

# Beyond Workfare

## *Active Labour- Market Policies*

**Peter Robinson**

IDS Bulletin Vol 29 No 1 1998

## **1 Introduction**

Unemployment, under-employment and economic inactivity are amongst the most significant causes of poverty and social exclusion in the North and the South. In the UK, non-working families with children, along with single pensioners, are strongly represented amongst the persistently poor; that is, those who remain amongst the lowest income households over several time periods (see Jarvis and Jenkins, this volume). Long periods of labour-market exclusion are also associated with poor health (see Wilkinson, this volume).

Indeed in most societies – North and South – access to work is of great importance in securing a reasonable income and achieving social inclusion, that is, participation in the wider society. Policies to lower unemployment and improve labour-market attachment are therefore high on the economic and social agendas of all countries.

Amongst the set of policies most actively discussed, especially by bodies such as the OECD and the European Union, are active labour market policies; at the same time in the USA and in the UK there is much discussion of something called 'workfare'. An aim of this article is to distinguish carefully between these different ways of labelling policy. What separates someone who claims to be in favour of active labour-market policies from someone who claims to be an advocate of workfare? The article is based on the author's knowledge of the debates in the OECD countries over the best methods of tackling unemployment; however, it also tries to draw some contrasts with the debate over the utility of 'workfare'-type programmes in the developing countries.

## **2 Defining Concepts**

In the context of the advanced industrial countries it is useful to distinguish between three key concepts.

- **Passive labour-market policy** refers to the payment of unemployment and other related benefits to people out of work. All the OECD countries have systems of income support for people experiencing unemployment, based in part on social insurance for those with labour-market experience, but with a fallback social

assistance programme for those failing to satisfy the conditions for insurance benefits. Whether insurance or assistance based, two aspects of passive labour-market policy can be distinguished. The first is the generosity of the benefits themselves, often presented in terms of the replacement ratio where income out of work is expressed as a percentage of income in work. The second relates to the eligibility conditions for receipt of benefit.

- **Active labour-market policy** refers to work, training or other programmes designed to help the unemployed move back into employment. The target group for such programmes tends to vary across countries. In the UK, policy is focused mainly on the registered unemployed; in the USA, much of the policy focus is on single parents; in some countries, such as the Netherlands and Sweden, the disabled are a focus for very extensive assistance.
- **'Workfare'** is a term of North American origin used to describe a regime where there is a requirement that recipients of welfare benefits undertake work sponsored by the state as a condition for receiving those benefits.

It has become part of the orthodoxy within the OECD to advocate a shift away from passive to active labour-market policies; that is, to use resources more to help the unemployed back into work, rather than simply paying them benefits while they are out of work. Stated in simple terms, such a strategy appears to make sense, providing of course that active policies successfully achieve their aims.

In practice, the distinction between passive and active labour-market policies has always been blurred. The administration of unemployment-related benefits always involves checks on the eligibility of the recipient, including whether they are seeking work and are being reasonable about the type of work they are prepared to undertake. This activity quickly meshes with programmes designed to help individuals with their job search, or to enable them to consider a wider range of work, which in turn leads to consideration of other programmes designed to help individuals secure work.

At some point the authorities might offer a placement on a programme on condition that if the

individual turns down such an offer this would result in automatic loss of benefits. It is a short step from there to 'workfare', where continued receipt of benefit is made conditional on participation in some kind of scheme. Thus we can say that active labour-market policy blends into workfare when the emphasis on compulsion becomes an overwhelmingly important feature of the system.

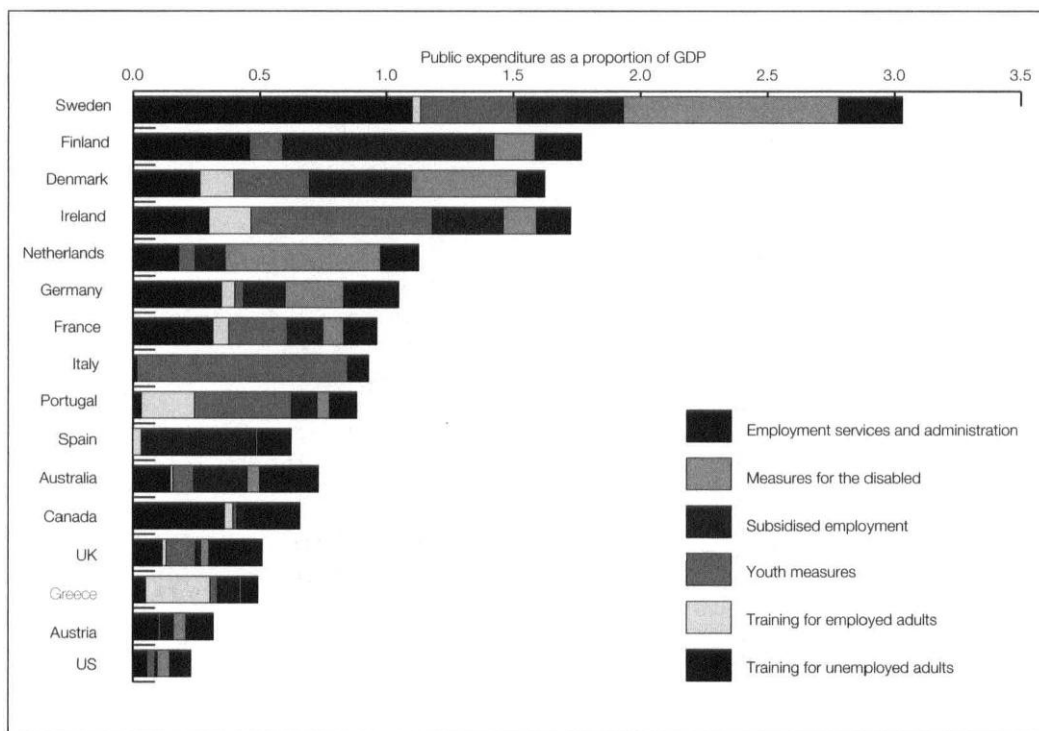
It should be made clear that these policies are only relevant to those individuals who are expected to work. Persistent poverty amongst the elderly and disabled have to be tackled through social transfers. The labour-market policies discussed here are separate from other policies such as minimum wage regulation or in-work benefits, which are also important in the debate on how to help those at the bottom end of the labour market.

### **3 The UK Experience with Active Labour-Market Policy and Workfare**

All the OECD countries devote resources in a greater or lesser degree to active labour-market policies (Figure 1). In Sweden in the early 1990s, over two per cent of GDP was being devoted to such policies (not including programmes for the disabled). In 1994–95 Britain spent about one half of one per cent of GDP on active labour-market programmes, far less than in most other comparable countries. Spending on the Employment Service, at about one fifth of one per cent of GDP, was in line with other countries. Britain spent significantly less than other countries on training schemes and direct job creation aimed at the unemployed.

Since the late 1980s there has been a clear shift in resources in the UK away from training programmes and direct job creation towards the initiatives run by the Employment Service. By the mid-1990s the Employment Service in Britain was administering a battery of measures designed to improve placement services, assist job search and provide enhanced counselling for the unemployed, providing a series of nets to catch the unemployed as they approached different durations of unemployment (Table 1). These measures are as extensive as anywhere in the OECD.

**Figure 1: Public expenditure on labour-market programmes in 1992–93**



Source: Table 1B2, OECD 1994

What clearly distinguishes the Employment Service initiatives from training and work programmes and recruitment subsidies, is their significantly lower cost: around £50–200 versus £2000–3000 for the more expensive measures. The more expensive training and work programmes and recruitment subsidies would have to demonstrate significantly better outcomes in terms of participants successfully placed in work, when compared with the Employment Service initiatives, in order to justify their much greater cost. Thus, a major reason for the shift in resources in recent years in the UK has been the response to the costs of different programmes in the context of constraints on public expenditure. At the same time, the relative shift in resources towards the Employment Service programmes has also been a rational response to the results of research on the effectiveness of different active labour-market policies, which is discussed below.

If unemployed people in the UK do not take up offers of assistance from the Employment Service, this can result in benefit penalties. However, the term 'workfare' was in 1996–97 being used in the UK in connection with a pilot scheme called 'Project Work'. In the pilot areas, people who have been out of work for over two years were enrolled on a 13-week job search course; followed by a compulsory 13-week job placement. This constitutes the workfare element, in that failure to undertake the placement resulted in automatic loss of benefits.

The new Labour government in May 1997 moved quickly to launch its 'new deal' for the unemployed and other disadvantaged groups in the labour market. The new deal is mainly aimed at those aged 18–25 who have been registered unemployed for over six months, with additional initiatives for those aged over 25 registered unemployed for over two years. The deal for the young unemployed involved the offer of a place on one of four different work or

Table1: The scale and cost of the main employment and training programmes in England and Wales, 1995–96

Employment Service programmes	Number of places	Cost per place
Jobclubs	243,000	£172
Jobfinders grants	25,000	£200
Job interview guarantee	243,300	£3
Jobplan	167,500	£104
Job review workshop	31,100	£61
Job search seminar	61,900	£57
One-to-one	94,000	£64
Restart courses	107,100	£84
Travel-to-interview	55,000	£33
Work trials	30,000	£57
Workwise	29,300	£195
<b>Training programmes</b>		
Training for work	214,000	£2523
Career development loans	13,000	£2400
<b>Work programmes</b>		
Community action (being phased out – to be replaced by Project Work)	28,700	£2440
<b>Recruitment subsidies</b>		
Workstart (original pilot)	1,200	£2340 (not incl. admin. costs)
<b>Youth programmes</b>		
Youth training	247,900	£2830

*Notes:* The figure for the job interview guarantee is for job preparation courses only. The figure for work trials does not include Employment Service costs.

*Source:* Department for Education and Employment, Departmental Report, 1996.

training options. However, turning down this option would result in benefit penalties, and ministers made it clear that a fifth option of remaining on benefit was not going to be allowed. This was labelled a 'welfare-to-work' programme rather than workfare, an interesting re-arranging of the words. In 1988 the previous government had abolished the automatic right of young people aged 16–17 to draw benefit, on the grounds that a guarantee of a training place was available to all those in this age group. This could also be labelled 'workfare'. In some ways the Labour government's proposals in 1997 aimed to extend a similar regime to 18–24 year olds, guaranteeing a place on a programme, but with a much more restrictive approach to

benefit receipt. The abolition of benefits for 16–17 year olds did not lead to any increase in an expected uptake of training places. There remain concerns that it removed a modest safety net for the most vulnerable young people.

#### 4 Other Examples of Active Policies and Workfare

In part, the debate in the UK is driven by perceptions of the experiences of other OECD countries. Two countries have been particularly influential since the mid-1980s – Sweden and the USA.

The term workfare in the USA is most often associated with programmes aimed mainly at single parents. Across and within the 50 states there are significant differences in the mix of programmes on offer, ranging from the kind of assistance offered by the Employment Service in the UK, to more extensive education and training provision, to compulsory participation on work programmes.

Strict workfare – participating in a work programme while drawing benefit – is in fact not common because of the expense. Providing work placements, often with public agencies, is far more expensive than assistance with job search. In the USA the need to provide single parent families with child care and continued health care coverage has also resulted in programmes that often involve significant extra public expenditure. Nevertheless, recent welfare reforms in the USA have emphasised the degree of compulsion within the system, with the threat of families losing all entitlement to income support if they fail to take up work options. This emphasis on compulsion was promoted by a Republican Congress and supported by a Democratic President, suggesting some degree of consensus between those nominally on the left and right.

It has sometimes been alleged that the heavy emphasis on active labour-market policy in Sweden has some features of workfare associated with it. Unemployment insurance benefits in Sweden run out after 14 months, with access to training and work programmes being offered at this point. This does not, however, involve a 'choice' between taking up a place or having no access to any income, because social assistance paid by the local municipalities is still available for the long-term unemployed. In Sweden, therefore, there is no threat that refusal to accept a work placement will result in penalty. In this sense it is dramatically different from the potentially more draconian reformed American welfare system.

## **5 What are the Objectives of Intervention Through Active Labour-Market Policy or Workfare?**

One way to distinguish between policies is to look at their ultimate objectives. This will help make more distinctive the differences in approach across

the OECD countries; it also draws out the most important contrasts in this debate between the OECD and the developing countries.

We can think of active labour-market policies achieving four possible distinct objectives:

(1) To increase the *demand for labour*, or at least tilt recruitment in favour of target groups, through recruitment subsidies and work programmes. Increasing overall levels of aggregate demand is *not* one of the main functions of programmes in the OECD, and this may provide one contrast with the developing countries. In the South workfare schemes involve organising work programmes in order to put basic purchasing power in the hands of participants, who would otherwise have no income.

In the OECD countries counter-cyclical monetary and fiscal policies are effective instruments for dealing with demand-deficient unemployment. One important counter-cyclical instrument is the unemployment benefits system which maintains a proportion of the purchasing power of anyone suffering a spell of unemployment, giving them, at least in theory, sufficient income to maintain a minimum standard of income. In the developing countries this basic welfare safety net is not present to the same degree. In terms of the demand for labour, policies in the OECD have more limited aims in terms of tilting demand towards target groups, rather than making any significant contribution to the overall level of aggregate demand.

(2) To provide *services/infrastructure* which would not otherwise be provided, to communities. This is another point of contrast with the developing countries, where labour-intensive work programmes can help provide simple but important infrastructure. In the OECD important infrastructure is provided through capital-intensive investment. The days when the unemployed could be put to work building autobahns is past. Typically, public work programmes in the OECD offer work of marginal social value.

Some organisations, such as the Wise Group in Glasgow, would take issue with so strong a statement. This group aims to offer jobs to disadvantaged jobseekers in activities such as simple energy conservation projects. Certainly there might seem

to be a lot of labour-intensive community-orientated services which could offer many more job opportunities in the OECD countries. However, there are questions as to whether such services are best carried out by very temporary labour. There are also questions as to whether such work improves the chances of participants making the transition back into the mainstream labour market, or whether it creates ghettos of employment opportunity.

(3) In the OECD countries the prime objective of labour-market policies is to improve the effective supply of labour, by *enhancing participants' chances of obtaining a regular job*, through job search, training or work experience programmes (in a private or public job). In judging these different programmes, simple criteria can be used: do the programmes increase the rate at which participants find regular jobs or better paid employment?

(4) In addition to these objectives, in the OECD all programmes are part of a system that checks the *eligibility* of participants to receive benefits. One aim of this policy is to reduce the number of people claiming benefits, in part by identifying those who are not regarded as genuinely unemployed.

It could be suggested that 'active labour-market policy' becomes 'workfare' when objective (4) starts to be emphasised over objective (3); that is, when increasing emphasis is put on compulsion as a way of 'flushing out' those unemployed who are thought to be avoiding work. This is what seems to distinguish something like Project Work in the UK from other programmes. Project Work is judged primarily by its ability to reduce the number of claimants, rather than by its ability to increase the chances of participants finding regular employment.

The emphasis which is placed on these different objectives can reveal a great deal with respect to the assumptions about the causes of unemployment and social exclusion held by different advocates. There appears to be a high level of correlation between advocates of workfare and those who use terms like the 'culture of dependency' and the 'underclass'. At this end of the debate, there are assumptions about the values and behaviour of people who are unemployed, or who are single parents, which lead to a belief that a heavy dose of

compulsion is necessary to break such behaviour and change such values. Advocates of active labour-market policy might be more uncomfortable with assumptions that the values and behaviour of target groups are really that different from mainstream society. For them, there are constraints and incentives which affect everyone, and the policy issues relate to relaxing those constraints and changing those incentives.

The new Labour government reflects the tensions between these two broad approaches. Some senior ministers are quite happy to talk about the underclass and welfare dependency; others stress the vital need for further growth in regular employment as the fundamental prerequisite for any work or training programmes to succeed.

## 6 What Policies Work?

Regardless of objectives and underlying assumptions, the key empirical issue is to identify what policies work most effectively. There is in fact a widespread literature on the impact of labour-market policies in the OECD, the results of which are summarised in Table 2. Labour-market programmes have been evaluated using econometric techniques and experimental approaches.

One clear conclusion is that the simple initiatives run by the Employment Service which offer improved placement services or assistance with job search can be shown to boost significantly participants' job prospects. The evidence for the effects of training and work programmes is much more mixed. Work programmes can help tide people over while the regular jobs market improves, but there is no evidence that they significantly improve the chances of participants finding regular jobs. Only small-scale and relatively expensive training programmes seem to deliver clear positive results in terms of higher earnings for participants. Wage subsidies do not create many new jobs, but can tilt recruitment towards disadvantaged jobseekers.

There is thus evidence to support the shift in resources which has taken place in the UK away from large-scale work and training programmes towards the initiatives run by the Employment Service. With respect to the debate on workfare, since there is no evidence that work programmes

**Table 2: The trade-offs in active labour-market policies aimed at the unemployed**

Policy	Benefits for the unemployed	Gross costs per place	Comments
<b>Employment service: placement assistance and job search</b>	Significant, but modest in scale. Can benefit target group at expense of others.	Very low	Work better in relatively tight labour markets
<b>Training programmes</b>	Hard to substantiate for large programmes. Modest significant effects for smaller programmes.	High for quality programmes	Small, high quality programmes might be effective, but are expensive. Will make little contribution to reducing headline unemployment.
<b>Work programmes</b>	Benefits while on programme, but little effect on subsequent job prospects.	Moderate to high	Has to offer a moderate cost per place to accommodate large numbers. By definition, work of marginal social value.
<b>Recruitment subsidies</b>	Net employment effects small. Can benefit target group at expense of others.	Depends on scale of subsidy	Work better in relatively tight labour markets. Require considerable administrative effort to find places.
<b>Youth programmes</b>	Very diverse. Can lower youth unemployment. Unclear effects on subsequent job prospects.	High for quality programmes	Programmes deal with the most disadvantaged young people who are sometimes antipathetic to state schemes.

such as the compulsory element of Project Work boost a participant's job prospects, someone not wanting to go on such a project could be acting rationally. Likewise, two of the options on offer to the young unemployed under Labour's 'new deal', involve work placements similar to schemes which have run in the past and have not been successful in improving participants' long-term job prospects. Making such work programmes compulsory seems less to do with improving participant's job prospects than with identifying those who are not regarded as genuinely unemployed.

## 7 Conclusions

Striking the right balance between the 'assistance' role of the Employment Service in providing income for unemployed people, while helping them in their attempts to re-enter the regular labour

market, and the 'policing' role of checking on their eligibility for benefit and whether they are effectively searching for work, is always a difficult one. Since the mid-1980s the UK government has significantly tightened the administration of benefit and reduced the value of benefits in relation to average earnings, while offering greater assistance to job-seekers through various Employment Service programmes. Given the significant tightening in the regime since 1986 it is not clear that lax administration of unemployment-related benefits can any longer be blamed for keeping unemployment at a high level in the UK. The policies introduced since 1986 have probably made a contribution to reducing unemployment, though how far this is due to the greater 'assistance' offered by the Employment Service and how far to the tighter 'policing' of the benefits system is a matter of continuing controversy.

Approaches to labour-market policy and to workfare are conditioned by different perspectives on the causes of and prospects for unemployment and social exclusion. We could distinguish at least four approaches:

- At one radical end of the spectrum are those who believe that the industrial countries are stuck with very high levels of unemployment, and who are therefore exploring 'radical' departures in policy, or indeed whole new ways of organising work.
- Those who believe that unemployment can carry on falling in the UK providing that underlying economic policy is kept on the right track, and who also believe that an ongoing recovery will reach most parts of the labour market, will be supportive of active labour-market policy as an adjunct to other policies.
- Those who believe that there are still significant structural barriers preventing unemployment from falling will see a far more significant role for major departures in labour-market policy, including larger schemes and perhaps more compulsion.
- At the other radical end of the spectrum, those who believe in the 'culture of dependency' and

the 'underclass' support full-blown workfare as a component of a significant overhaul of welfare provision.

In the summer of 1997 registered unemployment in the UK fell to its lowest level since 1980, measured on a consistent basis. Using the internationally agreed ILO measure of unemployment, the jobless rate was within one percentage point of its level in 1979. Long-term unemployment and youth unemployment were falling faster than the overall rate. Labour's 'new deal' was meant to cater for 250,000 young long-term unemployed. Given the rapid fall in unemployment, by the time the deal is implemented in spring 1998, the target group could be less than half this number. The evidence currently suggests that, for the UK at least, the second of the approaches outlined above appears to be most apt.

The issues for the developing countries are more challenging, in terms of fostering the basic economic and social structures and policies which will allow for a sustainable path of development benefiting all citizens. Ensuring that economic progress does indeed benefit all represents of course the same challenge North and South.