

Working Welfare

Welfare recommendations for the UK based on the U.S. reforms of the 1990s
by Katharine Hirst



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Executive Summary

The UK government has accorded welfare reform a high priority in recent years. This has resulted in much tinkering with the system, but little real progress. Potential improvements to quality of life and savings to the taxpayer both point to the need for radical reform. This report builds on the experience of the successful and wide-ranging American reforms of the 1990s to draw lessons for UK policy and implementation.

The situation on the ground

Over 3 million working-age people in Britain have received benefits for over a year. Among other social ills, worklessness breeds inter-generational dependency, health problems and crime. The system as it stands does not incentivise work and in fact, through overly high levels of provision, low levels of expectation and mind-boggling complexity, it actively deters claimants getting into work, draining claimant, employer, and government time and money. Attitudes of entitlement have become pervasive and young people often feel they ought to be supported until they find a 'good job'. Job search support is rarely tailored to the individual seeker and dries up once employment has been found, resulting in poor employment rates and high numbers leaving employment soon after entering it.

What we can learn from the U.S.

America's reforms emphasised work, long-term support and parenting responsibility. The process began with waivers allowing for individual states to opt to try their own welfare programs. These were broadly successful and paved the way for the federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996. This changed the face of American welfare provision: between 1994 and 2000, the number of people receiving welfare dropped by half, from 5.5 percent of the population to just 2.1 percent.

PRWORA made work central to welfare — if claimants wanted support they had to do something in return. 'Work' could be any of the following: unsubsidized or subsidized employment in the private or public sector, work experience, on-the-job training, community service, vocational training, providing childcare services and time-limited job search. Successful policies focused on moving welfare recipients into jobs quickly and continuing support afterwards. The best results occurred where this was backed up with tough sanctions for non-participation.

States were in charge of the reforms, and were permitted to devolve authority further, for example to local governments or even private and religious entities. Front-line workers had to engage in claimant evaluation and counselling designed to put people to work. This gave them much more discretion over individual cases. Where services were privatized, this led to cost savings and better provision.

Effective reforms provided a lot of support for mothers, including childcare. In return, single mothers were supposed to enter the workforce once their youngest child reached the age of one and underage mothers would only receive benefits if they lived with adults and went to school.

PRWORA also imposed time limits on the receipt of benefits — for instance, claimants were required to work within two years of receiving assistance, and a five-year maximum limit was placed on the receipt of benefits over a lifetime. These measures were not successful. Many states continued provision after federal funds ‘expired’, and by 1999 the Act had been amended so that time limits were mandated for fewer types of support.

Another deficiency of the U.S. reforms was that certain barriers to work were insufficiently addressed, particularly illiteracy, lack of education, health problems, and drug or alcohol dependency.

Policy recommendations

The UK welfare system needs to enhance self-dependence, provide a safety net for the genuinely needy and tackle child poverty. To achieve this it must get all those people who can work, into work, and remove incentives for non-beneficial behaviour, all the while ensuring living conditions for those in difficult situations

This report makes a number of recommendations for reform:

- 1) **Administration and provision of welfare should be de-centralized and devolved to local agencies.** Allowing the management of provision at the local government level would encourage best practice to spread between different areas.
- 2) **Parliament would determine minimum levels of provision and direct the basic framework.** Minimum levels of provision should be flexible across the country, to reflect the local cost of living.
- 3) **Councils must be free to re-taper the schedules of many benefits and alter their interaction to lower the current marginal tax rates.** This ought to be done as soon as possible, perhaps at a national level, and then incorporated into the eventual far-reaching reform package.
- 4) **Support would be paid for from national taxation and would be given to local authorities in a similar manner to the U.S. ‘Block Grant’.**
- 5) **All working age people not meeting national disability criteria would face immediate work requirements** — no work, no benefits. As a rule, subsidized work or compulsory work experience is better than training. If no work is available, the claimants should undertake community service. Only those with serious educational deficiencies should go into training. Those suffering from drug or alcohol dependency should be required to receive treatment.

6) **The severely disabled would be supported from national funds, outside the proposed block grant.** Conditions to qualify for these entitlements would be very tight, and people suffering from less serious impairment would be expected to fall under their local authority's remit and be supported into work.

7) **Jobcentre Plus offices should be privatized, and should compete with other private and voluntary organizations for local welfare contracts.** These providers would be subject to contractual government performance targets, and would be paid by results.

8) **All conditions placed on welfare recipients should be backed up with tough sanctions.** For instance, there should be a *pro rata* reduction in benefits for any absence from mandated work without good cause.

9) **All new claimants should be diverted from starting to receive benefits.** Time barriers should be imposed, and cheap (but repayable) loans should be available to those recently out of work.

10) **If work does not pay additional support should be available.** America's Earned Income Tax Credit (EITC), which is conditional on remaining in employment, is a good model.

11) **The government should encourage better local childcare provision.** In return, single mothers would be expected to join the workforce earlier.

12) **Mothers aged below 16 should only receive benefits if they live with an adult and are in education.**

13) **Mandatory naming of fathers on birth certificates should be introduced.** Fathers should face stiff penalties (including prison) for failing to pay child support.

14) **Finally, it is far better for low-income workers to keep the money they earn, than for the state to tax them and then decide how much to give back.** Therefore, the income tax personal allowance should be raised to £12,000, approximately half the average wage.

How might we implement these recommendations?

To achieve these far reaching reforms politicians of all stripes and at all levels of government (including local councils) need to be committed to the policies. Success will require both political courage and a degree of consensus. Power should be devolved slowly, to allow for pilot programmes and local experimentation. Such an approach will help to convince the public of the merits of reform.

Most importantly, welfare reform involves changing expectations. New programmes must be seen as tough, and rights and responsibilities of all parties must be clearly explained. The change from a passive to active model will clearly anger some recipients and so politicians and providers will need to tread carefully yet firmly.

Introduction

The holy grail of electoral politics is better, more efficient public provision combined with lower taxes. Welfare reform, correctly done, would achieve this by getting more people into productive work. This would increase the number of taxpayers while reducing the number of dependents on the state. Welfare reform also has the potential to improve the fabric of society — people with jobs have less time and energy to expend on antisocial behaviour. “Self worth” comes from self-dependency. It may sound overly touchy-feely, but it matters — and one in four of the working-age population is currently out of work.

The last ten years have witnessed much tinkering with the British welfare state. Some of this has appeared eminently reasonable on a micro-level, such as the replacement of Unemployment Benefit with Jobseekers Allowance. Unfortunately, the government has taken a “one step forward, two steps back” approach. Although capable of recognising the problems (as witnessed by numerous green papers), Gordon Brown has succeeded only in making the system overly complex. In so doing he has masked the incentives that he aimed to create. Overall, the government has lacked both the vision and the resolve to truly address the widespread difficulties perpetuated by the current system.

The welfare state has taken on a momentum of its own and needs to be comprehensively reformed if it is to succeed in providing a safety net, tackling unemployment and avoiding generations of dependence. The piecemeal change to date has created an ill thought-out labyrinth of disincentives which many claimants and administrators have understandable difficulty navigating. Anecdotal evidence suggests that employers often spend up to two hours helping a worker to complete their benefit forms. Worse still, welfare spending is now at levels such that it is actively functioning as a disincentive to work in many parts of the UK.

There is cross party consensus on the need for reform. However, any change is inevitably a political minefield; taking state handouts away from voters is not at face value an election winner. Nonetheless, a growing swell of popular opinion recognises that something needs to be done and that other countries — most notably the US — have succeeded in radically reforming welfare provision.

In 1996 President Clinton signed the Personal Responsibility and Work Opportunity Act into law. The results have been impressive: the share of all families in poverty declined from 11.9 percent at the end of the recession in 1992 to 8.6 percent in 2000, below the previous historic low (Blank 2002). The biggest policy changes involved devolving power over welfare provision to the state level, and encouraging the devolution of control further to local entities and private providers. This was achieved within a framework that was designed to encourage work and stable families.

It is always tempting to point to the flaws of alternative systems and conclude you might as well stick with the ‘devil you know’. This sort of fatalism, though understandable, is cowardly. A radical solution is needed, and discussions with

ministers, within parliamentary committees and across government, shows that there is an appetite for just such a policy. It is time the government stopped tinkering and started looking at successes overseas.

This report aims to set out a feasible and affordable plan for a reformed welfare policy that is not only economically more efficient, but is also politically attractive. Welfare issues intersect with health, education, pensions and insurance policy. The challenge of this report is to focus on the issue of benefits — specifically those available to people without work, with children and with disabilities — without losing sight of the bigger picture.

The U.S. example, from which this report takes its lead, was chosen primarily due to its success. It provides an excellent case study since many states experimented with different reforms in the same economic climate. This creates the possibility of comparative study; differences in success were indisputably due to the policies enacted by the various states (Blank 2000 and Matthews & Becker 1997). Furthermore, the U.S. welfare system pre-1996 faced similar problems to the UK's today. It focused on income support, asking very little of recipients, and thus incentivised dependency. Furthermore, it had no organised system for transitioning recipients to self-sufficiency.

The debate about welfare is very different in the U.S. There is less concern with redistribution, for instance. This is normally attributed to a pervasive belief in the American dream and the concomitant ability of those who work hard to improve their own situation. Instead, concern is more related to 'traditional' values, where people ought to work for what they receive and the government has a role in 'family' issues (unwed mothers, single parent families, absentee fathers etc.).

However, these traditional differences are becoming less pronounced. There is an increasing swell of UK opinion arguing for the importance of responsibilities and family values in the welfare system. It is to the conception of the role of welfare provision that this paper first turns.

Later chapters will discuss the state of the UK system today, identifying problems that need to be addressed. Then the successes and failures of both the policy content and its execution in the U.S. will be discussed. The subsequent chapter will discuss policy implications for the UK and, finally, the paper will conclude with a suggested blueprint for their implementation.

Chapter 1: The Concept of Welfare

The British welfare state encompasses the provision of pensions, healthcare and support for those without income. State institutions provide these, their aim being to ensure that in their respective areas no one falls through the gaps.

Historically, welfare was privately provided by so-called 'Friendly Societies'¹. Latterly, it has become a government-provided public good. This shift occurred partly as a result of organised lobby group pressure (Green in Evans 1990), but also so that people would not need to rely on charity. State provision was seen to be more equitable as it could be extended to the poorest.

With a view to universalizing provision, William Beveridge proposed a system of government led provision in 1942, which would operate along similar lines to the Friendly Societies. This was not a system of handouts but included rights to be earned as well as responsibilities for recipients. In return for a weekly contribution, various benefits were provided by the state in times of sickness, unemployment, bereavement, pregnancy and old age.

Unfortunately, the contributory benefits were subordinate to the non-contributory from the start, undermining the responsibility to fund oneself. By 1982 the requirement to look for work while receiving unemployment benefit had been completely removed. Welfare provision had become passive. This was a total "reversal of anything that would have been considered moral or even sensible one hundred years earlier" (Centre for Social Justice 2007).

As such, our current conception of welfare and benefits in the UK has radically changed in the last century. The separation of those who pay for benefits and those who receive them means that many of today's recipients grew up in families where no one has ever worked. These people have, in some instances, grown up with a sense of entitlement to others' taxes, and this has in turn created a climate of derision towards claimants on the part of many taxpayers.

Self-sufficiency and the lifestyle that comes with regular work encourage the development of character traits that are beneficial in all parts of one's life. Many of the problems of today's society stem from a lack of self-responsibility, which often breeds alcoholism, drug abuse, the breakdown of family ties and the lack of shame at living off the fruits of others' labour.

Such a state of affairs is of no benefit to anyone. Clearly, we would like support to be available to people who, through no fault of their own, find themselves in difficult situations. This insurance function ought to support people between jobs and when they find themselves unable to work through injury. But provision needs to be structured to minimise negative incentives, keeping people looking after themselves to the greatest extent possible.

¹ These are mutual, non-profit, distributing organisations, owned and managed by their members. Members contribute a small monthly sum, which when aggregated provides payouts to those who need them.

Welfare ought to be there to help get people back to self-dependency quickly and efficiently. In an ideal world this would always be temporary support. In reality, this will not be entirely possible as some disabled people will never be able to work. Nonetheless, welfare should not generally be instead of work, but *as well as* work. This turns the 'dependent poor' into 'working poor', which in turn changes public perceptions (Deacon 2002).

The benefit climate in the UK is slowly changing. Today the Government uses much rhetoric regarding 'responsibilities', 'conditions' and the like. Unfortunately policy has not kept pace with these aspirations. Over the last ten years elements of conditionality have been reintroduced and some name changing has occurred. The Benefits Agency merged with the Employment Service to become 'Jobcentre plus' and Incapacity Benefit will be renamed the 'Employment and Support Allowance' (ESA). Current targets include ending child poverty in Britain by 2020 and an 80 percent employment rate.

The question is how to reach these targets and in what direction the welfare reforms are heading; gradual change may appear to be the step in the right direction, but, as noted, can also create confusion and contradictory pressures rather than improving provision. The time has come for a radical overhaul of the benefit system. The next chapter turns to the American experience in search of lessons for the UK.

Chapter 2: The U.S. reforms of the 1990s — the good, the bad and the practicalities

American welfare reform merits study in light of UK problems in two distinct ways. The first is the content of these reforms: the emphasis on work, long-term support and parenting responsibility. The second is how these were politically and practically possible. This chapter will begin by explaining U.S. welfare policy in the 1990s before demonstrating and then explaining its successes and failures.

The story of U.S. welfare reform

The American welfare state began with President Roosevelt's New Deal programme in the 1930s. This was the first time that public funds were directed to all poor unemployed people as opposed to only the bereaved and disabled (Clemens et al. 2001). In addition to the introduction of Social Security and Unemployment Compensation, the federal government also partially funded four state-level programmes: Old Age Assistance, Aid to the Blind, Aid to the Disabled, and Aid to Dependent Children. As a result of this legislation the American welfare state was completely transformed; by the 1980s federal expenditure had risen from \$500 million to \$230 billion, while the stigma of claiming welfare and the stringency of requirement on recipients had fallen. High levels of benefit were trapping claimants and their children in a cycle of dependency, and incentivising parents to have children when young, single and unable to support them. The time had come for new policies; the working poor had were tired of supporting others capable, but unwilling, to support themselves and their families (Clemens et al. 2001).

Reform began in the 1980s when the federal government began to grant waivers, or exceptions, from the national Aid to Families with Dependent Children (AFDC) requirements, letting states opt to experiment with their welfare programmes. Many imposed more stringent work requirements on claimants and limited the length of time any person could claim, attempting to incentivise more industrious behaviour. In response to the aforementioned concerns and the success of many of the experimental state programmes, President Clinton, supported by a Republican Congress, signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) into law in 1996. The PRWORA was created "to increase the flexibility of States" in their operation of a programmes designed to:

- provide assistance to needy families so that children may be cared for in their homes or in the homes of relatives;
- end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- encourage the formation and maintenance of two-parent families.

(PRWORA 1996)

This act changed the face of American welfare provision and made good on Clinton's campaign promise to "to end welfare as we know it". Political impetus was secured on a cross-party consensus on the need to enact comprehensive reform, but the shape of the Act was determined mostly by the Republican Congress. Only a small percentage of the population were to qualify for federal entitlements (families with dependent children, people aged over 65 and people with visual impairments or disabilities), everyone else was expected to work and pay social security contributions to qualify. The act substantially changed the goals and functioning of the national welfare system. As Haskins points out (2001) the key goal was getting people into work rather than reducing poverty *per se*. The focus was on how people get their money, not how much of it they have.

PRWORA required welfare claimants to work within two years of receiving assistance and it created a five-year maximum limit on the receipt of benefits over a lifetime. 'Work' could consist in any of the following: unsubsidized or subsidized employment in the private or public sector, work experience, on-the-job training, community service, vocational training, providing childcare services and time-limited job search. Single mothers were supposed to enter the workforce once their youngest child reached one year old, provided they could find childcare.

Beyond these requirements there were three main changes to provision. First, the Act increased the role of states. The federal government now provides fixed block grants called Temporary Assistance to Needy Families (TANF) to fund welfare. This funding was set at roughly 1994 real levels but would be cut if states failed to remove a required percentage of claimants from welfare rolls (though states were allowed to exclude 20 percent of cases from any federal requirements). States were not allowed to reduce their own expenditure beyond 75 percent of their 1994 levels. Essentially expenditure at the beginning was to decline only a little, but targets mandated declining caseloads, which pushed states to devise programmes to remove funding from those who could find work and direct their efforts to those hardest to reach. Cutting expenditure was not the main impetus of the reforms — the goal was to focus welfare on the neediest and, via policy competition and emulation, this resulted in the spread of best practice.

Nonetheless, the federal bill did mandate some provisions regarding how the block grant could and *could not* be spent. No assistance was to be given to unwed mothers under 18 unless they lived under adult supervision and went to school or received job training. States had to provide outlines of how they planned to reduce numbers of single mothers and spend a certain portion of the grant on abstinence programmes. No TANF money could go to any recipient for more than five years, and they must be engaging in some sort of sanctioned work after 2 years. A quarter of all families receiving federal welfare money had to be in work within a year of the PWORWA, with this threshold increasing by 5 percent a year. In 1999 some of these restrictive provisions were lifted. Some federal money was allowed to be used beyond the five-year limit and could be spent on childcare provision and social services.

Sanctions played a big role in enforcing these goals. States were roughly split between those who partially reduced and those who totally cut a family's benefits if they failed to comply with work requirements (these decisions could be appealed).

The second big change was the increased role of local bodies. PRWORA allowed states to devolve authority further, for example to local governments or even private and religious entities. Both profit and faith-based providers were now able to bid for state run welfare provision contracts, or be certified as welfare providers where the government issued vouchers for certain welfare services. This gave space for policy differences, even within local areas.

Lastly, the reforms changed the role of individual welfare providers. Front-line workers no longer simply verified whether applicants met objective criteria to become eligible for assistance and issued funds. They had to engage in claimant evaluation and counselling designed to put people to work. This gave them much more discretion over individual cases.

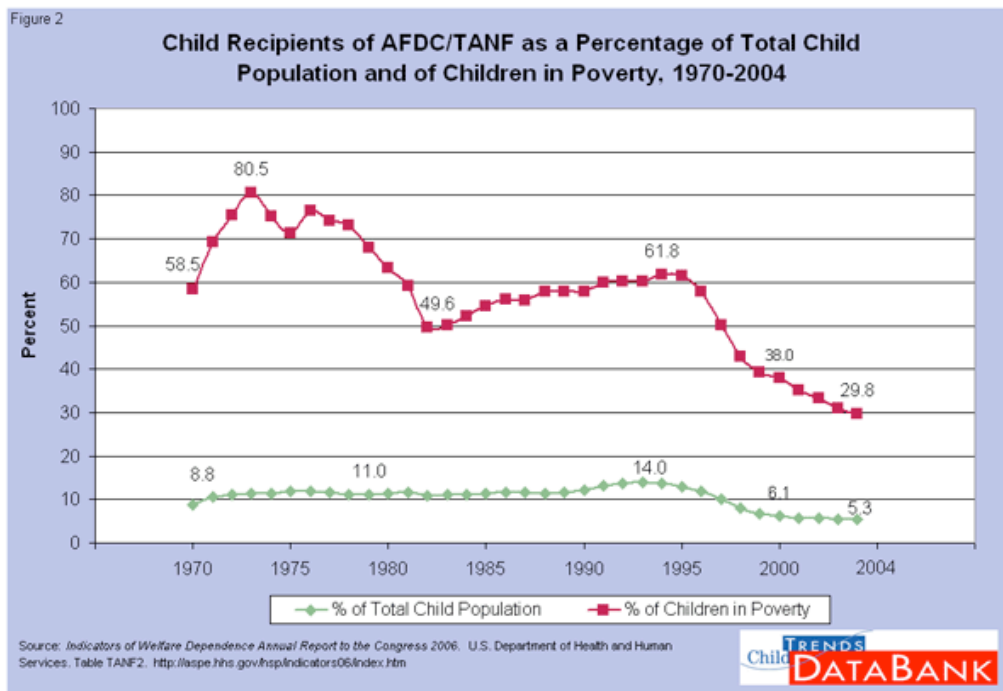
In February 2006 Congress reauthorized TANF, specifically requiring states to increase work participation among their welfare caseload or incur financial penalties.

Measures of success

Reductions in welfare recipients started pre-1996 (perhaps as a result of the state-led schemes), but continued apace after the enactment of PRWORA. Between 1994 and 2000, the number of people receiving welfare dropped by half from 5.5 percent of the population to just 2.1 percent (USHHS 2000). Only 8 to 10 percent of the reductions after 1996 are deemed to be down to the strength of the U.S. economy, so much of this success must be due to welfare reform (Oliphant 2000). Less than four years after PWROWA was implemented, up to 10 percent more former recipients were finding unsubsidized employment than under the previous AFDC JOBS programme (Danziger et al. 1999).

At the same time, there was a significant decrease in poverty, though this decline was slower than that in the number of recipients. The average income (in 2000 dollars) of families in the bottom 20 percent of the U.S. income distribution rose from \$12,625 in 1990 to \$14,232 in 2000. (Lichter & Crowley 2002) That the welfare reform package had a substantial effect on poverty is also backed up by the reduction in AFDC/TANF caseload and declines in child poverty (Rector 1999).

Duncan and Chase-Lansdale say that the 'crucial message' is that children do benefit if their mothers take a paid job, but that they benefit the most when states 'go beyond work mandates and provide cash rewards or in-kind supports for the mandated work' (in Blank & Haskins 2001). As a result of the reformed incentives lone parents entered the workforce *en masse*. The child poverty rate fell, from 20.8 percent in 1995 to 17.8 percent in 2004, lifting 1.6 million children out of poverty (Kim and Rector 2006).



Clearly there is a message here for the UK. As pointed out in the recent Centre for Social Justice report (2007), 60 percent of the reduction in poverty in the U.S. was due to changes in work patterns, whereas 60 percent of the reduction of poverty in the first three years of the Labour Government was due to increased benefits. The American reforms were managed with a reduction in welfare spending, but an increase in the amount spent per recipient (Clemens et al. 2001). States have actually found themselves with surplus 'rainy day' funds which they are allocating towards job-training partnerships, apprenticeships programmes, childcare, counselling to combat domestic violence and substance abuse, transportation, housing assistance and a variety of other benefits and services (Clemens et al. 2001).

Policies that worked

To analyse which aspects worked it is necessary to look at the experiences of individual states in their implementation of reforms, rather than national trends. Of course all states have different economies and systems. But there were some broad similarities in the policies pursued by the more successful states.

Effort was focused on moving welfare recipients into jobs quickly — preferably in the private sector — and support continued after getting a job. Targets for providers were based on claimants getting into jobs which they then kept for a period of 6 to 12 months. Separate federal funding was available for welfare-to-work programmes targeted at the hardest to reach, and a federal employer tax credit was created for those hiring welfare recipients. Rector and Youssef (1999) found five main reasons why this work-first approach was crucial to reducing the number of claimants: it forced discovery of unreported earnings, reduced incentives for idleness, prepared the recipient for employment, sent the message that society expected people to work, and eliminated much fraud.

- Those incapable of community service work were placed in the state's W-2 Transitions programme and required to participate in activities consistent with their abilities.

Other programmes ran alongside this. 'Learn Fare' required families to keep their school age children in classes in order to receive a welfare cheque and 'Children First' increased child support payments by giving fathers a choice: either pay child support or go to jail. They also created a one-stop-shop for employment and job training.

This was administrated with tight targets for providers to keep recipients off welfare rolls, or prevent them from claiming in the first place. Potential recipients met with job planners and specialists who identified alternatives to welfare — mostly in employment — and explained childcare options. Wisconsin was the first state to privatize whole areas of welfare provision; they opened up the process to competitive bidding, but gave the then state-run centres the option for the first bid. They were paid a flat fee, and so can only make profits by spending less than this, but they faced steep penalties should they fail to serve their clients. This bold approach to welfare administration has been widely acknowledged as very important for ensuring that administrators were aiding, rather than hampering, the reform effort.

By 2000 the cash assistance caseload in Wisconsin had declined by over 80 percent (Nightingale & Mikleson 2000).² However, more than 85 percent of the remaining cases were in Milwaukee (the largest city), indicating that success was higher in rural areas.

Having left the welfare rolls, most former recipients found employment:

At least 75 percent of former recipients work some of each year after they leave the rolls, and the earnings of those who work appear to increase in subsequent years. Earnings for those who work are \$7.00 to \$8.00 per hour, even three years after leaving the rolls. Less than half of former recipients, though, are continuously employed. (Nightingale & Mikleson 2000)

There is some evidence that the poverty rate among former cash recipients in Wisconsin, who work, is declining over time, and that the combination of work plus other benefits (including Earned Income Tax Credits and food stamps) helps reduce their poverty rate. The trend is heading in the right direction but there is space for improvement as more than half of all former welfare recipients remain in poverty.

Oregon

In Oregon the central idea was that all able-bodied people ought to get a pay cheque not a welfare cheque, backed up by an understanding that most welfare recipients could in fact go to work immediately.

² All statistics on Wisconsin's welfare reform are from this source, an Overview of Research Related to Wisconsin Works (W-2), prepared at the Urban Institute for the Wisconsin Works Management and Evaluation Project (MEP) and the Wisconsin Department of Workforce Development (DWD).

Oregon's programmes facilitated work through subsidizing jobs paid at minimum wage or higher. Employers paid minimum wage — or what they pay similar workers — and the state subsidized this, guaranteeing more income than from a welfare cheque.

Incentives were created for employers: they were subsidized at an amount equal to the minimum wage plus FICA taxes, unemployment insurance and workers compensation employment premiums. If the employer did not offer an unsubsidized job in four months, the claimant was offered 8 hours of job-search time every week for the next two months, and permitted to switch to another subsidized job if no unsubsidized one became available.

Although the idea of subsidizing wages seems likely to depress wages all round (and upset unions), in Oregon's case only 20 percent of claimants in pilots of the scheme needed any subsidies, and four fifths of them were in unsubsidized work within 14 months (Matthews and Becker 1997). There were some educational opportunities on offer, but the emphasis was on on-the-job learning.

The effect of mandating work was that 30 percent of claimants simply left the welfare system. In this way compulsory work requirements weed out fraudulent claims. The concurrent savings can be used to target welfare to those hardest to help.

New York City

The stated goal of New York's welfare reform programme was to make work central to the lives of every able-bodied New Yorker getting public assistance. Their approach was again different. In a traditionally liberal (in the American sense) political environment, with a large urban population including many disadvantaged and multi-generational recipients, reform was going to be a hard task.

New York State devolved much welfare provision and administration to lower levels of government — New York City and the surrounding counties. A private company, America Works, runs the New York City programme. They are paid the majority of their fee for each claimant only after the claimant has been in full-time work for three months. They focus on work experience, rather than putting people in unsubsidized or subsidized work, via a four step process: orientation, training, trial work and then recruitment. This has the advantage of not undercutting wages (providing of course that employers do not use work experience people for work they would normally pay staff to do). They mandated 20 hours of work and 15 hours of participation in skills training or development.

The advantage of this is that in areas with high unemployment it can be easier to find work experience positions than jobs, and so work experience programmes can be implemented quickly on a large scale. The unions nonetheless feared job displacement, but New York found that the number of slots needed was small, as there was a high turnover, with individuals realizing they could move into unsubsidized employment rapidly. Others ceased participating altogether (perhaps incurring sanctions).

“After initial reluctance to participate in providing work experience positions, partly out of concerns about additional costs of supervision and the effects on the regular workforce, City agencies incorporated participants

into their workforce without undue disruption, and gradually came to rely on those workers as an important resource in providing improved services to the city.”

From 1994 to 2001, the average monthly caseload declined from 1,264,071 to 594,487, a reduction of 53 percent in only six years. The reduction since the implementation of welfare reform is unprecedented, far surpassing previous declines in both the amount and the speed of the caseload reduction (Wing & Doar 2002).

PRWORA mandates that states continue to spend state dollars at not less than 75 percent of the level of state spending in 1994 on the programmes replaced by TANF. As a result of caseload decline, New York has been able to continue to maintain benefit levels and commit an increasing amount of state money for programmes to help low-income parents obtain and retain employment and remain financially independent (Wing & Doar 2002). America Works is capable of training workers for less than comparable state funded programmes (NCPA 2000).

Other policy changes included: requiring teenage mothers receiving welfare to attend school or work and to live with their parents; few child-related exemptions from work requirements; and increased funding for teen pregnancy prevention programmes, including abstinence education and time limits on financial aid.

The result of this combination of policies was a decline in the number of lone parents (Wing & Doar 2002). This is unsurprising: no one wants to have children they cannot provide for and, without the state stepping in, the incentive is for people to wait and have children they can support themselves, or with their partner. As a result of single mothers going to work child poverty declined in an unprecedented way.

What did not work?

Imposing time limits made sense from the perspective of creating a limit to the time any person cannot work for (this did not apply to the disabled or those over 65). However, in practice it was hard to marry this with talk of rights and responsibilities. If one side is keeping up with their responsibilities after five years: why should their right to support expire? A serious problem was diagnosed when surveys showed many claimants did not know how much of their entitlement they had left until they were cut off. On the other hand, if they were ‘topped-up’ this would create a moral hazard. By 1999 the PWORWA had been amended such that time limits were mandated for fewer types of support.

Other critics (notably Oliphant 2000) point out that as many former recipients are in low wage jobs, they qualify for childcare, Medicaid and other forms of supplementary support, which could be described as a ‘working’ welfare state. This is not ideal, but it remains preferable to a cycle of total dependency.

The greatest problem was that certain barriers to work were insufficiently addressed, particularly illiteracy, lack of education, health problems, and drug or alcohol dependency. The PWRORA offered no clear policy approaches to help overcome such barriers but yet these claimants were often faced set time limits on assistance.

Chapter 3: Why British Welfare Isn't Working

“There are over three million people of working age who have been on benefit for over a year, many on incapacity benefits. There are concentrations of worklessness in our cities, often close to thriving labour markets. There are nearly three million households in which no one is working, and 1.7 million children growing up in such families.”

(DWP Green Paper 2007)

The benefit system in the UK is complex and changing. This chapter provides an overview of the current state of play and identifies what works, what does not and where improvements are needed.

Benefits take many forms, but all are financial transfers to those who meet certain criteria. They are directed at certain target groups: the unemployed, parents, the disabled and the bereaved. They make up for loss of income or added expenditure as a result of falling into such a group. Levels differ depending on why the claimant is not employed and factor in national insurance contributions and the length of time out of work. Many are available only to those with low incomes; these are clearly means-related.

How does the system work? Who administers it and how?

The Department of Work and Pensions (DWP) manages the majority of benefits and claimants via Jobcentre Plus, and all provision occurs through these offices. Local Councils deal with Housing Benefit and Council Tax Benefit. Tax Credits are governed by the Treasury and administered through HM Revenue and Customs. All have their own systems for updating claimant's files and dealing with complaints.

Details of available benefits and their uptake

The benefits system is very complicated for administrators and claimants alike (for more detail see Citizens Advice Bureau 2007). The overall system has become astonishingly complex. There are at least 51 separate benefits compared to 27 in 1979 and only seven in 1948. To get a sense of the scale and complexity of the system the table below details the qualifying requirements for the main benefits and the numbers of recipients in 2002 and 2007.

Name of Benefit	How to Qualify	Number of Recipients May 2002³	Number of Recipients Feb 2007
Attendance Allowance	65 years old or over, need personal care due to physical or mental disability.	1,504,440	1,674,080 ⁴
Child Benefit	Anyone bringing up a child or young person. It is not affected by income or savings so most people who are bringing up a child or young person qualify for it.	7,296,700 families receiving CB, with 13,154,300 children for whom payments were being claimed.	7,378,400 families receiving CB, with 12,997,300 children for whom payments were being claimed.
Council Tax Benefit	Disabled people – if they need a large home get reduction to next lowest Tax Band. If already in the lowest Band they get an outright reduction.	4,601,700	5,096,600
Disability Living Allowance	Under 65 years old, need help with personal care. Can claim whether or not one works. Not usually affected by any savings or income the claimant may have. Receipt may increase levels of other benefits too.	2,443,810	2,883,070 ⁵
Housing Benefits	<p>Housing Benefit is paid by local councils, regardless of qualification for other benefits, if the claimant has low pay and pays rent. It does not matter whether the claimant works. Only one claim per household. Rate depends on incomes, size of house and a variety of other factors.</p> <p>Local Housing Allowance is help towards rent, paid by local councils and is not conditional on any other benefits (currently a pilot scheme in a small number of areas).</p>	3,812,600	4,039,700 ⁶
Incapacity Benefit	Weekly benefit for those who cannot work while under the state pension age. Must have been ill for 4 days, have paid NI contributions (unless under 25) and be receiving medical treatment.	2,471,140	2,433,400 ⁷
Income Support	Financial help for people between 16 and 60 who are on a low income, who are not in full-time paid work, and who are in one of the groups of people who can claim Income Support (not for the unemployed).	3,976,300	2,134,170

³ Unless a later figure available

⁴ Over half of claimants now claim at the higher rate, in contrast to 2002

⁵ A small percentage do not receive the benefit due to changes in circumstances

⁶ Figures after 2003 may reflect changes to tax and pension credits

⁷ Roughly half of claimants have been on benefits for over 5 years

Jobseeker's Allowance	For people who are available for and actively seeking work. To get the benefit, claimant will need to discuss, usually every 2 weeks, when they are available for work and what they are doing to find a job. If claimant has paid enough NI contributions in the past, they may be able to get contribution-based Jobseeker's Allowance. If income and savings are below a certain level, they may be able to claim income-based Jobseeker's Allowance.	906,060	936,300
Pension Credit	An entitlement for people aged 60 or over living in Great Britain. Guarantees everyone aged 60 and over an income of at least: £119.05 a week (if single) or £181.70 a week (if claimant has a partner).	2,084,700 (Nov 03)	2,730,940
State Pension	State Pension is paid to entitled people who have reached the State Pension age. It is based on National Insurance (NI) contributions and it is made up of different elements.	11,144,670	11,785,670
Tax Credits	<p>Child Tax Credit: Nine out of ten families with children qualify. How much you get depends on how many children or qualifying young people live with the claimant, if any child or young person is disabled, and the claimant's income. Guardians as well as parents can claim.</p> <p>Working Tax Credit: Can claim if in work but on low pay, to top up earnings. Can claim whether employed or self-employed and may qualify for extra if: a parent or responsible for one or more children or young people, paying for childcare, disabled or aged over 49.</p>	5.5 million families receiving tax credits (Apr 2003)	6.0 million families receiving tax credits (Apr 2007)

Other entitlements include bereavement benefits, the Carers Allowance, the Child Maintenance Bonus, the Christmas Bonus, maternity grants, state funded care homes, free school meals, the Financial Assistance Scheme (for people who lost their private pensions), the Warm Front Scheme, the Growth Fund (affordable loans) and all 5 types of the New Deal.

Problem 1: The system is too complex

A brief perusal of the above list proves the overwhelming complexity of the system. This is a very serious flaw. Not only does it make effective delivery very difficult, it also obscures many of the incentives the system is supposed to create. Some providers, as well as many claimants, for example, are unaware they may still qualify for housing and council tax benefit after moving into work (Citizens Advice Bureau 2007). As a result, the perceived advantages of entering the workforce are

lower than the actual financial reward. Thus, even though attempts have been made since 1996 to reintroduce conditionality and toughen up sanctions, the effects of these measures are dampened due to the structure of the system.

Some of the government's measures will help. Expecting lone parents to work when their children are 12 rather than 16 is a welcome step. As is the conversion of Unemployment Benefit to Jobseekers Allowance⁸ and Incapacity Benefit into the Employment and Support Allowance (ESA), a change which will expect more of, and offer more to, people with disabilities.⁹

In the short term of course, any changes will exacerbate this problem: people do not understand what they are and are not entitled to. Different benefits have different criteria, but any change in relation to one set can have knock-on effects in how much you can claim for other benefits. These are often administered by different government departments and claimants must notify them separately. Should any benefits be over or under-paid, government collection or compensation needs to occur. This is complicated and the system has serious backlogs. It also makes it very difficult for people to manage their finances and pay any debts they might have.

This confusion acts as a disincentive to work (as this would force a claimant to engage in these rounds of paperwork) and wastes employer and claimant time. Needless to say, this is often hardest for the old, disabled and illiterate claimants who may find the system utterly impenetrable.

Tax credits alone have cost the UK more than £1 billion in fraud this year (Russell 2007). An advertising campaign designed to encourage people to stop benefit fraud actually raised the numbers of fraudulent claims, as people realised how easy it was to do (Carswell 2007). Investigating fraud is very expensive, requiring huge deployment of resources. For example, in order to see if a couple claiming to live apart (and so receiving more benefits) in fact do so, the DWP will have people literally staking out their houses (Bartholomew 2006). Thousands of man-hours are billed to the taxpayer in this way. The clear implication of this is that the sanctions meant to tackle benefit fraud are insufficiently steep.

Problem 2: Benefits are too high and available for too long, with insufficient conditionality

These three facts combine to make benefits a serious barrier to work. In some parts of the country benefit levels are high enough to live a relatively comfortable existence. In contrast, in more costly areas, they barely cover living expenses. Smith (2007) argues that, as a result, more people work in the South and in doing so are subsidizing those incentivised to claim benefits in the North. This is not just unfair; it also stifles economic dynamism in areas of disproportionately high provision.

Levels of benefits and their tapers on entering work need serious reform: "despite a 400 per cent increase in expenditure since 1997, the UK has the worst poverty trap in the OECD, with marginal tax rates for some part-time workers at between 80 and 90 per cent" (Boys Smith 2007). A study by the Centre for Analysis of Social Policy at

⁸ The JSA mandates the increased use of fixed penalties and places a requirement on recipients to be both 'actively seeking' work and, to be available for a minimum of 40 hours a week.

⁹ There will be more work-related requirements, put into an Action Plan created with a personal adviser, and sanctions will fall on those who fail to keep to their side of the Action Plan

the University of Bath found that the impact of working longer for low pay, and/or of partners entering work, is seriously inhibited by high marginal tax rates: which are between 96 and 70 pence for every pound earned (Evans & Scarborough 2006). There is insufficient emphasis on work. The government's New Deal programmes are targeted at five different groups: the young, lone parents, the long-term unemployed, disabled people and those over 50. They focus too much on training. The programme has succeeded in finding real employment for only one in five of the lone parents with whom it has dealt (Daley 2007) and only a third of New Deal applicants have been placed in jobs lasting more than 13 weeks (Smith 2007).

The effect of welfare provision has been that when asked, 'young people...believed that they should be able to choose what work they did and should not be expected to take short term 'agency work' or any 'crap' job'; this study concluded that there was little evidence...that the long-term unemployed were being forced to take jobs' (Centre for Social Justice 2007:33).

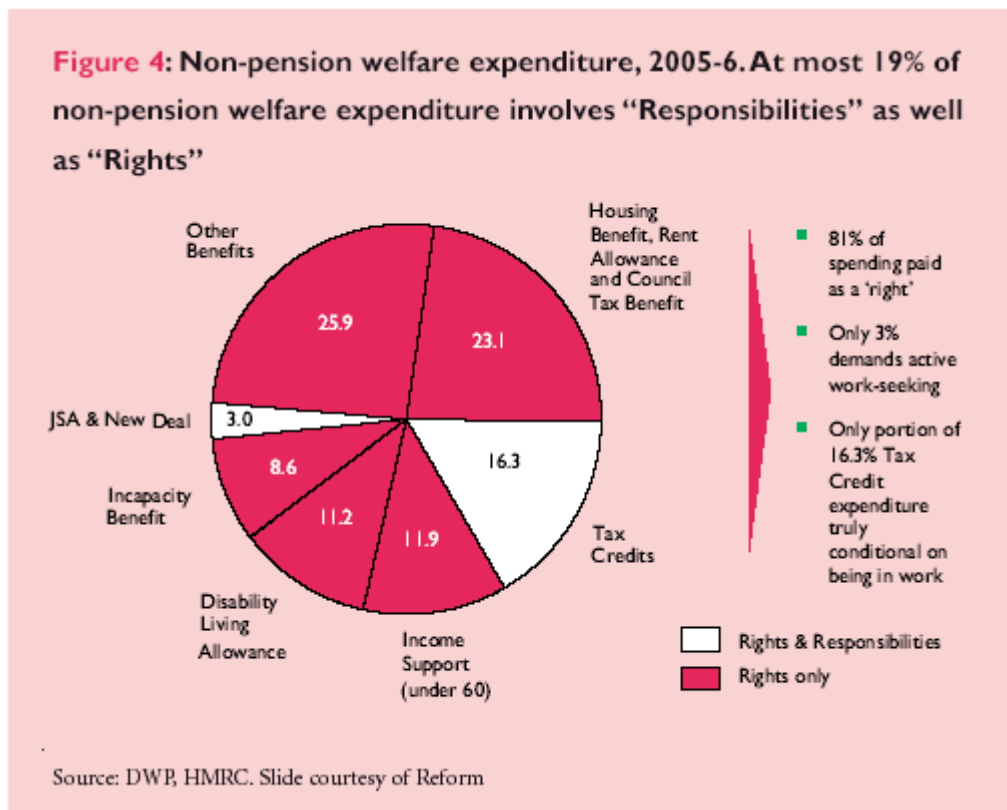


Chart from CSJ 2007: 32

Tax Credits were meant to encourage work and there is some evidence that they are working in the U.S. The problem with their introduction in the UK is that they are too widely available, often paid to people out of work as well as workers and also available to many high earners.

Problem 3: Benefits act as a disincentive to saving

The availability of relatively high levels of benefits for a whole lifetime acts as a disincentive to save. Knowing that unemployment support and healthcare support as well as the state pension are available to all creates a culture of short-term

Successful states backed this up with tough sanctions for non-participation. Rector and Youssef (1999) found this and the work-first approach were the two most important attributes of successful welfare reform. States with the toughest sanctions achieved 25 percent more caseload reductions than those with weak sanctions.

These states used private sector services whenever possible, emphasising personal responsibility and work (or school for younger recipients). Initially, it was mostly child-support collection and job placement that were put out to tender. Some large private firms such as Lockheed Martin and Anderson Consulting have bid for contracts to distribute and administer welfare benefits.

Effective policies provided a lot of support for mothers, including childcare. Nonetheless they were also tough on underage mothers, only supporting those who lived with adults and went to school. Some states went as far as to impose a 'family cap', limiting additional benefits for any more than one child.

Successful states 'diverted' potential claimants from making any claims. Many did not allow any payment for up to a month after the initial claim, mandating job search for this time. Some offered cheap loans to cover jobseekers needs during the intervening time, and one-off lump sums for contingencies like car repairs, to keep these workers in their original jobs. These, however, were discounted from any future benefit receipt.

Many of these reforms were expensive, but the cost saving in terms of declining numbers of caseloads generally offset this increased expenditure. By focusing on work first, and supporting genuine job seekers with childcare, healthcare and transportation reforms states were able to remove the stumbling blocks to self-sufficiency.

Three examples of successful approaches

Wisconsin

Wisconsin was the first state to pioneer far-reaching welfare reform. In 1987 Governor Tommy Thompson was elected specifically on a welfare reform ticket. Welfare rolls declined by over a half and fell even during the economic slowdown of 1990-1993.

The underlying concept of the Wisconsin reforms is that "everyone is capable of doing something". This created a work-first approach to dealing with claimants. Wisconsin Works (previously called Work not Welfare) was a four-part plan for moving recipients into work:

- Those job-ready immediately were placed in an appropriate, unsubsidized, job in the private sector; applicants had to sign a contract pledging to start work or training within 30 days.
- Those without a work history were placed in subsidized 'trial' jobs for a limited time. The employer subsidy was designed to help cover training costs.
- Those with few skills and poor work habits were placed in community service jobs for six to nine months to learn necessary skills and work habits before being placed in the private sector.

financial thinking, this not only disincentives saving, but it makes entering debt seem less daunting.

Problem 4: The system needs to offer personal support

Most recipients get a standard package of support. Indeed, this is supposed to be the very argument for government provision — equality of treatment. The problem is that claimants in similar ‘bands’ can in fact have very different needs. As Stanley (2007) says “you get the same kind of employment support the first time you claim jobseekers allowance as the fifth time”, and the “same courses are on offer if you've been on income support for six months or six years.”

There is also a tendency for support to stop once the claimant enters work. This results in many claimants who enter work leaving it relatively quickly. A DWP Report on Jobseeker's Allowance claimants found that most clients spending a long time being supported or trained on government programmes were unlikely to find stable work; around 40 per cent reclaim Jobseekers Allowance within a year (DWP in Evans 2007).

Claimants need help navigating the complexity of marrying their own circumstances and requirements to those of the system. They would also benefit from support tailored to their own employment needs.

Problem 5: Child Support is a mess

Many children are growing up in poverty or in workless households (often both) and, collectively, children in the UK are owed over £200 million pounds from absentee parents (CSA 2007a). The Government's recent White Paper on reform of the Child Support Agency is bold, but does not go far enough.

The government is creating a new organisation, the Child Maintenance and Enforcement Commission (CSA 2007b). This will have responsibility for all aspects of child maintenance, including providing parents with information and guidance to help them make their own arrangements. The government proposes to lower the threshold where maintenance receipt affects levels of benefit entitlements, and plan to seriously tighten enforcement of payment — going as far as imposing a curfew on non-paying fathers. They are streamlining the process and, unless it would be unreasonable, they will mandate that both parents' names are always registered on a birth certificate. These are good steps, though some American states have gone further.

Problem 6: The expense to taxpayers

The current system is very expensive. UK spending on welfare (excluding pensions) was £79 billion in 2005–6, equivalent to 15 percent of total public spending. This is £6 billion more than on education and £47 billion more than on law and order (Smith 2007). The Freud Report (2007) alleges that the fiscal gain of a year-long move into

employment by a claimant on one of the three main benefits is substantial. He estimates the gross saving to the DWP of moving an average recipient of incapacity benefit into work to be £5,900, with wider exchequer gains (offsetting direct and indirect taxes paid with additional tax credits) raising this figure to £9,000. The equivalent figures for Jobseeker's Allowance are £4,100 and £8,100 respectively, and for lone parents the gross savings are £4,400, with no further Exchequer savings because the weight of extra childcare elements of the tax credit system balances other tax revenues. All of these figures can be multiplied to the extent that the person would not have otherwise worked for any number of years. As the Centre for Social Justice argues (2007), the real savings are far higher; one must add broader returns from reduced health expenditure, reduced crime, and increased consumer spending to reach a more realistic calculation of the savings from welfare reform.

Smith (2007) goes as far as to say that the New Deal costs more and achieves less than similar schemes, and points out that unemployment was actually falling more quickly before the New Deal was introduced. The cost of getting someone into work via the New Deal for Young People is about £3,500; outsourced schemes can achieve better outcomes for as little as £2,050 (Smith 2007).

Conclusion

These problems combine with the attitudes detailed in chapter one to create a system with very severe shortcomings, serving neither the interests of those it is supposed to help, nor those of administrators or the taxpayer. So how can we tackle these problems with the tools provided by the American experience?

Chapter 4: An outline for UK policy

The American experience has some valuable lessons for UK welfare reform. Having established what we need to fix, and seen how others have done so, this chapter makes a series of policy recommendations. The next chapter draws up a suggested plan for their implementation.

First, what do we want a better welfare system to embody?

- In an ideal world, basic income from work would be of a level to replace social security benefits. The system must be structured to encourage everyone as near as possible to this outcome, removing any sense of entitlement while treating all with dignity.
- The key to well-functioning welfare provision is simplicity. It must be easy to use, and the rights and responsibilities of government and beneficiaries need to be clear for incentives to translate well into behaviour.
- It must appeal to voters. In order for this to happen the government will need to engage in dialogue and leadership with voters.
- The route to reform must be feasible but not unambitious. This means that they need to be practicable with a balance between visionary reforms and realistic implementation.
- Reform must be cost-effective, but initial outlay may be justifiable in return for longer term savings.
- Lastly, but most importantly, the welfare system must tackle the major problems in welfare policy today while providing a safety net worthy of our society.

The simplest solution to benefit provision is the negative income tax, as advocated by Milton and Rose Friedman in *Free to Choose* (1980). This was tested in the U.S. in the 1970s but was found to be very hard to implement such that the marginal rate of taxation, at the cut off point where claimants stopped qualifying, did not act as a disincentive to work. It also failed to account for the needs of certain groups, particularly the disabled.

In contrast the U.S. model of the 1990s tackled the main problem of our own welfare system: it pushed people into paid work. Blank (2002) shows how the most effective policies were the “financial incentive programmes” which both provided financial incentives to work while also mandating strong work efforts. These had “markedly different results from previous negative income tax experiments”. The American experience has shown that claimants need a push, but they also need support. The U.S. is now reaping the financial and social rewards of these policies.

The current UK government has taken some steps in sensible directions.

- More work conditions have been added to certain benefits, particularly the Jobseekers Allowance, and soon the ESA.
- One of the main advantages of the current system is the one-stop shops: the “Job Centre Plus”. This put knowledge about all aspects of benefits in one place and “ensures that everyone who applies for benefit has a discussion about returning to work, and professional support and advice is available” (DWP 2007).
- The government is currently piloting the ‘City Strategy’. This aims to tackle worklessness in the most disadvantaged urban communities across the UK. Essentially this is a test, devolving more decision-making power to local partners who decide on shared priorities and can try out new ideas and services. Specifically, the City Strategy aims to test how best to combine the work of government agencies, local government and the private and voluntary sectors in a partnership to provide the support unemployed people need to find and progress in work
- From next year, lone mothers will be required to seek work when their youngest child reaches 12 instead of the current age of 16. Non-working lone parents will also lose their automatic right to income support, instead receiving Jobseeker's Allowance, which requires claimants to actively seek work.
- The Childcare Act (2006) makes the welcome step of putting local authorities in charge of organizing childcare provision. It has good ambitions, aiming to increase the stock of childcare places to meet demand, reducing turnover where possible; to expand provision throughout the working day, and to support local targeting to meet local needs. Parents have also been given substantial help with the cost of their childcare with the introduction of the Working Families Tax Credit, which includes a childcare tax credit element. (Although as with other tax credits, it would make more sense to vary the personal allowance according to circumstance than to tax and subsequently credit these funds. It would also be more sensible to target help with childcare solely to those who cannot afford to pay.)

Thus there have been a few positive steps, but even these successes may be possible to achieve in different ways, that better facilitate our aim of self-dependency for all. The government is not yet proposing the right solutions to tackle the problems efficiently.

This year's Green Paper has a number of suggestions

Some of these suggestions are actually good. One of these is the proposal to roll out “Pathways to Work” as a nationwide programme. These are Incapacity Benefit reform pilots, aimed at improving opportunities for people on incapacity benefit. Participants engage in a number of work focused interviews and a personal capability assessment. If deemed capable of entering the workforce, support is given to manage their condition and a “Return to Work Credit” is available to those who work more than 16 hours a week but earn less than £15,000 a year (Blyth 2007). Among those making an enquiry to their local Jobcentre Plus about claiming incapacity benefits, the policy increased the percentage working in a particular week

around 10.5 months later by an estimated 9.4 percentage points from a base of just 22.5 percent (Adam et al. 2006). The same study found that average net monthly earnings across all individuals (regardless of whether or not they were in paid employment) are found to be increased by £72 from a base of £172.

Another welcome suggestion is the greater use of expertise across the private, public and third sectors at a national and local level, allowing Jobcentre Plus to focus on where it adds the greatest value. Concrete proposals to incorporate this in legislation are pending.

Other suggestions are less welcome; for example, the continuation and expansion of the New Deal and the emphasis on detailed skills assessments.

Recommendations for the UK in light of U.S. welfare reform

1) De-centralize Administration and Provision

One of the chief experiments of the U.S. reforms was the devolution of welfare administration to local agencies and, in many cases, the private sector. Similar steps ought to be taken in the UK.

Parliament ought to determine minimum levels of provision and direct the basic framework. Provision would be paid for from national taxation, but would be given to local authorities in a similar manner to the U.S. 'Block Grant'.

To ease communication and create a more coherent system, welfare provision needs to be organised from one government department, with relations with local authorities and all money for all types of welfare provision being organised in one block.

In the U.S. the severely disabled are supported from federal funds, outside the block grant. Conditions or qualifying for these entitlements are very tight, and all other people suffering from less serious impairment are expected to fall under their local authority's remit and be supported into work. This approach makes sense as the block grants are mandated for 'work-first' schemes. A similar approach would make sense in UK, providing that private sector provision of services was still encouraged.

Central government also ought to raise the minimum tax threshold to stop anyone below £12,000 paying taxes. This will reduce the amount of payments needed at the personal level. (For more detail on this proposal see Teather 2005 and Pirie 2007).

Management of provision ought to occur at the local government level. The American experience shows how different areas need different types of targets. The City Strategy shows the government is already flirting with aspects of this idea. Local governments should have the discretion to scrap, merge and create benefits as they see fit. Best practice would spread between different areas: as Hannan and Carswell (2007) suggest, councillors would start speaking of "adopting the Surrey model" or "introducing Essex-style reforms".

Localizing provision also has moral benefits. Rather than a seemingly abstract government providing welfare, localism encourages claimants to be aware of who's

money they are living off, and encourages taxpayers to understand the nature of responsibility to the genuinely disadvantaged (Hannan & Carswell 2007).

Local actors would also deliver the services. Best practice would spread and non-state actors – charities, businesses and religious groups, are in general more likely to involve themselves in locally organised schemes.

A good start would be the privatization of the Jobcentre Plus offices. These could then compete with other private bodies for government welfare provision contracts. Whether or not this occurs, delivery contracts ought to be made available to private companies. Wisconsin's technique of putting out calls for tender while giving government entities the first bid would respond to the preferences of government employees while introducing more competition and innovation into welfare provision.

These agencies would be paid for results and the government would set targets for performance. These would be tightened over time as fewer recipients remained, and sanctions should be strong enough to work as a deterrent. Incentives would be structured to reward agencies for getting people into work for a set period of time, ensuring providers offered support beyond the initial securing of a job. Private providers already provide comprehensive support to jobseekers (everything from tailored job referral to help with CVs and cover letters and mock interviews): their skills would benefit the harder to reach. Local staff will come to know the claimants personally and be in a better situation to offer help to the needy and sort out the deserving from those who are trying to 'play' the system.

Local authorities and private providers would work in dialogue: both would prefer simple benefit structures to cut down on administration costs. To ease the interaction between claimants and providers communication must be simplified. For example providers could have bank-style personal summary pages, available on the internet or in their offices, which explain which benefits are being received, when they are due and allow claimants to note any changes of circumstances easily.

2) Allow flexibility in levels of benefits

Minimum levels of provision ought to be flexible across the country, related to the cost of living. A recent study (Smith 2007) found that "Britain's onerous and interventionist tax and benefit systems are seriously unjust to the parts of our nation with a high marginal product in cash terms and over transfer resources to the cheaper and less productive areas". This dynamic may have reached the point where it damages local employment (Smith 2007).

There is, of course, some concern that this would lead to benefit tourism, with those wishing to live off the state moving to areas with higher benefit levels. However, this would not increase their standard of living as housing and other goods and services would cost more. It is also unlikely as people are in fact not especially mobile, being tied to their families and communities. Similar measures already exist (such as higher salaries for public sector workers in London) and have not caused widespread displacement. To the extent some movement might occur, it would act as incentive to keep levels of support comparatively low.

Councils will almost certainly wish to re-taper the schedules of many benefits and their interaction to lower the current marginal tax rates, which hinder the unemployed from entering the workforce. This ought to be done as soon as possible, perhaps at a national level, and then incorporated into the eventual far-reaching reform package.

3) Local welfare programmes ought to learn from the U.S. experience.

All unemployed, working-age people not meeting the strict requirements for national disability support ought to be treated as jobseekers and face immediate work requirements. The U.S. experience shows that programmes based on getting people into work, either through subsidized work or compulsory work experience, were more successful than those based on training and skills. Many states made receipt of benefits conditional on accepting jobs.

Should work not be available for a jobseeker in the private sector, then community service should be mandatory for receipt of benefits, ideally such that people learn skills they could then transfer to the workplace (e.g. painting, gardening, cleaning, building). Pure training ought to be a last resort, except for those facing the most severe barriers to work — those with serious literacy problems or alcohol/drug dependency. These individuals need to be directed to teaching or treatment programmes, before re-assessment to become a jobseeker.

Many states created incentives for employers to hire the unemployed, and supported these workers for some time after they entered employment. Programmes ought to support jobseekers for a few months after they enter the work force and targets and incentives to providers ought to reflect this reality (perhaps in the manner of the earlier mentioned America Works programme in New York City).

Almost all states used the welfare system to make work pay. Welfare provision ought to insist on work from those who can work, but ought not to condemn any to poverty.

If work does not pay sufficiently support should be available, conditional on remaining in employment. Such top-up provisions help prevent people choosing to work in the black economy in order to make ends meet.

The welfare state should not incentivise anyone to have a child they cannot support. At the same time, any fair system will provide a solid start for poor children. A new welfare system for the UK ought to remove the incentive to have children without adequate savings or when school age, by only providing benefits to mothers under 16 who are attending school and living with an adult this trend may slow or reverse as it did in the US.

Good, local and affordable childcare provision is essential for getting mothers into the workforce. Unemployed parents ought to be a priority for getting into or back to work. It is also important to impress upon parents their responsibilities with very tough sanctions for non-payment of child support. A successful U.S. policy has been the mandatory naming of fathers (already coming into force in the UK). Some states go as far as to mandate a legal document to be signed at birth by unwed parents enforcing child support by law, with serious sanctions for non-payment (including jail time). This is much like what would be required after any divorce.

All new claimants ought to be diverted from starting to claim benefits. The U.S. practice of diverting claimants with time barriers to entry and the offer of cheap (but repayable) loans should be widely emulated.

Tough sanctions will be essential to the enactment of any comprehensive welfare reform. In order to ensure compliance many American states used severe sanctions, such as a *pro rata* reduction for any absence from mandated work without good cause. As noted earlier this, combined with a work-first approach, was essential to reducing caseloads fast by weeding out those who did not genuinely need state support.

Chapter 5: Guidelines for Implementation

*All radical welfare reform schemes have three basic parts that are politically sensitive to a high degree. The first is the basic benefit level provided, for example, to a family of four on welfare. The second is the degree to which the programme affects the incentive of a person on welfare to find work or to earn more. The third is the additional cost to the taxpayers ... To become a political reality the plan must provide a decent level of support for those on welfare, it must contain strong incentives to work, and it must have a reasonable cost. **And it must do all three at the same time.***

(Anderson in Friedman 1980:125)

It is the contention of this paper that recommendations for the UK based on the successes of the U.S. experience do in fact meet all three requirements.

How might we implement these recommendations?

A first step will involve changing expectations. Programmes must be seen as tough, and rights and responsibilities of all parties must be clearly explained. The change from a passive to active model will clearly anger some recipients and so politicians and providers will need to tread carefully yet firmly.

Another lesson from the American experience may well be useful here. By 1996, 45 states had waivers, hence when the government passed the PWORA many states had already made serious progress. Some waivers were limited in scope to in-state pilot programmes, while others were state-wide. Their successes helped silence critics of the more radical federal reforms and were a major reason why policy makers supported the work-orientated welfare reform of the 1990s (Blank 2002).

The second lesson here is thus to devolve power slowly. Here in the UK the 'City Strategy' pathfinders scheme provides an inkling of a willingness to devolve some central decision-making power, and the government lists devolution and local empowerment as goals in this summer's Green Paper. These could be expanded to more parts of the country and deepened, giving local authorities more latitude to reform local welfare provision. Some may argue that local authorities in the UK have much less experience with management than their American counterparts, so pilot schemes will be necessary to prove their competence and show where any extra support might be needed. The best way to ensure good management and administration is to change slowly and ensure that the front line employees (those dealing with claimants day-to-day) understand the goals as well as the means of the project.

The third lesson is the need for some level of political consensus, and politicians with the courage to do what needs to be done. To achieve far reaching reform politicians of all stripes and at all levels of government (including local councils) need to be committed to the policies, and experimentation will help convince the public of the merits of this approach. The targets and priorities set at the parliamentary level ought to be ambitious and the government will need to enter into debate with other parties and stakeholders to reach agreement on what the

priorities ought to be. The lessons of the U.S. experience clearly show that these ought to be the centrality of work and the emphasis on self-sufficiency. This should not be a hard sell; in a recent poll 86 per cent of people agreed that “the benefits system should be a ‘something for something’ system. If people receive benefits it is reasonable to require them to seek work” (Center for Social Justice 2007).

The debate over the extent to which ‘family’ policy considerations ought to be incorporated is ongoing. The evidence in favour of decreasing the incentives to have children that parents cannot support is persuasive. Removing these incentives (providing accommodation and benefits without work requirements) has had good results in many U.S. states. Here, 71 per cent of people polled agreed that “It is reasonable to expect that lone parents work part-time once their youngest child is 5 years old, and full-time once their youngest child is in secondary school” (Center for Social Justice 2007). It must be clear to all that the main goal of these proposals is to encourage self-dependency, which is worthy as a goal in itself and for the side-effects that work habits create for society in general, encouraging the best environment for future generations.

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