

# When Hassle Means Help

The International Lessons  
of Conditional Welfare

Edited by Lawrence Kay  
and Oliver Marc Hartwich

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## Executive Summary

The only people on benefits should be those who actually need it. Unfortunately, over the past eleven years the current government has allowed lots of claimants to join the welfare rolls without developing a robust system to ensure that they are actually out of work or too incapacitated to get it without further assistance. Over the last eight years an average of just 5,100 Jobseeker's Allowance claimants a year have lost some of their benefits for breaking the rules, out of an average total of 930,000 people who received the benefit each year (just half of one percent).<sup>1</sup> This has meant that there are now many people supported by the state who do not need to be and would have better lives if they were more independent.

In places such as the United States and Australia, strict requirements to attend regular interviews or complete training courses helped both countries to avoid much of this problem over the same period. Both changes made taking benefits tougher and prevented claimants from being in two places at once. These measures are part of 'welfare conditionality', the idea that claimants should do things for the money they receive.

In its welfare-to-work proposals, published earlier this year, the government started to move towards policies that reflect this approach, but did not go far enough. The reforms in the United States and Australia are part of a range of conditionality policies – which include wide cultural change and requirements that claimants accept jobs outside their expectations – that have been tried in the five countries in this study and should be considered by the Department for Work and Pensions when it considers its next welfare reform plans. In short, we recommend the following:

- The government should make sure that all claimants really have to make a choice

between taking benefits and living on their own means.

The introduction of such requirements lead to falls in the number of people claiming benefits in two of the countries in our report. In Australia, the welfare rolls were cut by between 5 and 10 per cent once claimants were asked to attend initial interviews (of a lengthier type than the ones faced by UK JSA recipients), and around a third once they were asked to attend compulsory work programmes.

- The government should start the process of introducing a 'rights and responsibilities' culture into the benefits system.

When Germany introduced such a culture, the welfare system changed as claimants saw that receiving benefits did not mean a life on state money without any responsibility. This change was the driving force behind the Hartz reforms which have helped to cut Germany's unemployment rolls from 5 million to 3.5 million over the past two years.

- Benefits need to be time-limited, but only as part of a proper back-to-work system.

In the United States, the imposition of a lifetime limit of five years on the receipt of benefits was a major part of the 65% drop in the number of people on the country's welfare rolls. In Sweden, there is evidence to suggest that claimants start to move from unemployment to employment more quickly once they near the end of their welfare period.

From a simple economics perspective it is clear why these policies, and the conditionality approach as a whole, should work. If a person is on benefits without having to do anything in return, employment looks like too hard an option. Foregone opportunities, such as employment, could mean being

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<sup>1</sup> DWP Tabulation Tool

financially better off (not least through the accumulation of appropriate skills), but would also mean spending many hours in an office or factory. The net effect of going to work could thus be an overall loss.

But if welfare recipients have to undergo training, report to agencies regularly or face penalties for failing to satisfy certain conditions, the convenience of staying on benefits falls and the relative attraction of work rises. It is at this point that conditionality measures cajole claimants towards financial independence and, in doing so, make use of the skills they have.

The lessons of other countries' conditionality policies should give British policy-makers food for thought. To understand what they achieved, and where they went wrong, we commissioned welfare experts in five countries to give an overview of the conditionality-based welfare reforms their governments have enacted. We looked at the United States and Australia, which are often analysed by policy-makers in this context, but also Germany, Sweden and Norway, which are usually associated with strong and well developed welfare systems.

The results are complex but encouraging. For the most part, where conditions have been placed on the receipt of benefits, claimants have often been discouraged from beginning a dependence on the state. Many have thus returned to the labour market.

Conditionality reforms are not, however, the only part of welfare reform that the government should consider. In our previous report, *Paying for Success: How to Make Contracting Out Work in Employment Services*, we analysed the different schemes that have been used around the world for the introduction of private sector verve into the provision of back-to-work services. To really move the welfare system in the right direction, a combination of conditions on benefits, help for claimants from knowledgeable firms, and benefits that incentivise work (an issue that we will address in a forthcoming report), is the best holistic way to really help

the millions of people on the welfare rolls to improve their lives.

Britain's situation and the Key lessons from each country:

#### *Australia (Peter Saunders)*

Australia's welfare state is comparatively small as it uses means-testing extensively. While this has kept welfare spending relatively low it has also reduced work incentives. Reform was begun under the Hawke Labor Government in the 1980s and continued under the right-of-centre Howard administration. Elements of conditionality ('mutual obligation') have been introduced since then.

Compliance effects are strong. The requirement for recipients of unemployment benefit to attend an interview at the start of their claim cut the welfare rolls by between 5 and 10 percent.

Participants in job search training programmes were significantly more likely to find a job than those who did not take part in such activities.

A 2004 survey of people who had successfully moved from welfare into jobs found one-third thought that activities linked to their benefit payments had been important in helping them get a job, and another 17 per cent that the activities had helped in some way.

#### *Sweden (Andreas Bergh)*

Over the past 20 years, Sweden has gradually placed extra conditions on the receipt of welfare benefits. Since the early 2000s, this has meant requirements to be available for work; to actively search for a job; to consider a post in any place as long as it means not being away from home for more than 12 hours a day, and the threat that financial help might be removed if employment offers or training help are declined.

One academic study found that direction of the unemployed towards specific jobs results in around 13-14 per cent of them

being offered work. Another discovered that more people start to move from unemployment to employment as they get towards the end of their benefit period, i.e. as the threat of losing money increases.

The Swedish experience also suggests that the benefit level in unemployment insurance has a few, but often small, behavioral effects. One study examined the effect on job finding of the cut in the replacement rate in unemployment insurance from 80 per cent to 75 per cent, in 1996. It indicated that the reform induced an increase in the transition rate of around 10 per cent.

*United States (Doug Besharov)*

After years of rising welfare dependency, President Clinton signed a welfare reform law in 1996, promising to 'end welfare as we know it,' a cultural change that really started the falls in welfare rolls across the US.

Work and training requirements seem to have only had 'participatory effects'. When claimants were asked to do things in return for their money, many preferred to keep doing the black market jobs they already had (they could not be in two places at once) or stay at home and live on the income they had been receiving from other sources, such as an employed partner. Training schemes had little impact on employability or earnings.

However, while caseloads have fallen, welfare spending has actually increased. This is mainly the consequence of new programmes and an expansion of eligibility for existing schemes. In this sense, the welfare state has not disappeared but taken a different shape.

*Norway (Ivan Harslof)*

Traditionally, Norway has been part of the Scandinavian approach to welfare of high public spending on generous benefits schemes. But, since the 1990s, the system has been reformed to contain more elements of conditional welfare. This change was carried by a consensus across the political spectrum.

While the use of work requirements is not widespread, many benefit recipients must go through training and qualification measures, parts of the 'activity-orientated' schemes (which involve compulsory participation in active labour market programmes and use sanctions and put a limit on the time that benefits can be received) that one study found 'deliver substantially shorter unemployment spells than pure income-insurance regimes.'

Another study evaluated the impact of active labour market programmes on the duration of unemployment in Norway. It found that completed participation increases the probability of getting a job.

However, despite the various attempts to reform welfare, caseloads have gone up since 1998, although there has been a slight reduction since 2003. This may be down to several reasons, not least the ageing of the population.

*Germany (Jochen Kluge)*

A commission of Government advisers under Volkswagen manager Peter Hartz developed Germany's reforms. The changes it suggested, which came in four packages, became known as Hartz I, II, III and IV.

The Hartz reforms contained elements of activation and conditionality, they thus put rights and duties on the unemployed. Claimants came to be required to accept job offers while the available benefits for the long-term unemployed were cut.

Official evaluations of the reforms revealed that the districts with stricter sanctioning policies achieved higher exit rates for benefit recipients. Altogether, unemployment fell significantly (by more than 1 million people), although it is difficult to attribute this directly to the reforms.

However, despite these reforms, spending on out-of-work benefits has actually increased as the initial changes were altered in later years.

# 1

## Australia – from entitlement to employment

Peter Saunders

### Introduction

In 2005-06, Australian state and federal governments spent A\$61 billion (£25 billion) on welfare payments and another A\$25 billion (£12 billion) on welfare services. Social expenditure has been rising steadily for years, although spending on social assistance as a proportion of GDP is still only about 80 per cent of the OECD average.<sup>1</sup> This reflects the fact that, unlike Europe, Australia never developed a system of contributory social insurance. With New Zealand it is alone in the OECD in financing all welfare payments through general taxation.

Because no entitlement to benefits is built up through personal contributions, access to welfare is established purely by demonstrating a need for assistance, which involves means-testing. Although the definition of 'neediness' has become increasingly generous in recent years, core elements of the income support system including family support payments and government age pensions are still assessed on claimants' incomes and needs. Only half of retirees qualify for a full government age pension, for example, and the richest fifth get nothing at all.<sup>2</sup>

This emphasis on means-testing explains how Australia manages to spend a lower proportion of its GDP on social assistance than most other OECD countries. It is not because Australia cares less for the poor, but is because it spends less on the rich. Indeed, while less money is spent on welfare overall,

more of what is spent is directed to the poorest 20 per cent of the population than in almost any other developed country. In net terms, Australia's welfare system is more radically redistributive than Sweden's.<sup>3</sup>

Means-testing has therefore given Australia an unusually efficient welfare system, but at the cost of strong work disincentives. This is because, when people increase their earnings, their income tax liability rises and their welfare payments fall. With only weak financial carrots enticing people off welfare and into work, emphasis falls inevitably on the sticks. Conditional welfare is one of them.

### Reliance on government payments

Welfare spending under conservative as well as Labor governments has mushroomed in recent decades, and more than 10 per cent of Australia's GDP now goes on social security and welfare provisions.<sup>4</sup> Under the right-of-centre Howard government, the welfare budget increased every year, the biggest increases being a 5.8 per cent annual average growth in family payments and a 4.2 per cent annual average growth in disability payments.<sup>5</sup>

Today, over 4.2 million Australians (more than one in five of the entire population) are direct beneficiaries of income support payments at any one time.<sup>6</sup> Almost two million are pensioners,<sup>7</sup> but as Table 1 shows, there are also 1.7 million working-

1 On spending trends see Australian Institute of Health & Welfare, *Welfare Expenditure Australia 2005-06*, Australian Government, November 2007. On OECD comparisons, see Whiteford P, *The Welfare Expenditure Debate: Economic Myths of the Left and Right Revisited*, paper to Australian Social Policy Conference, University of New South Wales, July 2005

2 Kelly S, Harding A and Percival R, *Live Long and Prosper?* Paper to the 2002 Australian Conference of Economists, 4 October 2002

3 According to Peter Whiteford 'Australia has roughly the same share of "middle class welfare" as most other OECD countries... What is unusual about Australia is the smallness of the share going to the richest 20 per cent of the population, this being only 3 per cent of all transfer spending.' Whiteford P, *The Welfare Expenditure Debate: Economic Myths of the Left and Right Revisited*, paper to Australian Social Policy Conference, University of New South Wales, July 2005

4 Australian Bureau of Statistics, *Year Book 2008*, Australian Bureau of Statistics, cat no. 1301.0, 2008

5 Australian Institute of Health & Welfare, *Welfare Expenditure Australia 2005-06*, Australian Institute of Health & Welfare, 2006

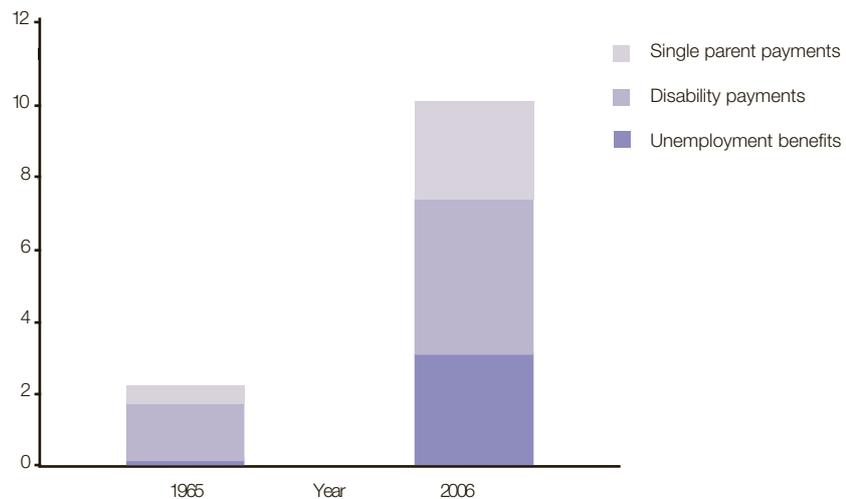
6 Australian Bureau of Statistics, *Year Book 2008*, Australian Bureau of Statistics, cat no. 1301.0, pp 283, 2008

7 Australian Bureau of Statistics, *Year Book 2008*, Australian Bureau of Statistics, cat no. 1301.0, table 9.11, 2008

**Table 1: Working age income support, spending and numbers of recipients, selected payments 2006-07<sup>8</sup>**

	COST (\$'000)	RECIPIENTS
Newstart Allowance	4,493,978 (£1.8 million)	
< 12 months		160,203
> 12 months		257,590
Youth Allowance (unemployed)	482,291 (£197,000)	68,698
Parenting Payment Single (PPS)	4,696,298 (£1.9 million)	395,495
Parenting Payment Partnered (PPP)	1,216,792 (£498,000)	144,427
Disability Support Pension (DSP)	8,651,399 (£3.5 million)	712,163
<b>TOTAL</b>	<b>19,540,758 (£8 million)</b>	<b>1,738,576</b>

**Figure 1: Proportion of working-age population receiving unemployment, disability and single parent payments, 1965 and 2006<sup>9</sup>**



8 Australian Bureau of Statistics, 2008, tables 9.9, 9.18 and 9.21. The table excludes smaller payments including Partner Allowance, Widows Allowance, Mobility Allowance, Sickness Allowance and Mature Age Allowance which together add up to another \$1.5bn (£615 million) or so of spending. It also excludes about \$2bn (£820 million) spent on student Youth Allowance and \$2.7bn (£1.1 billion) on Carer Payment and Allowance, as well as CDEP payments to unemployed Indigenous Australians. About one-third of Parenting Payment claimants, and around 10 per cent of DSP claimants, have some earned income and are not therefore wholly reliant on welfare.

9 Whiteford P and Angenent G, 'The Australian system of social protection: An overview (2nd edition),' Department of Family and Community Services Occasional paper, no 6, 2001; Australian Bureau of Statistics Yearbook Australia 2007, Australian Bureau of Statistics, cat no 1301.0, 2007

10 Australian Bureau of Statistics, Labour Force, Australian Bureau of Statistics, cat no 6202.0, February 2008

age jobless people drawing benefits. In addition, two million families receive some form of family support benefit.

40 years ago, fewer than one in thirty working-age adults depended on state financial aid for their main or sole source of income.

Today, the proportion is one in six (see Figure 1). This rise in working-age welfare dependency has been fuelled by expansion in three principal payments: unemployment

allowances, disability pension and payments to single parents.

#### Unemployment allowances

The official unemployment rate has declined from its peak of 10.6 per cent in 1993 to just 4.2 per cent in April 2008 - the lowest level for more than 30 years.<sup>10</sup> Unemployed people receive Newstart Allowance or, if they are under

21, Youth Allowance. Since 1997, both these payments have been subject to activity conditions known as ‘mutual obligation’ (explained below). However, these conditions do not normally apply until claimants have been unemployed for six months. Since almost 70 per cent of unemployed claimants remain on benefits for less than six months,<sup>11</sup> most people entering the unemployment benefits system are not therefore subject to conditional welfare.

More than a quarter of a million people on Newstart have, however, been without work for more than a year (the definition of ‘long-term unemployment’). Long-term unemployment has halved since 1994 (since when the OECD average has hardly changed),<sup>12</sup> but those who remain are increasingly difficult to place in a job. Nearly half of them have no qualification beyond Year 10.<sup>13</sup>

#### *Disability Support Pension and Parenting Payment*

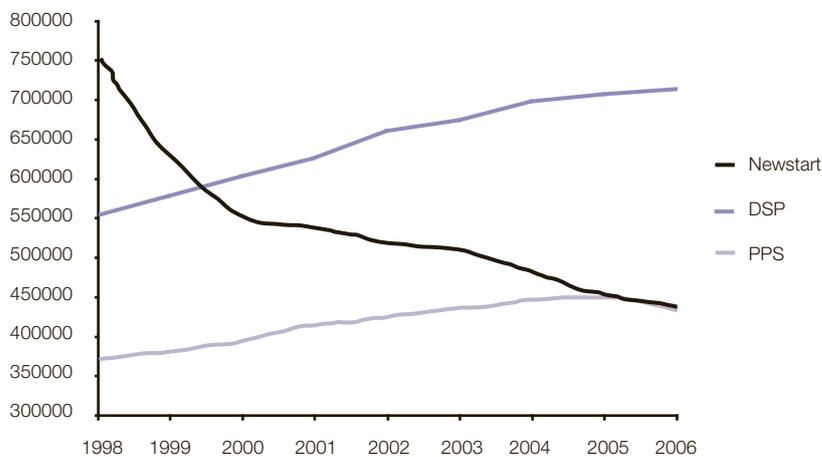
Nearly two million people of working age (out of a workforce of just over 10 million) are drawing welfare, and less than a quarter of them are unemployed. Most of the rest are classified as ‘disabled’ (and therefore eligible to receive the Disability Support pension,

DSP), or are non-employed single parents claiming the Parenting Payment Single (PPS).

Both disability and parenting payments are more generous than unemployment benefits and are demanding. Until 2006 mutual obligation requirements did not apply to recipients of either of these payments, so there was a strong incentive for unemployed people to get themselves reclassified. Part of the reason why the official unemployment rate has fallen is because claimants have been moving onto these other two welfare payments.

Between 1995 and 2007, unemployment fell by 45 per cent, from 560,000 to 252,000, but DSP numbers rose by 51 per cent, from 462,000 to 697,000.<sup>15</sup> There is a strong and statistically significant negative correlation between the two sets of figures.<sup>16</sup> DSP is the principal form of welfare for economically inactive men; half of them join it from the Newstart Allowance.<sup>17</sup> Female DSP rates have also been rising strongly since carer allowances for partners of DSP recipients were scrapped in the 1990s.<sup>18</sup> In November 2007 there were 393,000 male and 304,000 female DSP claimants.

**Figure 2: Newstart, Disability Support Pension and Parenting Payment (Single) recipients, 1998-2006<sup>14</sup>**



11 Australian Bureau of Statistics, *Year Book 2008*, Australian Bureau of Statistics, table 6.33, 2008

12 OECD, *Economic Outlook 2007*, OECD, 2007, table G. A Reserve Bank of Australia report suggests long-term unemployment fell from 4 per cent of the labour force in the early 1990s to 0.75 per cent today (Uren D, ‘Demand for labour met by migrants and older workers,’ *The Australian*, 21 September 2007)

13 Business Council of Australia, *Employing Our Potential*, Business Council of Australia Discussion Paper, pp 28, April 2008

14 Source: Australian Bureau of Statistics, *Year Book* [various years], Australian Bureau of Statistics

15 Gregory RG, *Stumbling through the Mist of the Australian Labor Market and Welfare System*, paper to conference on ‘Making the Boom Pay’, University of Melbourne, 27 March 2008. See also Megalognis G, ‘Welfare: Tough love backfires,’ *The Australian*, 29 March 2008

16 Correlation ( $r$ ) between number of people on Newstart and the number on Parenting Payment Single during this period = -0.90, ( $p < 0.01$ ); correlation with number on DSP = -0.93 ( $p < 0.01$ )

17 Lattimore R, *Men Not At Work*, Productivity Commission Staff Working Paper, pp xxviii, January 2007

18 Gregory RG, *Stumbling through the Mist of the Australian Labor Market and Welfare System*, paper to conference on ‘Making the Boom Pay’, University of Melbourne, table 1, 27 March 2008. See also Megalognis G, ‘Women defying curbs on pensions,’ *The Australian*, 28 March 2008

A recent OECD report found that ‘The number of people having difficulties in the labour market has not declined...today more of those difficulties are associated with or labelled as health problems.’ In other words, jobless people tend nowadays to be classified as ‘unable to work’ (on Disability Support Pension) rather than ‘looking for work’ (on unemployment benefit).<sup>19</sup>

Just as economically inactive men have been gravitating to DSP, so economically inactive women have been clustering on Parenting Payment (Single), PPS – the welfare payment for jobless sole parents. Like the men on DSP, many of these claimants are low-skilled (60 per cent did not get beyond Year 10 at school)<sup>20</sup> and have come off Newstart Allowance.<sup>21</sup> Seven out of ten women who came onto PPS as a result of having a new baby (rather than as a result of a relationship break-up) have previously been on Newstart, and once on PPS, more than half go on to have additional children.

#### *Family payments*

The family payments system has become increasingly tangled and complex in recent years (see Table 2) but the main payments are:

- *Family Tax Benefit (Part A)*, which is a means-tested payment given to parents with dependent children. About 90 per cent of families qualify, and most receive it as a fortnightly payment from Centrelink – the government welfare

agency – although a few take it as an annual lump sum, or as a tax rebate.

- *Family Tax Benefit (Part B)* is not means-tested on family income, although the new Labor government is introducing an income cap. It is an additional payment to families (including sole parents) with only one earner, but has been extended to include families with a low-income second earner (it is means-tested on the second earner’s income).
- *Maternity Payment* (popularly known as the Baby Bonus) is a lump sum, worth \$5,000 (£2,000) from July 2008, paid to all new mothers. It was introduced in 2004 in response to demands for paid maternity leave, which is currently the subject of a Productivity Commission inquiry.
- *Child Care Benefit* is means tested. It can be paid to child care providers to reduce charges levied on parents, or parents can claim it in arrears as an annual lump sum. Parents can also claim a portion of their child care expenses as an end of year tax rebate, the *Child Care Allowance*.

The coming of conditional welfare

The origins of ‘conditional welfare’ in Australia lie in the 1980s when the Hawke Labor government introduced a *voluntary* training, job placement and child care service for single parents seeking to return to the labour market. At the same time, the long-

19 OECD, *Sickness, Disability and Work: Breaking the Barriers, Volume 2: Australia, Luxembourg, Spain and the United Kingdom*, OECD, pp 18, 2007

20 Porteous P, ‘Plan to train stay-at-home mums,’ *Courier Mail*, 5 May 2007

21 The data on single parents come from Gregory RG, *Can this be the Promised Land? Work and Welfare for the Modern Woman*, National Institute Public lecture, Parliament House, Canberra, 5 June 2002

22 Australian Bureau of Statistics, *Year Book 2008*, Australian Bureau of Statistics, tables 9.22 and 9.23, 2008

**Table 2: Main family support payments, 2006-07<sup>22</sup>**

	COST (\$'000)	RECIPIENTS
Family Tax Benefit	16,009,785 (£6.5 million)	
FTB, Part A		1,769,091
FTB, Part B		1,376,917
Maternity Payment	1,161,616 (£426,000)	286,770
Child Care Benefit	1,478,333 (£606,000)	792,800

term unemployed were *required* to participate in ‘Intensive Assistance’ (personalised support offering tailored education or training) in return for their payment.

These innovations were followed in 1994 by the *Working Nation* programme which guaranteed that unemployed claimants who had been out of work for 18 months or more would be offered a job placement for 6 to 12 months, backed up by training as appropriate. Claimants were expected to accept any reasonable job offer or be penalised by reductions in their benefits (an arrangement which the government referred to as ‘reciprocal obligation’).

The new Liberal/National Coalition government that came to power in 1996 replaced *Working Nation* with its own ‘mutual obligation’ policy. This required young unemployed people who had been out of work for six months to undertake some activity in return for their payments. Continuing to this day, prescribed activities include: Intensive Assistance (for those deemed ‘high risk’); part-time employment (at least 10 hours per fortnight for 6 months); community work (between 150 and 240 hours over 6 months, depending on age); part-time study; language, literacy or numeracy training; and service in the Defence Force Reserve or the Green Corps. In addition, work on local community projects (called ‘Work for the Dole’) was introduced as a further option. All these mutual obligation activities are part-time to allow participants time to continue job searching.<sup>23</sup>

Mutual obligation has gradually been extended to cover more categories of claimants. In 1999, the age limit for participation was raised to 35 and it was raised again, to 40, in 2002. Today, unemployed people up to 50 years of age are included.

Until now, mutual obligation requirements have begun after six months of unemployment (activities also last for six months). After that, people who are still

unemployed receive ‘customized assistance’ such as training or work experience. Eighteen months into a spell of unemployment they are again required to undertake a mutual obligation activity for a further six months. Since 2007, those who have been unemployed for more than two years have been required to work 25 hours per week for 10 months of the year on Work for the Dole projects.

“ Since 2007, those who have been unemployed for more than two years have been required to work 25 hours per week for 10 months of the year on Work for the Dole projects ”

#### *Work for the Dole*

Welfare recipients can opt for a Work for the Dole placement as their mutual obligation activity. They are given a placement if they fail to undertake anything else. Work for the Dole provides experience working on heritage and environmental projects, provision of community services, and restoration or maintenance of community facilities. Projects are run by non-commercial ‘community work coordinator’ agencies which contract with the government to offer places on specified programmes. Participants normally work from 9am to 5pm, two days a week for six months. They do not receive pay over and above their welfare payment, but they do get a top-up to cover transport and other work expenses. In 2004-05 (the last year for which data are available), the Government spent \$178 million (£73 million) supporting 64,000 places.<sup>24</sup>

The Work for the Dole system is currently undergoing changes as a result of the election of a new Labor government in November 2007. In the May 2008 budget, the government announced that Work for the Dole would not commence in future until people had been unemployed for one

23 Centrelink, *Mutual Obligation Requirements*, see [www.centrelink.gov.au/internet/internet.nsf/payments/newstart\\_mutual\\_obligation.htm](http://www.centrelink.gov.au/internet/internet.nsf/payments/newstart_mutual_obligation.htm)

24 Yeend P, ‘Mutual obligation/Work for the Dole,’ Department of the Parliamentary Library E-Brief, 15 June 2004; also see the website of the Department of Education, Employment and Workplace Relations: <http://www.workplace.gov.au/workplace/Programmes/WFD/WorkfortheDole-NumbersandDollars.htm>

full year. The intention behind this change is to put more emphasis on skills training and less on short-term work placement.

*What happens if you don't comply?*

Obligations obviously have to be enforced if they are going to be effective. This means breaches of conditions attached to receipt of welfare have to trigger sanctions. This creates problems, however, for withholding payments inevitably causes hardship, the very thing the welfare system is supposed to prevent.

Australia's welfare lobby is alive to this uncomfortable dilemma and has persistently attacked the 'breaching penalties' that are applied to claimants who fail to discharge the obligations required of them. Breaching penalties have been revised several times in response to this pressure.<sup>25</sup>

Until July 2006, unemployed people who failed to meet their requirements lost a fixed proportion of their benefit for a fixed number of weeks, the exact penalty depending on the kind of rule they had broken. These penalties were effective, for a 2005 survey found that 90 per cent of breached claimants increased their participation after being penalised. More than two-fifths found work or increased their existing hours, and two-thirds said they became more determined to find work.<sup>26</sup> But critics argued they were too punitive and did not reward people who rectified their behaviour after being sanctioned.

Changes introduced in 2006 allowed recipients to avoid a financial penalty by complying after failing to meet a condition of their benefit. If they do not re-engage with their required activity at the first opportunity, their payment is stopped, but if they subsequently comply, it is reinstated.<sup>27</sup> However, those who accumulate three 'participation failures' within a 12-month period automatically have their payment suspended for 8 weeks. An 8 week suspension is also imposed for 'serious' participation failures, such as deliberately losing a

job, refusing to accept suitable job offers without good reason, or failing to turn up to Work for the Dole placements. These suspensions cannot be reduced through subsequent compliance.

Over the first year of the new penalty system, 525,654 participation failures were reported to Centrelink by Job Network agencies. Commentators began to speculate that the agency was being overwhelmed by paperwork.<sup>28</sup> There was also a big increase in suspensions: 15,509 claimants were suspended for eight weeks, compared with 6,432 in the year before the changes.<sup>29</sup> The new Labor government elected in November 2007 has subsequently relaxed this compliance regime by instructing the Centrelink and Job Network agencies that eight-week suspensions should only be applied in extreme cases.<sup>30</sup>

*The battle over breaching*

This recent softening of the breaching rules is a response by the new government to long-standing criticisms by welfare groups. When the statistics showing a big rise in payment suspensions were released, the peak body representing not-for-profit Job Network organizations attacked the 'obsession with jobseeker compliance' and the 'sinister and damaging vilification and punishment of people who need a hand up rather than being slapped down.'<sup>31</sup> The Australian Council of Social Service (ACOSS) speaks for many when it maintains that nobody should lose more than 25 per cent of their benefits,<sup>32</sup> even though this would leave no effective sanctions against non-compliance and would surely result in the collapse of conditional welfare.

This is precisely what some critics in the welfare lobby and the universities would like to happen. Melbourne City Mission thinks 'the compliance framework...is fundamentally inconsistent with the right of all households to an adequate income to meet basic needs.'<sup>33</sup> Others claim mutual obligation

25 I have discussed earlier arrangements and the various enquires into their fairness and effectiveness in Saunders P, *Australia's Welfare Habit and How to Kick It*, Duffy & Snellgrove/Centre for Independent Studies, 2004

26 Eardley T, 'The impact of breaching on income support recipients,' *SPRC Newsletter*, no 91, November 2005

27 See the Centrelink website: <http://www.centrelink.gov.au/internet/internet.nsf/ea3b9a1335df87bcc2569890008040e/e497a2bd60980186ca2573af0015142b!OpenDocument&Highlight=2,breach>

28 Peatling S, 'Centrelink smothered by infractions,' *Sydney Morning Herald*, 15 January 2008

29 See <http://www.workplace.gov.au/workplace/Publications/ResearchStats/Participation+and+compliance+data/Compliance+data+for+December+quarter+2006/Table6Eightweeknon-paymentperiodsincurredbyjobseekers.htm>. Also see Peatling S, 'Welfare payments cut for 15,000,' *Sydney Morning Herald*, 15 August 2007

30 Karvelas P, 'Agencies told: Go easy on jobless,' *The Australian*, 16 April 2008; Karvelas P, 'Dole reforms 'Help the most needy',' *The Australian*, 14 May 2008

31 Letter by CEO David Thompson to Minister for Employment Participation, dated 13 February 2008 and appended to Jobs Australia submission to the Minister's inquiry into the Job Network.

32 This was also the position reached by a Labor-dominated Senate Inquiry in 2004, see Parliament of Australia, *A Hand Up not a Hand Out*, Report of Senate Community Affairs Reference Committee, April 2004

33 Horn M and Jordan L, *Give Me a Break! Welfare to Work – A Lost Opportunity*, Melbourne City Mission, pp 7, June 2006

unfairly exploits the vulnerability of claimants by forcing them into activities they would not freely choose to undertake (two academic lawyers have even argued it breaches the International Covenant on Civil and Political Rights which states that ‘No one shall be required to perform forced or compulsory labour’).<sup>34</sup> Yet others complain that mutual obligation is socially divisive and stigmatising, that compulsion alienates claimants, and that requiring claimants to undertake activities ‘blames the victim’ for their own joblessness.<sup>35</sup>

Among the general public, however, conditional welfare has strong support. A 2003 survey found 75 per cent thought people receiving welfare benefits should be under *more* obligation to find work, and only 14 per cent believed it had been made too hard to qualify for welfare benefits.<sup>36</sup> A 2005 survey found ‘almost universal support for participation requirements for unemployed people aged under 50’, with 42 per cent supporting tougher participation requirements.

But in social policy circles, the belief in unconditional welfare lives on. ‘Welfare support should be available as an unconditional right when need can be clearly demonstrated,’ says one academic.<sup>37</sup> Another insists on the right to an income ‘whether we work or not.’<sup>38</sup> Welfare groups all welcomed the new Labor government’s relaxation of the rules when they were announced in May 2008.

Has mutual obligation worked?

Imposition of activity requirements can reduce welfare dependency in two ways. It can deter existing or new recipients from claiming by making it more difficult and demanding to qualify for welfare (‘compliance effects’), or it can help people get off benefits by giving them training and work experience (‘programme effects’).

Compliance effects probably account for most of the impact conditional welfare

has had on welfare numbers in Australia (which is why the recent relaxation of the compliance regime is a matter of some concern). Simply requiring unemployed claimants to attend an initial interview reduces the welfare rolls by 5 or 10 per cent.<sup>39</sup> When more is demanded, the number who disappear increases even faster. When Work for the Dole was introduced, one-third of those referred to the programme left the welfare rolls rather than attend.<sup>40</sup> And in 2002 the Productivity Commission estimated the compliance effect of compulsory job search training was three times greater than the effect of the programme itself in equipping people to make successful job applications: ‘Many job seekers who are referred to JST [Job Search Training] or IA [Intensive Assistance] do not actually commence with these programmes... to avoid having to participate in the programme some job seekers increase their job search activity and find employment, or those inappropriately claiming income support stop doing so because of their lack of availability for participation.’<sup>41</sup>

But there are also some positive programme impacts. A 2004 survey of people who had successfully moved from welfare into jobs found one-third thought that activities linked to their welfare payments had been important in helping them get a job, and another 17 per cent thought the activities had helped in some small way.<sup>42</sup> Mission Australia says participants on its Work for the Dole programmes increase self-esteem and motivation and improve job skills as well as enhancing their employment opportunities.<sup>43</sup>

The most rigorous evidence on programme effects comes from a 2005 Department of Employment review. It found that, three months after completing the relevant programme, 55 per cent of those who had undertaken Job Search Training were in employment, as were 46 per cent of those who did Customised

34 Schooneveldt S and Thompson J, ‘Does receiving a breach penalty from Centrelink coerce unemployed people to comply with the government’s wishes?’ Paper presented to the *Path to Full Employment* conference, University of Newcastle, pp 188, December 2006

35 See, for example, Brennan D, Cass B and Gatens M, ‘Mutual obligation and welfare states in transition,’ *Dialogue*, vol 20, pp 11-14; National Welfare Rights Network, *Submission to Senate Community Affairs Reference Inquiry into Participation Requirements and Penalties*, pp 7, July 2002; Yeatman A, ‘Mutual obligation: What kind of contract is this?’ in Saunders P (ed), *Reforming the Australian Welfare State*, Australian Institute of Family Studies, 2000; Saunders, P, *Ends and Means of Welfare: Coping with Economic and Social Change in Australia*, Cambridge University Press, pp 264, 2002; Argy F, *Where to From Here? Australian Egalitarianism Under Threat*, Allen & Unwin, 2003; Stilwell F, ‘Work, wages, welfare,’ in McMahon A, *Understanding the Australian Welfare State*, Tertiary Press, 2000

36 Denemark D, Meagher G, Wilson S, Western M, Phillips T (eds), *The Australian Survey of Social Attitudes*, various years, variables 224 and 225, see <http://ausstar.anu.edu.au/nesstarlight>

37 Reported in Karvelas P, ‘Most want the dole paid only to those who look for work,’ *The Australian*, 4 November 2005

38 Yeatman A, ‘Social policy, freedom and individuality,’ in Eardley T and Bradbury B (eds), *Competing Visions*, Proceedings of Social Policy Conference 2001, University of New South Wales, pp 9, 2001

39 Goodin R, ‘False principles of welfare reform,’ *Australian Journal of Social Issues*, vol 36, 2001

40 Department of Employment & Workplace Relations, *Work for the Dole: A Net Impact Study*, Commonwealth of Australia, pp 12, 2002. Dan Finn suggests as many as three-quarters of those called to WFD in the early days failed to turn up, see Finn D, *A New Deal for Unemployed Australians?*, Dusseldorf Skills Forum, 2001

41 Productivity Commission, *Independent Review of the Job Network*, Productivity Commission, 2002, pp 5.14 (emphasis in original). The compliance effect of JST is estimated to have produced a 10 percentage point reduction in the number of claimants.

42 Norris K, 'Explaining the welfare to work transition,' SPRC Newsletter, no 87, pp 7, Spring 2004

43 Mission Australia, *Beyond Expectations, Below Full Potential*, Mission Australia, 2004. Like other generally positive evaluations (e.g. Neville A and Neville J, *Work for the Dole: Obligation or Opportunity?* UNSW Press, 2003), this report does nevertheless urge that the name 'Work for the Dole' be changed to something less stigmatizing, and that training opportunities should be expanded. Also see Winestock G, 'Work for the dole doesn't work: industry,' *Australian Financial Review*, 4 March 2008

44 Department of Employment & Workplace Relations, *Customised Assistance, Job Search Training, Work for the Dole and Mutual Obligation: A net impact study*, Department of Employment & Workplace Relations, pp 7, table 1, April 2006

45 Department of Employment & Workplace Relations, *Customised Assistance, Job Search Training, Work for the Dole and Mutual Obligation: A net impact study*, Department of Employment & Workplace Relations, pp 8, Table 2, April 2006

46 The change was outlined in Department of Family & Community Services, *Announcement and Proposed Changes to Disability Support Pension*, Department of Family & Community Services, May 2002

47 Both quoted in Healy E, 'Disability or disadvantage,' *People and Place*, vol 10, no 3, pp 80, 2002

48 Roy Morgan Research, *Community Attitudes Towards Unemployed People of Workforce Age*, Roy Morgan Research, November 2000

49 *The Australian*, 13 January 2004

50 Department of Employment & Workplace Relations, *Job Network Disability Support Pension Pilot: Interim Evaluation Report*, Department of Employment & Workplace Relations, October 2004; Karvelas P, 'Disability pensioners back on the job,' *The Australian*, 11 March 2005

51 Horin A, 'Pension rules scare disabled out of job hunt,' *Sydney Morning Herald*, 21 December 2006. The recent OECD report OECD, *Sickness, Disability and Work: Breaking the Barriers*, Volume 2: Australia,

Assistance, and 32 per cent of those who did Work for the Dole.<sup>44</sup> It estimated the 'net employment outcomes' attributable to the effects of the programmes by comparing employment levels among the 'treatment groups' with those of control groups. Work participation was 11 percentage points higher (59 per cent employed against 48 per cent) for those who had done Job Search Training, 10 points higher for those exposed to Customised Assistance, 8 points higher for those who had undertaken a Mutual Obligation activity, and 7 points higher (39 per cent against 32 per cent) for those who had done Work for the Dole.<sup>45</sup> These effects were stronger than any achieved in previous programmes in Australia, and as good as any achieved overseas.

The extension of Mutual Obligation to new DSP claimants

In 2005/06, mutual obligation was extended to cover certain categories of people claiming Parenting Payment and the Disability Support Pension. This reform aimed to plug the loophole in the benefits system which had been encouraging unemployed people on Newstart to migrate to one of the other two, more favourable, payments. Although the change was relatively modest in terms of the number of people it affected, it encountered fierce resistance from critics.

#### *The reform of DSP*

The federal government first tried to extend conditional welfare rules to include some DSP claimants in 2002 when it tried to reduce the 'work capacity' criterion for DSP eligibility from thirty hours per week to fifteen.<sup>46</sup> This would have reclassified claimants with relatively minor incapacities as 'unemployed' rather than 'disabled,' so they would have become subject to activity requirements. But Labor's welfare spokesperson (who is now Treasurer in the new Rudd government) opposed the

reform as an attack on 'people whose bodies have been worn out after a lifetime of labouring for the country,' and Catholic Welfare thought the proposals were 'exposing all people living with disabilities to demonisation.'<sup>47</sup> Although the proposals were not without public support, the idea was dropped.<sup>48</sup>

One reform measure that did get through was a pilot scheme which provided financial inducements to Job Network service providers to contact DSP claimants and encourage them to return to work or training (agencies were paid \$6,000 (£2,460) for every claimant moving from DSP into paid work). This plan received cautious support from the welfare lobby (which nevertheless expressed its concern that DSP claimants should not be 'bullied' into accepting work or training),<sup>49</sup> but it achieved only modest results. Of an initial group of 1,100 DSP recipients who had put themselves forward, only 6 per cent ended up in full-time employment.<sup>50</sup>

In 2005 the Howard government won control of the Senate and successfully reintroduced the change it had first proposed three years earlier. Any jobless person deemed capable of working 15 hours or more per week would from now on be placed on an enhanced Newstart benefit, rather than DSP, and be given assistance to find suitable employment. However, this change in the definition of 'capacity' was not made retrospective – existing claimants classified on the old thirty hour rule have been left on the pension. This has unintentionally discouraged existing DSP recipients from seeking work, for if they want to return to DSP later, they will face the new capacity test.<sup>51</sup>

#### *Will it work?*

It is estimated that over the first three years following the change, 60,000 people who would otherwise have gone onto DSP will now go onto unemployment payments

instead.<sup>52</sup> However, a reduction of inflow of this size will take a long time to reverse the upward trend in total DSP numbers (the Workforce Participation Minister thought it would be eight years before any budgetary savings became apparent).<sup>53</sup> And getting people off DSP and onto Newstart won't necessarily mean they will end up getting jobs – the Productivity Commission thinks the main impact of this change will be to push up the official rate of unemployment by transferring jobless people onto Newstart, where they will remain.<sup>54</sup>

What would make a dramatic impact would be if the new rules were applied to current as well as new DSP recipients. A 2007 OECD report recommended this, but there is no sign of the new Labor government heeding this advice.<sup>55</sup> Labor has, however, dropped its initial opposition to the Howard reforms which are unlikely to be reversed now the party is in office.<sup>56</sup>

The extension of mutual obligation to single parents with school-age children Until 2002, Australia was one of only three western democratic countries (the other two were New Zealand and the UK) that permitted single parents to live on welfare for as long as they had a child below the school-leaving age. The result was that only 50 per cent of Australian single parents had any employment, compared with an OECD average of 71 per cent.<sup>57</sup>

In 2002, the federal government introduced new rules requiring welfare parents who were on welfare with children under 11 to attend one interview each year to discuss their future plans, and those with older children to undertake a mutual obligation activity for an average of six hours per week (although they were not required to look for work).

When it achieved its Senate majority in 2005, the government strengthened these requirements. All new applicants for Parenting Payment (Single) would have to

switch to Newstart Allowance (and therefore start looking for part-time work and become subject to mutual obligation) once their youngest child reached six years of age (the switch to Newstart was later changed to eight after pressure from welfare and single mothers' groups, but the work requirement was retained). Existing claimants would remain on the more generous Parenting Payment, but they too would be subject to the new part-time (15 hours per week) work requirements once their youngest child turned six.<sup>58</sup> Unlike the DSP reform, therefore, the imposition of job search and mutual obligation conditions on Parenting Payment impacted on existing as well as new claimants.

There were, however, some exemptions, a key one being that single parents would not have to accept any job unless it left them at least \$25 (£10.20) per week better off than they were on benefits, after paying their child care and travel-to-work expenses.<sup>59</sup> The new Labor government is apparently thinking of making this rule more generous,<sup>60</sup> although it is unclear how big a loophole this exemption is proving to be.

#### *Will it work?*

The change in the eligibility rules for Parenting Payment could have a substantial impact on sole parent participation rates. At the time the reform came in, 70,000 single parents with older children were working less than the required 15 hours per week minimum, and another 80 to 90 thousand were not working at all.<sup>61</sup> However, as with the DSP reform, moving claimants onto Newstart is not the same as getting them into work. It is possible that this change will do more to swell the official unemployment figures than to reduce overall welfare dependency rates.

The government forecast that in 2007-8, 63,000 PPS recipients would switch to Newstart Allowance, and that 95,000 more would switch in 2008-09.<sup>62</sup> This should result in budget savings of around \$225 million

Luxembourg, Spain and the United Kingdom, OECD, 2007, flags this as an issue that needs rectifying, and the Rudd government has indicated it will change the rule (Karvelas P, 'Welfare for the disabled to change,' *The Australian*, 15 February 2008

52 ACOSS media release, 20 April 2005

53 Tingle L, 'Workforce to grow 24pc with reforms,' *Australian Financial Review*, 18 May 2005.

54 Murphy C, 'Little gain in welfare reforms,' *Australian Financial Review*, 12 April 2005

55 OECD, *Sickness, Disability and Work: Breaking the Barriers, Volume 2: Australia, Luxembourg, Spain and the United Kingdom*, OECD, 2007

56 Karvelas P, 'Labor in backflip on work tests for disabled,' *The Australian*, 28 December 2006.

57 Hughes G, 'Single parents lagging on jobs,' *The Australian*, 3 December 2007

58 Harding A, Ngu Vu Q, Percival R and Beer G, *The Distributional Impact of the Proposed Welfare to work Reforms upon Sole Parents*, Report to the National Foundation for Australian Women, August 2005

59 Peatling S, 'Softer line on pay for single parents,' *Sydney Morning Herald*, 26 May 2006

60 Karvelas P, 'Rudd to change rules on welfare for single mums,' *The Australian*, 14 March 2008. The new government is under pressure from its supporters to weaken the conditional welfare system, and extending exemptions like this may be the way it buys off this pressure.

61 Davis M, 'Single parents to swell ranks of unemployed,' *Sydney Morning Herald*, 15 March 2007

62 Senate Employment, Workplace Relations and Education Legislation Committee, 2005-06 Budget Senate Estimates Hearing, Questions on Notice, Question W137-06 (Senator Penny Wong), Senate Employment, Workplace Relations and Education Legislation Committee, 2006

(£92 million) per year as people move from the higher to the lower payment,<sup>63</sup> but the real test will be how many of these people leave Newstart and find jobs. It is still too early to judge this. Centrelink took five months (from July to November 2007) simply to process the 111,000 single parents with school-age children who were not working and who had no previous contact with the Job Network.<sup>64</sup> Of the first 20,000 who were processed, 6,400 found work.<sup>65</sup>

#### *Penalising recalcitrant parents without their children suffering*

One tricky problem the government faced when extending conditional welfare to single parents was how to impose financial penalties on those who fail to comply. Like all other parents, single parents get Family Tax Benefit to help with the cost of their children (indeed, they get FTB Part B as well as Part A), so in theory it should be possible to sanction the parent (by suspending Parenting Payment) without disadvantaging their children (who still get FTB support). In practice, however, all the money is likely to be mixed up, so there is a clear danger that children of welfare parents will suffer if participation failures are penalized with withdrawal of benefit.

The government's answer to this was to set up a financial case management system. Welfare charities were offered \$650 (£267) per case to keep an eye on families whose payments were suspended for eight weeks and to advise Centrelink if any essential bills (e.g. for rent and food) needed paying. Many of the welfare groups, however, boycotted the scheme.<sup>66</sup>

The government expected around 18,000 people a year to lose their benefits, and estimated that around 4,000 of them would need financial case management. In the event, 15,000 lost benefits in 2006-07 (the first year of operation), but only about 900 received financial case management. The Department of Employment under-

spent its \$5.7 million (£2.33 million) financial case management budget by 85 per cent.<sup>67</sup>

#### *Public reaction*

When it was first suggested that single mothers with school-age children should be expected to find part-time work rather than live on welfare, Catholic Welfare Australia condemned the proposal as 'staggering in its harshness'<sup>68</sup> while the National Council of Single Mothers and their Children warned of 'homelessness and starvation for infants and mothers and more beggars in the street.'<sup>69</sup> The St Vincent de Paul Society suggested work requirements could force single mothers to breach their duty of care to their children, thereby exposing them to prosecution.<sup>70</sup>

Among the wider public, however, the change was broadly supported. A 1999 poll found 58 per cent supporting the idea that sole parents should work once their children started school, and half were also happy for work expectations to be enforced by financial penalties. Another 1999 survey found fewer than one in eight thought lone parents should be entitled to stay on welfare until their youngest child reached sixteen, and more than half thought they should work part-time once their youngest child starts school.<sup>71</sup> A 2003 survey found 84 per cent thought it was reasonable to expect single parents of school-age children to work part-time,<sup>72</sup> and a government survey in 2005 found 76 per cent support for this.<sup>73</sup> Notwithstanding these general levels of support, however, private Liberal Party analysis suggests that opposition from single mothers on welfare may have cost the party some crucial seats at the November 2007 federal election.

#### Conditional welfare in indigenous communities

Recently, the development of conditional welfare has taken a new turn by attaching receipt of welfare payments to behavioural

63 Karvelas P, 'Welfare move hits savings,' *The Australian*, 14 September 2005

64 Symonds A, 'Welfare to work reforms slow to clock on,' *Australian Financial Review*, 7 September 2007

65 Dunlevy S, 'Only 6,400 mums join work scheme,' *Daily Telegraph*, 24 September 2007

66 Horin A, 'Tougher dole rules alarm charities,' *Sydney Morning Herald*, 5 June 2006. See also reports in *The Australian*, 31 October 2006 and 16 February 2007

67 Peatling S, 'Welfare penalties victimize thousands,' *Sydney Morning Herald*, 16 January 2008

68 Quinlan F, letter to the *Australian Financial Review*, 27 June 2003

69 McInnes E, letter to *The Australian*, 13 June 2003. She did not explain how a proposal which would only apply to parents whose youngest child is at least five years of age might result in infants starving

70 Morris S, 'Warnings on welfare changes,' *Australian Financial Review*, 23 November 2005

71 Eardley T, Saunders PG and Evans C, 'Community Attitudes Towards Unemployment, Activity Testing and Mutual Obligation,' *Australian Bulletin of Labour*, vol 26, no3, pp 211-235, table 9, 2001

72 See Saunders P, *Australia's Welfare Habit*, Duffy & Snellgrove/Centre for Independent Studies, table 9, 2004

73 Reported in Karvelas P, 'Most want the dole paid only to those who look for work,' *The Australian*, 4 November 2005. Interestingly, though, only 40 per cent thought single parents should be penalized if they fail to meet their mutual obligation requirements. It seems many people want work conditions imposed but don't have the stomach for enforcing them if they are breached

conditions which are not work-related. Where recipients fail to send their children to school regularly, for example, or where there is evidence that welfare payments are being spent on drugs, alcohol or gambling rather than providing for dependents, a proportion of the cash benefit may be ‘quarantined’ and the money redirected to approved uses such as rent payments or prepaid food vouchers. These developments have gone furthest in Aboriginal communities.

*The critique of ‘passive welfare’ in Indigenous communities*

Conventional employment opportunities are limited in many remote areas, but successive governments have been committed to supporting indigenous settlements in these areas. A special system of payments called the Community Development Employment Program (CDEP) was introduced in 1977 to provide inhabitants with an income.

The idea was to employ local people to perform worthwhile tasks in their communities (a sort of Work for the Dole programme, but better-paid – CDEP pays above the minimum wage – and longer-term). But CDEP has grown to become the biggest single ‘employer’ of Indigenous Australians, with 56,000 people receiving payments in both rural and urban settlements (including capital cities).<sup>74</sup> Many believe CDEP has become little more than disguised welfare (in many Aboriginal communities it is even referred to as ‘sit-down money’).

Noel Pearson, an Indigenous lawyer who runs the Cape York Institute in the far north-east of the country, is an uncompromising critic of CDEP. He calculates that government income transfers (including CDEP) account for 70 per cent of total income in remote Indigenous communities, as compared with 10 per cent in Australia as a whole.<sup>75</sup> He says widespread reliance on CDEP, as well as on other, more conventional forms of welfare such as Family Tax Benefits and Parenting

Payments, has resulted in many people in Indigenous communities becoming stuck on welfare: ‘What is the exception among white fellas – almost complete dependence on cash handouts from the government – is the rule for us... Like other people who can’t see any connection between their actions and their circumstances, we waste our money, our time, our lives.’<sup>76</sup>

“ A 1999 poll found 58 per cent supporting the idea that sole parents should work once their children started school, and half were also happy for work expectations to be enforced by financial penalties ”

Pearson blames welfare dependency for the increasingly dysfunctional way of life in traditional Aboriginal communities where drunkenness, drug abuse, crime, violence, child neglect and child sexual abuse have become commonplace. Like Frank Field or Lawrence Mead in the USA, he sees conditional welfare as a key part of any attempt to restore norms of behaviour in these blighted communities.<sup>77</sup>

*Experiments in conditional welfare in Indigenous communities*

In August 2005, the school Principal in Halls Creek, Western Australia, agreed with the local Centrelink manager to enforce school attendance by Indigenous children whose parents were on welfare. Parents whose children were not attending school were called for interview at Centrelink, and those who did not attend had their Parenting Payment stopped until they did. When it was ruled that Centrelink was not empowered to sanction people in this way, the trial was halted, but of 74 children affected, 32 were found to have improved their attendance record from around 50 per cent to above 80 per cent.<sup>78</sup>

74 Koch T, ‘Reform to put black jobs at risk,’ *The Australian*, 14 February 2005

75 Pearson N, *Freedom, Capabilities and the Cape York Reform Agenda*, Cape York Institute, pp 5, October 2005

76 Pearson N, ‘On the human right to misery, mass incarceration and early death,’ Charles Perkins memorial Oration, University of Sydney, pp14-15, 25 October 2001

77 Field F, *The Ethic of Respect: A Left-Wing Cause*, Centre for Independent Studies Occasional paper 102, Sydney, 2006; Mead L, *The New Politics of Poverty*, Basic Books, 1992

78 Morris S, ‘Contentious no-school, no dole policy to continue,’ *Australian Financial Review*, 2 December 2005

In February 2006, the Department of Employment set up a voluntary programme in Halls Creek aimed at getting Parenting Payment recipients to send their children to school and help them find work. Because it was voluntary, there were no sanctions attached to non-compliance. Of 30 participants who started the six-month programme, 22 completed it, but only 3 found jobs and there was no impact on school attendance among their children. DEWR recommended that voluntary schemes without sanctions should not be tried again.<sup>79</sup>

A different approach which has been widely adopted in remote Aboriginal communities involves positive rather than negative sanctions. More than two hundred *Shared Responsibility Agreements* have been signed since 2004 between Indigenous communities and government agencies under which community facilities like swimming pools or petrol pumps are provided in return for an undertaking by community members to improve social outcomes such as higher school attendance or a lower incidence of trachoma in children (achieved by getting parents to wash their faces). Although these agreements are collective, they can be targeted at individuals (e.g. children who continue to truant may be denied access to the pool).

In May 2007, Noel Pearson's Institute recommended a more radical strategy to rebuild and reinforce shared standards of behaviour in four Indigenous communities in Cape York where the local people were said to be willing to participate in a trial programme. The aim was simple: 'The corrosive effect of passive welfare is beyond dispute...all welfare should be made conditional.'<sup>80</sup>

Any adult in any of the four communities who receives any kind of welfare payment (including Parenting Payment, Newstart Allowance, Family Tax Benefit and CDEP) would under this scheme be subject to four behavioural conditions: (a) they must send their children to school; (b) avoid abusing or neglecting their children;

(c) avoid any drug, alcohol, gambling or family violence offences; and (d) abide by the conditions of their public housing tenancy. If any of these conditions was breached, a new Family Responsibilities Commission (FRC) would investigate. The FRC, made up of representatives from the four communities, would be empowered to issue a warning; compel individuals to attend counseling or support services; specify how all or part of a person's welfare payment should be spent; or redirect a welfare payment to another adult responsible for caring for the transgressor's children.

The trial started in September 2007,<sup>81</sup> although the FRC could not be set up until new legislation was introduced into the Queensland State parliament in February 2008.<sup>82</sup> By then, the pilot had largely been eclipsed by events elsewhere.

#### *The Northern Territory (NT) intervention*

At the end of April 2007, a Northern Territory government inquiry reported widespread child sexual abuse in remote Aboriginal communities.<sup>83</sup> This precipitated a dramatic federal intervention in the Northern Territory involving compulsory health checks for children, bans on the sale of alcohol and possession of pornography, deployment of army units to enforce bans and restore public order, and implementation of some of Pearson's ideas about conditional welfare.

The original intention when the intervention was announced was to quarantine the welfare payments of NT parents who failed to send their children to school or who had a history of substance abuse or of neglect or abuse of their children. But because extended family obligations in Indigenous communities often lead to pressures on welfare recipients to share their cash with wider kin,<sup>84</sup> targeting was abandoned. The *Social Security Act* passed in 2007 thus gave the government the power to impose 'income management regimes' on every welfare recipient in the

79 Cape York Institute, *From Hand Out to Hand Up* Cairns, appendix F, May 2007

80 Cape York Institute, *From Hand Out to Hand Up* Cairns, pp 21, May 2007

81 Karvelas P, 'Aborigines sign on to welfare plan,' *The Australian*, 8 May 2007

82 Madigan M and Wenham M, 'Families face welfare quarantine for poor parenting,' *Brisbane Courier Mail*, 27 February 2008

83 Wild R and Anderson P, *Little Children are Sacred: Report of the Northern Territory Board of Inquiry into the Protection of Aboriginal Children from Sexual Abuse*, Northern Territory Government, 2007

84 Kearney S, 'Welfare cash comes under quarantine,' *The Australian*, 18 September 2007

communities it targeted, whether or not there was any evidence against them of child neglect, child abuse, or substance abuse.<sup>85</sup> The legislation applied to income support payments, such as Parenting Payment and Newstart Allowance, but excluded family payments like FTB and child care benefit.

By November, income management schemes had been imposed in 23 NT indigenous communities. There will be no formal evaluation of the impact this has had until June 2008, but some positive outcomes have been documented. By November, 4,500 children (1 in 4 of all those in NT) had been given health checks, for example, and a quarter of them were referred for further treatment. There are also anecdotal reports of improved nutrition, reduced gambling and higher school attendance, although all of this is unconfirmed. On the downside, there are reports of people leaving targeted towns and sleeping rough to escape the alcohol bans, and there is the nagging disquiet that blanket welfare quarantining is racist (since it identifies its targets by their community affiliation rather than by their individual behaviour record).<sup>86</sup>

The new Labor government will wait for the June 2008 review before deciding whether to continue with welfare quarantining in NT, although it has authorized a number of other income management schemes proposed by state governments for Indigenous communities elsewhere in Australia. In February 2008, a trial scheme was announced in Western Australia where the state child protection agencies will request that Centrelink impose income quarantines on parents whose children are thought to be at risk of neglect or abuse.<sup>87</sup> The following month, New South Wales announced it had agreed a six month trial with Centrelink in the mainly Aboriginal town of Walgett, where welfare payments will be tied to school attendances.<sup>88</sup> Unlike the NT intervention, however, there will

be no blanket quarantining of payments in either of these trials, and they will in principle encompass white as well as black welfare recipients.

The future of conditional welfare: extending quarantining to everyone?

A little-noticed feature of the 2007 Act was that it empowered the government to impose income management schemes on designated communities in NT (where the federal government has direct powers) *and* on specified categories of welfare claimants elsewhere in the country where there was evidence of neglect or poor school attendance. What began as an attempt to remedy dysfunctional Aboriginal communities therefore has the potential to develop as a more general tool for addressing socially irresponsible behaviour throughout the population of welfare recipients.

The origins of this policy go back to February 2005, when the federal government enlisted Noel Pearson to advise on the development of conditional welfare reforms for the whole country.<sup>89</sup> He suggested family payments should be made conditional on school attendance,<sup>90</sup> and that long-term welfare recipients, those with gambling or substance abuse problems, and young jobless people under the age of 21 should all be made subject to 'conditional income management' (i.e. quarantining) to ensure welfare monies are spent appropriately. Pearson based his recommendations on his distaste for unconditional welfare: 'Society will provide a safety net for basic needs such as housing, food and rent but to expect society to maintain people's lifestyle when they are unemployed and not seeking work has got to end... I am troubled by the idea of passive welfare as a right because I think it sends the wrong message to the recipients of the support. It engenders the wrong mentality which is ultimately harmful to the recipients... We encourage defeatism when we characterize dependency as a right.'<sup>91</sup>

85 'A person may become subject to the income management regime because: (a) the person lives in a declared Northern Territory area; or (b) a Child Protection Officer of a State or Territory requires the person to be subject to the income management regime; or (c) the person, or the person's partner, has a child who does not meet school enrollment requirements; or (d) the person, or the person's partner, has a child who has unsatisfactory school attendance,' *The Australian Government, Social Security and Other legislation Amendment (Welfare Payment Reform) Act 2007*, no 130, part 3B, 123TA, The Australian Government, 2007

86 Gibson J 'Swings and roundabouts of Indigenous fortune,' *Sydney Morning Herald*, 30 November 2007; The Editor, 'Editorial: Important steps to better quality of life,' *The Weekend Australian*, 1-2 March 2008; Peatling S, 'Intervention policy does not wash,' *Sydney Morning Herald*, 3 March 2008

87 Symonds A, 'Quarantining of welfare extended,' *Australian Financial Review*, 28 February 2008

88 Gibson J, 'Town ties welfare pay to truancy,' *Sydney Morning Herald*, 7 March 2008

89 Peatling S and Dodson L, 'Pearson will crack down on welfare,' *Sydney Morning Herald*, 23 February 2005

90 Koch T, 'No school for kids, no pay for parents,' *The Australian*, 18 July 2005

91 Quoted in Kelly P, 'Pearson's new deal on dole,' *The Australian*, 10 May 2005

Responding to Pearson's recommendations, the federal Treasurer in December 2005 announced a plan to take welfare money away from 'unfit parents' and redirect it to grandparents or other responsible adults.<sup>92</sup> A few months later, the Minister for Families and Community Services published proposals to withhold up to 40 per cent of the payments made to problem families (e.g. those with drug, alcohol or gambling problems) and divert it into paying their rent, food and utility bills.<sup>93</sup> Those targeted would be issued with debit cards which could only be used to buy approved foodstuffs, and which could not be used to pay for alcohol or tobacco (the government subsequently talked to the major supermarket chains about how this could be implemented).<sup>94</sup>

The welfare lobby opposed the idea from the outset.<sup>95</sup> The St Vincent de Paul Society said debit cards would 'degrade parents', Catholic Social Services saw it as a 'dangerous trend towards blaming welfare and low income earners for the circumstances they are in', and ACOSS criticised the plan as 'controlling behaviour.' The Welfare Rights Network thought the new system should only be introduced on a voluntary basis (almost a quarter of a million people already participate voluntarily in an income management scheme run by Centrelink)<sup>96</sup> while the National Council of Single Mothers and their Children worried about the possibility of fraud and a black market in debit cards.<sup>97</sup>

The government nevertheless pressed ahead, and in September 2007, the same *Social Security Act* which authorized the NT intervention was used to set up the first conditional welfare trial in a non-Aboriginal community (a north Adelaide suburb where unemployment was running at four times the national average). Parents deemed to be wasting their welfare payments on drugs, alcohol or gam-

bling would have 40 per cent of their benefit quarantined for food and rent and would be issued with smart cards which could only be spent on approved purchases in local participating shops.<sup>98</sup>

In the heat of the federal election campaign, in November 2007, John Howard tried to push the conditional welfare principle one step further by suggesting that 100 per cent of the cash benefits paid to people convicted of hard drug offences should be quarantined.<sup>99</sup> Again, the welfare lobby objected. The Welfare Rights Network argued the money should be spent on anti-addiction programmes instead, and a group calling itself the Australian Injecting and Illicit Drug Users' League complained that users would be driven to crime to fund their habit.<sup>100</sup> Labor expressed no opinion on this proposal.

In its first federal budget after taking office, the new Rudd Labor government confirmed it was pressing ahead with welfare quarantining and smart cards. Nearly \$18 million (£7.4 million) has been allocated to trials in eight localities (including two cities) where all parents receiving income support will be required to tell Centrelink which schools their children are enrolled in. Welfare payments will be suspended if children fail to attend school regularly, and a welfare card will be issued to problem families to control the way they spend their benefits.<sup>101</sup> For the Opposition, the family and welfare spokesperson suggested that quarantining be extended to *all* welfare recipients to ensure that family and income support payments are spent responsibly.<sup>102</sup>

## Conclusion

In the last fifteen years, Australia has moved from a welfare system grounded in the principle of entitlement to one based increasingly on the performance of required activities. This trend is unlikely to be reversed.

92 Costello P, 'The virtue of choice, or the choice of virtue: Rethinking family policy,' *Looking Forward*, vol 2, Summer 2005, Liberal party of Australia, pp 2-5, 2005

93 Anderson F, 'Cash clamp plan for problem families,' *Australian Financial Review*, 1 May 2006

94 Peatling S, 'Crackdown on parents' payments,' *Sydney Morning Herald*, 24 November 2006

95 I have discussed these reactions in Saunders P, 'Brough's welfare plan on right track,' see [www.cis.org.au/executive\\_highlights/EH2006/eh41406.html](http://www.cis.org.au/executive_highlights/EH2006/eh41406.html)

96 Karvelas P and McDonald A, 'PM backs forced debit of benefits,' *The Australian*, 6 May 2006

97 Lane B, 'Big welfare sticks cost too many carrots,' *Sydney Morning Herald*, 8 August 2007. This latter concern may be legitimate. In the US, some recipients trade food stamps for cash so they can buy alcohol, and there is some evidence of a trade in smart cards in the communities targeted by the Northern Territory (see Kearney S, 'Outback welfare cards sold for cash,' *The Australian*, 30 November 2007)

98 Faulkner A, 'White welfare gets some tough love,' *Weekend Australian*, 15-16 September 2007

99 Karvelas P and Stapleton J, 'PM's blitz on welfare addicts,' *The Australian*, 17 November 2007.

100 Robson P, 'Howard/Rudd welfare quarantine condemned,' *Green Left Weekly*, issue 741, 27 February 2008

101 Karvelas P, 'Parents to lose pay if kids miss school,' *The Australian*, 14 May 2008

102 Abbott T, 'Welfare carrots and sticks can do economic wonders,' *Sydney Morning Herald*, 2 May 2008

The move towards conditional welfare began by targeting the young unemployed, was then extended to older unemployed people, and was then extended again to certain categories of claimants of disability and sole parent payments, many of whom were refugees from the mutual obligation conditions placed on the receipt of out-of-work benefits. In all of these cases, recipients have been required to participate in paid work, or to undertake some ‘mutual obligation’ activity designed to make them more ‘work-ready.’ Where claimants have failed to comply, payments have been reduced or, in more serious cases, suspended for up to eight weeks.

More recently, receipt of welfare for some people has also been made subject to certain behavioural conditions, such as ensuring their children attend school, or avoiding substance abuse. In these cases, a portion of the welfare payment is quarantined in advance so it can only be spent on specified purposes.

Reviewing this history, certain points stand out. One is that schemes where participation is voluntary generally fail to achieve much. From the very early attempts under *Working Nation* to entice single parents off welfare and into work, through the experiments with Parenting Payment and DSP pilot schemes, right up to the 2006 voluntary initiative in Falls Creek, it is clear that significant behaviour change depends on an element of compulsion, backed by financial sanctions. The Cape York pilot which was based on the consent of the four participating Indigenous communities may look like an exception, but even here there is some doubt about the extent to which local people freely agreed to participate.<sup>103</sup>

When welfare pressure groups like ACOSS say they support the principle of mutual obligation, but think it should be made voluntary, they are therefore acting in bad faith. Relaxing or scrapping the financial penalties attached to condition breaches would undermine the entire sys-

tem. Nevertheless, there is a serious problem, never fully resolved in Australia, of how to impose financial penalties on adults without harming their dependent children.

“ Relaxing or scrapping the financial penalties attached to condition breaches would undermine the entire system ”

A second issue concerns the importance of targeting. If conditionality is to work, it is clearly important to distinguish those who are fulfilling their requirements from those who are not. With work-based requirements, such as Mutual Obligation, this should not be too difficult, although even here there have been concerns that some claimants get wrongly penalized as a result of administrative errors. But when it comes to behavioural requirements, like the quality of parenting or susceptibility to substance abuse, judgements are likely to be much more difficult and tendentious, and we have seen that in the Northern Territory intervention, the government did not even bother trying to make them.

This raises a third issue, which is that monitoring and policing of conditions attached to welfare is probably best done at a local, neighbourhood level. It is always going to be difficult for a centralised bureaucracy like Centrelink to gauge whether parents are drinking or gambling to the detriment of their children’s welfare, but local people can make informed decisions like this based on their intimate knowledge of their own neighbourhoods. This is why Noel Pearson recommended the new Family Responsibilities Commission in Cape York should include representatives of local communities and make decisions on a case-by-case basis. This is also what used to happen in England when churches and charities ran welfare in the days before the welfare state, and it is what still happens in countries such as

103 Gibson J, ‘Politics blamed for hasty embrace of Pearson plan,’ *Sydney Morning Herald*, 17 July 2007

Switzerland, where welfare is dispensed by the communes. Big bureaucracies are too remote to monitor behaviour effectively at the local level.

Fourthly, conditional welfare is heavily interventionist and deliberately paternalist. The move to conditional welfare is therefore consistent with big government conservatism, but it sits uneasily with classical liberalism. People who cannot or will not look after themselves properly are told how to behave by the Government, and they are cajoled into conformity as a condition of receiving help. In the example of mutual obligation, the conditions imposed on people hopefully result in at least some of them taking more responsibility for themselves, for they are required to engage in work or training activities in return for their benefit. But in more recent income management initiatives, responsibility is actually taken away from people, for they are no longer allowed to decide how their money will be spent.

The obvious danger here is that, instead of getting individuals off welfare, a policy like this will end up micro-managing the people on it. In some cases, this may be unavoidable, but this only reinforces the importance of accurate targeting. In the NT intervention, people who were already behaving responsibly lost responsibility for their own budgeting, and clumsy interventions like this may well end up doing more harm than good.

As for whether conditional welfare works, there is clear evidence that mutual obligation has managed to get significant numbers of unemployed people off welfare and into work, although it has created perverse incentives for claimants to transfer away from unemployment allowances onto

less challenging benefits. There are also signs that recent changes to the rules governing sole parent payments and (to a lesser extent) disability payment will similarly result in more people finding jobs and reducing their reliance on benefits.

These results are only partly due to the effects of the programmes themselves, however. Activities like Work for the Dole, Job Search Training and Intensive Assistance can help prepare some people for jobs, but they also have substantial compliance effects, deterring people who could find work from lingering on welfare.

Whether the more recent initiatives involving income management will also prove effective in promoting better parenting, reducing substance abuse or encouraging more responsible civic participation, it is too early to say. But as advocates like Frank Field and Noel Pearson point out, the alternative is to keep offering the unconditional welfare which arguably created many of these problems in the first place. When governments hand out money, there will always be behavioural consequences. The choice is between conditional welfare, which seeks to reinforce socially responsible behaviour, and unconditional welfare, which may undermine it.

The best way to encourage personal responsibility is usually to leave people to take more responsibility for themselves.<sup>104</sup> Making welfare conditional on appropriate behaviour should therefore be seen as a means to this end, not an end in itself. The long-term objective should always be to get people off welfare altogether. Getting somebody to do something as a condition of their welfare can produce positive outcomes, but getting them to take full responsibility for themselves is even better.

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104 Murray C, *Losing Ground*, Basic Books, 1984

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# 2

## Conditionality and welfare state generosity in Sweden

Andreas Bergh

### Introduction and summary

Sweden has a reputation for having one of the world's most generous welfare states. There is no denying the fact that the degree of state involvement throughout the life cycle has been high, and still is. For this reason it is hardly surprising that for a long time there has been debate around the extent to which the level of generosity in Sweden's social benefits can be combined with good economic performance over the long-term.

Sweden, both historically and today, has succeeded fairly well in combining generous welfare benefits with good economic performance. For a period, roughly corresponding to the 25 years from 1970 to 1995, it experienced severe economic problems and was lagging behind other countries. There were many reasons for these difficulties, but weak work incentives created by the design of taxes and transfers were part of the problem.

Now, most scholars agree that Sweden still has a universal and generous welfare state – but that work incentives have been strengthened and the degree of conditionality in welfare provision has increased. This greater degree of conditionality seems to have had the expected effect on work incentives, but it has also been criticized for stigmatizing citizens. Interestingly, the alternative strategy of decreasing both generosity and the level of conditionality has not been discussed at all in Sweden.

In this paper we summarize the consensus among social scientists around the Swedish experience, with a special focus on the lessons from the recent reforms which increased the conditionality in welfare provision.

### The rise, fall and revival of a capitalist welfare state

The Swedish success story began in the 19th century. Productivity grew 17 times between 1870 and 1970, a figure only remotely matched by Japan and Finland.<sup>1</sup> From being a poor country relative to other European nations, this development turned Sweden into the 4th richest country in the world in 1970. It also changed Sweden into a country with very low levels of income inequality.<sup>2</sup> Sweden's combination of sustained economic growth and income equality during this period was remarkable.

Social scientists have had a hard time explaining it, but some attempts have been made to explain Sweden's success. Several experts argue that institutional factors played a big role: important basic economic institutions were put in place and combined with welfare policies that increased equality without significant negative effects on work incentives.<sup>3</sup>

Around 1970, Sweden's success came to an end. While relatively little has been written about how Sweden became pro-

1 Maddison A, *Phases of Capitalist Development*, Oxford University Press, 1982

2 Bergh A, *Den kapitalistiska välfärdsstaten*, Ratio, 2007

3 Bergh A, *Den kapitalistiska välfärdsstaten*, Ratio, 2007; Myhrman J, *Hur Sverige blev rikt*, SNS förlag, 1994

perous between 1870 and 1970, the problems that arose thereafter have been meticulously studied.

Like all western countries, Sweden was affected by escalating oil prices. However, the country's situation was made worse by ill-advised economic policy. At the beginning of the 1970s a German D-Mark could be bought for around one Swedish krona. By the time the D-Mark was replaced by the Euro, it was worth four.

Nowadays there is some agreement in the academic and political debate that Sweden made a number of mistakes which led to an aggravation of problems. These included a reliance on Keynesian-inspired macroeconomic policies; subsidization of problem-stricken industrial sectors; repeated devaluations of the Swedish krona; increased real labour costs due to taxes, labour market regulations and high nominal wage-increases; and high marginal taxes and generous welfare benefits which weakened work incentives.<sup>4</sup>

While some of the problems were temporarily hidden during the booming global economy of the 1980s, the crisis of the early 1990s hit Sweden much harder than many other countries. From 1991 to 1993, Sweden went through its deepest and most extensive recession since the 1930s. GDP fell by six per cent from 1991 to 1993 and employment decreased by half a million people, or 13 per cent of the workforce. The unemployment rate increased from 1.7 to 8.2 per cent, not counting the number of people in labour market programmes, which increased from 54,000 in 1990 to 226,000 in 1994.<sup>5</sup>

Sweden has changed markedly since the early 1980s. Most parts of the Swedish economy and welfare state have been substantially reformed. A higher degree of competition has been introduced along with wider market mechanisms and stronger work incentives. Furthermore, Sweden's universal welfare state now has a high degree of conditionality. Since the mid-1990s, Sweden has

**Table 1: Growth, 1995-2004**

	Real GDP per capita	Real GNI per capita <sup>6</sup>
Sweden	2.6	2.5
USA	2.2	2.5
EU15	2.0	2.0

Source: Konjunkturinstitutet, "Konjunkturläget, Augusti 2006," Konjunkturinstitutet, 2006

been doing much better in terms of economic growth – as shown in Table 1.

The fact that Sweden reformed so many areas more or less simultaneously makes it hard to evaluate the relative importance of various reforms. Most Swedish economists agree, however, that the country's strong economic performance after the crisis of the early 1990s has been, in part at least, an effect of the reform process that was applied to macroeconomic policy, taxes, welfare benefits and many other areas. As we shall see, there is also some evidence that increased conditionality and stronger work incentives in welfare benefits have had behavioural effects.

Financial assistance, unemployment insurance and active labour market programmes in Sweden

The transfers in the Swedish welfare state consist mainly of positive income-related benefits (also known as Bismarckian social insurance), where the replacement rate is expressed as a share of the insured income. There are, however, both upper and lower limits to benefits, sometimes referred to as ceilings and floors.

For persons with no or very low labour income, financial assistance is a given. Swedes have the ultimate social safety net, meant to be used only as a very last resort for a limited time, but, formally, there are no time limits.

The use of various labour market programmes for the unemployed is another

4 For an in-depth treatment of Sweden's problems see Lindbeck A, "The Swedish Experiment," *Journal of Economic Literature*, vol 35, pp 1273-1319, 1997

5 For further information see, for example, Proposition 1996/97:124, "Ändring i socialtjänstlagen," vol 1996/96:124, edited by Socialdepartementet, 1996

6 Because it measures the incomes of the citizens in each country, Gross National Income (GNI) is often considered a better measure of living standard than Gross Domestic Product (GDP), which is a measure of total production. Note that, after the crisis of the 1990s, Sweden's good relative performance seems not to have hinged on the specific time period chosen. According to the most recent data from United Nations World Economic Situation and Prospects 2008, Sweden and the US grew by around 3 per cent annually from 1998 to 2007, compared to 2.3 per cent for the EU15

particularly important part of the Swedish welfare state.

In the next section, we describe the reforms of the 1990s that lowered generosity and increased conditionality.

*Financial assistance*

When all other parts of the welfare system have been exhausted, the remaining safety net is financial assistance,<sup>7</sup> which is based on individual means-testing.<sup>8</sup>

Poverty assistance in some form has a long history in Sweden. At the beginning of the 20th century, the system for poverty relief put emphasis on the individual's obligation to work. This later changed, so by the end of the 1960s municipalities were not able to force a person to work. In the 1960s and 1970s the focus shifted further, from the view that people should be obligated to work, to an argument that each citizen enjoyed a right to it.

A structural perspective, where the social causes of poverty and the preventative work that could be undertaken to change them, was in fashion. The responsibility of the welfare state to provide citizens with employment was emphasized.

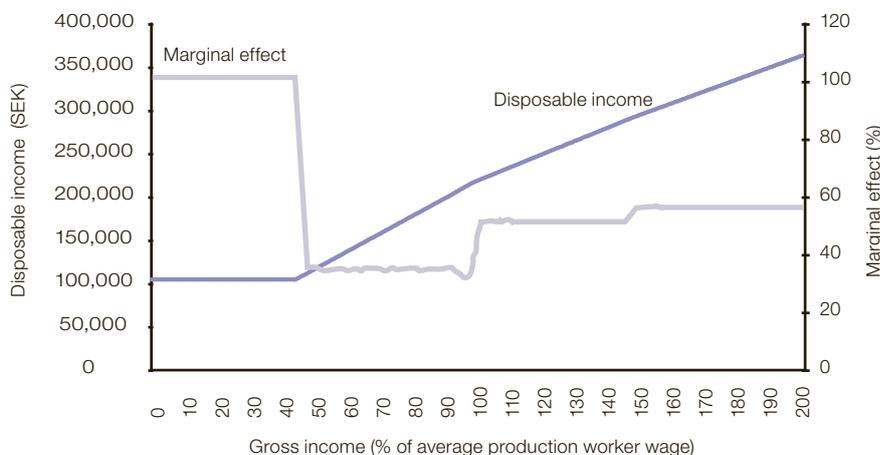
In 1982 a new Social Security Act was

passed. It gave local governments significant influence over the details of welfare. The individual's right to financial assistance, without conditions in return, was clearly expressed (with the guarantee of a reasonable standard of living, which was never clearly defined, in mind).

The condition for eligibility was 'labour market availability', which implied job-seeking, participation in national labour market programmes, and the acceptance of job offers. Detailed conditions and obligations were supposed to be regulated through practices established by the administrative courts and the supervisory authorities.

Financial assistance in Sweden consists of general cash benefits, given to cover expenditures on food, shoes, clothes, leisure activities, a phone, newspapers and TV. Other parts cover the individual's spending on housing, electricity, travel, home insurance, union membership, and unemployment insurance fees. In some cases, expenditures on dental care, medical care and furniture are covered. The total benefit level is very high by international standards: a single adult is eligible for financial assistance if her income is below

Figure 1: Disposable income and work incentives in Sweden

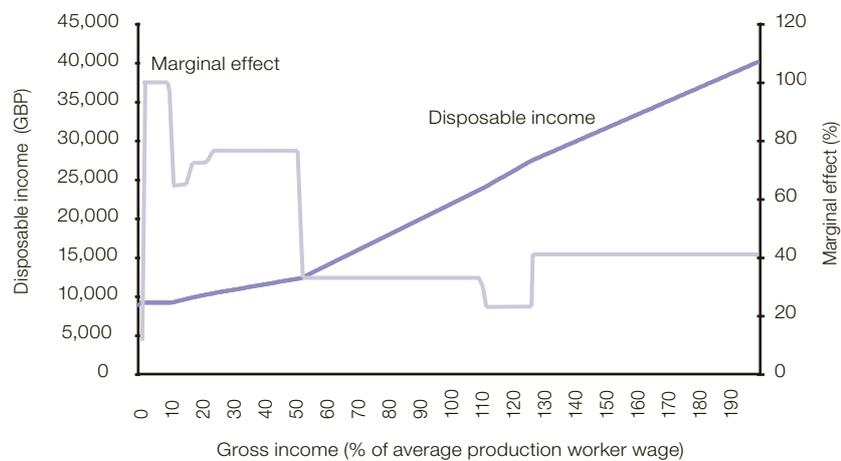


Source: OECD, Benefits and Wages

7 We use financial assistance to denote what is sometimes called social assistance or economic aid.

8 Sources: Proposition 1996/97:124, "Ändring i socialtjänstlagen," vol 1996/96:124, 1996; Johansson H, *I det sociala medborgarskapets skugga*, Socialhögskolan Lund, 2001; Milton P, "Arbete istället för bidrag? Om aktiveringskraven i socialtjänsten och effekten för de arbetslösa bidragstagarna," Department of economics, Uppsala University, 2006; SOU, *Från socialbidrag till arbete*, Fritzes, no 2, 2007; INCOMPLETE REFERENCE 'CARONE ETAL (2004); Socialdepartementet, "Socialbidrag 1999," *Socialtjänst 2000*, vol 8, 2000

Figure 2: Disposable income and work incentives in the UK<sup>9</sup>

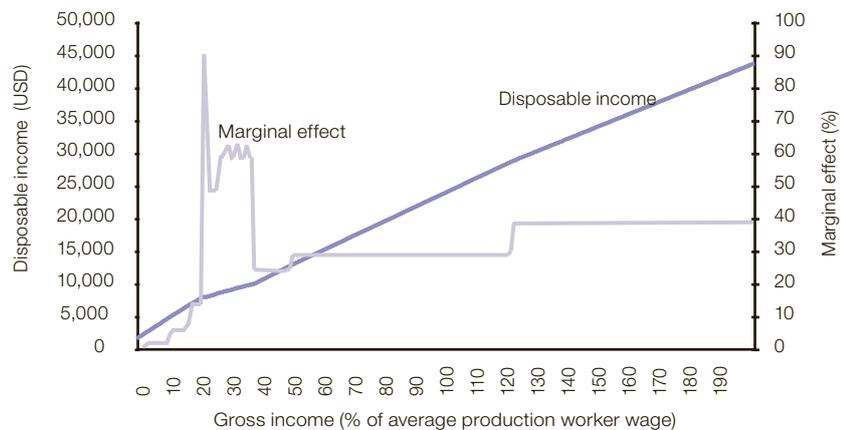


Source: OECD, Benefits and Wages

9 The real level in 1980 = index 100. We see that the real level of the floor has increased much more than the ceiling, and for most of the 1990s the real level of the ceiling was decreasing, indicating that real wage growth pushed more income earners over the limit where their entire income was not fully insured against income losses. Notes: until 1987, the benefit period was 300 days (plus an additional 150 days for those over 55); the waiting period was six days (corresponding to one working-week); from 1987, it was possible to qualify for a new benefit period by participating in a labour market measure/active labour market programme; in 1989, the waiting period of six days was abolished; in 1993, a waiting period of five days was reintroduced; since 2001, the benefit period has been 300 days regardless of age, with possible extension; increased benefit for the first 100 days has been made possible; since 2007, the replacement rate has been 80 per cent for 200 days and 70 per cent for days 201 to 300; it is no longer possible to extend the benefit period to more than 300 days, except for parents with children under 18 years (who are eligible for 150 extra days)

10 The graphs show the situation for a single earner with no children. The differences between the three countries look similar for other household types as well

Figure 3: Disposable income and work incentives in the USA



Source: OECD, Benefits and Wages

49 per cent of the earnings of an average production worker.

To be eligible for financial assistance, individuals were not allowed to have any assets. The level of financial assistance decreased one-for-one if other income sources rose. In other words, increasing one's work income would not increase one's disposable income because financial assistance fell just as much as earnings increased.

To illustrate, figures 1 to 3 shows the relationship between earned and disposable income for a single earner household with no children in Sweden, the USA and the UK. Total market income is on the X axis, and the resulting disposable income, including taxes and benefits, is on the Y axis.<sup>10</sup> The poverty trap in Sweden arises because social assistance is completely reduced against all individual earnings.

The design of social protection for those who lack work income differs a lot between the three countries. Those who are poor in Sweden can enjoy a relatively high material standard of living – but they typically face very low work incentives. For the US, the situation is exactly the opposite: with no labour wage, disposable income is very low – but the so-called Earned Income Tax Credit (EITC) used in the US means that even low paying jobs will markedly increase disposable income. The situation in UK is somewhere in between, though more similar to the Swedish case. In short, by comparing the figures it is evident why in the United States the poverty debate is focused around the ‘working poor,’<sup>11</sup> whereas Swedish discussions are centered around benefit dependency and separation from the regular labour market.

Low work incentives for the poor have been an issue on the academic and political agenda in Sweden for a long time.<sup>12</sup> Despite being meant as a solution of last resort, Swedish financial assistance is not a marginal phenomenon: during the 1990s, the share of households that received at least some of it was between 8 and 11 per cent every year.<sup>13</sup>

#### *Unemployment insurance and active labour market programmes in Sweden*<sup>14</sup>

Labour market policy in Sweden takes place at national level, decided by the government and the parliament. The executive authority was, until 2007, the Labour Market Department (Arbetsmarknadsverket) which comprises the National Labour Market Board and a county labour board in every county. We focus here on the two most important parts of labour market policy: unemployment insurance, and the active labour market programmes.

Membership in an unemployment insurance fund is voluntary in Sweden. The insurance funds are typically administered by the unions. Despite being voluntary, the coverage rate is around 80 to 90 per cent.

The benefits are positively related to income. Eligibility requires membership for 12 months prior to the first day of unemployment. Besides this membership condition, there is a work requirement that is fulfilled when the unemployed person has had gainful employment within a 12-month period immediately prior to the commencement of unemployment. The timeframe of 12 months can be extended if the jobseeker has been unavailable for work, e.g. due to illness or parental leave. The self-employed must cease their commercial activities at least temporarily in order to be classified as out of work. The unemployment benefit is taxable and pensionable.

Jobseekers that have not been members of an unemployment insurance fund, or are not qualified for income related benefits, are eligible for a basic insurance benefit, ‘the cash labour market assistance’, if the work condition is fulfilled and the applicant is aged 20 or above.

The exact rules and conditions have changed over time. From 1974 up until the crisis of the early 1990s, unemployment insurance in Sweden was very generous. Benefits lasted for 300 days, and for those aged 55 and above the benefit period could be extended to 450 days. Before 1974, the period was 150 days. In 1989, the system was made even more generous: the waiting period of six days from unemployment to the first benefit payment was abolished. This reform was financed by lowering the benefit level from 91.7 per cent to 90 per cent.

An important part of Swedish labour market policy is the so called active labour market programmes that can be traced back to 1918. These aim to strengthen the capacity and skills of jobseekers. There have been a range of various programmes, with names like relief works, work experience schemes, self-employment grants, subsidized on-the-job training programmes, wage and employment subsidies and classroom train-

11 See, for example, Ehrenreich B, *Nickel and Dimed*, Metropolitan Book, 2001

12 See, for example, Lindbeck A, “The Swedish Experiment,” *Journal of Economic Literature*, vol 35, pp 1273-1319, 1997; Söderström L, Björklund A, Edebalk PG and Kruse A, *Från dagis till servicehus: Välfärdspolitik i livets olika skeden*, SNS Förlag, 1999; Ministry of Finance, Sweden, “Government Proposition 2002/03:100, Bilaga 3,” Ministry of Finance, Sweden, 2003

13 Among single women with children, the take up rate was 29 per cent in 1999

14 Sources: SO Arbetslöshetskassornas samarbetsorganisation, “Historik om arbetslöshetsförsäkringen,” 2006; Inspektionen för Arbetslöshetsförsäkringen, 2007, see [http://www.iaf.se/upload/Statistik/ersniv/Ersättningsnivåer\\_1980-2007.xls](http://www.iaf.se/upload/Statistik/ersniv/Ersättningsnivåer_1980-2007.xls); Richardson K and van der Berg G, *Swedish labour market training and the duration of unemployment*, Institute for the Study of Labour, 2006; Carling K and Katarina R, “The relative efficiency of labour market programs: Swedish experience from the 1990’s,” *Labour Economics*, vol 11, pp 335-354, 2004

ing services. The idea is that by participating in a programme, the risk that skills deteriorate during spells of unemployment is minimized.<sup>15</sup> When participating in a programme, the worker gets the stipulated wage rate or an allowance equivalent to her unemployment compensation.

“ When benefits are more generous, stronger social norms or more conditionality are needed to counteract the work disincentive created by welfare support ”

Importantly, by participating in a programme full-time, one became eligible for a new benefit period. An unemployed worker whose benefit period has expired has had, since 1987, a right to a temporary public job or, from 1993, a place on a training programme. Thus, in practice, there has been no limit to the time a person can spend on unemployment insurance outside the regular labour market. The benefit periods have often been extended much longer than the regulations stipulated. Moreover, until 1997, it was possible for a worker receiving part-time unemployment insurance benefits to become eligible for full-time unemployment insurance benefits through participation in an active labour market programme.

#### *Do generous welfare benefits decrease the labour supply?*

According to standard economic theory, the introduction of tax-financed cash benefits leads to lower labour supply – the cash benefits can replace labour income, and the taxes lead to labour becoming less economically rewarding.

Reality, however, features two mechanisms that are usually not included in the economic models. First of all, welfare benefits are typically not handed out with no strings attached to anyone lacking a labour

income, but rather conditioned on a number of requirements. Secondly, social norms may imply that people may prefer living on work income even if welfare benefits would provide a similar economic standard of living.<sup>16</sup>

When benefits are more generous, stronger social norms or more conditionality are needed to counteract the work disincentive created by welfare support. Since social norms are beyond government control, or at least hard to influence through policy, a generous welfare state with weak work incentives that seems to damage the economy must choose between lowering and restructuring benefits, or increasing the degree of conditionality (or, of course, any combination of changes in both conditionality and benefit levels).

As we shall see, the debate in Sweden has not been focused on the level and structure of financial assistance. Instead, the debate – and the reforms implemented – has mostly focused on stricter eligibility criteria.

#### The reforms during the 1990s

The crisis of the early 1990s marked the end of reforms that would increase generosity. Instead, stricter rules for both unemployment insurance and financial assistance have been implemented since then. We will first describe these changes, and thereafter report some lessons from available evaluations and research.

#### *Financial assistance*<sup>17</sup>

As stated, the right of citizens to receive assistance was dominant throughout the 1980s. The 1990s, however, saw a return to the more conditional assistance of earlier times, at least to some extent. Nonetheless, the level of financial assistance after these changes is still relatively high in Sweden, and there is still no time limit for financial assistance.

In 1998 a number of changes were introduced in the Social Services Act; some

15 Side effects from these programs, however, are that less time is spent looking for new jobs, and that the programmes may crowd out regular jobs.

16 One study notes that the strength of this norm may depend on the number of people who work and who live on welfare, see Lindbeck A, Sten N and Weibull JW, "Social Norms and Economic Incentives in the Welfare State," *The Quarterly Journal of Economics*, vol CXIV, pp 1 – 35, 1999

17 Sources: Bergmark Å and Palme J, "Welfare and the unemployment crisis: Sweden in the 1990s," *Journal of International Social Welfare*, vol 12, pp108-122, 2003; Johansson H, *I det sociala medborgarskapets skugga*, Socialhögskolan Lund, 2001; Milton P, "Arbete istället för bidrag? Om aktiveringskraven i socialtjänsten och effekten för de arbetslösa bidragstagarna," Department of economics, Uppsala University, 2006; SOU, *Från socialbidrag till arbete*, Fritzes, no 2, 2007; Proposition 1996/97:124, "Ändring i socialtjänstlagen," vol 1996/96:124, edited by Socialdepartementet, 1996

authors have called this a return to the poverty relief of old times' because of the strict conditionality and focus on work.<sup>18</sup> The individual's responsibility to support was clarified, as well as the Social services' duty to assist with active measures. The right to appeal against a decision over financial assistance was abolished. Young adults receiving social assistance were given additional obligations and in this respect were treated differently from other claimants. A national standard was introduced to cover the basic needs for food, clothing, health-expenses etc. An additional part is decided by the municipalities to cover the costs of, for example, housing, electricity and insurance.

In all, the system now places several demands on recipients of financial assistance:

- If an individual is fit enough to work, the social services can cajole him or her into seeking employment.
- The requirement to 'be available for work' can imply that Swedish language lessons be taken.
- Turning down work offers or initiatives proposed by the employment services or the municipal authorities may mean that the right to financial assistance is lost.
- If the individual is under 25 years of age; over 25 years and needs to improve his or her skills for specific reasons; or is a student enrolled in an educational programme financed through study allowance and requires social security during a break in study, the Social services may require participation in occupational schemes or other skill-enhancing activities. Refusal to participate may lead to complete or partial reduction of assistance.
- As before, the individual must first exhaust any savings and financial assets; and spouses and partners have a far-reaching duty to support each other,

since the benefit is based on household income. Parents are responsible for the maintenance of children up to 18 years of age, or 21 years if the child is a student in secondary school.

In 2002, some rules were made less strict: the right to appeal against an assistance decision was reintroduced, and the supervision of the social services made stricter.

#### *Unemployment insurance*<sup>19</sup>

The trend towards more generous unemployment insurance was reversed in 1993, when the benefit level was reduced from 90 to 80 per cent. Furthermore, a waiting period of five days was reintroduced, and the rules for suspension from benefits were made considerably stricter. At the same time, however, the upper benefit limit was raised, so more unemployed people would enjoy the 80 per cent replacement rate.

In 1994, eligibility for unemployment insurance became tougher to achieve as work history came to be measured by the number of hours, rather than the number of days, worked. This change made qualification much more difficult for young people and part-time workers in particular.

In 1996 the upper level was reduced again, to 75 per cent, but the 80 per cent level was reintroduced in 1997.

In 1998 three new unemployment insurance laws, aimed at making insurance available for more people, were adopted.<sup>20</sup> Cash labour market assistance was integrated with the existing unemployment insurance scheme, which resulted in a coherent law composed of basic insurance plus voluntary insurance with an income-related benefit. A student condition was introduced, which meant students could receive benefits after three months of unemployment following the end of their education.

In 2000 an important reform was implemented: only regular employment (including self-employment) would be

18 Johansson H, *I det sociala medborgarskapets skugga*, Socialhögskolan Lund, 2001

19 Bergmark Å and Palme J, "Welfare and the unemployment crisis: Sweden in the 1990s," *Journal of International Social Welfare*, vol 12, pp108-122, 2003; Carling K, Per-Anders E, Anders H and Bertil H, "Unemployment duration, unemployment benefits, and labour market programs in Sweden," *Journal of Public Economics*, vol 59, pp 313-334, 1996; SO Arbetslöshetskassornas samarbetsorganisation, "Historik om arbetslöshetsförsäkringen," 2006; Inspektionen för Arbetslöshetsförsäkringen, 2007, see [http://www.iaf.se/upload/Statistik/ersniv/Ersättningsnivåer\\_1980-2007.xls](http://www.iaf.se/upload/Statistik/ersniv/Ersättningsnivåer_1980-2007.xls); Calmfors L, Anders F and Maria H, "Does active labour market policy work? Lessons from the Swedish experiences," *Swedish Economic Policy Review*, vol 85, pp 61-124, 2004; Benmarker H, Kenneth C and Bertil H, *Leder höjd a-kassa till längre arbetslöshetstider? En studie av de svenska förändringarna 2001-2002*, IFAU, Institute for Labour Market Policy Evaluation, Uppsala, 2005; SOU, *Från socialbidrag till arbete*, Fritzes, no 2, 2007

20 The Unemployment Insurance Act, the Unemployment Insurance Funds Act and the so called "infördelagen"

counted during qualification for a new benefit period. Hence, it was no longer possible to succeed through participation in active labour market programmes. However, at the same time, an *activity guarantee* was introduced to cover the need for assistance for persons being, or at risk of becoming, unemployed for a long time.

In 2000, active job searching also became part of the basic condition. In addition, in 2001, the establishment of an action plan at the employment service was included. The benefit period was changed so all persons, regardless of age, could receive benefits for 300 days.

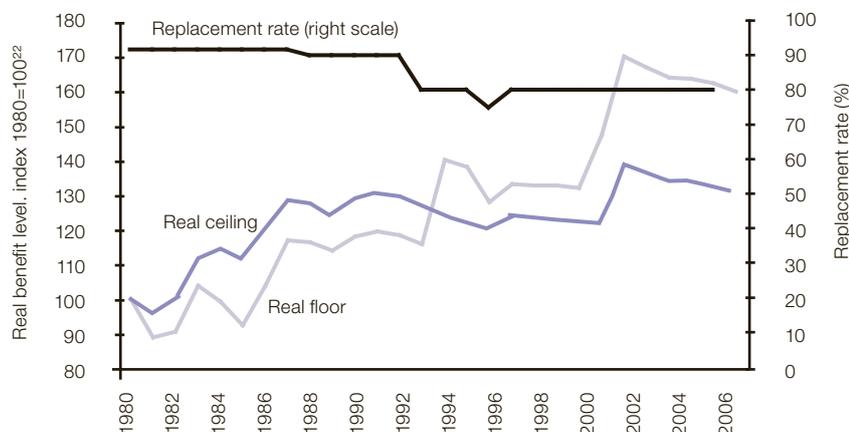
In 2001 and 2002, generosity increased slightly again: the rejection of a job offer meant a decrease in benefits for 40 days, rather than a cut to nothing as happened before. Also, the jobseeker is allowed to limit job-seeking by profession and geography during the first 100 days of unemployment. For those first 100 days, it is also possible for people with an income above a certain level to achieve a higher income-related daily amount.<sup>21</sup> Finally, the changes in 2001 and 2002 raised the upper benefit ceiling.

In 2004 the meaning of the geography-limited search was made stricter: jobs must be considered if they do not require the person to be away from the home for more than 12 hours per day, unless this is not possible for family reasons.

After the 2006 elections a new, right-wing government came into office, after more than 10 years of social democratic rule. The new government had, and still has, an ambition of getting more people into work, partly by making the conditions for receiving unemployment benefits stricter. The work condition demands more hours worked per month, the student condition has been abolished, and the increased daily amount is no longer payable. Furthermore, unemployment insurance will be coordinated with the activity support disbursed by the Social Insurance Office to a maximum of 300 days. There are also new rules for the calculation of benefits: average income for the last 12 months will be considered regardless of the amount of work during the period.

The state's costs for funding unemployment benefits will be decreased, implying that unemployment insurance funds have to cover a larger part of the costs of unem-

Figure 4: Replacement rate, real level of upper and lower benefit limits for unemployment insurance in Sweden<sup>21</sup>



21 In 2001 this amount was 100 SEK higher than the benefit ceiling, hence 680 SEK. When the benefit ceiling was raised to 680, the increased daily amount was raised to 730 SEK

22 Source: our own calculations based on data from Statistics Sweden and the Swedish Unemployment Insurance Board (IAF). The real level of benefits is calculated by relating the stipulated level to the so called basic amount for each year

ployment benefit. This has led to an increase in membership fees, followed by a sharp decrease in memberships. Activation policies have been criticized for being inefficient and for “hiding” open employment. From 2007 the government has decreased the number of participants in active labour market programmes in an attempt to put more focus on job searching and matching.

Figure 4 shows the replacement rates in unemployment insurance since 1980, as well as the real level of the upper and lower benefit limits – the ceiling and the floor.

### Lessons from the Swedish Experience

Many, though not all, of the reforms described have been evaluated in various forms. The following is an attempt to summarize what we know so far.

#### *Detailed rules and directions towards jobs*

Stricter rules which cajole the unemployed into accepting suitable jobs are difficult to implement.

Clearly, there is a trade-off between more detailed regulations and the employment services’ freedom to make accurate decisions in each individual case. Studies indicate large variations in the implementation of the regulations between different local employment service offices. For example, there are different interpretations regarding what is to be considered ‘a suitable job’ and in which ways and how often the employment services are supposed to keep in contact with jobseekers.<sup>23</sup>

Deviations from national regulations typically mean that strict rules are interpreted less strictly.

Implementing strict rules is difficult because, among other things, relatively prescriptive regulation is interpreted weakly. For example, one study shows that single violations of the rules do not typically lead to a report or disqualification, even

when rules clearly stipulate that they should do.<sup>24</sup>

Despite the problems, direction of the unemployed towards specific jobs has small positive effects.

One recent study indicates that a relatively large share of jobseekers do not fulfill requirements, and in 25 per cent of the cases when the jobseeker reports having applied for a job, the employer states that the individual did not actually apply.<sup>25</sup> However, 13-14 per cent of the directions result in the person being offered the job. The individual is more likely to apply for the directed job if she is highly-educated or over 50-years-old. If the job is located in another city, or if it is a job in a category the individual is not interested in, the individual is less likely to apply. It does not seem to matter whether the applicant knows that there will be conditions or not.

#### *Evaluations of the Active labour market programmes*

Active labour market programmes reduce open unemployment but crowd-out regular jobs. Quite a large number of studies on the effects of the active labour market programmes have been conducted.<sup>26</sup> Many suggest that open unemployment is reduced, but so is regular employment.

Labour market programmes were used by individuals to qualify for more unemployment insurance.

In the 1990s there was ample evidence that programmes were used by individuals to the end of renewal of the benefit periods, though some argued that at the national level programmes were used to fight high unemployment. Two studies have suggested that, to be effective, active labour market programmes should be used on a smaller scale than was the case in Sweden, and that there should be greater emphasis on long-term unemployment measures and less emphasis on youth programmes.<sup>27</sup>

23 Lundin M, *Tillämpningen av arbetslöshetsförsäkringens regelverk vid arbetsförmedlingen*, Institute for Labour Market policy Evaluation, 2000

24 Forslund A, *Brott och straff – om incitamenten i arbetslöshetsförsäkringen*, Institute for labour market policy evaluation, published in *Kontrakt för arbete*, DS, 1999

25 Engström P, Patrik H, Bertil H and Patric T, *Hur fungerar arbetsförmedlingens anvisningar av lediga platser?* Institute for labour market policy evaluation, 2008

26 See, for example, Regné H, “A nonexperimental evaluation of training programs for the unemployed in Sweden,” *Labour Economics*, vol 9, pp 187-206, 2002 and Calmfors L, Anders F and Maria H, “Does active labour market policy work? Lessons from the Swedish experiences,” *Swedish Economic Policy Review*, vol 85, pp 61-124, 2004

27 Regné H, “A nonexperimental evaluation of training programs for the unemployed in Sweden,” *Labour Economics*, vol 9, pp 187-206, 2002 and Calmfors L, Anders F and Maria H, “Does active labour market policy work? Lessons from the Swedish experiences,” *Swedish Economic Policy Review*, vol 85, pp 61-124, 2004

Active labour market programmes seem not to improve matching efficiency. According to one study there is little support for the view that the active labour market policies have had positive effects on matching efficiency and the competition for jobs, effects that are likely to be correlated with the effects on the productivity of job seekers and the allocation of labour.<sup>28</sup> Results seem to indicate that the programmes have locking-in effects.

Some active labour market programmes do less damage than others. Two papers have shown that programmes in which participants obtain subsidized work experience and training provided by firms are better at reducing unemployment spells than schemes which use 'vocational classroom training.'<sup>29</sup> They found that the individual transition rate from unemployment to employment was significantly and substantially raised as a result of participation. Subjective responses to questions about the perceived importance of programme participation supported these results. However, when time spent in programmes is taken into account, the effect on mean unemployment duration is close to zero.

#### *Benefit levels and periods*

The benefit level in unemployment insurance has a few, but often small, behavioral effects. One study examined the effect on job finding of the cut in the replacement rate in unemployment insurance from 80 per cent to 75 per cent, in 1996.<sup>30</sup> It indicated that the reform induced an increase in the transition rate of around 10 per cent. Other studies find smaller effects and also effects on transition to non-participation.<sup>31</sup> Among similar analyses, one study found some evidence that the exit rate from unemployment to employment increases as the benefit exhaustion is approached.<sup>32</sup> This effect may come both from a change in the behaviour of the employment service, and from a change in the behaviour of the jobseeker.

Furthermore, the unemployment spells among beneficiaries not eligible for income-related benefits are only slightly shorter, although the benefits are considerably less generous.

#### *Financial assistance*

Stricter rules for financial assistance are difficult to implement in a decentralized system. The same batch of problems that occurred under the Unemployment Insurance Act also came about with the implementation of the Social Security Act. The construction of the latter gives municipalities scope to interpret regulations; regional variation is thus prevalent – particularly in the use of activation policies and requirements to participate in them to gain eligibility for financial assistance.

One academic investigated the practical implementation of local activation policies and how the relationship between case workers and clients was structured.<sup>33</sup> She concluded that, in practice, the work does not always correspond to the ambitions in the Social Security Act or to the descriptions of the activities given by the responsible institutions. Another academic reached the same conclusion.<sup>34</sup> One study argued that municipalities are more interested in lowering costs and keeping people occupied than helping people into employment.<sup>35</sup>

Conditionality and activation policies can work – but the effect on employment depends on design.

Some studies show that the number of financial assistance recipients has decreased because of activation policies. However, it is not clear whether this is caused by transition to employment or not. The results in one comparative study indicate that the implementation of stricter conditions on the receipt of financial assistance has had a restraining effect on the costs of it.<sup>36</sup>

One paper looked at how stricter activation conditions on the unemployed recipients of financial assistance affects the share of recipients and the costs of financial

28 Calmfors L, Anders F and Maria H, "Does active labour market policy work? Lessons from the Swedish experiences," *Swedish Economic Policy Review*, vol 85, pp 61-124, 2004

29 Carling K and Richardson K, "The relative efficiency of labour market programs: Swedish experience from the 1990s," *Labour Economics*, vol 11, pp 335-354, 2004; Richardson K and van der Berg G, *Swedish Labour Market Training and the Duration of Unemployment*, Institute for the Study of Labour, 2006

30 Carling K, Per-Anders E, Anders H and Bertil H, "Unemployment duration, unemployment benefits, and labour market programs in Sweden," *Journal of Public Economics*, vol 59, pp 313-334, 1996

31 Fredriksson P and Holmberg B, "Improving Incentives in Unemployment Insurance: A Review of Recent Research," *Journal of Economic Surveys*, vol 20, pp 357-386, 2006

32 Carling K, Per-Anders E, Anders H and Bertil H, "Unemployment duration, unemployment benefits, and labour market programs in Sweden," *Journal of Public Economics*, vol 59, pp 313-334, 1996

33 Thorén K H, *Kommunal aktiveringspolitik: en fallstudie av det praktiska arbetet med arbetslösa socialbidragstagare*, Institute for labour market policy evaluation, 2005

34 Ekström V, *Individens eget ansvar och samhället stöd. En utvärdering av "Skärholmsmodellen" vid Jobbcentrum Sydväst*, FoU-enheten Stockholms stad, 2005

35 Salonen T and Rickard U, *Nedersta trappsteget. En studie om kommunal aktivering*, Institutionen för vårdvetenskap och socialt arbete, Växjö Universitet, 2004

36 Byberg I, "Arbetsmetoder och socialbidrag: En studie av olika faktorerens betydelse för kommunernas socialbidragkostnader," *Socialstyrelsen, SoS-rapport*, no 11, 1998

assistance in the municipalities.<sup>37</sup> Stricter activation conditions are voluntary for municipal authorities if they have introduced them to a varying degree. This allows for a more reliable evaluation of the effects – stricter activation conditions have negative effects on the share of recipients, particularly young people. However, the effect on costs is uncertain.

Other authors argue that there is weak evidence that social services and other municipal activation policies have a positive effect on employment, and that the latter can even delay the transition to regular employment: one study evaluated a specific programme in Rinkeby.<sup>38</sup> The results in it indicated that the share of participants in the activation measures that got a job was lower than in the reference group, which participated in regular measures. Another study evaluated the Uppsala model and concluded that participants did not have a higher probability of getting a regular job or even starting education than individuals in a reference group.<sup>39</sup> A further one evaluated a programme in Malmö and found that the effect on employment was either zero or very small.<sup>40</sup>

Conditionality and activation policies produce small positive effects at high costs. One study concluded that slightly less than 21 per cent of those who participated in activation measures entered self-support in the form of either regular employment or studies after the activity.<sup>41</sup> Parental leave, education or movement to other areas were also common reasons for individuals leaving programmes. Furthermore, it showed that those who left the activation programmes within three months, half of whom supported themselves, would have done so even without participating in a scheme. The 25 per cent who left the programmes after four to six months did that because of the help they had received.

A few academics used similar data from elsewhere more thoroughly.<sup>42</sup> They concluded that there are unambiguous locking-in effects among recipients in activa-

tion programmes, particularly among young people, those over 50-years-old and immigrants. Often, individuals leave activation programmes for other reasons than finding employment. The negligible effect on employment seems to be connected to the design and aim of the programmes, as well as the low demand for the skills of some labour groups.

One study argued that activation programmes try to control the needs of financial assistance recipients rather than help them to actually get work, which can make it harder for the beneficiaries to find regular employment.<sup>43</sup> Another one suggested that the activation measures are as much a way to control the financial assistance recipients, and prevent black labour, as helping them to enter employment.<sup>44</sup>

Little is known about the best way to design activation policies: the effect on behaviour must be weighed against social stigma.<sup>45</sup>

The question of which method is most efficient in helping the beneficiary move from financial assistance to another form of income has not been thoroughly investigated. One piece of analysis has referred to the few studies made, and concluded that a 'clear policy with a well-structured method of handling applications for financial assistance could have some effect in diminishing further dependence on social welfare.'<sup>46</sup> Other studies show that the most positive effects of activation measures were those that resemble regular work and were performed in private business.<sup>47</sup> Moreover, the measures provided within the national labour market policy had more positive effects than locally organized initiatives. The effect on costs has not been investigated enough. Furthermore, some of the activities for young people have been criticized for the 'patronizing' attitude taken towards individuals who only lack a job.

Three groups (the young, immigrants and single parents) have experienced decreased incomes and lower material standards in the few past years. They are in

37 Jönsson L, "Incitamentsstrukturer i social-bidragssystemet - Leder hårdare krav till lett minskat social-bidragstagande?" *Examensarbete D*, Uppsala University, 2006

38 Andersson H, Lennart H and Kerstin I, *Rinkeby Arbetscentrum - verksamhetsidéer, genomförande och sysselsättnings effekter av ett projekt för långtid-sarbetslösa invandrare*, IFAU, Institute for labour market policy evaluation, Uppsala, 2002

39 Milton P, "Arbete istället för bidrag? Om aktiveringskraven i socialtjänsten och effekten för de arbetslösa bidragstagarna," Department of economics, Uppsala University, 2006

40 Gierzt A, *Socialbidrag och försörjning i Malmö - Storstadsstyrelsen och utvecklingen 1990-2000* [förkortad version], Socialhögskolan Lund, 2004

41 Blomberg G, Veronica E and Daniel R, *Bidrag och motprestation. En uppföljning av sex stadsdelsområdens aktiveringsprogram för arbetslösa socialbidragstagare*, Fou-enheten Stockholms stad, 2006

42 Rauhut D, *Vägen till arbete. Om Stockholms stads arbete med olika grupper av arbetslösa socialbidragstagare*, FoU-enheten Stockholms stad, 2007

43 Thorén K H, *Kommunal aktiveringspolitik: en fallstudie av det praktiska arbetet med arbetslösa socialbidragstagare*, Institute for labour market policy evaluation, 2005

44 Ekström V, *Individens eget ansvar och samhällets stöd. En utvärdering av "Skärholmsmodellen" vid Jobbcentrum Sydväst*, FoU-enheten Stockholms stad, 2005

45 Milton P, "Arbete istället för bidrag? Om aktiveringskraven i socialtjänsten och effekten för de arbetslösa bidragstagarna," Department of economics, Uppsala University, 2006; SOU, *Från socialbidrag till arbete*, Fritzes, no 2, 2007; Blomberg G, Veronica E and Daniel R, *Bidrag och motprestation. En uppföljning av sex stadsdelsområdens aktiveringsprogram för arbetslösa socialbidragstagare*, Fou-enheten Stockholms stad, 2006; Jönsson L, "Incitamentsstrukturer i social-bidragssystemet - Leder hårdare krav till lett minskat socialbidragstagande?" *Examensarbete D*, Uppsala University, 2006; Gierzt A, *Socialbidrag och försörjning i Malmö - Storstadsstyrelsen*

greatest need of financial assistance. Also, people aged 50 and older have a risk of getting stuck in job-seeking activities with long periods of financial assistance. The stricter conditions for receiving financial assistance have in practice been directed towards these groups. One author has concluded that the activation programmes are not cost effective.<sup>48</sup>

“ A lesson from Sweden is that generous benefits are probably not very harmful provided that they are available only for a limited amount of time ”

year of the crisis, things have improved slightly. Most likely, increased conditionality has contributed to this improvement – but it is hard to say by how much – or if other policy measures would have been more effective.

A lesson from Sweden is that generous benefits are probably not very harmful provided that they are available only for a limited amount of time. In Sweden, putting an end to the cycle between unemployment insurance and labour market programmes has been on the political agenda for a long time. Politically, it has proven to be very difficult to introduce a clear time limit for unemployment insurance. One reason for this difficulty is that the system that would be activated after unemployment insurance expires is financial assistance – a system with its own problems of poverty traps and means-testing.

### Concluding remarks

It is worth noting that the problems with welfare dependency in Sweden did not start with the crisis of the 1990s. Figure 5, which is below, shows that since 1970 the total share of adults receiving some type of welfare benefit has increased from around 10 per cent to 20 per cent.<sup>49</sup> The programmes that have expanded are unemployment insurance (including labour market programmes), financial assistance and early retirement. Since 1993, the worst

It is worth noting that the reforms tried in Sweden have mainly consisted of increased conditionality and detailed prescriptions from public sector officials given to the citizens on how to apply for jobs, what jobs to consider and what to do during spells of unemployment. The strategy of

och utvecklingen 1990-2000 [förkortad version], Socialhögskolan Lund, 2004; Rauhut D, *Vägen till arbete. Om Stockholms stads arbete med olika grupper av arbetslösa socialbidragstagare*, FoU-enheten Stockholms stad, 2007; Ekström V, *Individens eget ansvar och samhällets stöd. En utvärdering av "Skärholmsmodellen" vid Jobbcentrum Sydväst*, FoU-enheten Stockholms stad, 2005

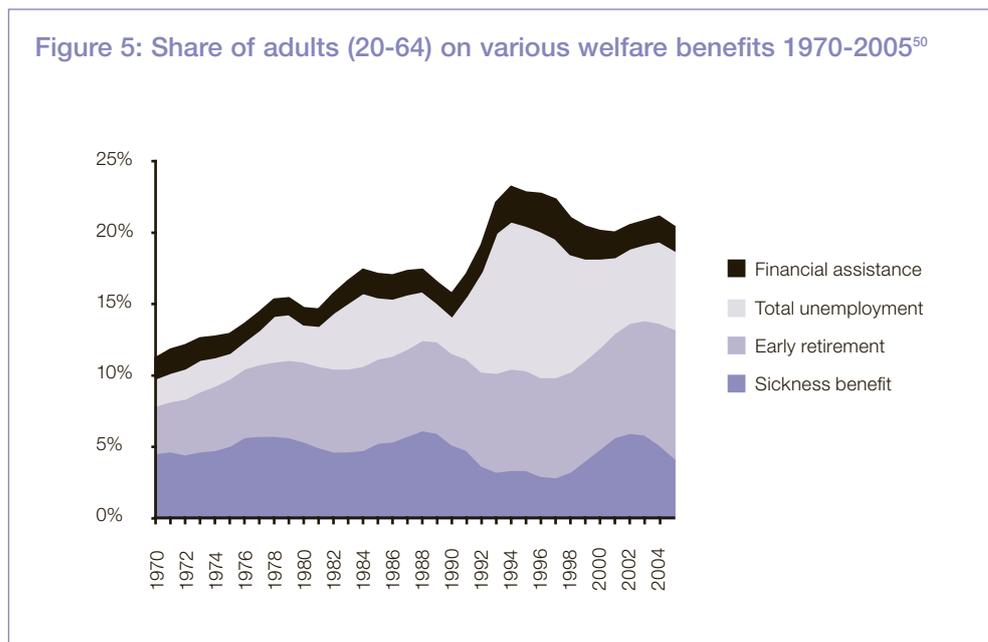
46 Milton P, "Arbete istället för bidrag? Om aktiveringskraven i socialtjänsten och effekten för de arbetslösa bidragstagarna," Department of economics, Uppsala University, 2006

47 See, for example, Blomberg G, Veronica E and Daniel R, *Bidrag och motprestation. En uppföljning av sex stadsdelsområdens aktiveringsprogram för arbetslösa socialbidragstagare*, Fou-enheten Stockholms stad, 200

48 Rauhut D, *Vägen till arbete. Om Stockholms stads arbete med olika grupper av arbetslösa socialbidragstagare*, FoU-enheten Stockholms stad, 2007

49 On a count of full-time equivalents.

50 Source: SOU, *Mera försäkring och mera arbete*, Fritzes, no 86, 2006



lowering benefits combined with increased individual freedom has not been tried, and there is no serious debate about the introduction of something similar to the USA's Earned Income Tax Credit. Perhaps,

Swedish voters prefer high degrees of conditionality and activation policies to lower benefit levels in general. After all, a generous welfare state with high degrees of conditionality is still a generous welfare state.

# 3

## Two Cheers for American Welfare Reform – Lessons Learned, Questions Raised, Next Steps

Douglas J. Besharov

American welfare reform is best known for reducing the benefit rolls by 65 per cent and for sending millions of mothers out to work. But did the poor benefit? And what about those still on the rolls? What are the next steps in fighting welfare dependency and long-term poverty? Do the new earnings subsidies discourage work and marriage? And, has an entirely new expansion of government transfer payments been triggered?

Almost twelve years ago, U.S. President Bill Clinton signed a landmark 1996 welfare reform law. Most American politicians (on

the left as well as the right) say that the changes have been a great success – and that’s what the public believes. After all, welfare caseloads have fallen by an astounding 65 per cent since the reform efforts began.<sup>1</sup>

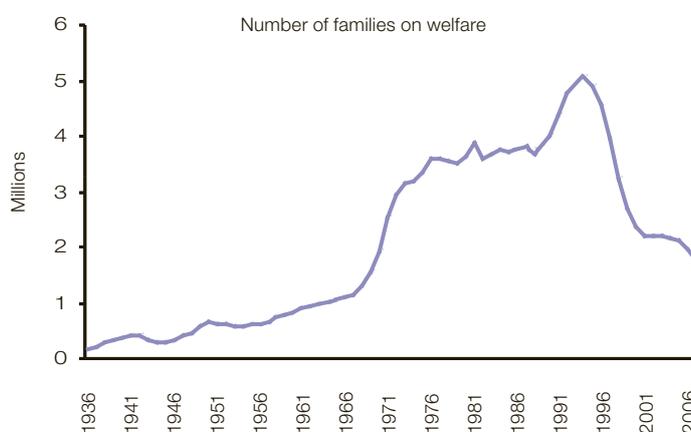
But even as a strong supporter of tougher welfare policies, I find it difficult to muster unqualified enthusiasm for either the law’s implementation or its impact. For now, welfare reform deserves only two cheers.<sup>2</sup> Not bad for a historic change in policy, but not good enough for us to be even close to satisfied. Let me explain.

1 U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, “AFDC Total Caseload: Average Monthly Number for Fiscal and Calendar Years: 1994,” 1994, see <http://www.acf.hhs.gov/programs/ofa/caseload/afdc/1994/fycytotal94.htm>; and U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, “TANF Total Number of Families: Fiscal and Calendar Year 2006,” 2006, see [http://www.acf.hhs.gov/programs/ofa/caseload/2006/2006\\_family\\_tan.htm](http://www.acf.hhs.gov/programs/ofa/caseload/2006/2006_family_tan.htm) (accessed January 23, 2008)

2 I borrow this phrase from Irving Kristol: ‘A capitalist society does not want more than two cheers for itself. Indeed, it regards the impulse to give three cheers for any social, economic, or political system as expressing a dangerous because it is misplaced enthusiasm’ (Kristol I, *Two Cheers for Capitalism*, Basic Books, 1978, pp ix). Kristol, in turn, derived the idea from E. M. Forster: “Two cheers for democracy; one because it admits variety, and two because it permits criticism. Two cheers are quite enough” (Forster EM, *Two Cheers for Democracy*, Edward Arnold, 1951, pp 79)

3 Source for data from 1936 to 1961: U.S. Department of Health and Human Services, Administration for Children and Families, *ACF News, Statistics, U.S. Welfare Caseloads Information: Temporary Assistance for Needy Families (TANF), 1936-1999*, Department of Health and Human Sciences, 2002. Sources for data from 1962 to 2005: U.S. Department of Health and Human Services, *Indicators of Welfare Dependence: Annual Report to Congress 2007*, U.S. Department of Health and Human Services, A-9, 2007. Source for 2006 and 2007 data: U.S. Department of Health and Human Services, “TANF Data, Data Analyses, and Reports,” U.S. Department of Health and Human Services, 2008

Figure 1: Welfare’s Growth and Decline



Source: U.S. Department of Health and Human Sciences.<sup>3</sup>

### The End of the Welfare Entitlement

In the years immediately before the law's passage, welfare dependency seemed out of control in the U.S. Between 1989 and 1994, for example, caseloads rose by a worrying 34 per cent (see Figure 1). Analysts argued over how much to blame the weak economy, worsening social problems (primarily non-marital births and drug addiction), and lax agency administration. But few claimed that another 1.3 million people on welfare was a good thing, and no one had a proven plan to reverse the increase.

Responding to the growing concern about welfare dependency, Bill Clinton campaigned for president on a promise to 'end welfare as we know it.' But he had in mind something far different from what the Republicans handed him in 1996. Nevertheless, and to the chagrin of his liberal allies, he signed the legislation that ended the welfare entitlement and gave states wide discretion in running the programme (as long as they put 50 per cent of recipients in work-related activities and imposed a five year limit on financial aid).

Many feared a social calamity. Senator Daniel Patrick Moynihan, widely respected for his decades-long study of welfare, warned that the law would 'push 1.1 million children into poverty' and that we would 'have children sleeping on grates.'<sup>4</sup> But in the years since, despite major efforts, researchers have found only small pockets of additional hardship. The earnings of most single mothers have actually risen, although not by enough to make a substantial difference in their material well-being. Not as good a result as had been hoped for, but far from the new 'Grate Society,' as Moynihan's prediction was characterized.

These twin realities – decreased caseloads and little sign of serious additional hardship – are the basis of claims from

Republicans as well as Democrats that welfare reform has been a success.

But the real story is more ambiguous. Caseloads fell sharply in all states, yet they did so seemingly without regard to whether states developed ambitious programmes or not. They fell in states with strong work-first requirements and those without them; in states with mandatory work experience (workfare) programmes and those without them; in states with job training programmes and those without them; and in states with generous child care subsidies and those without them. They just fell.

The consensus among academics is that the decline came from a change in expectations, that is, the 'culture of welfare.' Welfare offices were transformed—from being places where poor families were simply given cheques to places where applicants and recipients were encouraged to find jobs or other sources of support. In most places, this new orientation is called 'work first,' and usually includes a mandatory 'job search' for applicants as well as recipients, often combined with job clubs, job-seeking classes, access to phone banks, and peer support (these requirements are often backed up by benefit cuts against those not 'playing by the rules,' but relatively few families are actually thrown off welfare). Also available are one-time cash payments to help individuals get or keep a job (for instance, money to repair a car). A sign stenciled on a New York City Job Center summed up the pro-work atmosphere created in most offices: 'Be prepared to work, or be prepared to leave.'

Many welfare agencies also offer work-preparation programmes that provide short term education, training, or work experience. However, actual participation in such programs is limited, and not that much different than in the past. In an average month in 2000, only about 5 per cent of families on the Temporary

<sup>4</sup> *Congressional Record*, 104th congress, 2nd session, no 142, July 18 1996

5 U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fourth Annual Report to Congress*, U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, April 2002, pp III-96

6 Please note, there is some overlap between the categories.

7 U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fourth Annual Report to Congress*, U.S. Department of Health and Human Services, no III-96, April 2002

8 The most successful projects were typically described as having 'modest' results, with declines of around 5 percentage points or 9 per cent relative to the control group mean. See, for example, Grogger J, Karoly LA, and Klerman JA, *Consequences of Welfare Reform: A Research Synthesis*, RAND, pp 52 July 2002. Such experiments, though, cannot measure 'entry effects,' that is, the number of mothers deterred from applying for benefits because of such rules and procedures. But there is no reason to believe that such 'entry effects, would have accounted for the remainder of the decline

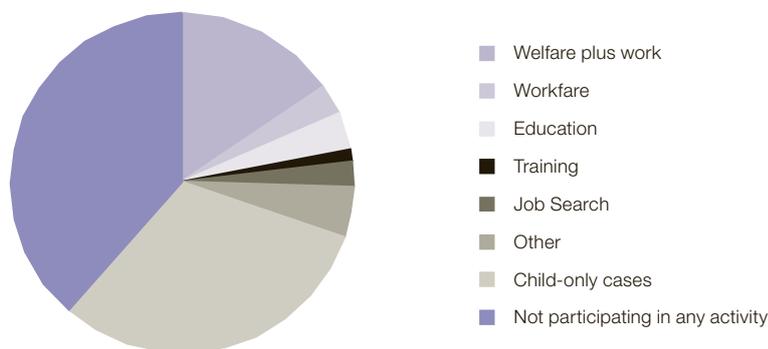
9 U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fourth Annual Report to Congress*, U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, April 2002, pp III-96

10 Unless indicated otherwise, all currency amounts are in 2005 dollars or sterling

11 U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fourth Annual Report to Congress*, U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, April 2002, pp XIII-360-361

12 U.S. Department of Health and Human Services,

Figure 2: Activities of recipients (2000)<sup>6</sup>



Source: U.S. Department of Health and Human Sciences.<sup>7</sup>

Assistance for Needy Families (TANF) programme received education or training (see Figure 2).<sup>5</sup>

These two programmatic elements of welfare reform—a 'work first' policy and limited education and training efforts—are unlikely to have caused the large caseload declines. Before TANF, even the most richly funded welfare-to-work experiments rarely achieved reductions of even 10 per cent.<sup>8</sup>

Mandatory work, often called 'workfare,' also cannot explain the decline. Despite popular impression, few states operate large-scale mandatory work programmes (in which recipients perform public service activities in return for their welfare payments). In an average month in 2000, only about 3 per cent of TANF families included an adult in a mandatory work programme (more on that below).<sup>9</sup> And most of these were in New York City, Wisconsin, Ohio, or New Jersey.

The decline also cannot be explained by the increase in welfare recipients who are combining work and welfare. Under the Aid to Families with Dependent Children (AFDC) programme, the federal government established what is called the 'earnings

disregard,' that is, a set amount of earnings that is not taken into account in determining the welfare grant. For all practical purposes, it was limited to the first \$90<sup>10</sup> (£47) in earnings, after which benefits were reduced dollar-for-dollar as earnings increased – a 100 per cent marginal tax rate.

Under TANF, though, individual states set the amount of their earnings disregards, and most greatly liberalized them. The typical level is around 50 per cent of earnings, and a few states even waive all earnings up to the poverty line for a specified period of time.<sup>11</sup> As a result, the proportion of recipient families in which an adult is combining work and welfare ('combiners') has more than doubled, up from about 7 per cent in 1992 to about 16 per cent in 2000 (see Figure 2).<sup>12</sup>

Some people assume that this increase in 'combiners' was an important factor in reducing caseloads – that recipients became more employable after being introduced to the world of work and an environment in which they could build their confidence and job skills. However, careful studies of the impact of 'income supplement programmes' – that is, programmes that allow recipients to earn

money while staying on welfare – usually show an increase in caseloads. Even when they have been combined with time limits or work requirements, they have rarely resulted in a caseload reduction of more than 5 percentage points, if that.<sup>13</sup>

Furthermore, experts are not sure about the size of the actual increase in work since the reported increase could be just that: recipients may be more likely to tell welfare agencies about working because they no longer face as large a penalty for doing so – and because, if they are combining work and welfare, they are essentially exempt from various mandated welfare reform activities.

In the face of these realities, most experts conclude that the reforms reduced caseloads because they changed the expectations and thus the ‘atmospherics’ of the programme – and that current and potential recipients responded to the new, pro-work message. That is actually the strongest explanation available, but, even so, it is unlikely to have reduced national caseloads by 60 per cent – especially since some of the jurisdictions with very large declines made relatively few changes to their policies.

### The economy at work

Two other factors – a strong economy and sharply increased aid to low-income, working families – almost certainly contributed at least as much, and probably more, to the caseload decline than did welfare reform. Various academic and government researchers have used national data sets to estimate the relative impacts of these factors. Looking across all the studies, and discounting the weakest ones, the most reasonable conclusion is that, although welfare reform was an important factor in reducing caseloads, the economy was probably more important, and expanded aid to low-income, working families (primarily through the Earned Income Tax Credit, or EITC) was somewhat less important than welfare reform.

Strong supporters of welfare reform argue that such studies are highly variable and depend on various subjective assumptions (which is true), and that ‘historically, strong economies have not influenced the welfare rolls.’<sup>14</sup> That, however, is not quite true.

First, during earlier economic expansions, divorces and nonmarital births (precursors of welfare receipt) were both rising sharply, just as barriers to putting single mothers (especially African American mothers) on welfare were falling. For example, many states had ‘suitable home’ or ‘unfit mother’ rules that essentially excluded unwed mothers (and sometimes divorced mothers) from welfare. Since these mothers were disproportionately African American, the three-decades-long liberalization of this and other rules allowed hundreds of thousands of black families to finally receive the benefits to which they were legally entitled.

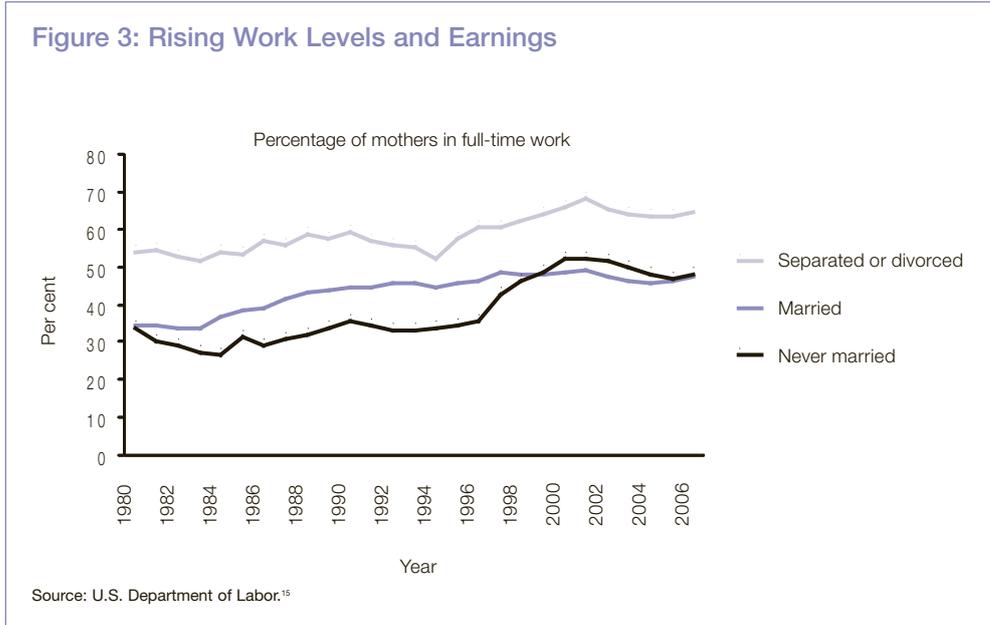
Second, on various measures, welfare reciprocity did actually decline during the economic expansion of the 1980s, but just not by a lot. For example, between 1982 and 1990 (the beginning and end years of that decade’s economic expansion), the percentage of single mothers on welfare fell from 56 per cent to 52 per cent (population increases tended to raise the caseload thus obscuring this decline in the rate of reciprocity.) The strong economy in the 1980s did not draw more single mothers off welfare and onto work because employers first hired married mothers (who had more job skills). Over two million additional married mothers started working full time during that decade’s expansion, raising the per cent doing so from about 34 per cent to about 44 per cent.

Third, and most important, the economy in the 1990s was simply much more favorable to low-skilled, single mothers than the 1980s’ one. In the 1990s, employers essen-

Administration for Children and Families, *Characteristics and Financial Circumstances of AFDC Families: FY 1992*, U.S. Department of Health and Human Services, Administration for Children and Families, 1993, pp 58; U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fourth Annual Report to Congress*, U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, pp X-241, April 2002

<sup>13</sup> See Grogger J, Karoly LA, and Klerman JA, *Consequences of Welfare Reform: A Research Synthesis*, RAND, pp 48-50, July 2002

<sup>14</sup> Haskins R, “The Welfare Reform Law of 1996: What Has Been Accomplished? What Remains to be Done?,” *Policy Form*, no 2, pp 8, October 2001



tially ran out of married mothers to hire (although another 1.3 million married mothers started working full time), and so employers then turned to single mothers. Between 1994 and 2001, the increases in their full-time work were striking: 31 per cent for divorced and separated mothers, and 55 per cent for never-married mothers (see Figure 3).

Based on wage data for entry-level or low-skilled workers, it appears that the economy was drawing these mothers into work rather than welfare reform pushing them into it. For example, even as over a million more single mothers were going to work, the hourly wages for those in the bottom quartile of wages (of single mothers) were rising, suggesting unmet demand in the low-skills job market. For example, between the fourth quarter of 1996 and the second quarter of 2001, their hourly wages climbed 17 per cent, from \$7.25 (£3.77) to \$8.50 (£4.4) in 2005 dollars.<sup>16</sup> These wage gains came on top of a 213 per cent increase in the EITC between 1990 and 1996, from \$1,407 (£731) to \$4,408 (£2, 292) in 2005 dollars.

The picture was much less positive, however, for black male employment during the 1990s. According to Harry J Holzer and Paul Offner of the Georgetown

Public Policy Institute, between 1992 and 2000 there was only a 3 per cent gain in the employment rate of young, non-college-educated black males.<sup>17</sup> This worrisome pattern has continued.

If one looks at the many studies that have attempted to explain this sharp decline, the most reasonable conclusion is that, although welfare reform was an important factor in caseload reduction (accounting for 25 to 35 per cent of the decline), the strong economy was probably more important (35 to 45 per cent). Expanded aid to low-income, working families (primarily through the Earned Income Tax Credit) was almost as important (20 to 30 per cent).

#### Leaving welfare for work

The increase in work among divorced and separated mothers, but especially among never-married mothers, had a tremendous impact on welfare caseloads. In 1994, these two groups of single mothers made up 82 per cent of the national AFDC caseload.<sup>18</sup> Moreover, never-married mothers are the mothers most likely to be long-term welfare recipients (because they are the youngest and least educated of the three groups).

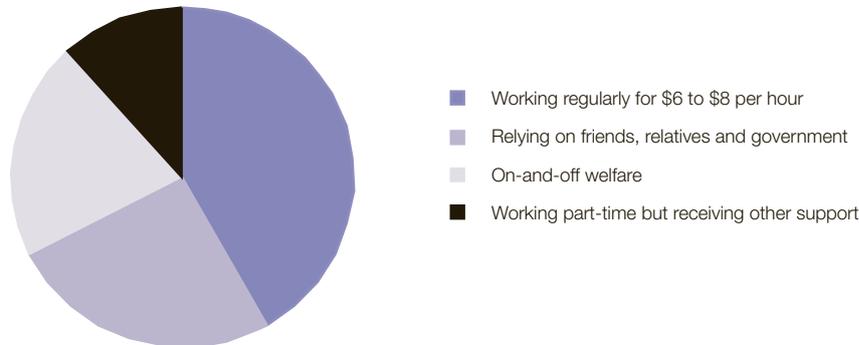
15 Source for 1980 – 1999 data: Karen Kosanovich (U.S. Department of Labor, Bureau of Labor Statistics), fax to Peter Germanis, July 20 2000. Source for 2000 – 2006 data: Mary Bowler (U.S. Department of Labor, Bureau of Labor Statistics), e-mail message to Anne Shi, April 15 2008

16 Lerman R, "Jobs and Wages Up Sharply for Single Moms, Gains Especially High After Welfare Reform," *Single Parents' Earnings Monitor*, July 25 2001

17 Holzer HJ and Offner P, "Trends in Employment Outcome of Young Black Men, 1979-2000," Institute for Research on Poverty, Discussion Paper no 1247-02, February 2002

18 U.S. Department of Health and Human Services, Administration for Children and Families, *Characteristics and Financial Circumstances of AFDC Families*, U.S. Department of Health and Human Services, Administration for Children and Families, 1995, table 15

Figure 4: what are welfare leavers doing (roughly)?



Source: author's calculations.<sup>20</sup>

Contrary to popular impression, however, only about 40 to 50 per cent of all welfare leavers are working regularly, that is, are in steady, full-time employment (see figure 4). Another 15 per cent or so work part-time. According to various state surveys for 2002 and before, these mothers are earning about \$8.70 an hour (£4.5).<sup>19</sup> That is about \$17,400 (£9,048) a year for full-time employment. It is their story that the supporters of welfare reform celebrate.

Although \$17,000 (£8,840) or \$18,000 (£9,360) per year (even supplemented by the EITC of more than \$1,800 (£936) on average in 2005<sup>21</sup> and child care subsidies) is not a lot of money, especially for a mother with two children (about the average number of children for those leaving welfare), it is much better than being on welfare.

Moreover, various government programmes help make it pay for her to work. In 2005, a single mother with two children earning that much would be entitled to \$3,757 (£1,953) per year from the EITC, up to \$4,400 (£2,288) per year in food stamps, and about \$1,350 (£702) in subsidized school meals for both children. After taxes, that comes to a total of more than \$22,500 (£11,700). If the family also

receives subsidized housing, add another \$6,400 (£3,328) or more. In addition, her children would remain eligible for Medicaid (an average of more than \$1,600 (£832)). Moreover, although she would have added costs by working, her biggest cost, child care, would generally be covered, and most states provide transportation assistance. At this income level, however, she would receive little or no food stamps.

This combination of earnings and government benefits is not enough for a life of middle-class comfort, but it is much better than being on welfare, which is probably why majorities of surveyed welfare leavers invariably say that they are better off after having left welfare. Moreover, most studies show that the earnings of leavers rise the longer they stay off welfare, presumably because they are gaining job skills and developing a positive work history – and because many are also working more hours.<sup>22</sup> In Texas, the motto is ‘Get a job, get a better job, get a career.’<sup>23</sup>

#### Hidden dependency

What about the other 50 to 60 per cent of leavers who are not working regularly? About 10 to 15 per cent of them seem to

19 Loprest P, “Fewer Welfare Leavers Employed in Weak Economy,” *Snapshots of America’s Families* 3, no 5, 2003

20 Author’s estimate based on the following sources: Moffitt RA, *From Welfare to Work: What the Evidence Shows*, Brookings, January 2002; Acs G and Loprest P, *Final Synthesis Report of Findings from ASPE “Leavers” Grants*, Urban Institute, November 2001; Devere C, *Welfare Reform Research: What Do We Know About Those Who Leave Welfare?* Congressional, March 2001; Isaacs JB and Lyon MR, “A Cross-State Examination of Families Leaving Welfare: Findings from the ASPE-Funded Leaver Studies,” paper presented at the National Association for Welfare Research and Statistics, 2000; and U.S. Government Accountability Office, *Welfare Reform: Information on Former Recipient Status*, Government Printing Office, April 1999

21 U.S. Department of Treasury, Internal Revenue Service, “Returns with Earned Income Credit, by Size of Adjusted Gross Income, Tax Year 2005.” For families with two children, the average was over \$2,700 (£1,404)

22 One study found that the median earnings of working mothers rose from \$6,100 (£3,172) in the first year off welfare to \$9,900 (£5,148) in the fifth year after leaving welfare. For a summary of this research, see Strawn J and Martinson K, *Steady Work and Better Jobs: How to Help Low-Income Parents Sustain Employment and Advance in the Workforce*, Manpower Demonstration Research Corporation, June 2000, pp 12; also see Navarro D, van Dok M, and Hendra R, *Results From the Post-Assistance Self-Sufficiency (PASS) Program in Riverside, California*, Manpower Research Demonstration Corporation, May 2007. Two other studies, however, find that increased earnings were almost completely driven by increased hours worked and not increased hourly wages, for these results see Acs G, Loprest P, and Roberts T, *Final Synthesis Report of Findings from ASPE “Leavers” Studies*, Urban Institute, November 2001

23 Texas Department of Human Services, “Temporary Assistance for Needy Families,” *DHS Reference Guide: 2000*, 2000. Los Angeles and Washington have similar mottos

be working part time while 20 to 35 per cent are not working at all. Very few families in either group have become 'homeless.' Instead, both groups are being helped by other government programmes (described below) or by friends and relatives. Often they live with those supporting them (this is one of the least acknowledged or understood aspects of low-income life). Although the data are incomplete, it appears possible that, on average, these single mothers lived in households that saw a modest rise in income.

“ Conservatives were proven right that the welfare system itself encouraged dependence and that many welfare mothers could hold down jobs ”

When they are off welfare, many of these families survive only because they still receive government assistance through, for example, food stamps (an average of more than \$2,550 (£1,326) per year); the Women, Infants, and Children program (WIC) (about \$1,800 (£936) for infants and new mothers per year); Supplemental Security Income (an average of over \$7,100 (£3,692) per year), or housing aid (an average of \$6,400 (£3,328) per year). Their children also qualify for Medicaid. In reality, these families are still on welfare because they are still receiving benefits and not working call it 'welfare light.'

The remaining welfare leavers, ranging between 15 to 30 per cent, cycle on and off welfare as they alternately find a job or someone to support them and then lose the job or that alternate source of support. Mothers who do this rightly raise the most concern among analysts because, when they suffer various setbacks, they often have no one to turn to for help.

What was the motivation for these groups to leave welfare? Very roughly, it appears that most of the mothers who left

welfare for work under work first policies probably did so because the strong economy, combined with increased non-welfare aid, facilitated their doing so. Those who left without working (or at least not working full time) probably found the added hassle of work first not worth the trouble because they had other sources of support.

So, yes, welfare reform reduced welfare dependency in the US, but not as much as suggested by the political rhetoric – and a great deal of dependency is now diffused and hidden within larger social welfare programs. This has obscured the precarious financial situation of these unfortunate families and blunted the political impetus to address the underlying causes of poverty, from inadequate schools and structural shifts in the economy to family breakdown and other forms of social dysfunction (more on this in a moment).

#### Taking stock

The passage of TANF was accompanied by an often acrimonious debate about the nature of welfare dependency and the likely impact of ending the welfare entitlement and substituting a pro-work orientation. Taking a broad view of what happened, one would have to say that both conservatives and liberals were proven right – and wrong.

Conservatives were proven right that the welfare system itself encouraged dependence and that many welfare mothers could hold down jobs – or rely on others for assistance. Some of these families did not 'need' welfare, perhaps because they were living with parents or a boyfriend, and they simply left when job training or work requirements were imposed. Other families, however, left welfare only because of intense pressure from caseworkers ('hassle' is often a more accurate description.) About a quarter of those who leave welfare return, with many cycling in and out as they face temporary ups-and-downs.

A welfare system focused on limited, short-term assistance and on work successfully pushed many mothers off welfare. Even the presumed high levels of debilitating drug addiction among welfare mothers proved to be exaggerated.

Most importantly, no social catastrophe ensued, even in the inner cities. Despite intensive searching by liberal researchers and journalists, no substantial increase in hardship has been documented.<sup>24</sup> But some opponents of welfare reform point to small declines in the income of the very poorest families, but various methodological issues undermine such findings which, in any event, seem to involve losses in income that are too small to have substantial policy implications (but those losses are more than matched by substantial earnings increases for single mothers generally).<sup>25</sup> The one worrisome exception is the group of mothers who seem to be cycling on and off welfare. They seem to be having a difficult time under welfare reform, and their numbers could easily grow if the economy continues to weaken.

The liberals were proven right, though, about the importance of a strong economy. All objective observers credit the strong demand for entry-level workers as a central cause of the decline. They only disagree about whether its impact is greater than that of welfare reform.

The liberals were also right about the difficulty that most welfare leavers would have in becoming financially self-sufficient. As we saw, with average wages of \$8.70 (£4.52) an hour, even those leavers working full time have relatively modest incomes. Only the expanded aid now available to low-income, working families (especially child care and the EITC) makes it 'worthwhile' for leavers to work for so little money (rather than continue to collect welfare). And, of course, there are many leavers, especially those cycling on and off welfare, who are doing much worse.

More fundamentally, the huge drop in welfare dependency and the rise in work does not seem to have changed the lives of these families. Almost all the social indicators that started heading in the right direction in the early and mid-1990s (before welfare reform) seem to have stopped improving and some have begun a small retreat. Since they started improving before welfare reform, it is difficult to suggest that welfare reform had much to do with their improvement. For example, although some commentators have pointed to a declining rate of non-marital births as one of the most striking results of welfare reform, the picture is actually quite mixed. Non-marital births started declining in 1994, about the time that the first welfare reform waivers took effect and at least two years before TANF's implementation—and they declined only through 1997, after which they started climbing again.

Similarly, there has been no detectable increase in marriage rates, although, since 1994, cohabitation seems to be up by at least a third, or another 400,000 couples with children under fifteen.<sup>26</sup> Opinion, of course, is mixed about whether that is progress.

It is too early to see the impact of less welfare dependency on conditions that, after all, took root over many decades. Working at a regular job may change a mother's outlook on life, but earning enough to make ends meet would surely help and that may take time as she accrues work experience. And a successfully employed mother may be an important role model for her children, but it may take a decade or more before a change in their behavior is evident.

### Support for 'Working Families'

As a result of the caseload decline, public and political concern about welfare dependency has largely disappeared in the United States. In its stead has come more sympathy for the 'working poor' and greater political support for subsidies to low-wage workers (a point often celebrated by welfare advocates).

<sup>24</sup> Bruce Meyer and James Sullivan, economists from Northwestern University, used data from 1984 to 1998 from the Consumer Expenditure Survey and the Panel Study of Income Dynamics to examine the material well-being of single mothers before and shortly after the passage of the 1996 welfare reform law. They focused on consumption to capture the effects of noncash benefits and because income tends to be under-reported. They found that the consumption of these single mother families increased in both absolute terms and relative to single women without children and married mothers. They concluded that 'the material well-being of single mothers has not appreciably declined as a result of recent reforms.' See Meyer BD and Sullivan JX, "The Effects of Welfare and Tax Reform: The Material Well-Being of Single Mothers in the 1980s and 1990s," *National Bureau of Economic Research Working Paper*, no 8298, May 2001, pp 31

<sup>25</sup> See Bavier R, "Income and Expenditures," in Besharov DJ (ed), *Family Well-Being After Welfare Reform*, Welfare Reform Academy, 2002

<sup>26</sup> Between 1994 and 2000 the number of unmarried couples with children under fifteen increased from 1.2 million to 1.6 million. See U.S. Bureau of the Census, "Unmarried Couple Households, by Presence of Children: 1960 to Present," June 29 2001

Bill Clinton popularized the phrase ‘make work pay.’ His goal was to ‘ensure that no one with a family who works full time has to raise their children in poverty.’<sup>27</sup> Work-related assistance to welfare families and those leaving welfare can mean the difference between a successful and an unsuccessful exit from welfare. But the expansions have already gone far beyond what would be needed to help families to leave welfare (or avoid it in the first place).

Financial aid to working families not receiving cash welfare is at its highest level since the Great Depression. Between 1984 and 1999, total means-tested spending on families with children under 18 that are not on AFDC/TANF rose fivefold, from about \$22 billion (£11 billion) to about \$110 billion (£57 billion); compare that to the \$66 billion (£34 billion) or so in non-TANF spending on welfare families.<sup>28</sup> Include spending on AFDC/TANF recipients, and the figures rise to \$92 billion (£48 billion) and \$175 billion (£91 billion) respectively, almost doubling. By 2001, total means-tested spending on families with children reached about \$193 billion (£100 billion). The main programmes are the EITC, food stamps, Medicaid, housing assistance, SSI, and subsidized school meals.

This increase was not primarily caused by a rise in population or a rise in poverty; rather, it was policy-driven. New programmes were created and eligibility and benefits were expanded in many existing programmes – and more are being proposed.

Over 40 million people in families with children now receive these non-TANF benefits, compared to only around 16.5 million in 1984.<sup>29</sup> That is nearly three times the number of people on welfare at its highest point in 1994 (14.2 million). Indeed, although there are ambiguities in the data, between early 1996 and late 1999, it appears that the total number of Americans in families with children not on TANF that

received some other means-tested benefit rose by about 5.9 million (or 25 per cent)<sup>30</sup> – about as many as left welfare.

Just as Bill Clinton had something else in mind when he said that the ‘era of big government is over,’ these figures show that his promise to ‘end welfare as we know it’ deserved more careful parsing than it received. Old welfare is largely gone, but new welfare is bigger and, for its supporters, better than ever. It is billions of dollars and millions of recipients larger – and it enjoys much broader public support because it is tied to ‘working families.’

Such expansions in social welfare spending attract many supporters. Low-income, working families are more sympathetic beneficiaries of aid than are nonworking welfare recipients. Most of us would like them to live more comfortable lives and to have their children succeed. Unfortunately, as with welfare, the expansion of this non-AFDC/TANF aid often comes with unavoidable increases in work and marriage disincentives. These programmes are all means-tested, which means that they terminate at a particular income level. They are either phased out over a range of incomes or end suddenly. In either case, they in effect reduce recipient incomes as they reach the eligibility cut off. This is social welfare’s version of the tax code’s marginal tax rate – but it can be much steeper.

The cumulative marginal tax rates of means-tested programmes often range from 55 per cent to over 100 per cent and can affect families with incomes from \$10,000 (£5,200) to as high as \$40,000 (£20,800) or more (for a family of three), particularly for families that receive benefits from subsidized housing, child care, or the State Children’s Health Insurance Program (SCHIP). Such marginal tax rates are much larger than those in the tax code, and can have a greater impact on behaviour – whether work or marriage – because the loss in benefits represents a much larger percentage of family income.

27 Governor Bill Clinton, “Putting People First: A National Economic Strategy for America,” June 21 1992

28 Adapted from U.S. Congressional Budget, “Policy Changes Affecting Mandatory Spending for Low-Income Families Not Receiving Cash Welfare,” September 1998. The U.S. Congressional Budget Office studied the growth in federal spending due to policy changes in five programmes, Medicaid, SCHIP (the health insurance programme for low-income children), the EITC, the portion of the child credit for low-income families, and child care. I adapted their estimate by adding state spending and converting the estimate to 2001 dollars, resulting in an estimated \$64 billion (£33.3 billion) increase in spending. We then estimated increases in spending for families with children not receiving AFDC/TANF in the following programmes: food stamps, housing assistance, Head Start, WIC, SSI, and subsidized school meals. These spending increases were generally not policy-driven. Nevertheless, it appears that about three-quarters of the total \$88 billion (£45.7 billion) increase was policy-driven

29 These estimates were provided by Richard Bavier of the U.S. Office of Management and Budget. The total number of people in families with children under 18 increased by just 6.2 per cent between 1984 and 1999, from 131.5 million to 139.6 million

30 Unpublished data provided by Richard Bavier, September 23, 2002

Moreover, each increase in benefits and eligibility is likely to trigger a subsequent expansion. The economists and others who propose these ‘fixes’ seem to think that, once these initial corrective expansions are made, eligibility and benefit levels will remain unchanged. This process could easily take on a life of its own, just as it did in Europe. As benefits go to more middle-class families, they will become the chief advocate for further expansions - encouraged by the industries that benefit from the government subsidies. Already, advertisements on TV and in magazines and newspapers urge voters to contact their elected representatives to support expansions of Medicaid for long-term care for the elderly (read nursing home operators) and Medicare reimbursement (hospitals and other health care providers).

#### Lessons Learned and a Real Anti-Poverty Agenda

Supporters of welfare reform claim that it was a great success because the rolls fell to levels not seen since the late 1960s. Critics of welfare reform often point out that it did not cure poverty. That is a somewhat unfair criticism, because the primary purpose of the changes was to reduce dependency on government. Thus, an important rhetorical element leading up to the passage of the welfare law was building ‘self-sufficiency.’

Both sides are agreed, however, that persistently high levels of dependency – as well as poverty – mean that there is much more to do. One side wants to expand the ‘tough love’ aspects of welfare reform (including mandatory work experience programmes). The other side wants to expand voluntary job training, child care, and other financial aid to welfare recipients – and to low- and moderate-income families not on welfare.

This divergence has defined the main poles of the welfare reform debate for

decades and promises to be the continuing source of contention now that TANF has been reauthorized. There is, of course, room for both approaches, but the relative mix is important.

In that spirit, let us ask what lessons have been learned from the past eleven years under welfare reform and how they fit into a broader agenda to reduce dependency and poverty.

- *Caseloads have declined, but not as much as often thought.* Many former welfare recipients are on other forms of government assistance (such as SSI) and churning on and off the rolls has increased substantially.
- *Work requirements work.* Or, more precisely, requiring recipients to be somewhere on a regular basis causes some to leave welfare (either for work or because they already have a job or other sources of support).

“ One side wants to expand the ‘tough love’ aspects of welfare reform... the other side wants to expand voluntary job training, child care, and other financial aid to welfare recipients ”

- *Job training has little impact on employability or earnings.* At least as presently constituted, its main impact seems to stem from being embedded in a participation requirement.
- *Identifying those who can become self-sufficient is not possible.* No one can reliably predict which recipients will find jobs or otherwise become self-sufficient. That requires a system of incentives and penalties rather than administrative screening.
- *Cycling on and off welfare is therefore unavoidable.* Some people will fail, perhaps many times, to become self-sufficient under difficult circumstances.

- *Many recipients will remain dependent.* They will require continued government assistance for the foreseeable future, and policies must reflect this possibility without encouraging it.
- *Welfare workers' attitudes must support the goal of self-sufficiency.* Without a committed staff, administrative monitoring cannot enforce work and participation requirements.
- *Earnings subsidies can encourage work, but 'making work pay' has proven much more expensive than the old welfare system.*
- *Earnings subsidies need to be properly structured, otherwise they almost inevitably create work and marriage disincentives.*
- *New family structures, especially non-marital births and cohabitation, need to be reflected in welfare policies.* Single mothers with low skills are unlikely to be financially self-sufficient, and their household arrangements often present social and economic opportunities as well as obstacles.
- *Immigrants often have different needs and abilities from traditional recipients.* They seem to be more responsive to language and skills training.
- *Effective education is probably the best anti-poverty strategy.* This truth is much easier to state than it is to accomplish, but that should not prevent us from understanding a major source of poverty.

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# 4

## Conditionality in Norwegian welfare policies

Ivan Harsløf

### Introduction

From a comparative perspective, the Norwegian welfare state is generally considered to be part of what has come to be known as the Nordic welfare model. This model is characterised by relatively high public spending on various income replacement programmes, a service intensive welfare system, and a strong commitment to full employment. The goal of full employment has been pursued by a strategy of investment in active labour market policies, extensive public sector employment, and the provision of services that encourage female participation in the labour force.<sup>1</sup>

Recent years have seen a gradual shift in this employment strategy. To an increasing extent income maintenance is linked to various activity requirements to promote labour market attachment for welfare recipients. This development appears to align with international policy trends. Under the banner of ‘The Work Approach’, an ethos that was launched in a government white paper in the early 1990s, most welfare programmes have been tightened.<sup>2</sup> However, the Work Approach has also entailed the introduction of a number of positive incentives, and the increased emphasis on user involvement.

To assess programme changes, one conventionally distinguishes between criteria regulating entrance to a programme (eligibility rules), criteria for determining the

allowance paid to recipients in a programme, and criteria for ending a programme.<sup>3</sup> Placing conditions on the receipt of benefits is mainly regarded as pertaining to the latter set of criteria. However, in our review of recent changes in the Norwegian benefit system, we adopt a more generic approach, acknowledging how these elements are increasingly interlinked. Hence, we consider how various forms of conditionality are generally built into Norwegian welfare programmes.

This paper primarily focuses on changes in economic compensation programmes for persons of working age who lack a sufficient income and are able-bodied. In particular, these schemes include the unemployment insurance system and social assistance benefits. We also briefly consider new aspects of conditionality in adjacent programmes relating to sickness benefits and disability pensions, including a new temporary disability pension scheme. In addition to considering programme changes, recent shifts in the mode of governance and in the delivery or implementation of social policies are discussed, as they may arguably reinforce the element of conditionality in Norwegian welfare policies.

The structure of this paper is as follows. The first section provides an overview of

1 Kautto M, Hatland A and Kjeldstad R, *Nordic Welfare States in a European Context*, Routledge, 2001

2 Dahl E and Dropping JA, ‘The Norwegian Work Approach in the 1990s: Rhetoric and Reform,’ in Gilbert N and Van Voorhis R (eds), *Activating the Unemployed: A Comparative Appraisal of Work-Oriented Policies*, Transaction Publishers, 2001; Dahl E and Lorentzen T, *Norway: Social Security, Active labour Market Policies and Economic Progress* [forthcoming]

3 See, for example, Bolvig I, Hardoy I, Kauhanen M, Lilja R, Røed M and Smith N, *The Labour Supply of Low-Skilled - Incentives in the Unemployment Insurance Systems: A Comparative Description based on Nordic Countries*, TemaNord, Nordisk Ministerråd, 2007

4 Johansson H and Hvinden B, 'Nordic activation reforms in a European context: A distinct universalistic model?' in Hvinden B and Håkon J (eds), *Citizenship in Nordic Welfare states: Dynamics of Choice, Duties and Participation in a Changing Europe*, Routledge, 2007

5 Kjønstad A, *Folketrygdeloven med kommentarer [The National Insurance Act with comments]*, Gyldendal norsk forlag, 2007

6 Halvorsen K, *Grunnbok i helse- og sosialpolitikk (An introduction to health and social welfare policies)*, 3rd edition, Universitetsforlaget, 2005

7 Bolvig I, Hardoy I, Kauhanen M, Lilja R, Røed M and Smith N, *The Labour Supply of Low-Skilled - Incentives in the Unemployment Insurance Systems: A Comparative Description based on Nordic Countries*, TemaNord, Nordisk Ministerråd, 2007

8 Norwegian Kroner

9 MISSOC, Mutual Information System on Social Protection in Member States of the European Union, 2007, see [ec.europa.eu/employment\\_social/missoc/db/public/compareTables.do?lang=en](http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do?lang=en)

10 Kjønstad A, *Folketrygdeloven med kommentarer [The National Insurance Act with comments]*, Gyldendal norsk forlag, 2007

11 Kildal N, 'Workfare Tendencies in Scandinavian Welfare Policies,' *SES Papers, International Labour Organization*, 2001

12 MISSOC, Mutual Information System on Social Protection in Member States of the European Union, 2007, see [ec.europa.eu/employment\\_social/missoc/db/public/compareTables.do?lang=en](http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do?lang=en)

13 MISSOC, Mutual Information System on Social Protection in Member States of the European Union, 2007, see [ec.europa.eu/employment\\_social/missoc/db/public/compareTables.do?lang=en](http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do?lang=en)

14 Bolvig I, Hardoy I, Kauhanen M, Lilja R, Røed M and Smith N, *The Labour Supply of Low-Skilled - Incentives in the Unemployment Insurance Systems: A Comparative Description based on Nordic Countries*, TemaNord, Nordisk Ministerråd, 2007

15 Bolvig I, Hardoy I, Kauhanen M, Lilja R, Røed M and Smith N, *The Labour Supply of Low-Skilled - Incentives in the Unemployment Insurance Systems: A Comparative Description based on Nordic Countries*, TemaNord, Nordisk Ministerråd, 2007

Norway's benefit system. It recounts the most important income replacement programmes that are available to persons of working age. With a focus on the principle of conditionality, it also considers recent programme changes and the political motives behind them. The second section summarises studies of effects that are related to the programme changes. The third section presents the manner in which these programmes have been organised and, recently, reorganised. The fourth section discusses recent developments in the number of recipients of various benefits against the backdrop of deeper socio-economic changes in Norwegian society. The final section presents concluding remarks.

#### Norway's benefit system

Norway's benefit system has a dual structure, constituted by two types of provision, social insurance and social assistance. There has been a marked division between these two types, even if current programme and administrative reforms may change this.<sup>4</sup>

The Social Insurance System is the cornerstone of the Norwegian welfare state.<sup>5</sup> The Social Insurance Act encompasses every resident of Norway. The act regulates *long-term allowances* such as old age pensions, disability pensions, survivor pensions, vocational injury compensation; *transitory allowances* such as vocational rehabilitation allowances and benefits to single parents; and *short-term allowances* such as sickness benefits, unemployment insurance and maternity benefits.<sup>6</sup> All allowances in the Social Insurance System are taxable.

#### Unemployment insurance

Unlike Denmark and Sweden, where the social partners are given an important administrative role, unemployment insurance in Norway is organised solely by the state. The Norwegian system of unem-

ployment insurance is compulsory for those in paid employment. A substantial proportion of the registered unemployed, currently about 37 per cent, do not qualify for unemployment insurance.<sup>7</sup> To be eligible, one must have earned more than 100, 218 NOK<sup>8</sup> (£9,019) in the previous calendar year or an average per year of at least 66,812 NOK (£6,013) over the three previous calendar years.<sup>9</sup> For those who are applying for compensation for the loss of part-time work, these thresholds are proportionally lower.<sup>10</sup> In 1997, the threshold amount was nearly doubled, a change that relegated most unemployed newcomers in the labour market to the second tier social assistance scheme.<sup>11</sup>

The compensation rate of the unemployment insurance scheme is 62.4 per cent – with a ceiling of 400,872 NOK (£36,078) for benefits paid during the course of 52 weeks.<sup>12</sup> There is a daily child supplement of 17 NOK (£1.5) for each dependent child under 18.

The duration of entitlement is dependent upon recorded earnings – an unemployed person earning more than NOK 133,624 (£12,026) in the previous calendar year is entitled to a maximum period of 104 weeks. A 52-week period applies to those with previous earnings falling below this threshold.<sup>13</sup> Since the early 1990s, the length of the maximum benefit period has been cut by around one third.<sup>14</sup>

Those receiving unemployment insurance have always been required to be available for work. From the 1990s onwards, this obligation has been tightened. Following OECD recommendations, a 2003 reform strengthened the legal basis for requiring recipients to undertake certain activities, including meetings for consultations, documented job search or participation in active labour market measures.<sup>15</sup> An eight-week suspension of benefits can be imposed upon those who refuse

to meet the requirements. Repeated refusals can result in even longer-term suspensions.<sup>16</sup>

Whereas the unemployment insurance system has been generally tightened, some analysts argue that a more restrictive regime applied in the early 1990s. According to Knut Røed and Lars Westlie,<sup>17</sup> the use of sanctions against those refusing to meet behavioural demands imposed by labour market offices were more extensive before legal changes were enacted in 1997. Thus, a system with a 'check point' consultation after 80 weeks of unemployment, followed by a 13-week break from insurance entitlements, and then a new period of up to 80 weeks, was replaced with a shorter, but continuous period of benefit rights.

In principle, today's Norwegian active labour market policies require a high degree of geographic and occupational mobility from recipients. But, the rigour in practicing these requirements varies, depending on the assessments of the local employment offices.<sup>18</sup>

Regional redistribution and the economic development of peripheral areas have a strong priority in Norwegian employment and welfare policies.<sup>19</sup> Employment offices in the outer districts are often reluctant to ask their unemployed clients to leave the area in order to take up a job elsewhere because of the loss that this may represent to the community.

The Labour Party and the Socialist Left party are the strongest proponents of active labour market programmes, while the centre-right parties have suggested reductions in such schemes. However, this suggestion appears to be rooted in budgetary rather than ideological reasons.

#### *Transitional allowance for single parents*

Since 1967, single parents have been given a special allowance, which is meant to ensure that they have an appropriate

amount of income. It is currently at 10,300 NOK (£922) per month. Any income from other sources partly offsets this allowance.

“ A relatively high rate of sickness absence in Norway has caused concern... the government threatened to transfer more of the costs related to sickness absence to employers and employees if targets were not met ”

Changes to the law in 1998 instituted a number of conditions that curtailed the right to this allowance. The changes were meant to strengthen the attachment of single parents to the labour market. Under the law, in order to remain eligible after their youngest child has reached the age of three, a recipient is supposed to participate in an educational programme (at least 50 per cent of the time) or work (50 per cent, part-time as a minimum) or be registered as an ordinary job-seeker at the Public Employment Services office.<sup>20</sup>

#### *Sickness benefits*

When ill, Norwegian employees are guaranteed a 100 per cent replacement of their income. A relatively high rate of sickness absence in Norway has caused concern – and to deal with it, the programme has been subject to several changes throughout the years. In 2001, the state entered into an agreement of intent with the social partners, setting up ambitious targets and measures to realize its goals.

The purpose of the agreement was to reduce the general sickness absence rate, retain vulnerable groups in current jobs, and include new groups in paid employment. The government threatened to transfer more of the costs related to sickness absence to employers and employees if targets were not met.

16 MISSOC, Mutual Information System on Social Protection in Member States of the European Union, 2007, see [ec.europa.eu/employment\\_social/missoc/db/public/compareTables.do?lang=en](http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do?lang=en)

17 Røed K and Westlie L, 'Unemployment Insurance in Welfare States: Soft Constraints and Mild Sanctions,' *Memorandum*, no 13, Department of Economics, University of Oslo, 2007

18 Bolvig I, Hardoy I, Kauhanen M, Lijja R, Røed M and Smith N, *The Labour Supply of Low-Skilled - Incentives in the Unemployment Insurance Systems: A Comparative Description based on Nordic Countries*, TemaNord, Nordisk Ministerråd, 2007

19 Øverbye E, Vabø S and Wedde K, *Rescaling Social Welfare Policies in Norway*, Oslo University College, 2006

20 Kjeldstad R and Rønsen M, *Enslige foreldre på arbeidsmarkedet 1980-1999. En sammenligning med gifte mødre og fedre [Single Parents in the Labour Market 1980-1999: A comparison of Married Mothers and Fathers]*, Statistics Norway, no 49, 2002

In 2004, a number of activity requirements were introduced for recipients of sickness benefits who have been in receipt of this allowance for more than eight weeks – unless special medical reasons apply. Furthermore, adjustments of eligibility rules were instituted to ensure more ‘targeting towards employees with a stable labour market attachment.’<sup>21</sup>

Based upon the disappointing results from the range of activities initiated as part of the agreement of intent, in 2006, the Labour government made a proposal that would require employers to co-finance part of the sickness absence period. The social partners strongly opposed, so it was subsequently shelved.<sup>22</sup> This incident exemplifies the strong power of the social partners in Norwegian welfare and employment politics.

### *Disability pension*

A disability pension is an allowance that can apply to persons of working age whose work capacity has been permanently reduced by 50 per cent or more due to illness or injury. Eligibility can last until one reaches retirement age, which is 67 years in Norway.

Norway has one of Europe’s highest disability pension rates.<sup>23</sup> Throughout the 1990s, eligibility criteria have been tightened, in part by demanding those with some work ability to be geographically and occupationally mobile in searching for jobs, and in part by tightening the medical criteria.

From 2004, a temporary 1–4 year disability pension scheme was introduced. In a circular addressing the law, specific reference was made to persons with psycho-somatic or psychological diagnoses such as fibromyalgia,<sup>24</sup> chronic fatigue syndrome, depression, and anxiety, conditions identified as being in the target group for the temporary scheme.<sup>25</sup> Thus, the temporary disability pension scheme appears to be a policy response to the growing proportion of persons who have received ‘diffuse illness’ diagnoses in recent years.<sup>26</sup>

For persons covered by this temporary scheme, an individual follow-up plan has to be prepared. Receiving the allowance is contingent upon the participation of the claimant in the preparation and realization of this plan, as well as participation in any medical treatment and rehabilitation if offered.<sup>27</sup>

Among new disability pension claimants in 2006, about 40 per cent were granted the temporary allowance. For those who were 30–39 years of age, this proportion was about 80 per cent.<sup>28</sup> As part of the changes in 2004, stipulations now include the proviso that unless there are obvious reasons not to do so, the vocational rehabilitation programme has to be tried before a disability pension can be considered.

### *Economic social assistance*

For those who are not entitled to unemployment insurance or other allowances under the social insurance legislation, or those for whom these allowances are not sufficient to cover their needs, means-tested cash benefits from municipal social service offices are available. In addition to the social assistance, the municipalities may provide support for housing and electricity costs.

Unlike most other European countries, there is no fixed national level for social assistance benefits in Norway.<sup>29</sup> The level is decided locally and varies substantially between different municipalities and even between different caseworkers within the same area.

In 2001, the government issued national, but non-binding, guidelines regarding the appropriate level of support. According to these guidelines, in 2007, a social assistance claimant living alone ought to receive a monthly allowance of 4,270 NOK (£384). For a couple, the guiding rate is 7,100 NOK (£639). For each child in the home, the government suggests an extra monthly allowance from 1,630 NOK (£146) to 2,720 NOK (£244) depending upon the

21 Norwegian Government, *Law proposal no. 10*, Ministry of Labour and Social Inclusion, 2003–2004

22 Kjønstad A, *Folketrygdeloven med kommentarer [The National Insurance Act with comments]*, Gyldendal norsk forlag, 2007

23 Solem P E, and Øverbye E, Norway: ‘Still high employment among older workers,’ in Maltby T, deVroom B, Mirabile ML, and Øverbye E (eds), *Ageing and the Transition to Retirement: A Comparative Analysis of European Welfare States*, Ashgate, 2004

24 Fibromyalgia is a condition characterised by chronic pain across the body

25 Kjønstad A, *Folketrygdeloven med kommentarer [The National Insurance Act with comments]*, Gyldendal norsk forlag, 2007

26 Elstad JI, ‘Helse i Norge ved årtusindskiftet [The Norwegian Health Situation at the Millenium],’ in Frønes I and Kjølrsrud L (eds), *Det norske samfunn*, Universitetsforlaget, 2003

27 Kjønstad A, *Folketrygdeloven med kommentarer [The National Insurance Act with comments]*, Gyldendal norsk forlag, 2007

28 Statistics Norway, ‘Flest unge på sosialhjelp [Predominantly young people on social assistance],’ *Samfunnsspeilet*, vol 5–6, 2007

29 OECD, *The Battle against Exclusion, Volume 2: Social Assistance in Belgium, the Czech Republic, the Netherlands and Norway*, Organisation for Economic Collaboration and Development, 1998

age of the child. Evidence suggests that local social assistance rates have become more standardised across the municipalities following the publication of the national guidelines.<sup>30</sup>

The duration of social assistance is unlimited, although the scheme is meant to offer only short-term support. A strong increase in the number of social assistance claimants, including long-term claimants, throughout the 1970s and 1980s provoked discussions about the scheme.

In parliament, a strong consensus was reached around 1990 to generally emphasize the principle of conditionality. Only the party furthest to the left in parliament at the time, the Socialist Left party, opposed such a change, whereas the party furthest to the right, the Progress party, wanted an even stronger emphasis on conditionality. However, the proposal for extending the principle of conditionality to include a possible requirement to participate in work activities in exchange for benefits was only passed by a small majority against the will of the Labour party government. This majority was constituted by the centre-right parties.

Hence, in 1991, the Social Services Act, replacing former social legislation, allowed the municipalities to make social assistance contingent upon the participation in work activities. Only four years later, in 1995, the Labour party also decided to support such work requirements in the social assistance scheme.<sup>31</sup> This change of opinion in the dominant party in Norwegian politics may reflect how the principle of conditionality is gradually gaining a foothold in Norwegian welfare discourse, legislation and practice.

Section 5-3 in the 1991 Act regulates the principle of conditionality:

*Conditions can be stipulated for the granting of financial support [...]. The conditions must be closely related to the decision, and not unreasonably restrict*

*the freedom of action or choice of the recipient of the support. Nor must the conditions be contrary to other provisions in the present Act or in other Acts. It can be stipulated that the recipient shall be employed in suitable tasks in his or her municipality or residence for as long as the financial support is received.*<sup>32</sup>

The last clause in this paragraph allows the municipalities to stipulate conditions of participation in work activities when granting social assistance. However, as can be seen from the law text, there are certain restrictions.

Circular I-34/2001 from the Ministry of Social Affairs (now the Ministry of Labour and Social Inclusion), which is not, however, legally binding, elaborates these restrictions. Of particular importance is the emphasis given to the notion that the stipulation of conditions has to be considered as a tool to assist the client in becoming self-sufficient. Some research into the local implementation of work requirements suggests that the authorities sometimes apply the rules in a harsher manner than was explicitly intended by the law. For example, it appears that work requirements are occasionally stipulated in order to clarify the situation of the applicant, whereas the intention of the law was that such conditions can only be stipulated after one has come to know the situation of the client.<sup>33</sup>

If the conditions are not met, the municipality can impose economic sanctions. It can bring the allowance to a halt for a certain period of time or it can reduce the amount that is paid out. In principle, a stopping of the allowance presupposes that the claimant is viewed as having other opportunities for securing an income. The municipalities can also encourage certain client behaviour by providing so-called motivating benefit supplements.<sup>34</sup>

30 Brandtzæg B, Flermoen S, Lunder TE, Løyland K, Møller G and Sannes J, 'Fastsetting av satser, utmåling av økonomisk sosialhjelp og vilkårsbruk i sosialtjenesten [The fixation of social assistance rates, the calculation of economical social benefits and the terms of social services],' no 232, Telemarkforskning-Bø, 2006

31 Lødemel I, 'Pisken i arbeidslinjen [The lash in the Work approach],' Faflo Institute for labour and social research, report no 226, 1997; Vik-Mo B and Nervik JA, 'Arbeidsplikten i Arbeidslinjen: Kommunenes iverksetting av vilkåret om arbeid for sosialhjelp [The Obligation to Work Under the Work Approach: The municipalities' Enforcement of the Work Obligation as an Entitlement to Social Assistance],' Norwegian University of Science and Technology, report no 52, 1999

32 Act no. 81 of 13 December 1991 relating to social services (as amended in 1993). Unofficial translation provided by the Faculty of Law, University of Oslo

33 Kjørstad M, 'Sosialhjelp og arbeidsplikt: Utfordringer og etiske dilemmaer for sosialarbeiderrollen ved iverksetting av arbeidslinjen [Social assistance and the Work Approach: Challenges and ethical dilemmas facing the social worker when implementing the Work Approach],' Oslo University College, report no 11, 2002

34 Brandtzæg B, Flermoen S, Lunder TE, Løyland K, Møller G and Sannes J, 'Fastsetting av satser, utmåling av økonomisk sosialhjelp og vilkårsbruk i sosialtjenesten [The fixation of social assistance rates, the calculation of economical social benefits and the terms of social services],' no 232, Telemarkforskning-Bø, 2006

The fact that social assistance is a last resort means that caseworkers are often reluctant to withdraw the allowance completely, in cases where the requirements are not met.<sup>35</sup> To understand the way in which local implementation is undertaken, one should be aware of the fact that the labour union organising social workers strongly opposed placing work requirements on the receipt of social assistance.<sup>36</sup>

A recent survey in Norwegian municipalities suggests that placing work requirements on the receipt of social assistance benefits is not very common.<sup>37</sup> Only about a fifth of the interviewed caseworkers reported that they 'often' require claimants to undertake work activities in return for financial support, while more than half of them report that this happens 'rarely'. The reported main reason why work requirements are not stipulated very often is the lack of suitable work activities that are available.

However, requiring claimants to participate in qualification measures appears to be very common. More than two thirds of the caseworkers report that their claimants are often faced with a compulsory offer of a qualification measure. Among other forms of conditions, benefits are often made contingent upon claimants registering as job-seekers with the Public Employment Service, and their appearances at guidance meetings. The survey among caseworkers further suggests that within recent years claimants have, to an increasing extent, had to meet conditions of various kinds related to receiving social assistance payments. The largest increase has been among requirements on claimants to participate in qualification measures.<sup>38</sup>

Among different target groups, young recipients stand out as the group most likely to have to meet various requirements, followed by recipients with immigrant backgrounds. Apparently, the municipalities go somewhat easier on single parents

and on claimants who abuse drugs or alcohol.<sup>39</sup> According to one study,<sup>40</sup> young people also appear to be the ones who are most likely to be subjected to economic sanctions for non-compliance.

As for the 'suitable tasks' that the claimants may be required to do, the 1991 Act is not very specific. The circular that comments upon the 1991 Act specifies that work tasks ought to have a rehabilitative and qualifying nature, i.e. they ought to develop the person in question in terms of social assets and skills etc. According to one study,<sup>41</sup> work tasks offered in 1995 included maintenance work, care work, cleaning, and office work. The work activities were very seldom found to include any elements of training. In this sense, the implementation of the work requirement does not fulfil the intentions of the law.

The introduction of the ability to stipulate conditions of participation in work activities in the social legislation was not accompanied directly by extra funding to finance such activities.<sup>42</sup> However, throughout the years that followed, the government has taken special initiatives that involve extra funding for local active measures. Since these initiatives and related funding have been reserved for selected municipalities, they have stimulated an active approach and have encouraged the municipalities to stipulate conditions that entail work for the benefit.

As part of the national plan of action to combat poverty,<sup>43</sup> special funding was provided for measures targeted at long-term social assistance claimants, young people aged 20-24 years, single parents dependent upon social assistance payments and unemployed people with refugee or immigrant backgrounds. Altogether, 45 municipalities, including the largest ones, were selected to take part in these efforts in 2003-2004.<sup>44</sup> In 2006, this programme became nation-wide.<sup>45</sup>

35 Norwegian government, 'Arbeid, velferd og inkludering [Work, welfare and inclusion],' *St.meld.*, no 9, 2006-2007, 2006

36 Lødemel I, 'Pisken i arbeidslinjen [The lash in the Work approach],' Fafo Institute for labour and social research, report no 226, 1997

37 Brandtzæg B, Flermoen S, Lunder TE, Løyland K, Møller G and Sannes J, 'Fastsetting av satser, utmåling av økonomisk sosialhjelp og vilkårsbruk i sosialtjenesten [The fixation of social assistance rates, the calculation of economical social benefits and the terms of social services],' no 232, Telemarkforskning-Bø, 2006

38 Ibid

39 Ibid

40 Frøyland K, Schafft A and Øystein S, 'Tiltakssatsing i forhold til sosialhjelpsmottakere: Samarbeid og samordning [Initiatives in Dealing with Social Assistance Claimants: Co-operation and Co-ordination],' Work Research Institute, November 2004

41 Lødemel I, 'Pisken i arbeidslinjen [The lash in the Work approach],' Fafo Institute for labour and social research, report no 226, 1997

42 Lødemel I, 'National objectives and local implementation of welfare in Norway,' in Lødemel I and Trickey H (eds), *An Offer you can't Refuse: Welfare in International Perspective*, Policy Press, 2001

43 Norwegian government, 'Tiltaksplan mot fattigdom [Plan to combat poverty],' *St.meld.*, no 6, 2002-2003, 2002

44 Frøyland K, Schafft A and Øystein S, 'Tiltakssatsing i forhold til sosialhjelpsmottakere: Samarbeid og samordning [Initiatives in Dealing with Social Assistance Claimants: Co-operation and Co-ordination],' Work Research Institute, November 2004

45 Economics, 'Opp om mårran': Forslag til innhold i og organisering av kvalifiseringsprogrammet ['Get up, it's morning': A proposal to the content of and the organisation of the Qualification programme,] Economics, no 18, 2008

### *The Introduction programme for newly arrived refugees and immigrants*

The Introduction programme for newly arrived refugees and immigrants that came into effect in 2004 also entailed new elements of conditionality. Political concerns that newly arrived refugees and immigrants become dependent upon welfare allowances by adapting to a pacifying social welfare system provided part of the background for launching this programme.<sup>46</sup> This is one of the reasons why this programme has been organised independently and separately from the Social Services.<sup>47</sup>

Based on individual plans, a programme of full-time work and training activities, including language training, is arranged for up to two years. The monthly allowance paid to participants is 11,135 NOK (£1,002), which is taxable income. Participants aged 18-25 years receive only 2/3 of this allowance. The allowance is not means-tested. Other forms of income, including child benefits, are not deducted from the allowance. As such, this programme can be considered to be more generous than the social assistance scheme.

According to the law, participation in the programme is mandatory and illegitimate absence from its activities is supposed to result in allowance deductions.<sup>48</sup> Studies of the initial implementation of the programme suggest that there are local differences regarding how strongly the principle of conditionality is enforced. Nevertheless, introducing this principle marked a shift in the approach towards the labour market integration of immigrants.<sup>49</sup>

In a Norwegian context, which is characterised by a tradition of strong local autonomy, the programme also stands out as being special, as municipalities are obliged to implement the programme for everyone in the target group. The municipality is obliged to enrol the target group individual in the programme no more than three months after he or she has been registered as a resident.

### *The Qualification programme*

A new qualification programme is the latest addition to Norwegian welfare policies. It has been introduced by the current coalition government, of the Labour party, the Socialist Left party and the Farmers' party. The programme epitomises recent trends in Norwegian welfare reform, including a more systematic style of intervention, a closer follow-up of individual clients, the aim of building in economic incentives, and a nationwide, centralised approach. The scheme is modelled on the introduction programme for newly arrived refugees and immigrants.

The entrance criteria for the qualification programme are somewhat ambiguous. On the one hand, the scheme is presented as a statutory right. On the other hand, it is left to the municipalities to decide whether a person is eligible, balancing a number of complicated concerns. Hence, the person's work ability, or the ability to obtain an income, should be seen as being 'considerably reduced', and at the same time, that person must also be seen as having the potential for improvement due to the benefits that may be harvested by his or her participation in the programme.

Whether these conditions are satisfied is to be determined through a systematic examination ('mapping') of the person's work ability. Furthermore, only those who are not entitled to allowances from the Social Insurance system, or who only have limited insurance entitlements, qualify for participation.

The programme is not presented as an explicit duty for potential participants. However, following the general provisions of the Social Services Act, not accepting an offer of participation can be regarded as being contrary to the demand that one must utilise all possible means to provide for oneself before social assistance is to be paid out.

46 NOU, *Lov om introduksjonsordning for nyankomne innvandrere (Introduksjonsloven)* Utredning fra et utvalg oppnevnt ved kongelig resolusjon 19. november 1999. Avgitt til Kommunal- og regionaldepartementet 26. juni 2001 [The Introduction Act], Norwegian Government Administration Services, 2001

47 Economics, 'Opp om mårran': Forslag til innhold i og organisering av kvalifiseringsprogrammet ['Get up, it's morning': A proposal to the content of and the organisation of the Qualification programme,] Economics, no 18, 2008

48 IMDi, *2 år med introduksjonsordning [Two years of the Introduction Programme]*, no 6, Integrerings- og mangfoldsdirektoratet, 2006

49 Djuve AB, 'Virker integreringsarbeidet? [Do the integration efforts work?]' in Djuve AB, Kavli HC and Lund M (eds), *Integreringskart 2006: På vei mot en kunnskapsstatus ved etablering av Integrerings- og mangfoldsdirektoratet, IMDi, report no 1, 2006*

The qualification programme is a year-long, full-time scheme which can be extended. Participants in it receive a taxable allowance that is similar to the one provided to participants in the introduction programme. It can be stopped if the participant is repeatedly absent without legitimate reason.<sup>50</sup>

For most people in the target group, who, for the most part receive social assistance payments, the allowance represents an economic improvement. However, for some groups, including young people, who are only getting 2/3 of the allowance, net income may actually deteriorate.

There have been objections that the allowance is not high enough. Critics have further argued that the programme is simply too short given the challenges facing the target group. Others argue that the current budget of 230 million NOK (£21 million), only allows a rather modest intake.

#### What effects can be observed?

This section briefly reviews studies that have considered the effects related to the introduction of conditions for those who receive different allowances in the Norwegian benefit system.

Most studies that analyse unemployment insurance claimants have not distinguished between voluntary and compulsory participation.<sup>51</sup> Analysing several reforms in the Norwegian unemployment insurance system, one study demonstrated that 'activity-oriented' regimes involving compulsory participation in active labour market programmes, limited duration and the use of sanctions 'deliver substantially shorter unemployment spells than pure income-insurance regimes.'<sup>52</sup>

'Soft constraints' (activity demands or small cuts in benefits) are found to deliver many of the same behavioural effects as do threats of complete termination of benefits. Introduction of the soft constraints relatively early in the unemployment spell seems to be of particular importance.<sup>53</sup>

One study evaluated the impact of active labour market programmes on the duration of unemployment in Norway.<sup>54</sup> It found that completed participation increases the probability of getting a job. However, it detected a 'lock-in effect' which cancelled-out the average effect of participation. Only for participants with poor employment prospects does the study find positive net effects.

Only a few studies have analysed the effects of allowing municipalities to require social assistance claimants to participate in work activities in exchange for benefits. A study by Espen Dahl, based on a quasi-experimental design, assesses employment and earning effects one and two years after participation in a compulsory municipal programme for social assistance claimants.<sup>55</sup> The study covers the period about two years after the law introducing work requirements came into effect. The study concludes that no effect on employment or earnings can be detected. The author argues that while the two-year time-frame may be too short to assess long-term effects, the programme appears to fail in fulfilling the political intentions of bringing about immediate labour market attachment.

One study considered social assistance recipients that go through a number of different measures, e.g. the combination of qualification and work measures.<sup>56</sup> The aspects considered were administered by the labour market authorities and as such were not compulsory to the same extent as the ones administered by the municipalities. Only seven per cent of the claimants have participated in such sequences – and they stand out as a selected group.

Lorentzen and Dahl, the authors, were able to construct a comparison group by means of propensity score matching. Studying employment and earnings effects from a four-year perspective, they conclude that a positive effect can be attributed to programme participation.

50 Norwegian Government, *Law proposal no 70: Om lov om endringer i sosialtjenesteloven og i enkelte andre lover* [On changes in the act on social services], Ministry of Labour and Social Inclusion, 2007

51 Dahl E, 'Does 'Workfare' work? The Norwegian Experience,' *International Journal of Social Welfare*, vol 12, pp 274-288, 2003

52 Røed K and Westlie L, 'Unemployment Insurance in Welfare States: Soft Constraints and Mild Sanctions,' *Memorandum*, no 13, Department of Economics, University of Oslo, 2007

53 Røed K and Westlie L, 'Unemployment Insurance in Welfare States: Soft Constraints and Mild Sanctions,' *Memorandum*, no 13, Department of Economics, University of Oslo, pp 1 2007

54 Raaum O and Røed K, 'Do Business Cycle Conditions at the Time of Labor Market Entry Affect Future Employment Prospects?', in *The Review of Economics and Statistics*, vol 88 no 2, pp 193-210, 2006

55 Dahl E, 'Does 'Workfare' work? The Norwegian Experience,' *International Journal of Social Welfare*, vol 12, pp 274-288, 2003

56 Lorentzen T and Dahl E, 'Active labour market programmes in Norway: Are they helpful for social assistance recipients?' *Journal of European Social Policy*, vol 15, pp 27-45, 2005

Another study looked at whether the extent to which municipalities stipulated conditions, as reported in a survey among caseworkers and the heads of local social assistance offices, was associated with the likelihood of long-term social assistance claimants' entering paid employment.<sup>57</sup> The authors found no effect. Parallel analyses of the association between the extent of reported conditionality and the likelihood that claimants leave the municipality suggest that harsh practice encourages some claimants to move.

An evaluation of a forerunner of the introduction programme reports improvements of job chances following participation of a magnitude of 15 per cent for men and 20 per cent for women. The programme also appears to improve chances of entering into education or other qualifying measures. Reservations are made regarding problems of unobserved heterogeneity.<sup>58</sup>

The qualification programme is yet to be evaluated. Estimates of the costs and benefits involved for the municipalities suggest that there is likely to be a net additional cost for each participant of about 100,000 NOK (£9,000). Assuming an employment effect of 15 per cent, the analysis includes expected costs for administration and allowance payments, and expected *benefits*, such as increased tax proceeds and savings on the budget for social assistance. A number of sensitivity estimates substantiate the general conclusion that the qualification programme is not likely to prove to be profitable.<sup>59</sup>

From a broader social-economic perspective – that may take into account likely impacts on criminal behaviour, drug abuse, health and quality of life – it may still be a sensible long-term investment. The same assessment applies if attaching participants to the labour market is beneficial to the children dependent on them, a change that would help the next generation.<sup>60</sup>

#### Changes at the administrative level

Until recently the administration of Norwegian welfare policies had a triadic structure. It was constituted by the Norwegian Public Employment Service (Aetat), the National Social Insurance Service, and by municipal Social Services. Aetat was the main actor in designing and delivering activation and employability policies, including vocational rehabilitation.

Aetat was assigned a high degree of freedom in designing and implementing policies in order to better accommodate the needs of client groups. It had two levels of organisation: the Directorate of Labour which was the central administrative and governing authority and the local Aetat centres which implemented policies and programmes. The local centres were established in 162 out of 431 municipalities. The National Social Insurance Service operated an income replacement office in each municipality. The Social Services Act assigned the municipalities a residual, but encompassing, responsibility to handle those tasks that were not taken care of by the two state bodies involved.<sup>61</sup>

In 2005, a major reform was launched to establish the New Public Work and Welfare Agency (NAV). Aetat and the National Social Insurance Service were merged and the new institution was required to enter into collaboration with municipal Social Service offices. This collaboration is to materialise in the establishment of social welfare and labour market offices in each municipality, to provide coordinated and readily accessed front-line services. The state-municipality collaboration is to be based upon binding, written agreements.

At a minimum, the economic social assistance scheme is supposed to be administered in accordance with such an agreement, but the partners are free to include other parts of the social service delivery system in their collaboration. The process of implementation of the reform began in

57 Brandtzaeg B, Flermoen S, Lunder TE, Løyland K, Møller G and Sannes J, 'Fastsetting av satser, utmåling av økonomisk sosialhjelp og vilkårsbruk i sosialtjenesten [The fixation of social assistance rates, the calculation of economical social benefits and the terms of social services],' no 232, Telemarksforskning-Bø, 2006

58 Kavli H, 'Hvordan gikk det etterpå? En oppfølging av tidligere deltakere i forsøk med introduksjonsprogram gjennom telefonintervju og registerdata [How did it go? A follow up based on registration data and telephone interviews with previous participants of the Integration Programme], Working paper no 24, Fafo Institute for Labour and Social Research, 2004

59 Economics, 'Opp om mårran': Forslag til innhold i og organisering av kvalifiseringsprogrammet ['Get up, it's morning': A proposal to the content of and the organisation of the Qualification programme,] Economics, no 18, 2008

60 For such a perspective, see Esping-Andersen G, 'A welfare state for the 21 century: Ageing societies, knowledge-based economies and the sustainability of European welfare states,' *Revised Report to the Portuguese presidency of the European Union, Prepared for the Lisbon Summit, March 2000*, 2000

61 Norwegian government, *Law proposal no 47: Om lov om arbeids- og velferdsforvaltningen* [On the law on employment and welfare administration], Ministry of Labour and Social Inclusion, 2006

June 2006 and will, according to the official plan, be accomplished during the following four years. The reform was unanimously adopted by parliament.

The stated objective for merging these two state agencies and for institutionalising collaboration with the municipal Social Services is to simplify, better coordinate and personalise measures in order to pursue the Work Approach in the implementation of supply side labour and social policies. Furthermore, the reform is meant to create an organizational structure more suited to collaboration with employers.<sup>62</sup> By having only one administrative body that is responsible for the transfer of all forms of benefits, service delivery, monitoring and control, a closer link between rights and duties is envisaged.<sup>63</sup>

Based on studies of local inter-agency co-ordination that piloted the reform, there are reasons to expect that the change will intensify the aspect of conditionality in the delivery of services to benefit claimants. This is so because recipients will find it increasingly difficult to hide themselves in the system. Information about the appearance of claimants at

required meetings or at training sites as well as information about their job-search behaviour is likely to flow more easily in this system.<sup>64</sup>

Similarly, from such studies there are indications that the authorities are prevented from relinquishing their responsibilities by referring hard-to-serve clients to other agencies in the welfare system. Following the merger, there is now a single agency which deals with the persons in question and responds to their needs.<sup>65</sup> Furthermore, it is anticipated that the reform will allow social services and the labour market authorities to make use of one another's range of work and training sites and other active measures, which will allow for a more efficient utilization of resources and capabilities.

The overall development

Figure 1 presents the recent developments in the number of recipients on various allowances. The diagram shows the number of persons of working age who at any given day are not working. Since 1998, the total number of recipients has increased by about 15 per cent. To assess this increase,

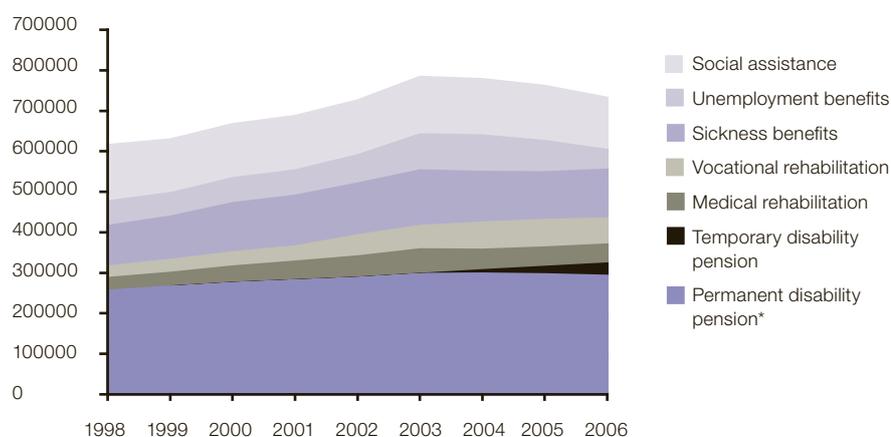
62 Norwegian Ministry of Labour and Social Inclusion, *Law proposal no 1: 'For budsjettåret 2006 [The Budget Year of 2006]*, Norwegian Ministry of Labour and Social Inclusion, 2005

63 NOU, *En ny arbeids- og velferdsforvaltning. Om samordning av Aetats, trygdeetatens og sosialtjenestens oppgaver [A new labour and welfare administration: The co-ordination of the duties of the Norwegian Public Employment Service, the National Social Insurance Service and the Social Services]*, Norwegian Government Administration Services, 2004

64 Froyland K, Schafft A and Øystein S, *'Tiltakssatsing i forhold til sosialhjelpsmottakere: Samarbeid og samordning [Initiatives in Dealing with Social Assistance Claimants: Co-operation and Co-ordination]*, Work Research Institute, November 2004

65 Møller G and Flermoen S, *Evaluering av samordningsforsøken mellom Aetat, sosialtjenesten og trygdeetaten. Første delrapport [Evaluation of the cooperation between the Norwegian Public Employment Service, the Social Services and the National Social Insurance Service, The first report]*, Telemarksforskning-Bø, report no 9, 2004

Figure 1: the numbers of recipients on benefits, 1998-2006.



\* Includes a small number of preliminary disability pensioners.  
Sources: New Public Work and Welfare Agency; Statistics Norway, databank.

one needs to account for the fact that the ageing of the population throughout the ten-year period put increasing pressure on the disability pension scheme.<sup>66</sup>

Still, the overall trend appears to be discouraging, given the efforts that have been invested in the active approach. However, 2003 may be a turning point. Since then, the total number has declined. This is a trend that continued through 2007.

Furthermore, one can observe an almost doubling of the numbers on vocational and medical rehabilitation, indicating that active measures have gained importance throughout the last decade. The gradual increase of the numbers on the temporary disability pension scheme (that also continued through 2007) may also support this interpretation.

The rise in the number of benefit recipients increases the expenses for the state. Today, expenditure on social allowances, and the administration of these, account for about 40 per cent of the state budget.<sup>67</sup> Deep structural processes may explain why succeeding governments have not been able to reduce the number of benefit recipients.

Changing family structures have resulted in a rising proportion of marriage and partnership dissolutions.<sup>68</sup> Between 1970 and 2001, the estimated risk that a marriage will be dissolved more than tripled. At present, one can expect that about half of all marriages in Norway will end in a divorce.<sup>69</sup>

One can also observe a rise in single person households. In 2008, 40 per cent of the population lived by themselves, compared to only 14 per cent in 1960.<sup>70</sup> Following similar trends, the number of single parents has tripled in the period 1970-2000.<sup>71</sup> Such family changes put pressure on public programmes to take over the responsibility that used to be taken by the family.

Furthermore, the growing proportion of women in the labour force, while gen-

erally an asset to the economy, is reflected in the figures on benefit recipients, especially the sickness benefit programme. Due to the fact that women are still shouldering most of the care responsibilities in the home, their employment situation is more unstable. Since 1985, the proportion of women in the labour force has grown by ten percentage points, reaching a level at about 70 per cent at present.<sup>72</sup>

Another important factor is the steep rise in the number of inhabitants with non-Western backgrounds. Their number has grown from about 20,000 in 1970 to about 320,000 today.<sup>73</sup> This growing number is of importance given the fact that this group is overrepresented among benefit claimants.<sup>74</sup>

Finally, trends towards a post-industrial labour market increase the demands for skills. This is a process that is likely to render it increasingly difficult to integrate certain groups into the labour market. It is against this backdrop that one ought to review trends in the number of benefit recipients and the endeavours to curb this number.

## Conclusion

In Norway, there has been a general trend towards more use of active measures, including, to an increasing extent, compulsory requirements. This process has been accompanied by the introduction of positive economic incentives to stimulate participation in rehabilitative and qualifying activities, and attempts to involve benefit recipients as much as possible in the process of becoming self-sufficient. The trend of introducing compulsory measures has been most pronounced in the last-resort social assistance system, but as part of most benefit programme revisions new mandatory elements have been added. Changes at the administrative level are likely to reinforce the compulsory elements

66 Norwegian government, 'Arbeid, velferd og inkludering [Work, welfare and inclusion],' *St.meld.*, no 9, 2006-2007, 2006

67 Statistics Norway, 'Offentlig sektors finanser 1995-2005 [The financiers of the public sector 1995-2005],' *Statistiske analyser*, 2007

68 Bradshaw Jonathan and Hatland A, *Social Policy, Employment and Family Change in Comparative Perspective*, Edward Elgar Publishing, 2006

69 Blekesaune M and Øverbø E, 'Er det en sammenheng mellom flere skilsmisser og økt uførepensjonering? [Is there a connection between the increasing divorce rate and an increasing number of disability pensioners?],' *Tidsskrift for velferdsforskning*, vol 7, no 2, pp 90-99, 2004

70 Statistics Norway, 'Flere bor alene [More people live alone],' 2008, see [www.ssb.no/emner/02/01/20/familie/](http://www.ssb.no/emner/02/01/20/familie/)

71 Kjeldstad R and Rønsen M, *Enslige foreldre på arbeidsmarkedet 1980-1999 En sammenligning med gifte mødre og fedre [Single Parents in the Labour Market 1980-1999: A comparison of Married Mothers and Fathers]*, Statistics Norway, no 49, 2002

72 Norwegian government, 'Arbeid, velferd og inkludering [Work, welfare and inclusion],' *St.meld.*, no 9, 2006-2007, 2006

73 Statistics Norway, databank, see [www.ssb.no](http://www.ssb.no)

74 Halvorsen K, *Grunnbok i helse- og sosialpolitikk [An introduction to health and social welfare policies]*, 3rd edition, Universitetsforlaget, 2005; Dahl E and Lorentzen T, *Norway: Social Security, Active labour Market Policies and Economic Progress* [forthcoming]

in implementation of the Active Approach. Although this approach has been met with some scepticism from academic quarters, thus far there has been a relatively strong political consensus to pursue this overall policy.

“ A relatively high fertility rate, a high labour force participation rate, and high oil and gas revenues, ensure the Norwegian welfare state a rather safe condition ”

Studies have demonstrated that term-conditional in the Norwegian unemployment insurance system is associated with shorter unemployment periods. The documented effects of compulsory programmes are meagre. For social assistance claimants, programmes that combine an element of compulsion with positive incentives appear to be the most promising. The administrative costs related to active programmes are high given the needs of the target groups.

Cost-benefit analyses suggest that investments in such programmes do not pay off in the short-term. More research is needed to determine the impact of programme participation on broader issues related to the social life of participants.

The efforts to promote employment and curb the number of benefit recipients are pitted against strong structural processes. As for the future, an increasing ratio of pensioners to those of working age in the decades ahead is likely to prompt policy-makers to continue developing measures with compulsory elements to mobilize marginal labour power. However, Norway is certainly not facing the same challenges as those being faced elsewhere in Europe. A relatively high fertility rate, a high labour force participation rate, and high oil and gas revenues, ensure the Norwegian welfare state a rather safe condition. For this reason one can expect that no radical changes will be enacted in the Norwegian welfare model in the foreseeable future.

# 5

## Fördern und Fordern: the principle of ‘Help and Hassle’ in German labour market policy

Jochen Kluve

### Introduction

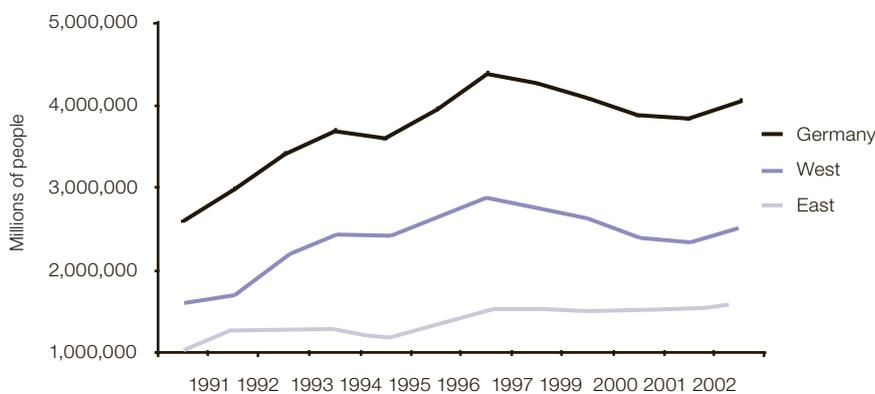
After reunification of the country in 1990, the German unemployment rate rose significantly. In 1991, average annual unemployment was 1.6 million in west Germany, and 1 million in east Germany, the latter figure an increase from the ‘zero’ rate of unemployment under the Socialist regime (see Figure 1). By 2002, there were almost 4.1 million unemployed people across the whole country. 2.5 million of them were in the west, and 1.6 million in the east. The average annual unemployment rates implied by these figures were 7.6 per cent

and 17.7 per cent respectively, and just under 10 per cent for the whole economy.<sup>1</sup>

In the public debate, the threshold of 4 million people without jobs was thought of as a particularly large burden for the economy, so tackling unemployment became an urgent political task.

The combination of rising unemployment, falling public budgets and poor economic performance around the turn of the millennium put substantial pressure on policy makers to consider reform. In 2002, the coalition government of the Social Democratic Party

Figure 1: Total unemployment, 1991-2002



Source: Federal Employment Agency.

<sup>1</sup> Unemployment rates are measured relative to the entire civilian labour force, i.e. including both dependent-employed and self-employed individuals

(SPD) and the Green Party under Chancellor Gerhard Schröder took advantage of a widely publicised scandal involving the Federal Employment Office to eventually overcome the so-called ‘reform logjam’ to make fundamental changes to labour market policy<sup>2</sup> – the Hartz reforms.

The changes – named after Peter Hartz, the chairman of an independent commission that developed them – are the most extensive ever suggested in the history of the German welfare state. They consist of four ‘laws for modern services in the labour market’ that were implemented incrementally between 2003 and 2005. In colloquial German the laws have simply become known as Hartz I, II, III, and IV.

Hartz IV is a comprehensive modification of the unemployment assistance and social assistance schemes. Hartz I–III modernised the organisational structure of the public employment services, modified many of the existing active labour market policies, and introduced a set of new ones.

The Hartz laws contain a broad set of policy measures that constitute a three-part reform strategy: (a) the improvement of employment services and policy measures, (b) activation of the unemployed, and (c) stimulation of employment demand through deregulation of the labour market.

The Hartz reforms, however, are much more than an impressively long list of details. They constitute a new definition of the German welfare state by propounding the concept of the *activating welfare state*. This idea acknowledges the central importance of employment to the individual citizen, while simultaneously creating a new balance with regard to the responsibility that individuals must bear for their success.

The activating welfare state provides adequate support for those in need of it (i.e. the unemployed), but also makes demands on unemployed people to look for work. This is the overarching theme of the Hartz reforms and has become known

as the principle of *Fördern und Fordern* (*Help and Hassle*), i.e. of providing support while making demands.

This chapter focuses on the demands and their effects. It proceeds by recounting the Hartz reforms and the concept of the activating welfare state. The requirements put on claimants, plus an analysis of them, follows. I conclude with an assessment of how the creation of the activating welfare state has changed German labour market policy, and where Germany stands with this development today.

### The creation of the activating welfare state

In February 2002, against a background of persistently high levels of unemployment and a public outcry at the perceived ineffectiveness of the Federal Employment Office, which had extensively manipulated its job placement figures, the Schröder government organised the Commission for Modern Services in the Labour Market. Its 15 members came mostly from business, but also from politics, academia, employment administration and the unions. Peter Hartz, then a member of the executive board of Volkswagen, was its head. His name inspired the ‘Hartz Commission’ name.

It was tasked with developing policies that would make labour market policy more effective and the Federal Employment Service better run. There was populist talk at the time that such measures would halve the unemployment figure (then at four million) within four years.

The Commission presented its report in August 2002. It recommended the establishment of 13 ‘innovation modules’ which would focus the efforts of the Federal Employment Service on the capacity of the individual to join the labour market. This approach was presented as ‘personal initiative warrants job security,’ a concept that implied a shift to ‘an activating labour market policy with particular emphasis on

<sup>2</sup> The Federal Employment Office had been accused of massive fraud in the reporting of successful job placements

<sup>3</sup> The Hartz Commission’s report is available on the website of the German Federal Ministry of Labour and Social Affairs (Bundesministerium für Arbeit und Soziales BMAS), see [www.bmas.de/coremedia/generator/9780/moderne\\_dienstleistungen\\_am\\_arbeitsmarkt.html](http://www.bmas.de/coremedia/generator/9780/moderne_dienstleistungen_am_arbeitsmarkt.html). For an English language summary of the report, see [www.bmas.de/coremedia/generator/1880/property=pdf/hartzbericht\\_zusammenfassung\\_eng\\_hartz0\\_e.pdf](http://www.bmas.de/coremedia/generator/1880/property=pdf/hartzbericht_zusammenfassung_eng_hartz0_e.pdf)

a personal contribution towards economic integration on the part of the unemployed.<sup>3</sup> On the basis of the Commission's report, the government changed its labour market policy through four laws, which became effective between 2003 and 2005.

The changes developed the idea of the activating welfare state (which is directly linked to the concept of 'Help and Hassle,' i.e. the idea that while the social state acknowledges its responsibility for providing support to job seekers, it also requires them to take responsibility for their success in the labour market. 'Rights and Duties,' would be another good translation of the approach - the unemployed job seeker has the right to expect support from the welfare state, but must perform certain duties in order to be eligible to claim such help.

The concepts of the activating social state and Help and Hassle are therefore at the heart of the reforms, as stated by the Federal Ministry of Labour and Social Affairs in its 2006 report on the effects of the reforms:

*'The guiding theme of these labour market reforms is the concept of the activating social state. It is centred around a changed understanding of task-sharing between the state and its citizens. The labour market reforms strike a new balance in the pivotal area of life occupied by gainful employment, between support organised by the state on the one hand and the citizens' own initiative on the other, in accordance with the principle of 'Fördern und Fordern,' 'providing support and making demands.' This policy aims at strengthening the autonomy and participation of citizens in the economy and society.'*<sup>4</sup>

This theme is important because it constitutes a remarkable change in the way the German welfare state defines itself.

Traditionally, German labour market policy had been determined by the inflexible structure of the Federal Employment Service

and, in its objectives, by classic 'social democratic' ideas, i.e. the securing of an individual's economic status and standard of living, protection from substandard working conditions, and enhancement of human capital. The new emphasis shifted labour market policy towards a strengthening of market forces, reinforcement of work incentives, the granting of rights only along with demanding duties, and a move to make work pay. It is ironic that these long overdue 'liberal' changes occurred under a social democratic government.<sup>5</sup>

Some have argued that this fundamental change was not caused by 'exogenous shocks' to the economy (i.e. globalisation and demographic change) or the worryingly high number of unemployed Germans, but that it actually represented a fundamental change in the 'belief systems' held by relevant policy makers.<sup>6</sup>

#### Hartz I, II, III, and IV

The Hartz reforms were conceived and put into practice along the following timescale.

- 22nd February 2002: the Hartz-Commission is set up by the Federal Government.
- 16th August 2002: the Commission presents its final report.
- 22nd August 2002: the Federal Government decides to implement the Commission's suggestions in four steps.
- 23rd December 2002: the 'first and second laws for modern services in the labour market' (Hartz I and II) are enacted. Both become effective on 1 January 2003.
- 23rd December 2003: the 'third law for modern services in the labour market' (Hartz III) is enacted, becoming effective on 1 January 2004.
- 24th December 2003: the 'fourth law for modern services in the labour market' (Hartz IV) is enacted, becoming effective on 1st January 2005.

4 Bundesministerium für Arbeit und Soziales, "Die Wirksamkeit moderner Dienstleistungen am Arbeitsmarkt – Bericht 2006 des Bundesministeriums für Arbeit und Soziales zur Wirkung der Umsetzung der Vorschläge der Kommission Moderne Dienstleistungen am Arbeitsmarkt [2006 Report of the Federal Ministry for Labour and Social Affairs on the Effects of the Implementation of the Suggestions of the Commission for Modern Services in the Labour Market]," 2006, see [www.bmas.de/coremedia/generator/3054/property=pdf/hartz\\_bericht\\_langfassung.pdf](http://www.bmas.de/coremedia/generator/3054/property=pdf/hartz_bericht_langfassung.pdf). For an English language summary of the report, from which the quote is taken, see [www.bmas.de/coremedia/generator/1866/property=pdf/the\\_effectiveness\\_of\\_modern\\_services\\_on\\_the\\_labour\\_market.pdf](http://www.bmas.de/coremedia/generator/1866/property=pdf/the_effectiveness_of_modern_services_on_the_labour_market.pdf)

5 Penz R, "Evaluation im aktivierenden Sozialstaat – normative Überlegungen zur Aufgabe der Wirkungsforschung am Beispiel der neuen Grundsicherung für Arbeitsuchende [Policy valuation within the activating welfare state – normative thoughts on the role of programme valuation in the context of the new unemployment assistance regulations]," in Brinkmann C, Koch S and Mendius HG (eds), *Wirkungsforschung und Politikberatung - eine Gratwanderung? [Programme Evaluation and Policy Advice – A Balancing Act?], Beiträge zur Arbeitsmarkt- und Berufsforschung 300*, IAB Nürnberg, pp 19-38, 2006

6 Penz R, "Evaluation im aktivierenden Sozialstaat – normative Überlegungen zur Aufgabe der Wirkungsforschung am Beispiel der neuen Grundsicherung für Arbeitsuchende [Policy valuation within the activating welfare state – normative thoughts on the role of programme valuation in the context of the new unemployment assistance regulations]," in Brinkmann C, Koch S and Mendius HG (eds), *Wirkungsforschung und Politikberatung - eine Gratwanderung? [Programme Evaluation and Policy Advice – A Balancing Act?], Beiträge zur Arbeitsmarkt- und Berufsforschung 300*, IAB Nürnberg, pp 19-38, 2006

Hartz I and II held most of the changes to the active labour market programmes. For instance, training schemes were altered and a new type of start-up subsidy was introduced. Moreover, the previously rather restrictive regulations on temporary work were liberalised, and the regulations regarding marginal employment, i.e. part-time employment exempt from social security contributions, were deregulated.

Now, in these so-called ‘Minijobs,’ incomes of up to 400 Euros (£300) per month are exempt, and the administrative procedures are much simpler.<sup>7</sup> Hartz I and II also strengthened the ability of employment offices to sanction unemployed individuals when they do not comply with job search requirements.

Hartz III laid-out the modernisation of the Federal Employment Service. It established, for example, results-based accountability and control over local employment offices, and changed their previously hierarchical organisation into customer-oriented one-stop-centres. The public employment service is also now allowed to outsource placement schemes to private providers. As part of the changes, its name was changed from *Federal Employment Office* to *Federal Employment Agency*.

Hartz IV reformed the unemployment benefit system. An individual becoming unemployed first receives a ‘Type I’ unemployment benefit for the first 6 to 18 months of unemployment, depending on age and, more importantly, on previous contributions to the unemployment insurance system. The general duration of this period is 12 months. Thereafter, the person receives a flat-rate, means-tested, ‘Type II’ benefit.

This change was fundamental. First, setting the maximum duration of the Type I entitlement to 12 months (and to 18 months for workers older than 55 years of age) meant a substantial cutback from the

previous, very generous, system. In it, older workers could stay on unemployment benefits for (at least) 32 months. This change effectively led to a practice of ‘early retirement’ in which workers in their mid-to-late 50s were frequently displaced, because the years until official retirement at 65 could be bridged with unemployment benefit payments.

Second, the introduction of Type II meant a substantial administrative simplification as two parallel systems of welfare payments to long-term unemployed and disadvantaged individuals, *unemployment assistance* (administered by the employment offices) and *social assistance* (administered by the municipalities), were merged. Type II is not earnings-based, as the unemployment assistance was in the previous system, and is less generous than social assistance.<sup>8</sup>

The Type II regulations introduced with Hartz IV are called a ‘Basic Security Benefit for Jobseekers’ to show that transfer payments are just a fallback system. Whereas Type I is administered by the local employment agencies, Type II is administered at the municipal level either through co-operation between the employment agency and the municipality (or by the municipality alone). Both Type I and Type II recipients are targeted for activation by active labour market programmes to increase their employability.

Also, while public spending on Type I is financed by the unemployment insurance system (as was the old unemployment assistance), spending on Type II is supported by taxation. That is, as a consequence of the reforms, the system has shifted away from financing through unemployment insurance contributions towards a tax-financed format. This, according to the government, reflects the political objective of using more tax revenue to finance labour market tasks important to society as a whole – such as supporting the long-term unemployed.<sup>9</sup>

7 A more detailed description of these and the remaining elements of the Hartz reforms can be found in Jacobi L. and Kluge J. “Before and after the Hartz Reforms: The performance of active labour market policy in Germany,” *Journal for Labour Market Research*, vol 40, pp 45-64, 2007

8 The public has been quite critical of the Hartz reforms, which is probably not surprising given the substantial cut in the generosity of the welfare system. Hartz IV, which reformed the benefit system, has received most of the criticism. In light of the prominence of Hartz IV, the public debate now often confuses terms and contents: For instance, even the media often speak of “Hartz IV” when actually all the Hartz reforms or other parts of them are meant. What is more, it has become common practice to speak of ‘Hartz IV recipients’ or ‘people receiving Hartz IV,’ when what is meant is, of course, is ‘Type II recipient’ and ‘people receiving Type II’

9 Bundesministerium für Arbeit und Soziales, “Die Wirksamkeit moderner Dienstleistungen am Arbeitsmarkt – Bericht 2006 des Bundesministeriums für Arbeit und Soziales zur Wirkung der Umsetzung der Vorschläge der Kommission Moderne Dienstleistungen am Arbeitsmarkt [2006 Report of the Federal Ministry for Labour and Social Affairs on the Effects of the Implementation of the Suggestions of the Commission for Modern Services in the Labour Market],” 2006, see [www.bmas.de/coremedia/generator/3054/property=pdf/hartz\\_bericht\\_langfassung.pdf](http://www.bmas.de/coremedia/generator/3054/property=pdf/hartz_bericht_langfassung.pdf). For an English language summary of the report, see [www.bmas.de/coremedia/generator/1866/property=pdf/the\\_effectiveness\\_of\\_modern\\_services\\_on\\_the\\_labour\\_market.pdf](http://www.bmas.de/coremedia/generator/1866/property=pdf/the_effectiveness_of_modern_services_on_the_labour_market.pdf)

Before the reforms, unemployment insurance contributions were the key criterion for benefit access. Now, access to benefits and participation in active labour market programmes is also conditional on a person's ability to work. This is defined as being able to work at least 15 hours a week. Those capable of working are assigned to the employment agencies and are subject to activation policies according to the Help and Hassle principle.

Individuals who have never contributed to the unemployment insurance system but who are deemed capable of working receive Type II from the beginning of their unemployment spell. Only those who are not capable of working due to sickness, disability or care responsibilities receive means-tested social assistance from the local authorities and are exempt from their duties.

In their entirety, the Hartz reforms constitute a tripartite reform strategy, as shown by Figure 2.<sup>10</sup>

The reforms thus support the influence of the market. In particular, they have shifted responsibility for unemployment from the state to individuals.

## Sanctions

Before the Hartz reforms, benefit sanctions were insignificant in German labour market policy. This has changed with the introduction of Help and Hassle. To activate the unemployed, benefit rules have been tightened in four ways: 1) benefit suspension regulations were reformed; 2) a new definition of what constitutes a reasonable job offer was adopted; 3) the length of benefit periods were shortened; 4) claimants became obliged to register early.

The first reform was meant to make the suspension of benefits easier for employment agencies, and to thus give them a credible threat when dealing with claimants who do not comply with job search requirements. Before the Hartz programme, benefits could only be suspended for 12 weeks. The reforms introduced a suspension system.

It can be used in several ways. If a claimant refuses a reasonable job offer for the first time, benefit payments can be suspended for three weeks. On the second refusal, the suspension period is six weeks, the third time 12 weeks. Similarly, if an

<sup>10</sup> See Jacobi L. and Kluge J., "Before and after the Hartz Reforms: The performance of active labour market policy in Germany," *Journal for Labour Market Research*, vol 40, 2007, pp 45-64; and Bundesministerium, SGB III – *Arbeitsförderung [Book Two of the Social Security Code – Employment promotion]*, 11th edition, Beck, 2006

**Figure 2. Cornerstones of the Hartz Reforms**

A. Improvement of employment services and policy measures through

- A re-organisation of local employment offices.
- The Introduction of quasi-markets.
- An Improvement in targeting.
- The use of an evaluation mandate.

B. Activation of the unemployed through

- A re-organisation of the benefit system.
- The use of sanctions.
- The introduction of a policy mix that gives priority to schemes that require pro-active job-seeking among the unemployed.
- A desire to 'make work pay.'

C. Stimulation of employment demand through labour market deregulation, which meant

- Deregulation of the temporary work sector.
- Exemptions from restrictions on fixed-term contracts.
- Exemptions from dismissal protection restrictions.

individual refuses to participate in, or drops out of, an active labour market programme offered by the employment agency for the first, second, or third time, benefits can be suspended for three, six, or 12 weeks respectively. If individual job search efforts are deemed insufficient by the employment agency, benefits can be suspended for two weeks.

“ 12 months became the maximum time allowed for receiving the Type I benefit under the third reform. Only unemployed people aged 55 years or older qualify for a longer window ”

The change in the burden of proof has been important. Before, the employment agency had to provide evidence that a claimant was not showing enough job search effort in order to suspend benefits, but now it is the unemployed person who has to prove that payments should continue.

The second reform widened the definition of a reasonable job offer. Longer commuting distances have become acceptable and all claimants without family ties must now accept (and possibly move for) any job offer that corresponds to their qualification profile (which is broadly defined) in order to keep receiving state help.

12 months became the maximum time allowed for receiving the Type I benefit under the third reform. Only unemployed people aged 55 years or older qualify for a longer window, 18 months, down from 32 months before the reforms.

In addition to this shortening of the Type I duration, the drop in support after movement to Type II benefits has become much larger than when the long-term unemployed still received the old unemployment assistance. Moreover, in order to be eligible for the maximum duration, individuals must have contributed to the unemployment insurance system for at

least 12 out of the 24 months preceding the unemployment spell (a requirement that used to be 12 out of 36 months).

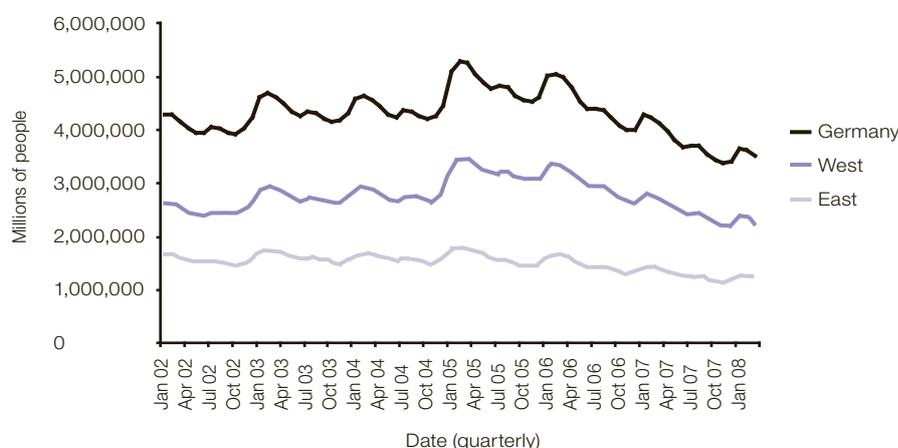
The fourth reform attempted to improve the efficiency and speed of job placements by the employment agency through getting individuals to immediately tell the agency when they have been given a dismissal notice, or three months before the end of a temporary work contract. Failure to comply with this requirement results in a cut in unemployment benefit.

Unsurprisingly, this tightening of eligibility rules and extension of sanctions caused a lot of controversy. In particular the unions strongly opposed these regulations, and have continued to demand a revision or abolition of the Hartz reforms.<sup>11</sup> While Germans are aware of the fact that labour market policy has been shaped by the Help and Hassle principle, one could hardly assert that the new concept has been accepted. Even though unemployment started to decline in early 2006 and has fallen ever since, a fact that experts attribute – perhaps not entirely, but at least to some substantial extent – to the changes, the public is still sceptical.

The ‘Grand Coalition’ of Social Democrats and Conservatives under Chancellor Angela Merkel, which has been in power since the fall of 2005, has not furthered the reforms, despite advice from economists that it should do so. Instead, there has been constant talk of reversing some of the reforms, such as the liberalisation of the temporary work sector (which has created around 300,000 jobs over the last three years). In fact, as of 1 January 2008, the regulation governing the maximum duration of unemployment benefit entitlement has been reformed and extended to around 15 months for workers of 50 years of age or older, and 24 months for workers aged 58 or older.

11 Buntgenbach A, “5 Jahre Hartz – Bilanz aus Sicht des DBG [5 years of Hartz reforms – an assessment from the perspective of the unions],” press conference 15th August 2007, see [www.dgb.de/themen/hartz/zwisc\\_henbilanz2007/index\\_html](http://www.dgb.de/themen/hartz/zwisc_henbilanz2007/index_html)

Figure 3. Total unemployment, January 2002 – March 2008



Source: Federal Employment Agency.

#### Empirical evidence: Macro trends

Between early 2002, when the Hartz Commission made its recommendations, and February 2005, the level of unemployment rose consistently (see Figure 3). But since January 2006 (when the figure was still over 5 million), it has fallen rapidly to around 3.5 million today. This is the smallest amount if people out of work for 15 years.

Most experts are convinced that the Hartz reforms significantly contributed to this development. Some observers see the time-lag between implementation and effectiveness as a tragedy for the Schröder government, which made the changes but was kicked-out of office in 2005 (during a peak in the unemployment figure) before success could be demonstrated.

#### Empirical evidence: Micro evaluations

The Hartz reforms constituted the first programme for change that was connected to an evaluation scheme. Even before it was implemented, work began on developing a way to assess its impact as a whole, as well as the effectiveness of each element.<sup>12</sup>

The evaluation took place between August 2004 and June 2006. 20 research institutions with more than 100 researchers were involved. It had six modules, each of which dealt with a particular element of the reforms.<sup>13</sup>

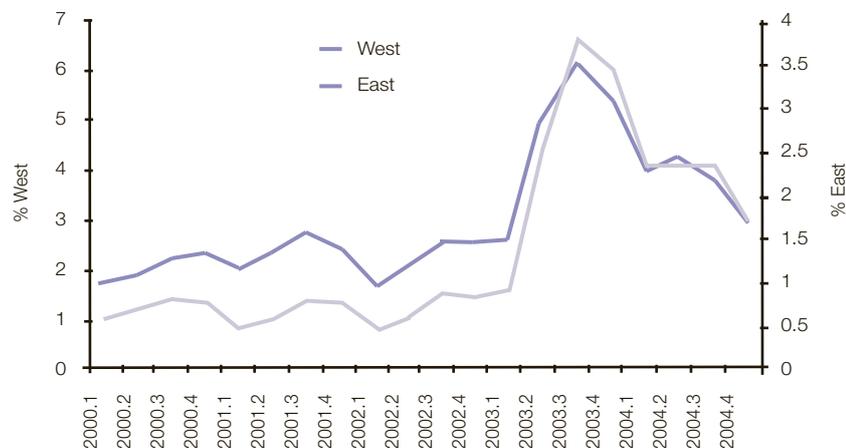
Figure 4 presents some evidence of how the new benefit suspension regulation, which was implemented on 1 January 2003, affected the incidence of benefit suspension for west and east Germany, respectively. The figure contains quarterly data on the average benefit suspension rate from the first quarter of 2000 until the fourth quarter of 2004. Both parts of the country had low levels for the entire pre-reform period, until the first quarter of 2003. They subsequently endured a steep increase throughout the remaining quarters of 2003 before falling again in 2004, while still remaining at levels significantly higher than before the reform. The graph therefore shows that the regulation led to a substantial increase in the use of sanctions.

The microeconomic evaluation of this sanctioning policy finds that the policy is used selectively, i.e. benefit suspensions affect certain groups among the unemployed population more than others. For instance, men are more likely to be suspended than women; the young more than

12 Fertig M, Kluge J, Schmidt CM, Friedrich W, Apel H, and Hägele H, *Die Hartz-Gesetze zur Arbeitsmarktpolitik – Ein umfassendes Evaluationskonzept [A Concept for Evaluating the Hartz Reforms]*, RWI Schriften 74, Duncker & Humblot, 2004

13 To be exact, the evaluation covered all of Hartz I to III. Hartz IV was evaluated in a separate project that was started only in 2006. Results are expected in the autumn of 2008

Figure 4: Benefit suspension rate after job offer refusal, east and west Germany 2000-2004



Notes: Quarterly data Q1/2000-Q4/2004 covering 141 employment agency districts in west Germany and 34 employment agency districts in East Germany; in % of the stock of unemployment benefit recipients.

Source: Wissenschaftszentrum Berlin für Sozialforschung (WZB) and Institute for Applied Sciences, *Evaluation der Maßnahmen zur Umsetzung der Vorschläge der Hartz-Kommission – Modul 1a: Neuausrichtung der Vermittlungsprozesse [Evaluation of the Hartz reforms – Module 1a: Reform of the employment services]*, Bericht 2006 für das Bundesministerium für Arbeit und Soziales, 2006

14 Bundesministerium für Arbeit und Soziales, "Die Wirksamkeit moderner Dienstleistungen am Arbeitsmarkt – Bericht 2006 des Bundesministeriums für Arbeit und Soziales zur Wirkung der Umsetzung der Vorschläge der Kommission Moderne Dienstleistungen am Arbeitsmarkt [2006 Report of the Federal Ministry for Labour and Social Affairs on the Effects of the Implementation of the Suggestions of the Commission for Modern Services in the Labour Market]," 2006, see [www.bmas.de/coremedia/generator/3054/property=pdf/hartz\\_berecht\\_langfassung.pdf](http://www.bmas.de/coremedia/generator/3054/property=pdf/hartz_berecht_langfassung.pdf). For an English language summary of the report, see [www.bmas.de/coremedia/generator/1866/property=pdf/the\\_effectiveness\\_of\\_modern\\_services\\_on\\_the\\_labour\\_market.pdf](http://www.bmas.de/coremedia/generator/1866/property=pdf/the_effectiveness_of_modern_services_on_the_labour_market.pdf)

15 Bundesministerium für Arbeit und Soziales, "Die Wirksamkeit moderner Dienstleistungen am Arbeitsmarkt – Bericht 2006 des Bundesministeriums für Arbeit und Soziales zur Wirkung der Umsetzung der Vorschläge der Kommission Moderne Dienstleistungen am Arbeitsmarkt [2006 Report of the Federal Ministry for Labour and Social Affairs on the Effects of the Implementation of the Suggestions of the Commission for Modern Services in the Labour Market]," 2006, see [www.bmas.de/coremedia/generator/3054/property=pdf/hartz\\_berecht\\_langfassung.pdf](http://www.bmas.de/coremedia/generator/3054/property=pdf/hartz_berecht_langfassung.pdf). For an English language summary of the report, see [www.bmas.de/coremedia/generator/1866/property=pdf/the\\_effectiveness\\_of\\_modern\\_services\\_on\\_the\\_labour\\_market.pdf](http://www.bmas.de/coremedia/generator/1866/property=pdf/the_effectiveness_of_modern_services_on_the_labour_market.pdf)

16 Schmitz H and Steiner V, "Benefit-Entitlement Effects and the Duration of Unemployment: An Ex-Ante Evaluation of Recent Labour Market Reforms in Germany", IZA Discussion Paper 2681, 2007

17 Ziesemer B, *Eine kurze Geschichte der ökonomischen Unvernunft – Die deutsche Wirtschaftspolitik und das Gesetz der unbeabsichtigten Folgen [A Short History of Economic Unreasonableness – German Economic Policy and the Law of Unintended Consequences]*, Campus Verlag, 2007

the old; the low-skilled more than the high-skilled; and migrants more than Germans.

The evaluation could not identify a significant impact of the actual suspension of benefits on the exit rate from unemployment of the affected population. However, it did find clear empirical evidence that unemployed individuals in employment agency districts with a stricter, and thus more credible, sanctioning regime have a higher exit rate from unemployment and, in fact, a higher chance of finding employment.

The reform was also meant to make suspension less cumbersome (partly by avoiding lots of objection and regular legal action).<sup>14</sup> However, after a big fall, objections returned to their original level in 2005. The reversal of the burden of proof seems to have failed to lead to an effective reduction. Nonetheless, the evaluation concluded that benefit suspensions constitute an important regulatory tool with a twofold function: they aim to prevent misuse of benefits and to increase integration of unemployed persons into acceptable employment.<sup>15</sup>

One study of the Type I entitlement found promising effects in terms of the objectives of the policy.<sup>16</sup> Despite concluding that the reform has had small effects on the duration of unemployment for the population as a whole, it also discovered that the number of old people who have been unemployed for a long time has fallen substantially (particularly in west Germany).

Reform costs and Work disincentives: The Side-effects of the Hartz reforms The activating welfare state was urgently needed in light of massive unemployment and the dismal performance of the economy. The logic of the concept, however, was not clear to many people. Initial criticism of the Hartz concept, which concentrated on the 'social injustice' of its changes, generated a lot of attention in the media. Anecdotes of citizens supposedly severely hit in various ways by this 'social climate change' became part of the daily news, and 'Hartz IV' has been a 'swear word and word of horror ever since.'<sup>17</sup>

Looking at the news coverage from a distance one could only conclude that the end of the classic German welfare state brought about by the Hartz reforms would push tens of thousands of people into poverty.<sup>18</sup>

With the Hartz IV reforms chancellor Schröder wanted to cut long-term unemployment, reduce benefit fraud, and decrease government spending. The first objective was not attained in the short term, which eventually led to Schröder being voted out in 2005, but has been achieved since. While little is known about reductions in benefit fraud, it has become clear that rather than cutting spending the reforms have increased social expenditure substantially. Recent data show that total annual spending on the long-term unemployed increased from 38.8 billion Euros (£30 billion) in 2004, the pre-reform year, to 44.4 billion Euros (£34.2 billion) in 2005, 47.2 billion Euros (£36.3 billion) in 2006, and 45.2 billion Euros (£34.8 billion) in 2007.<sup>19</sup>

Why did public spending increase so much given the reform was meant to restrict benefit generosity? The initial goal of the Schröder government to fix benefits for the long-term unemployed at the level of a living wage was softened in the political process, eventually leading to a higher standard level of Type II than intended by its inventors, along with a set of exceptions and additional allowances. In addition, Hartz IV defined a new concept of households in need of support, which were subject to more generous housing benefits. Since then, many young adults have unexpectedly started to move out of their parental home to create their own household and thus start claiming housing benefits. As many couples started claiming support for two separate dwellings, spending rose.<sup>20</sup> Moreover, Hartz IV allows for the receipt of 'complementing' Type II benefits for low-wage earners. By the end of 2007, the number of low-wage earners

receiving such benefits amounted to almost 1.3 million.<sup>21</sup>

The Hartz reforms, in particular Hartz IV, were not implemented to the extent initially intended. In fact, the work disincentives of the new system remain sizeable: a family of two adults and one child, for instance, receive a net monthly income of around 1,400 Euros (£1,078) in benefits, including housing allowance. This corresponds to a gross wage of around 1,700 Euros (£1,309), a level hard to realise on the labour market for many individuals with few qualifications, particularly in east Germany and rural areas.

The fact that the Hartz IV regulations continue to create few incentives for low-wage earners to take up work and exit from benefit receipt has been pointed out frequently by economic experts, and several modifications to alter the regulations have been proposed.<sup>22</sup>

## Conclusions

The Help and Hassle concept is at the heart of the major labour market reforms that were implemented in Germany between 2003 and 2005. In fact, the concept is *the* constituent part of the activating welfare state, which was introduced, defined, and put into practice with the Hartz reforms. It is the idea of a welfare state that acknowledges its responsibility for supporting citizens in need (Help) while at the same time demanding that the citizens acknowledge their responsibility for their own success in the labour market and act accordingly (Hassle).

This concept of the functions of the state seems so intuitive that one might actually wonder why the German welfare state took so long to arrive at this definition of its own character. But this conundrum notwithstanding, the change was fundamental. So important, in fact, that more than five years after its conception a large part of the German population, per-

18 Ziesemer B, *Eine kurze Geschichte der ökonomischen Unvernunft – Die deutsche Wirtschaftspolitik und das Gesetz der unbeabsichtigten Folgen* [A Short History of Economic Unreasonableness – German Economic Policy and the law of Unintended consequences], Campus Verlag, 2007

19 Calculations published in Handelsblatt, a newspaper, on 9 May 2008, on the basis of data from the Federal Employment Agency and the Federal Ministry of Labour and Social Affairs. Total spending includes administration costs, employment promotion, housing benefits, and Type II

20 Ziesemer B, *Eine kurze Geschichte der ökonomischen Unvernunft – Die deutsche Wirtschaftspolitik und das Gesetz der unbeabsichtigten Folgen* [A Short History of Economic Unreasonableness – German Economic Policy and the law of Unintended consequences], Campus Verlag, 2007

21 Handelsblatt, 9 May 2008

22 See, for instance, the 2006/07 Annual Report of the German Council of Economic Experts (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung), [www.sachverstaendigenrat-wirtschaft.de/en/index.php](http://www.sachverstaendigenrat-wirtschaft.de/en/index.php). A summary in English is available.

haps even the majority, continues to struggle with the idea that their welfare state might dare to demand duties in return for the services it provides. Many Germans would like to return to the days of an all-embracing, all-caring state.

What do we know about the effects of the concept? At the aggregate level, there has been a rapid decline in the unemployment level over the last two years – the number of people without jobs has fallen from 5 million to 3.5 million. Experts agree that the Hartz reforms significantly contributed to this decline.

But despite the success of the Hartz reforms, the share of the effects attributable to the sanctions regime is difficult to quantify. The evidence that has been produced so far is limited. We do know, however, that the new benefit suspension rules seem to have created a credible threat that increases job finding rates, and we do know that the shortening of Type I entitlements seems to have reduced long-term unemployment among old workers. The latter finding makes it particularly worrisome that the German government recently decided to reverse the change for exactly the subgroup of the unemployed population that benefited most.

Even without the means to quantify the share of the German recovery attributable to the the Hartz reforms, the Help and

Hassle concept has become an important part of German labour market policy. The short-term effects estimated so far probably underestimate the true effect that it has had on a population that has grown aware of, even though it may still dislike, the fact that it will have to play an active part. It is a change of perspective that has been overdue, and one that is likely to generate long-term benefits.

There is one caveat, however: the reforms, in particular Hartz IV, were not implemented with the rigour initially intended by their inventors. The softening in the cutback of the generous welfare state has distorted reform effectiveness, thus generating a substantial increase in public social expenditure and maintaining regulations with sizeable disincentives to work. A more stringent implementation of Help and Hassle would have been more efficient.

The development of this concept may stall or be reversed. It is quite irritating that a Grand Coalition government with a large executive majority did not further these reforms. It ignored both the advice persistently articulated by economic experts and the results and recommendations of the comprehensive evaluation that the government itself carried out. Even worse, some regulations have been reversed – a trend that may continue.

Conditionality, the idea that benefits claimants should do things in return for the money they receive, is an important part of the welfare reforms that have been taking place in many countries over the past twenty years or so. To make sure that British policy-makers are aware of the most important lessons from abroad when they consider similar changes for the UK, Policy Exchange commissioned an expert from each of Australia, Germany, Norway, Sweden and the United States to analyse the reforms made in their country and show where hassle for the receipt of help works best.

Their analyses showed that conditionality can really help claimants leave the benefits rolls, but also that there are potential pitfalls. In the United States and Australia, for example, strict requirements to attend regular interviews or complete training courses helped both countries to make sure that many people who would have ended up on the rolls actually maintained independent lives. In Germany, a shift to a 'rights and responsibilities' culture achieved similar results. However, policy-makers need to understand that these changes are only likely to have significant success when combined with a benefits system that incentivises work and uses private firms in the provision of back-to-work services.



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