Progress to date

Since 1997, the Government has pursued a number of inter-related policies aimed at reforming the welfare system for people of working age, getting more people into work and reducing poverty. Joseph Rowntree Foundation research had identified many of the needs of targeted groups, and the Foundation has been involved in commenting on reform plans and tracking progress.

This Foundations, written by Donald Hirsch with Jane Millar, is a round-up of what JRF has had to say about welfare reform and related issues since the late 1990s, and provides an assessment of the progress made.
While welfare-to-work programmes had been around well before 1997, their results had been patchy and they had not been sustained. The New Deal together with tax credits underpinning financial incentives to work have been by far the most systematic and sustained efforts to move people into jobs attempted to date.

Barriers to work have included not just insufficient financial incentives but practical difficulties such as making the transition to work, accessing and paying for childcare and getting practical advice. Much has been done to overcome these barriers, and the Government has rightly recognised that carrots rather than sticks are most appropriate. Employment rates have risen, especially for lone parents. However, further progress requires recognition that people with the least immediate chance of entering the labour market have diverse needs, and may require many types of support and opportunity other than going straight into a job.

The Government’s strategy to combat poverty, especially child poverty, relates closely to a welfare-to-work strategy but is not identical to it. The separation of a tax credit for raising parental incomes (the Child Tax Credit) from a tax credit providing a work incentive (the Working Tax Credit) is a helpful step. However, there is also a need to think more systematically about how to improve low incomes within work (including through better wages) and low incomes out of work (through more adequate benefits).

Incentives and help for people in non-working households to move into work have not been matched by incentives and help for people to progress within work or to get better quality jobs. This is of particular concern because of evidence showing the instability and poor quality of many jobs accessed by people returning to work.

Work, tax credits and other sources of income have played different roles in helping people in different kinds of household to escape poverty. Among low-paid workers, lone parents are the most likely to have been helped out of poverty by tax credits supplementing their wages. On the other hand, low-paid men supporting families are highly likely to remain poor, and improvements in tax credits have not raised more of them above the poverty line. They could be helped by improving the financial incentives for their partners to work, which are often weak.

Working-age households without earnings have generally seen their benefits fall behind average incomes, unless they have children. There is a need to think more systematically about how they keep up with living standards, and also about how they can be helped to participate more actively in their communities.
Labour’s welfare reform

‘Welfare to work’ has been used by governments since the 1980s to express a desire to replace passive support for unemployment with active measures to help and encourage people to enter paid work. The Labour Government that took office in 1997 reiterated that principle, but took a number of new approaches adding up to an ambitious programme for welfare reform for people of working age.

The New Deal programmes have taken a more wide-ranging and sustained approach to helping people enter the labour market than previous programmes. They have promoted work not just among active jobseekers registered as unemployed, but also among groups such as lone parents and disabled people, for whom job search is not a condition of receiving benefit. While benefit entitlement conditions for these groups have not fundamentally changed, the requirement that all new claimants attend a work-focused interview has supported an approach in which all working-age people living on benefits at least consider the possibility of entering the labour market.

The introduction and development of tax credits have expanded and transformed support for working people with low incomes. Starting with families with children, and now extended to all full-time workers aged over 25, tax credits have established a minimum income for those on low earnings. Together with the minimum wage, this has contributed to the incentive to work for many people, with approaches to work incentives concentrating on carrots rather than sticks.

The reform of the welfare system has been specifically linked to the wider objective of reducing poverty among particular groups. This was not an explicit objective at the outset, but since taking office the Government has stated an ambition of eliminating child poverty over a generation (as well as ending pensioner poverty, not covered here). An important feature of this commitment is that, even though the Government believes that work is the best route out of poverty, it has also committed itself to improving incomes for all children, including those with parents not in paid work. Benefits for non-working families with children have risen substantially, both in real terms and relative to average earnings.

(Pensioners have also been the subject of major policy developments, but this Foundations focuses on the working-age population.)

Rising out-of-work benefits for parents could be seen as weakening rather than strengthening the Government’s commitment to improving work incentives. This reflects the fact that relieving poverty and helping people into work are not identical policy drivers, even though they overlap in the sense that accessing work is the route out of poverty for many families.

The structure of the new tax credits introduced in 2003 illustrates how work incentives and anti-child-poverty measures can be distinguished. They provide separate support for children and for adults. The Child Tax Credit is the main tool for keeping children out of poverty. Low-income families receive the maximum rate, whether they are out of work or in low-paid jobs, and this is paid to the main carer. The adult support goes to the family’s main earner in the form of Income Support for those not working and the Working Tax Credit for those who are in work. This adult support can be set to maintain work incentives regardless of the rate at which the Child Tax Credit is relieving poverty.
The welfare reform story since 1997: ten highlights

1997  
*New Deal* for young people announced immediately after election, shortly followed by New Deals for lone parents, long-term unemployed people, partners of unemployed people, disabled people and people over 50.

1998  
Welfare reform *Green Paper* sets out framework promising “a new welfare contract” delivering “greater trust, transparency, responsibility and responsiveness”, with people “empowered to seize the opportunities to lead independent lives”.

1998  
*National Child Care Strategy* announced – promising early education places for all 3- and 4-year-olds by 2004 and good quality affordable childcare provision for children aged 0 to 14 in every neighbourhood.

1999  
Prime Minister pledges to *end child poverty* within a generation.

1999  
Britain’s first *National Minimum Wage* introduced.

1999/2000  
*Working Families Tax Credit* replaces Family Credit as a support for families with children on low earnings.

2002  
The establishment of *Jobcentre Plus*, merging the Benefits Agency and the Employment Service into a single point of contact for working-age people.

2003  
New tax credits replace and extend Working Families Tax Credit. *Child Tax Credit* gives fixed maximum to low-income parents inside and outside work, plus a lower amount to all families with children other than the richest 10 per cent. *Working Tax Credit* gives means-tested top-up to everyone in work with a low income who is either a parent or is over 25 and working full-time.

2004/5  
First *target for cutting child poverty* by a quarter is approximately met. Precise figures will not be known until 2006.

2004  
Significant boost to *spending on childcare* announced in the Comprehensive Spending Review, with a pledge to establish 2,500 childcare centres by 2008.

Defining ‘poverty’

In this *Foundations*, ‘poverty’ is defined as having a household income below 60 per cent median, and ‘low pay’ means hourly wages below two-thirds median. These have been the principal measure used by commentators and government, but other measures are also possible. The Government has recently decided to monitor a measure of ‘deprivation’, similar to that identified by Gordon et al., 2000, based on the number of people who lack ‘socially defined necessities’.
JRF work monitoring welfare reform: an overview of main findings

The Joseph Rowntree Foundation has taken a close interest in the rationale, design and impact of welfare reform since 1997. It has carried out a range of relevant research studies and drawn together expert knowledge in papers and seminar discussions, to provide independent analysis and assessment of policy as it unfolds. The following have been some key studies/reviews and their findings.

a) The need for, and the design of, welfare reform:

■ A review (Gardiner, 1997) of 42 welfare-to-work schemes then running in the UK. This found that their success rates in finding people jobs, and their value for money in doing so, varied widely. Many had poor performance on at least one of these criteria, and many fell short of their objectives because they were poorly taken up by target groups.

■ Research on and discussion of the situation of lone parents and implications for policy, brought together by Ford and Millar (1997). This showed a complex range of barriers to work for lone parents, ranging from attitudes of employers to access to childcare to difficulties with meeting housing costs and the complexity of the welfare system. The review warned against the principle that “any job is better than none”, and suggested strategies to get lone parents beyond the trap of low pay and reliance on in-work benefits. Its findings were complemented and confirmed by a study of non-working lone mothers by Noble et al. (1998), which found that the majority of them had a general desire to work but were constrained from doing so by slim financial gains or by lack of suitable or affordable childcare. Third (1995) showed that finding and paying for childcare was a significant barrier to work for mothers.

■ Evidence of the situation of people living in poverty. Reporting on the JRF’s Inquiry into Income and Wealth, Hills (1995 and 1998) demonstrated the extent to which poorer groups had not shared in the previous decade’s economic growth, and looked at underlying factors behind this trend. Kempson (1996) brought together evidence from 31 other studies about what it was like living on a low income. A key conclusion was that, for most people on low incomes, a little more would go a long way towards meeting basic needs and avoiding financial difficulties, in particular reducing the chance of getting into serious debt. Looking more specifically at children, Middleton et al. (1997) found that one in ten children go without three or more things regarded as necessities because their parents cannot afford them, and that poor parents often go without things to provide for their children. This study showed that the cost of raising children greatly exceeded the extra

stuck to those kinds of jobs or became unemployed again than found something better. A study by the Institute for Fiscal Studies (Gosling et al., 1997) and analysis by Hills (1998) found that, while many more people pass through low-paid work than are in it at any one time, this is more likely to be interspersed with not working than with better-paid jobs.

Millar et al. (1997) argued that the evidence shows that people moving in and out of low-paid jobs are not on the whole influenced by the existence of in-work benefits, and Ford et al. (1996) found that the same was true for Housing Benefit, with complexities in the system preventing people from taking this benefit into account when calculating whether they would be better off working.

The study by Millar et al. (1997) also found that low-paid jobs were rarely enough on their own to avoid poverty, with people increasingly having to rely on a spouse’s earnings to do so. In particular, it showed that low-paid men were as likely to avoid poverty thanks to a spouse’s earnings as to do so from their own earnings alone: thirty years previously the latter situation had been three times as common as the former.
amount provided for them through the benefit system. The study also found that spending on younger children barely differs from spending on older ones, even though Income Support rates were then lower for under-11s. In 2000, Gordon et al. confirmed the findings on childhood deprivation, and also showed that the number of adults lacking essential items had risen during the 1990s. Gregg et al. (1999) demonstrated clearly the long-term damage resulting from child poverty, with an analysis of a cohort study that showed negative outcomes stretching well into adulthood for those who have grown up poor.

Evidence on the local impact of employment measures. Campbell (1998) and Sanderson (1999) demonstrated the importance of designing local solutions adapted to differing labour market conditions. In particular, these studies underlined the importance of tackling economic inactivity and unemployment in a concerted way in areas where individuals face the most severe economic disadvantages.

A wide-ranging JRF response, bringing together much of the above evidence, to the welfare reform Green Paper in 1998. Among its key messages were: the need for a supportive rather than a punitive approach to welfare-to-work policies, since barriers did not tend to be linked to a lack of desire to work; the importance of considering people's overall progress in the labour market rather than just an immediate step into any job; and the damaging long-term impact of child poverty, and thus the great social gains to be made from a policy raising incomes for the poorest families.

b) Evidence and analysis informing both stages of the introduction of tax credits:

In 1998, the Chancellor announced the introduction of the Working Families Tax Credit, Britain's first such credit, aimed at improving work incentives and reducing poverty. Evidence summarised in JRF (1998) pointed to some critical decisions on the design of the new tax credit, including how it interacted with the benefits system, the timing of payments, the level and withdrawal rate of the credit and the issue of who within families received it. Informing this last issue, Goode et al. (1998) showed that money gets spent differently in families according to whether it goes to mothers or to fathers, with the former more likely to spend it directly on children.

In 2003, a new set of tax credits separated instruments designed to support children and to make work pay, and extended the scope of this support in both cases. Hirsch (2000) brought together evidence from the UK and other countries to identify some key issues for the planned Child Tax Credit, including the balance between the targeted and universal elements of the credit, the timing of its assessment, the degree to which support for children can genuinely be separated from other aspects of welfare support and the extent to which such support can be offered without meddling excessively in people's lives. On this last point, detailed analysis of comparable support in other countries (Battle et al., 2000) showed that tax-rather than benefits-based systems elsewhere had indeed avoided the intrusiveness typical of UK means-tested social security benefits.

Further analysis of what was to become the Working Tax Credit (Bennett and Hirsch, 2001) addressed similar issues, and also some fundamental questions about the potential long-term impact of wide-ranging earnings top-ups for the development of low-paid labour markets. Although this report did not find a direct link between government top-ups of low earnings and the persistence of low market pay, it warned against the development of an unbalanced approach towards improving working incomes, which would become increasingly expensive to the public purse if it sought to tackle working poverty without improving the earnings of those affected by it.

A third commentary on the introduction of new tax credits (Whiteford et al., 2003) looked at important lessons from Australia and Canada on the timing of the assessment and delivery of this support. It concluded that it would be particularly important to ensure that all recipients have the right information and advice at the right time - a prescient warning in
light of the subsequent difficulties faced by claimants at the time these credits were introduced.

c) Aspects of the experience of welfare reform:

- An independent overview of the early results of the New Deal (Millar, 2000) drew on over 20 evaluation studies to assess the degree to which the programme as a whole met welfare-to-work objectives. This showed that the New Deal was having positive impacts on employment rates and the jobseeking capacities of individuals. It found that the personal adviser system was transforming many people’s experience of welfare services. A key issue that this review raised was the extent to which welfare-to-work can become a flexible and dynamic process, with people being helped along individual routes that do not simply consist of a simple step into a job. Two opposing dangers, both experienced at times within the New Deal, are on the one hand being too rigid in the requirements or expectations of individuals, and on the other hand failing to give sufficient sense of direction and continuity in the steps that people take on the way to becoming integrated in the labour market. The review also commented on the issue of conditionality. It suggested that, on the one hand, groups such as lone parents are able to have more constructive relationships with personal advisers if they are not attending interviews under compulsion, but that, on the other, the introduction of the obligation at least to attend a first interview could bring the benefits of programmes to the attention of those who were not aware of them.

- An evaluation of the degree to which the Government’s reforms have affected work incentives and working patterns (Brewer and Shephard, 2004). This showed that the reforms since 1997 have increased the reward for each household to have at least one worker, but they have had differential effects on working patterns and on incentives for households with some work to raise their earned income. Lone parents have had the biggest incentives to work, and have increased their participation the most. For low-income households who are already in work, the very highest withdrawal rates imposed on increased earnings (e.g. through withdrawal of benefits/tax credits) have been abolished, but the number facing high rates has increased, creating new disincentives for potential second earners to work.

- An assessment of changes in financial support for children since 1975 (Adam and Brewer, 2004), which found that the total amount that families receive from the State has more than doubled over that period. Up until 1999, the increase in overall support owed more to the changing characteristics of families than to increased generosity in their treatment, but in the past five years, when the rise in overall support has accelerated, this has been almost entirely due to increased benefit and tax credit levels.

- An assessment of the impact on poverty of these and other measures (Sutherland et al., 2003). This showed that the Government was about on course to meet its initial target of cutting child poverty by a quarter by 2004-5, a fall achieved through a combination of factors. The biggest influence was the rise in employment and the fall in unemployment. The rise in benefits and tax credits for families also played a big part. However, the fact that even the rapid recent increases in fiscal support for children went only part of the way towards fulfilling poverty reduction targets demonstrates that such direct redistribution is highly unlikely to be enough on its own to keep the fight against child poverty on track.

- Research showing the degree to which people in low-paid jobs have been able to avoid poverty (Millar and Gardiner, 2004), comparing the situation in 2000-1 with the same analysis six years earlier (Millar et al., 1997). It found that in different kinds of household with low-paid members, avoiding poverty depends on different things. For example:
  - For lone parents, there is a high dependence on State support, which has become much more generous for them through tax credits in recent years. As a result the chance of a low-paid working parent being in poverty has fallen sharply and the number being lifted out of poverty by the State has risen – by particularly high proportions if one looks only at those working over 16 hours a week where tax credits become payable.
Labour’s welfare reform: Progress to date

- Among single people on low pay, the incomes of other people in the household, typically parents, are most likely to prevent them being poor. But the risk of poverty has risen for these single low-paid workers, who have not (until very recently, for those aged over 25) been eligible for support through tax credits.

- For fathers on low pay, the most likely way of avoiding poverty is having a partner who works. Even though tax credits have improved the incomes of this group under the Labour Government, it has not reduced their high risk of poverty, with 37 per cent living in households with below 60 per cent median income. Only a third have working partners who are not themselves low paid, and 42 per cent have partners who are not working.

An analysis of the provision of childcare services at atypical times (Statham and Mooney, 2003) found that more parents are working outside traditional ‘nine-to-five’ hours, Monday to Friday, but that childcare providers face many difficulties in developing flexible services for early morning, evening and weekend care. Skinner (2003) explored how parents – most often mothers – co-ordinated getting one or more children between home, school, pre-school education, and childcare in a way that fitted with work commitments. The difficulties of doing so often affected mothers’ ability and willingness to work.

d) Gaps in the welfare reform agenda and alternative approaches:

- An analysis of possible approaches to welfare beyond work (Hirsch, 1999) raised a number of issues that welfare reform measures have not tackled head-on. This report called for a better thought-out approach to the welfare of the large number of working-age people likely to remain outside work for lengthy periods, in terms of how they can sustain adequate incomes, the extent to which they can be encouraged to get involved in unpaid community-based activities and the kinds of job-search obligations that should be put on people such as lone parents with older children (possibly more than at present) and over-50s with little chance of re-entering the workforce (possibly less than at present).

- A review of options for the reform of disability benefits (Berthoud, 1998). This explored, in particular, how regimes for claims at different levels of disability might be changed, potentially creating a continuum ranging from generous and unconditional support for the most severely disabled people to greater conditionality and less generosity for people without measurable disabilities who are unemployed. This review did not propose solutions but attempted to promote a more open debate on the overall structure of disability benefits, in an area where political sensitivities can make such openness difficult. McCormick (2000) analysed ways in which reform of disability benefits could create a more positive and inclusive environment for their recipients, involving new ways of regarding ‘incapacity’, and more flexible and responsive benefit and employment services. Burchardt (2000) looked more widely at the experiences of disabled people facing economic exclusion.
Commentary: progress in promoting work and tackling poverty

The Government’s welfare-to-work strategy has enjoyed considerable success in meeting some of its key objectives:

▪ It has created clearer financial incentives to work.

▪ It has made progress in tackling some key barriers to work, including shortage of childcare and lack of advice and guidance for people wanting to return to the labour market.

▪ The personal adviser system has transformed many people’s experience of welfare services, and has been particularly welcomed by groups such as lone parents, who previously received no help with job search or training.

▪ Employment participation rates have risen, both generally and for specific targeted groups.

However, the evidence shows that there are still important issues to be tackled:

▪ Further progress requires recognition that people with the least immediate chance of entering the labour market have diverse needs, and may require many types of support and opportunity other than going straight into a job. Regional and local differences in employment opportunities also have an important impact.

▪ There are tensions between the increased focus on individual requirements and needs within the New Deal programmes and the way in which tax credits and benefits treat couples as a unit rather than as individuals. Incentives for second earners have in some cases been reduced and yet the research shows that having two earners in a family is the most effective way to boost family income and avoid poverty. The issue of ‘individualisation’ of benefits and tax credits will become increasingly important.

▪ There is a question mark over the affordability of in-work supplements in the longer-term. If wage inequalities continue to remain high by historic standards, it will be extremely expensive for the government to make continuing inroads into poverty through direct redistribution. This will be particularly so if high withdrawal rates limit the amount of work within households.

In pursuing the stated aim of ending child poverty, there has again been important progress. Overall, poverty rates for people of working age have been falling steadily, though gradually, for families with children since the late 1990s, although they have stayed more stable for single people and childless couples. This is not surprising, given that benefits and tax credits targeted at poorer parents have on the whole risen faster than average earnings, while general benefits have risen slower than earnings.

Further progress in reducing child poverty does to some extent depend on the continuing success of the welfare-to-work strategy. The biggest single influence of whether a household is in poverty is whether any of its members are working. Working-age households have a two in three chance of having incomes below 60 per cent median, after housing costs, if nobody in the household is working, and only a one in 15 chance if all adults are working. The number of children in non-working households fell by half a million to 1.8 million between 1996 and 2003.

But paid work does not guarantee an escape from poverty and some groups – low-waged workers, one-earner couples with children, people who cannot work full-time for various reasons, including disability – continue to face high poverty risk even in work and even with the availability of tax credits. Promoting paid work as a route out of poverty requires much closer policy attention not only to income levels in work but also to the sustainability of work, the nature and quality of employment, rights at work, employment progression, equal pay issues, and the obligations and responsibilities of employers.

Nor is paid work an option for everyone at all times. The Child Tax Credit provides support to both working and non-working parents and this is a welcome move.
towards providing extra financial help for families with children, regardless of parental employment status. But there is still a long way to go in respect of recognising the needs of people outside the labour market, and their legitimate requirements for State support, particularly during periods of caring.

Conclusion: extending the strategy

In adopting a wide range of policies aimed at promoting the welfare of people on low incomes inside and outside work, the Government has accepted the need for a multi-faceted strategy to meet its underlying goals. However, this strategy remains concentrated on helping and encouraging people to cross a divide by moving into paid work. A more comprehensive approach would not only help people to make that move, but also pay greater attention to helping people thrive and develop on each side of this divide.

This wider approach to welfare strategy is illustrated in Figure 1. It starts by acknowledging that there are different needs to be addressed, and that policy should look beyond income to consider the quality of people’s experiences more generally. Some people will remain without paid work or with only limited engagement with the labour market, at least for some periods of their lives. These times without paid work have been constructed in a very negative way in the past, as periods of dependency and inactivity. The rules of the social security system have made it difficult for people living on benefits to engage in society in other ways, and the value of the caring work carried out by many people on benefits has been hidden. An important goal for the future is to make the social security system more supportive of activities such as caring work, volunteering, education and training. This could help promote social inclusion through activities that may not involve paid work.

Other people can be helped to access paid work, and this is where much of the current policy resources are directed. As the discussion above has shown, much progress has been made in creating the conditions to help people make the move into work. Continuing to develop more flexible and targeted support will be important here.

Finally, many people in low-paid work feel undervalued and insecure. Subsidising their wages through tax credits may not on its own help make them feel less so, and indeed could potentially facilitate a loosening of employers’ sense of obligations towards their workers. If people received better training and development, it is possible that their productivity, job satisfaction and pay could all rise, with benefits for their employers and the economy. Such an outcome may be difficult to achieve, and is as much about employer as government behaviour, but there are many ways in which the Government can be proactive in pursuing a strategy that is not just about getting people into jobs, but promoting job quality. If work is the best form of welfare, public policy needs to pay close attention to the welfare of people in work.
How to get further information

This Foundations was written by Donald Hirsch, Special Adviser to the Foundation, with Professor Jane Millar, University of Bath, based on JRF work in this field. All of the following reports, referred to in the text, were the outcomes of JRF-supported projects.

Unless otherwise indicated, titles are available from York Publishing Services Ltd, 64 Hallfield Road, York YO31 7ZQ, Tel: 01904 430033, Fax: 01904 430868, or through the Foundation’s website, www.jrf.org.uk/bookshop. Some older titles may be out of print. More recent titles are available for download free of charge from the website.

Where indicated, a four-page Findings summary of the study is available from the Foundation, via our website www.jrf.org.uk or in print form by calling 01904 615905 or emailing publications@jrf.org.uk.


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