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**Social Exclusion**

# Welfare to work and the organisation of opportunity

Lessons from abroad

Martin Evans



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## Centre for Analysis of Social Exclusion

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## List of abbreviations

AAH	Allocation Adulte Handicapé
AB	Bundesanstalt für Arbeit
ABM	abbreviated from Arbeitsbeschaffungsmassnahmen
ABV	Arbeidsvoorziening
ABW	Algemene Bijstandswet
AFDC	Aid for Dependent Families with Children
AFG	Arbeitsfoerderungsgesetz
ALG	Arbeitslosengeld
ALH	Arbeitslosenhilfe
ANPE	Agence National pour Emploi
API	Allocation Parent Isolé
ASS	Allocation de Solidarité Spécifique
ASSEDIC	Associations pour l'Emploi dans les Industries
AW	America Works
AUD	Allocation Unique Dégressive
BA	Bundesanstalt für Arbeit
BA	Benefits Agency
BVs	Berifsverenigingen
CCTC	Child Care Tax Credit
CDA	Christian Democrat Party (Netherlands)
CDI	Conseil Départemental d'Insertion
CES	Contrats Emploi Solidarité
CETA	Comprehensive Employment and Training Act
CHIP	Child Health Insurance Programme
CLI	Commissions Locales d'Insertion
CNAF	Caisse Nationale d'Allocations Familiales
CNAM	Caisse Nationale Assurance Maladie
CSG	Contribution Sociale Généralisée
CWI	Centre for Work and Income
DfEE	Department for Education and Employment
DHHS	Department of Health and Human Services
DSS	Department of Social Security
EITC	Earned Income Tax Credit
ES	Employment Service
FEP	Financial and Employment Planner
FPL	Federal Poverty Line
GA	General Assistance
GAK	Gemeenschappelijk Administratiekantoor
GED	General Equivalency Diploma
HLU	Hilfe zum Lebensunterhalt
HRA	Human Resources Administration
IOAW/IOAZ	Inkomensvoorziening Oudere en Gedeeltelijk Arbeidsongeschikte Werkloze Werknemers/ Gewezen Zelfstandigen, respectively
JSA	Jobseekers' Allowance
LIWI	Landelijk Instituut voor Werk en Inkomen

NDLTU	New Deal for Long-term Unemployed
NDYP	New Deal for Young People
NDLP	New Deal for Lone Parents
NEWWS	National Evaluation of Welfare to Work Strategies
NGO	non-governmental association
NYC	New York City
PACT	Parks Career Training Program
PES	public employment service
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act
PvdA	Dutch Labour Party
RMI	Revenu Minimum d'Insertion
RWW	Rijksgroepsregeling Werkloze Werknemers
SMIC	minimum wage (France)
SPAK	Social security taxes on low-paid employment (Netherlands)
SSA	Social Security Administration
SSI	Supplementary Security Income
SZW	Ministerie van Sociale Zaken en Werkgeledenheid (Netherlands)
TANF	Temporary Assistance for Needy Families
UI	Unemployment Insurance
UWV	Uitvoeringsorgaan Werknemerverzekeringen
WAO	Wet op de Arbeidsongeschiktheidsverzekering
WEP	Work Experience Program
WFTC	Working Families Tax Credit
WOTC	Work Opportunity Tax Credit
WTWTC	Welfare to Work Tax Credit
WW	Werkloosheidswet

## Introduction

Welfare to work policy is central to British reforms of its welfare state and social security system. We are not alone in our desire to assist unemployed and other claimants to find and retain work. It is therefore important to be able to look to other countries and consider lessons that could be drawn. Learning from abroad is a difficult and challenging exercise. While it is tempting to try and take the ‘best’ aspects of foreign policies and to bring them home, it is often dangerous to do so without a real appreciation of their context – not only their macro-economic and ideological foundations – but also their organisational basis. The core task of welfare to work programmes is to enable and encourage non-employed claimants of cash transfer programmes to work or to better prepare them for employment. The core of this report is a comparison of British, American, French, German and Dutch practices.

The word ‘welfare’ trips much more easily off the tongue than ‘non-employed claimants of cash transfer programmes’ and the phrase ‘welfare to work’ has become shorthand for a wide variety of approaches and schemes. It is often the case that a wider usage of a simple phrase obscures rather than clarifies essential differences in underlying meaning. The phrase ‘welfare to work’ is an example of this process. Britain has imported the phrase from the USA and, alongside other terms such as ‘workfare’ and ‘making work pay’, it has entered the policy-making vocabulary without a thorough and ongoing analysis of how far the underlying assumptions of the American phrase are appropriate. For instance, the US word ‘welfare’ describes a particular form of cash assistance for a very narrow target population and yet we apply it across the board. British usage hides the fact that, if we now apply our conception of ‘welfare’ abroad, it will cut across different schemes and target populations in different countries in ways that do not make sense to each particular national setting. Indeed, it would not even be valid when applied in the USA – its original home.

The difference between language and actual policy on the ground is a real problem for comparison and policy learning. A major theme of this report is the recognition that claimant populations are often served by several sets of policy makers and providers, and sorted between them. There may be more than one provider of benefit income and then more again providing services and subsidies that can move claimants into work. Put simply, how policy actors define you influences the reality of each part of the phrase *welfare to work*. It defines you as a being in a target programme or as part of a target population – that

is, in the *welfare* part of the phrase – and also often determines what you get and from whom in order *to work*. It is these differences that I call the ‘the organisation of opportunity’.

This report approaches policy comparison by first describing the organisation of the cash transfers that make up ‘welfare’ in the British sense of the word – cash transfers to all of working age – and some of the policy assumptions that accompany them in Chapter 1. A discussion of activation programmes that aim to help transition into work is given in Chapter 2 and this is followed by a comparison of programmes that provide assistance in work in Chapter 3. This approach thus unpacks the often-rhetorical phrase *welfare to work* using a simple distinction of three elements:

- 1 *welfare*: a description of who is in the target group
- 2 *to*: a description of activation
- 3 *work*: a description of benefits and subsidies provided for employment, and of the provision of work and work experience programmes.

Chapters 4 and 5 then discuss experience and best practice in implementation and co-ordination of welfare to work programmes, and draw conclusions and some potential policy lessons for Britain. Greater detail of the report’s underlying themes and questions is given below for readers who would like to dip selectively into the different sections of the report.

There are several important assumptions that readers should bear in mind. First, the report’s approach is based on a British point of view looking abroad. There is no attempt to view things from a context-free, academic observatory placed in orbit above the mid-Atlantic. Second, the description of foreign policy practice is based on actual locations within each country because these other countries organise policy in more devolved ways and policies differ accordingly from place to place. The four foreign cities chosen were New York City, Paris (the north-western suburb of St Denis especially), Hamburg and Amsterdam. Evidence was collected from these sites through visits and interviews with policy actors at all levels of government, and with private and voluntary providers and academics. Research involved academic partners in each of the countries who all gave national overviews of policies and programmes and assisted greatly in setting up the ground-level research undertaken in each city in 1998.



The third assumption is that, while a wide spectrum of cash benefits for working-age people is covered in each country, specific early retirement schemes have been omitted. Such claimants and/or schemes may have subsequently been reassessed and greater encouragement to work advocated, but it is rare and most changes to these schemes reflect concern to reduce inflows rather than increase outflows into employment. However, early retirement is a slippery concept in practice and poor access to such specific schemes often influences the size and composition of other benefits where proxy early retirement may occur but under other benefit labels – such as long-term invalidity benefits in some countries.

Finally, discussion of evidence focuses rather more on the USA than on the other four countries. This priority reflects the current state of debate in Britain. We have heard much about ‘welfare reform’ in the USA and many of its advocates there are fairly zealous evangelists who cross the Atlantic with a simple rhetorical language that seems to strike a chord with many in New Labour. This is potentially dangerous because British policy is at a turning point. Our New Deals have been successful in the most part, but policy makers are keen to expand that success and bring claimant numbers down – especially for lone parents and sick and disabled people. Faced with the apparent ‘success’ of US policy, it is an important time to emphasise the differences in context and outline some of the negative American experiences.

## Main themes and questions

British policy on welfare to work is dominated by the way we define our claimants. There is a central strong and systematic administrative sorting mechanism that divides the non-working poor into groups – the unemployed, lone parents, sick and disabled people, carers and the partners of all these people. These labels reflect a complex system of rules and entitlements, and the demarcations of administrative responsibility between central government departments, between their executive agencies and even between central and local government. These divisions have been both undermined and continued by the New Deals. They have opened up access to active labour market policy for many that were previously excluded or ignored. However, resources have been allocated in a pattern that continues to exclude or ignore some of the most pressing needs of those who were previously excluded. This leads to two simple but important questions that lie at the heart of this report.

- 1 Where do we go from here?
- 2 What can we learn from abroad?

The report takes these two questions and puts them into a comparative context before describing and analysing some of the options that appear attractive (and less attractive) from the four countries.

Chapter 1 is entitled ‘Welfare and national policy maps’ and sets the context in which to understand the ‘who does what with whom’ questions. Britain is not alone in dividing up its non-working poor into different claimant groups administered by differing types and levels of government and independent policy actors. A prerequisite for policy learning is to understand ‘where foreign policy initiatives are coming from’. This means not only the country of origin but also the organisational interests that lie behind it and the claimant base it represents.

The central question addressed in Chapter 1 is thus:

- how does the British definition of the target population for welfare to work programmes compare with other countries?

Readers will find in Chapter 1 a country-by-country outline of the different benefits and administrative structures that match Britain’s concerns for a wide definition of a ‘welfare to work’ target group. Each country has a simplified policy map that shows the main benefits and actors and patterns of decentralisation. At the end of Chapter 1 is an overview that draws out some of the lessons from the different national policy descriptions.

Chapter 2 is entitled ‘Activation and economic insertion: welfare TO work’ and draws together current practices to help claimants make the transition into work. The approach taken in Chapter 2 is to bring together policies across the different claimant and organisational boundaries by looking at programmes that are:

- redefining the boundaries between claimant groups and providing co-ordinated administration of benefits and services
- altering entitlement to benefits: from terminating entitlement altogether, to making entitlement more conditional and increasing obligations to compulsory participation for those who are entitled
- changing the focus of work participation and training
- moving towards a more individual-centred approach
- using third-party intermediaries.

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At the end of Chapter 2, there is an overview that draws out the apparent important lessons from such approaches.

Chapter 3 is entitled ‘Welfare to WORK: making work pay, jobs and employment subsidies’ and describes various themes in in-work support. In a similar approach to Chapter 2, it focuses on common themes rather than individual programmes for particular claimant groups. These themes are:

- employer subsidies
- making work pay through minimum wages and benefit levels
- making work pay through in-work benefits to the low paid
- providing work.

Chapter 3 concludes with an overview of in-work support and apparent lessons for British practice.

Chapter 4, ‘Best practice and lessons for British policy’ brings together evidence from the USA about the effects of US welfare reform, and then discusses several ways in which the whole process of welfare to work can be integrated through mixed packages of assistance on benefits and in work. These mixed packages draw from foreign examples of good practice and are outlined with the following themes:

- induction and assessment of employability
- provision of education and training
- employment and temporary employment
- in-work support.

There is an overview of potential lessons from the US experience and from these mixed packages of care at the end of Chapter 4.

Chapter 5 draws together the lessons from the report and makes some outline policy suggestions for the future of British welfare to work.

# 1 Welfare and national policy maps

## The UK

New Labour is committed to macro-economic stability in order to break the cycle of boom and bust that characterised the 1980s. Fiscal stability with a greater emphasis on fairness characterises this macro-economic policy. The inheritance of a strong prolonged recovery from the 1990–92 recession has meant strong job growth although mostly in the service sector. However, high interest rates, now set independently by the Bank of England, and high exchange rates with Europe have helped to hold back the manufacturing sector (down 3 per cent in 1999) with disproportionate effect in the more industrialised regions of the UK.

Employment policy supports entry-level job creation through promoting flexibility. A higher threshold for social insurance payments (National Insurance Contributions) has reduced employers' tax burden on low-paid jobs. Specific policies to help the low-paid and stimulate job growth have increased the generosity and scope of in-work, means-tested benefits to workers with children. A minimum wage has also been introduced without any noticeable effect on job growth. These and other policies to make work pay are described in detail in Chapter 3.

Overall, the major difference in employment policy from the preceding Conservative governments is a greater emphasis on education and training. This is intended to raise productivity and reduce educational failure rates that compare very poorly with European neighbours. A large expansion of active labour market programmes has sought to raise the employability of the unemployed as well as to reduce (and eventually to prevent, it is hoped) long-term unemployment. Strict fiscal policy has meant that paying for these so-called New Deal programmes had to come from a one-off windfall tax on the excess profits of privatised utilities. These programmes, discussed in Chapter 2, have a hoped-for, macro-economic feedback because, by increasing human capital, it is hoped that higher levels of aggregate employment can be maintained without inflationary pressure.

Reform of cash transfer programmes has a high profile under New Labour with major changes to programmes for children, working-age people and pensioners. The central Department of Social Security (DSS) is having its caseload split into three. Child benefits, integrated with

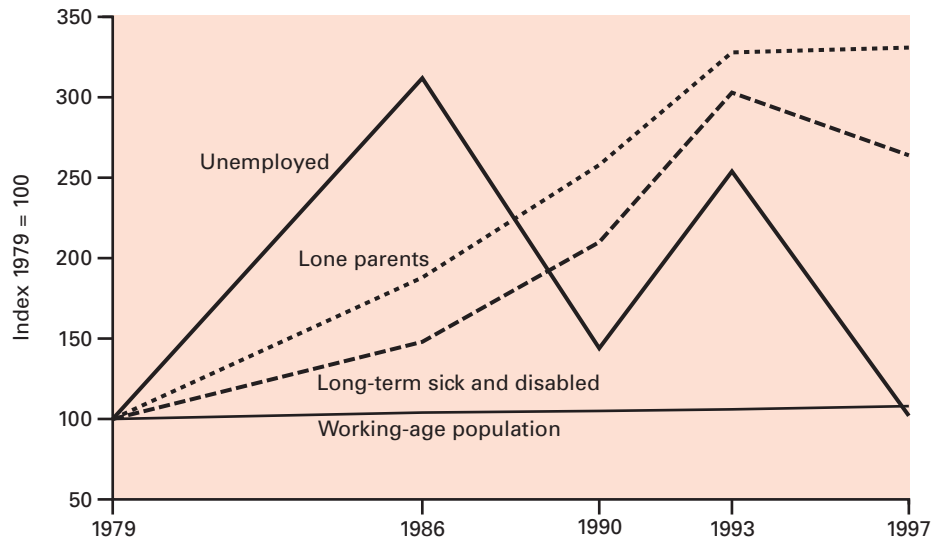
new tax allowances, will pass to the Treasury and Inland Revenue. Benefits for working-age people will be administered by a new joint Benefits Agency and Employment Service, while in-work benefits will be provided by an expansion of tax credit provision overseen by the Treasury and Inland Revenue. Pensions (which also may become integrated with tax credits) will be administered and overseen by a third agency. At the time of writing, it is not clear how policy and ministerial responsibility will be reorganised, and how far the DSS will maintain an overview on income maintenance matters or will only remain in charge of pensions. Behind these fundamental changes in administration are three important policy themes:

- a major attack on child poverty – where rates are among the worst in Europe (UNICEF Innocenti Research Centre, 2000)
- making benefits for working-age people more directly linked to work and training
- a move away from contributory provision towards means-testing through the expansion of tax credits and eventual integration of most benefits and income tax.

### British welfare target groups

Who are the target groups for British active labour market policies? Assumptions have changed dramatically in recent years. One central principle of current welfare reform is 'Work for those who can; security for those who cannot' (DSS, 1998b, p. iii). This principle excludes pensioners but applies in theory to a large proportion of all working-age claimants – whether they are widows, lone parents, sick and disabled or unemployed. Prior to 1997, the only claimants put forward for active labour market programmes were the unemployed. Why has New Labour widened the target population?

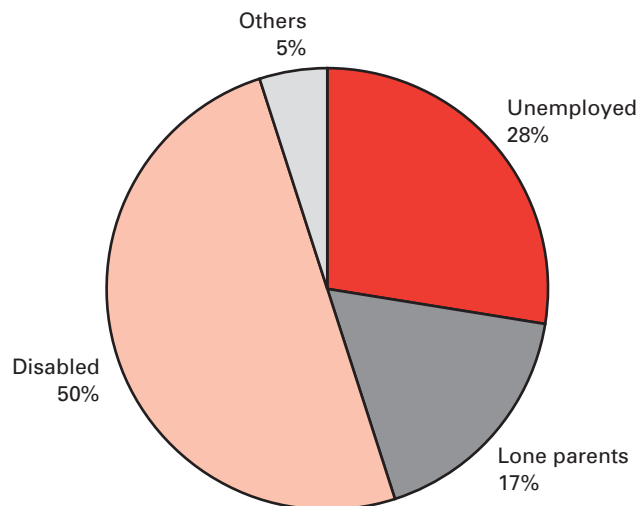
Figure 1 shows the rise and fall of benefit claimant numbers since 1979 for each boom and trough year of the economic cycle up to New Labour's electoral victory in 1997. While the working-age population grew overall by 8 per cent, the numbers of unemployed claimants rose and fell with the economic cycle but all other claimants grew across the economic cycle. By 1997, in a period of sustained economic growth, the numbers of non-unemployed working-age claimants was greater than the unemployed as shown in Figure 2.



**Figure 1 Benefit claimants of working age, 1979–97 (index 1979 = 100)**

Source: Author's calculations from DSS (1988a), Evans (1998) and previous versions.

Notes: Claimant totals of Income Support, Unemployment Benefits and Jobseekers' Allowance, Invalidation and Incapacity Benefits and Severe Disablement Allowance.



**Figure 2 Composition of British working-age benefit claimant population, 1997**

Source: Author's calculations from DSS (1998a)

The complex explanations of the growth in lone parent and long-term sick and disabled claimants are beyond the scope of this report (see Burchardt, 2000; Evans, 1998; Walker and Howard, 2000), but the important point for New Labour's policy makers is that they believe growth to be partly as the result of the system itself. First, the rules of entitlement to benefits as a lone parent or a sick or disabled person required no obligation to consider work and gave no access to active labour market programmes. Second, the division between the work-orientated unemployed populations and other claimants had been institutionalised in a division of responsibility between 'passive' benefit and active employment organisations. In policy terms, the DSS has responsibility for all benefits

and income maintenance policy while the Department for Education and Employment (DfEE) has responsibility for education, training, and unemployment and employment policy. Joint policy was limited to the claimant unemployed. Service provision was divided between the executive agencies, the Benefits Agency (BA) whose job it was to assess and make benefit payments and the Employment Service (ES) who provided public employment services and services to the unemployed population. The organisational incentives of these two providers were largely dictated by the contracts they had under 'quasi-market' arrangements that stipulated performance measures for the BA to administer benefits effectively and efficiently, and for the ES to move people

into work and to reduce unemployment. The ES was rewarded for identifying applicants who didn't fit the strict unemployed label and could be referred elsewhere – primarily to the BA. This encouraged the ES to select and serve only the unemployed and to refer on those with child-care or chronic health barriers to employment. There were no incentives to move the non-unemployed into work besides the relative generosity of in-work benefits for those with children. The provision of training for the unemployed further influenced selection as private contractors were paid according to completion and outflow targets often also preferred those with least barriers to work.

These organisational rigidities were reinforced at the individual level by rates of benefits that paid more to those not defined as unemployed. Reform during the 1980s devalued unemployment benefit rates in an attempt to improve work incentives but in doing so made other benefits relatively more generous. Until the early 1990s, contributory long-term sickness benefit remained earnings related and hence of potentially greater value than both unemployment benefits (that were in any case duration

limited) and social assistance (Supplementary Benefits up to 1998 and then Income Support). Differential rates on social assistance became more rigid after it was recast into a categorical scheme in 1988.

It is difficult to assess how far such an analysis is correct in identifying the main causal drivers of increased claimant caseloads because there are other demographic, health and economic drivers to be taken into account (Walker and Howard, 2000). The crucial importance of these perceived factors was their influence over policy makers' assumptions about the role of endogenous causes for the growth of the welfare population and the need to widen the scope of welfare to work programmes.

Figure 3 summarises the main institutions and their responsibilities in British welfare to work and the claimant groups in a policy map. The role of the local authorities that assess and pay benefits for rent and rebates from local property taxes is weak in strategic terms. The benefits they administer are centrally funded and controlled. In practice, the local authorities are an extra level of administration for the majority of benefit claims.

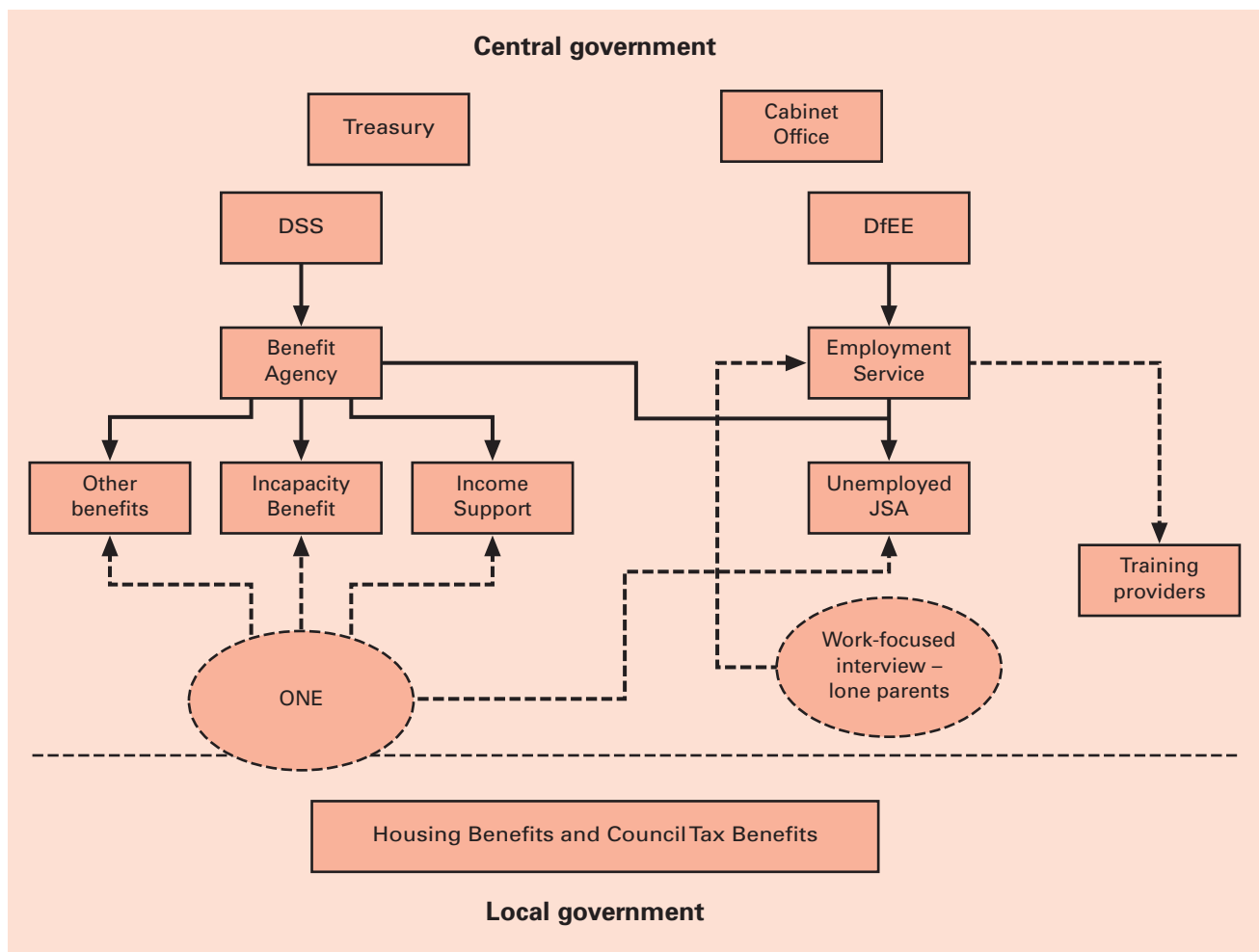


Figure 3 The British policy map of welfare to work

The separate assessment of rent and local tax means that delays and ‘hassle’ are built into the system. It has been found that the administrative weaknesses of this split reinforce the reluctance of claimants to enter work because of the disruption to income flows and budgeting that can occur.

This policy map is being redrawn. All working-age adults will become the responsibility of a new unified agency that is a combination of the BA and ES under a single policy department. This new arrangement has not been shown in Figure 3. However, some new unified administrative arrangements are being piloted through the ONE service – a single combined operation of ES, DSS and local authority (LA) services in selected areas and through the compulsory work-focused interview for lone parents. In the ONE pilot areas, all inflows onto benefit are given a single one-stop service and work-orientated advice and assistance. In the other pilot areas, lone parents will have to claim from the BA and then attend an interview at the ES in order to get benefits. These arrangements are shown in dotted lines and are running alongside greater overlapping work by the BA and ES on the various New Deals.

### The New Deals

The client group for British welfare to work policy is in reality defined by the operation of welfare to work programmes, or New Deals as they have been called. There are four main new deals.

- 1 The New Deal for under-25s: this is the result of a manifesto pledge in the 1997 election that has promised to move 250,000 young people into work over the lifetime of the Government. This promise has now been met. It is a compulsory scheme for all under-25-year-old unemployed claimants that begins after six months of unemployment. It consists of a period of intense personal advice and assistance followed by one of four options linked to employment experience and training. Details are discussed below.
- 2 The New Deal for Long-term Unemployed (NDLTU): this is a compulsory scheme for the those aged 25 and over who are unemployed for over two years or 12 to 18 months in some pilot areas. It consists of a period of intensive job reorientation followed by referral to training or work experience places.

Both these New Deals target the unemployed claiming Jobseekers’ Allowance and are thus a refocusing and

intensification of the previous policy concerning the unemployed. The widening of the client group arises from the following New Deals, which are currently non-compulsory.

- 3 The New Deal for Lone Parents (NDLP) is targeted at lone parents whose youngest child is five-and-a-quarter (i.e. enrolled in primary school) but others can and have taken it up. It consists of personal advice and assistance and a limited training budget with associated child care. NDLP advisors will also staff the compulsory work-focused interviews operating for new claimants in some areas – a move that blurs the non-compulsory nature of the NDLP.
- 4 The New Deal for Disabled People is targeted at all working-age disabled or sick claimants and consists of personal advice and assistance alongside improving employers’ and other organisations’ perceptions of disabled employment.

There are a further two voluntary New Deals that overlap with coverage of the others.

- 5 The New Deal for Partners of Unemployed consists of personal advice and assistance with work for the potential second earner in an unemployed household. This New Deal will become compulsory for partners under 25 without children.
- 6 The New Deal for those over 50 consists of personal advice and assistance with employment and a one-year in-work subsidy of £60 a week and a training grant.

Table 1 shows the target caseloads and New Deal spending plans, and it is obvious just how much of a priority has been given to the under-25 group relative to the others. They constitute only 9 per cent of the total ‘welfare’ target group but account for 77 per cent of the spending. The difference in spending reflects (a) take up and (b) the costs of intervention. Because take up is compulsory for the unemployed group, there is a corresponding depth in provision that is discussed in Chapter 3, but it is not clear why the difference between young and old unemployed is necessarily so stark. However, the low relative spending on the non-unemployed is partly because they are only given personal advice and assistance. In addition, because take up is voluntary, there is less coverage. The major problems with this approach concern equity. First, there is an inbuilt gender bias in resources away from women (Rake, 2000). Second, it does not target most help on those with the greatest barriers to work. Last, it kicks the issue of better

**Table 1 Original spending priorities of the British New Deals**

New Deal	Target caseload 1997		£ million Budget 1997–2002	Spending	
	Million	% of total		% of budget	£ per capita
Under-25s	0.4	9	2,620	77	6,550
Over-25s	0.5	11	50	2	100
Lone parents	0.5	12	190	6	380
Disabled	0.9	20	200	6	222
Partners*	0.22	5	60	2	273
Over-50s*	2.0	44	270	8	135
Total	4.52	100	3,390	100	£580

Source: Author's calculations from Table 2.1 in Hales *et al.* (2000).

\* Some potential overlap between populations.

quality benefits for those who *cannot* work, i.e. 'security for those who can't', into touch. These are problems for the future that are returned to at the end of the report.

Returning to the phrase 'welfare to work', this means that the 'welfare' target population in Britain was around 4.3 million claimants in 1997 and 220,000 of their partners – together, around *one-sixth* of the 16–59 population. (This is ignoring those unemployed claimants who claim for shorter periods and do not have access to the New Deals.)

How does this 'welfare' target group and its organisational assumptions compare with the other countries? One problem of pursuing that question is that the word 'welfare' has specific and different meanings elsewhere. In its place, a more neutral term, 'claimant reservoir', is used to refer to claimant populations in other countries that reflect the British approach. This means crossing boundaries between insurance and assistance benefits that are traditionally kept separate, and of bringing lone parents and sick and disabled people into the arena of active labour market policy.

## The USA

American employment levels have benefited over the past nine years from an unprecedented period of sustained economic growth, which has been at the annual rate of 4 per cent for the past four years. Underlying this growth is continuing growth in labour productivity as well as declining unemployment levels. The boom has reached down further than in the 1980s and unemployment is at a 30-year low. Unemployment has fallen in African American and Hispanic populations but is still twice as high and 50 per cent higher than the overall rate

respectively. The current boom has seen real incomes rise across a wide spectrum of the workforce and the high US income inequality rates have stabilised somewhat rather than continuing to rise. Official poverty rates have fallen to 12.7 per cent of the population in 1998 but were 26.1 per cent for African Americans and 33.1 per cent for female-headed households.

Policy making in the 1990s was dominated by a left of centre Presidency under Clinton and a right of centre Congress with a Republican majority. This has led in part to a dualism in policy where Federally controlled programmes such as the Minimum Wage and Earned Income Tax Credit (EITC) have expanded while there has been a retrenchment in what the USA calls 'Welfare'.

'Welfare' in American terminology refers to the means-tested programmes of public assistance, primarily the joint Federal–State run programmes for families with children – formerly Aid for Dependent Families with Children (AFDC), which was fundamentally reformed in 1996 under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) and replaced by Temporary Assistance for Needy Families (TANF). More details about the design and effects of PRWORA are covered below and in Chapters 2 and 3. Welfare also refers to State-run General Assistance programmes but these now only exist for able-bodied adults without children in 13 States. The important aspect of Welfare in the US context is that it is a very small part of the overall system of income maintenance – around 3 per cent of US social welfare spending (Gilens, 1999, Figure 1.1). It is also highly stigmatised: 'welfare' is often a derogatory word. Some on the Right try to widen the meaning to encompass Federal means-tested programmes such as

Food Stamps and Supplementary Security Income (SSI) but these benefits are paid to a larger population including the elderly and disabled and are not commonly associated with welfare. Cash assistance to working-age people who are wrongly assumed by the general population to be predominantly urban blacks is politically unpopular. The large role of racial prejudice in the negative American attitude to welfare is an important if under-recognised characteristic of the US policy environment (Gilens, 1999; Lieberman, 1998).

The US Right's criticism since the 1980s argued that welfare fostered dependency, created an underclass and should be scrapped (Murray, 1984), or that it amplified and sustained a culture of dysfunctional family and work behaviour that required strict paternalistic intervention by administrators in order to ensure optimal outcomes (Mead, 1992). Such views are strongly contrasted by the popular appeal of Social Security provision for pensions and disability, and for Unemployment Insurance.

Welfare reform in the US has thus been highly politicised with little consensual basis. The PRWORA changes were dominated by Republican Congress but were eventually agreed by Clinton (Weaver, 2000). This compromise has led to a consensus on the perceived wisdom in Washington on how to present its effects. This has emphasised caseload reduction, 52 per cent over Clinton's presidency and 43 per cent since PROWRA was introduced up to December 1999 (DHHS, 2000). The other emphasis has been the increased work participation of single female-headed households. These results allowed both Congress and Clinton to gain political credibility, but have also further reduced the political importance and legitimacy of the *losers* from welfare reform if they are not working and are no longer on welfare.

Lower welfare rolls and the rising rate of lone parents in work have, however, changed attitudes to the working poor and, more marginally, to those who remain on welfare – the so-called 'hard to serve' – the smaller welfare populations who have to comply with stricter work conditions and are gradually being offered a more service-intensive programme, funded by the huge windfalls that States have gained from falling rolls. For those who are in work, who have been shown often to face significant economic hardship and to have poor income progression, a new emphasis is emerging to ensure in-work benefits are delivered effectively, on child-care provision, and on training and workforce development.

Returning to Federal policy, Clinton increased the minimum wage significantly and also expanded the Earned Income Tax Credit scheme in a number of changes to eligibility levels and criteria, making it far more generous as a central plank of 'making work pay'. Health care is a major continuing problem in the USA and the failure to reform coverage and access has meant that the number of uninsured rose between 1996 and 1998 to represent 16 per cent of the population (Campbell, 1999), and is particularly acute for low-income households, including welfare leavers. Medicaid coverage designed for the poor has fallen by a million between 1996 and 1998, and may be linked to welfare reform and changed administrative practices by the States (Meyers, 2000).

### **US claimant reservoir**

The first point that strikes a British-based comparison is that contributory social insurance is still a fundamental and important part of American coverage for unemployment and sickness. *Unemployment Insurance* (UI) is a joint State–Federal scheme with State-set rules for contribution and eligibility. UI provides earnings-related benefits – typically between 50 and 70 per cent of previous net earnings, but limited to a maximum duration of 26 weeks. UI covers only around 35 per cent of the unemployed, but there is substantial State-wide variation – from around 25 per cent in 11 states (mostly Southern and Rocky Mountain states) to 50 per cent (typically in the North East and Pacific coast) (Vroman, 1998). Taking New York State as an example, approximately 39 per cent of unemployed have coverage. In order to claim, they must have had earnings above a threshold of \$80 per week and a work history of either 20 weeks in the past 52, or 15 weeks in the past 52, but then a further 40 weeks in the past 104. States administer UI. Training benefits are also available for UI claimants who fulfil several conditions. First, the training must upgrade individual skills to increase likelihood of future employment. This is focused on skill needs from changes in the demand side of the labour market, such as technological change, and seasonal opportunities, but can also be linked to individual factors such as personal handicap. (Amstutz *et al.*, 1995).

Contributory social security is the main source of benefits for old age and disability and is run federally by the *Social Security Administration* (SSA). These core social security benefits are politically popular and, to date, have remained largely uncut during Reagan's and subsequent programmes of retrenchment. There are five major categories of benefits paid for through in-work Social Security taxes: retirement, disability, family benefits, survivors and Medicare. Full retirement benefits are



payable at age 65 (with reduced benefits available as early as 62). Disability benefits are payable at any age to people who have enough Social Security credits and who have a severe physical or mental impairment that is expected to prevent them from doing 'substantial' work for a year or more, or who have a fatal condition/illness. The disability programme includes incentives to smooth the transition back into the workforce, including continuation of benefits and health-care coverage while a person attempts to work, which are mostly absent in the UK. While administration of Social Security is through local offices of Federal government, rehabilitation of disabled people is the responsibility of State government.

There is no National Health Service. Health-care provision in the USA is primarily through private insurance: mainly through employer-based health benefit schemes, but Medicare provides a contributory second tier to the system linked to social insurance. Medicare comes in two parts: hospital insurance (sometimes called Part A) and medical insurance (sometimes called Part B). Those aged over 65 who are getting Social Security automatically qualify for Medicare, while those aged under 65 qualify only if they have been getting contributory disability benefits for two years or if they have Survivors Insurance.

The remainder of the US income maintenance programmes are means-tested schemes. Means-tested *Medicaid* is the third-tier health-care safety net (alongside publicly funded hospitals). Medicaid is a joint Federal–State programme with specific proportions of State costs covered by Federal grants. Medicaid covers the poorest populations with no private or contributory health care and is given to those on Public Assistance rolls but has to be a stipulated part of their claim for support. The problem for US health care is that many fall out of or fall between public and private coverage, and this is especially so for low earners. A Child Health Insurance Programme (CHIP) has been implemented between Federal and State governments to ensure that children continue to be covered – States can introduce their own scheme and/or extend Medicaid coverage.

*Supplemental Security Income* (SSI) is a Federal programme run by the SSA that provides means-tested monthly payments to the uninsured elderly (aged 65 or over) and younger disabled people including children. The Federal government pays a basic rate and some States add money to that amount if they consider it too low. Local offices of the Federal Social Security Department administer SSI. Claimants also qualify for Medicaid. SSI

benefits are financed by general tax revenues and are not paid from Social Security trust funds.

Food Stamps are means-tested vouchers (now being replaced by electronic payment cards) to purchase food. They are funded through the Federal Department of Agriculture, but are administered by local State welfare agencies. In New York, this is the Human Resources Administration (HRA). Able-bodied people between the ages of 18 and 60 without children must work to qualify. The income test is more generous for pensioners and the disabled, but all other claimants should have income below 130 per cent of the Federal Poverty Line (FPL). Food Stamps are automatically awarded if the household gets SSI payments or TANF/AFDC. They have played a significant and growing element in safety-net incomes for the poorest because their real value has been maintained more consistently than levels of public assistance benefits, which have also fallen greatly in their coverage.

A further major difference between Britain and the USA is that there is no comprehensive social assistance safety net in America that matches British Income Support and means-tested Jobseekers' Allowance. The only safety-net benefit available in all States is TANF for families with children, which is the centre of welfare reform. Otherwise, public assistance safety nets are the sole responsibility of the States – or even local County governments. These schemes, called *General Assistance* (GA), can provide cash or in-kind benefits, but only in 13 States are there such programmes for able-bodied people without children.

New York has a General Assistance scheme called *Safety Net Assistance* that covers able-bodied adults. It is wholly funded by State and City funds and is only paid as a cash benefit for two years. Any longer-term claimants are paid by way of vouchers – to their landlords for rent, to the utilities. This method is also used for all drug rehabilitation cases and will be used in the future for TANF cases that go beyond their time limit (see below). New York City's GA scheme is also highly stigmatised and carries with it an obligation to work for benefits – *workfare* – which is described in more detail in Chapter 3.

### ***Temporary Assistance for Needy Families***

This is the programme that most US commentators call 'welfare', and its claimants are the 'welfare' in US 'welfare to work' programmes. It is paid to families with children and lone parents represent the vast majority of its caseload. From 1996, Federal control over rules and administration of benefits has been largely waived. In its place is a Federal funding system that pays States a block

grant budget based on 1994 caseloads, but that also rewards and penalises States for meeting specified targets on work participation and other behavioural matters, and on continued payment of State funds for analogous purposes (the so-called maintenance of effort rules). The law ends central rules governing entitlement to benefits, leaving States to decide whom to pay benefit to and on what conditions. However, no Federal funds will be given to cases who have received benefits for more than 60 months in their lifetime and reduced funds will be given for each case that fails work participation targets. This means that time limits exist in all states and many have chosen limits of less than 60 months (discussed in Chapter 2).

TANF benefits are only payable to families with children (continuing the AFDC target population). Children are usually those under the age of 18 but can also be 19 if they are still at school. New York State has adopted the Federal lifetime entitlement limit of 60 months for all cases (other States have enacted shorter maximum entitlements discussed in Chapter 2). All States may exempt up to 20 per cent of their caseload from this limit. However, those cases that fall out of entitlement may be entitled to the New York State Safety Net Assistance scheme discussed below. Other Federal rules state that school-aged parents must both attend High School and live in the parental home (or have an equivalent domestic arrangement) as a condition of benefit. The 1996 changes have also withdrawn entitlement from many legal immigrants and from most drug felons.

The TANF Federal grants to States have produced a windfall because caseloads have fallen sharply from the 1994 levels that determine subsidy. This has increased resources available to support claimants with such things as child care, to pay benefits while they work and to provide a more service-rich regime to the hardest-to-help claimants who remain on benefits. The relationship between Federal and State-based funds is complex, but States have been able to switch previously locally funded programmes to Federal funds while at the same time maintaining 80 per cent of their own 1994 spending levels. There has been some redirection of funds to a slightly wider population – for instance, low-paid families with children.

The devolution of powers to States to set their own eligibility criteria for TANF benefits was accompanied by Federal rules prohibiting legal test cases on the new welfare arrangements by publicly funded community lawyers. This has meant that the implementation and administration of welfare reform has not been subject to legal scrutiny on behalf of applicants and recipients.

The implementation of TANF reforms has largely been carried out according to ‘work-first’ principles that have emphasised looking for and finding work over education or training. However, the implementation of these principles differs widely on the ground and is discussed in Chapter 2.

### **The US policy map**

The organisation of benefits in the US differs greatly from the centralised national programmes in the UK. There are more policy players at more levels of government with a less comprehensive coverage. Figure 4 shows how all the benefits for the working-age population fit alongside each other in a view of the US claimant reservoir that coincides with the British view of welfare to work.

Figure 4 shows the relationship between Federal and State level responsibilities in a very simplified way – the pure Federal programmes, such as those run by the SSA, are completely above the dividing dotted line while the majority of programmes have some element of joint funding. The pure State-funded General Assistance is the only programme completely below the dotted line. The extent of joint funding varies; for instance, States only contribute to Food Stamp administrative costs. The policy map also includes the parallel programmes of Employment Services and Training programmes run by the States’ Labor or Workforce Development Departments under Federal guidance. These are separate in the main from welfare and from welfare to work programmes that have tended to develop their own employment and job-brokering services. However, there is a move to develop integrated one-stop provision of unemployment, employment and training services. There are some instances where States have integrated their welfare-based employment services in some regard but they are few.

The role of the State Welfare services as deliverers of State and Federal programmes is emphasised in the policy map. The Medicaid and Food Stamp programmes that go fairly automatically to the population claiming TANF and GA also go to low-paid workers. The delivery of such programmes to support transition from welfare into work is thus an important part of making work pay. One structural weakness of the US system is how welfare agencies deliver these in-work benefits. TANF reform has emphasised changing the culture of welfare administration away from passive entitlement and towards work, and, as a result, the delivery of Food Stamps and Medicaid alongside the new regime has required renewed attention.

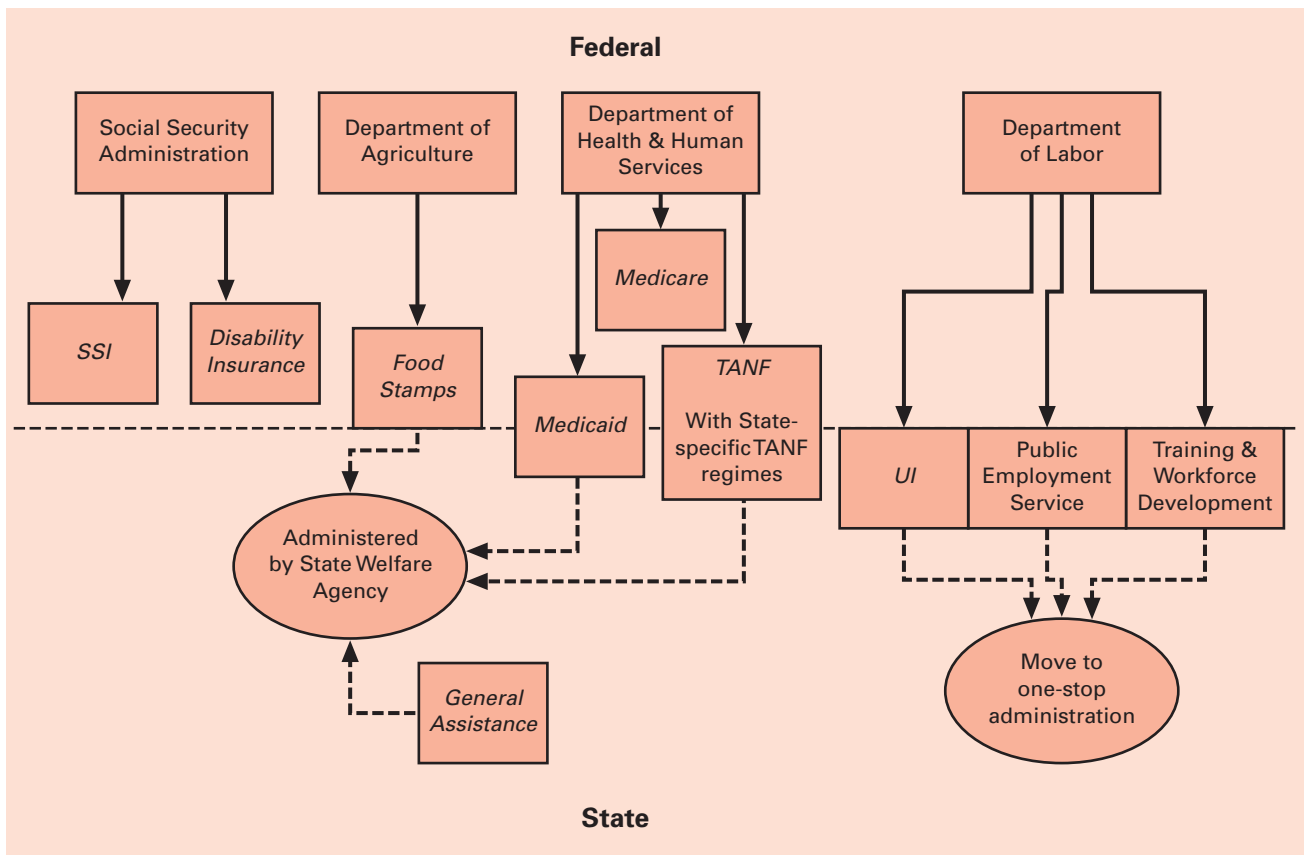


Figure 4 US policy map

## France

French welfare and employment programmes have been constrained since the 1980s by macro-economic targets for maintaining exchange rates and, subsequently, European Monetary Union membership. The French determination to be at the heart of Europe is part of a strong national identity, which also holds that all French citizens belong to and participate in civic culture and should not be excluded. These ideas cross the political left and right such as the current political *cohabitation* between the Gaullist President, Jaques Chirac, and the Socialist Government led by Prime Minister Lionel Jospin.

But the fact remains that economic exclusion in France is very high. The OECD estimates an underlying structural 10 per cent rate for French unemployment. This creates an ‘insider–outsider’ problem that in part explains the French commitment to overcome social exclusion. At the core of the problem is the labour market where the employed insiders enjoy strong social security and labour law protection while outsiders – in particular the young unemployed – have been faced with both poor social security coverage and low levels of private job creation. The French policy response has been slowly to change

structural impediments to job creation and to engage in large-scale subsidised employment creation – particularly for youth. The creation of work experience programmes has been a long-standing element of French active labour market policy with the majority of such job placements in the public and voluntary sector. These programmes were expanded in 1997 by the creation of a new wave of longer-term quasi-public jobs for young people.

Contributory social security is the central funding mechanism for both health care and benefit provision and means that the tax burden falls heavily on employment. The tax base was widened in the 1990s by introducing the CSG (*Contribution Sociale Généralisée*) a non-contributory additional tax on all incomes, and this has begun to reduce non-wage costs for employers. However, France has widely used employer exemptions and rebates from social security payments – further discussion of this is in Chapter 3.

The most radical element of French job creation is the move to shorten working time and to share the fixed amount of work more widely. The idea is to set up a virtuous circle of working-time reduction and job creation, and at the same time promote greater flexibility to ensure productivity gains and wage moderation. In the

early 1990s, two voluntary attempts were made to encourage employers and workers to agree to reduce working time and few occurred. In 1997, a new statutory scheme was introduced that gave a timetable for employers and workers to negotiate changes in working hours to reduce them on average to 35 hours per week. The theoretical and practical advantages of this approach are disputed and it is too early to form a firm impression of the success of this initiative. Modelling of the approach as a job creation measure has shown how sensitive it is to core assumptions about the behaviour of employers and employees – the impact could be as great as a 5 per cent increase in jobs or as low as a 0.4 per cent reduction (OECD, 1999c).

### French claimant reservoir

The core of unemployment provision is contributory unemployment insurance (*Assurance chômage*). Claimants must have previously paid contributions for at least 122 days during the eight months before they lost their job. Benefit entitlement differs in potential duration according to contributory record. Additionally, the earnings-related benefit decreases as unemployment continues – *Allocation Unique Dégressive* (AUD). Thus, the original earnings-related amount of benefit is stable for a certain time (between three and 27 months) and then, if entitlement continues, it reduces every six months until it reaches a minimum rate of payment. Entitlement is never unlimited but can be effectively extended into early retirement for the oldest claimants with the longest contributory history. Those with the shortest working histories lose entitlement most quickly.

Benefits are administered by local ASSEDIC (*Associations pour l'Emploi dans les Industries et le Commerce*) offices, which represent the joint union and employer organisation that finances the benefit. All unemployed must also register at the public employment service *Agence National pour l'Emploi* (ANPE) office every month. Any interview and job proposed by the ANPE must be explored – as long as the wage is not more than 30 per cent less than the previous job – including temporary and other forms of flexible contract. These rules have been enforced with increasing severity in recent years, especially for the younger unemployed. People over the age of 57 do not have to sign on.

There is a specific unemployment assistance scheme for some of those whose entitlement to contributory benefit ends but not for those who do not qualify in the first instance. *Allocation de Solidarité Spécifique* (ASS) is administered by ASSEDIC and is part of what the French

term the *solidarity system* – state-financed provision to supplement contributory unemployment benefits but run by the independent social insurance organisation. ASS is means-tested but once received continues indefinitely. However, entitlement to ASS is limited to those who exhaust their contributory benefits who have worked at least five years during the last ten years – only one-third of those who exhaust AUD entitlement. There is, thus, a huge 'hole' in provision for those with weaker employment histories and younger workers. Part of this hole is filled by *Revenu Minimum d'Insertion* (RMI), which is discussed below.

Sickness and invalidity benefits are part of a separate and independent system of social insurance for health-care and sickness benefits. The *Caisse Nationale Assurance Maladie* (CNAM) provides both income benefits and health-care services. There are separate provisions for some white-collar management cadres, civil servants and various occupations and industrial sectors, which cannot be covered here. To qualify for sickness benefit under the main provisions (so called *Régime Generale*), there must be both a contribution record and medically endorsed illness that either prevents work or reduces earning capacity by 66 per cent or more. The 'short-term' benefits, *Indemnités Journalières*, are paid for a maximum of three years after which long-term *Pension Invalidité* is paid. Benefits are 30 per cent of previous earnings unless there is total incapacity to work, which is paid at 50 per cent.

The dominance of separately funded, independent social insurance schemes leads to significant gaps in coverage and France has no comprehensive central or local social assistance scheme. In its place is a range of categorical means-tested social minima that are directly attached to specific insurance provision – as in ASS described above and minimum pensions (*Minimum Vieillesse*) – or that stand in their own right. These self-standing social minima are administered through the family allowance fund (*Caisse Nationale d'Allocations Familiales* – CNAF). For instance, people with severe disablement that does not result from work can claim *Allocation Adulte Handicapé* (AAH). But the two most important benefits for this analysis are the scheme for lone parents, *Allocation Parent Isolé* (API) and the non-categorical *Revenu Minimum d'Insertion* (RMI).

API is paid to pregnant women and parents without a partner. It is time-limited either to 12 months in total or until the youngest child reaches the age of three, at which age they can attend *Écoles Maternelles*, the universal nursery schools.

RMI was introduced in 1989 to cover a large volume of unmet need for basic income maintenance. Too many previously fell out of or fell between the specific schemes in the categorical social insurance system and ended up not covered by the categorical social minima. Such social exclusion was not just from income maintenance but also from health and housing, as well from the labour market and from social and familial networks. RMI is therefore more than just an income maintenance scheme. It seeks to reintegrate the individual back into the systems of support that stem from a job, social and community relations and the French welfare system. But, even with this wider emphasis, providing a minimum income is its main job and is central to making 'inclusion' a reality.

Nobody under the age of 25 may claim RMI unless they are a lone parent. There is a strong and growing aim to ensure claimants move into work but the original policy discussions of RMI stressed both economic and social reintegration (Paugam, 1993). Claimants enter into a contract that stipulates what actions they should take as part of their conditions of receiving benefit. However, when it comes to participation in formal active labour market programmes, these *contrats d'insertion* often have to be delayed while places become available. The RMI caseload includes many with chronic ill health, and social integration where necessary is often pursued before work.

### The French policy map

Figure 5 shows the organisational basis for the French claimant reservoir. Unlike the US, there is little local government administration involved. The main benefits for unemployment and sickness are delivered by functionally specific social security organisations that are mostly independent of government. The public employment service is directly involved in job search and brokering for the unemployed claimants of AUD and ASS. It also provides services for RMI claimants who are referred to it.

The administration of RMI is complicated. It is run locally from central funds and overseen by a regional committee, *Conseil Départemental d'Insertion* (CDI), of around 40 members, including local representatives, civil servants and non-governmental organisation (NGO) delegates operating at the Departmental level. This council meets at least twice a year, elaborates a Departmental insertion programme and sets up an independent evaluation organisation. Since 1992, 700 decentralised local agencies – *Commissions Locales d'Insertion* (CLI) – have also been set up in order to promote easier access to the system. The President of the *Conseil Général* (Departmental assembly) and the 'Préfet' (State highest civil servant at Departmental scale) together manage RMI benefit services. The central State is responsible for

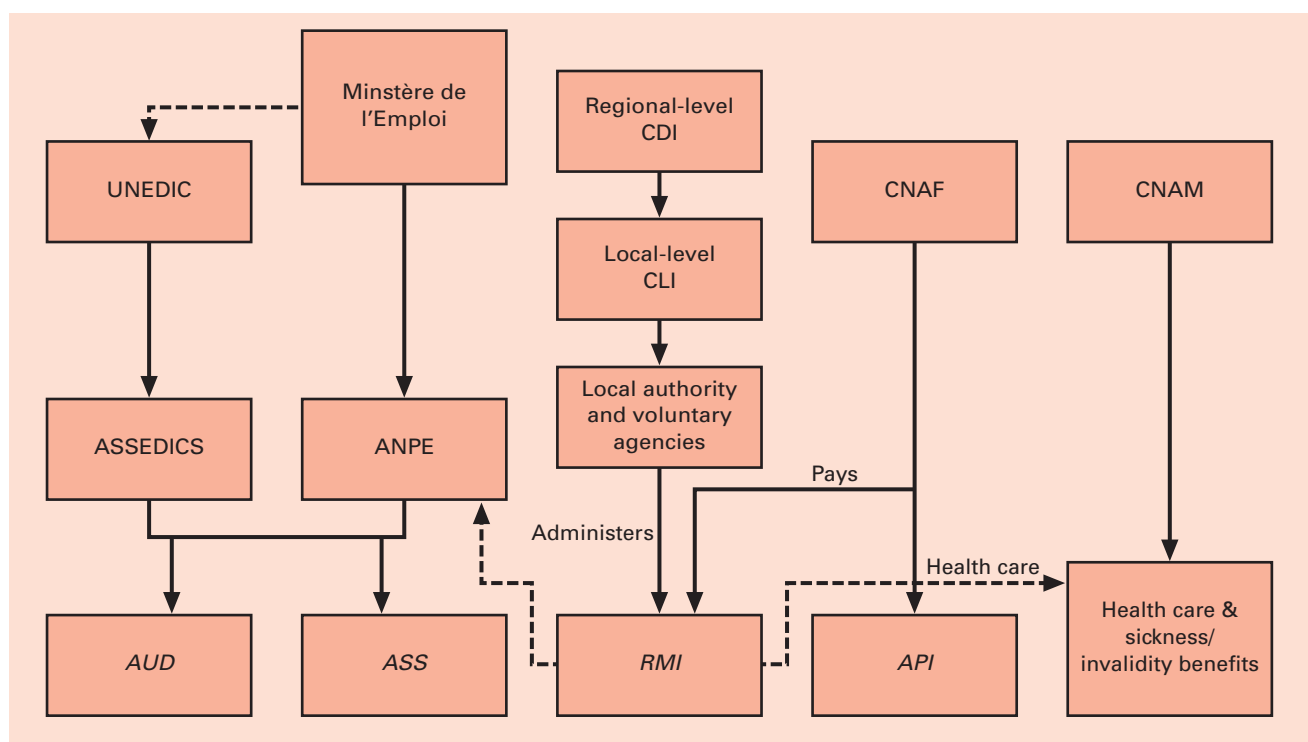


Figure 5 The French policy map

employment, training, housing, health and emergency care services. Departmental responsibility is free medical aid, the treatment of alcoholism and drugs problems, and social services for mothers and children.

On the ground, services are provided by three types of organisation: local services linked to the town hall (*Mairie*) or *Centres Communal d'Action Sociale*, national-level state services run by the Department (*Services Départemental d'Action Sociale*), and approved non-governmental organisations. Normal social security access points are not included because it is one of the characteristics of the RMI population that they have no need to go to *ASSEDIC* offices, etc. However, *RMistes* do get concessionary rights to *Sécurité Sociale* services – especially health care. This access is essential because a high proportion of *RMistes* have long-term health problems.

## Germany

Germany, like the USA, has a strong federal structure in which the decentralised regions, *Länder*, legislate and implement wide areas of social policy. Additionally, Germany's constitution empowers individual and collective rights and decentralised decision making. This safeguard against abuse of central authority means that a wide range of rights is protected by active judicial review that intervenes in social and employment policy. For instance, the tax system was found to be unconstitutional because it failed to ensure a social minimum, and plant-level working agreements have been found illegal where they did not meet the collectively agreed standards. Both collective and individual rights enshrined in social security and employment policy are often welded into the structural frame of German policy.

The post-war German social state was always for *all* Germans and reunification in 1990 was a political imperative but has had huge fiscal and macro-economic consequences. The old East was bankrupt, industrially undercapitalised, overmanned and inefficient. West German social and economic policy incorporated its prodigal other half. The high hidden unemployment, inadequate social benefit rates and other characteristics of the old soviet-style welfare state became subject to the German social state.

The costs of unification led to real difficulties in maintaining the normal German practice of fiscal prudence and interest rates were raised pushing Germany into recession in the early 1990s. Job creation was also affected as some of the costs of unification were met by

an increase in social security contributions – social tax – which raised already high non-labour costs. The combination of generous earnings-related unemployment benefits (with means-tested extensions of unlimited duration), high payroll social insurance taxes and strong institutionalised collective bargaining (there is no national minimum wage in Germany but sectoral and industry-wide agreements) meant that underlying structural unemployment is high (OECD, 1999a).

Unemployment became the dominant domestic political issue of the mid-1990s. The Kohl government promised to halve unemployment, failed and was defeated in September 1998 by a left of centre coalition of Social Democrats and Greens. Kohl's employment policy had restricted eligibility to unemployment benefit and enforced job search, had weakened employment protection in small firms and had introduced new temporary fixed-term work contracts, while a range of employer subsidies to take on the unemployed had not been popular.

The new Schröder government kept Kohl's subsidies and job promotion elements of employment policy but revoked the higher obligations to job search and the weakening of employment protection in small firms. It then set out to attempt a new national agreement on training and jobs between unions and employers. This involves new vocational and training places and a job creation scheme for young unemployed. Meanwhile, an Alliance for Jobs has been set up for the unions and employers to find ways of increasing part-time and flexible work, lowering non-wage costs, modernising the vocational apprenticeship scheme and improving job creation for the less skilled.

### The German claimant reservoir

Social insurance lies at the heart of German social welfare. Federally run employment and unemployment insurance are administered by the *Bundesanstalt für Arbeit* (BA). Unemployment insurance is paid for from in-work contributions of 6.5 per cent of full-time gross earnings with no upper limit (employers pay an additional 6.5 per cent making a total of 13 per cent).

*Arbeitslosengeld* (ALG) is a contributory earnings-related unemployment benefit that has a duration that varies according to age and contributory history. There is no minimum level of benefit but it is paid at two rates: a basic rate of 60 per cent of net earnings and a higher rate of 67 per cent for those with children. Claims for benefit are made through the local Federal Labour Office, the *Arbeitsamt*, which is also the public employment service.

Unemployment insurance can be extended by means-tested unemployment assistance, *Arbeitslosenhilfe* (ALH), which is also run by the BA. It also is earnings related but is paid at lower rates than contributory benefits – 53 per cent without children and 57 per cent with children. For those who claim when they exhaust contributory coverage, there are no additional contributory rules and ALH will last for 12-month periods that can be repeated indefinitely (up to pension age). For others to qualify, they must have contributions from 150 days' full-time work in the past year and entitlement is limited to one year only. Claimants are still required to attend and register at the *Arbeitsamt*.<sup>1</sup>

Social insurance for health-care and sickness benefits is in schemes separate and independent from unemployment benefits. Employers and employees contribute to funds (*Krankenkassen*) in which employers and trades unions are equally represented. Sickness benefits (*Krankengeld*) are paid for those who have been sick for more than six weeks – the statutory period for employer-paid sick pay. *Krankengeld* is earnings related – based on 80 per cent of previous earnings – and is payable for a maximum period of one-and-a-half years (78 weeks) in any three years. Longer-term and permanent invalidity is covered by schemes that either pay a full pension for those who are completely unable to work or a part pension for those with reduced earning capacity. This latter group has access to occupational rehabilitation services and retraining through the PES (public employment service).

Social Assistance (*Sozialhilfe*) is a comprehensive means-tested social safety net run by regional and municipal government along federally set rules. It provides both minimum incomes and a means-tested system of welfare and health provision. The minimum income benefit is called *Hilfe zum Lebensunterhalt* (HLU). The *Länder* (federal regions) set rates for HLU according to nationally determined principles and equivalence scales. HLU benefits can be tailored to meet individual needs through discretionary allowances. The guiding principles of *Sozialhilfe* are that it provides a constitutional guarantee against destitution but that this must be below available income from earnings. It is highly stigmatised and is run by social welfare departments of municipalities. Parents and children can be legally held as responsible for maintenance for each other beyond the age of majority.

The conditions for claiming HLU are subject to local discretion and constitutional interpretation. The growth in

numbers of unemployed people relying on *Sozialhilfe* has been a policy challenge to the local authorities because of the growing cost of uninsured unemployment that they have to meet when they consider employment policy to be primarily a Federal issue. In the past few years, there have been moves to reorganise and reassess the costs and coverage of the unemployed to respond to this dilemma but no significant policy changes have been agreed.

Municipal authorities have powers to run public employment programmes for *Sozialhilfe* claimants. Such *Hilfe zum Arbeit* schemes had until recently been interpreted as rehabilitative work in municipal services such as gardening, clerical and administrative work (Breuer, 1999). However, new temporary employment and training programmes have begun to expand into more structured welfare to work strategies.

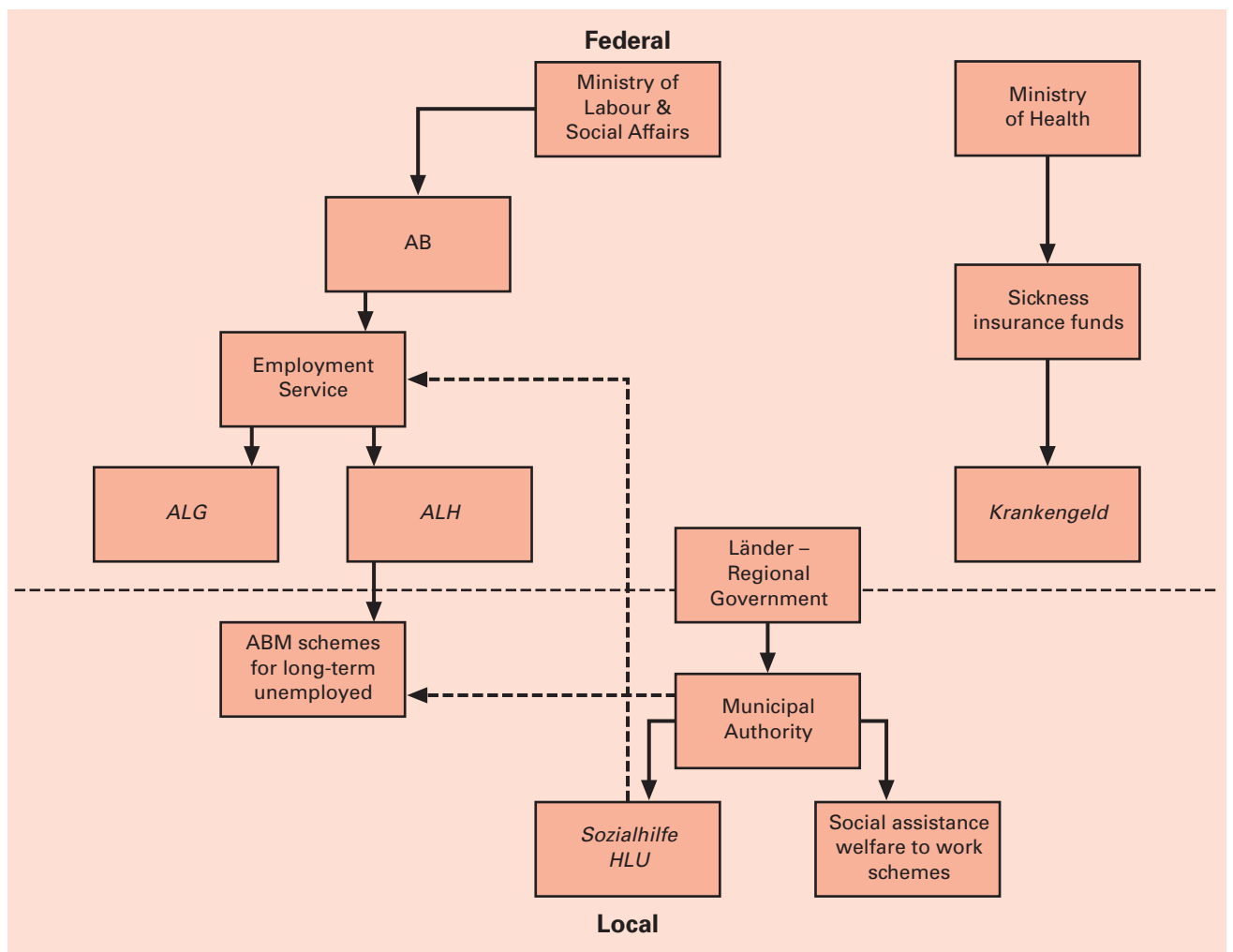
#### **The German policy map**

Figure 6 shows the German institutions and their responsibilities. The divide between Federally run employment policy and locally run social assistance policy characterises the institutional basis of German welfare to work. Contributory unemployment benefits and employment services are the responsibility of the Federal Institute for Employment (*Bundesanstalt für Arbeit*) in Nuremberg. The benefit provisions exist alongside the other programmes of the Employment Promotion Act – the *Arbeitsförderungs-gesetz* (AFG). At the Federal level, passive and active programmes are aligned. Benefits for the unemployed include special provisions for seasonal unemployment in the construction industry, and short-time working. The main organisational divide in Federal policy is between the social insurance schemes for unemployment and health. The overlap between sickness and unemployment is not always a smooth one.

Claimants who are able to return to work after a period of sickness are able to claim unemployment benefits. Bolderson *et al.* (1997) have noted the inherent institutional 'trade barriers' between the different funds and responsibilities, between insured invalidity and unemployment, and between insured and uninsured risks.

*The difficulties of categorising people as either incapacitated or long-term unemployed, as employable and therefore recipients of unemployment benefits or 'unemployable' requiring social assistance, etc. are especially visible in the German arrangements ... There are incentives for not accepting claims or for moving beneficiaries on, and these are likely to have effect in the 'mixed*

<sup>1</sup>*Arbeitslosenhilfe* is an earnings-related benefit – a hybrid between insurance and assistance provision.



**Figure 6 The German policy map**

*contingency' cases... [and] can also result in 'passing the parcel' in respect to individuals.*  
(Bolderson *et al.*, 1997 p. 162)

Unemployment is clearly defined by the German Employment Promotion Act as people who register at the local employment office. This core definition misses a large portion of the potential unemployed, for instance newcomers to the labour market and married women who have no entitlement to benefit and no reason to register. The Germans call these people the 'silent reserve'.

The dominance of Federal unemployment benefits and *Arbeitsamt* in German unemployment has meant that *Sozialhilfe* sat awkwardly in the past with these structures. It is local policy that has changed to respond to the problem of increased costs and the increased needs to make benefits more geared to employment and training programmes. In Hamburg, the *Arbeitsamt* is increasingly used to determine the labour market status of claimants. However, access to Federal employment programmes is a

more sensitive issue and requires local agreements between municipalities and the *Arbeitsamt*.

## The Netherlands

A common description of the Dutch economy since the 1980s is a 'miracle'. This term refers to the turnaround of dismal economic performance in the 1970s and early 1980s. Significant structural labour market problems existed – high unemployment, negative job growth, high replacement rates and a high proportion of the working-age population claiming disability benefits in lieu of early retirement or long-term unemployment. One of the key ingredients to the turnaround has been a collective agreement between the social partners to moderate wage increases, restrain public spending and increase job growth. Over the 1990s, there has been a consensus to further tighten public spending, reduce non-wage costs on employment and lower the number of inactive claimants of social assistance and disability benefits.



Holland has been well placed economically and geographically to benefit from European trade with a large service sector (65 per cent of GDP). Politically, it has relied on coalition government with a period of Christian Democrat (CDA) led coalitions in the 1980s and early 1990s under Ruud Lubbers. In the 1994 elections, the Dutch Labour Party (PvdA) led a political resurgence against proposals for pension reform and it has been the major party in two subsequent governments. However, liberal economic policies have continued and privatisation – including the Employment Services and administration of social security benefits – has carried on alongside continued structural reform of taxes and benefits.

The Dutch have reduced the social security taxes on low-paid employment (SPAK) and this is believed to have created 60,000 jobs since 1996 (OECD, 2000a). A series of tax credits to bolster incomes from low pay will be introduced as part of a comprehensive review of the income tax system in 2001. Active labour market programmes have expanded to include work experience and public employment programmes for the hard to serve, and social assistance has been recast to prioritise social and economic reintegration. Several changes have been implemented to reassess the very large cohort of disabled people on benefits but little success has been made in moving these people into work. Numbers have begun to grow again despite employment incentives to lower exits from work and to increase re-entry.

### **The Dutch Claimant Reservoir**

The Dutch social security system is a legacy of the corporate post-war social contract made between the dominant political players: the Christian Democratic Party, the Social Democratic Party, the employers' organisations and the trade union movement. It prioritised full employment and improvements in the welfare state, and adopted earnings-related social insurance as core provision. Subsequently, citizenship benefits – 'people's insurances' – were introduced, covering old age, widow pensions and health care. Beneath such universal schemes was the Dutch system of social assistance, conceived centrally but run by municipal authorities. A statutory minimum wage was introduced in the late 1960s and citizenship benefits and social assistance rates were linked to that income level.

Contributory unemployment benefits – *Werkloosheidswet* (WW) – are financed by equal employee and employer contributions of 2.55 per cent of salary. Benefits are paid at a basic rate of 70 per cent of previous earnings, less income tax and social insurance contributions. There is also a minimum level of benefit calculated according to

the social minimum, which is itself based on the minimum wage. This means that a minimum level of 100 per cent of the minimum wage is guaranteed for a married couple, 70 per cent for a single person and 90 per cent for a single parent. Such minima echo the provisions of social assistance and prevent the need for supplementation. Indeed, if WW does fall below the equivalent rate of social assistance, benefits can be increased to match this level. There is also a maximum benefit calculation based on an underlying wage rate of 305.96 Dutch florins per day. Claimants have to pass two contributory thresholds to qualify for benefit:

- 1 to have worked for one year in the past four to five years (waived in part for women who have been at home looking after children who only have to show they have met 50 per cent of such a work record)
- 2 to have worked 26 out of 39 weeks prior to unemployment.

Duration of WW varies according to age and work history. Six months is the maximum duration for those with work histories of four years or less, while five years is the maximum for those with work histories of 40 years. What happens when entitlement to WW ends? In the first instance, benefits are extended for a period of up to two years at a minimum level (70 per cent of the minimum wage). They will be brought up to the equivalent of social assistance where required, but without a means-test.

Sickness and disability benefits have been an infamous part of the Dutch system because of the huge growth in disability programmes during the 1980s (Aarts and De Jong, 1996). Disability benefits – *Wet op de Arbeidsongeschiktheidsverzekering* (WAO) – in 1991 had more than 900,000 claimants – some 13 per cent of the labour force. The growth of the 'disabled' population was thus a pool of hidden unemployment. This growth coincided with the entry of a large cohort of younger workers to the labour market that hindered the exit from disability benefits for older workers with health problems. The Dutch have now tackled this legacy by changing rules and incentive structures to reduce access into and increase flows out of sickness and disability cover. Since 1996, the first year of sickness and disability cover for workers has been privatised and taken out of social insurance. There are mandatory obligations on employers to insure privately and to provide sick pay for 52 weeks or to the end of the employment contract if shorter. The sick pay is at least 70 per cent of earnings, but can be higher according to local union negotiation. There is a minimum benefit that is equivalent to the minimum wage.

Social insurance disability benefits (WAO) are now paid only to those still disabled after one year and are assessed more rigorously in order to assess 'partial disability', so that the disability insurance pays for the loss of earning capacity for the claimant while unemployment benefits provide an additional element of income. Thus, only those who after one year establish that they are wholly disabled *and* unable to work can receive full disability benefits. When assessing disability and ability to work, previous work history and labour market demand have been taken out of consideration. WAO is no longer of unlimited duration but age is taken into account to target higher benefits of longer duration to the older claimants. The maximum duration is six months for those aged 33 to 37, while WAO can be paid up to pension age (65) for those aged over 58. At the end of these fixed-benefit periods, eligibility for WAO is reassessed. The impact of introducing much stricter tests on existing claimants was lessened by transitional rules that exempt them from parts of the reassessment. For British interest, one of the main developments of the changes was that any WAO case assessed as less than 80 per cent disabled is defined both as partially disabled *and* unemployed, and must register with the public employment services (*Arbeidsbureau*).

There have been several attempts to encourage demand for workers with health problems in order to increase exits from WAO. Legislation introduced a target for employers to make the disabled 5 per cent of newly hired employees but this has not been successful to date. There has been the recent introduction of employer subsidies for hiring disabled workers but the effect of this on job brokering for the partially disabled claimant reservoir has yet to be assessed. Reintegration measures are thus currently predicated mainly on *Arbeidsbureau* job mediation – with some access to public jobs designed to help the long-term unemployed.

Social assistance for the unemployed claimants is called RWW (*Rijksgroepsregeling Werkloze Werknemers*) and is administered by a special social office – the *Sociale Dienst* – in municipal authorities. The distinguishing feature of RWW is the continued requirement to register with the *Arbeidsbureau*. The *Sociale Dienst* co-ordinates the payment of benefits and undertakes casework. Social assistance is funded through a central government specific grant paid for by general tax revenue that covers 90 per cent of benefit costs. The remaining 10 per cent is found from local revenue (in the main municipal block grant funds from central government). Specific funds for job creation and other employment-related programmes come from central funds. The majority of social assistance

claimants are classified as 'unemployed', but there is both a general benefit, *Algemene Bijstandswet (ABW)* – paid to some lone parents, the elderly and others – and two smaller schemes for more specific populations. The older unemployed (those over 50) and older partially disabled self-employed (over 55) can be covered by different social assistance rules – IOAW/IOAZ (*Inkomensvoorziening Oudere en Gedeeltelijk Arbeidsongeschikte Werkloze Werknemers/Gewezen Zelfstandigen*) respectively.

The definition of the unemployed for social assistance is very wide and differs remarkably from British assumptions. Lone parents with children over primary school age, the partners of claimants and partially disabled people are all more likely to be defined as unemployed than their British counterparts.

### **The Dutch policy map**

The Ministry of Social Affairs and Employment (*Ministerie van Sociale Zaken en Werkgelegenheid* or SZW) oversees all social insurance and social assistance policy as well as employment. Social insurance benefits (other than pensions) – primarily WW and WAO – are themselves overseen by sectoral boards – *Berijfsverenigingen (BVs)* – that run five social security organisations that are themselves co-ordinated by an umbrella organisation (*Lisv*). Actual benefit administration has been privatised and is run by agencies – GAK (*Gemeenschappelijk Administratiekantoor*) offices being the main ones for the unemployed. Local authorities administer social assistance (although there is pressure to privatise this administration). Active labour market programmes for reintegrating both unemployed and social assistance claimants are now run by privatised organisations. The public employment service, *Arbeidsvoorziening (ABV)*, is a separate agency that reports to the SZW and administers both brokering and training services, which can be purchased by social security providers, as well as other labour market services such as work permits.

The complexities that arose from the divisions between the social insurance bodies and from structural divide between these and social assistance have been a major focus of attention for the Dutch. Integration of front-line employment services into single work-focused Centres for Work and Income (CWIs) has therefore been a major area of reform – but primarily driven by organisational objectives. Under the original proposals, CWIs were to be introduced in a bottom-up fashion under central guidance. Each locality would draw up their own proposals and over 80 CWIs have been introduced. However, the private

administration of social insurance benefits led to institutional incentives that were unwilling to share the larger costs of co-servicing harder-to-serve populations. Since 1999, there has been more fundamental reform of social insurance provision that effectively deprivatises them and amalgamates them into a joint not-for-profit conglomerate. This new UWV(Uitvoeringsorgaan Werknemerverzekeringen) will take over all administration of social insurance benefits. At the same time, the ABV will be disbanded and the CWI will take over all job-brokering services with all reintegration programmes – education, training and employment run by private providers.

Figure 7 summarises both the old and new structures as they are either currently found or envisaged. The old structures are shown in full lined and the new in dashed lined detail. The actual benefits remain unchanged and are shown in the boxes. CWI implementation is supposed to be complete by the beginning of 2001.

## Welfare, employment and the claimant reservoirs

These national descriptions have shown how far the definition of who and what constitutes ‘welfare’ in ‘welfare to work’ differs across the five countries. There are several conclusions.

- There are groups in the British welfare to work target group that are not apparently covered in other countries – for instance, long-term sick and disabled people in France and Germany.
- The British emphasis on means-testing and flat-rate benefits places great importance on determining status on the basis of current claimant circumstances. The French and German social insurance systems tend to define people more on their past contributory record and at their point of access to the system. This means that, for instance, unemployed claimants can have chronic illness and partial disablement and still remain defined as unemployed.

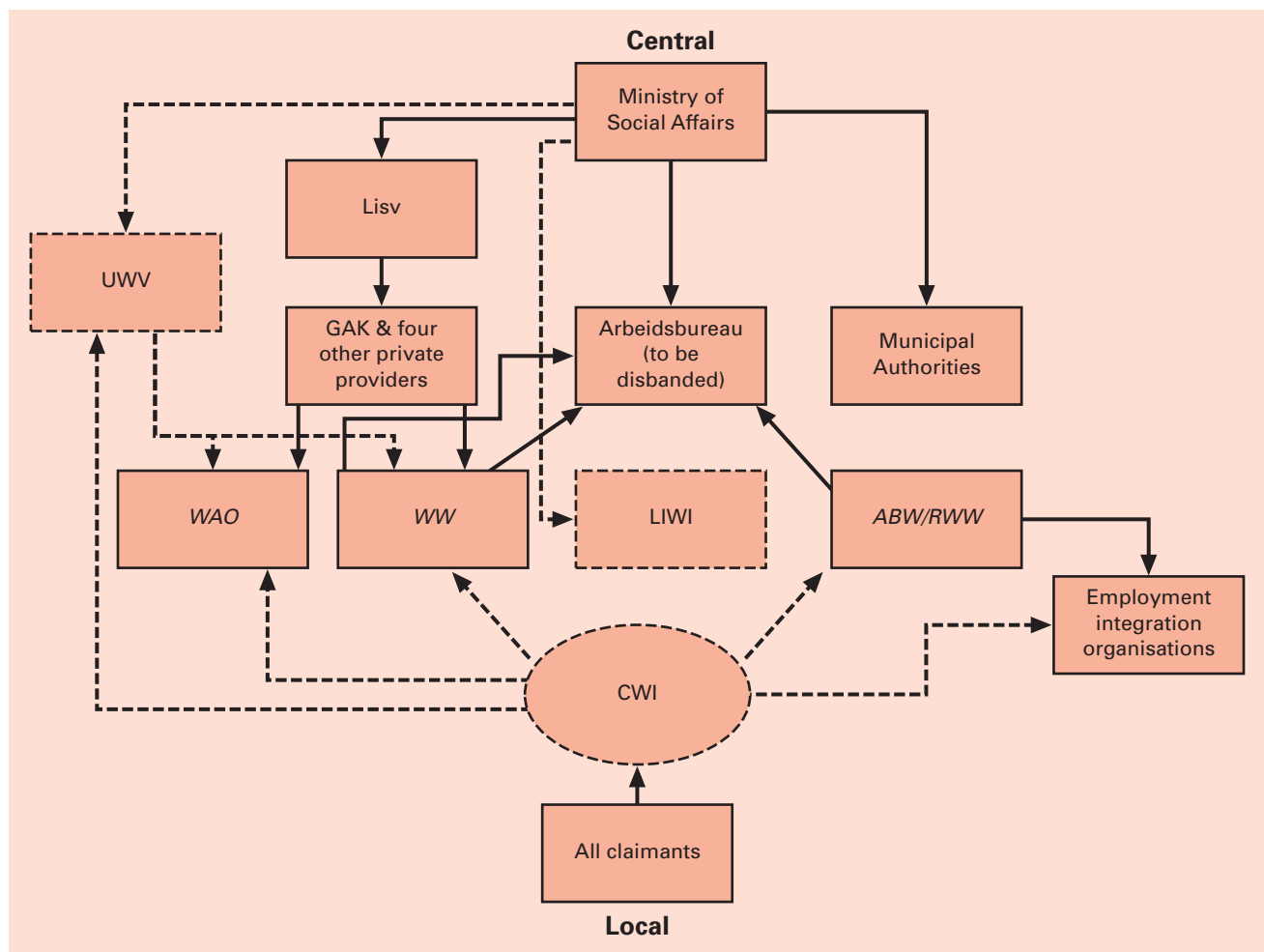


Figure 7 The Dutch policy map

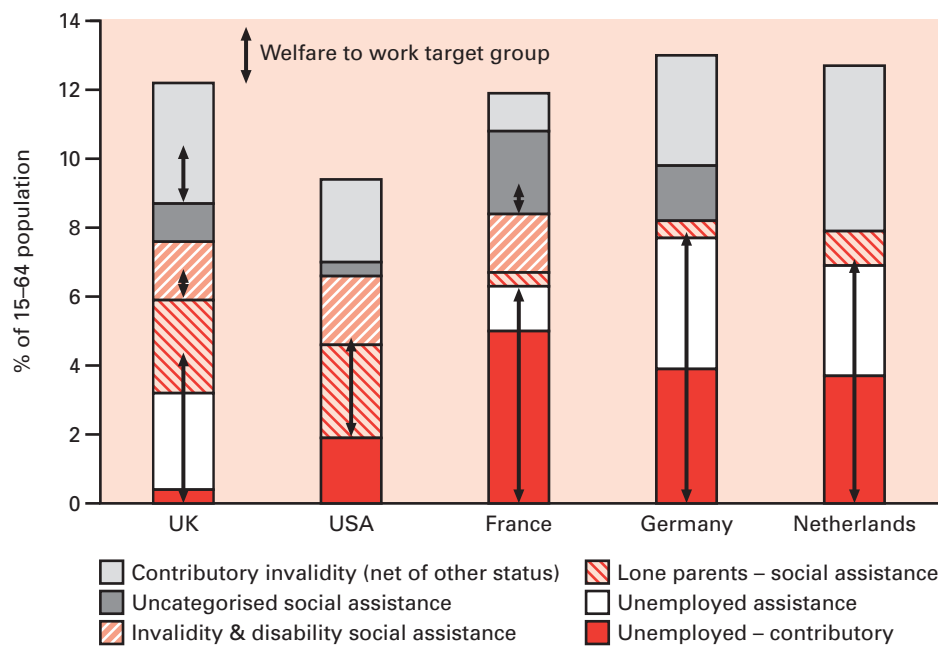
- Employer-based schemes of sick pay, sickness benefit and disability tend to protect their funds against encroachment by unemployed cases. Dutch, French and German systems give partial disability benefits to supplement earnings. Full invalidity benefits paid to people out of work require between 80 and 100 per cent assessment of disability.
- The British definition of welfare also encompasses groups that simply are not covered by benefits in some other countries. In particular, this applies to under 25 year olds in France and to the majority of able-bodied unemployed without children in the USA. (In France, the situation is somewhat more complicated because young people can still be indirectly covered by family tax allowances and by family allowances, but less so, paid to their parents.)
- The different definitions and different relationships between programmes and institutions make the claimant reservoirs for active labour market programmes difficult to compare exactly in their size composition to the British welfare to work target group.

However, it is important to compare who is included in each system in order to appreciate how far policy *selects* claimant groups for active labour market programmes from the potential reservoir and thus how far selection alters our appreciation of their outcomes.

Figure 8 summarises the relative size and composition of working-age claimant reservoirs in the five countries and the main target groups for welfare to work programmes. The four European systems each produce a claimant reservoir of similar size – around 11 to 13 per cent of the 15 to 64 population. The USA stands out as having an overall smaller reservoir, but one has to remember that only around one-third of its unemployed are covered by either UI or social assistance.

The national composition of the claimant reservoirs is also noticeably different, with the British system having the smallest proportion in contributory unemployment of any of the five countries and the smallest proportion defined as unemployed among the European countries. Britain and the USA have the largest proportion of lone parents. The size of the invalidity/disability claimant populations is smallest in France and Germany and largest in the Netherlands, GB and USA in descending order.

The targeting of welfare to work also differs greatly as indicated in Figure 8 by the position and size of the arrow indicators. The US has the smallest and most specific target group – lone parents and the few others on social assistance. European levels are higher. In France, Germany and the Netherlands, the target groups are primarily the unemployed – which, unlike the US, include



**Figure 8 Claimant reservoirs and welfare to work target groups, 1997**

Sources: DSS (1998a, Table 1); US Department of Commerce (2000); US Bureau of Labor current population survey; DHHS (2000); US Social Security Administration (1998); US Department of Labor unpublished data on UI receipt; UNEDIC (2000); CNAF (1999); unpublished data from UNEDIC and CNAF; unpublished data from CNAM; Statistisches Bundesamt (1999); Bundesanstalt für Arbeit (1998); unpublished data from Verband Deutscher Rentenversicherungsträger; Centraal Bureau voor de Statistiek (1998); Eurostat (2000).

the long-term unemployed and which, unlike Britain, include partially disabled claimants. These three European countries also include lone parents where they are in general social assistance schemes subject to their children being of school age. The British target groups are essentially the same as the continental European countries but people with partial disability are, on the whole, a separate group of claimants rather than part of the unemployed population. The US long-term sick and disabled claimants fall completely outside of the 'welfare to work' rhetoric even though there have been a number of schemes to promote work.

Figure 8 is intended as a summary of estimates based on real claimant counts and not as a precise itemisation of who is where and under what conditions. For instance, where the composition of generic social assistance cannot be exactly categorised – as in French RMI – this is shown as an undifferentiated group. Figure 8 is also only a *snapshot* of 1997 claimant numbers, chosen because it is the most recent year for a comprehensive set of data across countries and programmes. A snapshot misses the dynamic nature of the national economies and policy regimes. Germany and the USA, for example, were at very different points in the economic cycle in 1997 and the large number of invalidity benefit claimants in the Netherlands is explained by an older cohort with preserved rights to benefits.

Does the selection implied by the organisation of the claimant reservoirs and the targeting of welfare to work programmes have any discernible difference in national profiles of employment and unemployment? This question

is now briefly explored before turning to Chapter 2 and a discussion of labour market activation.

### Unemployment, growth and the organisation of the claimant reservoir

Moving away from a static picture of 1997, each of five study countries has experienced cyclical rise and fall in unemployment and underlying economic growth. Figure 9 shows the standardised unemployment rates between 1988 and 1999 for each country. By 1998 and 1999, unemployment was falling in all five countries but from very differing levels and with slightly different underlying cycles. UK, French and American unemployment rates all rose from 1990 but those in the Netherlands and Germany continued to decline until 1991 and 1992 respectively. As Figure 10 shows, actual recession, negative GDP growth, occurred earliest in the USA and UK in 1991, while Germany and France bottomed out two years later. The Netherlands never had negative GDP growth in this period but had its lowest growth rates in 1993. Since 1994, all five countries have had positive annual growth.

Since recession, unemployment has fallen continuously in the USA from 1992 and in the UK from 1993. In the Netherlands it peaked in 1994 but has fallen rapidly since. German unemployment rose in 1996 and 1997 to 10 per cent and has subsequently fallen. 1997 is thus the worst year in the past decade for German unemployment. French unemployment, at around 12 per cent from 1992 to 1997, has also fallen in recent years.

The underlying structural rates of unemployment differ – they are much higher in Germany and France than in the

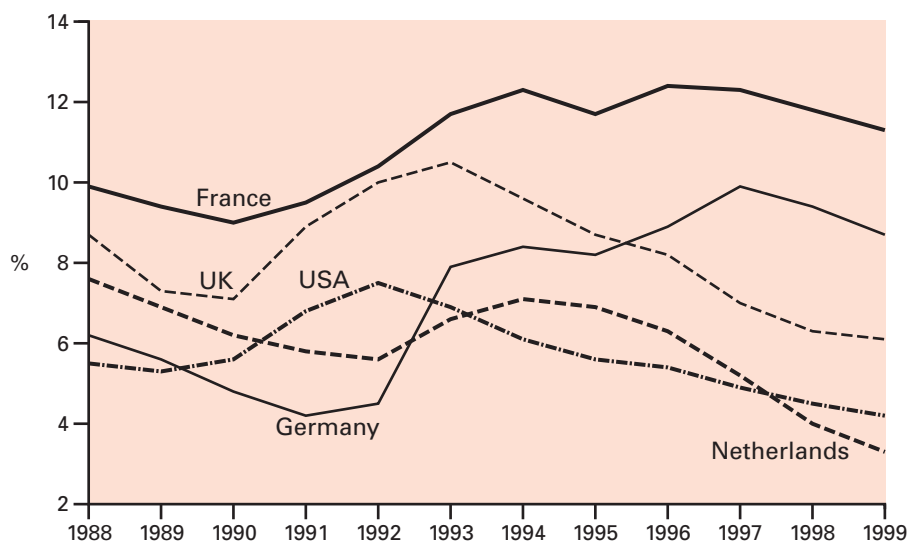
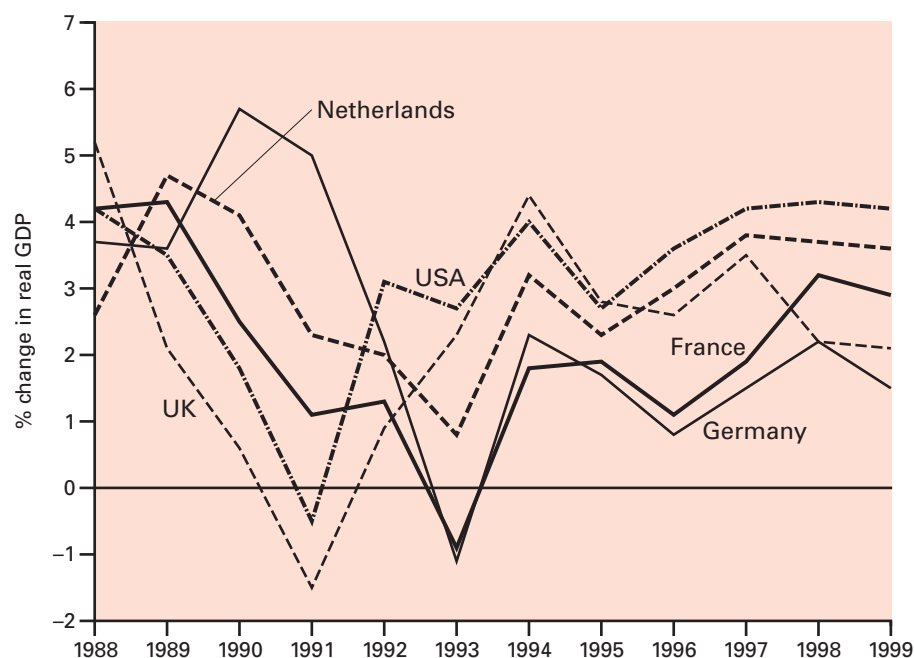


Figure 9 Standardised unemployment rates, 1988–99

Source: OECD (2000b)



**Figure 10 Annual growth in GDP, 1988–99**

Source: OECD (2000b)

three other countries (OECD, 2000c). However, when the unemployed are put in a wider context of economic activity and inactivity, a more nuanced picture emerges.

Taking the period since 1994 when all five countries have had continuous growth despite differing unemployment and cyclical histories, it appears that the unemployed and inactive populations do not exactly correspond. Table 2 shows increases in employment (i.e. job growth) alongside changes in unemployment and the contribution that falling unemployment has made to job growth. Only Germany has not had overall job growth between 1994 and 1998, unlike UK, France, Netherlands and the USA. Employment has grown fastest in the Netherlands 12 per cent, then the USA 6.8 per cent and the UK 5.6 per cent and lastly France 3.1 per cent. This employment growth has reduced the claimant reservoirs and especially the unemployed. In these countries, the numbers of

unemployed decreased over the same time but at different rates. The UK and Dutch unemployed fell by around a third and American unemployment by 22 per cent. French unemployment, as we know from Figure 9, fell least, by just under 2 per cent. These differences are partly due to the difference in the economic cycle between countries and the original incidence of unemployment. However, when we look at the crude proportion of job growth that is attributable to declining unemployment, there are substantial differences between the countries. Taking the three countries with the largest job growth – the UK, Netherlands and USA – decline in the UK’s unemployed accounts for almost two-thirds of its job growth whereas in the US and Netherlands such declines only account for around a fifth.

One possible reason for this is that the unemployed claimant group in Britain can be moved into jobs more

**Table 2 Changes in employment and unemployment, 1994–98**

	% growth in employment	% growth in unemployment	% contribution of change in unemployment to growth in employment
UK	5.6	-33.3	64.0
France	3.1	-1.8	8.4
Germany	-0.5	11.9	218.0
Netherlands	12.0	-31.5	19.5
USA	6.8	-22.3	21.0

Source: Author’s calculations from OECD (2000b).

easily through the underlying sorting and selection of policy regimes and institutions. The UK unemployed contain few people with limitations on their ability to work or their availability for work that arise from caring for children and chronic ill health and disability. This is less the case in the other countries.

But the story is not just about the unemployed; it is also about the inactive populations who can be recruited into the labour market during periods of job growth. However, the inactive population is an extremely heterogeneous group and there are large national differences in composition. These can be accounted for by female participation rates, participation in full-time education and other factors. Table 3 shows the proportion of the 15–64 population groups (16–64 in the USA) who are inactive, growth of such populations between 1994 and 1998, and the proportion of this group who would like to work in 1994 and 1998. The inactive populations have been adjusted to take account of the different national participation rates in higher education (except in the USA, where this could not be done).

The four European countries provide the most consistent and contrasting comparison. The UK and Netherlands have slightly higher proportions of working age populations inactive – over 22 per cent – than Germany (21 per cent) and France (19 per cent). These populations grew between 1994 and 1998 by over 1.5 per cent in France and Holland, by 1 per cent in the UK and by 0.5 per cent in Germany. However, when we turn to the proportion of these populations that would like to work, the UK has the highest proportion and this grew over the period – from 23 to 25 per cent. The Netherlands also had over 22 per cent of its inactive population who wanted to work in 1994 but this declined slightly by 1998. Both these countries experienced very large falls in

unemployment over the same period. In 1994, both France and Germany, the high structural unemployment countries, by comparison had around only 3 per cent of their inactive populations who wanted to work. By 1998, this had hardly changed in France – despite low job growth and slowly falling unemployment, while in Germany it had risen very markedly to 8.2 per cent.

The US data tell a different and not exactly consistent story to the other four countries. They show 22 per cent of 16–64s inactive with a large growth of almost 7 per cent between 1994 and 1998 but a decline in the proportion that would like to work from 14.8 to 11.2 per cent.

When the two profiles of unemployment and inactivity are considered together, there is circumstantial evidence to support a proposition that the organisation of the claimant reservoir has an impact on national profiles of unemployment and inactivity, and on the take up of employment by unemployed and inactive groups. The evidence for British selection and sorting of its claimant reservoir comes from the combination of relatively steep declines in unemployment and the fact that over 60 per cent of job growth is crudely explained by such declines. At the same time, Britain also has a high and growing proportion of inactive people who would like to work. These trends are not shared to the same extent by the countries that have also grown fastest and have least unemployment – Netherlands and USA.

## Summary of Chapter 1

How does the British definition of the target population for welfare to work programmes compare with other countries?

**Table 3 Changes in inactivity and desire to work, 1994–98**

	Inactive as % of all 15–64 population 1998*	Growth 1994–98 (%)	% of inactive who would like to work	
			1994	1998
UK	22.2	1.0	23.0	25.0
France	19.4	1.7	3.0	2.8
Germany	21.4	0.5	3.3	8.2
Netherlands	22.7	1.6	22.3	20.9
USA**	22.0	6.8	14.8	11.2

\* Less those in education.

\*\* With no reduction for those in education and 16–64 population.

Source: Author's calculations from Eurostat (1996, 2000) and US Bureau of Census and Bureau of Labour Statistics (unpublished data).

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- All five countries divide claimants into a reservoir of several claimant groups. The divisions are more often based on distinctions between the socially insured and socially assisted in the USA and continental Europe, but all systems appear to have problems at the boundaries between sickness/disability and labour market activity.
  - The British definition of unemployed claimants contains fewer people with sickness and disability than continental European systems where social insurance is more dominant.
  - American unemployed claimants represent only around one-third of the unemployed. British and continental European systems cover more of the unemployed – both short-term and long-term unemployed.
  - The American definition of ‘welfare’ represents not only a very small and particular group of claimants – families with children on social assistance – but also a policy area with low political support for the claimants, who are highly marginalised and subject to significant prejudice – often implicitly racial.
  - European continental selection for welfare to work programmes is based on the insured unemployed and the non-disabled social assistance population.
  - Britain has lagged behind America and Continental Europe in offering welfare to work provision for non-employed social assistance claimants. Such claimants tend to have access to a fuller range of services abroad.
  - Britain appears to be able to move more of its unemployed into work during periods of job growth than other countries experiencing a similar economic cycle. At the same time, it has a larger and growing proportion of its inactive population who would like to work.



## 2 Activation and economic insertion: welfare TO work

Policies that ‘activate’ the receipt of cash benefits in order to encourage participation in work are at the heart of welfare to work programmes. However, the term ‘activation’ is often used misleadingly to imply that benefits were ‘passive’ beforehand. This has rarely been the case unless claimants had already been assessed as having no need to look for work as a condition of claim. Even where such ‘passive’ claimants had been allowed to receive benefits without looking for work, they had often continued to do so. One change in policy that has already been identified in Chapter 1 has been to reassess the policy distinction between groups in the claimant reservoirs that are required to register as unemployed and others. This theme – of redefining boundaries – is further examined in this chapter along with some of the ways that reorganisation of the claimant reservoir is occurring in the five countries.

A further theme of activation is in the growing use of more strict entitlement rules. This can mean that the rules about job search become more onerous and/or that participation in activation programmes becomes a compulsory condition of entitlement. This chapter examines a range of approaches to changing entitlement to benefits. One extreme position has been to withdraw all entitlement to benefits with the expectation that employment will replace welfare for the majority of claimants while other approaches have sought to increase obligations of claimants either to move into work or to train.

Policy across all five countries – and indeed across the EU and OECD countries – is putting more emphasis on preventing long-term unemployment and on increasing the focus on work and training. At the heart of the new (so-called) approach is the principle of improving individual employability. The OECD Jobs Study (OECD, 1994) and the European Employment Strategy formulated at the Luxembourg Employment Summit in 1998 encapsulate such approaches. The term ‘employability’ is ill defined. Behind the fuzzy concept there are different theoretical approaches but an emerging coherent set of policies that differ between countries (Gazier, 1999). European Commission guidelines have defined policy benchmarks and policy priorities for the young and long-term unemployed, and seek to extend active training and work experience programmes to the unemployed and others in the EC (EC, 1998).

This new policy approach therefore incorporates a widening of access to welfare to work programmes and

greater conditionality. The task of administering programmes increases as a result and the role of other organisations besides the public employment services grows. This chapter also assesses the roles of third-party intermediaries in welfare to work programmes.

The chapter is organised around five core themes in activation and economic insertion. These reflect a range of policy changes that have been used to make benefits more work-orientated and to improve outflows into work:

- redefining the boundaries between claimant groups and the provision of co-ordinated administration of benefits and services through such initiatives as ‘work-focused gateways’
- altering entitlement to benefits through a range of options from terminating entitlement altogether, making entitlement more conditional and increasing obligations to compulsory participation for those who are entitled
- changing the focus of work participation and training
- moving towards a more individual-centred approach
- using third-party intermediaries.

### **Redefining the boundaries – co-ordinated administration**

The first issue is to address the problems of boundaries and organisation that have been outlined in Chapter 1. Several countries have attempted to co-ordinate services and benefits more effectively across organisational boundaries. The British problem resulted from a centrally run but highly categorised flat-rate system in which only the unemployed had access to active labour market programmes and public employment services. The New Deals are aimed at the stocks of claimants but access to the benefit system is also being reorganised around what has been called a ‘single work-focused gateway’. The implementation of this approach is currently being piloted in a number of sites based on both physical and call-centre based approaches, and has been named the ONE service. The basis of the new service is to provide all non-working claimants of working age with a single point of contact for their claim. To do so, the ONE service brings together Benefits Agency, Employment Service and local authority Housing Benefit assessment (and Child Support Agency) so that all aspects of a claim can be dealt with at a single point. In addition, the ONE approach offers access to training and labour market services through a personal

advisor to all claimants, not just the unemployed. The approach introduced a compulsory work-focused interview by a personal advisor as part of the claim from April 2000. This interview is part of normal procedures for assessment and casework for the unemployed, but is used for others to plan a work or training strategy.

The complete merger of the Benefits Agency and Employment Service into a single Working Age Agency has also been announced but discussions are still under way about how this will be implemented and it is unclear how far the ONE approach will be carried forward into the new agency.

Dutch policy has also moved to introduce a single work-focused access to social assistance and social insurance benefits for working age people – Centres for Work and Income (CWIs). However, the primary aims of the CWI approach appear based on organisational integration under a high-pressure climate for increased efficiency and privatisation of administration. Privatised public employment service (PES) and social insurance administration meant greater co-ordination was required to ensure that dumping (leaving the hardest to serve to others) and cream skimming (choosing the most employable) were reduced. This is one reason why the ‘comprehensive approach’, including the four-phase approach to profiling claimants, was introduced – to distribute tasks consistently between the competing and separate administrative interests. Implementation has been planned incrementally on the ground so that each municipality can set up its own working arrangements. All claimants should have access to a CWI site by 2001.

The US move to ‘one-stop’ provision was primarily driven to bring together the employment and training programmes that spanned several agencies into single access points. This move has been accompanied by a tightening of administrative budgets, which has encouraged efficiency improvements and greater use of information technology. Customer service has become a more important issue at the same time as private providers of employment services have grown and hence self-service provision for job seekers has also grown. Employment services one-stops are not usually linked directly to welfare reform. Indeed, the whole policy direction of employment and training programmes in the US has been to move towards workers who need to reskill or relocate rather than the disadvantaged (OECD, 1999b, p. 198). However, in some States, the labour market information side of public employment services has been incorporated into welfare employment services. For State-

based welfare, then, the picture of administrative co-ordination differs hugely between States. The work-first approach has encouraged the positioning of employment services and personal advice together. Wisconsin and New York City have followed similar policies of integrating welfare offices and welfare employment services into a single point of contact – called Job Centers in New York. However, other aspects of claiming, such as verification of identity and address, were separated prior to this in New York – a move seen as deterring claims by local advocates. One hugely important issue for co-ordination in welfare policy is the delivery of Food Stamps and Medicare that have historically piggybacked on AFDC/TANF claims. The move to a co-ordinated and diversionary approach to TANF (that is, an approach that seeks to divert claimants from entering the system – explained in more detail later in this chapter) has meant that administration of Food Stamps and Medicare for the same population has suffered. Indeed, in New York City, it led to litigation because the new Job Centers were not implementing Federal procedures for claiming and entitlement.<sup>2</sup>

French and German co-operation and co-ordination are not as extensive as in the Netherlands and Britain. Since 1998, the federally run and financed German employment service has been encouraged to set joint goals and programmes in place with municipal social assistance.<sup>3</sup> This has led to specific staff being employed to deal with *Sozialhilfe* claimants in *Arbeitsamten* as well as integrated claimant intakes, for example in Harburg in Hamburg. However, such initiatives do not alter the fundamental financial and structural differences between locally financed social assistance and federally financed unemployment benefits and employment services. The benefits of employment programmes for *Sozialamt* are still too often seen as qualifying them sufficiently to pass over the contributory barrier and onto the Federal bill (Vosages *et al.*, 2001). The public employment service in France, ANPE (*Agence Nationale pour l'Emploi*), is seen as the central agency to the wide range of employment programmes and the central agency for referral. ANPE has had the task of benefit entitlement and conditionality taken from it and given to the ASSEDICs. This should enable ANPE to focus more on vacancy taking and job brokering, and to widen its services to claimants of RMI. The co-ordination of these services for claimants who are not part of the core unemployed target group is the job of

<sup>2</sup>*New York Times*, 23 January 1999. The City admitted that strict diversion procedures violated Federal Law and changed administrative practice – see *New York Times*, 25 May 1999.

<sup>3</sup>*InfoMISEP Policies*, No. 63, Autumn 1998, p. 28.

the *Prefêt* who oversees regional plans and agrees local plans for urban renewal, youth employment, etc. In practice, this means that local ANPE offices have had increased specialised staff complements to take forward specific initiatives, and that links between *Mission Locales* and other agencies have been strengthened. However, even those in the system recognise that brokering outcomes across the many agencies and programmes that exist is to push against great bureaucratic inertia.

All the moves to greater co-ordination are based on similar concerns about selection, administrative inefficiency and greater co-ordination that should benefit both claimants and policy makers. However, evidence of significant financial benefits is not as yet forthcoming – it is too early to say in most instances. Forcing the different participating organisations to co-ordinate and act in a crosscutting, rational way brings up different views on what is efficient and rational. Interviewing a representative of GAK in the Netherlands brought out how much resentment there was in redesigning their procedures to take into account the harder-to-serve social assistance claimants. Britain may face similar dilemmas and conflicts of interest with an Employment Service unused to helping those who are most distant from the labour market and expensive to help because of child-care needs and illness and/or disability. The pressures to lower the benefit budget for these claimants, who are very likely to have longer than average time on benefits, will make access to employment services a critical issue for the DSS/Benefits Agency. Amalgamation of the two sets of strategic interests – ES and BA – will not solve the problem in itself. The potential benefits are great as long as increasing resources for employment services accompany widening access. However, there are real dangers too. How will the needs of claimants for income security out of work be balanced against the pressures to widen the work focus? Helping the hardest to serve is difficult. Significant reductions in benefit spending may not come easily and policy makers may in their frustration seek to choose to alter rules of entitlement in addition to, or as an alternative to, one-stop approaches.

### **Altering entitlement to benefits**

All five countries have altered the rules of entitlement to benefits for some groups in the claimant reservoir to encourage movement into work. However, the extent of such changes varies greatly.

### **Terminating entitlement**

At one extreme is the experience in the USA where the tendency has been to introduce dramatic changes in entitlement that have immediate effect. There are groups who have had all the benefit entitlement removed, others who have had it reduced and many who have had to meet completely revised conditions of entitlement. British readers should realise that these changes are to social assistance cases – ‘welfare’ in the US sense – and are usually introduced without safeguards for losers. This is in complete contrast to British policy change where cuts to entitlement, for instance the reduction of lone parent benefits on Income Support in April 1998 and the complete removal of Severe Disablement Allowance in 1999, were only for new claimants. British claimants are usually protected from nominal cuts in benefit.

In the USA, State-run General Assistance (GA) schemes – especially those for the able-bodied without children – have been hugely cut back in recent years. Since 1989, the number of States providing such benefits has almost halved from 25 to 13 (Gallagher, 1999). Overall, the numbers claiming GA fell from one million to 770,000 over the same period (US Department of Commerce, 2000) because the States with the largest GA populations – California and New York – have maintained them, but at often reduced levels. Termination of GA was advocated on the grounds that the recipients were able to and should work rather than live on benefits. Evidence from the few studies that followed the fortunes of such terminated claimants suggests that this is not always the case. In Michigan, two years after GA ended and 80,000 people lost benefits, only 38 per cent had found formal employment in the intervening time (Danziger and Kossoudji, 1995). When the reasons for post-termination employment and unemployment were examined, it was found that older claimants, those with disability and poor health, and black men fared worst in employment – even when previous work history was taken into account (Henly and Danziger, 1996).

The 1996 US welfare reforms (PRWORA) also instituted time limits to TANF benefits for families with children. There is a Federal funding limit that means that States receive no Federal support for cases that have received TANF benefits for more than 60 months in their lifetime. States have discretion to operate different time limits and just under half have implemented tougher rules. Families had thus already reached time limits in 18 states by the summer of 2000. The situation is complex on the ground

because States exempt claimants from, or extend, such lower time limits in certain circumstances. For instance, Oregon stops the clock on time limits when claimants participate in work activities but sanctions those claimants who do not participate by ending their benefit, so compliant claimants never reach the state time limit. This growing policy practice seems to reflect a concern that claimants who remain on benefits for the longest periods are the hardest to serve. They have most barriers to independent sustained employment and under the post-1996 rules they will also have complied with strict participation rules. Florida has followed an approach that has allowed extensions to applicants who requested them – resulting in very small numbers of terminations. However, elsewhere, State time limits have kicked in and have withdrawn benefits from thousands of cases, as Table 4 shows for a selection of US States.

Table 4 shows how far implementation of welfare reform differs at the local level. The percentage of the caseload that reaches the time limit ranges widely from over half in Connecticut (55 per cent) to under 5 per cent in five other States. However, the implementation of full termination (there are no instances of States implementing benefit reductions reported here) occurs at very high levels in both sorts of State. Two States stand out in the size of their time-limit impacts. Nearly one quarter of Arizona’s claimants reached the State time limit and had benefits terminated, while Connecticut cut benefits from over two-thirds of its time-limited claimants, knocking out one-third of its total caseload.

European approaches that have ended entitlement have occurred only for the under-18s in Britain and the Netherlands. Evidence from both countries points to a substantial minority of this age group not participating in work, training or benefits as a result (Bentley and Gurumurthy, 1999).

The evidence of the effectiveness of terminating entitlement as a method of increasing work participation is mixed. The argument that providing benefits reduces work participation is now widely accepted, but any argument that complete withdrawal of benefits promotes employment for all who would otherwise claim benefit seems completely misplaced. The US experience shows how dangerous such an approach could be to the British Government’s aim to reduce poverty, inequality and social exclusion. The US debate has allowed the poor – and especially the poor who claim ‘welfare’ – to be seen as a marginal and separate underclass, a ‘them’ who are not like the working, tax-paying ‘us’ (Blank, 1998; Gilens, 1999). Complete withdrawal of benefits was an option that was implemented by policy makers and the results have not resulted in economic reintegration for many who have lost entitlement.

#### **Increasing conditionality**

While removing entitlement to cash benefits is primarily an American phenomenon, all five countries have tightened conditions of entitlement to benefits – either to lower benefit rates in order to improve replacement ratios, alter potential duration of benefit, and/or increase the onus on the claimant to job search and actively engage in work. Again, the USA stands at one end of the continuum of this trend. Indeed, at the strictest end of the continuum, it can be difficult to distinguish policies that alter entitlement from those that remove it altogether.

#### ***(a) Removing enforceable entitlement to and access to benefits***

The impact of the ending of Federal rules of entitlement to TANF has enabled States to implement a range of rules about who can claim welfare and under what conditions. Most States have adopted an overall approach to welfare known as ‘work first’ – but this label hides a large

**Table 4 State time limits in action**

	<b>Caseload</b>	<b>% caseload reached time limit by late 1998</b>	<b>% of time-limited claimants cut off</b>
Arizona	37,008	23.2	96.7
Connecticut	40,998	55.0	63.7
Florida	98,671	1.2	<1
Illinois	164,177	1.6	25.7
North Carolina	68,020	0.6	95.4
South Carolina	23,253	2.2	70.5
Tennessee	57,059	8.8	16.0
Vermont	40,791	1.3	100.0

Source: Author’s calculations from Havemann and Vobejda (1998).

Note: Selection of States as in original article.

variation in what is actually implemented on the ground. The work-first approach became prominent after the Californian GAIN evaluations of the early 1990s. These MDRC evaluations (Riccio *et al.*, 1994) compared two approaches to welfare to work: one based on finding work as immediately as possible and the other based on improving education and skills. The evaluation took results from different County administration districts that had implemented one or other of the models and found significant and substantial increases in employment and earnings, and decreased poverty in the work-first sites – particularly Riverside County. Although the differences were not very great, they represented a real step change in quantifiable policy outcomes from previous research. American welfare policy makers perceived that at last they had something that ‘worked’.

The overall philosophy of work-first approaches is ‘that any job is a good job and that the best way to succeed in the labour market is to join it, developing work habits and skills on the job rather than in a classroom. Work first programmes also share a strong message that, for participants, employment is both the goal and the expectation’ (Brown, 1997, p. 2).

But, in practice, the implementation of employment-focused welfare has meant very different approaches. Work-first principles can operate on all parts of the welfare caseload, and policies for the claimant stocks and outflows are described in greater detail below. However, implementation of work-first principles at the inflow stage of claiming benefits can have very significant impact on *de facto* entitlement to benefit. Some States, for instance Wisconsin, Oregon and more recently New York City, have implemented strict tests of up-front job search before applications for benefit will be considered. In other words, proof that one has looked for work is a prerequisite for a claim. For instance, evidence of 60 hours of job search within 30 days is required in the ‘W2’ scheme in Wisconsin (of which 50 per cent must be verifiable employer contacts) (Holcolm *et al.*, 1998). The effect of such policies on inflow rates can be dramatic – for instance, new claims fell by 75 per cent in the New York offices where this was introduced in the summer of 1998. When the W2 scheme was first introduced in Wisconsin and all of the existing caseload had to reapply under the new conditions, 53 per cent overall did not continue claiming and, even in the key urban area of Milwaukee, 43 per cent did not continue claiming (Swartz *et al.*, 1999). One effect of such a policy change is deliberately to remove TANF as a frictional unemployment benefit for a group of low-paid families with children, when only around 11 per cent of them qualify for UI (Vroman, 1998).

These and other up-front changes together tend to be labelled as ‘diversion’ policies and include the provision of one-off assistance or grants to provide for a need that underlies the claim for welfare, such as paying for the repair of a car that is used to get to work. Other diversion programmes include the identification and use of alternatives to welfare such as child care, Food Stamps and other assistance that can accompany work. Some diversion programmes will encourage seeking help from family and community resources rather than from public benefits.

Together, these diversion programmes can have the effect of fundamentally changing entitlement to benefits but much depends on the manner and style of their implementation. Where State approaches are driven by aims that emphasise reducing the welfare caseload without also emphasising sustainable and good quality in-work support, their value as welfare to work programmes should be questioned.

#### **(b) Compulsion and increasing obligations of claimants**

All five countries have changed the obligations of their claimants in some form or another in recent times. This is especially true for unemployed claimants but less so for lone parents.

The largest contrast in programmes for lone parents is between Britain and the other four countries. We are unique in that we do not expect labour market participation of lone parents until their youngest child is 16 (secondary school leaving age). However, recent changes to benefit rules mean that, since April 2000, lone parents have had to participate in a work-focused interview when demanded of them in certain circumstances. This is true for new claimants in the ONE service pilot areas and will also be the case in other areas where compulsory work-focused interviews are being tried out for lone parents. This mandatory participation in work or job search is very new in Britain, and is being introduced very tentatively and sensitively to ensure that parental decisions on the best interests of children are not unduly ignored. However, it is of longer standing and for a larger group of lone parents elsewhere.

Mandatory work participation for lone parents has been established as a central tenet of American policy. Prior to 1988, lone parents with children under the age of six (primary school age) were exempt from expectations to work or look for work. This age was reduced to three under the Family Support Act and then, in the 1996 Act, all age restrictions were left to States. Twenty-three States

use a 12-months rule (to match Federal assumptions on participation) and a further 16 States have six months or under. Wisconsin expects parental work compliance once a baby is three months old.

Research has shown that mandation raises participation in both education and work-focused activities and thus raises outflows from benefit (Freedman *et al.*, 2000). However, the evidence of the effect of mandation on children is mixed, showing small negative consequences for health, small positive consequences for cognitive development, and both positive and negative emotional and behavioural effects (Hamilton *et al.*, 2000). Most of this evidence is from pre-TANF evaluation.

However, the positive message from mandation has to be put alongside the negative evidence of the effect of sanctions – which are an essential part of mandatory schemes in the USA. Sanctions as penalties for non-compliance have grown under the TANF regime. States have often gone beyond Federal guidelines and requirements to comply with Federal law. Thirty-six states impose full family sanctions (removing benefits from children as well as the adult) and 39 impose sanctions for fixed periods – even after the claimants comply with participation rules (Goldberg and Schott, 2000). Estimates of the total number of claimants sanctioned suggest that around 5 per cent of the caseload was sanctioned in any month in 1998 and that two-thirds of all sanctioned claimants did not return to benefit (GAO, 2000). Over the first two years of TANF, it is estimated that 360,000 have left because of sanctions. In other words, sanctions account for around *one-quarter* of the fall in TANF families across the USA.

None of the other four countries has pursued work participation so relentlessly for families with pre-school children. However, Germany and the Netherlands have extended participation requirements down to primary school age. Participation below this age depends on actual provision of pre-school nursery places. Participation in France has always been assumed to occur once the youngest child reached the age of three – although no ‘benefit sanctions’ exist in name, the main benefit for lone parents, API, ends at this point. To continue coverage, the lone parent must make a separate claim for RMI. Sanction policies for lone parents are not nearly as widespread in Europe as in America.

Turning to the unemployed, the main assumptions about mandation are more consistent across the five countries.

The status of unemployment requires specific proof (of not having work) and behaviour (of looking actively for work). However, implementation of these principles differs greatly.

Registration as unemployed is a prerequisite for specific unemployment insurance in all countries and for unemployment assistance schemes where they exist. In general, the following familiar criteria apply: registration as seeking work, being capable of and available for work, actively seeking work and accepting suitable work or employment programme. The definitions of these criteria have changed over the 1990s, particularly in the UK and the Netherlands. Even so, the Netherlands, France and Germany still base their principles of labour market integration more on individual qualification, work experience, and pay and conditions than the USA or UK – particularly for those with contributory rights to benefit.

Activating benefits through programmes of labour market reintegration has grown in the Netherlands and Germany. Since the early 1990s, Dutch social security agencies were given responsibility for activating and reintegrating their clients, and buying services from the public employment service and other organisations. These agencies were given organisational incentives to reduce caseloads and the power to sanction claimants.

Unemployed claimants of social assistance are formally part of the unemployed clientele of the public employment service under differing circumstances. In Netherlands, all claimants are assessed for their labour market readiness and those unemployed (including lone parents with school-aged children and partially disabled people) have to submit a review form every month, outlining changes in personal circumstances and job search.

In Germany, there is Federal encouragement to link social assistance to the public employment service but local practice varies. In the Harburg district of Hamburg, one of the pioneering local areas, joint intake assessment between the *Sozialamt* and *Arbeitsamt* is the norm with labour market readiness being assessed for all claimants in a similar policy to the ONE pilots. Routine assessment of work options and progress in finding a job during the periodic reassessments of eligibility, or when claimants’ circumstances change, is carried out in a ‘caseloading’ approach. Continued job search is thus ensured for claimants who have few obstacles to employment, while others are referred to training courses and specialist providers of employment services.

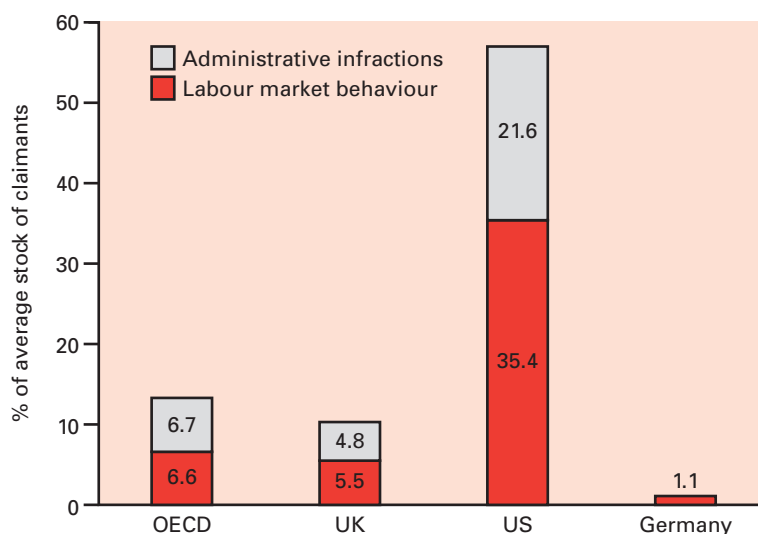
The situation in France is that all RMI claimants are supposed to enter into a contract in which they agree to a plan for social and/or labour market reintegration. Where the second is present, they will be referred to ANPE for job matching and job clubs, and other services. ANPE is the access point for all of the temporary job contracts and subsidised jobs that typify the French approach, which is outlined in Chapter 3.

In France, Germany and Holland, the agencies running social assistance have tended to expand labour market services for their clients – often because employment services are predominantly aimed at the core client group of insured unemployment benefit claimants.

When analysing sanctions and compliance rates for the unemployed (and other groups), it is difficult always to accurately distinguish between behavioural and administrative issues, and this problem is compounded in international comparison. For instance, a claimant who does not attend an interview can have their claim to benefit cancelled in some countries or made subject to a sanction. Additionally, highly formalised and administrative procedures can generate many points at which claimants can ‘fail’ and fall out of the system. For instance, the New York City claim process has fingerprinting and residence-checking processes in separate offices alongside the diversionary Job Centers described above. Additionally, the NYC administration of General Assistance has historically stopped a sample of cases periodically as a method of testing continued eligibility – if the claimant comes in to see what has happened the case is reinstated but if not it is closed.

International comparisons of unemployed sanction rates by the OECD are shown in Figure 11. The USA has the highest rates of sanctions – 57 per cent of claimant stocks overall made up of 35.4 per cent sanctions for labour market behaviour and 21.6 per cent for administrative infractions. The UK has an overall sanction rate of 10.3 per cent made up of 5.5 per cent labour market and 4.8 per cent administrative infractions, while Germany has a low rate by OECD standards of just 1.1 per cent labour market sanctions. No figures were available for France and the Netherlands.

However, these gross sanction rates rely on quite different underlying approaches. Many of the US sanctions represent single weeks of benefit entitlement that are removed if there is a failure to prove adequate job search for that week. The USA has few or no sanctions for failing to attend ALMP programmes as it has so few that are directly linked to the unemployed. The US figures also completely miss the huge sanction rates for lone parents on TANF benefits that are discussed above. The UK, however, has many ALMPs of very short duration at which attendance can be low, which leads to higher sanction rates. Sanctions for refusal of work will also depend on how much active job matching occurs – for instance, in Germany – as against the higher rates in the UK and USA that rely on advertising vacancies. It is possible that higher sanction rates occur because of a mismatch between advertised vacancies and claimants’ actual suitability and more specific job matches.



**Figure 11 Annual sanction rates for unemployed claimants in the UK, USA and Germany**  
*Source: OECD (2000c, Table 4.2).*

### Lessons from altering eligibility

What can be drawn as lessons from the evidence on changing entitlement and increasing obligations? The tough US rules show that rules of entitlement can be tightened to an extent that significantly discourages entry onto benefits and effectively makes many potential claimants ineligible. The wisdom of this approach must be doubted where high labour market turnover leads to repeated spells of employment and unemployment for many potential claimants. What is gained by removing frictional unemployment from the welfare rolls? Lower aggregate spending and lower caseloads certainly but at the costs of missing a whole group with legitimate claims to support – especially given their work participation. This approach also raises questions about the overall aims of policy as it reduces the problem to a simple ‘on or off welfare’ choice when access to welfare could be seen as an opportunity to raise employability and to break the low-pay no-pay cycle for such cases.

What is there to learn from the high sanction rates in the USA that account for a quarter of caseload decline? The simple lesson is that tough rules and strict implementation lower the caseload. But it is important for British readers to remember that there are no real safeguards for claimants against many of the decisions that are made against them in the US, and that such sanctioned exits from welfare tend to be associated with the least skilled and least educated, and with poor post-welfare employment histories (see discussion in Chapter 4).

European approaches are often ‘tougher’ on lone parents than in Britain but are usually predicated on the *actual* availability of child care. That means there is usually a place set up that precedes or coincides with the move into work and thus underpins the move off welfare. This has to be contrasted with the British and to some extent the US approaches, which are based on individual subsidies towards the price of child care that usually come into payment immediately on or after the move into work. Either way, the child-care question demonstrates the crucial importance of child care to low-skilled female participation in the labour market. The right to child care, and the responsibility of public authorities to ensure its quality, appropriateness and affordability, is central to the issue of rights and responsibilities to welfare.

That leads us to the question of when lone parents should be expected to move off welfare and into work. Wisconsin proudly states that its policy of requiring participation after 12 weeks matches the realities of working mothers who have only 12 weeks’ maternity leave and is thus

equitable. This seems to miss the point that pregnancy, childbirth and security of employment at the lower end of the US labour market are not the norm. Britain is becoming more European by putting renewed emphasis on the rights of paternity and maternity leave, and on family-friendly employment. Family- and employment-friendly welfare will have to make the claimants’ choice to mix child rearing, work, and education and training a real one. As such, extending compulsion would have to be carefully approached and accompanied by large additional expenditure to increase opportunities – not only to work but also to train and receive child care simultaneously.

The lessons for the unemployed seem less clear – the evidence from British evaluations suggests that, compared to the more passive European approach, we are comparatively successful in moving the unemployed into work and our coverage of the unemployed is not as poor as in the USA. The real issues for comparison are based more on the efficacy of moving the unemployed into work quickly as opposed to investing more in training and education and on the issue of how to help the most disadvantaged. The next three sections address these issues.

### Increasing focus on work and training

The overall move in policy across the OECD and Europe is towards a more active work-based policy environment. Claimants must do more to engage in work and there is now a general agreement that periods of benefit entitlement without strong activation should be limited. The debate in the USA in the late 1980s was over what was best for claimants – quick entry into work, or education and training and then work. The Californian GAIN evaluation tested the assumptions in an experimental design and found greater significant reductions in spending and poverty, and increases in work participation and income for the work-first model (Riccio *et al.*, 1994). US Welfare reform was dominated by the adoption of work-first principles both in the Federal design of TANF block grants and in State programmes. But the role of education and training in US welfare has not disappeared.

US Federal rules stipulate that TANF claimants must work after two years on benefit, with few exceptions. States must comply with rising targets for the proportion of their caseload being engaged in work activity: 25 per cent in 1997 rising to 50 per cent in 2002. Lone parents must participate for at least 20 hours per week in 1997 and this rose to 30 hours by 2000. Two-parent families must work



35 hours per week from 1997. Failure to participate in work requirements can result in either a reduction or termination of benefits. There are exemptions – lone parents with a child under six who are without child care cannot be penalised for failure to meet the work requirements. States can exempt single parents with children under 12 months and disregard these cases in the calculation of participation rates for up to 12 months.

TANF work activities include unsubsidised or subsidised employment, on-the-job training, work experience, community service and 12 months of vocational training. Up to six weeks of job search (no more than four consecutive weeks) count towards the work requirement. However, no more than 25 per cent of those meeting the participation rates of each state's caseload may count towards the work requirement target solely by participating in vocational training or by being a teenage parent in secondary school.

The extremes in implementation of work-first principles in which States demand pre-claim job search as part of a diversionary approach have already been outlined. More generally, the implementation of work first has been to maximise job search as an activity at an early stage in a claim – often through job club activity. However, even within work-first programmes, work is not always put forward as the first and/or only option.

One reason for the high profile of work-first programmes is that the Riverside County site in the Californian GAIN evaluation showed such strong and significant impacts on poverty, spending and earnings using a strong work-first approach when compared to employment and training based approaches in Los Angeles County and other sites (Riccio *et al.*, 1994). But subsequent evidence on the relative merits of the two approaches has been more mixed. Analysis over a longer period in California has thrown some doubt about the longer-term costs and savings of the GAIN work-first approach. (Flaming *et al.*, 1998). Away from California, the evidence of the two approaches has not produced such stark differences in outcomes and this has led to a reappraisal of the underlying assumptions of solely relying on work-first principles (GAO, 1999; Strawn, 1998).

The US Department of Health and Human Services (DHHS) has also gained a growing body of evidence about what works best through the National Evaluation of Welfare to Work Strategies (NEWWS) programme. Two-year results from a comparison of work-first and education-based programmes where mandation was a

consistently strong element showed less significant differences in costs and consequences than from the GAIN programme (Hamilton *et al.*, 1997). The fact that two-year results showed little difference was surprising since the investment of time in training usually means that such programmes have longer lead-in times on work participation and earnings.

The highest performing programme in recent evaluation evidence from NEWWS is one from Portland, Oregon. This programme had a forceful employment message but also offered high-quality education and training programmes, and strong job-development and placement services. Job search and a participation mandate – the usual constituents of work first – were also included. The Portland programme also gained from employment advisors encouraging claimants to hold out for the right job rather than take any employment just to leave welfare. Such evidence is beginning to undermine the argument by Larry Mead and others that any job as soon as possible is better than welfare. Remedial education programmes aimed at those with no high school qualification, and with English as a second language and other basic literacy needs showed significant impacts (Freedman *et al.*, 2000). On the other hand, classroom-based teaching without strong vocational focus and unsupported long-term education tend to be successful only for claimants who complete such courses and are used to more academic approaches.

In the European countries, access to education and active labour market programmes for lone parents tends to be more of a problem. Specific targeting of child care to accompany such activity is expensive but does occur in a minority of cases. Otherwise, the approaches tend to rely on child care being set up – often with the help of the welfare case worker – before enrolment onto education and training programmes occurs. The British New Deal for Lone Parents has a small budget for training and education, and tends to be a non-compulsory work-first approach (Millar, 2000) based on personal advisors and improving information about and planning for a return to work.

British unemployed claimants have faced increasing pressure on, and scrutiny of the status of, active job search over the 1980s and 1990s. Most recently, the Jobseekers' Allowance (JSA) regime introduced in October 1996 has made increased and more consistent job search standard, and evaluation shows it has increased outflow rates into work (Rayner *et al.*, 2000). This systematic increase in activation operates across interventions based on duration

of unemployment – for instance, Restart interviews at 13 and 26 weeks when the individual job-seeking plan is reviewed and amended, and referrals made to training or other specific assistance. Since the introduction of the New Deal programmes, more personalised and intensive help with job search has begun at six months for the under-25s through a specialised ‘Gateway’. This is followed by four compulsory options – subsidised work placement, full-time education or training, a job placement in a voluntary organisation, or a placement in a paid environmental project – for those still unemployed. In the New Deal for Long-term Unemployed, similar individual profiling and assistance to the Gateway was introduced after two years, but the system is gradually moving to 18 months and 12 months, and full Gateway services are envisaged in the future. However, the period of reintensification of job search for this group was not viewed as significantly different from previous periodic interventions (Hasluck, 2000a). Voluntary programmes of full-time training or subsidised job placements that followed such reintensification period have been poorly taken up (Hasluck, 2000a).

France, Germany and the Netherlands have all introduced duration-based interventions for the unemployed in line with the European Employment Guidelines. In France, *Nouveau Depart* interviews will be conducted – for RMI claimants they are planned to occur after two years of claiming. Unlike in Britain, other European benefit systems do not have a fortnightly registration at the public employment service, operating instead on a three or four-monthly assessment of job-search activities. German unemployment policies have also followed this line but there has been less adoption of general duration-based intensification measures. However, all unemployed people are now provided with an in-depth assessment of problems and needs, and access to active labour market programmes have been eased. German social assistance authorities have been incorporating more systematic appraisal of work search and registration at the *Arbeitsamt* (PES). But the underlying approach of the PES offices is not to enforce job search but to leave it to the claimant. Large caseloads make more regular interviewing difficult and there is little to offer the long-term unemployed or other difficult-to-serve groups besides a subsidised job in an active labour market programme (OECD, 1996). This has led some local social assistance authorities to invest in their own more activating approach – for instance, using specialised intermediaries as discussed below.

The Netherlands already has compulsory training and work opportunities for the under-23s. All new claimants

are immediately assessed and profiled according to their likelihood of getting work and their needs for training. This comprehensive approach is being extended to all unemployed people as well as to social assistance cases, and, to a lesser extent, the disabled, with the aim of making definite offers of training, work-experience or subsidised work after 12 months of unemployment.

In the USA, the PES does not have high work focus for UI claimants. The underlying philosophy of this has been to leave job search to individual benefit recipients who are faced with a six-month definite time limit on entitlement. The provision of assistance and counselling was historically low, but, since the mid-1990s, there have been Federal requirements to individually profile the needs of the unemployed early in their claim and provide better information and job search assistance. The OECD found that ‘it would be worthwhile for the PES to consider examining the registers of job seekers and UI claimants more frequently and systematically than is currently the case’ (OECD, 1999b, p. 191). Fifteen weeks of unemployment is a duration target for access to training programmes and this triggers some casework intervention. The contrast with US welfare is stark. Local State welfare agencies usually have their own employment service with, for example, advisors, job clubs and work placement provision (sometimes privatised). Such services are used both to divert and to provide assistance through counselling and intervention. Practice varies but work focus is usually immediate for all claimants, with exceptions for those with babies (most often under one) or substantial disability. Most employment service provision is offered either at the point of claim or within a very short time. States are experimenting with incorporating the information side of the PES with welfare’s work-first approach.

Britain lies between continental Europe and the USA in the implementation of a stronger work focus. The New Deal for the under-25s has emphasised both work and training, and its approach is tempting even Dutch policy makers to follow suit. French and German programmes for youth have always been work and training focused and have relied less on benefits – indeed, there is no social assistance for the under-25s in France. One main question is how far British policy for older groups should also include training or should move to a more work-first approach. The evidence from the USA of work first’s efficacy has become less clear as the approach has been implemented more widely for lone parents. Evidence for a more mixed approach with short periods of work-focused training and skills development seems to be growing. A

job will be the best option for many claimants – especially those with little or no work experience and those who have had long periods out of the labour market. The role of training and education for others must be carefully considered. If the low-paid, low-skilled end of the labour market does not give sufficient training and skills to enable workers to increase their earnings and move up the career then ‘lifetime learning’ will be a fantasy for them unless they can have access to training. There is no reason why this should not be provided when they claim welfare. Continental social insurance schemes provide such reskilling in instances of partial disablement and industrial restructuring. One important aim of policy could be to design similar schemes with a widened scope to bridge the gap between unskilled and skilled work.

### Individual-centred approach

The US approach to individualised assessment and programme planning comes in two main forms. First, the PES has increased the use of individual case profiling, encouraged by the federal Department of Labor. This means that claimants for UI are assessed for their risk of long-term unemployment when they apply and are then eligible for re-employment services. However, the effectiveness of such profiling is still largely unknown. Second, there are moves to individualise intensive work orientation of welfare provision. But the individual approach in welfare tends to hinge on what Ellwood calls helping conundrums (1988), i.e. to provide help is actually to encourage dependency. For instance, many State welfare workers will be deliberately deaf to claimants’ descriptions of ‘barriers’ to employment but will want to see how job search fares in practice. Many States will use a period of individual job search to both test barriers and as a condition of entitlement. The push to get claimants to leave or to divert is also poorly reconciled with individualised help – many fail the inflow test and get very poor quality individualised help.

However, at the same time, the individualised caseworker approach that stands at the centre of the new welfare system in many States like Wisconsin and signing an ‘employability plan’ or an action plan that stipulates what will be done to return to work are a central part of the programme. The Financial and Employment Planner (FEP) has a role that seeks to be ‘teacher, preacher, friend and cop’<sup>4</sup> and, if the relationship works, then results can be rewarding for both parties. The move to casework has also been accompanied by the move towards more individualised service provision in place of simple cash assistance – for instance, in the development of child-care

places that suit non-standard working hours. However, the high unit cost of casework and of a service-rich version of US welfare is also the product of the financing regime and it is uncertain how far such a high-cost, individualised approach could be sustained if rolls began to rise in an economic recession.

Individual casework at its best tends to be carried out in the high-quality intermediary organisations that link welfare claimants to work. America Works, a profit-making welfare employment service that specialises in placing welfare claimants in clerical work (see Nye, 1996), uses attitudinal, psychological and social profiling of all its clients. Why? Because its clients receive the majority of their funding on completed successful job placements that have lasted six months. If America Works did not know what the individual problems and preferences to work were, it would not be successful. It estimates that one-third of its trainees require very detailed personal assistance in order to make a successful transition into work.<sup>5</sup>

British welfare to work is dominated by a more flexible approach to individual needs. Personal advisors are the pivotal deliverers of all the New Deals and their quality and the quality of their relationship with claimants have become crucial factors for success (Hasluck, 2000b). For the unemployed, this New Deal based approach supplements the individual Jobseeker’s Contract.

The French were among the originators of individual contract-based plans as a central part of benefit entitlement. Such *plans d’insertion* are supposed to exist for each and every RMI claimant. This approach has been widened in recent times to all the unemployed who will be given a trajectory plan and a caseworker, a consistent person dealing with their case and providing support and brokering work. For RMI claimants, this could be a social worker rather than an Agence National pour l’Emploi (PES) employment advisor. Social as well as economic insertion will be considered as a matter of course for RMI claimants. Both types of personalised intervention focus on an individually tailored agreement. ANPE-based trajectory agreements include employment insertion as the final activity.

The Netherlands uses labour market profiling to place claimants into four phases according to their distance

<sup>4</sup>Quoted in Jason de Parle, ‘For caseworkers, helping is a frustrating experience’, *New York Times*, 10 December 1999.

<sup>5</sup>Information from an interview with America Works personnel in New York, May 1998.

from the labour market. Individual attention is then focused on economic integration for those who need it (that is, claimants in phases 2 and 3, who are estimated to be able to get back to work with some help with training or job-search). For those with larger social impediments, detailed trajectory assistance will be planned before attempts are made to move them into work.

The German employment services appear to have adopted the least individualised approaches (except that many unemployed are effectively left to their own devices).<sup>6</sup>

The social-work casework approach is returning to social assistance (*Sozialhilfe*) but practices vary between localities. The individual approach means that discretion is applied to those with barriers to work from child-care needs. For instance, claimants will be helped to arrange appropriate and stable child care through local *Kindergarten* as part of a return-to-work plan. Hamburg has greatly increased its supervision and counselling approach, but has brought in specialised intermediaries to do re-employment work and to teach workers individual employment brokering.

The success of personal advisors and their strong individual focus is a solid foundation for the next stage of British policy. Evidence from France and from the New Deal for Long-term Unemployed suggests that the individual approach works less well when the resources behind it mean a very restricted choice. The unemployed are cynical when merely offered more of the same or just another ‘scheme’ that has no perceived increase in job prospects (Finn *et al.*, 1998). Evidence from Dutch and American intermediaries, however, suggests that adding personalised job brokering and matching services works well. There may be a need to move away from passive vacancy matching in Britain. The role of financial incentives in an individual approach also works well in private organisations such as America Works and *Maatwerk*, but raises the problems of selection and efficiency in the operation of third-party intermediaries.

### **The use of third-party intermediaries**

The French concept of social exclusion sees the absence of a direct relationship with state and social insurance organisations as fundamental to an individual’s social exclusion. Non-state local organisations have thus been funded to be entry points to the French welfare state for the excluded – and for *RMIstes* and young people

especially. These specialised associations thus act both as entry points to French social policy and as brokers of packages of employment, training and social reintegration programmes. *Objective Emploi* in St Denis in suburban north-west Paris is an example of such an organisation and works in combined offices with *Mission Locale* for young people. Community businesses, *Enterprises d’Insertion*, that provide social and economic benefits are also involved – often offering both work placements and services to unemployed youth or others

The use of intermediaries as brokers is very new in Germany and has been seized upon by Hamburg and other north German municipalities as an alternative to the historical rigidities of federal employment services for their *Sozialhilfe* clients. They have purchased services from a Dutch-based company, *Maatwerk*, who offer their services for a fixed fee, and take on claimants and find a job for them in a small- to medium-sized enterprise. They base their approach on direct job development and job matching with a high degree of individual personalised assistance for the claimant. They guarantee to find a match between employer and client, and offer follow-up services to ensure the job is of long standing.

This approach matches the practice of many not-for-profit and profit-making organisations in the USA that have evolved since the mid-1970s in response to the Supported Work initiative for ex-offenders and substance abusers, and in the 1980s after the abandonment of job creation programmes such as CETA (Comprehensive Employment and Training Act). This brought together two approaches: first, a detailed appreciation of the needs of the hard to serve and, second, the need to find actual work for participants rather than rely on job search or general referral. The US intermediaries almost all have workers – *job developers* – who contact potential employers and build up a database of contacts for job vacancies. The remainder of the organisation provides training. This can range from an intensive, two-week, group-based personal growth and employment orientation session (as provided by STRIVE), to classroom-based, soft-skill development and computer skills courses designed to meet the exact needs of the employer clients (such as in Wildcat Services Corp.), to actual employment as a trainee during such training in America Works. These different models reflect different client groups and funding regimes. America Works employs its trainees not only to provide a work environment but also to gain employer subsidies from welfare to work funds. It obtains its trainees through referral from welfare offices and by voluntary attendance. It charges a per-capita fee, but this is weighted so that

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<sup>6</sup>Hamburg *Arbeitsamt* pointed out that their high caseloads and benefit administration task limited their ability to involve themselves heavily in individual cases (March 1998).

most payment is made on successful placement in work for three months. STRIVE is a purely voluntary, participation-based programme but can take referrals. Wildcat Services has a number of programmes – from training for New York’s own workfare sites in the City’s administration, through to high-profile legal and financial secretarial posts negotiated with famous Wall Street companies.

Selection is rampant in these organisations, although the true extent of cream skimming is difficult to assess. First, those organisations that have self-referral and voluntary participation will have a more motivated caseload. Second, many of the programmes are set up to *select out* potential poor performers by strict punctuality rules and other hurdles to continued participation. Many participants – usually the least employable – drop out or are asked to leave when they fail. Many fail because they have a ‘bad attitude’ in some programmes based on instilling work disciplines and attitudes. Third, all agencies select trainees within their programmes to match employer demands. In Wildcat’s case, this means that the best trained are selected for the Partnership in Industry scheme and go into the best jobs in Salomon Barclay and other firms, while the remainder are trained to go into other clerical jobs or even NYC’s own administration on a workfare placement (see Chapter 3).

Most of these intermediaries charge employers, but when doing so can undercut the price of purely private employment agencies because they have welfare subsidy of some sort. They also tend to offer follow-up assistance in the workplace to sort out induction problems. Employers can save on costly repeated job advertisement and recruitment procedures. This is particularly true in the USA where the chronic problem of high turnover in entry-level jobs has seen a part solution in the employment of ‘welfare moms’ because they tend to have longer retention than their single/male equivalents. Intermediaries and others have joined into a federally run Welfare to Work Partnership that promotes employment of welfare cases, and advises on tax subsidies and recruitment practices.

Britain has recently recognised the potential of such intermediaries. The vast majority of New Deal provision is run by a public agency, the Employment Service, but with privatised sites as pilots and with voluntary groups running Gateway services and providing employment experience. For the New Deal for the Disabled, it was recognised that specialised experience was to be found in voluntary groups and charities and these have been funded to adopt and expand employment-related services.

However, the general nature of Employment Services was seen not to have the individual-based employer/trainee advantages of the US-style intermediaries. Evidence from American good practice was collected (Evans and Kazis, 1999) and a programme of seed funding has been set up. Britain was not completely sterile ground, however, and several local voluntary employment projects already existed – usually in areas previously supported by urban regeneration.<sup>7</sup>

The most radical use of intermediaries in Britain has been the adoption of a fixed-fee placement service with private providers in the 15 to 20 new Employment Zones operating since April 2000. All claimants over the age of 25 who have been unemployed for 12 or 18 months or more (depending on the site) will compulsorily be referred to the private intermediary who will be given a series of subsidies that reflect three parts of the reintegration process. The first is a 13-week intensive period when the claimant continues to receive their benefit but is assessed and supported in intensive job search. For the second period, a maximum of 26 weeks, benefit ceases but the intermediary is given the equivalent subsidy to 21 weeks’ benefit plus a lump sum that can be spent on any training or integration work that is agreed between the claimant and the intermediary. However, the intermediary becomes responsible for paying the equivalent of benefit to the claimant and must do so while they remain out of work. The last subsidy is paid when the claimant has been in work for 13 weeks and can be paid at any time. Profits are made for every claimant who enters and retains work at a net expense that is less than subsidy payments. No results from these schemes were available at the time of writing.

The Dutch use of intermediaries rose after the Dutch Government committed itself to an active benefit scheme and increased funding for training and employment schemes over the 1990s. The change in policy direction culminated in consolidation of provision for all long-term unemployed of 12 months or more in 1998. Reintegration of the long-term unemployed was effectively privatised. Intermediaries broker work placements of up to two years – mostly with private employers. Municipally owned but separate companies have been set up to distribute employment subsidies to employers and to provide placements for the harder-to-serve claimants. Thus, in Amsterdam, a company called *NV Verk Amsterdam* is given the budget for employment-based reintegration, and it brokers places with employers and distributes the funds.

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<sup>7</sup>Indeed, one in Harlesden in north-west London had already made its own links to the STRIVE programme in the USA with a view to incorporating best practice for its own British clients.

Its original target of providing 10,000 employment places was reached at the end of 1998. Separately, but also receiving subsidies from *NV Werk Amsterdam* is a not-for-profit organisation called *Bureau Maatwerk Amsterdam* that trains and places the hardest to serve (see further discussion below). Under the CWI regime, these brokers are used for all long-term unemployed of 12 months or more, but the private employer-based subsidies and *Bureau Maatwerk Amsterdam* tend to be separate trajectories, with Phase 4 claimants being sent to the latter.

Britain is keen to develop and expand the role of labour-market intermediaries, and there is the opportunity both to import successful models from abroad and to encourage existing policy actors to develop their roles. The danger of importing off-the-shelf approaches and adapting them to British conditions is that we may not be in a position to know how far their success can be copied in a different policy environment. The alternative approach is to take themes from foreign success. Such successful themes appear to be the following:

- active job development and matching to client caseload
- the ability to be industry specific and to match local employer needs
- providing training in a work environment by employing claimants
- strong individual-based approach to casework
- intermediaries offering temporary work providing public goods.

One difficulty is to set up funding and control mechanisms that reward good practice but prevent or dampen cream skimming. One approach could therefore be to develop intermediaries to deal with the harder-to-serve groups, and to have employment service referral rather than voluntary participation.

## Lessons from Chapter 2

- Introducing single gateways to benefit and increasing co-ordination and integration of services bring up different views on what is efficient and rational amalgamation of the two sets of strategic interests – ES and BA. The change will not solve underlying selection problems and resource allocation in itself.
- The balance between a single gateway that can give access to service-rich programmes for a wider selection of claimants and a work-focused entry point that can emphasise diversion must be carefully thought through.

- The evidence of the effectiveness of terminating entitlement as a method of increasing work participation is mixed. Complete withdrawal of benefits does not lead to employment for all in the alternative.
- Making tougher rules of entitlement to discourage entry on to benefits effectively makes many potential claimants ineligible. The real gains of removing frictional unemployment from the welfare rolls are offset by higher incidental poverty. The overall aims of policy should not reduce the problem to a simple ‘on or off welfare’ choice when access to welfare could be seen as an opportunity to raise employability and to break the low-pay no-pay cycle for many claimants.
- Tough participatory rules and their strict implementation lower claimant caseload to the extent that sanction rates in the USA account for around a quarter of caseload declines since 1996. Sanctioned exits from welfare are associated with the least skilled and least educated, and with poor post-welfare employment histories.
- European approaches are often ‘tougher’ on lone parents than Britain but are usually predicated on the *actual* availability of child care. This has to be contrasted with the British and to some extent the US approaches, which are based on individual subsidies towards the price of child care that usually come into payment immediately on or after the move into work.
- Extending compulsion to lone parents to move off should be very carefully approached and, if thought appropriate, should be accompanied by large additional expenditure to increase opportunities – not only to work but also to train and receive child care simultaneously.
- Britain lies between continental Europe and the USA in the implementation of a stronger work focus. The evidence of work first’s efficacy from the USA has become less clear as the approach has been implemented more widely for lone parents. Evidence for a more mixed approach with short periods of work-focused training and skills development seems to be growing.
- Continental social insurance schemes provide such reskilling in instances of partial disablement and industrial restructuring. One important aim of policy could be to design similar schemes with a widened scope to bridge the gap between unskilled and skilled work.
- Personal advisors and the success of their strong individual focus is a solid foundation for the next stage of British policy. Evidence suggests that the individual approach works less well when the

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resources behind it mean a very restricted choice. Personalised job brokering and matching services seem to work. The role of financial incentives in an individual approach also works well in some foreign schemes but raises the problems of selection.

- Britain is keen to develop and expand the role of private and independent providers of welfare to work programmes and should take more note of successful themes and models rather than importing specific providers.

### 3 Welfare to WORK: making work pay, jobs and employment subsidies

Chapter 2 has already shown that work, through a subsidised scheme or a compulsory work obligation, is often part of an active labour-market policy. There is no fixed line of demarcation between employment placements being part of moving someone into work or giving them a job. Placements look more like permanent work the longer they last. Practice across the five countries varies widely in the mix of short-term and long-term employment in active labour-market programmes. Provision of actual employment is only one way of supporting and expanding work opportunities in welfare to work. The other ways involve reducing the costs of employment to employers and increasing the real income from low-paid jobs to the unemployed. In British policy, the job creation side is currently out of favour. It is left to good economic management and the right mix of employment incentives to get the unemployed and inactive moving into an expanding labour market. We prefer the policy of ‘making work pay’ to making work. Other countries see the balance differently, or have a similar preference but also have a greater commitment to continuing a significant element of job creation.

#### Employer subsidies

Reducing the tax and social security burden on entry-level jobs is both an EU- and an OECD-favoured policy in order to stimulate jobs growth. In some cases, specific reductions in social security tax obligations to employers are targeted on welfare to work policies because they come with taking on an unemployed or other claimant. However, in most instances, the overall burden has been lowered through non-specific fiscal policies aimed at all entry-level employment.

The French have invested significantly in discounts from social-security-based, non-wage costs on jobs at or just above the minimum wage. However, in addition, there is a range of subsidised placements in work that also attract specific exemptions from social security costs for temporary and training positions. Many of these subsidies have been targeted at youth employment (and hence mostly outside the claimant reservoir). *Contrats d'apprentissage* exempt employers from social security contributions and give one-off hiring payments. The 1980s saw several forms of short-term and permanent job schemes in the private sector – *Contrats d'Adaptation*, *Contrats de Qualification* and *Contrats d'Orientation* – which all allowed different forms of employment that

gave exemptions from minimum wages, and subsidies in cash or social security rebates. In the 1990s, minimum-wage jobs – under *Aide au Premier Emploi des Jeunes and Contrats Initiative Emploi* – aimed to provide longer placements. The unemployment insurance system also allows benefits to be turned into employer subsidies through the *Conventions de Coopération de l'Assurance Chômage* where the employer receives a subsidy calculated at the net rate of benefit received by the unemployed person for up to a maximum of 12 months.

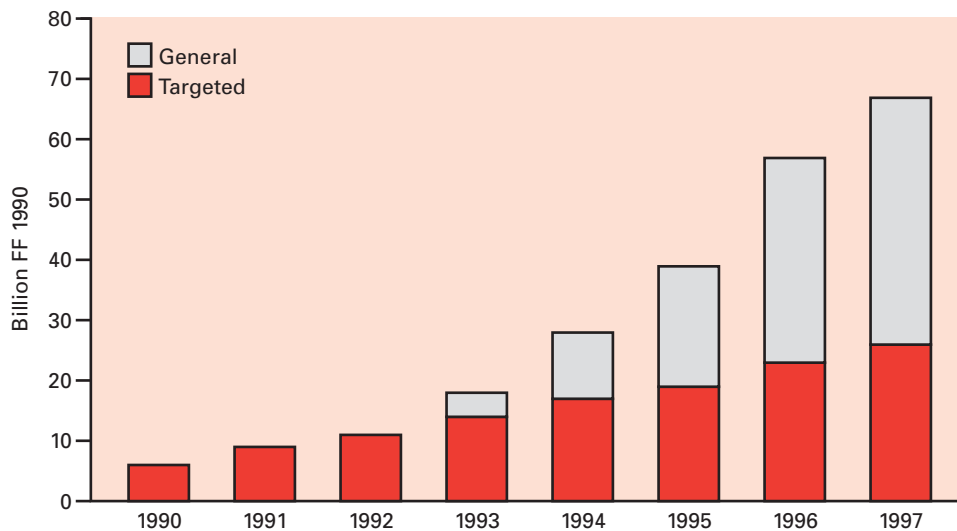
France has, however, moved increasingly towards more general subsidies and Figure 12 shows how the balance between targeted and non-targeted social security subsidies changed in France over the 1990s. Targeted spending rose in every year but general subsidies introduced in 1993 grew to become the majority of such spending by 1997.

France also has a scheme whereby the unemployment benefits of some claimants can be paid to an employer for a period after they are hired. This scheme, developed by UNEDIC and the ASSEDICS through the *Conventions de Coopération de l'Assurance Chômage*, is open only to private employers who are contributors to the ASSEDIC and the job must be one that does not attract any other State subsidies. The unemployed person who is taken on must have been receiving benefits for more than eight months and the employer receives a subsidy calculated at the net rate of benefit received by the unemployed person for up to a maximum of 12 months. For example, an unemployed person with 20 months of rights remaining is hired. Their rate of benefit is FF 200 a day. The employer will receive 12 months of subsidy.

German employers can pay no social security contributions on *Integration Contracts*, short-term ‘trial jobs’. They are available to the long-term unemployed in the private sector. Other employers who decide to take on long-term unemployed workers permanently can claim a wage cost *subsidy* of between 50 and 70 per cent of the average rate of pay. This subsidy is paid out of the annual budget of the state back-to-work scheme for the long-term unemployed. The maximum duration of such subsidies is three years and the subsidy decreases as the unemployed person remains in the job.

The idea of these short-term work experiences was to stimulate employers to try out unemployed people without the risk of offering permanent job contracts, as the





**Figure 12 French social security rebate spending on job creation in the 1990s**

Source: DARES (2000).

unemployed person and the employer could end such a contract at any time without any need to give a reason. However, the Schroeder government has significantly changed this initiative on the grounds that weakening social rights was unjustifiable.

New subsidies are also available in Germany for newly created enterprises where the *Arbeitsamt* supports an initial phase of business development by giving subsidies for one or two unemployed persons to be employed in the new enterprise. In Hamburg, these powers were used 2,300 times during the first four months of their operation from April 1997.

Decentralised and innovative policy practice in Germany has encouraged each *Arbeitsamt* to experiment by having 10 per cent of its budget freed for innovative programmes outside of the strictly prescribed Employment Act services. In Hamburg, this made 36 million DM available in 1998, and the local employment services used this money to support 1,000 business start-ups and 750 disadvantaged young people. In addition, there are experiments with other employer subsidies. First, there is a voucher system financed from a mix of state and Federal funds. Recent amendments to the Employment Promotion Act have encouraged less rigidity in accessing jobs and training subsidies, and Hamburg used some of its job creation funds to create a voucher scheme. These vouchers can be taken by the unemployed person to a trainer or employer and are valid for three months, but they can purchase six months or more of subsidies to the trainer or employer. Thus, potential ABM (abbreviated from *Arbeitsbeschaffungsmassnahmen*) claimants can use this subsidy to obtain a mix of work and training. These vouchers are given to caseworkers at the *Arbeitsamt* to use

as they think fit and they will allocate them to suitable claimants. The scheme is very experimental. The idea is that the claimant can approach an employer with funds to make up for skill shortages and the voucher can help induction into employment.

German social assistance is also experimenting with employer subsidies called ‘wage cost support’ and the *Sozialamt* can pay direct subsidies based on benefit levels directly to employers for up to two years when they take on a claimant. These jobs have to be full time, but there is no compulsion to train the worker taken on. Experience has shown, however, that many employers don’t want to accept such an offer. In Hamburg, there have been only 140 such cases in two years. This form of arrangement has also been tried experimentally in Hamburg, where the unemployed have a form of voucher representing their benefit that can be given to an employer.

Dutch employer subsidies are available for several aspects of welfare to work policy. First, there is a general subsidy that is available to reduce the marginal social security tax costs of jobs that pay between 100 and 115 per cent of the minimum wage. This subsidy is not time-limited nor linked to hiring anyone who is unemployed. There is a further non-specific subsidy at a lower rate for the next level of waged jobs – between 115 and 130 per cent of the minimum wage. This subsidy can only be claimed for a maximum of two years. In addition to these general subsidies, there is a targeted tax reduction payable for four years for jobs between 100 and 130 per cent of the minimum wage that are filled by long-term unemployed. In July 1998, a further extension to tax subsidies was made to bring in the disabled claimant population and to make them more attractive to employ.

Since 1998, the Netherlands has opened up targeted employment wage cost subsidies for the unemployed across the private sector for work experience placements of up to two years for long-term unemployed (12 months or more). These provisions supplement the previous schemes that were based on social employment. Access to job subsidies is usually through intermediaries who are distributing the budgets on behalf of unemployment insurance or social assistance agencies. It is hoped that the move away from public sector employment will result in better flows out of subsidised work into unsubsidised employment. In addition, Dutch policy provides one-off hiring grants and also imposes a 'no-risk' policy for sickness pay for employers that take on disabled benefit recipients. If the employer has more than 3 per cent of their wage bill paid to such employees they can be exempted from social insurance disability contributions. Indeed, the most recent changes in Dutch policy regarding the unemployed have seen a move away from job subsidies tied to the social sector and towards private employers.

American Federal Tax Credits are available for hiring TANF ex-welfare and other unemployed and disadvantaged workers. The \$2,400 Work Opportunity Tax Credit (WOTC) is payable for employees who work a minimum of 120 hours in a year, and the \$8,500 Welfare to Work Tax Credit (WTWTC) is payable to similar client groups who work more than 400 hours a year. An employer cannot claim WOTC and WTWTC for the same employee and it is only discounted against one year's trading profits for tax purposes. There is an overlap with integration provision and welfare employment where private providers of such services employ the welfare claimant as trainees – they too can gain these subsidies. State schemes also provide for employer subsidies although take-up has often been lower than expected.

In Britain, national insurance contributions for employers were reduced for low-paid jobs while targeted employer subsidies of six months are available only for unemployed people from the NDYP (New Deal for Young People) and NDLTU (New Deal for the Long-term Unemployed) in Britain. Take up has been disappointing – especially in the public sector, although this was discouraged at the early stages of implementation – and now funds have been set aside to third-party intermediaries to provide employment-based provision.

General and/or targeted subsidies to employers have been introduced in all five countries. Low take up of targeted subsidies by employers is a common theme, and evidence from interviews with employers' groups and policy

makers suggests that a subsidy is less important to employers than hiring the right sort of person. An unemployed person with low skills and little recent work experience will not usually be hired merely because they have a subsidy. French commentators spoke of cherry picking by both employers and ANPE who would sort out and select the most employable cases. It is doubtful if the subsidy in these cases gave much additionality above and beyond the fact that private employers were actually using ANPE for vacancy filling (estimates are that ANPE has around only one-third of all French vacancies). It is not clear how far this experience is shared in the British experience of the NDYP.

## **Making work pay**

### **Minimum wages and benefit levels**

Minimum wage policies can also help to make work pay. Britain has now joined the USA, France and Holland in establishing a national minimum wage. No formal minimum exists in Germany, although national collective bargaining agreements lead to industry-specific minimum wages across the board.

Making work pay can mean expanding and increasing in-work benefits to the low paid, and this is discussed in detail below, but can also mean decreasing the value of benefits. All five countries have reduced benefit replacement ratios by decreasing the relative generosity of insurance benefits and/or social assistance. Such policies have taken place incrementally over a significant period of the 1980s and 1990s and will not be discussed in detail here. However, the USA stands out in its long-term trends in both social assistance rates and minimum wage because *both* have fallen in *real* terms. Figure 13 shows the value of weekly AFDC benefits for a three-person family and the gross minimum wage for a 30-hour week from 1979. The minimum wage has fallen in real terms between 1979 and 1999 – most steeply under Reagan and Bush presidencies – and then has been raised twice in the 1990s. AFDC benefits – calculated on a weighted state average for a three-person family – have always been below the minimum wage for a 30-hour week and fell in real terms from 1979 to 1996 when AFDC ended. Of course, some States paid higher rates than this average, and Food Stamps and housing subsidies could be added to AFDC to increase their value. But, overall, the US picture has been to make low pay and out-of-work benefits fall significantly both in real and relative terms. This policy had a part, along with rising income differentials in work, in the growth in income inequality and poverty in the USA over the period.

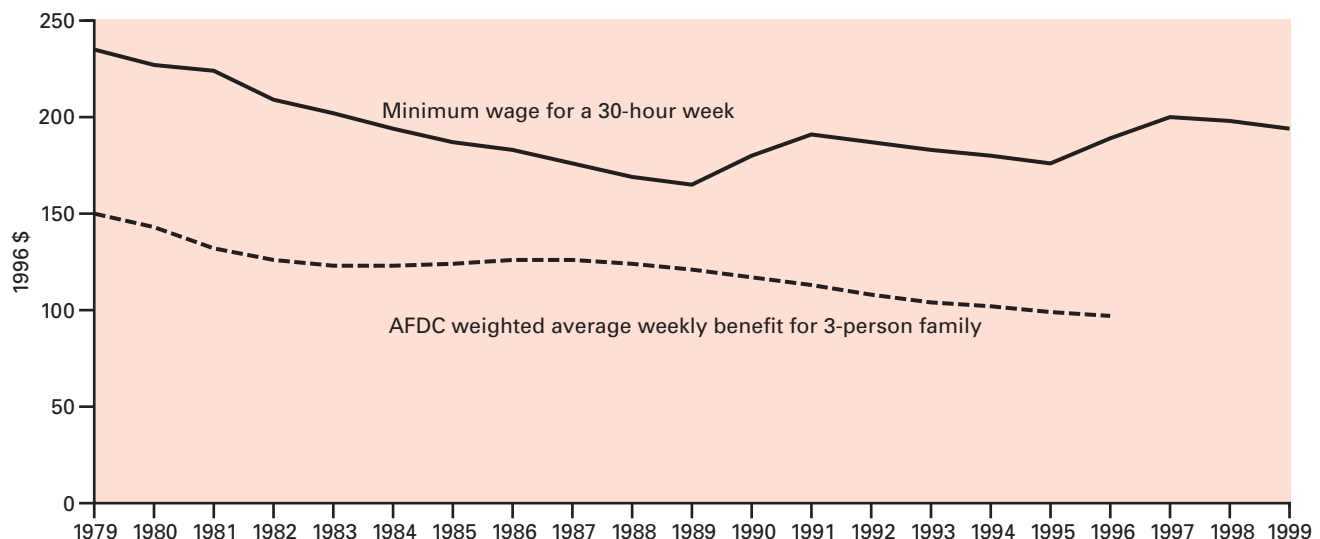
The other country to allow the purchasing value of minimum wages and social assistance benefits to fall is the Netherlands, where the 1980s' social contract on restraining wages and public spending has led to a decrease of the minimum wage in real terms and, because social assistance rates are based on these wage levels, the level of assistance benefits. However, consequently and, unlike the US, declines in the real and relative rates of minimum wages and the social safety net have run in parallel.

### In-work benefits to the low paid

The main growth in policies to 'make work pay' has been in programmes of in-work benefits paid to low-waged families. These are not necessarily welfare to work programmes as such because they raise the incomes of those who are already working as well as those who move from welfare. Britain has paid low-income families with children an in-work supplement to low wages since 1971. The benefits were made significantly more generous in 1988 and again in October 1998. The new benefits also include an element to offset child-care costs. Delivery of the benefits has shifted significantly from the benefit to the tax system. *Working Families Tax Credit* (WFTC) and *Child Care Tax Credit* (CCTC) are paid weekly to those on a low income who have children and work 16 hours a week or more. Payment is weekly through the pay packet for all unless a couple specifically asks for it to be paid to the non-working partner, which many in reality do. The aim of the benefit is not only to improve incentives to work but also to combat working poverty and child poverty more widely and to stimulate employment. In addition to the basic WFTC and CCTC, there is a complementary system for disabled people – *Disabled*

*Persons' Tax Credit*. The recent expansion of benefits may have significant effects on other subsidies for the provision of public and voluntary run child care, and on labour market participation of women in couples (McLaughlin *et al.*, 2001). The British Government has also begun to discuss an extension of in-work benefits through tax credits to all low-paid workers (HM Treasury, 2000a). Housing benefits are also available to assist with local property tax and rents. The high tapers of these benefits offset much of the help of WFTC for tenants especially and produce high levels of marginal tax rates. The other British in-work benefit is for the over-50s leaving benefits through the New Deal for the over-50s but this tax-free in-work allowance is transitional and only lasts for their first year of full-time work.

The British move from benefits to tax credits reflects a growth in interest in the US Earned Income Tax Credit (EITC), a scheme that pays refundable rebates (that can be more than tax paid) to low earners when they file taxes at the end of each tax year. The Clinton Administration raised EITC levels considerably and extended eligibility. While the tenth percentile of US earnings rose by 6 to 7 per cent between 1993 and 1999, maximum EITC eligibility rose by 153 per cent over the same period (Primus, 2000). Some individual States also have their own income tax credit schemes. EITC is paid at the end of the tax year and is thus less effective in lifting transitional income at the step change between benefits and work. States have therefore increasingly moved to alter TANF benefit withdrawal rates so that benefits can continue to be paid to support low-paid work. States also have an incentive to do this in order to meet the work participation targets set by TANF block grants. The problem with such



**Figure 13** The falling real value of US social assistance and minimum wages

Source: Author's calculations from DHHS (1998).

schemes is that, in most States, such payments count when calculating time limits for welfare receipt (Greenberg, 2000). This means that families can participate in work, receive benefits to support such activity but then have these benefits cut when time limits come into force.

The USA has also increased health- and child-care benefits for low-income families. These schemes tended to be transitional schemes in the early 1990s but have, with TANF and other Federal funds, slowly expanded into more generic and long-lasting subsidies to low-paid work for both welfare leavers and, less so, for other poor workers with children. However, one of the main stories that have accompanied welfare reform is the poor take up of in-work benefits. Part of the problem is that take up of means-tested, in-work benefits in the USA has always been poor – around 42 per cent of eligible families in recent years (Zedlewski and Brauner, 1999). Changes in eligibility introduced by Welfare Reform laws in 1996 have also had an impact – and administrative hassle is the second most prevalent non-income-based reason for leaving the programme (Zedlewski and Brauner, 1999). However, take up by TANF leavers was worse than for other groups and the position was worst for the poorest TANF leavers: ‘For those with incomes below 50% of the poverty level, former welfare families stopped using food stamps at twice the rate of nonwelfare families (45% versus 23%)’ (Zedlewski and Brauner, 1999, p. 2). Under Federal rules, Medicaid is supposed to continue for between six and 12 months for those who leave welfare and are earning, but surveys show that only just over 50 per cent still have coverage six months after they have left. Medicaid entitlement after 12 months off welfare is available under a complex mixture of Federal and State schemes, but evidence shows that less than one-quarter continue to receive Medicaid and around one-half have no health insurance at all (Garrett and Holahan, 2000).

Child-care provision was consolidated and expanded by US welfare reform – although States’ arrangements for provision and access to child care and subsidies to pay for it remain fragmented in the majority (Long *et al.*, 1998). Despite huge increases in Federal and State funds for child care, estimates are that only 10 per cent of children eligible for subsidies receive them and only around 30 per cent of families leaving welfare for work receive subsidies for child care (DHHS, 2000).

A major problem for the delivery of in-work benefits in the US is that welfare offices are often no longer adequately set up to provide benefit services as an

alternative to welfare because they have moved to a work-first model (see discussion above). A further problem in the USA is that the interaction of State and Federal in-work benefits and tax credits produces high marginal tax rates. The situation differs widely across the USA but, in Wisconsin, where the State had opted for high levels of in-work support, the withdrawal rate at the margins of the poverty line exceed 100 per cent – a severe poverty trap for families with children who have earnings in the region of \$16,000 a year.

Continental Europe has historically sought to make work pay for individual employees using the combination of minimum wages, universal family allowances and, especially in France, pro-family tax systems. France also stands out in having universal all-day nursery provision – and hence child care – that takes all three year olds. The French income tax system takes many families with children out of such tax liability altogether and can be seen as a corollary to in-work benefits. The French have improved incentive structures at the margins of social assistance and work by amending the rules for RMI, API to allow part-time working while on benefits. Germany has seen less change but at the time of writing is experimenting with an in-work benefit. However, the Netherlands has taken tax and benefit incentives very seriously and has already amended the tax allowances for low-paid work to lessen high marginal tax rates. This, however, has meant that many part-time jobs have been created at wages just below the ceiling. This erosion of the tax base and other problems have led to a radical plan to move towards a tax credit system in an overhaul of the income tax system in 2001. All tax allowances will be replaced by individualised tax credits which will assist in incentives to move from benefits to work for both single people and couples by lowering replacement rates across the board. (OECD, 2000a).

Making work pay through in-work benefits targeted at low-income families can lift incomes at the margins of out-of-work benefits and work, and increase incentives to move into work. All five countries have some forms of benefit for either smoothing transitions into work and/or supporting low pay. Such policy can be seen as the ‘carrot’ in welfare to work programmes when compared to the ‘sticks’ outlined in Chapter 2 that made entitlement to welfare more conditional. However, such programmes are not limited to those who have made the transition into work and must also be viewed as anti-poverty programmes for the low paid. The relationship between ‘stick’ and ‘carrot’ is an important one and growing evidence from the USA seems to suggest that combining a

strong anti-welfare agenda with a ‘making work pay’ strategy has had detrimental effects on the take up of important in-work benefits such as Food Stamps and Medicaid. This is an area of evidence that Britain must take seriously in the future if we want to move towards an individualised, service-rich environment that also has very strong messages about compulsion and obligations.

Take up of in-work benefits that are means-tested is a problem – although evidence of US take-up problems of EITC tends to suggest over-claiming. Moves to harmonise tax and social security and an expansion of tax credits in the UK and the Netherlands may provide the ability to ensure close to 100 per cent take up for families with children if receipt of a universal child benefit/family allowance is used in conjunction with earnings and tax data.

## Providing work

The line between providing work and subsidising employers is also not an easy one to draw, but one difference is where the employer is a public or publicly funded organisation.

There is currently a turnaround in US practice and debate on job creation, or rather community employment as an element in welfare to work programmes. The CETA (Comprehensive Employment and Training Act) programmes of the 1970s provided employment in poor urban areas of the USA and were widely criticised as being ineffectual and corrupt. Public employment programmes moved towards training with attached labour market placement programmes where many providers use active job development – active enrolment of employers to meet their needs and to match them to participants’ profiles – as an alternative. In the 1980s, the only other experiment with welfare jobs was *workfare*. Workfare is a term that is often misused or inexactly applied as a generalisation for all compulsory work-focused benefit rules. In its original and most precise meaning, it refers to the US practice of making AFDC and GA claimants work a given number of hours for their benefits. Such schemes came to policy prominence under Reagan’s Governorship of California in the late 1970s, but when exposed to experimental evaluation they were found to be costly and to have poor outcomes (Goldman *et al.*, 1986).

One of the ironies of the 1996 PRWORA reforms is that they allow States for the first time to use social assistance funds to create actual jobs rather than workfare schemes (Savner and Greenberg, 1997). This opportunity has

increasingly been taken up in US cities because of geographical job mismatches and to meet the needs of an increasingly hard-to-serve population left on welfare as the booming economy draws the most employable into work. An employment-centred approach has the advantage over workfare of drawing down Federal in-work benefits such as EITC. These newly emerging ‘community jobs programs’ offer temporary real jobs providing community needs and look a lot like the British Intermediate Labour Market (see below) – except that the US model operates in a mandatory environment.

Workfare, however, has not disappeared. Indeed, New York City in the 1990s has seen the implementation of a huge municipal workfare scheme with around 36,000 workfare placements. The Work Experience Program (WEP) was introduced primarily for the GA population and extended to TANF claimants as part of their work participation requirements. However, New York’s workfare programme has a very distinct history that has emphasised municipal work. The huge structural fiscal problems of New York in the early 1990s (Fuchs, 1996; Gyourko and Summers, 1998) led to public service efficiency measures and lower staffing levels in many services. The introduction of WEP into parks, hospitals, central services other NYC areas and the welfare department itself has therefore been seen by some as replacing paid employment places with ‘unpaid’ workfare:

*We had to make cuts... When we did what was necessary, there were services that were under-attended and we had people receiving taxpayers’ money, who were able to do that work. How could anyone criticize us for developing a program that meets so many needs? (Mayor Giuliani in a radio interview, quoted by the New York City Workfare website [<http://www.igc.apc.org/ny@work/>])*

For example, the City’s Parks and Recreation Department’s workforce fell by 28 per cent between 1993 and 1996, but the introduction of hundreds of WEP participants has simultaneously occurred. The result has been a huge improvement in the cleanliness ratings – up from 61 to 95 per cent acceptable and there is no argument that workfare is a primary factor.

*The biggest contributor to the improved cleanliness of New York City’s parks has been the workfare program ... By the fall of 1997, more than 6,000 able-bodied welfare recipients, men and women, were working approximately 21 hours a week in parks, helping to paint benches, shovel snow, rake*

*leaves and pick up litter in exchange for their benefits.* (City of New York Parks and Recreation Department, 1998, p. 1)

The City denies direct replacement of workers with workfare – and the politics of the move are hotly contested. Union acquiescence decreased in the late 1990s.

Overall, WEP has not performed well as a welfare to work measure but generates a large volume of administrative and behavioural sanctions that help to lower the rolls and tend to reinforce WEP's role in deterring and controlling claimants rather than their improving their employability. In 1996, HRA records showed that 5 per cent had found jobs. Without access to supplementary education and training provision, WEP tends to decrease job search because most placements take up the mornings of every weekday. The benefits of New York's WEP are mostly going to local taxpayers in the form of unquantified improvements in public goods and services rather than to the participants themselves.

But New York has not been able to remain out of step with the growing surge of community job provision. Despite the stiff opposition by the Mayor and City Welfare Department, New York agreed in mid-2000 to implement a Transitional Jobs Program of 7,500 12-month jobs paying \$7.50 an hour, which also provide for eight hours training a week.

Continental Europe has had a much longer and larger commitment to job creation in the social sector. France developed short-term contracts in public organisations for young people and the long-term unemployed in the *Contrats Emploi Solidarité* (CES) in 1990 providing part-time jobs, usually for three to 12 months. Wages are a proportion of the minimum wage (SMIC) and 95 per cent of the wage costs are paid from central funds, with employers facing no social security taxes. Longer-term positions were then established in *Contrats Emploi Consolidé* – jobs of 30 hours a week and paid at 120 per cent of the minimum wage – to follow on from a CES for up to a maximum of five years.

In 1997, the French Government decided to expand public job creation even further for young people and create 300,000 new jobs to provide public goods services that were currently unmet – in schools, police, social housing estates and elsewhere. The need for such jobs arose because many young people leaving CES and other short-term initiatives remained unemployed – their experience

in these schemes was not seen as adequate to be employable in the private sector. At the same time, entry-level private jobs were being taken by more qualified graduates, who found it difficult to move on and free these jobs for the less qualified. *Emploi Jeunes* positions are thus aimed at both secondary and university qualified under-25s who are unemployed in order to offer both better-quality job experience and the basis for a permanent job providing a new public service. The jobs are for five years and are set up to stimulate funding for their continuation after this time.

The *Emploi Jeunes* scheme is primarily aimed at those who have no work record – including graduates aged up to 30 – but mainly the under-25s. The State pays 80 per cent of *Emploi Jeunes* participants' wages and employers are supposed to give the remaining 20 per cent to reach SMIC wage levels. This means a central subsidy of FF 92,000 a year. Globally, the State budget provided FF 9.2 billions for 150,000 jobs for 1997 to 1998. At the moment, *Emploi Jeunes* participants may be used only by local public institutions and non-profit-making companies (charities, associations, workers' councils, etc.). However, there is a very specific exception for private companies directly performing public services. Central State civil service departments are not allowed to directly employ *Emploi Jeunes* participants. The aim is to develop jobs to fulfil new or unsatisfied needs, and to provide the basis for these jobs to become permanent in the longer term. There is a ban on job substitution and each position has to be proven as a new post. For instance, a local Saint Denis hospital with a vacancy for an archivist wanted to fill it though hiring an *Emploi Jeunes* participant, but could not. Enforcement of this no-substitution rule is by ANPE. Teaching assistants and information officers in schools and colleges have been a major source of positions. However, the rapid implementation of the scheme in the education sector has not ensured the provision of adequate training to accompany the positions in many instances (Blanchard, 1998). Within one year, 63,000 jobs were created in this way with the majority in the education sector (DARES, 1999).

Other positions have to be developed by communities and public sector – in Saint Denis the scheme meant that a plan to produce 80 posts was agreed in October 1997. This was the first part of a rolling plan that envisaged 400 places in the longer term. Job development is now a major part of producing a plan to expand, and *Objectif Emploi*, the local agency described as the main administrators of RMI, are central to this work. Pre-recruitment courses and information sessions aim to bring the scheme to the

attention of the 40 per cent of Saint Denis youth who knew nothing about it in early 1998.<sup>8</sup>

German job creation has two separate sources – the Federal unemployment system and local municipal social assistance. Federal unemployment funds have been available for job creation in the third sector (i.e. to avoid substitution). The ABM (abbreviated from *Arbeitsbeschaffungsmassnahmen*) projects provide fixed-term temporary jobs jointly financed by the Federal Employment and the *Länder* that draw up the local programme of job creation. Federal funds tend to finance the wages for the job and the *Länder* the non-wage costs – around 25 per cent of the gross cost. To qualify, one must be unemployed for at least 12 months. Recent changes to eligibility have stressed the harder to serve rather than just the long-term unemployed. Particular to Hamburg is a system of education and qualification that accompanies the ABM schemes. Participants have 20 per cent of their work time set aside for training and qualification, and each work placement must agree an element of training and qualification. In recent years, ABM schemes have been redirected at the unemployed with chronic illness and disability.

Running in parallel but solely directed at social assistance claimants are agencies that put into practice the principles of *Hilfe zur Arbeit* – help through work and work experience. *Beschäftigungsgesellschaften* (community businesses) are often the organisations that put this principle of social assistance into practice. Hamburg's HAB is one such organisation and actually produces goods or services and hence the claimants become workers and trainees in a variety of workplace assignments. These could range from metal-craft workshops to a hotel but all are a response to social needs and should not substitute private employment. The company trades as a normal business and has to win contracts for its goods and services, but is subsidised by the municipality. Training is provided both in-house for work-floor and on-the-job skills, and by outside trainers.

The Netherlands has had several waves of public employment programmes for the unemployed. The first two waves in the mid-1990s were named after the Minister for Employment and Social Welfare – the so-called *Melkert* jobs. Recent changes have moved to create more temporary transitional positions that can either act as a stepping stone to an unsubsidised job or be taken over and fully funded from alternative sources. In going in this

direction, policy on employment creation has moved from public and social jobs towards a more rounded, market-led approach as stated above. Municipalities, and particularly the major cities, have set up publicly funded companies to act as employment pools. These companies operate as a system of *Bahnenpool* employing social assistance claimants themselves, providing training and then placing them in work. As with the US intermediary model, there is a large emphasis on job development and one part of the organisation is looking for employment opportunities – especially in areas where public goods employment can be subsidised by the underlying welfare budget of their employees. For instance, the local hospital car park in Amsterdam was not safe and patients' and staff's cars were being vandalised or stolen. The *Bahnenpool* was approached and created security officer jobs for the hospital, provided the staff and employed them and charged for the service. The position of such jobs is then reviewed and the potential for a permanent position and its financing assessed. The emphasis on temporary and transitional employment has increased in recent years and more efforts are now made to move participants on to the normal labour market. Pay is the minimum wage and the employees continue to be asked to job search.

British provision of work is limited to the NDYP – either in voluntary organisations or in locally run Environmental Task Forces. However, much of this employment is not based on wages but on benefit replacement with a small increase in rates. Other British employment provision has been aligned to local provision. Such schemes usually come under the name of Intermediate Labour Markets (ILMs). ILMs are local organisations – usually assisted by urban regeneration funds and the European Social Fund – that create socially useful, real jobs for long-term unemployed people and other claimants. ILMs came to prominence in the mid-1990s during discussions of the future of work and the possibility of moving towards workfare-type provisions such as Project Work introduced by the Conservative Major Government. A broad spectrum of opinion on the Left was in favour of social employment schemes as an alternative to workfare and ILMs such as Glasgow Works provided examples of well-run schemes that offered insulation, community advice and assistance, and other work experience for the unemployed in areas of high unemployment (McGregor *et al.*, 1997). A national expansion of community employment was put forward by the left-leaning Institute of Public Policy Research (Holtham and Mayhew, 1996). The incoming Blair Government gave a boost to ILMs in the six original areas for Employment Zones and the Environmental Task Force for the NDYP has employed ILMs in some areas. However, having invested in setting

<sup>8</sup>*Le Journal Objectif Emploi*, No. 1, February 1998.

up Employment Zone ILM projects, the Government abruptly cancelled all further recruitment to them when it announced the new regime for these Zones (no longer based on community employment) – described in Chapter 2.

The change of heart by the Government reflected central civil servants' opinions that such schemes had high costs and relatively low outcomes when compared to the range of interview-based interventions that had evolved within the Employment Service during the 1980s and 1990s (such as Restart, One-to-one and others – see Gardiner, 1997 for an overview). Not only did ILMs have high unit costs but they also fell foul of an apparent ideological opposition to job-creation schemes within New Labour and were further thwarted by the argument over 'job gaps' in specific geographical areas of the UK (discussed further in Chapter 4). Evidence on the efficacy of the community job approach is available from both the US (Johnson and Carricchi-Lopez, 1997) and elsewhere in Europe (Disney and Carruth, 1992). Evaluation of ILMs, such as Glasgow Works, are difficult to compare with other UK evaluation data because the schemes are voluntary and in particular locations but there is evidence of very good job retention for participants who move into normal employment (Cambridge Policy Consultants, 1998).

The role of employment-based welfare to work programmes for the unemployed is disputed by British policy makers although recent announcements about the future of the New Deals seem to suggest that an expanded role for ILMs may be foreseen for the hardest to serve – and in particular those with chronic illness or disability (HM Treasury, 2000b). The reluctance of policy makers is understandable but there is evidence that the approach can work if structured well. The lessons from abroad seem to suggest that employment-based programmes should:

- be targeted on people who have poor work experience and who are difficult to place in work
- be emphasised in geographical areas where the ratio of vacancies to claimants is poor – as in the instances in the inner cores of many US cities
- provide social goods which, where possible, should be measured as an outcome of the programme and hence be included in cost-benefit analysis alongside the programme's ability to prepare and move claimants into work
- provide temporary placements not permanent jobs and therefore incorporate a central aim of preparing and assisting their workforce to move into the regular labour market

- provide real paid work experience that will be valued by other employers
- avoid substitution and fulfil unmet job needs – there is no reason why temporary employment programmes should not provide marketed goods or services but, where these goods and services develop into a viable business, such employment programmes should be encouraged and allowed to become normal businesses.

The Dutch experience of using subsidies in a global budget for a particular geographical area – to support employers' needs and to create new temporary employment schemes – could be investigated further in a potential return to the original ideas behind Employment Zones – perhaps through geographically targeted programmes like the Single Regeneration Budget or Neighbourhood Renewal Strategy.

There are, of course, negative lessons as well. The German social assistance jobs are often a means to give people a work record and hence shift financial responsibility for them away from local and on to Federal social insurance budgets. Many European job schemes have not had adequate flow-through objectives – they have been compromises between the different policy actors to 'do something about unemployment' rather than to set up viable temporary jobs that stimulated both the individual and the local social economy. Similarly, some of the rules about substitution employed abroad do not make much common sense – in Germany, ABMs can operate commercially only in the voluntary and church sectors, which means an ABM building project can fix the roof of a church but not, say, a public building.

### **Lessons from work and work subsidies**

- General and/or targeted subsidies to employers have been introduced in all five countries. Employer take up of targeted subsidies is a common problem and evidence suggests that a subsidy is less important to employers than hiring the right sort of person. This suggests that employment subsidies tend not to be effective with harder-to-serve groups and have a tendency to support cherry picking.
- Making work pay through in-work benefits targeted at low-income families is present in all five countries for either smoothing transitions into work and/or supporting low pay.
- Programmes are not limited to those who have made the transition into work and must also be viewed as anti-poverty programmes for the low paid.



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- Evidence from the USA of deteriorating take up of in-work benefits suggests that combining a strong anti-welfare agenda with a ‘making work pay’ policy in a single organisation (the welfare office) has had detrimental effects on the take up of in-work benefits. This is an area of evidence that Britain must take seriously in the future if we want to move towards an individualised, service-rich environment that also has very strong messages about compulsion and obligations.
  - Take up of means-tested, in-work benefits is a more general problem. Moves to harmonise tax and social security and an expansion of tax credits in the UK and the Netherlands may provide the ability to ensure close to 100 per cent take up for families with children if receipt of a universal child benefit/family allowance is used in conjunction with earnings and tax data.
  - Temporary employment-based welfare to work programmes can work if structured well, and should be expanded in Britain and targeted on hard-to-serve populations and in areas of high unemployment.
  - The Dutch experience of using subsidies in a global budget for a particular geographical area – to support employers’ needs and to create new temporary employment schemes – could be investigated further in a potential return to the original ideas behind Employment Zones, perhaps through geographically targeted programmes like the Single Regeneration Budget or Neighbourhood Renewal Strategy.

## 4 Best practice and lessons for British policy

### What works and why: US evidence in a European context

Britain is hungry for evidence-based policy to answer the question ‘what works?’ The most consistent answer to what works in welfare to work is an underlying healthy growing economy with job growth. Even in a booming economy, deciding what contribution is made by welfare to work programmes is difficult. The most recent US estimates suggest that their 1996 reforms had a significant effect in reducing caseloads above and beyond the effects of the economy (Council of Economic Advisors, 1999). This fact puts the USA potentially high on the list of countries to learn from, but does this mean that it is a reliable example of what works, and should its approach be followed?

The temptation to follow US policy is understandable and, given Britain’s clear lead in European discussions on unemployment policy, lessons from Europe are more difficult to see as relevant. Evidence from Europe is also less available and clear-cut – the role of independent evaluation of policy is less well established than in the USA. European social insurance systems often have to compromise on policy aims and implementation in order to please employers, unions and the State. Britain and the USA are clearly different in their ability to change entitlement rules easily with less protracted political negotiations – although Britain seemingly has more ability to easily change social insurance provisions than the USA. Conversely, the USA has been able to change social assistance radically and with strongly resonant rhetorical themes such as ‘ending welfare as we know it’. While Britain has adopted much of the rhetoric, we have not been so radical and have held back from imposing the full panoply of tough policy changes outlined in Chapters 1 to 3.

Britain is currently at a point of policy reflection about what to do next with its welfare to work programmes. We have met important targets such as placing 250,000 young people into jobs and attention is moving away from the unemployed towards lone parents and sick and disabled claimants. We have a growing body of evidence about what has worked so far. But next to American declines in welfare claimant caseloads, our successes look less rosy. For this reason, this section turns its attention almost exclusively to the American evidence of the effects of its welfare reform.

### American experience of welfare reform

US changes in policy have been a decisive factor in caseload decline, but does this mean that it is a successful welfare to work policy? The headlines of US welfare, of caseload decline combined with higher employment rates for lone parents, are attractive.

US welfare receipt is now far more work-based than before. Employment rates of continued claimants have risen greatly – from 11 per cent in 1996 to 33 per cent in 1999. More claimants are leaving welfare and many are working but their employment position is not necessarily secure – 62 to 75 per cent work at some point in the first 12 months after leaving welfare but only 36 per cent are in employment 12 months after they have left (DHHS, 2000). Evidence on these welfare leavers from States’ surveys and from other surveys show that around 20 per cent of leavers are not actually in work and furthermore have no evidence of income. There is a 30 per cent recidivism rate of returning to claim welfare. On the whole, US welfare leavers do not have secure or sufficient income. Only one-third of Wisconsin’s welfare leavers are above the poverty level and the majority of States’ studies of leavers show that most leavers are either financially the same or worse off than they were on welfare (Brauner and Loprest, 1999; Loprest, 1999).

The impact of welfare reform in decreasing poverty is mixed. Evidence from US national income profiles shows that the poorest quintile of lone mothers suffered a decline in real incomes since welfare reform – having previously shown low but modest increases in income up to that point. The majority of this lost income is explained by the disappearance of means-tested benefits (Primus *et al.*, 1999). This degradation of the safety net has had knock-on effects on child poverty. While child poverty rates have declined from 16 to 14 per cent overall, the net *per capita poverty gap* (after taxes and benefits) for children has grown in real terms by 9 per cent between 1995 and 1998 (Primus, 2000).

Behind the headlines of falling caseloads and rising employment rates there are considerable numbers of ‘losers’ and many of the gains to income that are made by moving from welfare into work are marginal to the extent that a significant proportion of work gainers are income losers. Yet, the US policy environment does not seem to consider losers as a policy issue of any seriousness. Falling rolls and rising rates of employment are mostly

portrayed as an unqualified success (see, for instance, DHHS, 2000 and contrast with Primus *et al.*, 1999). Those claimants who leave welfare and do not work or do not 'succeed' have even less legitimacy than those claimants who remain on welfare. Those who join the working poor mostly do so at the bottom end of an extensive insecure labour market that has high levels of turnover and poor conditions. The high-profile gainers – the single moms on welfare who go to work at Salomon Barclay and get to go to the White House as an icon of welfare reform – are a small part of the story.

The truth from the USA is that there are many good and bad things to learn but that learning the bad things requires a critical approach. Such an approach is not limited to careful handling of policy advocates when they cross the Atlantic to spread the news. It also applies to the growing academic literature from experimental evaluations of US programmes that are admired by the Treasury and others in the UK. The methodology and approach of the social scientists involved is usually first class but the presentation of their results is geared to an American policy-making audience who may well want a story of what works in simple terms. British policy makers want to know about the pain as well as the gain and would be puzzled by the general limitation of such experimental results to their aggregate effects. If we are properly to utilise US evaluations, we need to invest more in secondary analysis of their results so that their data are broken down sufficiently to allow the British reader to understand how many lost, who they were and by how much, as well as the aggregate gains to incomes and falls in spending on welfare. This should then be put alongside evidence of the secondary effects on the families and others that support those who lose welfare and who rely on them instead. If we are told what works but have no real idea of why it works or its costs in poverty and social exclusion, how can we try to replicate it outside of the experimental context – and especially across the Atlantic Ocean?

There is a further lesson about the applicability of US research even to its own programmes. The AFDC experiments of the 1980s and early 1990s were often not done on a full lone-parent caseload. For instance, the GAIN evaluations were only for those who were mandatorily assigned to employment programmes – those without children under six and without disability. The fact that the results from this experiment were expanded to cover the whole AFDC/TANF population is an important point to remember in both the applicability of research to policy and as a point of reservation when it comes to

heralding America's commitment to 'evidence-based policy'. We have to understand the relationship between good quality social science and a poor quality policy-making environment in the USA at present.

Recent US evidence has shown the benefits of a flexible and mixed programme for moving lone parents into work. The Portland (Oregon) scheme that emphasised quality transitions into work, assisted in setting up child care, and gave the opportunity to train or look for work as the first step to moving into work has had the best results of the 11 sites in most recent National US evaluations (Freedman *et al.*, 2000). There appears to be a growing but uneven US trend to move away from simplistic models of 'work first' and a diversion towards bringing down the rolls and towards a greater investment in service delivery.

### **Integrated packages: best practice and suggestions for Britain**

The evaluation of British labour market programmes for the unemployed has existed in an environment where many of those with the greatest barriers to work have been outside of the study group – lone parents and people with illness and disabilities in particular. Selection and sorting of claimants in Britain for welfare to work programmes has mostly been on the basis of unemployment duration prior to 1997 – and, indeed, this still forms the single most important factor in delivering the mainstream of active labour market programmes. There is a move in other European countries towards a duration-based approach that will give assistance to all unemployed before they become long-term absentees from the labour market as part of EU employment policy.

How will Britain adapt to its redefined and wider range of claimants for future welfare to work programmes? Britain is merging the Benefits Agency and the Employment Service to become a new single agency for working-age people that will prioritise work and training, but how will those with most barriers to work compete for resources in an organisation where the active labour market ethos has never had to consider them before? What worked in the past may not work so well without some expansion and adaptation. We know how to turn around the frictionally unemployed most efficiently. The USA provides us with evidence of how to divert frictionally unemployed lone parents and limit their recourse to welfare.

Britain at present really only offers a service-rich programme to the unemployed – and then again mostly to the under-25s. If Britain is going to move away from a

categorical targeting of services on the unemployed towards one based on 'equality of opportunity' then it will probably have to put to one side the categorical divisions between the New Deals and move to an approach that cuts across claimants of all types and focuses instead on opportunities and barriers to work. This would mean that a lone parent or disabled claimant who had poor qualifications would be more likely to be treated as someone who needed training rather than as a member of a secondary claimant reservoir who may be persuaded to move into work.

However, the analysis so far has tended to look at specific programmes or particular methods. As unemployment levels fall and the long-term stocks of claimants have greater barriers to work then there is the need to consider more mixed packages of intervention that deliver different types of assistance to improve employability, move people into work and support them in work. From all five countries studied in this report, there are instances of good practice and of potentially useful interventions that provide mixed packages. These examples of mixed packages are described under four themes:

- induction and assessment of employability
- provision of education and training
- employment and temporary employment
- in-work support.

#### **Induction and assessment of employability**

There are strong arguments for letting the labour market decide who does and who doesn't need help by holding back services to those who are found to experience problems in getting a job. This approach avoids deadweight, helping those who would have found work without help. However, there is also a fundamental unfairness in encouraging those with substantial barriers to work to fail at job search and thus become less motivated before giving them help that was foreseeable.

Individual profiling of claimants and their experience and needs, and thus predicting potential long-term unemployment, is a contentious area and there is much experimentation in the USA in the unemployment insurance population with rather mixed results to date. Such an approach could have a significant impact on initial assessments at the point of inflow into benefits and the timing of targeting of programmes in Britain. More importantly for British policy, there is a strong organisational culture within ES and DfEE that sees duration-based targeting as cost-effective and efficient. However, this approach has relied on having a population

that was unequivocally engaged in job search and ready to move into work at short notice. This isn't necessarily the case with lone parents and disabled claimants. Personal advisors who currently support and identify barriers to work could have their role enhanced to be brokers for a wider range of services that respond to and remedy barriers that are identified.

This may require a more highly trained and structured approach, and lessons could be drawn from some of the successful US intermediaries dealing with lone parents who do in-depth qualitative work on barriers. For instance, America Works (AW), which operates as a private for-profit company, invests a great deal in profiling because it relies on good-quality, long-lasting job placements to make money. It gives an in-depth assessment of all applicants' psychosocial stability as well as the standard assessments of human capital and job-readiness. It considers the claimant's housing, relationships and neighbourhood problems and profiles crucial to their potential success and not just their work experience, skills, welfare history and verbal proficiency. AW is dismissive of US bureaucratic assessments of employability and job readiness because they rarely establish a trusting relationship with the claimant and focus too much on someone's wage potential rather than on whether they can succeed in work.

The issue of child care is central to lone parent participation. For instance, AW also ensures that the individuals' needs for child care are met as a part of induction and preparation. It views this as a 'training exercise' during which its lone mothers are given information on quality and sustainability of child care and practice on how to negotiate sustainable arrangements. A simpler version of this principle in the French, Dutch and German approaches to lone parent participation in work actually ensures the child-care issue is settled *before* providing employment and training services.

#### **Provision of education and training**

The need for basic education, further and more applied education, and soft and hard skills is a complex one that needs to respond to a range of underlying issues. However, in the hard-to-serve populations, there will be significant numbers of claimants who lack both work experience and soft and hard skills. One method of providing a mixture of work experience and training is to link training directly to the needs of employers by having a single organisation train and place claimants. The intermediaries simultaneously reach out to employers to develop job opportunities for their trainees. The

combination of training and active job development and placement is very different from the ES approach of mainly passive vacancy collection. The job development role ensures that the trainees are given skills that are directly relevant to employers' needs. For instance, Wildcat Service Corporation in New York City provides education, vocational training, job placement and job retention services to these groups and to the long-term unemployed to meet its mission, 'to act as the program of last resort for chronically unemployed individuals with limited work histories and little or no job skills'. Wildcat's trainees remain on benefits but other agencies actually employ claimants on a part-time contract and treat them as employees while they train them. America Works operates like this as does *Maatwerk Amsterdam* – a not-for-profit public employment project in Holland. The employment approach means that training is accompanied by the experience of being in a work-like environment, emphasising the need for punctuality, good personal presentation and dress. It also allows both the employer and employee to draw down their relevant subsidies. This has the added value of setting up these subsidies and ensuring they are paid while the transition to an independent job is occurring. Then, when the trainee has to move to their new employer, the intermediary can assist in subsidy transfer as part of the induction and support they give when the trainee begins the new job.

### **Employment and temporary employment**

As previously discussed, the role of transitional employment in welfare to work in Britain has been tainted with the accusation of high costs and poor outflows into work and of 'make work' or non-relevant job creation. Policy makers are often caught between the problem of providing good enough quality of work experience to improve employability while at the same time avoiding making the jobs created preferable over other labour market 'real' jobs. Indeed, the 1980s have left a British legacy of such schemes being viewed very poorly by employers as the last resort of the most hopeless cases. Looking abroad, the experience from foreign schemes seems to be that short-term employment in itself is often not enough – schemes work best when they meet a number of needs besides simple work experience. Training during employment – the provision of marketable hard skills and qualifications as well as soft skills – is a common development. The New York City Parks Department, faced with a rigid and simple model of workfare, produced its own employment and training programme. PACT (Parks Career Training Program) adapted and augmented 800 WEP (workfare) placements to provide specific training programmes based on

departmental work tasks. These are not just horticultural based but involve security, custodial, clerical and handyman courses. One popular element of PACT is the training to drive both regular and commercial vehicles. On-the-job training is organised by placing trainees in a supervised work team or by giving them individual placements (internships) alongside a Parks Department tradesman. Wherever there is a recognisable, vocationally relevant qualification, such as first aid, boiler maintenance and security certificates, these are awarded. In addition, access to Board of Education sponsored high school diploma classes – General Equivalency Diploma (GED) – is provided. PACT training lasts typically six months but, if participants are seen as 'job ready' before that point, then they are encouraged to go to interviews. After successful job-placement, PACT counsellors provide 30-, 60- and 90-day follow up. While on PACT, participants also have access to counselling to assist with both social and work-related problems.

The German and Dutch social assistance employment programmes have also grown in the quality and extent of training and post-employment provision. For instance, in Hamburg, a private not-for-profit company, HAB, offers *Sozialhilfe* claimants training and employment at union-agreed rates of pay in a variety of sub-enterprises run under its umbrella. The employment is in real commercial enterprises that provide services or make things and sell them in the market place. However, usually, such sub-enterprises are subsidised because they could not commercially compete without a subsidy. They include metalwork (making fittings for a Dutch shipbuilding firm), furniture making and restoration, textiles, painting and decorating, and restaurant and catering services. The latest HAB project is a small hotel of 17 rooms situated at Hamburg's Olympic swimming pool. *Aquasport*, as the hotel is called, has been set up because there was nowhere near the pool to stay during competitions or training sessions. The need for the hotel at the pool was established by the City of Hamburg's sports administration but they were unable to find a private provider willing to set it up. They approached HAB and provided the capital funds subsidised by the City, but the operation of the hotel is on a commercial basis. The hotel is also a welfare to work site run by HAB. Thirty-one ex-*Sozialhilfe* claimants on placement work shifts there under a professional management trained in hotel and catering skills.

The first eight weeks of all HAB placements are devoted to training before the job placement starts. However, there is a 20 per cent allocation of time for training throughout

the placement, and training continues through courses run by outside providers. Caseworkers at HAB assist with health, family and other problems, provide counselling and help broker access to other services in the City. There is also a legal worker to deal with participants' debts – around one million DM in total from all the participants. When the participant leaves, they are seen as being job ready and HAB has recently employed three active job development workers to give in-depth help to leavers moving into work.

There is thus a move away from 'simple' provision of jobs only in employment policy towards more mixed packages of jobs plus training, plus advice and plus job brokering. These moves accompany an increasing targeting of job creation. In the Netherlands, the first two waves of semi-permanent job creation (the so-called *Melkert* jobs) have now been joined by temporary positions which are increasingly geared towards the private job market. In Germany, the social insurance schemes (ABMs) are adapting to take on the more disadvantaged unemployed – particularly those with poor health or disabilities – and more work is being done to improve throughflow. In France, the model has moved less towards mixed provision and remains highly compartmentalised, with specific programmes for specific target groups who are difficult to package together. Innovation in France is largely in schemes where particular policy providers take the effort to join things up. One example is some social landlords who are not only putting together job packages for *Emploi Jeunes* schemes on problem estates but are also active in ensuring that training and employment programmes are integrated into everyday building and management.

### **In-work support**

A further element in the model of integrated packages is the role of in-work support. In general, the US debate is increasingly concerned about income progression and sustainability in work as more leave welfare but the majority of leavers are seen not to be leaving poverty. The problem for US policy is that successful job retention and progression schemes have not been easily transferable. What seemed to work quite well in Chicago would not replicate elsewhere. The more fundamental problems for US policy may well link back to structural problems of a diversionary work-first approach, the delivery of in-work programmes and high marginal tax rates and their combination with the low-paid end of the US labour markets. Sustainable, consistent work with income progression – fewer gaps and better earnings – is a policy aim that should be equally integrated in the design of

welfare to work approaches and not added on at the end in an attempt to solve problems in part caused by the original design. Some US providers place great emphasis on job placement quality and post-placement support. This is important for those with existing work records where a period of frictional unemployment and a move to a better job could be preferable to being forced to take a similar or worse job. How such a strategy fits into rigid and strict work first programmes is not exactly clear from the US evidence because many of the gains to earnings and lower poverty rates from experimental evidence have been obtained by removing or reducing frictional entitlement of such claimants.

Providing job retention and income progression for the hardest to serve, for instance those with no work experience whatsoever for whom getting and keeping any job is an important first step, is more difficult. The experience of the US STRIVE programme run by the East Harlem Employment Project is a good example of combining assistance in work with getting low entry-level jobs. STRIVE is an open-access, not-for-profit service that focuses on soft skill development and interview and job search techniques. However, STRIVE's job development staff assist in developing contacts with employers, and help participants to find employment that offers benefits, skills development and opportunities for advancement. But all of STRIVE's graduates must successfully apply for and obtain their own positions. No job is viewed initially as 'dead end', because participants' previous work records often mean that they need job experience in order to begin or restart a work history as well as a pathway for advancement. After placement, however, STRIVE guarantees to continue to work with clients to upgrade their employment. For the first two years, it is STRIVE's responsibility to contact the client and check how things are every quarter. After two years, graduates can request services at any point in their lifetime on their own initiative. STRIVE now supplements this service with specific graduate-access programmes to educational and hard-skill training programmes.

These suggestions and examples of mixed packages and approaches show the need to increase the diversity and flexibility of policy for harder-to-serve claimants. The advantages of successful early identification of employment barriers, as in the US and Dutch profiling approaches, are that it can reduce time out of work if the correct package can be implemented early. There is no reason why such packages cannot be identified and co-ordinated by caseworkers working as personal advisors in Britain. The main problem in Britain is that organisations

offering such packages are only slowly emerging on a scale that could provide reasonable coverage. The benefits of having single organisations providing packages are that it ensures continuity for the claimant – they could be trained, placed in work and given post-employment services by the same organisation or caseworker.

#### Lessons from Chapter 4

- The results of US welfare reform require careful and critical appraisal. British policy makers should not be taken in by headlines and rhetoric. The high-profile gainers – the single moms on welfare who go to work at Salomon Barclay and get to go to the White House as an icon of welfare reform – are a small part of the story.
- It is true that many US claimants have left welfare and many of them are working, but, while 62 to 75 per cent work at some point in the first 12 months after leaving welfare, only 36 per cent are in employment 12 months after they have left, 20 per cent of leavers are not in work and have no evidence of income, and 30 per cent return to welfare.
- Most States' studies of welfare leavers show that the majority of leavers are either financially the same or worse off than they were when they were on welfare. Taking an American State with very high reductions in welfare caseload, Wisconsin, only one-third of welfare leavers are above the poverty level.
- The effects of US welfare to work programmes have made the poorest quintile of lone mothers lose in real income terms and the majority of this lost income is loss of means-tested benefits. While child poverty rates have declined from 16 to 14 per cent overall in the US, the net *per capita poverty gap* for children has grown in real terms by 9 per cent since welfare reform.
- An integrated approach to helping the hardest to serve should include individual profiling of needs. There is also a fundamental unfairness in encouraging those with substantial barriers to work to fail at job search and thus become less motivated before giving them help that was foreseeable.
- Assessment of individual needs and potential has been shown to work in private intermediaries who rely on good-quality, long-lasting job placements to make money. Their experience was that in-depth assessment of psychosocial stability, as well as the standard assessments of human capital and job readiness, were crucial to their potential success at work and not just their work experience, skills, welfare history and verbal proficiency. Bureaucratic assessments of employability and job readiness rarely establish a trusting relationship with the claimant and focus too much on someone's wage potential rather than on whether they can succeed in work.
- A simpler version of profiling for lone parents would actually ensure the child-care issue is settled *before* subsequently providing employment and training services, as in the French, Dutch and German approaches.
- Combining training in an employment approach means that training is accompanied by the experience of being in a work environment, emphasising the need for punctuality and good personal presentation and dress. It also allows both the employer and employee to draw down their relevant subsidies and enables these subsidies to be smoothed on subsequent move into a real job.
- The US debate is increasingly concerned about income progression and sustainable work. Successful job retention and progression schemes have not been easily transferable. More fundamental problems for US policy may well link back to structural problems of policy design. Sustainable, consistent work with income progression – fewer gaps and better earnings – is a policy aim that should be equally integrated in the design of welfare to work approaches and not added on at the end in an attempt to solve problems in part caused by the original design.

## 5 Conclusions and lessons for Britain

One lesson from all four countries is that there is no one programme or approach that can be easily imported ‘off the peg’. Chapter 1 of this report has demonstrated how far national programmes reflect and reinforce assumptions about selection of the target group. Britain has, to its credit, begun to challenge its own organisational assumptions and to extend services to a wider group than just the unemployed. As we move towards more equality of treatment for lone parents and disabled people, how do we move towards real equality of opportunity? If we are to learn from abroad, it is not just a matter of learning about techniques but also learning about the policy context that underlies those techniques – understanding about programme selection and pre-selection as well as the overarching policy environment.

A second but related lesson comes from international evidence of get-tough policy. Getting tougher – i.e. making programmes mandatory or reducing entitlement – is not a sure way of creating success. Providing more assistance in education, training and work transition may require an element of compulsion in some instances, especially where voluntary access promotes cream-skimming and providers are not compelled to help those most in need. But getting tough just for the sake of it – for populist appeal or for partisan one-upmanship carries great dangers. The American experience of withdrawing welfare or of implementing a strong anti-entitlement approach suggests that there are limits to implementing the anti-welfare pro-work rhetoric and tough rules. While it is demonstrable that entitlement to welfare may affect employment rates and unemployment duration, there is also much evidence to show that making welfare disappear or introducing very tough rules does not solve the problem of unemployment. The evidence from Michigan and from current work-first reforms shows how mixed the results can be. A British government that is concerned with child poverty and social exclusion, and that wants to ensure neighbourhood renewal, to provide access to lifetime learning and to bring illegal employment under control is gradually seeing that US experience does not give a good template for these aims. Neither do other countries where there is no, or limited, entitlement to benefits – for instance, French youth who have the combination of no entitlement to welfare, high levels of unemployment and a range of programmes that tend to cycle them in and out of temporary contracts rather than provide sustained employment.

These first two lessons suggest that simplistic solutions – whether rhetorical or procedural – rarely produce the opportunity to learn constructive lessons. Welfare to work programmes are a complex set of policy interventions which require careful balancing of approaches and methods, and which must take into account the micro- and macro-circumstances of their recipients. There are two decisions that seem fundamental. The first is about selection priorities and the second is about transition aims. Put more simply, the questions are *who* are we going to help first and most, and, second, *where* do we want them to end up?

Selection priorities have underpinned much of the description and analysis in this report. The British New Deals still disproportionately focus on the unemployed, and more so on the young, to the extent that three-quarters of the spending goes on 7 per cent of the target population. But, if we are to progress from the decisions made in 1997, it is time to start thinking about more equality of treatment across the claimant groups. For instance, if unemployment in youth is such a scarring lifetime event, then programmes for 18 to 24-year-old lone parents and people with disabilities need to be greatly expanded to meet the additional barriers that these claimants face. The inconsistency between the age and claimant group criteria in the British programmes is stark and difficult to justify if we are moving to a commonly administered group catered for by a single agency.

When we compare our approach to that of the Dutch, we find they invest the most in social and work rehabilitation for those with the greatest distance from the labour market. US practice is moving to cope with the reality of long-term, hard-to-serve populations who are increasingly seen as legitimate recipients of cash help and services. German work reintegration programmes are now being refocused on the unemployed with long-term illness and other barriers to work. On the other hand, it is true that both the Germans and the French spend huge efforts and sums on youth programmes – but, for both countries, there is little or no claimant-based benefit bill behind this approach. Few young people either claim or are entitled. Investment in youth and remedying the effects of poor schooling and childhood poverty in early adulthood are essential policy aims but should not swallow up funds for the reintegration of long-term unemployed and inactive people.



The second main assumption is about destination priorities. This means having a clear sense of where people can be relative to what resources and barriers they have. It also implies having an appreciation of their history as well as their potential (for instance, see the description of the Bootstrap Project in Evans, 2001). Personal history – especially a working record – has dwindled in importance as we have moved away from a contributory social insurance system. When it comes to reskilling or to rehabilitation for sickness and disability, the continental social insurance programmes have specific funds for, and financial interest in, such services and claimants have a right to obtain them if they fit the circumstances. Our system currently does not give much, if any, recognition of the length of employment. Only length of *unemployment* currently gives real rights to retraining programmes, not the length and quality of previous employment.

The Employment Service can see the same person many times and return them into work on each occasion but will have little interest in their career. But recognition of periods in work, in training or of looking after children in the home is how a contributory system calculates its rewards. We seem to have forgotten this and only think of making work pay by rewarding the step change – making real income higher in work at the point of transition into work – rather than building on work to ensure that more benefits accrue and can be called upon when needed.

British emphasis on means-testing and the step-change transition into work helps to frustrate a more dynamic approach. As policies for lifetime learning and individual learning accounts are being implemented, there is a greater need to think about how we deliver programmes and benefits over time. The length of employment on poor wages could act as a trigger to training grants that are aimed at increasing earnings capacity. For instance, a number of repeated claims for in-work benefits could trigger a training-based response. Credits towards lifetime learning could be given disproportionately to those with a history of unemployment or low wages. There is currently a danger that the combination of tax credit and the minimum wage will create new plateaus in employment profiles – of people in work, with incomes greater than they would have out of work but with low skills and little opportunity to make things better. If they work harder, the high marginal tax rates mean they will not be a lot better off and they will see their children less often. The policy choice is either to continue to pay in-work benefits

(welfare of sorts) and/or to help them upskill. The second choice could mean adding more training opportunities – either in work or out of work.

Similarly, there is no reason why those returning to benefit should be treated in the same way as those who are making their first claim. A repeated spell of unemployment could signal early access to programmes that would otherwise require a specified duration on benefit. For instance, why should a claimant have to wait for a period to access work-based training for adults on their second or third spell of unemployment? They have probably shown that they can get and hold a job, and the choice is whether to turn them around swiftly back into a similar job or give them access to human capital improvement before re-entering work and hopefully a better job. The result of this sort of targeting may actually lead to longer periods of benefits and training than would have been the case at that instance of unemployment but would hopefully reduce future incidence/durations of unemployment. Such a dynamic approach based on assessment of individual capacities and barriers to work could build in reinforcement of training trajectories – so that having been unemployed or a claimant of benefits increased access to lifetime learning resources. The lessons from abroad that support dynamic approaches are few and tend to be based only on the better-off, socially insured populations – for instance, the retraining and requalification programmes in German social insurance. If Britain were to implement a dynamic needs-based programme, then it would be the focus of much international interest.

The ONE service is already allowing the non-unemployed to have access to ES programmes to train before looking for jobs and it is also allowing access to training earlier than ES duration limits for the unemployed. The extent to which increased access to services and the improved efficiency in the claiming process obtained by ONE are resulting in better outflows of claimants is not yet determined. One of the most worrying features of how the initiative will be taken forward in the amalgamation of ES and BA is the setting of new operational incentives. If they are based too strictly on a point-in-time approach, they could turn ONE into a US-style, quick turnaround and diversion-based approach. This is unlikely with the present Government, which is concerned with quality outcomes and with preventing social exclusion, but not impossible – especially when there is strong pressure to reduce claimant populations.

The downgrading of a strong institutional ‘pro-welfare’ role by making all benefits relate to work in a single work-focused institution is potentially worrying for several reasons. There has to be a counterbalance against the work focus to ensure quality outcomes for those who cannot foreseeably work. Delivering the ‘security for those who cannot’ should be seen as equally important as helping those who can work into work. This is a matter not only of benefit levels but also of access to and co-ordination of services. Since 1948, British benefits have not had a social work or casework approach; cash was divorced from care. But now a casework approach is advocated for those who are moving into work – at present performed by personal advisors. These workers are trained to give advice, to identify barriers and opportunities to work, to listen and assist claimants, and to set up services that respond to needs. They have proven to be the most consistently popular and effective measure across all of the New Deals, but this success should be seen in the light of what went before and the groups they are serving. It is not clear that personal advisors, as currently trained and specified, will meet a far wider range of needs when it comes to dealing with those with significant barriers to work than can be solved by information giving. But it is also inconsistent that there is no equivalent to personal advisors for those who have no foreseeable work trajectory. If a single organisation is to deliver equality of opportunity to all working-age adults, it should have an interest in ensuring that the right policy packages are available to those who can and cannot work. Too great a preoccupation with a ‘work focus’ will otherwise merely hand out cash alone to those who are at highest risk of social isolation and exclusion.

The policy history of social security has no background of helping the hard to serve beyond cash payment and the ES’s history has been based on servicing a pre-selected group who were also not hard to serve. There is thus a worry that such structural organisational change will not see service-rich provision for welfare to work as a priority other than for the under-25s. The current set of programmes designed for the unemployed and expanded a little for lone parents and others will be rolled out across the whole claimant population. It is difficult to see how the distribution of resources, so prominently skewed to the easiest to serve at present, can be reallocated other than by a ‘wait and see’ policy (this means that, as unemployment levels fall, the harder to serve will eventually get nearer to the front of the queue, but presumably still some way behind the continued demands of the frictionally unemployed). While this approach may make sense in economic terms as an efficient rationing of

current resources, it cannot also carry the label of equal opportunity.

A complementary approach of investing more resources in building experience and programmes of wider and more mixed provision should be considered, and this report has given examples of programmes that have been applied elsewhere earlier in this chapter and in Chapters 2 and 3. How much of this investment should be in the new combined agency and how much outside? Britain is already far behind in the use of intermediaries and is trying to catch up. It is worth remembering that many of the most successful US intermediaries sprang from programmes that were set up in the mid-1970s – especially the Supported Work Programme, which provided a cohort of expertise that, for instance, heads STRIVE, America Works, Wildcat and others in New York today. The nearest equivalents in community-based organisations in Britain are the projects set up under local urban regeneration funds, or under the European Social Fund. However, the policy lines of communication and funding between the centre and these groups are not consistent or clear. The ideological/theoretical divide over the issue of the ‘Jobs Gap’ between central supply-siders and local demand-siders reads like a Pinter play – two overlapping monologues, one intoning that there are jobs created everywhere and the other that there are not enough to go round. Both the Social Exclusion Unit and the Parliamentary Select Committee on Education and Employment have decided that both are true and that local employment creation through ILMs is a real option that should be expanded (House of Commons Committee for Education and Employment, 2000; SEU Policy Action Team on Jobs, 2000). Transitional employment programmes based on real work in temporary positions providing public goods are a potential source of intermediaries that require investment and nurturing with clear policy guidance and funding structures. Measuring their performance is, however, not limited to their welfare to work function but should also include the services they provide. If these are measured and costed, then the overall net costs of such programmes reduce and their outputs are recognised and valued.

We are at a time when the past 25 years of under-investment in public goods is becoming very apparent. The appalling state of public transport, the under-supply of affordable child care, the state of public open spaces (House of Commons Environment, Transport and Regional Affairs Committee, 1999) and the filth of city streets all represent not only a lack of capital investment but also a move away from jobs. Popular opinion

recognises these failures and also backs government provision of employment for the ‘unemployed’ (Hills and Lelkes, 1999). Joined-up government should seize on the examples of good employment-based intermediaries (Marshall and Macfarlane, 2000) and follow them up. What is needed is an institutional basis at the centre of policy making that brings together a new commitment to improving public goods and simultaneously providing high-quality, transitional community employment and training.

Lastly, it is worth returning to the word ‘Welfare’ that started this report. Welfare can have caring, neutral or damning meanings and that is its attraction to many. But there are lessons for us in all three meanings. For instance, Britain tends to overplay the negative. Americans and Europeans are amazed to hear their social insurance programmes and non-contributory disability benefits labelled ‘welfare’ as we do because that damns them as undeserving programmes. The British social security system has been accused of failing and every adult claimant under 60 is the subject of a silent accusation: ‘Could you be working instead of claiming benefits?’ But this implies an equally silent rejoinder on Government: ‘What are you doing to assist in expanding my opportunities to work?’ Finding out the fair and rational answers to such questions takes time, is difficult and expensive to do, and contingent on the state of the general economy. Conversely, pointing the finger is the laziest and easiest thing to do.

Turning to the caring use of the term, then Britain can be proud that its policy is concerned about poverty and about the quality of life for children and adults, both in work and on benefits. The evaluations of the British New Deals give many examples of how claimants welcomed being appreciated and listened to, and having their barriers and capacities recognised. We are investing more help, more services to ensure that individual welfare is increased. *This is not the dominant approach in the USA*, where the current paradigm either thinks that *helping hurts* or that *hurting helps*. As the evidence of the relative size of hurt and help is becoming clearer from the USA, it shows us that a commitment to welfare as a positive term is an essential element to preventing poverty and social exclusion.

A neutral view of welfare recognises the legitimacy of a system that provides a minimum standard of living in and out of work. Everyone agrees that there are some who are not required to work. These are the parents of infants, the carers of disabled people and some disabled people themselves. These as well as the frictionally unemployed

have legitimate claims for support from the community. For those who can work, then the challenge is to provide a system that recognises and responds to need and that is successful in building employability and promoting employment: ‘welfare to work’ it may be called but it is part of a wider organisation of opportunity.

## Summary of conclusions

- One lesson from all four countries is that there is no one programme or approach that can be easily imported ‘off the peg’.
- Britain is challenging its own organisational assumptions and extending services to a wider group than just the unemployed. As we move towards more equality of treatment for lone parents and disabled people, how do we move towards real equality of opportunity? But, if we are to progress from the decisions made in 1997, it is time to start thinking about more equality of treatment across the claimant groups.
- When we compare our approach to that of the Dutch, then they invest the most in social and work rehabilitation on those with the greatest distance from the labour market. US practice is moving to cope with the reality of long-term, hard-to-serve populations who are increasingly seen as legitimate recipients of cash help and services. German work reintegration programmes are now being refocused on the unemployed with long-term illness and other barriers to work.
- Welfare to work policy should not fixate on a single transition at a given point of time. It should become more dynamic in outlook.
- Policy should encourage practitioners to have a clear sense of where people can be relative to what resources and barriers they have. This implies having an appreciation of their history as well as their potential. Our system currently does not give much, if any, recognition of the length and quality of employment. Only length of *unemployment* currently gives real rights to retraining programmes.
- Repeated unemployment should not be treated as separate individual events. The Employment Service can see the same person many times and return them into work on each occasion but will have little interest in their career. We seem to think of making work pay only by rewarding the step change – making real income higher in work at the point of transition into work. Work history is important to ensure that more benefits can be called upon when needed at later times – either in work or when next on welfare.

- Delivering in-work benefits should consider the need for training and up-skilling rather than continue to pay 'passive' benefits for low pay. For instance, a number of repeated claims for in-work benefits could trigger a training-based response. Credits towards lifetime learning could be given disproportionately to those with a history of unemployment or low wages.
- The most worrying feature of the amalgamation of ES and BA is the setting of new operational incentives. If they are based too strictly on simple turnaround and in-work targets, they could turn ONE into a US-style, diversion-based approach.
- Work is also about investment in public goods. The appalling state of public transport, the under-supply of affordable child care, the state of public open spaces and the filth of city streets all represent not only a lack of capital investment but also a move away from jobs. Employment-based welfare to work schemes can and should play a role in such reinvestment.
- Ease back on the rhetoric – the US experience suggests that demonising 'welfare' and the people who claim it does not help good quality policy making. Britain is investing more in help and more in services to ensure that individual welfare is increased. *This is not the dominant approach in the USA*, where the current paradigm either thinks that *helping hurts* or that *hurting helps*. A commitment to welfare as a positive term is an essential element to prevent poverty and social exclusion. The challenge is to provide a system that recognises and responds to need and that is successful in building employability and promoting employment: 'welfare to work' it may be called but it is part of a wider organisation of opportunity.

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