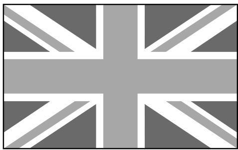
LLOYDS
Oven Chips

The House that Jack Built

The story of British welfare reform

By Robert Walker and Michael Wiseman



Last year's American presidential election was unusual in several respects. One surprise – possibly not the first to come to mind – was the virtual absence of debate over welfare reform. This novelty was inevitably short-lived, though, since funding for two of the pillars of American social-welfare policy, the Temporary Assistance for Needy Families program and the food stamps program, is scheduled to expire before the 2002 Congressional elections. By last spring, the debate was reviving old controversies and engendering new ones about the appropriate direction for the nation's welfare system.

Like virtually every other aspect of American social policy, this debate has been put on hold by the events of Sept. 11. But it will not go away. Indeed, a recession exacerbated by terrorism could provide the first major test of the new safety net created in 1996 by the Personal Responsibility and Work Opportunity Reconciliation Act, the legislation that replaced welfare as we knew it.

The states led the original debate over welfare reform with their own initiatives, and state policy since the enactment of the 1996 legislation remains a major focus of the debate. During the first week of September, the Department of Health and Human Services brought several hundred state practitioners and program administrators to Washington for a conference, *Five Years Into Welfare Reform: Lessons*

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Learned and Models for the Future, that was billed as an "opportunity to exchange information on experiences, learn of promising program strategies and consider what can be done to carry out the next phase of welfare reform."

Notably absent from the event was an indication of the Bush administration's own vision for welfare reform, save the pablum of providing for the "many families who need help in finding and succeeding at work" and the promotion of "strong and stable families and healthy marriages." Tommy Thompson, the secretary of Health and Human Services, who led the welfare reform effort in Wisconsin as governor, was forced to cancel his own appearance to testify on stem-cell research before a congressional committee.

Five Years Into Welfare Reform, it's worth noting, included no representatives from outside the U.S. and made no reference to experiences elsewhere. This parochialism is unfortunate. While welfare reform in America has attracted a great deal of international attention, the U.S. has no monopoly on social-assistance innovation. And contrary to the common presumption, policy elsewhere – notably Britain – may be highly relevant here.

Britain and the United States are within hailing distance at many levels of exchange on welfare policy, from the art of political rhetoric to the particulars of administration. This proximity reflects longstanding similarities as well as current trade in ideas. And the active borrowing of American ideas by British policymakers has reduced the distance even further, making Britain's social policy terrain even more accessible to Yanks than a decade ago. But distance may be less important than accomplishment; welfare reform in Britain has moved beyond U.S. achievements. Like the experience of the states, British strategy is thus worthy of attention when the reauthorization debate resumes.

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SETTING THE STAGE

Before looking for lessons in Britain, consider some key differences between the two countries.

Begin with size and wealth. Britain is smaller than the United States (60 million versus 273 million people) and less well off. Britain's 1999 per capita gross domestic product was $23,900 at current exchange rates, compared to $33,900 in the United States. This difference is arguably less important for social policy than the fact that Britain is a highly centralized, unitary state. Almost all social policies are national in coverage, and job-placement services, social assistance and social security benefits are largely delivered by national agencies. Local governments do provide social work and educational services, but such provision is tightly regulated from the center.

Moreover, the parliamentary and electoral systems give British governments virtually unfettered power to introduce and implement policies without need for compromise.

Britain conducts its welfare-to-work programs in the context of a social insurance system that includes two important universal benefits absent in the U.S. The country's health service is national and largely free, so ready access to health care need not be linked to welfare receipt or eligibility. Then, too, the provision of a universal child benefit in Britain without means-testing lessens the risk of poverty and reduces the financial disincentives that large families experience in the

United States for moving from welfare to self-support.

Beyond these common benefits of citizenship, means-tested social assistance is universally available in Britain. A single-parent family (more accurately termed a lone-parent family) with two children now receives a basic benefit of about £526 per month, in addition to rent. On average, the housing benefit adds £258 per month, for a total income of roughly $1,200 at current exchange rates.

This exceeds the maximum combined temporary assistance and food stamps benefits in any state, and is comparable to the most generous state benefits for households that also receive rent assistance. However, the important difference lies not in the disparity in amounts but in the absence of categorization. In the United States, temporary assistance is available only to families with children. Adults without children must rely on other programs, and in most localities, cash support for the non-elderly childless poor is simply not available.

In Britain, by contrast, almost everyone who is not working 16 or more hours per week and lacks income is eligible for assistance. Retirement pensioners constitute the largest group of social assistance recipients in Britain, followed by disabled people. Unemployed claimants have, until very recently, outnumbered lone parents.

Britain also has proportionately more public housing than the U.S. Even after two decades of privatization, public units still account for 22 percent of the housing stock. Another 4 percent of dwellings are offered by social housing organizations. The housing benefit cited earlier is available to meet some or all of the rent of almost anyone with income below a threshold level, irrespective of employment status. There are even universal means-tested rebates for local property taxes.

A final difference to note is that, although disproportionate numbers of unemployed and lone-parent claimants in Britain are from ethnic minorities, race is almost entirely absent from British debates on welfare. Ethnic minorities account for less than 7 percent of the United Kingdom's population.

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Americans typically find the scale, comprehensiveness and coverage of British social assistance remarkable. Cash benefits are generally not restricted to particular groups in the way that the Temporary Assistance for Needy Families program is primarily designed for single parents. This difference is the product of history; British social assistance evolved as a response to mass unemployment rather than to the needs of dependent children in one-parent households.

Labor exchanges and unemployment insurance were introduced in 1909 and 1911 respectively; the exchanges came first to ensure that job-search obligations could be adequately policed. Mass unemployment in the aftermath of World War I led to a temporary form of unemployment assistance – the dole – for those workers who had exhausted entitlement to insurance benefits.

This combination of unemployment insurance and means-tested residual benefit largely remains in place – although the details were modified at the end of World War II and subsequently. Indeed, it was the fear that the United States might follow a similar trajectory that led FDR-era policymakers to keep the unemployment insurance system separate from relief.

Britain's Beveridge reforms after World War II extended unemployment insurance to most full-time workers and consolidated social assistance into a single system covering all poor adults. The labor exchanges retained responsibility for payment of unemployment insurance, but did so on behalf of a new Ministry of National Insurance.

The Beveridge report recommended fixing benefits at subsistence rather than on the basis of prior earnings. The consequences of this seemingly modest policy choice were profound, for in so doing Beveridge ensured that Britain would rely on means-testing and not follow the non-means-tested route taken by social democracies in continental Europe. In consequence, the debate about welfare reform in Britain is commonly couched in terms of means-tested benefits, as it is in the United States, although the beneficiaries include a much broader range of citizens.

As in the U.S. before the advent of the Work Incentive Program in 1967, British employment and social assistance policy developed along separate tracks for much of the post-World War II era. In 1974, administration was split from job placement – a change that underscored the passive-entitlement nature of the benefits system. Until well into the 1980s, British policy was to tackle mass unemployment by limiting labor supply, diverting older workers into retirement and young people into training and work-experience programs.

Thereafter, a Thatcher government in awe of American economic achievements shifted the emphasis toward deregulation and labor market flexibility. Direct taxation was reduced, while means-tested wage subsidies were extended and increased. The out-of-work benefit level was pegged to enhance work incentives, and job-search obligations were rigorously enforced. The 1986 introduction of a mandatory program of regular interviews for unemployed claimants was credited with sharply increasing the annual outflow from unemployment.

The pace of policy development quickened in the 1990s and broadened as concern about benefit dependency (a termed first used by government ministers in 1987) and the possible growth of an underclass increased. The role of American conservatives in feeding these concerns is well documented. The ideas of Charles Murray and Lawrence Mead were particularly influential, disseminated through influential right-of-center think tanks in Britain, like the Institute of Economic Affairs and the Adam Smith Institute. Meanwhile, a U.S.-inspired jobs study published by the Organisation for Economic Co-operation and Development (OECD) in 1994 broadened political support for tackling poverty by employment-led reforms.

In 1996, job-placement and benefit payment were reunited by the Conservative government in a program that made benefits

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conditional on signing a contract specifying the steps that claimants are expected to take to find work. It also combined unemployment insurance and assistance benefits into a single plan. In the same year, the first British workfare scheme was created for young workers who had been unemployed for two years. Fear that disability insurance claims were masking unemployment and dependency led to tightened eligibility requirements and a review of all existing cases in 1997.

The reappraisal of the policy toward lone parents occurred a little earlier than that relating to the disabled. Once again, the debate resonated with American ideas. Prior to the mid-1980s, nonworking lone parents were entitled to receive cash assistance, and when the program was remodeled in 1980 and 1987, lone parents received extra benefits. Also, from 1977 to 1999, a small non-means-tested addition to child benefits was made available to lone parents who worked.

However, a 50 percent increase in the number of lone parents, a 9 point fall in the percentage who worked, and high levels of nonpayment of child support by absent parents changed the policy debate by the early 1990s. The tenor became shrill with Charles Murray's predictions of a growing British underclass fed by the feral offspring of lone mothers resonating with Mrs. Thatcher's moral indignation and fervent espousal of traditional family values.

Following reviews of American and Australian child-support policy, a new system of support collection from absent parents was

established in 1993. Collections were initially restricted to absent parents of children receiving social assistance. Establishing an agency to collect these payments was arguably the most ambitious piece of social engineering since the first flurry of reforms after World War II. But the new policy faced vocal opposition from many quarters, and its implementation was chaotic.

Financial incentives were also introduced to encourage lone parents to take jobs. Until 1999, benefits for households with earnings mostly came through programs that included a substantial marginal disregard of earnings, which acted essentially as a wage subsidy. Eligibility depended on the hours worked. Originally the threshold was 30 hours; this was reduced to 24 hours in 1988 and then to 16 hours in 1992. In addition, the government introduced a partial disregard of child support (maintenance) received from absent parents in the calculation of benefits.

The proportion of lone parents employed increased from 39 percent to 44 percent between 1993 and 1998. However, there was little support for making work compulsory. The public seemed to accept the profound changes in gender and sexual relations, the availability of divorce, and the rise in cohabitation that contributed to the growth in lone parenthood, and was divided about the wisdom of creating latchkey children by imposing work requirements.

In sum, despite important differences, similarities between the U.S. and Britain in the patterns of welfare provision were already well established before the Labor government was elected in 1997. The two nations shared an emphasis on sustaining a deregulated economy and labor market, a view that welfare should be means-tested, an agreement that employment was the best route out of poverty, and an emphasis on personal responsibility.

These similarities did not arise by accident or as an independent response to common problems. Rather, there was a substantial importing of both ideas and strategy, with Britain adapting and naturalizing policies originating in the United States.

NEW LABOR'S TURN

The reforms of the 1997 Labor government constitute an extension of – not a break with – the policy developments of the previous 15 years. Moreover, the influence of American thinking at all levels, from rhetoric to implementation, has been even more marked. The unique contribution of the Labor government has been to elucidate the objectives of welfare policy and to present them in positive, unifying terms rather than in negative, polarizing ones. Welfare reform is recognized as just one element in a coordinated response to social and economic change. Reform is part of modernizing government and the labor market to equip individuals and society to succeed in an increasingly open economy.

New Labor's approach is well illustrated with reference to four packages of policies that have grabbed the headlines. The first two, "welfare to work" and "making work pay," sound familiar to American ears. The second pair, "tackling social exclusion" and "ending child poverty," much less so.

The year 1997 was the first in almost a half-century in which a British government was elected on a manifesto promoting welfare reform (echoing the Clinton election promise to "end welfare as we know it"). The centerpiece of the Labor government's welfare-to-work agenda was a commitment to return 250,000 young people to work within the tenure of the first Parliament. The influence of American thinking is clearly evident in the

structure of the flagship program, New Deal for Young People, which is aimed at twenty-somethings. It comprises a period of active job search followed by a suite of options, graded according to distance from labor market, and a follow-through for those people who have failed to get jobs.

The options – subsidized work, education and training, voluntary and environmental work or self-employment – bear a striking resemblance to those offered under Governor Thompson's Wisconsin Works (W-2) scheme. It is no coincidence that British ministers, civil servants and members of Parliament all visited that state in 1997 or 1998. For New Deal for Young People is a clear adaptation of a U.S. policy – albeit one that changed the target group and incorporated the objective of raising skill levels.

Ironically, given that young people are largely excluded from the U.S. welfare system, even this focus on youth can be traced to U.S. influences. Government policy papers reference American research documenting the link between youth unemployment and crime. And in his first set-piece speech after assuming power, Prime Minister Tony Blair spoke the language of the underclass debate:

> For a generation of young men, little has come to replace the third of all manufacturing jobs that have been lost. For part of a generation of young women, early pregnancies and the absence of a reliable father almost guarantee a life of poverty.

The difference was that Britain mandated employment for men before mandating it for lone mothers. Moreover, while compulsory involvement was extended rapidly, the next targets were, again, not lone parents but the long-term unemployed and, later, the partners of the unemployed. Involvement of lone parents and disabled people was initially voluntary, with an emphasis on work-oriented advice rather than work experience. This reflects the more inclusive nature of British social policy.

Welfare reform is recognized to be less important in itself than as one element in a coordinated response to social and economic change.

But as the family of New Deal programs has expanded (there is now even one for musicians) the core combination of intervention organized around a staged approach to movement from welfare to work and for organizing service delivery is present virtually everywhere. Programs have become more differentiated as emphasis on flexible response has grown.

The "making work pay" agenda was also generalized in its target. But again, it was influenced by American thinking. Key elements included the introduction of a minimum wage set at a level informed by the U.S. experience, and the adoption of wage subsidies delivered through the tax system that were available to all low-income families with a member working for more than 16 hours each week. The design of this tax credit is a hybrid. Like the benefit that it replaced, it is paid every two weeks and includes an option for routing cash directly to the principal caretaker for the wage earners' children. But like the earned-income credit in the United

States, it is calculated in conjunction with wages and is the province of the tax system rather than the benefits agency.

Labor's commitment to tackle social exclusion reflects European influences on British policy. However, Labor has used the phrase as shorthand for multiple deprivations, with an emphasis on the processes that generate hardship. In so doing, Labor has sought to shift action and expenditure away from solving short-term problems and toward preventing future ones.

The government identified a number of facets to the problem: lack of opportunities to work and to acquire education and skills, childhood abuse, disrupted families, barriers to older people living fulfilling and healthy lives, inequalities in health, poor housing, poor neighborhoods and crime. It also recognized that many of those living in poverty had not benefited from economic growth.

Labor's approach to date has followed three tracks. First, project teams address specific forms of social exclusion: homelessness, truancy and exclusions from school, teenage pregnancy and neighborhood decay. Second, regional strategies focus resources on local communities, seeking to coordinate agencies and to engage the local populace in the process. The names given these initiatives – Sure Start (loosely modeled on the American Head Start), Health Action Zones, Employment Zones, New Deal for Communities, Education Zones, Single Regeneration Budget – signal different policy emphases within a common approach.

The explicit commitment to eradicate child poverty did not emerge until February 1999, although it was foreshadowed by the liberalization of benefits programs aimed at children. Prime Minister Blair linked the commitment to his aim of making welfare popular. Equally, though, it was a response to growing child poverty (a phenomenon that until recently Britain has almost uniquely shared with the United States among advanced members of OECD countries, and new evidence that childhood deprivation is directly linked to life outcomes).

While President Clinton referred to ending child poverty as a "pledge to 21st century America," Blair set a date: end child poverty in 20 years. Subsequent government publications have refined this pledge to include intermediate objectives. The bedrock of the strategy relies on the welfare-to-work and making-work-pay policies. But it also comprises elements to boost family incomes – higher benefit rates and increased collection of child support from absent parents – and a variety of measures to reduce the scarring effect

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of childhood deprivation.

As in the United States, welfare reform played little role in the most recent British elections. The Labor manifesto contains only one major addition to the social assistance agenda, a scheme for encouraging saving among pensioners coupled with a system of individual nesteggs to be established for every British newborn. The accounts would accumulate interest, and incentives would be created for contributions from each child's family and friends. The government's contribution would be larger for children in poor families. Use of the funds would be prohibited until age 18, when the accumulated wealth might be employed to investing in education, buying a home or setting up a business.

At the same time, less exciting but still important administrative changes continue apace. Shortly after the election, the government announced the merger of elements of what had been the Department of Education and Employment, and the Department of Social Security, to form a single Department of Work and Pensions, which integrates benefit and welfare-to-work programs. The official goal is to raise employment among lone parents from 50 percent to 70 percent by 2010. Well before the election, the government announced plans for revamping means-tested income subsidies for children and extending wage subsidies to low-income workers without children. This change, potentially the most dramatic of New Labor's spending initiatives, is scheduled for 2003.

WHAT'S IN IT FOR AMERICA?

Suppose British practitioners had participated in *Five Years Into Welfare Reform: Lessons Learned and Models for the Future*. What might they have brought to the conclave? What might be the next developments in the Anglo-American trade in social policy?

The coming American debate over welfare reform will mostly focus on the re-funding of temporary assistance and the procedures used to determine state entitlement to federal support. This is a federalism issue that doesn't resonate with concerns in Britain's unitary government. But we think the congruence of British and American objectives in many areas of assistance policy and strategy will still foster collaboration. While the differences between both the rhetoric and ambition of New Labor and Republican Redux policies are now and will remain large, as one slides away from the surface to details, one glimpses issues of common interest:

Incentives. It is one thing to design a social assistance system that makes work pay. It is quite another to design one that makes *more* work pay. One of the purposes behind promoting the obligation to work is to compensate for the disincentives created by means-tested assistance systems. As is well known, the multiplication of such systems multiplies the disincentives, and this interaction is particularly perverse when benefits are large – as they are for beneficiaries with subsidized housing. Not surprisingly, British authorities have shown particular interest in American programs that raise employment among residents in the lowest-income public housing.

The Transition to Work. While both the American and British systems emphasize moving people from dependency to work, the month-to-month financial consequence is more readily apparent in the British system – in part because of the differences between its gain-as-you-earn Working Families Tax Credit program and America's gain-when-you-file earned-income tax credit. There is little systematic assessment of the benefits of alternative transitional support strategies; it would be possible through intermediaries to experiment in the United States with a

benefits structure similar to that used in Britain, in which take-home pay is increased. Such experiments could also include alternative procedures for increasing access to food stamps.

The Hard to Serve. The precipitous decline of the welfare caseload in the United States has generated great concern about the status of departed families who may still be poor. Studies of such families have been conducted both by states and by independent researchers. Most report that a significant proportion – around 20 percent – of those exiting assistance do not sustain employment. Multiple problems, ranging from lack of skills to drug addiction, contribute to such experience. Families with barriers to self-support have always been part of the caseload, but until recently they were generally passed over when targets for employment policy were selected. Struggling families are a problem on both sides of the Atlantic; there may be gains from partnership in evaluating strategies for helping them.

Youth. Many of the principal concerns of the 1996 reforms – promoting work and marriage, reducing births outside marriage – typically involve young people. Yet for the most part, post-welfare reform programs directly affect young adults only after the fact. Thus states worry about fatherhood after fathering has occurred, about nonmarital births among women who are already mothers, about formation of two-parent families for people established as lone parents. Britain, by contrast, provides systematic support for people from 18 to 25 years old – support that promises opportunity and income to those who are willing to work, but that is not linked to parenthood. Britain's experience with New Deal for Young People would seem a worthy model for experimentation in high-poverty areas in America. Milwaukee's New Hope program, closely studied by British visitors, did offer earnings subsidies and job support for adults regardless of parental status. But no training was included.

Management. It is an article of faith in the United States that the federal system allows better tailoring of policy to local situations. While the gains actually realized from the American system may be questioned, it really does seem to be true that activist social assistance policy requires local discretion and flexibility because both the character of labor markets and the needs and capacities of clients differ.

Britain's New Deals are now largely delivered through one-stop centers based on American models and, as in the United States, advisers and caseworkers play central roles. Identifying the influence of program organization on outcomes at the local level is essential for understanding differences in performance across sites. While program details may differ, the core problems of governance are the same in both countries. Britain's more centralized system offers better opportunities for systematic experimentation.

As productive as collaboration on these matters of detail might be, motivation counts – and ultimately this turns on national leadership. While the British vision of welfare for the 21st century is surely far from complete, change is ongoing, and new institutions are under construction. From early on, New Labor's vision has been defined by an extremely effective mantra – "work for those who can, security for those who cannot." The American equivalent, "end welfare as we know it," is backward looking and no longer pertinent. The question remains whether a more fruitful approach – of necessity, one that fits centrist ideology in America – will be forthcoming. M