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LOCAL LABOUR MARKETS
AND THE NEW DEAL

Peter Sunley, Ron Martin
and Corinne Nativel

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Local Labour Markets
and the New Deal

Peter Sunley, Ron Martin
and Corinne Nativel

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Nick Henry and Jon Sadler
RGS-IBG Book Series Editors

Preface

The move towards workfare policies represents a fundamental change in the welfare states and labour markets of many industrialised countries. Such a shift represents a process of activation in which the receipt of benefits and assistance are made conditional on the active fulfilment of job search and other work-focused obligations. Across the industrial world, politicians are identifying such policies as the solution to the entrenched problems of worklessness that have plagued their economies during the last few decades. Within Western Europe the UK has led the way in the adoption of workfare and the New Deal for Young People has been at the forefront. Buoyed by favourable national economic conditions since 1998, this flagship New Deal programme has been held up as a model to be emulated. While it has received much abstract and aggregate attention, there has been relatively little research into the uneven geography of the New Deal. The aim of this book is to look beneath the model and understand how this set of active policies has had quite different challenges and impacts in different local and regional labour markets. It attempts to contribute to the understanding of the role of geography in the constitution of labour markets, and to highlight the need to incorporate such understanding in order to construct effective and efficient policy interventions.

The geographical concentration of unemployment and worklessness has become one of the most problematic and stubborn features of the UK labour market. The book aims to consider how far the New Deal has been able to respond to and resolve this problem. How far have local flexibility and policy decentralisation allowed the programme to address dramatic differences in local labour market contexts? Despite the complexity of local outcomes, the book argues that the spatial variation in the New Deal tells a clear and

systematic story in which the policy typically works more effectively in more dynamic and tighter local labour markets.

The geography of non-work is not a problem that has been virtually eliminated. Instead, the limitations and imbalance of supply-side active labour market policies, focused on raising individual employability, are most apparent in distressed local labour where there is less opportunity to find rewarding and stable job opportunities. The book discusses some of the implications of this finding for the idea of a new contract between unemployed individuals and the state. It outlines some of ways in which the local responsiveness of the policy could be improved, and some of the possible means of raising the demand for labour in depressed local areas. The need to do so remains pressing.

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Peter Sunley

Ron Martin

Corinne Nativel

Southampton, Cambridge and Paris, August 2004.

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Chapter One

Locating the New Deal

Reforming Welfare and Redrawing Responsibility

There is little doubt that welfare states across the industrialised world are facing a set of unprecedented pressures and challenges. The globalisation of capital and trade, together with the intensification of global competition, have raised profound questions about states' fiscal capacities and the optimum levels of public spending and taxation. Technological change has been widely blamed for increasing levels of poverty and exclusion among unskilled and poorly educated groups, and the ageing of demographic profiles has raised serious questions about the viability of public pension schemes and welfare services. On top of all this, welfare states have suffered a relentless barrage of criticisms from neoliberal theorists accusing them of being thoroughly inefficient and counterproductive. European welfare states, in particular, have been targeted as sources of economic rigidity and have been charged with promoting social equality at the expense of employment growth. There is no doubt that welfare states are under stress.

But this does not mean that the welfare state is about to disappear. In fact, there is a widespread consensus that welfare states have shown remarkable resilience and continuity (Pierson, 2001; Taylor Gooby, 2001; Swank, 2002; Huber and Stephens, 2000). Neither does it mean that all welfare states are converging on a single model of residual

or minimal welfare (Cochrane et al., 2001; Liebfried, 2001; Scharpf, 2001; Swank, 2002; Huber and Stephens, 2000). Conservative-corporatist, social democratic Scandinavian and liberal minimalist welfare state regimes continue to follow different trajectories, albeit with some complications and common trends (Esping Andersen, 1996; Taylor Gooby, 2001; Hall and Soskice, 2001).

But the absence of convergence certainly does not imply stasis. Political and institutional changes may mean that further reforms to European welfare states may be much more fundamental, and that the past will be of little help as a guide to the future. Taylor Gooby (2001) identifies two common new priorities. The first is *cost containment*, which means that no government is responding to pressing health care, pensions and labour market problems simply by increasing taxes, social contributions and spending. Increased capital mobility has reinforced the constraints of tax competition, and public sector deficits are avoided because of the discipline of the financial markets. In short there is a new emphasis on the need to contain and improve the efficiency of welfare state spending. The second is the acceptance of a *competitiveness imperative*. This asserts that welfare systems should primarily be oriented to sustaining economic performance and generating economic efficiency.¹ Thus social policies are no longer regarded as a distinct sphere, but are evaluated in terms of their interaction with economic policies and priorities (Giddens, 2000).² Cox (1998a, 1998b) and Lister (2002) perceive two similar common European trends in welfare provision. The first is *residualisation*, including a narrowing of entitlement and a greater targeting of social assistance, together with a move towards encouraging personal responsibility through the use of private welfare provision. The second is a mounting emphasis on making welfare rights conditional on the fulfilment of *citizenship obligations* and paramount

among these obligations is the willingness to perform paid work.

Social insurance and other benefit programmes are moving away from solidaristic principles and becoming more achievement oriented. The notion of citizenship as the basis of an individual's claim to support is changing. There is an increasing demand that citizens recognise their obligations when they demand their rights (Cox, 1998a, in Lister, 2002).

As Lister (2002) explains, this new conditionality reflects the confluence of several streams of thought, including a reasserted Protestant work ethic and discourses of social exclusion that see paid work as the key route to social inclusion and full citizenship. In English-speaking states it also to some degree the consequence of powerful neoliberal and communitarian critiques of the consequences of welfare assistance.

During the last couple of decades, welfare debates have been suffused by a renewed moralism, which criticises bureaucratic welfare provision for inducing a weakening of personal responsibility and civic obligations. Deacon (2002) identifies several different perspectives which have contributed to this vision. The first is the *authoritarianism* of Murray (1984) and others which attacks the welfare state for creating perverse incentives which encourage declining levels of paid work, family breakdown and the creation of an underclass of welfare dependants. In this view, claimants are rational and self-interested individuals who respond rationally to perverse incentives. More generous benefit levels have created new levels of dependency and failed to validate individuals' responsibility for the consequences of their behaviour. The second perspective is the *new paternalism* of Mead (1997) that argues that welfare claimants are not best understood as rational, competent and functioning individuals whose behaviour is guided by

incentives. Instead, they are dutiful but defeated actors whose culture condones self-destructive behaviour. Paid work should therefore be enforced and acceptable jobs should be broadly defined. A further perspective has been termed *responsive communitarianism* and argues that individuals in modern industrial societies have become too atomistic and have lost sight of the benefits of social responsiveness and commitment (Deacon, 2002). Rather than forcing and coercing compliance, governments should persuade people through moral arguments about the need to actively exercise personal responsibility and recognise their duties to their communities (Etzioni, 1999).

However, it is not just conservatives and communitarians who have emphasised the need to reform welfare and restore personal responsibility. Similarly, liberal egalitarian philosophers and authors arguing for a reconstruction of social democracy have accepted the need to take measures to encourage personal responsibility. For example, Dworkin (2000) argues that liberal egalitarian theories of justice have in the past tended to ignore personal responsibility. The first principle of Dworkin's theory of social justice is equal concern for all citizens, but the second is *special responsibility* - one person has final responsibility for the success of an individual human life - the person who's life it is. In principle, he argues, individuals should be relieved of consequential responsibility for those unfortunate features of their situation that are brute bad luck but not from those that should be seen as consequences of their choices. In this view, welfare programmes need to enforce rather than subvert proper principles of individual responsibility by being *endowment insensitive* but *ambition sensitive*, that is, in order to be just the resources provided should be sensitive to choices but insensitive to those circumstances attributable to (mis)fortune. A combination of collective and

personal responsibility, in his view, represents the basis of a political 'Third Way'.

Giddens (1998, 2000) advances some very similar arguments. One of the defining characteristics of his 'Third Way' is a new social contract between the state and citizens based on the theorem of 'no rights without responsibilities'. In his view, the welfare state should be replaced by a 'social investment state' providing a degree of equality of opportunity primarily by investing in human capital and education.³ He also argues that welfare restructuring should respond to moral hazard and perverse outcomes. 'It isn't so much that some forms of welfare provision create dependency cultures as that people take rational advantage of opportunities offered. Benefits meant to counter unemployment for instance, can actually produce unemployment if they are actively used as a shelter from the labour market' (1998, p. 115)

While these arguments clearly have very different implications and shortcomings, they share a critique of egalitarian welfare theory, together with the approaches typical of the 'old Left', for portraying benefit recipients simply as passive victims of forces beyond their control. This, it is argued, places too much emphasis on collective or state responsibility for welfare and not enough on personal agency and initiative, leading to perverse outcomes and moral hazard. This discursive theme has had a strong influence on the direction of Clinton's welfare reforms in the USA and has also guided New Labour's welfare reforms in the UK. The desire to redraw the boundaries between collective and personal responsibility has been one of the main motivations underlying the growing popularity of active labour market policy (ALMP) as a primary mechanism for reconfiguring the nature and operation of the welfare state.

Activating Labour Market Policy

The 1990s witnessed a growing enthusiasm among economists and policymakers for active labour market programmes. The term is applied to a wide-ranging set of measures designed to 'actively' intervene in the labour market in order to improve its functioning and efficiency, usually by introducing programmes for the unemployed (Calmfors, 1994). It is distinguished from 'passive' labour market policy, which essentially involves the payment of unemployment and other related benefits, and is often described as a 'safety net'. Active labour market policy includes *job matching* and placements services designed to improve the matching process between vacancies and job seekers; *labour market training* in order to improve the employability and skills of the labour force, and particularly those of the unemployed; and *job creation* schemes either by means of public sector employment or the payment of *recruitment subsidies* to private sector employers (Calmfors and Skedinger, 1995). In practice the distinction between active and passive measures is often blurred as no benefit systems have ever been entirely unconditional (Robinson, 2000; King, 1995). ALMP spans both supply-side measures such as training and compulsory welfare-to-work, as well as demand-side measures such as employment creation and the provision of guaranteed jobs.

The spread of active labour market policy has been predicated on the acceptance of an institutional (welfare-system induced) theory of unemployment. High unemployment in the late 1980s and early 1990s, particularly in Europe, was interpreted as a *supply-side problem* in which welfare states imposed rigidities on labour markets and thereby prevented them from adjusting to a fall in the demand for unskilled labour, due to globalisation and technological change (OECD, 1994). In this account, the unemployed lack both the necessary skills and motivations

to reconnect with the labour market and indefinite benefits allow them to drift into long-term unemployment. In this context, it was argued that Keynesian macro-demand policies are of little help as they fail to reconnect the unemployed to the labour market, and merely serve to inflate the wages of those in employment. This structural institutional/supply-side interpretation has coalesced into a policy paradigm that has guided and constrained policy makers' understanding of labour market problems (Larsen, 2002). As part of this paradigm, generous passive unemployment benefits are criticised as responsible for high and persistent rates of unemployment. In a highly influential text Layard et al. (1991) reviewed unemployment in 19 OECD countries and argued that those that responded well to economic shocks had welfare systems which discouraged long-term unemployment by offering benefits of 15 months or less, followed by active help to the unemployed. Indefinite benefits, they argued, are not in the interest of able-bodied individuals as they create moral hazards and reduce the intensity of welfare-to-work. Benefits should have a 'reasonable value' but should be accompanied by a stiff 'work test'. They concluded:

What we have in mind is the Swedish mixture, or 'employment principle' as they call it... This assumes that it should be normal for those who want work to have it. In other words, the proper way to acquire an income is by work rather than by a state transfer. Thus, benefits should be paid only for a transitional period. But there should be active help (and ultimately a guarantee of temporary work) to those who have difficulty getting work (p. 473).

In this account, the Swedish system provided a policy model in the way that it balanced rights and responsibilities. A legally guaranteed right to a temporary job after one year's unemployment can only be delivered if there have been strenuous preceding efforts to get into work or training.

On the basis of such views, active labour market policies have been allocated a key role in the policy response to long-term unemployment (OECD, 1994). The OECD (1999), for example, agrees that passive welfare systems created perverse incentives and signals that discouraged people from taking work and failed to provide the intensive support required to help those detached from the labour market. It argues that 'this dependency leads to a heavy financial cost that constrains other public investments'(p. 10). In contrast, active schemes are often described as self-financing, as it is argued that they may pay for themselves through the reduction of benefit payments. They are believed to have a macroeconomic benefit. By reconnecting the long-term jobless to the labour market, or converting them to short-term unemployed, it is argued that intensive job search, training schemes and wage subsidies can hold down wage inflation and so allow a higher rate of non-inflationary economic growth (Layard, 1997a). Active labour market policies have thus been described as 'Third Way' measures in that they supposedly reconcile employment and equality by simultaneously increasing both employment rates and social inclusion.

In fact, the statistical evidence on the effectiveness of the different types of ALMP is more mixed and ambiguous than some of these claims admit (Robinson, 2000), and the case that such measures produce a higher rate of employment growth has been found to be weak (Calmfors and Skedinger, 1995; cf. Kraft, 1998). The outcomes of such policies are notoriously difficult to identify with any real certainty (Calmfors, 1994). The intensification of active labour market policies in Denmark and the Netherlands during the 1990s has been widely praised for cutting unemployment and producing 'employment miracles', and these policies have been held up as policy models for emulation elsewhere (Cox, 1998b; Auer, 2000). However, even here, the precise

effects of active labour market measures are debatable, complex and hard to isolate from business cycle effects, with different evaluation techniques showing different results (see Van Oorschot and Abrahamson, 2003). Optimistic statements about policy success have tended to be advanced without systematic evaluation and documentation (see Larsen, 2002; Martin, 2000). As Larsen (2002, p. 718) suggests, 'In this common European euphoria for activation policies some of the tradeoffs and problems revealed by the evaluations are often ignored.'

Political rhetoric constructs 'active' and 'passive' measures as opposites. As Gilbert (2002, p. 189) writes, 'The word *active* speaks of life's energy, whereas *passive* suggests a state of mild depression.' In truth, active programmes are not alternatives to 'passive' measures, which compensate those who lose out, and there is little evidence that active measures remove the need for old forms of social protection (Hills et al., 2001). It is hard to avoid the conclusion that the policy enthusiasm for, and faith in, ALMP and welfare-to-work have run ahead of their unequivocal empirical achievements, largely because of the way in which they resonate with the supplyside interpretation of unemployment and the associated emphasis on the need to restore personal responsibility and work obligations. Nonetheless, evidence from Germany and Sweden suggests that while active measures may not be able to create employment, they may nevertheless play a useful role in maintaining the skills, motivation and morale of the long-term unemployed (Clasen et al., 1998). Comparative evaluations report that subsidised private sector employment can be highly effective in promoting the transition from welfare to work (e.g. Ochel, 2004), although large-scale programmes may suffer from significant displacement effects.

As references to the Swedish system indicate, active labour market policies were initially associated with European social democratic and some corporatist welfare regimes. Indeed the Swedes are credited with inventing the active approach to the labour market during the 1950s and 1960s. Forslund and Krueger (1994) noted that expenditure on labour market policy in the 1980s was about 3 per cent of GNP in Sweden, 2 per cent in West Germany and less than 0.5 per cent in the United States. The minimal spending on active measures in the US indicated a liberal welfare regime where Left-wing parties had little power (Janoski, 1994). Indeed in the post-war years active labour policy was an anathema to liberal regimes. Since the late 1980s, however, things have changed and in the context of political emphasis on the need to construct 'worker citizens', liberal regimes have embraced a particular form of ALMP, which has been christened *welfare-to-work* or *workfare*.

Workfare is an elastic and controversial term but was initially understood to mean making social assistance conditional on the performance of employment (Solow, 1998). The term can be used specifically to refer to those schemes where claimants are made to work for benefits at rates below the prevailing market wage (Gray, 2004). However, the concept is now usually understood in a broader sense to indicate the programmes where participants are required, as a condition of income support, to participate in a wide variety of activities that increase their employability and employment prospects (Peck, 2001, p. 84). Some argue that workfare is only one component of 'workfarism', which is a system of regulation designed to condition and coerce benefit claimants into taking low-wage, flexible and insecure jobs, thereby supplying a contingent labour supply that reduces wage pressure and encourages employment growth (Peck and Theodore, 2000a, 2000b). In this broad definition, tax credits for the

low paid can be seen as part of workfare as they increase the incentives for claimants to move from benefits into low-paid employment. Typically, workfare is designed to tackle a perceived problem of 'welfare dependency' characterised by poor motivations and weak work ethics among the unemployed. It is also clearly designed to deter individuals from seeking social assistance by making its receipt conditional on obligatory activities.

Workfare was closely associated with the steps taken by the Reagan administration in the US to make its welfare regime harsher and leaner, and during the 1990s under Clinton's Democratic Party the concept proved highly influential. While State governments in the US had been experimenting with workfare schemes since the 1970s, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 created strong incentives for states to move welfare recipients into jobs. The Act introduced mandatory employment targets for the welfare recipients and offered states new freedom in designing their welfare benefit schedules and implementing welfare-to-work programs (Blank and Card, 2001). Federal aid which provided cash assistance to parents with children (AFDC: Aid for Families with Dependent Children) was replaced by a federal block grant or funding stream that can be used in a variety of ways (TANF: Temporary Assistance for Needy Families). However, in order to receive this funding, states must meet or exceed a rising target for the proportion of welfare recipients who work at least 30 hours per week. A lifetime eligibility limit for the receipt of federally funded benefits of five years for adults also pressured states to reduce their welfare bills. A whole new set of TANF welfare-to-work programs has subsequently been introduced and has been associated with falling caseloads. Indeed, over the course of the 1990s the caseload across the entire country fell by 50 per cent (Blank, 2000). As Blank and Card write, this

apparent success has been aided by a buoyant labour market: 'In this extraordinarily favourable macroeconomic environment, most states were able to focus on redesigning and implementing new programs, with little concern for job availability' (2001, p. 2; also Ellwood, 2000).

Because of its associations with punitive, residual American strategies, workfare in Europe has been a highly politically charged term and, while observers have tended to use the word in a pejorative and critical manner, policy-makers have tended to avoid the word and use 'welfare-to-work' or 'activation policies' instead. However, this may be changing. Lødemel and Trickey (2001) identify two main types of definitions of workfare: aimsbased definitions, which concentrate on the objectives of the programmes, and form-based definitions, which emphasise the character of the policy. They prefer a form-based definition; workfare signals a compulsory programme in which non-compliance with work carries the risk of lost or reduced benefits. In their view, aims-based definitions are at risk of simplification and neglect the compatibility of workfare with different ideologies. In this way, Lødemel and Trickey attempt to shed some of workfare's political connotations, and represent it as a set of tools, put to different use in a variety of welfare regimes. While this seems to neglect some of the common ideological currents behind the shift to active labour market policy outlined above, there are undoubtedly different types of welfare-to-work programme.

Torring (1999) identifies 'offensive' workfare strategies and 'defensive strategies'. Offensive workfare is statist and produces benefits for both capital and labour by providing education and high-quality training for the unemployed. Defensive strategies, in contrast, are neoliberal attempts to lower unemployment benefits and aggressively move the unemployed back into work. In his view, Danish workfare has followed an offensive strategy, so that 'The Danish case