

Welfare Reform 2.0



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Long-term solutions, not short-term savings

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This research note is the fifth publication in a major programme of work from Policy Exchange on the UK labour market and welfare reform. It supports the progress that has been made by the Coalition since it came to power but outlines that significant further reforms will be needed if Universal Credit and the Work Programme are to reach their potential. It also outlines support for the need to cut welfare spending further, but argues that reforms must be focussed on delivering long-term and sustainable savings that reduce dependency and increase employment for decades to come.

To deliver this, a new wave of reforms, *Welfare Reform 2.0*, will need to be legislated for in a new Welfare Reform Bill, before or shortly after the next General Election. It outlines the principles that should underpin *Welfare Reform 2.0* and makes recommendations for where reforms to policy should be focussed.

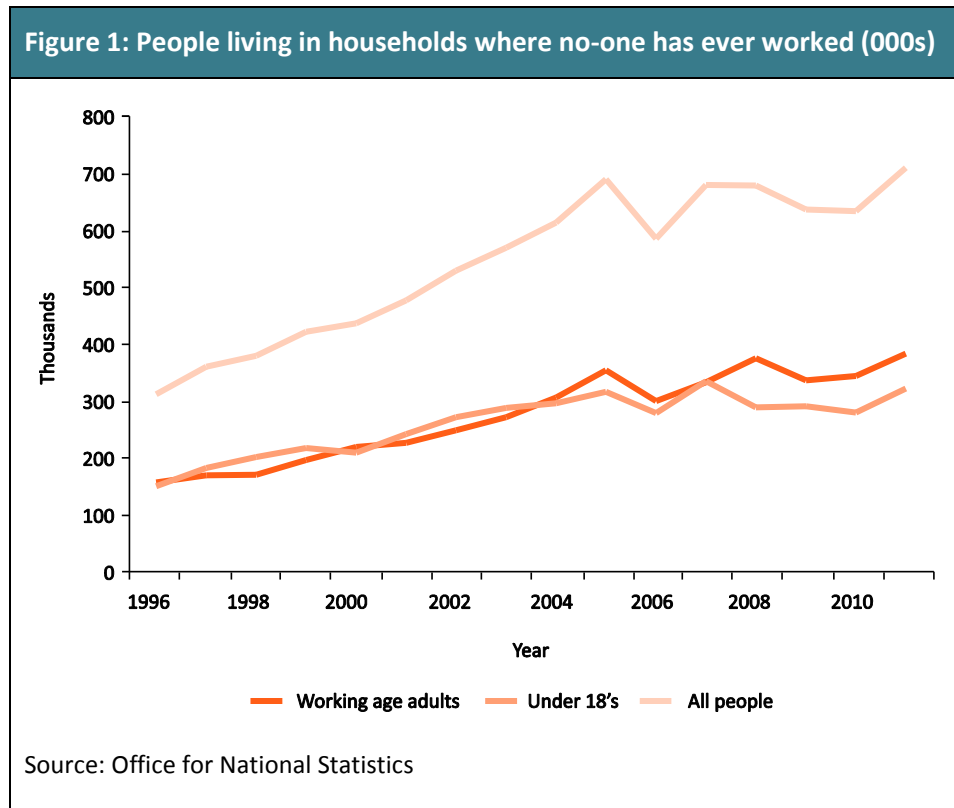
Why Further Welfare Reform is Needed



Since coming to power, the government has taken bold steps to reform the UK's welfare state. There were good reasons to do so. Over the last decades the welfare state has grown in scale and scope. In April 2010, some 6.3 million families with 10.2 million children were claiming tax credits.¹ Some families earning over £50,000 in work were still eligible for state support and around 670,000 households were eligible for benefits and tax credits of over £15,600 a year.² Total expenditure on working age welfare had hit a level of £84.6 billion a year.

Despite this expenditure and attempts to make work pay alongside providing effective employment support through Jobcentre Plus and a raft of reforms such as the New Deals, over the last 15 years, between 15 and 20% of working age households had no-one in work. The numbers of people living

in households where no-one has ever worked has more than doubled over the last 15 years (Figure 1).³



Alongside this, we can also see that rates of worklessness for disadvantaged groups are still high, long-term unemployment has recently increased significantly, benefit dependency remains high and relatively little progress, given the scale of investment, has been made on measured child poverty. The social and economic costs of this situation are huge:

- Periods of unemployment or worklessness can damage the individual's chances of employment in the future. Such scarring can also lead to individuals having lower earnings in future jobs even if they do find employment.⁴
- Unemployment and worklessness have also been shown to lead to poorer health outcomes for both out-of-work adults and their children.⁵
- The same arguments can also be made for psychological well-being⁶ and in extremis, reports have also found that unemployment can lead to an increased incidence of suicide.⁷
- A large body of evidence has also shown that worklessness can pass down generations and in earlier life.⁸

- Again there are also wider impacts. For instance, the incidence of psychiatric disorders of children aged 5-15 whose parents have never worked is double that of the same aged children whose parents are in low skilled jobs.⁹

The majority of people out of work recognise these issues and do all they can to find work. However, our previous reports have shown that, for some, a belief in a right to welfare has grown over time.¹⁰ A significant minority of individuals and families have become detached from the labour market and are not doing all they can to find work. We have outlined evidence that suggests that UK jobseekers spend as little as eight minutes a day seeking work.¹¹ Research from the Department for Work and Pensions also suggests that up to a third of all benefit claimants are not particularly motivated to find work because of the lifestyle that they have developed on benefits.¹² Another recent report showed that one in ten Jobseeker's Allowance (JSA) claimants were not looking for work at all.¹³

In short, it seems that while the welfare state has grown in scale and scope personal responsibility has been diminished and a belief in a right to welfare has developed for a significant minority of benefit claimants.

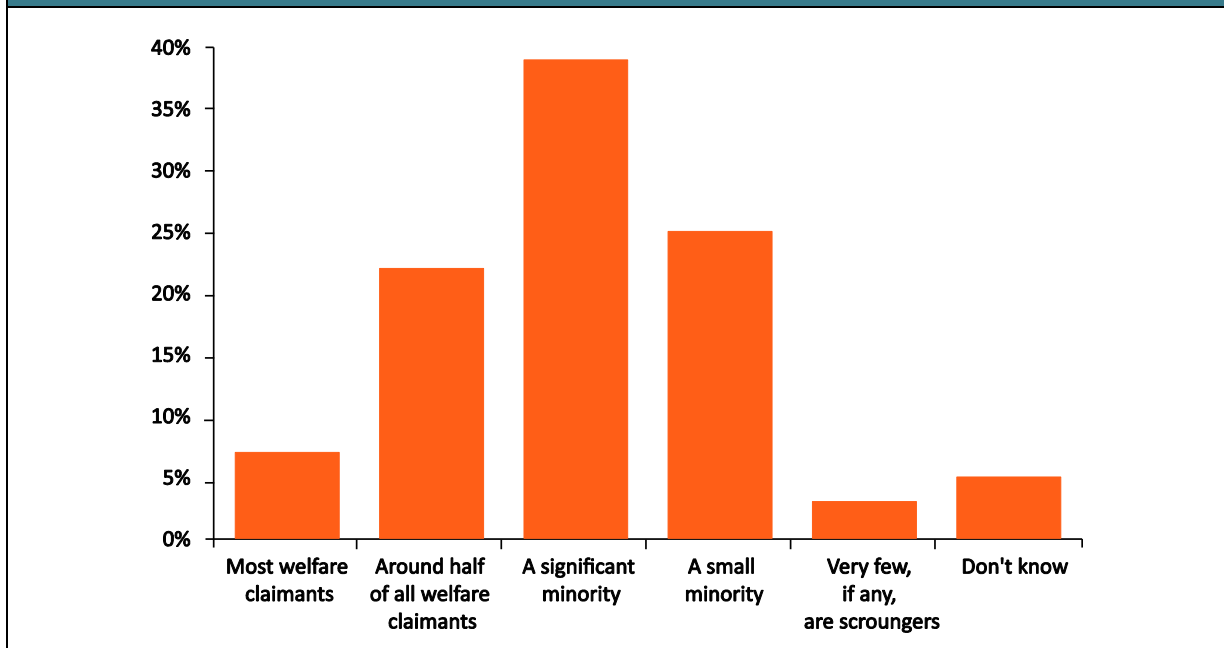
This is not fair on hard-working families who are forced to take on responsibility for paying the benefits of those doing less than they should. It is also unfair to jobseekers who are taking responsibility and doing all they can to find work. They are being tarred with the same brush and it is clear that public support for redistribution for those genuinely in need of help has been undermined.

A recent poll for *Prospect* magazine asked the public their view on the statement some people "...lie about their circumstances in order to obtain higher benefits...or deliberately refuse to take work when suitable jobs are available" and asked what proportion of claimants people thought would fit this description.¹⁴ The responses are shown in Figure 2.

The British Social Attitudes survey shows that the proportion of people who feel that benefits for the unemployed are "too high and discourage them from finding work" rose from 44% in 1999 to 62% in 2011.¹⁵ The same survey found that 56% of respondents felt that "most unemployed people could find a job if they wanted one".

Together, these factors led to a situation where, before the recession and before the Coalition took power, the welfare system was in crisis.

Figure 2: Proportion of claimants who public believe “lie about their circumstances in order to obtain higher benefits...or deliberately refuse to take work when suitable jobs are available”.



Reforms from the Coalition have attempted to tackle some of these problems. They have:

- Restricted eligibility and amounts of benefits available to take some £18 billion out of the working age welfare bill;
- Improved support for the long-term unemployed and disadvantaged through the introduction of the Work Programme;
- Implemented some reform of the support available through Jobcentre Plus (JCP); and
- Started to introduce a new streamlined system of benefits and tax credits; the Universal Credit.

These are positive steps, which in spite of public support for action to tackle welfare dependency have faced significant opposition. It is a credit to the government that they have moved the Welfare Reform Act, largely unscathed, through both Houses. However, this will just be the start of a long period of significant reforms that are needed.

This argument is not based on a view that the reforms implemented so far will fail. Reforms to benefit eligibility and generosity were needed to rebalance the welfare state and, while there is a long queue of commentators waiting to celebrate the implementation of Universal Credit being delayed or over-running its costs, they are missing the point. Universal Credit is a major programme

of reform that will change the shape of our benefit system. Even if there are niggles in the short-term, or implementation is delayed by a few months or it costs a little more than predicted to implement, we need to take the longer-term perspective. Ultimately it will deliver a clearer, more straightforward system of benefits for working age claimants. As such, it is likely to help some claimants into work who would have otherwise remained on benefits.

Critics of the Work Programme are also missing the point. Again, this is an ambitious programme that changes the nature of employment support for those furthest from the labour market. Incentivising private and third sector organisations to deliver sustainable employment for these groups is the right approach to take, but it is a step change in the approach that preceded it. As with all programmes that bring in new ways of working, it will take time to revise and review its setup and assess where change is needed. This is not a sign of failure. It is the natural process of implementing a successful programme.

The reason that more reforms will be needed is that the Work Programme and Universal Credit need further reforms to reach their potential. For this reason, a second Welfare Reform Bill will be needed before, or shortly after, the 2015 General Election. This conclusion may startle some people, but there are clear reasons why this is the case.

Jobcentre Plus is failing



What seems to have been missed by the majority of commentators is that the introduction of both the Work Programme and Universal Credit signal a dramatic change in the way the UK approaches unemployment. For many years and certainly since reforms in the mid-1990s the UK's approach to the unemployed can be described as 'work-first'. In simple terms this means that, based on a system of increased requirements to attend a jobcentre and prove that claimants are seeking work, the intention was to find jobseekers the first possible job, no matter whether it was likely to last.

The new approach is different. Soon, the Work Programme will only pay significant amounts of money to providers who can find claimants work and keep them there. In short, rather than just incentivising providers to push claimants off benefits as quickly as possible, or indeed to find them any job as quickly as possible, the programme explicitly takes into account sustainability of job outcomes. Payment for a provider is only triggered after one of the claimants referred to them has been in a job for 13 or 26 weeks. Following this, providers are incentivised to keep them in work through sustainment payments that are made for every full month they are employed for a set period of time.

The idea behind Universal Credit is similar: by incentivising entry into work at short hours or low wages while applying conditionality and providing support, it is hoped that claimants will progress in work and move further towards self sufficiency.

This approach, which focuses on long-term outcomes, rather than short-term movements off benefits is the right one to take. However, while the success of Work Programme providers is measured on the basis of sustainable employment, the success of Jobcentre Plus (JCP) is not. A trail of Employment Ministers have highlighted that JCP is successful just because it moves claimants off benefits.¹⁶ It is true that, even during the recession, around 75% of claimants were moving off benefit by 6 months of a claim and 90% by 12 months of a claim. However, a recent DWP report allows us to assess what this might mean in terms of sustainable employment.¹⁷ In fact, it shows that:

- Only around two thirds (68%) of those leaving JSA enter paid employment;
- Nearly one in five (18%) simply moved to another benefit or re-claimed JSA shortly afterwards; and
- Of those who had started work, nearly one in ten (8%) were employed for fewer than 16 hours a week.

Assuming that we can apply these proportions uniformly to the estimate of 75% of people moving off benefit by six months, implies that by the sixth month of a claim:¹⁸

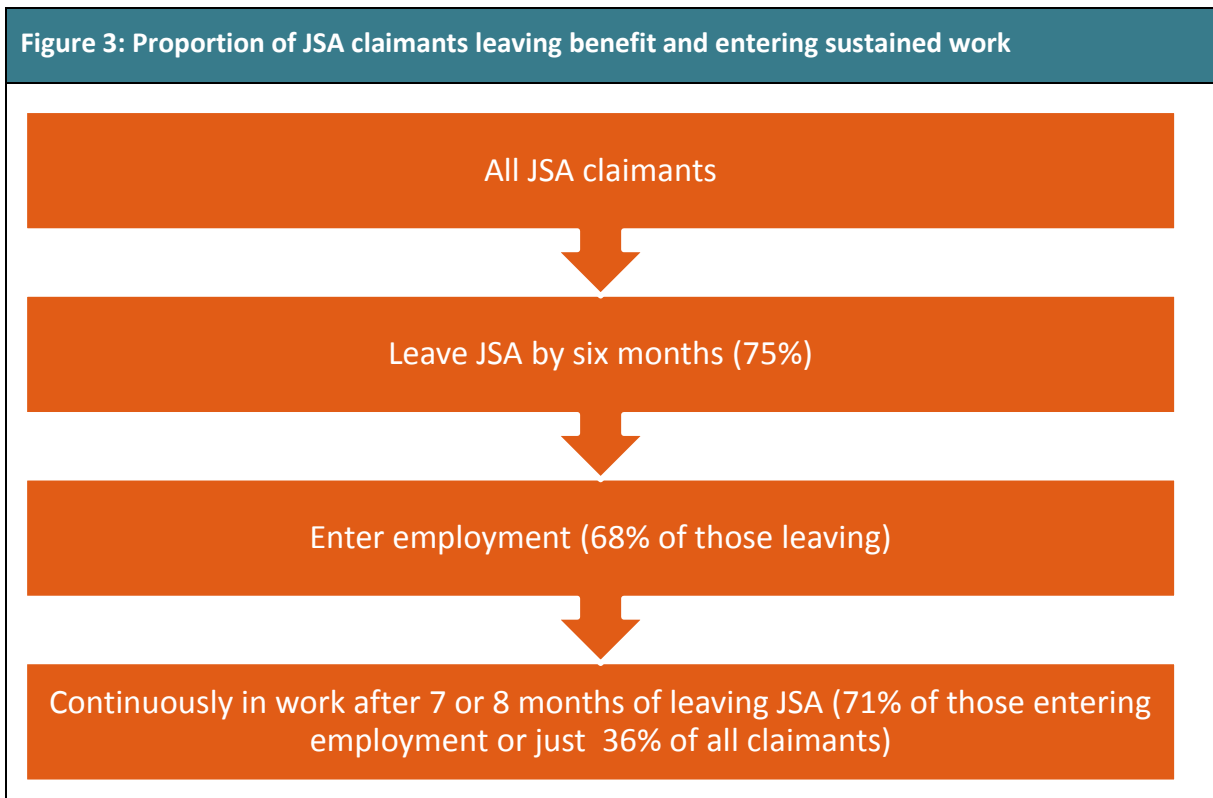
- Only 51% of claimants will have entered paid employment; and
- Only 45% of claimants will have entered paid employment of over 16 hours.

This is a very different picture to that portrayed by the headline figures and the situation gets worse when we consider the sustainability of the jobs of those who do find work. To assess this, the report also includes an assessment of what the leavers were doing at a point seven or eight months after they had left JSA. It found that some 30% of claimants leaving JSA are back on benefits again within eight months. It also found that 71% of JSA claimants who left JSA for paid work were continuously in paid work between leaving JSA and the second interview.

Again applying this to the six-month off-flow figure we see that:

- Only 36% of JSA claimants will find a job within six months of claiming benefits and remain employed for the following seven or eight months.

Figure 3 displays this situation graphically and clearly leaves a very different perspective to that which we have heard from DWP and a string of Ministers since the introduction of JSA.



This is clearly in stark contrast to the measure of success that providers of the Work Programme are held to. It suggests that if Jobcentre Plus were paid on the same basis, they would be unlikely to receive payment for the majority of claimants that go through their offices.

This failure means that: unemployment is higher than it should be; the job of Work Programme providers is made more difficult; and ultimately the welfare state is more costly than it needs to be and growth lower than it should be.

Movements towards self sufficiency are likely to be difficult

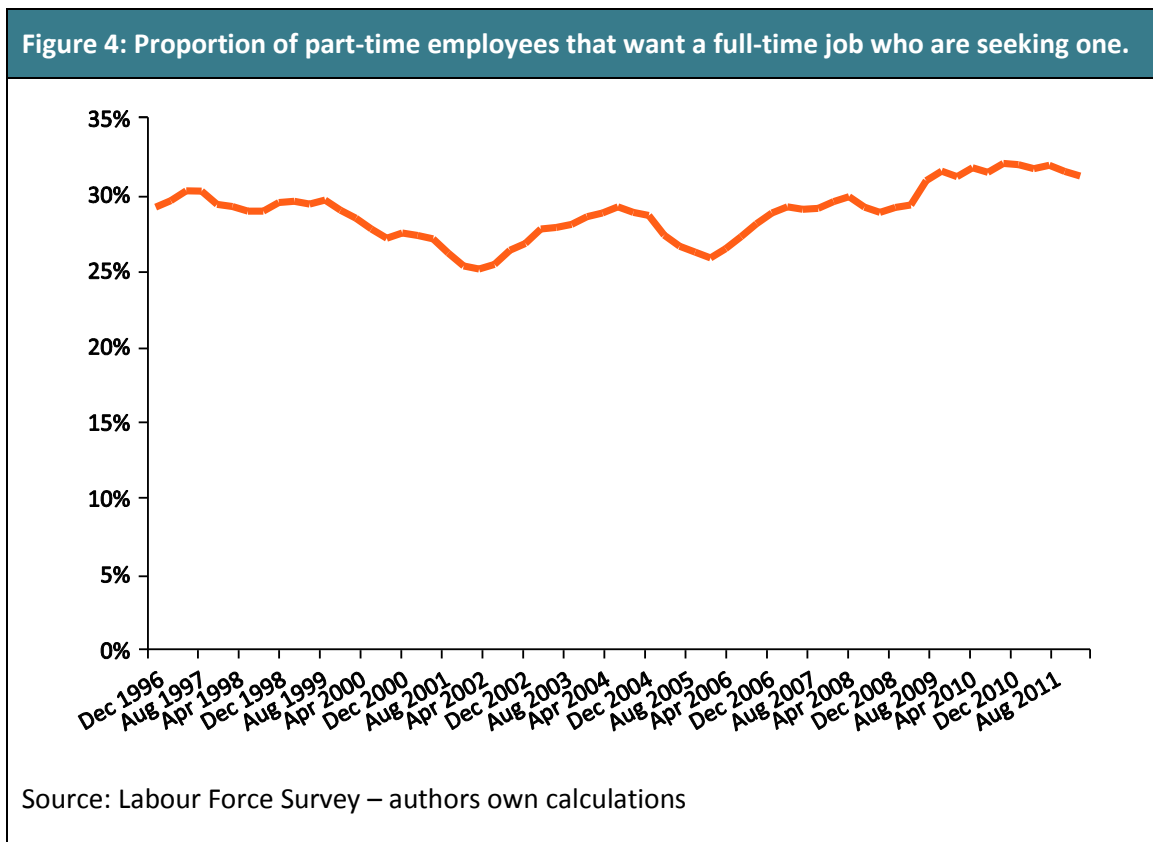


A major concern with Universal Credit is that incentivising low-wage or low-hours jobs, will simply shift out-of-work benefit dependency to in-work benefit dependency. The removal of the hours rules in Working Tax Credits could also encourage some claimants already working more than 16 hours a week to reduce their hours.¹⁹ It is also a concern that existing evidence shows that claimants who

move into jobs with relatively short hours are not likely to progress to jobs with longer hours or higher wages.²⁰

There are many reasons for this, including a lack of training and development opportunities that exist in many part-time, low wage jobs. Another reason could be the motivation of those in the jobs. This is demonstrated by evidence from the UK labour market. A number of commentators have demonstrated that the number of part-time employees who say that they want full-time employment but could not find it has more than doubled between the start of 2008 and the start of 2012. Over 1.4 million employees are now in this situation.²¹ Some have even called it “forced part-time employment”.²²

However, digging deeper into the figures reveals that the majority of those stating that they would like a full time job but cannot find one are not actually looking for another job with longer hours. Figure 4 shows that only around 30% of this group are taking steps to find another job. This level has remained relatively constant over the last 15 years, even in the boom years when vacancies and full-time opportunities were much more readily available. In short, nearly a million of the 1.4 million so-called “forced part-time” are not actually seeking another job with longer hours.²³



It is startling that so many individuals claim that they want a job with longer hours but are not taking active steps to find one. This is indicative of the severe problems that the government will face in ensuring that claimants of Universal Credit actively attempt to move into jobs with longer-hours and higher pay. If they fail to do so, benefit dependency will remain an issue and the costs of the welfare state will remain high.

Little detail of exact policy for applying conditionality to those needing to increase hours or pay is included in the draft regulations for Universal Credit.²⁴ However, at present, it seems the maximum requirement will be for conditionality to apply until individuals earn the equivalent of 35 hours at the National Minimum Wage. The regulations also give provisions for this to be flexed (downwards) in a number of circumstances and states that

“at the launch of Universal Credit...it is not intended that those with earnings above a lower cut off limit will be subject to an intensive conditionality regime”²⁵

This means that in practice, conditionality for those in work but earning relatively little and relying extensively on state support will only face conditionality up to the existing cut-off of 16 hours work. In short, despite better returns to work and more support from the government, extra conditionality will not be targeted at those in low-hours jobs.

Financial incentives are not going to be enough



Universal Credit is right to tackle the disincentives to enter and progress in work that some individuals and families are facing under the current benefits system. However, academic evidence suggests that responses to marginal changes to financial incentives may have limited impacts on labour market decisions of large portions of the labour market.²⁶

This is clearly highlighted by the fact that early iterations of the Impact Assessment for Universal Credit showed that the reform would help 300,000 workless households into work. However, even after this, 3.6 million households will still be workless. There was also a notable absence of information on the impact of Universal Credit on the number of hours worked in the economy.

There are a number of reasons to believe that simply increasing work incentives will have little impact on decisions over employment and hours of work. An obvious example is social norms. If it is the norm to work, it is likely that jobseekers will be motivated to find work even if work does not bring significant financial rewards. However, if norms work the other way and mean that jobseekers

are comfortable claiming benefits, greater returns to work will be needed to motivate a movement into employment.

The general public seem to believe that the former of these should be true. Our report, *No Rights Without Responsibility*, highlighted findings from a poll that showed that 70% of Britons thought that “jobseekers should lose their unemployment benefits if they turn down job offers ... even if it means the job offers the same or less than the unemployment benefits they receive”. This support spread across all sections of society and across the political spectrum.

However, the “making work pay” agenda of the last 15 years can be seen as undermining that belief. In essence, it puts responsibility on the government to ensure that work pays, rather than putting responsibility on individuals to take work even if it pays no more than being on benefits. This lends implicit support to those waiting on benefits looking for the “right type of job” or a job that pays well enough.

There is also evidence starting to emerge that suggests that in-work benefits are, at least in part, passed on to employers rather than increasing wages. Again, this means that marginal increases in in-work benefits are unlikely to have a large impact on behaviour.^{27,28}

For this reason, while improving incentives is a vital element of reform, it is encouraging that the Coalition has accepted that, on their own, they will not be enough to deliver the welfare system and labour market that the UK needs. In particular, the Prime Minister expressed his desire for further welfare reform in a recent speech.²⁹ He used this to argue that simply providing work incentives through increased financial support for in-work families can only go so far in world of constrained finances:

The truth is we can't just throw money at the problem and paper over the cracks

It is positive to hear the acceptance of the principle that Policy Exchange has been arguing. However, as the Prime Minister acknowledged, we are only now beginning the conversation about what further reforms might look like.

Current support is confusingly split across multiple government agencies and departments



The DWP, the Ministry of Justice, BIS, Department for Communities and Local Government, Department of Health and the Cabinet Office all have an interest in welfare reform and employment.

However, in a large part, they are pursuing their goals separately. There is also a multitude of support available through Local Authorities and Housing Associations.

This multiplicity of agencies is largely replicated in terms of families' contact with the agencies concerned. Their staff: housing officers, local authority officials, social workers, the police, probation officers and staff from other agencies and European Social Fund-backed initiatives will largely make contact separately, providing duplicative (and perhaps contradictory) services and demands. But no one has overarching responsibility to address the range of problems these families are likely to have in a coherent way, primarily because it is no-one's responsibility to structure or plan the right supportive interventions at the right time. It is clear that the chance of such an uncoordinated approach leading to failure and increased costs is large.

The CBI have recently summarised the difficulties of this situation with reference to the Youth Contract:

*"In England alone, there are 47 initiatives aimed at incentivizing firms to hire and train young unemployed people, but firms tell us the sheer complexity of the system is off-putting. Rather than more new initiatives, what businesses need is a streamlined system that is easy to access."*³⁰

Overall, despite recognition of this problem within government and a desire to improve and modernise public services, there has not yet been a transformation of public service delivery to embody this desire. Instead, competing departments, budgets and spending allocations have remained the norm, each taking on their own version of the overarching theme with varying degrees of success. This presents significant challenges to moving to a system which delivers better employment support, higher employment and savings to the Exchequer.

Bolder policies for delivering conditionality have not been tested: workfare and time limits



There are many government programmes that have been labelled as workfare. However, the extent that this term can be applied to particular schemes varies dramatically. Some are voluntary work-experience schemes, while some are mandatory work schemes targeted at those thought to be defrauding the benefit system. Others are not necessarily based on any kind of work activity at all.

Annex 1 provides some clarity over the nature of schemes and demonstrates that, in fact, aside from the Mandatory Work Activity (MWA) scheme, no system of Workfare is currently in place in the UK. This is not the case in other countries. The often used example is the USA, but other countries such

as Australia, Denmark, Germany and Switzerland all have requirements based on workfare or participation in other formal schemes.³¹

The argument to use such programmes in the UK has resulted in an outcry from various commentators and lobby groups.³² However, as we have previously argued, there is nothing wrong with asking for something in return for benefits, even when this involves requiring claimants to undertake work. This is not forced labour and it is not work for nothing. When considered in total, the benefits that jobseekers receive can be significant. It is not unreasonable to ask claimants to contribute in return for this money.³³

Evidence from the countries that use workfare suggests that significant off-flows from benefit occur even before the claimants are moved onto the scheme.³⁴ Evidence from limited pilots the UK from the late 1990s also suggests that the schemes can be effective: just under half of the 6,800 participants signed off benefits before the scheme kicked in.³⁵ Recent evidence from the MWA scheme shows that, although a number of claimants moved off benefit in the first three months following a referral to the scheme, after five months, there is no measurable effect on benefit claims. However, a key downfall to this evaluation is that it did not effectively measure the potential diversionary effect of the policy.

This means that, as a DWP report from 2008 highlights, there are still “...few systematic evaluations that isolate the impact of workfare from other elements of welfare-to-work programmes”.³⁶ In particular, there is little evidence around the longer-term impacts on employment and earnings. This makes it surprising that the government has chosen to roll out a workfare-type scheme for all claimants who leave the Work Programme without a job.

Also unlike other countries, the UK does not have a time limit associated with the receipt of benefits.³⁷ This is of particular interest since the prospect of time limits was introduced in the Prime Minister’s recent speech on welfare, where he noted that a system could be introduced to limit the duration of out-of-work benefits with the goal of reducing long-term welfare dependency.³⁸ Again, indications from other countries are that these policies can have positive effects. Most evidence suggest that increased periods of benefit eligibility increase the average duration of an unemployment spell by reducing search activity and decreasing benefit off-flows.³⁹ In tangible terms, Katz and Meyer find that exit rates from unemployment are about 80% higher in the week preceding benefit expiration and Card and Levine find the exit rate to be about twice the size of previous exit rates.

Such findings were not merely an American phenomenon, with similar results being found in Austria, where an increase in potential benefit duration from 30 to 52 weeks was found to increase the expected duration of an unemployment spell by 6.25 weeks.⁴⁰ A recent study by van Ours and Boone used Slovenian data and found that “the spike in the job finding rate suggests that workers exploit unemployment insurance benefits for subsidised leisure”.⁴¹

Other studies have focussed on different impacts that might come from introducing time limits to benefits. For instance, one has used data from the Netherlands to show that increased duration of benefit eligibility can lead to increased benefit on-flows.⁴² Another has shown that claimants who find a job before benefits are exhausted take longer to actually start working than those for whom benefits have already exhausted.⁴³

However, while the international evidence does suggest that welfare time limits can be successful in moving claimants off benefits, there are also less positive effects. Some studies have questioned whether a movement off benefits is actually associated with a movement into work and link such policies to the growth of an underclass in the USA.⁴⁴ Other recent research has questioned the quality of job-matches that result from benefit exhaustion.⁴⁵ The implication of these findings is that while off-flows have been increased by time limits, they may not be an effective tool for encouraging sustainable employment.

This means that, again, this principle would need to be tested before large-scale introduction in the UK. The introduction of a time limit would also need to fit with the idea of delivering a movement into sustainable employment and fit within the parameters of Universal Credit.

Costs of the welfare state need to be managed



The final reason for reform, which overarches all of the others, is that the Chancellor’s 2012 Budget clearly laid out the fact that it was likely that another £10 billion of savings from the welfare budget would be needed. Leaked briefing from No.10’s Steve Hilton also suggested that savings might instead need to be as high as £25 billion.⁴⁶

On top of the reforms already announced, such savings could fundamentally change the face of the welfare system in the UK. It is essential that they are approached in a strategic manner to ensure that the reforms deliver both a better functioning labour market and significant savings.

Recent news headlines have suggested that the Treasury has the intention of freezing benefits in nominal terms for the next two years. This would not be a surprising move given the Prime

Minister's argument that it was unfair and impractical that, while benefits had been increased by 5.2% last year, earnings had only increasing by 2.5%. It would also be a popular move. The recently published 29th edition of the British Social Attitudes survey showed that 62% of people think that benefits are too high and discourage work. Even amongst those respondents in receipt of benefit or whose spouse is in receipt of benefits some 59% were in agreement with this proposition.⁴⁷

However, while there is a clear message around cost saving and fairness surrounding these ideas: it will not deliver the full savings needed. For this reason, further cost-saving policies will be needed. If reformed effectively, each of the areas outlined above could deliver significant savings to the welfare budget through: reduced unemployment; increased hours of work for those in work (reducing in-work benefit receipt); better targeting of the support available; and reduced administration costs. These savings must be targeted above short-term fixes, which will not reduce the welfare bill in the longer-term.

Conclusion



For all of these reasons, if the Coalition is going to back up the progress they have made with the introduction of the Work Programme, the existing cuts to the benefits bill and the imminent implementation of Universal Credit, they need to be more ambitious. Even if further cuts are necessary, they need to be focussed on areas where current expenditure is being badly spent or on where reforms could increase employment and tackle structural problems in the UK labour market. Some of the bolder reforms will also need piloting and testing before a full commitment to roll them out across the UK.

To deliver this, a new wave of welfare reforms, *Welfare Reform 2.0*, and a second Welfare Reform Bill will be needed. The next chapter outlines principles and policies that should be the basis of *Welfare Reform 2.0*.

Principles and Policies for Welfare Reform 2.0



We have highlighted why more reforms will be needed to build on the progress made with reforming the welfare state and employment support. The following are principles that should underpin *Welfare Reform 2.0*, and policies where urgent action is needed to tackle the issues that we have outlined.

Moving from work-first to sustainability



Reform of employment support should be focussed on sustainable employment, rather than just benefit off-flows.

- ***Policy 1 - Performance of JCP: The performance of Jobcentre Plus should be assessed on the basis of sustainable employment, rather than just measuring movements off benefits into work.*** This would mean that JCP would be incentivised to move claimants into work and keep them there for at least three months. It would bring performance measurement of JCP in line with that expected of Work Programme providers.
- ***Policy 2 – Supporting sustainability:*** This would require support provided in Jobcentre Plus to be based on the principle of sustainable job outcomes. This means that **claimants moving into temporary, part-time or fixed-term contracts should be given support to manage their transition to another job or to increase their hours or earnings.**

Reform of conditionality should focus on encouraging movements into full-time work and moving families towards self-sufficiency

- ***Policy 3 – Conditionality in Universal Credit: The assumption should be that in-work claimants of Universal Credit will face a stronger conditionality regime than present until they are earning the equivalent of 40 hours at the National Minimum Wage.⁴⁸*** This should be introduced as soon as Universal Credit begins to be rolled out. Part-time employees claiming Universal Credit could be required to provide Jobcentre Plus with evidence to show that they are seeking longer hours, higher pay or higher paid jobs. They should be required to set out steps they will take to achieve these goals. Failure to do so should lead to a benefit sanction.

- Policy 4 – Conditionality to target job planning: **Conditionality should also apply to employees in fixed-term or temporary contracts. Evidence of job search prior to their current position ending must be provided if they expect to claim Universal Credit.** This could mean that a meeting with a Personal Adviser could be arranged at an appropriate time, including evenings or at the weekend in the month before their position was due to end. This meeting would provide advice and support and outline steps the individual should make to find further work and avoiding a move back onto benefits. If this meeting was not attended or the steps outlined not undertaken, eligibility to elements of Universal Credit based on unemployment would be delayed or sanctioned if the individual moved back on to benefits.
- Policy 5 – Time limiting, diversion and conditionality for benefit cyclers: **A full record of individual’s benefit history should be collected and used to target stronger support and conditionality at those who persistently cycle in and out of work.** If pilots of workfare (see Policy 11) prove the scheme to be effective, this could mean that a claimant who had spent more than a given number of years (e.g. five) unemployed in their lifetime could be automatically referred to a workfare scheme on their next claim of benefits. This could last for a period of six months and be subject to the usual Jobcentre Plus conditionality regime of jobseeking activity. If the claimant was still unemployed after this six month period, they could then be transferred to the Work Programme for more intensive employment support based on sustainable job outcomes. If workfare pilots prove to be unsuccessful, other appropriate support and conditions should be targeted at this group.

Personalisation and the future of Jobcentre Plus



Employment support should be provided from day one of an unemployment claim for those who need it.

- Policy 6 – Day one employment support: **Day one employment support should be facilitated by the use of a screening tool to assess the likelihood that new claimants might remain unemployed for long periods of time.** This would be created learning from the Australian experience of implementing a Jobseekers Classification Instrument, which could be augmented by the inclusion of data held across government, the use of private sector data on claimants and flexibility for personal advisers backed by appropriate incentives. A full outline of this approach can be found in our earlier report, *Personalised Welfare*.

- Policy 7 – Employment support from third sector and private firms: Should it prove that JCP is not delivering sustainable employment, all **employment support should be provided by third and private sector organisations on a payment by results framework that uses the screening tool as the basis for differential payments.**
- Policy 8 – A new role for JCP: **Jobcentre Plus should be reformed to take on a new role to administer the screening tool. It should also take on more responsibility across government to act as the customer facing part of a wide range of support.** Bringing access to government services such as skills, careers advice and childcare together under one national network of branches, under the CommunityLink name, would bring both efficiencies and improved services.

Learning from what works in changing behaviour



Future reforms need to acknowledge that financial incentives can only go so far in tackling worklessness. Further radical policies will need to support them.

- Policy 9 – Rebalancing financial incentives: **While financial incentives should not be the focus of welfare reform 2.0, the balance of resources should be shifted from out of work benefits (CTC, CB) towards supporting work and progression in work.** Consideration should also be given to limiting extra support given to families with more than three children.
- Policy 10 – Communication and targeting of financial incentives: **The presentation and communication of financial incentives are as important as the incentives themselves.** This means that policies like the return to work credit should be reconsidered as an effective tool for giving extra incentives for groups shown to be more responsive to financial incentives (e.g. lone parents and those claiming ESA). The role of social networks and social norms must also be considered as a tool for ensuring that all claimants realise the value of work.

- Policy 11: - Diversion and workfare: **The Community Action Programme should be replaced by a randomised control trial of workfare.** This would mean that claimants that have spent two years on the Work Programme should be randomly assigned to either workfare or the standard system of support. Random allocation should happen in advance of the end of the Work Programme, for instance after 12 months of the Work Programme. This would allow evaluators to assess the deterrent effect of the scheme. The results of this should be used to inform the wider application of workfare. Our report *Something for Nothing* also outlined a strategy for a fuller evaluation of workfare schemes.
- Policy 12 – Joining up welfare delivery: **The government must urgently change its focus to ensure that employment and welfare support is joined-up across Whitehall departments.** For instance, given the fact that 75% of offenders make a claim for out-of-work benefits in the two years after release from prison, support for ex-offenders must be better managed between the Ministry of Justice and DWP. On a larger scale this will require a significant consultation, including on how the existing system of budgetary control works between the Treasury and different departments. New models for joint working and using private and third sector expertise will also be needed.

Conclusion



This research note has laid out why, if the welfare reforms announced so far are to be successful, the government must go further and faster on future reform of the welfare state. A new raft of reforms, *Welfare Reform 2.0*, will be needed to be introduced through a new Welfare Reform Bill before, or shortly after, the next General Election.

We have highlighted principles upon which *Welfare Reform 2.0* should be based and suggested policy areas that need consideration to ensure that worklessness, benefit dependency and disadvantage are tackled at their root.

Introducing these reforms would ensure that: personalised and effective support is provided in a streamlined fashion to those needing help to get back to work; those not doing all they can to find work are penalised; and that persistent cycling between benefits and employment is addressed. By doing so it will reduce unemployment, increase prosperity and reduce the costs of the welfare state.



Clarity on so-called 'workfare' schemes

Sector-based work academies: a voluntary training and job experience scheme of up to six weeks with an employer, funded through the Skills Funding Agency, with a guaranteed job interview on completion.

Work experience scheme: a voluntary scheme for the under 25s who have been claiming for between three and nine months, with placements for eight weeks. It is targeted at young people with little experience who are furthest from the labour market, giving them experience and skills in the industry they want to work in.

The Work Programme: the government flagship assistance scheme for the long-term unemployed, in which private companies are paid to get claimants into long-term work for up to two years. The companies are given flexibility on how they can help claimants (the 'black box' approach), which can involve mandating certain activities – things like turning up to interviews, training courses and applying for a certain number of jobs. This can involve mandating compulsory work experience, but early indications are most providers prefer to make it voluntary.

Mandatory Work Activity Scheme: an unpaid community placement programme, typically of four but up to eight weeks, made through referral from a Jobcentre Plus Adviser. It is targeted at claimants who do not understand the habits of a working routine, are not serious about finding work, or potentially working cash-in-hand in the grey economy.

Community Activity Programme: a six-month programme of unpaid community work, targeted at very long-term unemployed people who have not found employment through the Work Programme and may have lost the habits of working routine. This will begin in April 2013 (though there are pilots for claimants who had 'cycled' through JCP and the Work Programme predecessor New Deal schemes).

Day One Support for Young People Trailblazer: a recent addition to these programmes is a newly announced trailblazer focussed on young people in London who have never worked or who have very little work history. This will "equip jobseekers with a valuable period of experience in a work-based environment".⁴⁹



¹ Or the equivalent child support through benefits. <http://www.hmrc.gov.uk/stats/personal-tax-credits/cwtc-apr2010.pdf>

² To put this in context, an employee working for 40 hours a week on the National Minimum Wage would get paid around £12,000 and be liable to tax on that amount.

³ The overall figure will be, in part, comprised of households where work might not be expected (for instance households where individuals have a sickness or disability that makes work difficult). However, this cannot account for the dramatic rise in numbers that we have seen.

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- ²³ Labour Force Survey, authors own calculations.
- ²⁴ <http://www.dwp.gov.uk/docs/uc-draft-regs-2012.pdf>
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- ³³ Those JSA claimants receiving the top 20% of benefit claims receive over £13,000 a year: more than those working full time on the National Minimum Wage, even before tax liabilities are taken into account. Response from FOI request from the Department for Work and Pensions.
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⁴⁸ For lone parents the requirement could be less (e.g. 20 hours) and couples could share a combination of the lone parent and individual requirement (i.e. in this example, 60 hours).

⁴⁹ <http://www.dwp.gov.uk/supplying-dwp/what-we-buy/welfare-to-work-services/day-one-support-young-people/>

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