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Welfare-to-work isn't working

Steve Fothergill*
CRESR, Sheffield Hallam University

Abstract

The Coalition government's welfare-to-work policies are founded on the false assumptions that there are plenty of jobs available for the unemployed and that there are insufficient financial incentives to move into work. The services delivered by the Work Programme add little to employability. There needs to be a strategic re-think about the purposes of welfare-to-work and a new focus on addressing obstacles of poor skills and poor health.

Keywords: Work Programme, Universal Credit, unemployment, incapacity benefits.

The challenge

Remarkable things have happened in the UK labour market since the onset of recession in 2008. Five years on, output has still not returned to its pre-recession peak, but unemployment, though higher than at any time since the early 1990s, is far below the level that might have been expected given the severity of the economic downturn. Falling real wages, which make labour more affordable, explain much of the paradox.

By contrast, little if any of the credit for lower-than-expected unemployment can go to welfare-to-work initiatives, which remain an area of public policy mired in wishful thinking and inept delivery. In 2013, a total of 4.5 million men and women remain out-of-work on one of the three main working age benefits – 1.5m on Jobseeker's Allowance, 2.5m on various incapacity benefits, and 0.5m as lone parents on Income Support.

In an article written just before the 2010 general election I argued that the time was ripe for a rethink about welfare-to-work policies (Fothergill, 2010). The recession had eroded the basis of the Labour approach, which assumed that if the unemployed looked for work they should be able to find work. Labour's policies had also proved ineffective in bringing down the large numbers parked on incapacity benefits.

In the event, the election of a Conservative-led coalition government did bring a rethink but, as the present article explains, the reforms were not those that were really needed.

The Coalition government's approach

The Coalition government, or more accurately its Conservative element, took power with a clear view about how to bring down the numbers on out-of-work benefits. There are two key components to its approach.

First, the intention is to make sure that 'work pays'. The quite explicit assumption here is that some individuals and households have been financially better off on benefits than in paid employment and have therefore opted out of the world of work. The welfare system therefore needs to be reformed to ensure that out-of-work claimants are always financially better off taking a job (Department for Work and Pensions, 2010).

The most tangible manifestation of the drive to make work pay is the introduction from 2013 onwards of Universal Credit, which brings together all the previous working-age means-tested benefits – unemployment, incapacity and lone parent benefits, Housing Benefit, and tax credits – into a single integrated system. Crucially, for the first time Universal Credit introduces a standard rate at which benefits are withdrawn as income rises so that in all circumstances the claimant is financially better off in work. It will be 2018 before Universal Credit is fully operational for all claimants but in the short-run reforms to Housing Benefit, incapacity benefits and tax credits, and a new cap on overall household benefits, have all worked to increase the financial incentive to take employment.

The other key component of the Coalition's approach is the introduction, in 2011, of the Work Programme to replace just about all the welfare-to-work programmes run by the previous Labour government. Under the Work Programme, welfare-to-work services are delivered by private sector contractors who are paid by results. Different categories of claimant attract different payments – the hardest to help attract the most – and significant payments only kick in for placing claimants in sustained employment. The precise activities to be undertaken by each Work Programme provider are not defined by government. It is for the providers alone to decide what works.

Wrong policies, wrong time

The key problem with the Coalition government's approach is that it is just as rooted in the pre-2008 world as the Labour approach it replaces.

The Coalition government assumes, like its predecessor, that if claimants can be encouraged to look for work they should be able to find work and the overall numbers on benefits will therefore fall. Indeed, the Coalition's reforms seem rooted in a very *southern* perception of the labour market, because even in the pre-recession years it never was the case that jobs were easy to find in most of the Midlands, North, Scotland and Wales (Beatty *et al*., 2010).

Looking for work is generally a prerequisite for finding work. However, where labour markets are operating some way off full employment, the likelihood is that one job-seeker finding work will simply displace another, so there is no net increase in the overall level of employment. There are times and places where a shortage of labour does constrain the growth of businesses, but in general these are more likely the closer an economy is to full employment.

Likewise, in slack labour markets it is hard to see welfare-to-work policies adding much to the existing downward pressure on wages (and thereby to improvements in firms' competitiveness), which is one of the mechanisms through which new jobs might in theory be created. Welfare-to-work can have a role in boosting economic growth and employment but it is likely to be most effective in the sorts of conditions that prevailed in the more prosperous parts of Britain before 2008. In 2013, these conditions are still a long way off.

It is also questionable whether a lack of financial incentives has ever had much to do with the level of worklessness on benefit. The Coalition government is correct in pointing out that at certain points in the old benefits system some individuals could encounter a withdrawal rate equal to 100 per cent of any additional earnings, which would not make work worthwhile. But as a generalisation about individual circumstances this is misleading. The vast majority of benefit claimants have always been financially better off in work. As even the government's own calculations show (Department for Work and Pensions, 2010), under the old system only 11 per cent of working age claimants faced withdrawal rates of more than 80 per cent and for most the rate was substantially less. Whether or not this was always *perceived* by claimants to be the case is of course another matter. On the question of perceptions, at least, the new Universal Credit should in theory be an improvement, even though high withdrawal rates will still limit the financial gains.

There is little about the Work Programme, however, that is self-evidently an improvement. The early publicity the Work Programme has received has been damning, even if not always well informed. In November 2012, for example, initial statistics from the Department for Work and Pensions showed that fewer than four per cent of participants had moved into sustained employment. This particular figure was actually misleading because it referred only to the very early months of the programme and later figures, released in June 2013, show an inevitable improvement. Even so, the Work Programme looks likely to deliver no more than 25-30 per cent of participants into sustained employment after two years, compared to the original target of 36 per cent (National Audit Office, 2012).

It is the services delivered by the Work Programme rather than its low success rate that give most cause for concern. What each Work Programme provider gets up to is supposed to be its own business – a so-called 'black box' model of service delivery. All that matters is that the interventions work. Indeed, each provider's delivery model is commercially confidential. Nevertheless, a picture is beginning to emerge from the early evaluation of the programme (Newton *et al*., 2013) and from a Select Committee report (Work and Pensions Committee, 2013).

Unsurprisingly, when payment-by-results is central to the Work Programme model, a work-first approach dominates service delivery. What this means is a focus on CV preparation, job search, job applications and interview training. The new delivery model has not, it seems, led to an explosion in innovative provision. By contrast, there has been little effort so far to buy in specialist services, for example to provide training or address health obstacles to working. With cash flow so tight, providers have been reluctant to spend on these sorts of more expensive activities. One of the tell-tale signs is the small volume of work sub-contracted to specialist suppliers in the voluntary sector, who as a result often now face financial difficulties of their own (Crisp *et al*., 2011, Rees *et al*., 2013).

The failure of the Work Programme providers to venture much beyond CVs and job applications is especially worrying because a major group that can now be expected to feed into the system are former incapacity benefit claimants. They will enter the Work Programme through two main routes: when they fail the medical test to qualify for Employment and Support Allowance (ESA) and end up on Jobseeker's Allowance instead, and when ESA claimants are pressed by new benefit rules to engage in work-related activity.

Incapacity benefits are where the really big numbers of claimants are to be found and the vast majority have been out-of-work for long periods and face multiple obstacles to working again (see for example Beatty *et al*., 2009). Many will only have a chance of finding work again if they have access to specialist support services to address their training and health needs. In particular, what is absent from the Work Programme is any attempt to recreate the Condition Management Programmes that were part of the pre-2011 support for incapacity claimants, which made a serious effort to address the health problems or disabilities that so many claimants see as the key obstacle to returning to work.

There is already evidence in the early evaluation (Newton *et al*., 2013) that the Work Programme providers are engaging in 'creaming and parking'. Providers routinely classify participants according to their assessed distance from work and provide more intensive support to those judged the most job-ready.

In effect, in the Work Programme that the Coalition government has created is a tool for leaning hard on participants to chase the vacancies that become available but does little to address underlying obstacles of poor skills or ill health. The Work Programme intensifies the scramble for jobs rather than raise the employability of the workforce.

The economic merits of this approach are limited when in most parts of Britain, and in most occupations, the key problem is still a shortfall in the demand for labour. As a result of the Work Programme employers may sometimes receive job applications numbered in the hundreds – as high profile cases in the media have suggested – but the overall level of employment will not necessarily be any higher. Nor will the most disadvantaged necessarily be any more likely to find work.

A better way?

In opposition, the Labour Party is still some way from fundamentally reappraising the value of welfare-to-work. Its key commitment to date is that a future Labour government would introduce a 'job guarantee' for anyone who has been out-of-work for two years (Labour Party, 2013). The guarantee would be delivered through a job creation scheme funded by a tax on bankers' bonuses. At least the Labour Party seems to understand that welfare-to-work needs jobs for people to go to.

But perhaps because the last Labour government was the architect of so many New Deals for different groups of the unemployed, Labour in opposition is still reluctant to ask the really big questions about welfare-to-work. In particular, when the key problem in the labour market is a shortfall in the demand for labour, should government even bother with welfare-to-work?

If welfare-to-work means more of the provision currently delivered by the Work Programme the answer is probably 'no'. It would be better to divert the funding to entirely different activities that boost the demand for labour – for example to support business investment or to finance job creation programmes such as the Future Jobs Fund, which created 100,000 job opportunities for young people to help cope with the immediate aftermath of the 2008 recession. There is really little point in using public funds to finance a welfare-to-work industry whose main role is to inundate employers with CVs.

If a welfare-to-work industry were to survive it needs to be refocused – on fewer people, on more intensive support, and on addressing the obstacles of poor skills and poor health that limit so many people's chances. It needs to invest in people, rather than harry them into making job applications. The results also need to be measured in different ways – additional qualifications, for example, and improved health. The effect would be to raise the life chances of some of the most marginalised men and women in the workforce.

And in its new guise the welfare-to-work industry should dispense with the fiction that by placing claimants in work it is raising employment and lowering unemployment. In slack labour markets, jobs are created (and destroyed) by the business activities of firms and by the macroeconomic policies of governments, not by increasing labour supply. What the welfare-to-work industry does, if it is functioning properly, is increase the chances that the jobs created by other people are filled by the men and women who would otherwise have the greatest difficulty in finding work.

* Correspondence Address: Steve Fothergill, CRESR, Unit 10 Science Park, Howard Street, Sheffield, S1 1WB. Email: natsec@ccc-alliance.org.uk.

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