voluntary Sector Option helps improve claimants’ *employability* i.e. their chances of entering work. The report notes that “The results for Voluntary Sector and Environment Task Force Options gainsay the argument that work experience programmes in the public sector may weaken motivation to compete for jobs.”<sup>33</sup>

## **Subsidised Employment**

The subsidised Employment Option record is mixed. Although it is more effective in moving people into sustainable jobs than the other New Deal Options, it is the least popular Option. There is certainly evidence that the Option has a positive role to play when combined with a work-orientated labour market programme.

Encouragingly, a survey<sup>34</sup> published in 2000 found that 60% of the NDYP subsidised employees were still employed after the subsidy ended at six months<sup>35</sup> and half were still employed after nine months. Those on the other New Deal Options and those remaining on the Gateway would have had better chances of employment had they chosen the (subsidised) Employment Option instead (after controlling for the characteristics of the claimants)<sup>36</sup>. The Subsidised Employment Option is also improvement on the position of the long-term youth unemployed<sup>37</sup> before the introduction of the New Deal, who only had a 34% chance of moving into work within six months<sup>38</sup>.

The problem is that young people are simply not choosing the subsidised Employment Option - in fact, it is the least popular option. Of the roughly 20,200 people who were on an Option at the end of last year, only around 3,300 (fewer than one in five) were on the subsidised Employment Option<sup>39</sup>.

Subsidised employment programmes also suffer from high levels of “deadweight” i.e. subsidy is wasted on providing jobs to people who would have found work anyway. According to a review by the Education and Employment Select Committee in 2001, schemes involving employment subsidies are typically associated with levels of deadweight of between 50% to 90%<sup>40</sup>. A survey of employers commissioned by the Government similarly found that nearly 70% of vacancies would have existed regardless of the New Deal subsidy<sup>41</sup>.

Moreover, there is evidence that employers are sceptical of subsidy schemes, disliking the administrative burden that they entail and perceiving voucher-holders as poor workers. As the Institute of Fiscal Studies reports:

“Workers failing to get a job in the ‘Gateway’ may be perceived to be ‘the worst of the lot’ and therefore become stigmatised . . . Additionally, employers may believe that the unemployed with the best potential will self select themselves into the education and training category.”<sup>42</sup>

The IFS study concluded that the increase in productivity associated with the Subsidised Employment Option was not sufficient to prevent low-productivity workers from being made redundant after their subsidy runs out<sup>43</sup>.

Though studies on subsidised work by the OECD<sup>44</sup> and the National Bureau of Economic Research<sup>45</sup> in the US come to similarly pessimistic conclusions, others are more positive. The National Institute for Economic and Social Research (NIESR) found that subsidised jobs play a significant role in getting people from welfare to work, and that only around a third of those who find subsidised employment through the New Deal would have found regular employment in the absence of the programme<sup>46</sup>. A recent IMF Working Paper found that among all the active labour market programmes studied, “direct subsidies to job creation were the most effective in raising employment rates”<sup>47</sup>.

The Employment Option is also the cheapest of the New Deal Options, costing only £2,070 per participant and only half that for those who would otherwise have remained on Jobseekers’ Allowance<sup>48</sup>. Finally, the Policy Studies report of 2001 found that the (subsidised) Employment Option did best in terms of access to training, attachment to the labour market, perceived helpfulness of the New Deal and self-confidence, particularly amongst deprived groups<sup>49</sup>.

This suggests that the subsidised Employment Option is the most

valuable of the New Deal Options; it is therefore a shame that four out of five people choose a different Option.

## **Effect on Job Search**

The introduction of Jobseeker's Allowance in October 1996 increased youth job search levels<sup>50</sup>. But what effect did the New Deal have? According to the Policy Studies Institute, the NDYP had no effect on job search activity among 18 to 24 year olds<sup>51</sup>, a finding accepted by a Government Research Report<sup>52</sup>. It did not even manage to shift young jobseekers into industries with labour shortages<sup>53</sup>. This is particularly disappointing given that the New Deal is supposed to provide support and encouragement to young people to look for work.

# **3. How Many Jobs Has the New Deal Created?**

## **The Manifesto Target**

Youth unemployment actually fell at a slower rate after the New Deal for Young People (NDYP) was introduced in April 1998 than before. In the year before the New Deal's national launch, long-term youth unemployment (the NDYP's target indicator) fell by a third. In the two years following its launch, the figure halved<sup>54</sup>. During the 1992-97 Government, the monthly average for young people moving off the unemployment count was 33,000. Under the New Deal, the figure fell to just under 20,000<sup>55</sup>.

In a narrow sense, the Government met its key 1997 election pledge to "get 250,000 under-25 year-olds off benefit and into work" by the end of its first term: 339,000 young people had spent at least one period in employment, either during the New Deal programme or after having left it, by October 2001, and of these, 244,000 were in unsubsidised employment<sup>56</sup>.

## The Revolving Door

The 1997 Labour Election Manifesto itself said “The best way to tackle poverty is to help people into jobs - real jobs.” The House of Commons Select Committee on Work and Pensions confirmed that the aim of the New Deal must be to help young people into sustained *unsubsidised* jobs<sup>57</sup>.

But the New Deal’s achievement is less than it seems. In fact, Government statistics show that over a fifth of all job entrants are back on benefit within 13 weeks<sup>58</sup>. For these people, the New Deal works like an endless merry-go-round - they join the programme, jump through all its hoops, find a job, and then within three months of gaining work find themselves back on the New Deal. As the Select Committee on Work and Pensions commented in July 2002:

“we are concerned that almost 40% of 18-24 year old New Deal leavers end up back on JSA [Jobseeker’s Allowance] within six months, and this is reflected in the fact that one in three currently joining New Deal are not doing so for the first time. Since 1998, nearly 80,000 of the known job entrants started jobs that were not sustained beyond 13 weeks duration. Many of these find themselves back on New Deal as re-entrants.”<sup>59</sup>

The National Audit Office found that the problem was even worse: around a fifth of those who had found a job lasting at least 13 weeks were nevertheless back on JSA within a further six months<sup>60</sup>.

As the Education and Employment Select Committee put it in March 2001, young people’s “aspirations will not be met by a cycle of

continual short-term employment in entry level jobs, registered unemployment and participation in the New Deal.”<sup>61</sup>

## **Success rate of 40%**

The NDYP’s ultimate aim is to get young people into jobs, but the Government’s own figures show that most people who leave the New Deal do not leave it for work. Only 39% of all New Deal leavers to date have entered sustained unsubsidised jobs<sup>62</sup>. The long-term young unemployed<sup>63</sup> had a 34% chance of moving into work within the next six months *before the introduction of the New Deal*<sup>64</sup>. Indeed, 33% of those who left before their first New Deal interview (and therefore barely enrolled on the programme) entered unsubsidised jobs. This suggests that the New Deal does not make much difference to the chances of a young person finding work. Those who left before their first New Deal interview – one in ten of all New Deal participants – clearly agreed.

The Select Committee on Work and Pensions commented:

“We believe that the most rigorous definition of New Deal achievement should measure sustained job entry as a proportion of those leaving New Deal. On this basis, New Deal has a job entry rate of 40% nationally.”<sup>65</sup>

A programme that fails to get most of its participants into work cannot be called a successful welfare-to-work programme.

## **How many youth jobs has the New Deal created?**

The Government claimed that the New Deal helped 210,000 young



people move into work in the first two years of the programme (i.e. by the end of March 2000)<sup>66</sup>. Examine the figures more closely, however, and it becomes apparent that most of those people would have found jobs without the New Deal.

In 2000 the Government commissioned a study by the National Institute for Economic and Social Research (NIESR)<sup>67</sup> into the effect of the New Deal on youth employment. It estimated “matching functions” for different age and unemployment duration categories using information from before the NDYP was introduced, and forecast outflow rates for the NDYP period. The study found that over the first two years of the programme 215,000 young people had left unemployment *earlier* than would have been the case without the programme, and that of these, about 60,000 had moved directly into work (including subsidised jobs). However, most of these people would have found jobs without the NDYP: the NIESR concluded that overall **the New Deal for Young People raised overall youth employment by only 15,000 after 2 years**. The Government concedes this in its recent research report:

“By March 2000, NDYP had raised youth employment by around 15,000, excluding those on ETF [Environmental Task Force] and VS [Voluntary Sector] Options.”<sup>68</sup>

The National Audit Office’s consultants, the National Centre for Social Research, confirmed that a range of 8,000 to 20,000 additional youth jobs as a result of the New Deal was reasonable<sup>69</sup>.

The reason for the disparity between the Government’s claims and its own studies is clearly explained in the NIESR study:

“those who are helped out of unemployment by NDYP would not have remained unemployed indefinitely in the absence of the programme. Rather, the programme mainly helps people leave unemployment *earlier* than they would otherwise have done. Many of those who were helped by the programme to leave unemployment before March 2000 would have left anyway by that date. This means that at any given point in time, the reduction in the unemployment stock due to NDYP will be smaller than the accumulated exits from unemployment due to NDYP.”<sup>70</sup>

Indeed, NIESR found that of the 590,000 people who left the claimant count via the New Deal, “375,000 (65%) would have left unemployment without help from the programme”<sup>71</sup>. Of those who left unemployment for an unsubsidised job via the Gateway or the “Follow-Through”, 75% would have done so in the absence of the New Deal<sup>72</sup>. “The aggregate effect of the programme”, the NIESR concluded, “is modest, raising employment by a little more than 0.1%.”

NIESR also conceded that a sustained improvement of even this small amount was only possible if the programme led to a permanent improvement in search activity<sup>73</sup>. The last chapter suggested that no improvement in job search activity has occurred although NDYP may have raised job entry rates for non-employed young men<sup>74</sup>.

The NIESR study, after showing that the increase in youth employment after two years was only 16,000<sup>75</sup>, warned that:

“There is not expected to be any extra effect on the stock of youth employment over the following two years.”<sup>76</sup>

In other words, after four years of the New Deal youth employment is estimated to be only 16,000 higher as a result of the programme<sup>77</sup>.

## **The 75% claim**

In its 2001 General Election Manifesto, the Labour Party stated that “The New Deal has already helped to cut long-term youth unemployment by 75 per cent . . .”. The Government presumably arrived at this figure by simply taking the claimant count for long-term unemployed 18-24 year olds in April 1997 (177,500) and comparing it with the same figure four years later (40,800)<sup>78</sup>. This is highly misleading:

- more than 42% of this fall happened before the New Deal even started<sup>79</sup>;
- the New Deal reduced youth *unemployment* by only 35,000 in the first two years<sup>80</sup>;
- the New Deal increased youth *employment* by only 15,000 in the first two years<sup>81</sup>;
- those in the New Deal Options are not counted as “unemployed”<sup>82</sup>.

As the Government’s own study stated:

“Youth unemployment of 12 months or more had virtually disappeared by this time. The main reason for the latter was that, after 10-12 months of unemployment, all NDYP participants were required to enter an Option, which ended their unemployed status.”<sup>83</sup>

The NIESR report agrees, commenting that “It is clear that the NDYP programme initiates a large number of flows out of unemployment simply by design.”<sup>84</sup>

Not only did the Government exaggerate the reduction in unemployment caused by the New Deal; it failed to mention that the reduction in unemployment did not correspond to a similar increase in *employment*. As Young and Riley put it:

“Clearly, the reduction in measured long-term unemployment among young people has not been matched by a similar increase in conventional employment. Some of the beneficiaries have moved onto NDYP options where they are not counted as unemployed or have moved back onto short-term unemployment.”<sup>85</sup>

A recent report by the Policy Studies Institute concluded that the NDYP had reduced unemployment by 30-40,000 with most of the impact coming from the young short-term unemployed who terminated their benefit claim before six months to avoid participation in the New Deal<sup>86</sup>. The Policy Studies Institute estimated that the NDYP had resulted in a sustained increase in employment of only 3,000 among women and no sustained effect for men, although the NDYP had led to a more rapid exit from unemployment for men.

## **Summary**

The Government has itself admitted that the New Deal raised youth employment by only 15,000 in two years – a rise tersely described by both the NIESR authors and the National Audit Office as “small”<sup>87</sup>.

## **4. How Much Does the New Deal Cost?**

The Government's evaluation, carried out by the National Institute of Economic and Social Research (NIESR), states the New Deal for Young People costs £7,000 per job. This is confirmed by the National Audit Office study which estimated a cost range of between £5,000 and £8,000 per job on the same basis<sup>88</sup>. If young people on the Environmental Task Force and Voluntary Sector Options are included, the figure is £4,000 per job<sup>89</sup>. However, £7,000 is the figure rightly preferred by the Government's NIESR study: as one of the co-authors puts it:

“[The people on the Environmental Task Force and the Voluntary Sector] are in the Options; so you could argue that it is not legitimate to include those [in the jobs figure], because it would be very easy to design a scheme where you just say, “Well, this is a job, you go into that,” and we do not spend anything on it.”<sup>90</sup>

Therefore, the official figure is that the New Deal for Young People costs £7,000 per job (Table 1).

However, even the £7,000 figure is debateable. First, the cost figure used was the *net* cost after making various adjustments which fail to take into account the increased expenditure on in-work benefits for those who find employment. More importantly, there are two types of adjustment which can be made to turn the gross figure into a net figure – adjustments for direct savings and adjustments for indirect savings. The first type of adjustment is based on the direct savings from newly employed young people paying taxes and no longer claiming benefit. It is perfectly legitimate to take these *direct* savings into account because they are real and measurable. However, these direct savings amount to around £95 million a year<sup>91</sup>, barely half of NIESR's figure for the savings of the scheme (£194 million a year).

The other adjustments NIESR makes to the cost of the NDYP fall into the second type – they are based on *indirect* savings. NIESR estimates that by increasing the level of job search and reducing the level of long-term youth unemployment, the New Deal for Young People had the *indirect* effect of increasing national income and increasing employment among all age groups by relieving upward pressure on wages. This rise in national income increases tax revenue and is included in NIESR's calculations of the cost per job.

But these *indirect* effects may have been exaggerated. Although NIESR claims that the New Deal for Young People increases national income by £500 million a year, the National Audit Office says that £300 million a year is “a more plausible central estimate”, since most additional jobs are at low, rather than average, wage rates<sup>92</sup>. On this basis alone, NIESR's estimate of the cost per job is too low. Moreover, the general view expressed in the NIESR study that reducing the share of

long-term unemployment in total unemployment will increase national income by reducing wage pressure is questioned by some commentators<sup>93</sup>. In any case, the authors of the NIESR study admit that:

“it needs to be emphasised that such a large effect [on wage pressure] can only be sustained if the shift in unemployment composition is permanent. This requires permanently higher search activity among the unemployed ....”

Yet the evidence is that the New Deal has had no overall impact on job search activity among the young unemployed (see “How Effective is the New Deal?” above). This suggests that NIESR’s assumption of indirect savings from the NDYP is illegitimate.

Secondly, NIESR’s indirect adjustments rely on their estimate of jobs obtained by *older age groups who are not even eligible to participate in the NDYP*. NIESR acknowledges that the indirect effects of the New Deal on youth employment and unemployment are relatively small<sup>94</sup> and estimates that total *youth* unemployment was only an extra 5,000 lower as a result of these indirect effects<sup>95</sup>. Thus, the £7,000 figure is the net cost per job for all age groups, rather than the cost per youth job. Moreover, the National Audit Office warned that:

“The National Institute’s estimate [of the effect on older age groups] was reasonable, but the methodology used to arrive at the estimate was such that there is considerable doubt about its robustness.”<sup>96</sup>

NIESR estimates that the net cost of the programme was £140 million a year for the first four years<sup>97</sup>, on the basis that the programme made a 60% return (which calls into question earlier

Government claims that the programme pays for itself<sup>98</sup>). The *gross* cost - i.e. the cost before making these deductions – was £334 million a year or £1.3 billion over four years<sup>99</sup>.

NIESR estimates that the average number of jobs created by the New Deal over a four year period is 20,000 per year including jobs for older age groups. It estimates that the average number of *youth* jobs directly created by the New Deal is 15,000 per year over this period. On this basis, the actual gross cost per youth job is over £22,000. This figure includes subsidised jobs.

The table below adjusts the gross cost by deducting only the *direct* savings from newly employed young people paying taxes and no longer claiming Jobseekers' Allowance (£95 million). It excludes NIESR's more speculative indirect adjustments based on the increase in national income. On this basis, the *net* cost per youth job is around £16,000. Even this net figure may well be an under-estimate of the true cost<sup>100</sup>.

#### **Annual Net Cost per Job (NIESR study)**

Annual increase in employment resulting from the NDYP	20,000
Net expenditure	£140m
Cost per job	£7,000

#### **Annual Gross Cost per Youth Job**

Annual increase in youth employment resulting from the NDYP	15,000
Gross expenditure	£334m
Cost per job	£22,267

#### **Annual Net Cost per Youth Job**

Annual increase in youth employment resulting from the NDYP	15,000
Net expenditure	£239m
Cost per job	£15,933



# 5. Why Workfare Works

The previous chapters have illustrated some major deficiencies in the New Deal for Young People. Yet to abolish the New Deal without replacing it with something better would be a tragedy for the unemployed. Indeed, the Government should be given credit for recognising that the pre-1998 system was letting the unemployed down, and implementing something positive in response. Returning to the status quo ante is not an option.

The New Deal is a genuine attempt to help the long-term unemployed to get off welfare and into work. It is aimed at a real problem – the Welfare State hands out money to claimants but fails to actually help them gain independence, self-respect and a real job. The unemployed do not want to spend their lives claiming off the state; nor do they want to be fobbed off with clever schemes. They want to stand on their own two feet.

The State has a role to play in this, but its focus must be to help and motivate people to become self-sufficient through work. The problem is that the Government is committed to outdated state-run training programmes that do not actually require claimants to work.

Training has become a substitute for work. As the House of Commons Social Security Select Committee stated in 1998, “the British social security system should be more closely tailored to work requirements for claimants.”<sup>101</sup>

## **The status quo**

The issue of working age people on benefit is not limited to the long-term young unemployed; indeed, if anything, young people experience less dependency than older age groups<sup>102</sup>. Fewer than one in every 20 jobseekers is eligible for the New Deal for Young People<sup>103</sup>. Although there are New Deals for jobseekers aged 25–49 and those aged over 50, those who are out of work and on income support (rather than on Jobseeker’s Allowance) have no such programme. As the House of Commons Select Committee recommended, these groups must also be included in labour market programmes<sup>104</sup>.

Whilst there has been a sharp fall in both the unemployed claimant count and the number of lone parents claiming income support, there are still far too many people trapped in poverty and benefit dependency. In addition to the 943,000 people claiming Jobseeker’s Allowance, there are over a million able-bodied people of working age claiming income support<sup>105</sup>. This includes over 800,000 lone parents, two thirds of whom have been stuck on benefit continuously for at least 2 years. Over 1.5 million children are in lone parent families which are forced to make ends meet on income support of only £113 a week, and over a fifth of all children live in families claiming a key benefit<sup>106</sup>. There are 2¾ million people who want to be in paid work but are not<sup>107</sup>.

There is evidence that long-term unemployment engenders dependency – the longer a job-seeker is out of work, the less likely he is to find a job eventually, particularly among the over-25s<sup>108</sup>. Prior to the introduction of the New Deal, men aged between 25 and 60 who had been unemployed for six months or more had only a 22% chance of entering employment in the next six months (falling to only 17% for those unemployed for two years or more)<sup>109</sup>. Indeed, two-fifths of those making a new claim for Jobseeker's Allowance were last claiming less than six months ago. Alarmingly, half of all lone parents on income support in 1991 were still on income support seven years later, according to a DSS study of a representative sample<sup>110</sup>. This is a tragedy for these families because it denies them the self-respect, dignity and independence that a job can provide.

The current system, unfortunately, is not very effective in breaking this downward spiral. Lone parents of a child under 16, for example, have long been subject, in the words of the Social Security Select Committee, “to no work requirement whatsoever.”<sup>111</sup> Although lone parents whose children are aged five or over must now attend an initial interview, this remains true today. Similarly, although the Jobseekers' Allowance in theory requires claimants actively to seek work; in practice, about half of those claiming JSA think that their benefit will not be stopped if they are not really looking for work, and the average claimant only spends seven hours a week looking for work, according to Government research<sup>112</sup>.

The status quo is no longer acceptable; it has left hundreds of thousands of people dependent on handouts and excluded from the workplace. A system that hands people a cheque and then walks away is not compassionate. As the House of Commons Select Committee put it in 1998:

“As a Committee we can at least agree that some significant reform of our social security system is needed. A system which has millions of children being raised on Income Support cannot be said to be wholly successful.”<sup>113</sup>

## Why Workfare Works

“The potentially negative consequences of being out of work extend well beyond the loss of financial rewards. They often include loss of a role, social contact, daily routine, feelings of participation, and self-esteem and self-worth.”

Opportunity for All 5th Annual Report 2003: Department for Work and Pensions

The Government understands the importance of work, yet its welfare-to-work programme does not actually require its participants to work. By far the most popular New Deal Option - with over half choosing it at the end of last year - is *full-time* training, which is ineffective in helping people obtain work (see above). Training itself is no bad thing – so long as it is combined with a substantial degree of real employment (indeed all four New Deal options include an element of training). The problem occurs where training is full-time. As the Adult Learning Inspectorate put it, “even the most disaffected young people were successful when the goals presented to them were tangible and relatively short-term (notably, a job), while many continued to find difficulty in sustaining a year-long college course.”<sup>114</sup>

The Policy Studies Institute report of 2001 found that “those in subsidised employment were more likely to get work-based training than those in Full-Time Education and Training, by a

margin of 42 percentage points”, partly because full-time education and training is obviously not counted as “work-based training”, and partly because participants in full-time education and training cannot subsequently get enough work-based training through market jobs to close the gap with the other Options<sup>115</sup>. The House of Commons Select Committee on Work and Pensions hit the nail on the head when it said “The evidence suggests the New Deal has been a success where it has focussed on work”<sup>116</sup>.

Some on the Left suggest that the major cause of poverty is low pay. This is incorrect – as the Chancellor acknowledges, the major cause of poverty in the UK is unemployment. Work is the best route out of poverty: about two-thirds of families rising above the poverty line in any one year do so because a parent gets a job or the family’s earnings increase<sup>117</sup>. Working-age adults living in workless households are around five times more likely to have low incomes than those where one or more adults work. Indeed, only 2% of households where all the adults are in full-time work and only 11% of couple households where one person works full-time and the other person does not work have low incomes; by contrast, 60% of households where the head or spouse is unemployed have low incomes<sup>118</sup>. Moreover, as the Government points out “the chances of leaving low income fall the longer the spell of worklessness lasts.”<sup>119</sup>

Workfare is a system that makes the payment of benefit conditional on performing some kind of work. It ensures that welfare recipients follow a regular, work-based structure to their lives every day and that they do not have long gaps in their work histories. This prevents them becoming defeatist and makes them more employ-

able. It also encourages people to take private sector jobs, preventing dependency from arising in the first place.

Work requirements are beneficial for several reasons<sup>120</sup>:

### 1. Reducing fraud

Social security fraud costs around £7 billion a year, enough to give an extra £10 a week to every single pensioner in the country<sup>121</sup>. Much of the fraud consists of individuals claiming multiple welfare cheques under different names or individuals claiming benefit while working in the “black market”. This cannot happen if people are required to show up for work every day.

### 2. Creating real work incentives

The requirement for Jobseekers’ Allowance claimants to look for work after 13 weeks of claiming is not properly enforced (see above) – indeed, there is no real mechanism to verify whether claimants are actually looking for work. Lone parents are not even required to look for work until their children reach the age of 16. These people are not scroungers and they are not lazy – many have simply become defeatist and cynical towards a system that treats them as passive claimants rather than people capable of looking after themselves. Work requirements eliminate the option of receiving “something for nothing”. When people realise that they will need to work to claim welfare, they are less likely to enrol in welfare in the first place, or to stay on welfare.

### 3. Maintaining work habits

Under a workfare system, claimants are held accountable for their actions in the same way as in a private sector job. If people fail to turn up to work without good reason, their wages can be reduced.

Similarly, if people fail to comply with workfare requirements without good reason, their benefits can be reduced. Those lacking work experience learn work skills such as responsibility, persistence, punctuality and reliability, as well as how to co-operate with colleagues and carry out prescribed duties, all of which help prepare them for full self-sufficiency<sup>122</sup>. As the House of Commons Work and Pensions Select Committee found last year:

“In drawing our attention to the employer survey of New Deal workers above, the TUC observed that the list of reasons for dismissal - poor attendance, insufficient quality of work, disobedience and dishonesty - were classic indicators of a lack of ‘soft skills’ among young people who do not understand the world of work. One of the strong features of all the US programmes we visited was their emphasis on training participants to be job-ready: to be reliable, to dress properly and be drug free, to be able to get along with colleagues and work as part of a team; to have good communication skills and to show a willingness to learn. . .”<sup>123</sup>

Indeed, a survey by the Urban Institute in 1998 asking employers to name the three most important traits they look for when hiring for “entry-level” jobs found that the most popular answers were positive work attitude (66%), reliability (66%), work ethic (39%), and punctuality (31%). The least popular answer was specific job-training (4%)<sup>124</sup>.

#### 4. Work Experience

A welfare claimant who has been engaged in full-time training or simply looking for work for six months is less valuable to a future

employer than one who has been consistently engaged in some kind of work (even public-sector work). For many welfare recipients, the lack of consistent work experience is the most common barrier to becoming employed; by definition only work can provide that experience. Workfare prevents long periods of debilitating worklessness and gets jobseekers used to doing a full day's work.

The final chapter will explore an alternative to the New Deal, based on the success of Wisconsin's welfare reforms.



## **6. Why Workfare Should Replace the New Deal**

### **Wisconsin and the politics of welfare**

Tommy G. Thompson, the current Secretary for Health and Human Services in the Bush Administration, made his name as Governor of Wisconsin from 1987 to 2001. Partly as a result of his workfare programme, he made state history as the longest-serving governor of Wisconsin when he was re-elected for a fourth term in 1998. Remarkably, Thompson achieved this feat in a traditionally Democratic state (in 1986 the Democrats had controlled the governorship for thirteen out of the previous fifteen years). Indeed, Wisconsin voted Democrat in the last four presidential elections.

Commentators agree that “Wisconsin is the only state that has enacted legislation to end traditional welfare”<sup>125</sup> and that “Wisconsin’s reform of family welfare is the most radical and, arguably, the most successful in the nation . . . Although many states talk about welfare reform, Wisconsin has produced.”<sup>126</sup> Indeed,

Thompson “is widely regarded as the man who invented welfare reform.”<sup>127</sup> As then President Bill Clinton said:

“All in all, Wisconsin has the makings of a solid, bold welfare reform plan. We should get it done. . . . there is now a widespread national consensus shared by people without regard to their political party on what welfare reform should look like.”<sup>128</sup>

By the end of the ‘90s, Thompson’s welfare reforms had won bipartisan support. Though Wisconsin again elected a Democrat governor in 2002, the reforms were simply not an issue during the campaign, and the new governor has taken no steps to dismantle the programme.

There were several reasons for Thompson’s political success<sup>129</sup>. First, polls revealed a strong fear that high benefits were attracting poor people from other states (“welfare migration”). 84% of the Wisconsin public believed that the existing welfare system increased poverty and 94% felt that welfare recipients should be required to take jobs, training or keep their children in school<sup>130</sup>. The welfare bill was growing fast. Wisconsin was one of only three states that raised welfare benefits in real terms between July 1970 and January 1987. Between 1971–2 and 1984–5, the state’s AFDC<sup>131</sup> spending in current dollars grew by an average of over 13% a year, and in some years by over 20%. Wisconsin’s welfare system was ripe for reform and the voters knew it.

Second, Thompson showed determined political leadership and kept the initiative by launching a succession of ever-bolder welfare experiments, although these were only extended to the entire state in March 1996. Usefully, he could present these proposals as sensible (if

radical) extensions of the Work Experience and Job Training program introduced by the Democrats before he became governor. Since reform was broadly popular, the Democrats knew that if they opposed Thompson's proposals without offering alternatives they would "risk . . . losing their seats in the Legislature", as Milwaukee Democrat Representative Margaret Krusick remarked in 1991<sup>132</sup>. (Indeed, many Democrats who fought the early Thompson reforms did lose their seats). By 1995 the *New York Times* was able to comment that:

"Wisconsinites appear downright ecstatic about [Work Not Welfare<sup>133</sup>] . . . Three-quarters of those polled support it . . . His eight-year war on welfare has given the G.O.P. a viable organizing principle in the post-Communist world"<sup>134</sup>.

Third, Thompson appealed to reformers across the party political divide – for example he appointed Tim Cullen, the Democratic majority leader of the state Senate, to become his Secretary of Health and Social Services. Indeed, he had little choice but to enlist support across the political spectrum, since the Republicans did not gain a majority in the legislature until 1993-4 and the Democrats regained control of the state Senate in 1996. The Democrat leaders of the Assembly and Senate agreed to join the Welfare Reform Commission which was set up by Thompson in 1987.

Fourth, both Democrats and Republicans shifted from their traditional dogmatic positions on welfare. The Republicans eschewed a strategy of "slash and burn": although Thompson did cut benefits by 6% early on, he subsequently froze them for ten years and increased payments to recipients placed in government jobs by over a fifth in

1997. He was also willing to increase spending on child-care, health-care, transport and training.

The Democrats, for their part, realised that the welfare state needed reform. Before Thompson became governor, Wisconsin's Health and Social Services Secretary (Linda Reivitz) described parts of the welfare system as “insane”<sup>135</sup>, and the liberal Speaker of the Assembly who ran against Thompson unsuccessfully in 1990 (Tom Loftus) admitted that AFDC<sup>136</sup> was “a hopeless program” that was “too broke to be fixed”, even claiming that it was a Republican programme<sup>137</sup>! Indeed, it was the Democrat-controlled legislature which first proposed that AFDC (the main welfare benefit for families at that time) be totally abolished, wrongly calculating that Thompson would veto the move. The final vote in the Assembly was 73–25 in favour of W-2 (Thompson's most radical welfare reform), with 22 out of 47 Democrats in the majority; in the Senate, the vote was 27–6, with 10 out of 16 Democrats in favour.

Tommy Thompson is no supporter of “tax and spend” policies – he made over 1,900 spending vetoes over 14 years without once being overridden by the Wisconsin legislature, earning him the nickname of “Dr No” – but he is a believer in practical solutions to problems instead of dogma. In his own words:

“I am not an “anti-government” conservative . . . I am not an ideologue . . . I've had to confront the labels that dominate so much of politics and government. A Republican wasn't supposed to care about helping people get off welfare. Cutting their benefits fit the label . . . The labels said I wouldn't go into the inner city and work to create jobs there . . . I am a conservative, but some of the things I did made conservatives mad.”<sup>138</sup>

As Republican Party platform committee chairman in 2000, Thompson was a key figure behind the development of George W Bush's brand of "compassionate conservatism", which made a new commitment to inclusiveness and to the poor, and was instrumental in winning Bush the presidential election.

Where Wisconsin has led, there is no reason Britain should not follow. Many of the same political shifts that allowed Thompson to push his programme through have already happened on this side of the Atlantic. Surveys show strong public support for the idea that jobseekers should meet certain conditions in exchange for receiving benefits, and that those who refuse to work or train should not be allowed to stay on benefits indefinitely.<sup>139</sup> Similarly, New Labour now recognises, in Gordon Brown's words, that "Worklessness is the most common cause of poverty among working age people and their children. Moving into employment is the surest route out of poverty"<sup>140</sup>. Workfare has also been embraced by politicians on the Right from Nigel Lawson<sup>141</sup> to Michael Heseltine. Margaret Thatcher called the issue an "open question"<sup>142</sup> and John Major proposed a fledgling workfare scheme called "Project Work" in his 1997 General Election Manifesto. Cutting across party lines, workfare has the potential to grab the public imagination.

## **'Wisconsin Works' (W-2)**

"Employment fulfills a basic human need as it connects individuals to society and its values. By providing income without the need for work, welfare isolated recipients from society. Wisconsin Works (W-2) ends this cycle by rejoining individuals with the workforce."

Wisconsin Department of Workforce Development: "Philosophy and Goals"

No government that is serious about welfare reform can ignore the United States, where the proportion of the population on welfare in 2000 was the lowest for nearly 40 years<sup>143</sup> and national welfare caseloads have declined for six years in a row<sup>144</sup>, even while unemployment has risen. As the Social Security Select Committee stated in 1998:

“despite the differences in the systems, there are features and problems common to both the United States and the United Kingdom. . . . The far-reaching changes to the welfare system in the United States. . . are based on a wide political consensus. . . There are lessons to be learnt, with necessary caution, from the American experience. Welfare schemes can be made more active programmes; the numbers on welfare can be significantly reduced and families can be helped (with some push where necessary) to move to self-sufficiency and a higher standard of living.”<sup>145</sup>

The two main differences between Wisconsin’s most radical reform, called ‘W-2’, and the New Deal for Young People are:

- a W-2 has no full-time training option (although more than half of W-2 leavers are offered some form of training<sup>146</sup>) and
- b claimants cannot choose which W-2 option to enter.

In contrast to the New Deal, W-2 aims to place people into private-sector jobs (including subsidised jobs) wherever possible. People are only placed into public-sector jobs where there is no alternative. Crucially, people are required to work (whether in the public or private sector) if they wish to claim benefits. They cannot simply opt-out through enrolling in full-time training.

The Wisconsin welfare reforms proceeded in stages. Some of the reforms preceding W2 included:

- “Self Sufficiency First”, which discouraged welfare applicants from entering onto welfare in the first place by providing job search assistance, short-term aid and personal financial planning instead of welfare for the first few weeks. By contrast, the New Deal Gateway only starts when the person has already been claiming unemployment benefit for six months.
- “Pay for Performance”, which required welfare claimants to enrol in the jobs programme and spend at least 20 hours a week looking for a job, performing a community service activity, or improving basic skills like CV writing and interviewing. Unlike the New Deal, job search was supervised and benefits cut pro rata for every hour missed, mirroring the real world of work. Those who could not find a job after six weeks were required to perform community service work in exchange for their benefits.
- Welfare services were opened up to competitive bidding: offices that failed to reduce caseloads were replaced with private contractors, and funds were awarded depending on how successful contractors were in reducing their caseload. This had the effect of refocusing welfare offices attention onto getting clients back into work, rather than simply processing benefit claims. In Milwaukee, an inner-city area where 80% of the caseload resides, the initiative resulted in a 30% increase in job placements<sup>147</sup>. Following W-2, the state discouraged Milwaukee County (the public-sector provider) from bidding at all; instead, the welfare administration was totally privatised and handed to five private agencies (three of them non-profit).

In 2000, 95% of the agencies that operated the Wisconsin Works (W-2) programme state-wide met or exceeded the required standards which measure job placement, wages, length of employment, educational activities and available health benefits – Milwaukee performed particularly well<sup>148</sup>. Milwaukee, which previously had one of the highest dependency rates in the state, experienced a caseload decline of 38% in ten years.

As the House of Commons Social Security Select Committee in the UK commented in 1998:

“Prior to the development of welfare-to-work initiatives, staff working on welfare programmes regarded their main duties as processing benefit claims, ensuring the correct money was paid at the right time....The whole emphasis had changed with staff seeing themselves as a support for the claimant to provide help in manoeuvring the claimant into work. . . Certainly there are lessons for the United Kingdom where we have a large number of officials involved almost entirely in processing claims yet having little direct contact and forming no relationship with claimants.”<sup>149</sup>

The University of Wisconsin’s Institute for Research on Poverty found that these initiatives had a positive effect on individual behaviour, diverting many from welfare in the first place<sup>150</sup>. W-2 itself, implemented in 1997, was described by Thompson in stark terms:

“No one will receive cash from the government of Wisconsin any more. He will receive a paycheck either from a private employer or from a community service job. If he does not work, he will not get paid. It is that simple and that straightforward.”<sup>151</sup>



W-2 consists of a ladder comprising four options or “tiers” in order of preference<sup>152</sup>:

1. Unsubsidised Employment

Individuals applying for W-2 are first guided to the best available job opportunity. The W-2 agency supports the claimant’s efforts to secure employment through job search assistance.

2. Trial Jobs (Subsidised Employment)

Subsidised jobs, which last at least three months, are for people who have the basic skills required to work but lack sufficient work experience to be immediately employable.

3. Community Service Jobs (CSJs)

Publicly-funded jobs are for individuals who lack the basic skills necessary to enter ordinary employment. They allow participants to practice work habits and skills that are necessary to succeed in the workplace, such as punctuality, reliability and the application of a sustained and productive effort. The existence of CSJs encourages recipients to obtain private sector jobs if they are able to, since those who do not are obliged to work in the public sector to receive benefit. CSJ participants receive a monthly grant for up to 30 hours per week in work activities and up to 10 hours a week in education or training.

4. W-2 Transition (W-2 T)

W-2 T is reserved for those individuals who are unable to work because of severe barriers such as mental illness or drug addiction. W-2 T participants receive a monthly grant for up to 28 hours per week of participation in work training or other employment-related activities and up to 12 hours per week in education and training. Drug and alcohol treatment services are also available.

W-2's "ladder" design does not work in practice exactly as it is supposed to. Very few jobseekers take up subsidised Trial Jobs (a grand total of 11 people were thus employed state-wide in December 2003<sup>153</sup>), while a large number take Community Service Jobs.

In theory, Community Service Jobs are a last resort for those who cannot find private sector work even if subsidised. As the Wisconsin Department of Workforce Development puts it:

"The W-2 agency must ensure that each participant: 1. Enters the highest possible rung on the employment ladder on which the participant is capable of participating; and 2. Moves up to the next appropriate rung at the earliest opportunity, with unsubsidized employment the ultimate goal."<sup>154</sup>

It is therefore unclear why so few people have been allocated to Trial Jobs and so many to CSJs in practice. On the other hand, an encouraging 31% of the caseload was assigned to the first tier (unsubsidised work) as of December 1998, even after many years of declining rolls.

W-2 also provides a safety-net through child care, transportation, training assistance, healthcare and cash benefits. The role of the New Deal's Personal Adviser is duplicated in the Financial and Employment Planner, who defines work options and provide intensive case management services for the family.

## **The Results**

In his last "State of the State" address in 2001, Tommy Thompson summarised his achievements:

“Welfare reform is succeeding beyond our grandest expectations. Yes, our caseloads are down a remarkable 94 percent. Only 6,496 families remain on cash assistance [down from 100,000 at its peak and 98,295 when Thompson took over]. But more important is the fact these families are better off. No their lives aren’t perfect yet. But they are better off as a whole. Just look at the data.

- Our first leaver’s study showed that 70 percent left the rolls for a job.
- The average wage is \$7.42, more than two dollars above the [US] minimum wage.
- The average family on AFDC was 30 percent below the poverty level. Through W-2, they’re 30 percent above poverty.
- The child poverty rate has dropped by 20 percent.
- Wisconsin ranks as the fourth best state in the country for children.
- Our overall poverty rate is the fifth lowest; our gap between rich and poor is the fourth smallest.”

The 94% fall in Wisconsin’s caseloads announced by Thompson was the highest in the country. A survey in 2001 of people leaving welfare between April and December 1998<sup>155</sup> (i.e. the harder cases still on the rolls after the caseload had already dropped by three-quarters) found that:

- 82% of the leavers reported that they had been employed at some point since leaving cash assistance;
- just under 58% said they were employed at the time of the interview;
- those who were employed reported working for an average of just over 35 hours per week, at wages averaging \$7.95 per hour, over

50% higher than the US minimum wage. Nearly 40% of those working had received a pay increase in their current job.

- 57% of those interviewed said that their worries about money had either stayed the same or decreased and 84% said their satisfaction with life was either the same or better since leaving W-2.
- Fewer than a quarter of “leavers” expected to return to cash assistance in the future.

Another study<sup>156</sup> revealed that most people had higher incomes under W-2 than under the old AFDC<sup>157</sup> system.

In 2000, Wisconsin was one of only three states that received bonuses from the Department of Health and Human Services for its performance in three categories – job retention and earnings gains, biggest improvement in job placement and biggest improvement in job retention and earnings gains (in which Wisconsin was ranked first). In July 2002, the state again received a \$14 million performance bonus award from the Department of Health and Human Services for its success in job retention and wage gains for W-2 participants. Wisconsin ranked in the top 10 among all states for the number of welfare-to-work participants who moved into work, retained their jobs and reported earnings increases.

An independent review of 53 studies of Wisconsin’s welfare programmes by the Urban Institute found that at least three quarters of former welfare recipients work in each year after they leave the rolls and the earnings of those who do work increased in each of the three years after leaving welfare<sup>158</sup>. The review did express some concerns, for example it found that only 42% of former recipients were continuously employed over three years and that although the poverty rate among former welfare recipients was falling, more than half of all

former recipients remained in poverty. Nevertheless, the review cited a study finding that over 35% of former recipients had higher incomes during the first year after leaving welfare and comments that “The trend appears to be going in the desired direction.”

Another Urban Institute survey<sup>159</sup> of 13 states found that in 1999 Wisconsin had the highest employment rate for low-income single parents (80% compared to the US average of 67%) and the lowest child poverty rate (10% compared to the US average of 18%). Only one state had a lower overall poverty rate than Wisconsin’s (7%). Despite well-publicised claims that Wisconsin’s poor would go hungry, fewer poor adults reported problems affording food in Wisconsin than in all but one of the other thirteen states (and fewer in Wisconsin than in the US as a whole). This figure fell by two percentage points in the two years from 1997–9 – the period when W-2 was introduced in Wisconsin.

In 1989 Wisconsin state was ranked only 22nd in the country for child poverty and 14th for overall poverty; in 1999 it was ranked 6th for both. As Lawrence Mead puts it:

“the state’s welfare reform must be counted the nation’s leading victory over poverty since it became a national issue in the 1960s.”<sup>160</sup>

## **Was the economy responsible?**

It is true that Wisconsin’s economy performed well under Thompson’s tenure; the state unemployment rate halved to below 3% and 800,000 jobs were created. However, the unprecedented drop in the welfare rolls was not mainly the result of economic recovery.

Between 1987 and 1994, the average state saw its AFDC numbers rise by over a third. Over the same period, Wisconsin's fell by a quarter, more than twice as much as the next largest decline<sup>161</sup>. Wisconsin's caseload fell from above- to below-average for the nation. Even inner-city Milwaukee experienced a caseload decline of 38% in ten years. Moreover, fears that the caseload would balloon again in recession proved unfounded: Wisconsin's welfare rolls only rose by 2% during the 1990-2 recession; only two states had better records during this period and the average state's rolls increased by a quarter. As Lawrence Mead observes "Wisconsin was the only Northern, urban state to escape the recent [welfare] boom and the only one that has reduced AFDC across an entire business cycle."<sup>162</sup> Mead found that counties in Wisconsin with more of their clients in active labour market programmes experienced a faster decline in welfare caseloads than other counties, independently of economic factors.

However, as critics point out<sup>163</sup>, three-quarters of the decline (23%) in Wisconsin's caseload up to December 1994 was accomplished in Thompson's first term as governor i.e. by December 1990, during which only limited welfare reforms were implemented. The suspicion among critics is that the decline up to December 1994 was mainly the result of the booming economy of the late 1980s, Wisconsin's below average unemployment rates, the cuts in benefits and eligibility and the state's pre-existing Work Experience and Job Training (WEJT) programme (which became the JOBS programme<sup>164</sup>).

While there may be some truth in this claim, Thompson did make the WEJT/JOBS programme more work-orientated in his first term, increasing the number of people required to participate in actual work and requiring mothers with pre-school children to participate in JOBS

activities for more than the federal maximum of 20 hours per week. By contrast, there is evidence that neither the cut in benefits nor WEJT had much effect on the caseload decline<sup>165</sup>. As for the booming economy, it is noteworthy that the 20 states with lower unemployment than Wisconsin in 1989 did not reduce their welfare rolls anything like as much as Wisconsin did from 1987-94. Moreover, while unemployment in Wisconsin *rose* from 1989-93 the welfare caseload actually *fell* by 3%; only two other states reduced their rolls in this period. In any case, this criticism fails to explain any of the 80% fall in Wisconsin's caseload from 1993 to 2000 i.e. after Thompson's first term.

Bill Clinton's Council of Economic Advisors concluded in 1999 that in the two years since the 1996 Personal Responsibility and Work Opportunity Reconciliation Act, the improving labour market was responsible for only 8% to 10% of the fall in national welfare caseloads, whereas a third of the decline was attributable to welfare reform (including state programmes)<sup>166</sup>. A national study by the Manhattan Institute similarly found that among single mothers aged 18-44, national welfare reform explained almost half of the decline in welfare participation and more than 60% of the rise in employment, with the economy accounting for less than 20% of either change<sup>167</sup>. In the ten years to 1997, 13 states with lower unemployment than Wisconsin actually experienced rises of 20% in their welfare caseloads and the nation's increased by a third; meanwhile, Wisconsin's fell by over half.

Even critics of Wisconsin's welfare reforms now concede that:

“There is little question that welfare policies have played a large role in TANF caseload reduction. Broad consensus exists on that point.”<sup>168</sup>

## How much did it cost?

Critics repeatedly predicted that workfare would cost more money, at least in the short-term. They have been proven wrong. Aggregate welfare costs, including the costs of administration and childcare, have halved in real terms under Thompson's tenure. Although Wisconsin is spending more per welfare claimant, the overall costs have fallen because the rolls have fallen. British governments, by contrast, have barely managed even to stop the social security budget rising as a proportion of national income<sup>169</sup>.

It is true that administration costs in Wisconsin rose almost sixfold between 1986 and 1994, the largest percentage rise in the nation<sup>170</sup>, and by over 60% between 1986/7 and 1999/2000. Yet between 1986/7 and 1999/2000, Wisconsin actually managed to reduce overall welfare spending (including administration and childcare) by half in real terms (\$137 million in nominal terms)<sup>171</sup>. Wisconsin's overall welfare spending was running at \$10 million a month less in 1993 than in 1987<sup>172</sup>. Spending fell by a third in real terms in the first ten years alone<sup>173</sup>.

Research by the Manpower Demonstration Research Corporation involving around 150,000 people living in 11 states found that:

“Driven in large part by these welfare savings, from a government budget perspective, the most effective mandatory programs . . . returned to the government more than \$2 in lower welfare costs and higher taxes paid for every \$1 in government investment – a stunning achievement for any social program. In other words, it would have cost these states *more* not to operate these programs.”<sup>174</sup>



## Implementing Workfare in the UK

A comprehensive new welfare to work programme, based on Wisconsin's reforms but adapted to Britain's needs, should replace all the New Deals except for the New Deal for the Disabled - i.e. the New Deal for Young People, the New Deal for Lone Parents<sup>175</sup>, the New Deal 25 plus<sup>176</sup> and the New Deal 50 plus<sup>177</sup>. The new programme should be phased in gradually, but could eventually encompass all able-bodied, working-age people who have been out of work and claiming benefit for six months or more. It should initially focus on the 315,000 people who have been claiming Jobseeker's Allowance for at least six months<sup>178</sup>, and then be expanded to include lone parents who have been claiming Income Support for at least six months (excluding those with pre-school aged children).

As the House of Commons Select Committee and the National Audit Office acknowledged, the UK needs to adopt a much more *flexible* approach to welfare reform. The UK need not adopt a rigid, formulaic approach to welfare reform; instead it should implement reform based on the following principles:

- Benefit claimants must be required to work either in the private sector or in community service jobs after a certain period of time on welfare. The New Deal Environmental Task Force and Voluntary Sector Options should be reviewed in order to make them mirror private sector work as much as possible.
- Personal Advisers should continue to provide advice on work options and intensive practical support towards finding work (for example help with basic numeracy and literacy skills, job applica-

tions and interviews) – the New Deal Gateway should remain. Indeed, the Adult Learning Inspectorate was right to conclude that “The greatest success of the New Deal 18-24 has been the initial Gateway period. . . Many clients found work directly from the Gateway, without training in one of the options.”<sup>179</sup> Provision should be made for supervised job search at job centres (subject to cost) – every hour missed without good reason should result in a proportionate reduction in benefits. This will help to reduce fraud, guarantee that people really are looking for work and help people find work.

- Subsidised training (and job search activities) should be available alongside work, but there should be no *full-time* training option. The New Deal non-training Options currently provide for one day a week subsidised training and include job search activity - this should remain.
- Social security offices should be forced to compete with private sector agencies. If agencies fail to meet certain targets relating to proportion of clients placed into work, job retention, earnings etc. then the competitive bidding process should be re-opened. Agencies that meet or exceed the targets will be allowed to continue to administer their areas. Subject to these targets, agencies should be given the freedom to innovate, provided that the core workfare principles are respected. Agencies would not of course be allowed to cut welfare benefits unless the recipient unreasonably failed to comply with programme requirements.

The programme should pay for itself, particularly because most of the start-up administration, transport and childcare costs are already provided for under the New Deal. Savings would come primarily from

the reduction in numbers claiming unemployment benefit and income support, but also from a reduction in fraud, the abolition of full-time training and from the requirement that lone parents with school-aged children work for the first time. DWP research estimates that achieving a 5% cut in the numbers on Income Support saves the Government £4,800 per year per person back into work. Savings build up to £15,500 per person per year after 10 years<sup>180</sup>.

The Conservatives in their last General Election Manifesto identified savings of over £1.8 billion through a far more modest programme of welfare reform than the one recommended here. Just as in Wisconsin, there is every reason to suppose that overall costs will fall substantially and that claimants' expectations will undergo a cultural shift.

## **Time Limits**

Some elements of the Wisconsin reforms should not be copied in the UK. For example, it would not be acceptable to require lone parents with children *below* school age to work. This would not, however, exempt half of the lone parents claiming income support whose children are all aged 5 or over<sup>181</sup>.

Moreover, the policy of cutting off welfare benefits after a lifetime limit of five years<sup>182</sup> is politically and morally unacceptable in the UK. As a result of the regional and structural nature of unemployment in parts of the UK (as well as various labour market rigidities), there are fewer private sector jobs available to the unemployed than in the US (even in Milwaukee, it is estimated that in May 1996 there were more job openings than people looking for jobs<sup>183</sup>). People must never be penalised simply for being unlucky.

A five-year lifetime limit on welfare was introduced at the federal level in 1996 by the Personal Responsibility and Work Opportunity Reconciliation Act. Forty states have incorporated this time limit or a shorter one; nine states have time limits that reduce rather than terminate benefits and only two have no time limit at all (using state funds to pay benefits after the federal time limit).

But while welfare reform advocates believe that time limits are important to concentrate the minds of welfare recipients in looking for work, they are by no means the only, or even the main, factor in Wisconsin's success. In the period from August 1996 to June 2000 the number of welfare recipients in Wisconsin fell by 75% (higher than all but three states). Massachusetts, Ohio, and Utah adopted significantly shorter time limits than the federal limit and enforced them strictly, but experienced smaller declines of 58%, 57% and 38% respectively in this period<sup>184</sup>. A study by the MDRC found that:

“There is some evidence that time limits can cause welfare recipients to find jobs and leave welfare more quickly, even before reaching the limit; however, the magnitude of this effect is not clear.”<sup>185</sup>

Time limits were first implemented in Wisconsin in January 1995 in only two counties<sup>186</sup>, but caseloads in those two counties fell only slightly more rapidly than in most other counties. Time limits (with limited exemptions) were only implemented state-wide in September 1997, so they cannot be responsible for the reduction of two-thirds in the caseload up to August 1997. Indeed, a rigorous analysis by the MDRC found that although time limits clearly had a significant effect, of twelve mandatory employment services programmes without time limits or earnings supplements all twelve

produced welfare savings such that they actually saved the taxpayer money<sup>187</sup>.

Time limits are not a necessary component of successful welfare reform and they do not need to be introduced in the UK.

## **Conclusion**

The broad thrust of the Wisconsin reforms – a requirement to work in the private or public sector after a certain period of time – can be replicated in the UK. Indeed, cost savings should be substantially higher than in the US because administration, childcare and transport costs have already been budgeted for under the New Deal.

The Government's new StepUP programme (currently being piloted in twenty-one areas) provides some hope for the future. The programme guarantees participants a full-time job (which they are required to take) and gives them personalised support<sup>188</sup>. Unfortunately, this programme is only compulsory for those claiming Jobseeker's Allowance who remain out of work six months after *completing* the NDYP. The Select Committee on Work and Pensions recommended its extension<sup>189</sup>, but the Government apparently remains sceptical<sup>190</sup>.

## Conclusion

The New Deal isn't working. Its effect on youth employment has been small and each youth job has cost £22,000 (gross) and £16,000 (net). Three of the four New Deal Options seem to actually damage a young person's job prospects.

It should be replaced with a real welfare-to-work programme. Workfare is the most compassionate form of welfare – welfare that helps people help themselves. As Tommy Thompson said in 1995:

“Handing out a welfare cheque and expecting nothing in return is not public assistance, it is public apathy - “Here is your cheque, see you next month.” So while Washington stood around and talked about how welfare needed to be changed, we in the states . . . started doing something about it. We started offering hope and opportunity along with the welfare cheque and expecting certain responsibilities in return.”<sup>191</sup>

# Notes

- 1 *The Government's Employment Strategy*, Third Report of the Work and Pensions Select Committee, 2001-2002 Session, HC 815, 31st July 2002, Summary and para. 55
- 2 "Ambitions for Britain", Labour Party General Election Manifesto 2001, p26
- 3 *The New Deal for Young People*, Report by the Comptroller and Auditor-General, HC 639, Session 2001-2002, 28th February 2002, p6
- 4 *New Deal for Young People: National Survey of Participants: Stage 2*, ESR 67, D. Bonjour, R. Dorsett, G. Knight, S. Lissenburgh, A. Mukherjee, J. Payne, M. Range, P. Unwin and M. White, Policy Studies Institute and BMRB International March 2001
- 5 ESR 67, Table 1.1, p5.
- 6 *ibid.*, Table 4.1, p72. A substantial number remain on the Gateway beyond the four month "maximum": *ibid.*, p9.
- 7 This does not indicate that remaining on the Gateway after the four month "maximum" is beneficial – the report suggests that these people receive little additional attention beyond their initial Gateway experience: *ibid.*, p9.
- 8 *Ibid.*, p75. See Table 4.4.
- 9 *The New Deal for Young People*, Report by the Comptroller and Auditor-General, HC 639, Session 2001-2002, 28th February 2002, p28.
- 10 *New Deal: An Evaluation* House of Commons Education and Employment Committee, Fifth Report of Session 2000-2001, HC 58, 20th March 2001, Ev. Dr G. Young, Qu. 118.
- 11 *The Government's Employment Strategy* House of Commons Work and Pensions Committee, Third Report of Session 2001-2, 31 July 2002, HC 815, paras. 77 and 84
- 12 *Social Security Reforms: Lessons from the United States of America*, House of Commons Social Security Select Committee, Second Report, 1997-8 Session, HC 552, 18th February 1998: para. 13.
- 13 *New Deal for Young People and Long-Term Unemployed People Aged 25+ Statistics to December 2003*, First Release, DWP, 26th February 2004, Table 2

- 14 *New Deal: An Evaluation*, Select Committee on Education and Employment Fifth Report, 20th March 2001, HC 58, paragraphs 59 and 60
- 15 Adult Learning Inspectorate, Annual Report of the Chief Inspector, 2001-02, July 2002: <http://www.ali.gov.uk/ciar0102/htm/02/2.05.htm>
- 16 *New Deal for Young People and Long-Term Unemployed People Aged 25+ Statistics to December 2003*, DWP, 26th February 2004, Table 4.
- 17 Adult Learning Inspectorate, Annual Report of the Chief Inspector, 2001-02, July 2002: <http://www.ali.gov.uk/ciar0102/htm/02/2.05.htm>
- 18 *The Attributes of Youth – young people, education and employability*, Andersen Consulting (now Accenture) (1998)
- 19 HC 815, paras. 82 and 106
- 20 See the summary report *Moving People from Welfare to Work Lessons from the National Evaluation of Welfare-to-Work Strategies*, Gayle Hamilton, Manpower Demonstration Research Corporation, U.S. Department of Health and Human Services, U.S. Department of Education, July 2002: <http://www.mdrc.org/publications/52/summary.html> Also see Larry L. Orr, Howard S. Bloom, Stephen H. Bell, Fred Doolittle, Winston Lin, and George Cave, *Does Training for the Disadvantaged Work? Evidence from the National JTPA Study* (Washington, D.C.: The Urban Institute Press, 1995); James Riccio, Daniel Friedlander, and Stephen Freedman, *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program* (Manpower Demonstration Research Corporation, September 1994) and the study of the New Chance programme mentioned in “Why welfare reform is working” by Daniel Casse, *Commentary*, September 1997, Vol. 104, Iss. 3; pg. 36.
- 21 “Myths and Facts: Why Successful Welfare Reform Must Strengthen Work Requirements” by Brian M. Riedl and Robert E. Rector, Heritage Foundation Backgrounder #1568, July 12th, 2002
- 22 *No More Skivvy Schemes? Active Labour Market Policies and the British New Deal for the Young Unemployed in Context*, J. V. Reenan, IFS, WP01/09, May 5th, 2001
- 23 *Do Active Labour Market Policies Increase Employment?*, Marcelo Estevão, IMF Working Paper WP/03/234, December 2003, p3: <http://www.imf.org/external/pubs/ft/wp/2003/wp03234.pdf>
- 24 ESR 67, Table 4.19, p92
- 25 ESR 67, p66.
- 26 *The New Deal for Young People*, Report by the Comptroller and Auditor-General, HC 639, Session 2001-2002, 28th February 2002, p13-14
- 27 ‘Germany’s Jobless Racket’, Stefan Theil, *Newsweek*, 25th November, 2002
- 28 ESR 67, Table 4.1, p72
- 29 ESR 67, Tables 4.1 and 4.2, pp. 72–74
- 30 “Interim evaluation of the environmental impacts of the Environment Task Force”, ECOTEC Research and Consulting Ltd.: [http://www.odpm.gov.uk/stellent/groups/odpm\\_urbanpolicy/documents/page/odpm\\_urbpol\\_607945.hcsp](http://www.odpm.gov.uk/stellent/groups/odpm_urbanpolicy/documents/page/odpm_urbpol_607945.hcsp)
- 31 *New Deal for Young People and Long-Term Unemployed People Aged 25+ Statistics to September 2003*, DWP, 27th November 2003, Table 4.
- 32 HC 639, p28
- 33 ESR 67, pp 42 and 66.



- 34 Hales, J., D. Collins, C. Hasluck and S. Woodland (2000): *New Deals for Young People and for Long-Term Unemployed: Survey of Employers*, Research and Development Report ESR58, Employment Service
- 35 The Adult Learning Inspectorate also found that nearly 60% of subsidised employees stayed with the employer after the subsidy was exhausted: Adult Learning Inspectorate, Annual Report of the Chief Inspector, 2001-02, July 2002  
[http://www.ali.gov.uk/ciar0102/ciar0102\\_Executive\\_Summary.pdf](http://www.ali.gov.uk/ciar0102/ciar0102_Executive_Summary.pdf) (page 8)
- 36 ESR 67, Table 4.1, p72
- 37 By this phrase is meant 18 – 24 year olds unemployed for over 6 months.
- 38 *Getting the Unemployed Back to Work: the Role of Targeted Wage Subsidies*, B. Bell. R. Blundell and J. V. Rennan, IFS, W99/12, April 1999, Table 3, p13
- 39 *New Deal for Young People and Long-Term Unemployed People Aged 25+ Statistics to December 2003*, DWP, 26th February 2004
- 40 *New Deal: An Evaluation*, Select Committee on Education and Employment Fifth Report, HC 58, 20 March 2001, paragraph 33.
- 41 Hales, J. D. Collins, C. Hasluck and S. Woodland (2000): *New Deals for Young People and for Long-Term Unemployed: Survey of Employers*, Research and Development Report ESR58, Employment Service
- 42 *Getting the Unemployed Back to Work: the Role of Targeted Wage Subsidies*, B. Bell. R. Blundell and J. V. Rennan, IFS, W99/12, April 1999, p22
- 43 *Getting the Unemployed Back to Work: the Role of Targeted Wage Subsidies*, B. Bell. R. Blundell and J. V. Rennan, IFS, W99/12, April 1999, p31, 36 and 38
- 44 *Employment Outlook*, Paris: OECD, 1993
- 45 *Wage Subsidies for the Disadvantaged*, L. F. Katz, National Bureau of Economic Research, Working Paper 5679, July 1996
- 46 *The New Deal for Young People: Implications for Employment and the Public Finances*, R. Riley and G. Young, National Institute of Economic and Social Research, ESR 62, December 2000, pp.16 and 18
- 47 *Do Active Labour Market Policies Increase Employment?*, Marcello Estevão, IMF Working Paper WP/03/234, December 2003:  
<http://www.imf.org/external/pubs/ft/wp/2003/wp03234.pdf>
- 48 ESR 62, p36-7
- 49 ESR 67, pp. 50 and 66.
- 50 *Findings from the Macro-evaluation of the New Deal for Young People*, M. White and R. Riley, DWP Research Report No. 168, p33
- 51 Knight, G. (2001) *Macroeconomic Effects of New Deal for Young People on Job Search Activity*. Project working paper, Policy Studies Institute
- 52 *Findings from the Macro-evaluation of the New Deal for Young People*, M. White and R. Riley, DWP Research Report No. 168, p33
- 53 White, M. (2001) *Industrial and Occupational Mobility Under New Deal for Young People*. Project working paper, Policy Studies Institute.
- 54 HC 58, Table 1
- 55 House of Commons Hansard, 29th April 1999 : Column 578 (Damian Green).
- 56 *The New Deal for Young People*, Report by the Comptroller and Auditor-General, HC 639, Session 2001-2002, 28th February 2002, para. 2.8.

## 66 Not Working

57 HC 815, para. 55

58 *New Deal for Young People and Long-Term Unemployed People Aged 25+ Statistics to December 2003*, First Release, DWP, 26th February 2004

59 HC 815, para. 55

60 Figure 8, p15, HC 639

61 HC 58, para. 40.

62 *New Deal for Young People and Long-Term Unemployed People Aged 25+ Statistics to December 2003*, First Release, DWP, 26th February 2004. The DWP claims that this figure undercounts the total number going into a job: some who go into a job will not, for whatever reason, record this as the reason for termination of their JSA claim and will be counted as 'not known'. Past research indicates that the destinations of these people follow a similar pattern to those who do give a reason. However, as the National Audit Office states, the number of young people placed into jobs may also be overstated as a young person will not necessarily still be in employment if he does not reclaim JSA: HC 639, p15.

63 By this phrase is meant 18 – 24 year olds unemployed for over 6 months.

64 *Getting the Unemployed Back to Work: the Role of Targeted Wage Subsidies*, B. Bell. R. Blundell and J. V. Rennan, IFS, W99/12, April 1999, Table 3, p13

65 HC 815, para. 55

66 *New Deal close to paying for itself - Jowell* Department of Education and Employment Press Release 240/00, 25th May 2000.

67 *The New Deal for Young People: Implications for Employment and the Public Finances*, R. Riley and G. Young, National Institute of Economic and Social Research, ESR 62, December 2000, Table 2.2, p18

68 *Findings from the Macro evaluation of the New Deal for Young People*, M. White and R. Riley, DWP Research Report No. 168, p23

69 Figure 10, p20, HC 639. The Policy Studies Institute suggested a net additional increase of 40,000 male jobs a year: White, M. (2002) *New Deal for Young Unemployed People and Matching in the Youth Labour Market* Project working paper, Policy Studies Institute. However, the Government's internal report was sceptical of this claim: "this finding may reflect a short-term response by employers to NDYP's promotion of youth labour, which was not necessarily sustainable" (DWP Research Report No. 168, p44).

70 ESR 62, p8-9

71 ESR 62, p19

72 ESR 62, Chart 2.2, p19

73 R. Riley and G. Young (2001) *The Macroeconomic impact of the New Deal for Young People*, NIESR Discussion Paper 184

74 White, M. (2002) *New Deal for Young Unemployed People and Matching in the Youth Labour Market*. Project working paper, Policy Studies Institute.

75 This figure takes into account the indirect economic effects of NDYP on the level of youth employment.

76 ESR 62, p32 and Table 2.5

77 ESR 62, Table 2.5, p32

78 *Labour Market Statistics*, National Statistics.

- 79 The long-term youth claimant count fell by 58,200 in the year following April 1997; the New Deal programme began nation-wide in April 1998: Table 1, HC58.
- 80 ESR 62, p25-6. Note that once the indirect effects of the NDYP are taken into account, NIESR estimates a fall in total youth unemployment of 40,000: Table 2.4, p31.
- 81 *ibid.*
- 82 *Findings from the Macro evaluation of the New Deal for Young People*, M. White and R. Riley, DWP Research Report No. 168, p13
- 83 DWP Research Report No. 168, p13
- 84 ESR 62, p7
- 85 R. Riley and G. Young (2001) *The Macroeconomic impact of the New Deal for Young People*, NIESR Discussion Paper 184, August 2001.
- 86 *New Deal for Young People: Evaluation of Unemployment Flows*, David Wilkinson, PSI Research Discussion Paper 15 (June 2003), pp. 46 and 50-51:  
<http://www.psi.org.uk/docs/rdp/rdp15-new-deal-for-young-people.pdf>
- 87 Does welfare-to-work policy increase employment? Evidence from the UK New Deal for Young People, R. Riley and G. Young, NIESR Discussion Paper 183, August 2001, p30. See also: *The New Deal for Young People*, Report by the Comptroller and Auditor-General, HC 639, Session 2001-2002, 28th February 2002, para. 3.25.
- 88 *The New Deal for Young People*, Report by the Comptroller and Auditor-General, HC 639, Session 2001-2002, 28th February 2002, para. 3.21, p20
- 89 ESR 62. See also *New Deal: An Evaluation*, Select Committee on Education and Employment Fifth Report, HC 58, 20 March 2001, Ev. Dr G. Young, Qu. 120 and 121.
- 90 HC 58, 20 March 2001, Ev. Dr G. Young, Qu. 131.
- 91 NIESR estimates that the reduction in youth unemployment was up to 40,000 (including indirect effects of the NDYP) and JSA cost around £2116 per person in 1999, so the JSA saving was nearly £85 million per annum (£95 million if older age groups are included: ESR 62, p37). According to NIESR (ESR 62, p39), the additional youth employment of 15,000 for 1999 would generate extra annual income tax payments of only £10 million (at most).
- 92 *The New Deal for Young People*, Report by the Comptroller and Auditor-General, HC 639, Session 2001-2002, 28th February 2002, para. 3.15
- 93 Bell, Blundell and Van Reenan call the view that substituting the long-term unemployed for the short-term unemployed raises GDP through increasing the effective labour supply and exerting downward pressure on wages “very optimistic”: *Getting the Unemployed Back to Work: the Role of Targeted Wage Subsidies*, B. Bell, R. Blundell and J. V. Rennan, IFS, W99/12, April 1999, p18.
- 94 ESR 62, p36
- 95 Table 2.4, p31
- 96 *The New Deal for Young People*, Report by the Comptroller and Auditor-General, HC 639, Session 2001-2002, 28th February 2002, para. 3.13
- 97 This cost figure that NIESR uses includes the costs of the Environmental Task Force and the Voluntary Sector Options (figures are not available for expenditure excluding these costs). As Dr Garry Young, co-author of ESR 62, says: “you cannot really ignore the cost of that in calculating the overall cost per job . . . I am not sure that it would be

- legitimate to take it out, really, because I think it is a key part of the programme as it is running at the moment.” HC 58, 20th March 2001, Ev. Dr G. Young, Qu. 132 and 135.
- 98 For example, Department of Education and Employment Press Release 240/00, 25th May 2000.
- 99 Table 6, NIESR Discussion paper 184
- 100 It is based on NIESR’s estimate of £95m direct savings from the New Deal (see above), which includes the savings from 5,000 young people who left unemployment as an indirect result of the increase in national income. It also does not include the cost of in-work benefits for the newly employed.
- 101 *Social Security Reforms: Lessons from the United States of America*, House of Commons Social Security Select Committee, Second Report, 1997-8 Session, HC 552, 18th February 1998.
- 102 Prior to the New Deal, young men unemployed for more than 6 months had a 34% chance of finding work in the next 6 months, compared to 17% for 25 - 60 year old men unemployed for over 6 months: *Getting the Unemployed Back to Work: the Role of Targeted Wage Subsidies*, B. Bell. R. Blundell and J. V. Rennan, IFS, W99/12, April 1999, Table 3, p13. Also see *Unemployment Persistence* Wiji Arulampalam, Alison L Booth, Mark P Taylor, November 1997, (Revised February 1998) Discussion Paper 98/19, Institute for Labour Research, University of Essex.
- 103 In January 2004 the claimant count was 943,300 and 41,500 18-24 year olds claimed JSA for over 6 months (the NDYP target group), Table 11, *Labour Market Statistics* February 2004, National Statistics (computerised claims, not seasonally adjusted).
- 104 HC 815, para 56.
- 105 *Income Support Quarterly Statistical Enquiry August 2003*, DWP.
- 106 Key benefits are Jobseeker’s Allowance, Incapacity Benefit, Severe Disablement Allowance, Disability Living Allowance and Income Support: *Quarterly bulletin on families with children on key benefits August 2003*, DWP  
[http://www.dwp.gov.uk/asd/asd1/cga\\_famchild/CGA\\_FC\\_Aug03.pdf](http://www.dwp.gov.uk/asd/asd1/cga_famchild/CGA_FC_Aug03.pdf)
- 107 New Policy Institute: [http://www.poverty.org.uk/summary/key\\_facts.htm](http://www.poverty.org.uk/summary/key_facts.htm)
- 108 *Unemployment Persistence* Wiji Arulampalam, Alison L Booth, Mark P Taylor, November 1997, (Revised February 1998) Discussion Paper 98/19, Institute for Labour Research, University of Essex. The study concluded that around 40% of observed persistence in unemployment probability among the over 25s is accounted for by “state dependence”.
- 109 *Getting the Unemployed Back to Work: the Role of Targeted Wage Subsidies*, B. Bell. R. Blundell and J. V. Rennan, IFS, W99/12, April 1999, Table 3, p13
- 110 Finlayson L, Ford R, Marsh A, McKay S and Mukherjee A (December 2000) The British Lone Parent Cohort 1991 to 1998 (DSS Research Report Number 128)
- 111 HC 552, para. 11
- 112 *Unemployment and Jobseeking after the Introduction of the Jobseeker’s Allowance*: S. McKay, A. Smith, R. Youngs, and R. Walker, DSS Research Report No. 99
- 113 HC 552, para. 20
- 114 Adult Learning Inspectorate, Annual Report of the Chief Inspector, 2001-02, July 2002  
[http://www.ali.gov.uk/ciar0102/ciar0102\\_Executive\\_Summary.pdf](http://www.ali.gov.uk/ciar0102/ciar0102_Executive_Summary.pdf) (page 9)
- 115 *New Deal for Young People: National Survey of Participants: Stage 2*, ESR 67, D. Bonjour,

- R. Dorsett, G. Knight, S. Lissenburgh, A. Mukherjee, J. Payne, M. Range, P. Unwin and M. White, Policy Studies Institute and BMRB International March 2001, pp. 25-26.
- 116 HC 815, para. 96
- 117 Supporting Children through the Tax and Benefit System: HM Treasury, November 1999
- 118 Department for Work and Pensions, *Households Below Average Income, An analysis of the income distribution from 1994/5-2001/02*, Table 5.7, p86. "Low income" is defined here as below 60% of median income.
- 119 Opportunity for All: Fifth Annual Report 2003, DWP (2003) Cm 5956. The DWP's source for this statement is Jenkins S and Rigg J, 2001, *The Dynamics of Poverty in Britain*, Department for Work and Pensions Research Report No 157.
- 120 The following analysis is partly based on the insights contained in *Welfare Reform and the Decline of Dependency*, Testimony by Robert Rector before the Subcommittee on Post-secondary Education, Training and Life-Long Learning / Committee on Education and the Workforce, US House of Representatives, September 9th, 1999 <http://www.heritage.org/Research/Welfare/Test090999.cfm>
- 121 *Beating Fraud is Everyone's Business - Securing the Future* DWP, 13 July 1998
- 122 "Myths and Facts: Why Successful Welfare Reform Must Strengthen Work Requirements" by Brian M. Riedl and Robert E. Rector, Heritage Foundation Backgrounder #1568, July 12th, 2002
- 123 HC 815, para. 106.
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