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# The hyper-Anglicisation of active labour market policy :

## Facilitating and exemplifying a flawed growth model.

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## Introduction

Active labour market policy has attained a high profile in the UK in recent years, as the country grapples with a real and perceived employment crisis. This policy area has long existed in some form, but became more central to economic statecraft in the UK in the 1990s as part of the ‘supply-side revolution’. As such, active labour market policy encapsulates interventions designed to improve the employability of individuals, most specifically those seeking work – it can be contrasted with interventions designed to increase the demand for labour (although supply-side interventions of course do not preclude demand-side interventions). Yet the UK spends little on this area of policy in comparison to most other European countries. Expenditure is heavily concentrated on relatively inexpensive ‘job search’ services, and active labour market policy interventions in fact overlap with cost-reducing ‘welfare to work’ initiatives, designed to improve work incentives for those with the lowest incomes (although the paper will show that the conditions attached to welfare entitlements mean many people forgo benefit receipt in order to avoid participating in employment support programmes). The paper designates this approach as ‘Anglicised’ active labour market policy – having offered a new typology for approaches to active labour market policy across Europe – and argues that this approach both exemplifies and facilitates the wider model of economic growth evident in the UK over this period. In short, active labour market policy is not a *response* to labour market conditions, but constitutive of the institutional framework which gives rise to certain labour market forms.

In response to the deep recession of 2009, the Labour government introduced or strengthened active labour market policy initiatives such as the ‘Future Jobs Fund’ and ‘Train to Gain’, designed to maintain and enhance individual employability. These programmes, however, largely represented a restoration of the ‘New Deal’ initiatives, hastily abandoned by Gordon Brown in 2007, that had previously been flagship elements of New Labour’s supply-side economic strategy in the late 1990s and early 2000s, part of its apparent ‘third way’ between Keynesianism and neoliberalism. The coalition government’s ‘Work Programme’ ostensibly discards much of architecture established by New Labour. However, the notion that the Work Programme represents a radical departure in UK active labour market policy is hugely inaccurate. Despite a rhetorical indictment of New Labour policy in this area, the coalition government has continued and intensified pre-crisis policy practice, albeit now seeks to deliver specific active labour market policy interventions via private providers. We have witnessed, therefore, the ‘hyper-Anglicisation’ of active labour market policy in the UK. Despite the spectacular failure of the growth model of which it is constitutive in 2008, the coalition government has sought to further entrench the existing form of provision, therefore helping to facilitate the economy’s ‘pseudo-recovery’ (Berry, 2013) through channelling individuals into low-paid and low-quality jobs. Public expenditure levels will reduce even further, but low spending (and low participation rates) does not mean that active labour market policy is marginal to the UK’s growth model and associated economic statecraft; rather, spending on job-search services seems to typify the understanding of employment – and the state’s limited role in determining the level and nature of employment – inherent in the Anglo-liberal growth model.

Part one of the paper considers the nature and intent of active labour market policy in the UK, in the context of both labour market conditions and the wider growth model, and a comparison of approaches evident in other countries, principally in Europe. The first section considers labour market conditions in the UK amid the economic downturn and apparent recovery, arguing that although the UK labour market appears to have performed well in comparison to other countries, this represents a ‘Pyrrhic victory’ in that it conceals significant problems in terms of under-employment, precarious employment, stagnating pay, regional inequality, and polarisation between high-skilled and low-skilled workers. The second section introduces active labour market policy, and locates UK practice in this area within the context of the flawed pre-crisis growth model. The third section places UK active labour market policy in comparative context, discussing levels of expenditure of different types of active labour market policy interventions.

Part two of the paper considers policy practice in the UK and elsewhere in more detail, and outlines how policy in this area could be reformed. The fourth section presents evidence on

policy developments across three main areas of active labour market policy: employment support (in the context of welfare-to-work strategies), training and vocational education, and employment incentives and subsidies. The fifth section briefly outlines the approach developed by the coalition government since 2010. Finally, the sixth section considers how the UK can move towards a new approach to active labour market policy, considering potential improvements to the existing framework, alternative approaches which learn from European practice (and involving demand-side and supply-side interventions operating in tandem), and issues around cost-effectiveness and funding.

## Part one: employment, growth and active labour market policy

### 1. Employment and the economic crisis

Unemployment is a significant and long-standing problem in the UK economy; yet it is seemingly not a problem that afflicts the UK more than other Western economies. Indeed, in terms of generating employment, the UK labour market appears to have been more effective than many of its closest rivals – although by no means most – both before and after the recent economic downturn. However, this relative success shields a myriad of endemic labour market problems, which have been exacerbated by the financial crisis and its immediate aftermath. Many of these problems are also evident in other Western economies, but many stem directly from the approach to economic growth pursued in the UK in advance of the crisis – an approach which has been largely maintained despite the calamity of 2008.

#### *The UK labour market*

Employment in the UK fell relatively little during and after the deep recession of 2009. From a pre-crisis peak of 72.7 per cent in late 2007 (for people aged 16-64), it fell to only 70.6 per cent by late 2009. The recovery from this low-point has been unusually slow, with the rate falling further to 70.3 per cent by late 2011 (even in late 2013, five years on from the recession, employment remained below its pre-crisis peak). However, overall employment fell much less than during most other recent recessions.

The unemployment rate tells a similar story. It rose from 5.3 per cent in late 2007 (people aged 16 and above) to 7.9 per cent by late 2009, and continued to rise until late 2011. The rate rose above 10 per cent during the early 1990s recession. Similarly, while long-term unemployment (defined as the proportion of unemployed people out of work for more than a year) has risen significantly – from less than one in four before the recession to more than one in three – the rise is much less sharp than that evident in the early 1990s.<sup>1</sup>

Tables 1a and 1b show how the UK compares against selected European and OECD countries in these regards. Clearly, in terms of headline employment and unemployment rates, the UK's labour market problems are far from the most severe among Western countries. This should not be taken as a sign that the UK labour market performance is exemplary – after all, the differences between countries are fairly slight, and the UK fares worse than many similar countries – but rather that unemployment is a problem common to Western economies, and not one specific to the UK (or Anglosphere countries more generally).

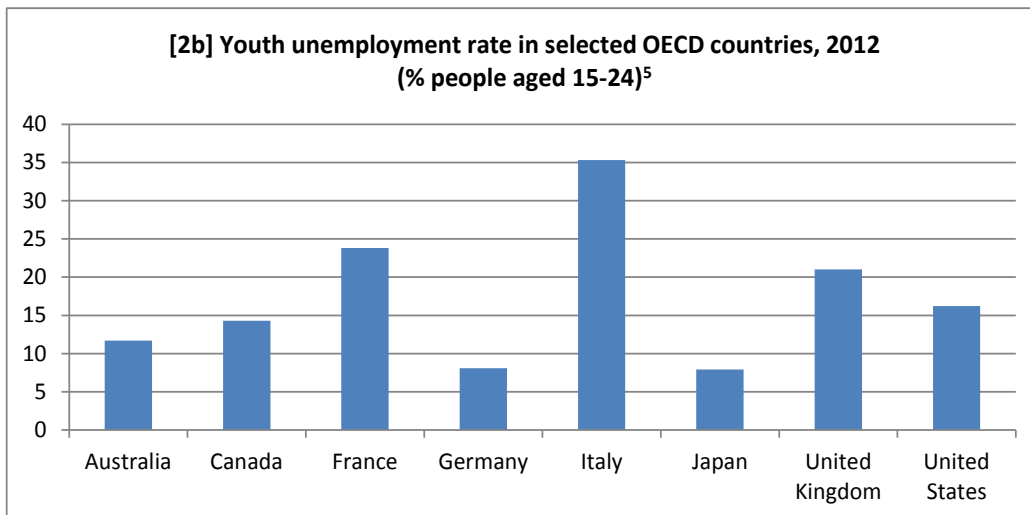
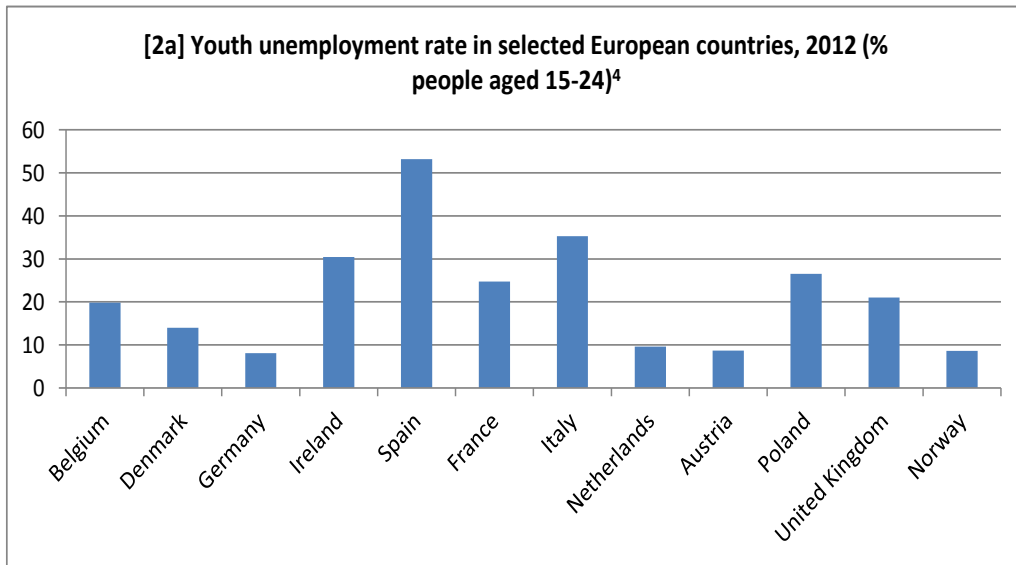
[1a] Employment and unemployment in selected European countries, 2012<sup>2</sup>

	Employment rate (% people aged 20-64)	Unemployment rate (% people aged 15-74)	Long-term unemployment rate (% unemployed out of work for 12 months or more)
Austria	75.6	4.3	24.8
Belgium	67.2	7.6	44.7
Denmark	75.4	7.5	28.0
France	69.3	10.2	40.3
Germany	76.7	5.5	45.5
Italy	67.0	10.7	53.0
Ireland	63.7	14.7	61.7
Netherlands	77.2	5.3	34.0
Norway	79.9	3.2	19.9
Poland	64.7	10.1	40.3
Sweden	79.4	8.0	18.9
United Kingdom	74.2	7.9	34.8

[2b] Employment and unemployment in selected OECD countries, 2012<sup>3</sup>

	Employment rate (% working age population)	Unemployment rate (% labour force)	Long-term unemployment rate (% unemployed out of work for 12 months or more)
Australia	72.3	5.4	20.3
Canada	72.2	7.3	12.5
France	63.9	9.9	40.3
Germany	72.8	5.5	45.5
Italy	57.6	10.8	53.0
Japan	70.6	4.6	38.5
United Kingdom	70.9	8.1	34.8
United States	67.1	8.2	29.3

Data on youth unemployment seems to make a similar suggestion. Around one in five young people in the UK are unemployed, with around one in three unemployed people aged 18-24 having been out of work for more than a year. Around one in seven have been out of work for more than two years. Yet charts 2a and 2b show that youth unemployment in the UK compares reasonably favourably to many other European and OECD countries, albeit not to the same extent as unemployment in general, again suggesting that this is a Western rather than a British (or Anglosphere) problem.



One of the reasons that the UK has lower youth unemployment than many other countries, especially in Europe, is that it tends to have much shorter 'transitions' between education and work (Thompson, 2013c). This recognition, however, begins to point us towards the fallacy of studying only headline employment and unemployment rates in evaluating labour market performance. Shorter transitions indicate not only the availability of employment opportunities for young people leaving education, but also the weakness of vocational pathways between education and full employment – pathways which elongate the transitional phase in other countries.

The UK's failure in this regard will be discussed further in the second section of the paper. It is immediately apparent, however, from the UK's high rate of young people not in education, employment or training. It is far higher, for instance, than the rates evident in Denmark and the Netherlands – the European countries with labour markets most similar to the UK (Cooke,

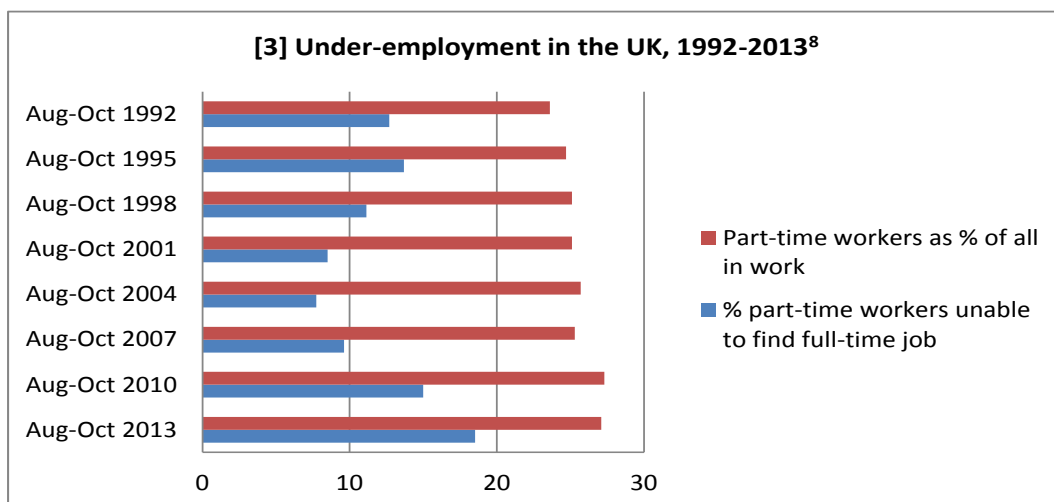
2013). Even as the economy grew very strongly before the financial crisis, around one in seven people aged 18-24 in the UK were 'NEETs'. This rose to around one in six by late 2011. While this rate has since receded, the changing composition of the NEET population indicates that this recovery may not be as durable as it initially appears. Whereas throughout the 2000s the economically inactive outnumbered the unemployed in the NEET population, this trend has gone into reverse from 2010 onwards.<sup>6</sup> We can probably attribute this principally to efforts by policy-makers to reclassify large numbers of disabled and lone parent recipients on out-of-work benefits as unemployed rather than inactive.

### *A Pyrrhic victory?*

The UK's high and stubborn NEET rate is an important indication of endemic labour market problems, which may be being concealed by relatively positive headline employment and unemployment rates. Three key problems can be identified: firstly, there are significant regional disparities in labour market performance. Secondly, while unemployment may be low, under-employment has emerged as a significant problem. Thirdly, employment opportunities are increasingly concentrated in precarious jobs, especially for young people.

In late 2013, the North West (69.2 per cent), North East (67.9 per cent), West Midlands (69.2 per cent), Wales (70.7 per cent) and Northern Ireland (67 per cent) all had employment rates significantly below the national rate. In contrast, the South East (76 per cent), South West (74.1 per cent) and East of England (75.9 per cent) all had employment significantly above the national rate. As such, the UK's labour market performance is geographically unbalanced. It is worth noting that London (70.9) is also below the national rate, suggesting that we should not see this performance simply as evidence of a 'North-South divide', although clearly inequality in employment is largely consistent with this concept. Indeed, data on jobs (rather than individuals' labour market status) shows us that there are now 8 per cent more jobs in London than in late 2008 – whereas the number of jobs has fallen over this period in every Northern region, Scotland, Wales, Northern Ireland and the West Midlands.<sup>7</sup>

In terms of under-employment, the number of people working part-time has been growing steadily since the early 1990s recession. As chart 3 shows, around one in four workers are now working part-time, and crucially, almost one in five of these are doing so because they have been unable to find a full-time job. The growth in involuntary part-time work therefore accounts for a significant proportion of employment growth witnessed during the recovery – and clearly also helps to explain the maintenance of the employment rate during and after the 2009 recession. Interestingly, young people are far more likely to be working part-time, and far more likely to be doing so involuntarily.



We have also seen significant growth (or resurgence) in precarious employment, whether in the form of temporary jobs or zero-hour contracts. The temporary employment rate has risen as a result of the recession, but in fact is lower than the rate evident throughout the 1990s and early 2000s. However, the proportion of temporary employees in temporary employment because they are unable to find a permanent job – a hallmark of precarious work – has risen to around 40 per cent (similar to the rate evident after the early 1990s recession), from around 25 per cent before the recession.<sup>9</sup> Similarly, according to the Labour Force Survey almost 600,000 people (around 2 per cent of all in employment) were employed at the end of 2013 on zero-hours contracts for their main job, through which they are employed without a guarantee number of paid hours, and usually without a regular work schedule. Before the recession this rate was only 0.5 per cent (although it had been as high as 0.8 per cent in 2000, it is worth noting, however, that the reporting of zero hours contracts has recently improved significantly, so the earlier figures are likely to be an underestimate.<sup>10</sup> 37 per cent of those on zero-hours contracts are aged 16-24 (Pennycock *et al.* 2013).

Reports from both trade union and employer bodies suggests far greater numbers of people are employed on contracts that have no or very few guaranteed hours per week (Butler, 2013). Indeed, the ONS Business Survey – which surveys rather than employees – suggests that there as many as 1.4 million employee contracts that do not guarantee a minimum number of hours. This indicates that there is still significant under-reporting, although this higher figure will in some cases be accounted for by individuals holding more than one zero hours contract job. For some people, zero-hours contracts clearly offer a degree of flexibility regarding their working life; for the majority, however, they represent ‘a working life permanently “on call”’, as they cannot rely on a given level of income, but equally are unable to refuse paid hours when offered by their employer (Pennycock *et al.* 2013). This has serious implication for the management of household finances, and childcare arrangements. Uncertainty in income for individuals also problematises access to tax credits to supplement low wages. John Burgess, Julia Connell and Jonathan Winterton (2013) offer a succinct review of the literature on precarious employment – arguing that many workers on standard employment also exhibit vulnerable labour market characteristics.

### *The earnings squeeze*

The most significant note of caution against the notion that the UK labour market is performing relatively effectively is evidence on the stagnation of earnings levels. While the problems of under-employment and precarious employment may abate, to some extent, as employment growth strengthens (there is already some evidence that this is happening), low earnings appear to be a more firmly constitutive feature of the UK labour market. Average weekly earnings have fallen in real terms every year since 2008; indeed, pay has fallen in every month except one over this period (Berry, 2013: 19). This problem, however, is not confined to the post-crisis period. While relatively strong real terms earnings growth – and very strong economic growth – was evident in the immediate pre-crisis period, analysis by James Plunkett (2011) at the Resolution Foundation shows that earnings growth in the bottom half of the earnings distribution ‘flat-lined’ from 2003 onwards. As such, median wages will be no higher in 2015 than they were in 2001.



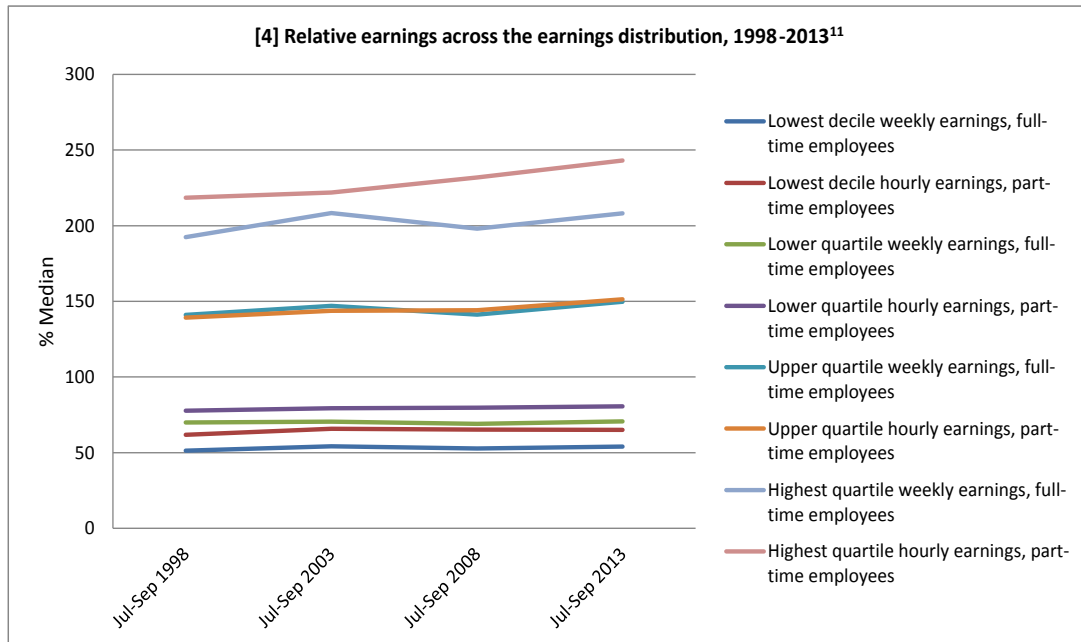


Chart 4 offers support to this analysis. It shows that whereas the gap between median wages and the upper quartile and highest decile of the earnings distribution has, generally speaking, grown considerably over the last 15 years, the opposing gap between the median and the bottom decile and lower quartile has been constant, or closed only slightly. The fact that there has been a slight improvement for the lowest earners, relative to median pay, tells us that wage stagnation is primarily being experienced in the middle of the earnings distribution – the median has moved closer to the bottom of the distribution as median earnings stagnate in real terms. As Plunkett points out, in reference to the pre-crisis period:

Put simply, a middle earner in 2008 did not earn noticeable more than a middle earner in 2003. If earnings growth at the middle had instead continued at its 1977-2003 path, a person on median earnings would have entered 2008 being paid over £2,000 more a year (2011: 28-9).

The increasing prevalence of low-paid jobs has seemingly coincided with slower pay progression for low-paid workers. Longitudinal analysis of the New Earnings Survey Panel by Alex Hurrell (2013) shows that of those on low pay in 2002, three in four were still on low pay in 2012. Around half of this group had 'escaped' low pay at some point in the intervening decade, but had subsequently seen their earnings recede again.

Significant geographical inequality in earnings is also evident across the UK. Average earnings for full-time employees in the North West (92 per cent of the UK average), North East (86 per cent), Yorkshire and the Humber (87 per cent), West Midlands (92 per cent), Wales (88 per cent) and Northern Ireland (83 per cent) are significantly less than the national average. In contrast, workers in London earn 27 per cent more than the national average, and workers in the South East earn 10 per cent more. These inequalities have been largely constant since the late 1990s and through the recent economic downturn; only workers in Northern Ireland have seen their earnings 'catch up' to the national average over this period, although they remain disadvantaged.<sup>12</sup>

## 2. Anglo-liberal growth and the supply side revolution

### *Employment and the Anglo-liberal growth model*

The 1980s onwards saw domestic consumption become increasingly important to the growth model prevailing in the UK, considered here emblematic of a wider Anglo-liberal growth model also evident principally in the United States and, to a lesser extent, other Anglosphere countries. Paradoxically, however, this increased dependence on household consumption for sustaining economic growth actually coincided with a relative decline in the role of earned income in providing for disposable income. In its place came increasing indebtedness at the household level, and the release of equity enabled by a booming housing market. Earnings from employment of course remained decisive in funding consumption (and for the state's tax revenues) – but the increased role for consumer and mortgage borrowing (and growth of the financial sector) enabled the growth model to pacify the potentially devastating stagnation in earnings for a remarkably long period of time (see Berry, 2013 and Hay, 2013 for longer discussions of the Anglo-liberal growth model; and Thompson, 2013a for a sympathetic critique).

As indicated above, lower earnings were of course not associated with lower demand for labour. Rather, high levels of employment could be sustained because the growth model was characterised by the rise of the services sector – more labour-intensive than sectors such as manufacturing, but also, generally speaking, requiring lower levels of human capital. The services sector is also more volatile, requiring a more 'flexible' workforce. The financialisation of corporate practice meant that short-term returns took precedence over long-term investment, providing for the 'low road' business model adopted by many firms, and incentivising concentration in industries with low barriers to entry. Trade union efforts to maintain higher levels of remuneration were undermined by the liberalisation of employment protection undertaken by the Conservative governments of the 1980s, and largely maintained by the Labour governments of the late 1990s and 2000s. Edmund Heery (2010) has also detailed the difficulties – and conflicts of interest – faced by trade unions seeking to organise among services sector workers in precarious employment. The development of this model for economic growth in Britain was of course neither inevitable nor immutable; it was buttressed by the growing political power of the business elite, and associated with the neoliberal economic policy framework which emerged in the late 1970s; a hegemonic influence reflected in the declining share of wages in national income (Lansley & Reed, 2013).

The labour market of the pre-crisis Anglo-liberal growth model was not characterised simply by wage stagnation, but rather 'hollowing out', or polarisation of the workforce between high- and low-skilled workers. There has been a decline in employment in middle-paying sectors such as manufacturing and construction, alongside strong employment growth in both the low-paying and high-paying sectors, such as, respectively, hospitality and business services. This has been exacerbated by the recession, although employment growth in the post-crisis labour market is, at the moment, skewed towards low-paying rather than high-paying sectors (Plunkett & Pessoa, 2013). Labour market polarisation can clearly be mapped onto the UK's geographical inequality, as high-skilled occupations are concentrated in London and the South, but labour markets in Northern regions are themselves hollowing out, as semi-skilled and administrative occupations are replaced by low-skilled employment opportunities (Rafferty *et al.* 2013; Schmuecker, 2011).

Although, as will be discussed below, the UK spends a relatively meagre amount on developing vocational skills among individuals, there remains a problem of skills under-utilisation. According to Jonny Wright and Paul Sissons (2012), only one in three firms have a 'high performance working' business model – they compete on cost rather than quality – and as such the UK is over-producing workers with high or intermediate skills levels. Under-utilisation of skills is a particular problem for young people. Steven Roberts' (2012) research has shown that 18-24 year-olds in the bottom half of the occupational classification (personal service, sales and customer service, process, plant and machine operatives, and elementary occupations) have a remarkably diverse range of skills levels – many have qualifications far beyond what is required to enter into these occupations. Young people with a National Vocational Qualification (NVQ) at Level 2, and five A\*-C GCSEs, actually earn less on average than those with GCSEs only.

Yet it is not straightforwardly the case that young people are therefore 'over-qualified' for the employment opportunities available. One of the reasons that youth unemployment and a high NEET rate persist is that many entry-level positions in the services economy rely on informal networks for recruitment, and the possession of 'soft skills' required for customer-facing roles. High levels of staff turnover indicate that employers expect all employees to be 'job ready' at recruitment (Thompson, 2013c; Sissons & Jones, 2012). A lack of employment experience is an acute disadvantage for young people in these regards; this was one of the main conclusions arrived at by the Youth Unemployment Taskforce established by the Liverpool City Region Partnership in 2013, which included young unemployed people in its deliberations. Although greater involvement of schools and social services in identifying school-leavers at risk of becoming NEETs – an approach pioneered in Sheffield, through the local authority – would be welcome, this overlooks the fact that most NEETs aged 18 or over have been employed at some point.

Despite evidence of polarisation, it would be unfair to assume that higher-skilled workers are straightforward beneficiaries of the labour market associated with the Anglo-liberal growth model in the UK. Wright and Sissons (2012) associate 'high performance' workplaces with work intensification and high levels of stress. Paul Thompson's (2013b) 'disconnected capitalism' thesis is relevant here. Thompson posits that a disjuncture between the services economy and financialisation has produced forms of employment which require ever-greater commitment to the workplace from employees, alongside an inability to value financially the intangible elements of work performance. Both high-skilled and low-skilled work is characterised by greater standardisation, monitoring and the individualisation of performance management, while at the same time requiring intense forms of customer interaction and front-line operational decision-making which cannot be effectively evaluated through such processes.

These labour market conditions typify the economic statecraft of the Anglo-liberal growth model. The political stewards of the model eschewed Keynesian approaches to fiscal and economic policy, and the marginalisation of full employment as a legitimate objective of macroeconomic statecraft was one of the first steps towards the establishment of a neoliberal economic policy framework. Initially, the Thatcher government saw a reduction in employment and wages as vital to controlling inflation, in the context of steering the UK economy away from the stagflationary conditions of the 1970s. More broadly, however, issues around the composition and management of labour force came to be seen as an inherently private domain; the notion of a 'labour market' was born, with decisions regarding the level and nature of employment settled predominantly through market mechanisms. This model has delivered relatively low unemployment, albeit by creating poor quality employment opportunities. Interestingly, the current Chancellor of the Exchequer George Osborne recently declared his intention to pursue full employment (Watt and Mason, 2014). Yet the context in which this ideal is now espoused is radically different to that in which it was denounced by his predecessors: in conditions of strong economic growth, it is not surprising that something close to full employment may be achieved in a highly flexible labour market, in a services-based economy.

#### *Active labour market policy*

The development of active labour market policy is entirely consistent with this approach to employment. The task of the state is to ensure individuals are ready and available for work, without determining what type of jobs they are being readied for, and what level of income they might secure as a result. As such, the emergence of the notion of a labour market coincided with the perspective that policy should be focused on improving the supply of labour, and away from supporting demand for labour. Active labour market policy is therefore explicitly designed to facilitate a flexible workforce as the economy reorients towards labour-intensive service industries. There is less need for the state to worry about how jobs are going to be created, but greater need to ensure that individuals are incentivised to accept employment opportunities – because business growth is more dependent on an abundant labour supply than, for instance, capital investment – and have the appropriate capacities to adapt to volatile labour market conditions. Generally speaking active labour market policy is heavily pro-market, in that it

accepts business strategies at face value and seeks to mould individual behaviour to suit these strategies. Although often presented as a way to improve economic performance in general, this pro-market orientation means that active labour market policy is also generally pro-cyclical; that is, interventions are not substantively designed to influence demand for labour, and instead seek to smooth rather than fundamentally alter the function of the labour market.

Active labour market policy generally takes two main forms. Firstly, support for individuals seeking work; the state will offer intermediary services so that job-searches are more effective. Secondly, support for individuals to improve or reorient their skills, to better match available job opportunities. The latter is probably closer to the conventional understanding of what a supply-side economic strategy looks like, yet the former is arguably more dominant within actual policy interventions – certainly in the UK. A third form of intervention is the provision of employment subsidies. Although subsidised employment might seem to suggest an anti-market orientation, in practice subsidies are generally designed to, firstly, improve the employability of jobseekers by enabling them to gain experience of work for a limited period, and secondly, encourage employers not to create new jobs, but rather offer existing job opportunities to people that have experienced unemployment. As will be explored below, different countries have adopted different active labour market policy strategies. Although the notion of active labour market policy emerged in the 1990s, this is in part due to the legacy of existing supply-side interventions. As Giuliano Bonoli (2010) argues, many European countries invested heavily in training programmes in the post-war era, viewing supply-side interventions as complementary to demand-side interventions into the economy. Bonoli argues further that the UK was able to pioneer a new form of supply-side intervention in the 1990s, precisely because it had *not* previously established an institutional framework and set of entitlements around skills-based interventions.

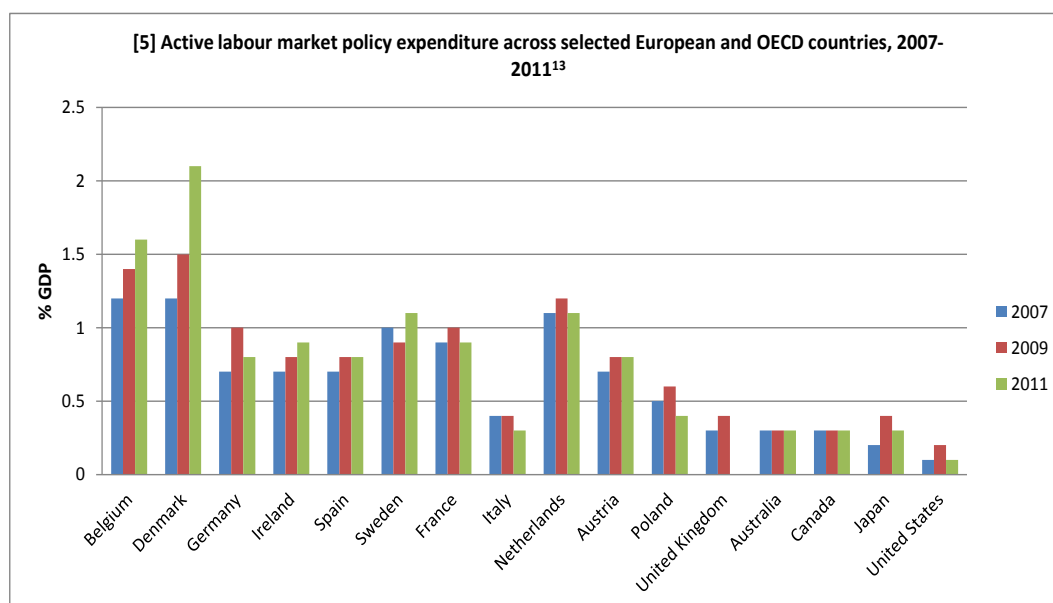
Although active labour market policy operates in different institutional contexts in different countries, generally speaking participation in employment support programmes – the main direct instrument of active labour market policy – is linked to the receipt of unemployment benefits. The receipt of benefits is conceived as a right which creates a duty for individuals to ensure they are able and available to work. The existence of out-of-work welfare entitlements can of course be seen to disincentivise work, and as such benefits levels are often reduced, and conditions attached to benefit receipt are often tightened, as constitutive aspects of supply-side labour market strategies. There is a paradox at the heart of active labour market policy, however, in that the reduced generosity of out-of-work benefits makes individuals less likely to claim their entitlement, and therefore means they are not obligated to participate in employment support programmes. This paradox probably helps to explain the situation, noted below, in which countries with the most generous unemployment benefits also tend to have the most intense forms of employment support.

### 3. The UK's approach to active labour market policy in comparative context

As discussed in the previous section, the notion of active labour market policy is consistent with and even exemplary of the economic statecraft of the Anglo-liberal growth model. It represents a focus on the supply-side of the labour market, insofar as policy interventions focus primarily on improving the employability of individuals rather than increasing or enhancing the opportunities for employment available to them. This section places this argument in comparative context, however, by showing that the UK spends relatively little on supply-side labour market interventions compared to its European neighbours, and what it does spend is highly concentrated on a particular form of intervention – employment support and job-search services – rather than more extensive interventions designed to improve individuals' human capital.

### Active labour market policy expenditure

Chart 5 shows that the UK spends significantly less on active labour market policy programmes than most of its closest neighbours, but generally slightly more than other Anglosphere countries (2009 is the latest comparable data available for the UK). The UK spent around 0.4 per cent of GDP on this policy area in 2009, compared to 1.4 per cent in Belgium, 1 per cent in France, 1 per cent in Germany, 0.9 per cent in Sweden, 0.8 per cent in Spain, 1.5 per cent in Denmark, and 1.2 per cent in the Netherlands. In terms of the Anglosphere, Australia and Canada both spent around 0.3 per cent of GDP, and the United States spent only 0.1 per cent. Ireland is a partial exception to this trend, although given that levels of spending are reported as a proportion of GDP, and that Ireland experienced a particularly severe unemployment problem during this period, this may be somewhat anomalous.



We also have comparable data among European countries for expenditure on type of active labour market policy. The variety of commitments made across different types of intervention, detailed in table 6, indicates the relatively limited value of assessing headline spending rates alone. The UK spends around 0.3 per cent of GDP on labour market services (primarily job-search services, but also job-matching also short-term training programmes designed to facilitate successful job searches), equivalent to 90 per cent of its total spending on active labour market policy. Germany and the Netherlands both spend more than the UK on this type, but this spending represents only, respectively, 38 per cent and 32 per cent of their total expenditure. Belgium, Denmark and France spend around the same as the UK on this type of intervention, but this spending represents only, respectively, 16 per cent, 21 per cent and 26 per cent of total expenditure. Compared to only 4 per cent of total expenditure for the UK, several European countries spend a significant portion on training programmes, including 60 per cent in Austria, 45 per cent in Italy, 37 per cent in France and 36 per cent in Germany. Belgium, Italy and Sweden stand out for committing close to or more than 40 per cent of active labour market policy expenditure to employment incentives (primarily hiring subsidies for employers).

Similarly, while most European countries included here spend little on supported employment programmes (such as operating intermediate labour markets for individuals furthest away from formal employment), Denmark and the Netherlands spend, respectively, 0.7 per cent (46 per cent of total spending) and 0.5 per cent of GDP (42 per cent of total spending) on this type of intervention. Belgium spends 0.4 per cent of GDP (26 per cent of total expenditure) – that is,

roughly the same as the UK spends on active labour market policy in general – on the direct creation of jobs in the public sector for those out of work.

[6] Active labour market policy spending by type across selected European countries, 2009<sup>14</sup>

		Labour market services	Training	Incentives	Supported employment	Direct job creation	Start-up incentives
Austria	% GDP	0.2	0.5	0.1	neg	0.1	neg
	% total	22	60	6	5	6	1
Belgium	% GDP	0.3	0.2	0.5	0.1	0.4	neg
	% total	16	12	36	10	26	neg
Denmark	% GDP	0.3	0.3	0.2	0.7	-	-
	% total	21	20	13	46	-	-
France	% GDP	0.3	0.4	0.1	0.1	0.1	0.1
	% total	26	37	10	8	16	4
Germany	% GDP	0.4	0.4	0.1	neg	0.1	0.1
	% total	38	36	10	4	6	6
Italy	% GDP	neg	0.2	0.2	-	neg	neg
	% total	9	45	40	-	2	5
Ireland	% GDP	0.2	0.3	neg	neg	0.2	-
	% total	23	39	6	1	30	-
Netherlands	% GDP	0.4	0.1	0.2	0.5	-	-
	% total	32	11	15	42	-	-
Poland	% GDP	0.1	neg	0.2	0.2	neg	0.1
	% total	16	6	26	34	4	13
Sweden	% GDP	0.2	0.1	0.3	0.2	-	neg
	% total	24	7	42	25	-	1
Spain	% GDP	0.1	0.2	0.2	0.1	0.1	0.1
	% total	17	22	28	9	10	12
United Kingdom	% GDP	0.3	neg	neg	neg	neg	-
	% total	90	4	3	2	1	-

It is important to note the seemingly limited relationship between both the level of expenditure and its distribution among types of intervention, and employment outcomes. The UK is among the lowest spenders in Europe, but has relatively low unemployment. Belgium and Denmark are the highest spenders, but both have an unemployment rate similar to the UK's – although Belgium has a higher rate of long-term unemployment than the UK, and Denmark has a lower rate. Austria has the lowest unemployment rate of the countries included here, but is not among the highest spenders on active labour market policy overall. France spends almost as much as Austria on training programmes, but has a much higher unemployment rate. Germany and the Netherlands have very similar unemployment rates, although they spend vastly different amounts on interventions such as training, which is much higher in Germany, and supported employment, which is much higher in the Netherlands.

The absence of a clear pattern points us towards an important insight, that is, that active labour market policy cannot be understood as simply a response to unemployment, or particular forms of unemployment. Equally, active labour market policy seemingly helps to facilitate and shape particular labour market practices. Job-search services, for instance, will operate very differently in different labour market contexts, where they may be offered to very different target groups. This does not mean, of course, that countries with similar labour markets necessarily exhibit identical levels and types of expenditure; Denmark and the Netherlands are the European labour markets most similar to the UK, but they are at the opposite end of the expenditure table to the UK. However, the types of interventions they spend more on than the UK are actually

those closest to the UK's approach, in that they are generally pro-market in orientation, or led by employer demand. The question of how different approaches to active labour market policy can be classified is explored in the next sub-section.

#### *A typology of approaches to active labour market policy*

There are clearly different approaches to active labour market policy throughout the Western world. Hartley Dean's characterisation of welfare-to-work 'regimes' posits two dimensions: the extent to which regimes are egalitarian or authoritarian (that is, the difference between an entitlement to work and a duty to work), and the extent to which regimes are competitive or inclusive (that is, whether they help people to compete in the labour market, or rather dampen the intensity of competition).

Dean (2007) defines Denmark and the Netherlands as focused on 'human capital development' in that they are both egalitarian and competitive: the state will help all individuals develop the skills they need to compete for work. He argues that the UK belongs in this category too, up to around 2006 (when, as discussed below, the Freud report signalled a step-change in UK policy). According to Dean the UK now belongs alongside the United States in the 'workfare' category, that is, regimes that are both authoritarian and competitive. The Nordic countries are defined as focused on 'active job creation' in that they are both egalitarian and inclusive: the state will shape the labour market through subsidies for those unable to find work. Finally, Dean defines France in terms of 'insertion', in that it is both authoritarian and inclusive: the state will insist on individuals working, but will create jobs in the public sector rather than subject them to the labour market.

Problematically, Dean's typology does not find a place for Germany. Clearly, his two-dimensional categories are ideal-types, and many countries will straddle the regimes and/or incorporate elements of several regimes. Yet it means that his typology fails to capture what might be distinctive about German active labour market policy, so that its real-world experience in this area can be better appreciated; Germany's importance to the European and indeed global economy makes this a particularly unfortunate oversight. As will be noted below, Germany developed novel forms of employment support in response to the economic downturn. The more significant problem is that it does not appear to correspond to actual spending on active labour market policy interventions: for instance, Denmark and the Netherlands are not among the highest spenders on training, and while Sweden does spend a significant amount on employment subsidies, Norway and Finland do not.

Giuliano Bonoli (2010; 2012) offers an alternative (albeit similar) typology for European countries. However, Bonoli's analysis is premised on the notion that the emergence of active labour market policy is symptomatic of the increasing dominance of a pro-market or pro-business policy orientation throughout Europe. Active labour market policy is relatively novel in terms of the level of public spending commitments, and our conceptualisation of varied policy initiatives under this framework. There have always been supply-side employment strategies, yet they become more important when demand-side strategies are abandoned. This understanding appears to fit with fascinating research by Markus Tepe and Pieter Vahuyse (2013), who studied the impact of left-wing governing parties on levels of active labour market policy spending across twenty OECD countries, from 1986 to 2005. Tepe and Vahuyse found that left-wing political parties in government tended to reduce active labour market policy spending, despite the progressive rhetoric that often surrounds this area of policy. This is because active labour market policy often serves primarily to develop the employability of labour market 'outsiders', whose increased employment prospects threaten the labour market 'insiders' that tend to support social democratic parties. Active labour market policy is ostensibly progressive for very disadvantaged groups furthest away from formal employment, but helps to dismantle the status and power traditionally associated with employment for 'ordinary' workers.

Bonoli posits two dimensions in his typology of active labour market policy: the extent to which different regimes exhibit a pro-market orientation, and the extent to which regimes invest in human capital. Regimes with a strong pro-market orientation and strong investment in human

capital focus on ‘upskilling’, that it, extensive job-related vocational training programmes. Regimes that are weak in both domains focus on ‘occupation’ or ‘the preservation of human capital’. This is the authoritarian/inclusive regime in Dean’s typology, focusing on keeping jobless people occupied in public sector positions with limited potential for progression. Bonoli characterises the regime with a strong pro-market orientation but weak investment in human capital as focused on ‘employment assistance’ or ‘improving matching’. This regime facilitates individuals putting existing human capital to use through job-search services and improving job-acquisition skills. Bonoli’s final ideal-type regime focuses on ‘incentive reinforcement’ or ‘putting pressure’; it is strongly pro-market but offers no or negligible investment in human capital, and instead uses wage supplements in the form of tax credits, and conditionality in the form of low out-of-work benefits and sanctions, to underline the incentive to find work.

Bonoli’s typology is problematic in several regards. Firstly, he offers only one regime with a weak orientation to the market, compared to three with a strong orientation. Indeed, the only major economy associated with the occupation model, France, now spends as much as the UK on job-search activities, and more than Sweden and Denmark on training programmes. Moreover, interventions to preserve human capital are not anti-market, but rather extra-market; they make no attempt to shape the market, but rather shield some individuals from its demands. Secondly, like Dean, Bonoli finds no distinctive position for Germany. Thirdly, Bonoli appears to have difficulty categorising hiring subsidies, which have become fairly common across Europe as a result of the economic downturn. He includes them in the ‘employment assistance’ or ‘improving matching’ regime typified by the UK, but expenditure data clearly shows that the countries that focus spending on job-search and related services spend relatively little on subsidising employment. Fourthly, there are clearly no major European economies that fit the ‘putting pressure’ or ‘incentive reinforcement’ regime. This would involve limited expenditure (or none) on active labour market policy, and a focus instead on incentivising work through the benefits system. Yet according to the European Commission, only four European countries spend less than 0.3 per cent of GDP on active labour market policy – Bulgaria, Estonia, Malta, Romania and Greece – and their spending is focused on different areas: respectively, direct job creation, job-search services and training, job search-services, and job-search services and employment subsidies (both Romania and Greece).<sup>15</sup> Incentive reinforcement is best considered an intervention that is used alongside various other forms of intervention – it has been used extensively in the UK and Netherlands, and also Denmark, Germany and Sweden to some extent (Dolphin & Lawton, 2013; Grigg & Evans, 2010).

Any typology of active labour market policy in isolation from wider economic statecraft would confront the danger of over-simplification. Indeed, both Dean and Bonoli bring the out-of-work benefits system into their typologies, therefore locating active labour market policy in a wider ‘welfare-to-work’ framework. Clearly, however, there are other policy areas that impinge upon active labour market policy, most obviously skills and education policy, but also industrial policy and employment protection.

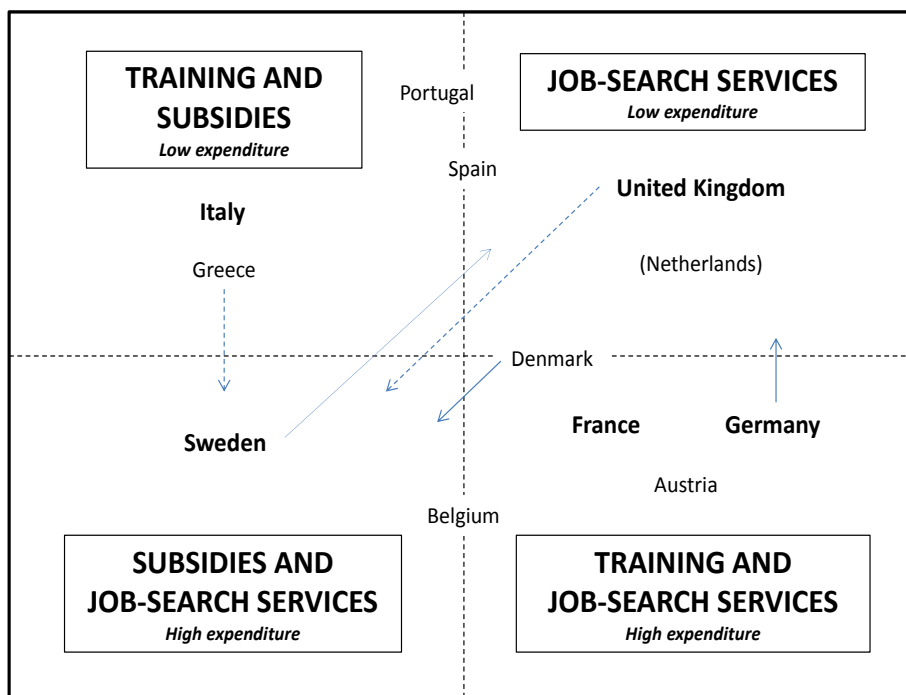
An alternative typology of approaches among Western European countries (including Greece), based more directly on different types of expenditure and the influence of policy areas beyond active labour market policy, is outlined in figure 7. Countries are not placed along any particular dimension. Active labour market policy is, for instance, considered inherently pro-market; the key analytical question concerns the nature of the economic context within which interventions are made. As such, countries with similar active labour market policy programmes will have very different labour markets if they have different approaches to industrial policy or levels of employment protection. Similarly, investment in human capital is not necessarily a useful indication of the character of a country’s active labour market policy regime – in some countries, human capital investment may be focused on universal education programmes that would be difficult to classify in terms of supply-side employment policy, although they fulfil similar functions.

The approaches are most usefully classified according to the type of active labour market policy they focus on: job-search and related services; training and employment subsidies; training and job-search services; and employment subsidies and job-search services. The most important



approach is that which concentrates on training alongside services such as job-search and job-acquisition skills, exemplified by Europe's two largest economies, France and Germany. Extensive provision of job-search and related services is relatively novel in both countries, but has become increasingly important, especially in Germany (where this type of expenditure is now larger than training expenditure). France has bucked this trend to some extent, and actually increased its expenditure on training since the economic downturn. It also spends more than Germany on direct job creation in the public sector. Arguably, in heavily concentrating its spending on training, Austria more accurately typifies this approach. However, Austria spends less as a proportion of GDP on active labour market policy than France and Germany, and the dominance of training expenditure within its overall budget is due principally to shifting spending on other forms of active labour market policy to tax credit-based wage supplements, which are of course an important part of the UK's wider welfare-to-work approach.

[7] Typology of active labour market policy approaches across Western Europe



The UK exemplifies an approach which focuses almost exclusively on enabling people to find work – any work – quickly. The solid arrows in figure 7 indicate the apparent moves being made by some European countries towards incorporating elements of other approaches to active labour market policy, primarily as a result of the economic downturn, although in some cases (such as Germany) this transformation was evident much earlier. The dotted arrow adjacent to the UK therefore indicates the *potential* for the UK to move slightly closer towards a Swedish approach, with a greater role for employment subsidies. As discussed below, subsidies were briefly introduced during the 2009 recession by the Labour government, and Labour in opposition has promised to restore a version of this policy if it replaces the current coalition government in 2015 (although matching Sweden's spending is extremely unlikely). The Netherlands also typifies this approach, despite devoting more resources to supported employment programmes than job-search. Supported employment programmes are designed for people who would suffer extreme disadvantage in seeking employment. The Netherlands' support for this type of intervention, which accounts for its very high level of active labour market policy expenditure, should be seen

as an aspect of the country's welfare provision, rather than its supply-side employment strategy. It has little bearing on its approach to enabling employment in the 'mainstream' economy. The UK commits very little expenditure to such interventions – and even less than suggested in table 6 since the withdrawal of funding for Remploy factories by the coalition government – although the experience of StepUp in the early 2000s will be discussed below.

In establishing a typology of approaches to active labour market policy, the wider political and economic context is as important, analytically, as the character of the supply-side interventions themselves. France and Germany's active labour market policy, for instance, operates within a strong tradition of industrial policy – designed to create the jobs for which training is required. The move towards job-search services, especially in Germany, is therefore a symptom of the partial decline of active industrial policy. No such tradition has ever taken root in the UK; the level and nature of labour demand is largely a private affair, which as discussed above contributes to 'low road' business strategies. As such, active labour market policy in the UK (and the Netherlands) primarily operates alongside not industrial policy, but rather a complex benefits structure which incentivises work through the threat of sanctions and, increasingly, the promise of supplementing low wages.

Sweden's active labour market policy is focused on employment subsidies; employers are incentivised to create jobs for those unable to find work. Sweden is often grouped with other Nordic or Scandinavian countries in terms of its welfare regime. Yet in relation to active labour market, it is clear that there is no single Nordic or Scandinavian approach – only Sweden offers an approach distinctive to others evident across Western Europe. Both Norway and Finland concentrate expenditure on training – although the latter spends far more than the former – and Denmark spends more on job-search services, training and supported employment than it does on employment subsidies, although it is increasing spending on subsidies. However, the wider Nordic/Scandinavian welfare regime would appear to be relevant to Sweden's approach, in that a strong commitment to universal education in Sweden mitigates the need to 'upskill' those unable to find work;<sup>16</sup> employment subsidies are therefore used to improve employability by demonstrating and enhancing individuals' soft skills and work experience. Employment subsidies in Sweden have traditionally focused on providing employment for older workers whose skills had become obsolete, but who were unlikely to benefit from retraining; increasingly, subsidies focus on young people (Cook, 2008: 3-5). It is also worth noting that Sweden has in recent years moved closer to the UK/Netherlands approach, spending slightly less on subsidies and more on both job-search services and supported employment – reforms associated with the growing influence of neoliberal ideas in Sweden (Cook, 2008: 5-7).

Finally, Italy represents a fourth main approach to active labour market policy in Western Europe, focused on both training and employment subsidies. This combination is strongly evident in only one other European country, that is, Greece (both Spain and Portugal can be seen as partial adherents to this approach, although both also spend a significant amount on job-search services). However, perhaps the distinguishing feature of this approach to active labour market policy is that it is relatively *inactive*. Levels of overall expenditure are low; Italy spends more than Greece, but still spends only around the same amount as the UK (Greece's tentative move towards more employment subsidises has to be seen, therefore, in light of its very low expenditure). This is despite the UK's focus on relatively inexpensive job-search programmes, and the fact that among Europe's largest economies Italy and Greece have the most significant unemployment rates (with the exception of Spain and Portugal in the case of Italy). This underlines the fact that active labour market policy does not simply respond to labour market conditions, but also help to shape them. The limited spending on active labour market policy in Italy and Greece may be associated with the relative 'inflexibility' of the Italian and Greek labour markets.

In contrast, the coincidence of a low level of active labour market policy expenditure in the UK with relatively low unemployment would appear to be testament to the flexibility of the UK labour market. Unlike Italy and Greece, low spending does not mean that active labour market policy is marginal to the UK's growth model and associated economic statecraft; rather, spending on job-search services seems to typify the understanding of employment – and the state's limited role in determining the level and nature of employment – inherent in the Anglo-liberal growth

model. The next two sections will demonstrate, among other things, that although Labour moved tentatively towards a different approach after the financial crisis (a radical *volte face* after the reinforcing of a neoliberal approach evident under the Brown government immediately before the crisis), the coalition government has, despite hyperbolic rhetoric, produced few innovations in this area.

## Part two: policy development and scope for reform

### 4. Active labour market policy in practice

This section looks in more detail at active labour market policy in practice, and evidence of effectiveness. Its primary objective is to appraise UK policy, although this necessitates consideration of developments and outcomes in other countries, especially where they relate to types of active labour market policy programmes that have not been extensively used in the UK.

#### *Employment support and welfare-to-work*

The proof is in the pudding: the UK spends very little on active labour market policy, but has a relatively well-performing labour market. As discussed above, the UK's active labour market policy is geared towards providing a range of services that enable unemployed people to find work relatively quickly. Services include job-search and job-matching, job-acquisition training (interview skills, CV-writing, etc.), basic literacy and IT education, and in some cases work-related counselling. These services have come packaged in various forms over the past two decades. Generally they are delivered centrally by the Department for Work and Pensions (DWP), although some local authorities also offer basic employment support services. Initially, newly unemployed people deal with the DWP agency Jobcentre Plus, which administers most out-of-work benefit expenditure (principally Jobseekers' Allowance, JSA) and offers limited employment support services. If unemployment persists (typically for six months or a year), individuals are entitled to the more intense forms of employment support.

There is strong evidence of cost-effectiveness regarding spending on employment support services, especially job-search services. Participants in employability programmes in the UK tend to find work relatively quickly, and most new claimants of JSA have usually stopped claiming with a short period of time (Dolphin, Lawton and McNeil, 2011; CESI, 2012; Wilson, 2013). Countries such as Germany, Denmark and Sweden, and to a lesser extent France and Austria, have therefore been moving towards the UK approach to active labour market policy since the late 1990s. Their unemployment rates have improved during this time, economic crisis notwithstanding (Bonoli, 2010; 2012; Vail, 2008).

There are several reasons why this characterisation of the success of the UK approach is too simplistic, or even misleading. The first section outlined myriad problems with the UK labour market, such as under-employment, precarious employment and low earnings, which generally afflict young people disproportionately. The employment support services offered in the UK are not oriented towards solving these problems; there is little scope for jobseekers to discriminate in terms of earnings level or job quality, and the UK system offers few resources to either upskill the workforce, or create higher quality or sustainable jobs. The coalition government's Work Programme, discussed in the next section, incorporates a payment-by-results system which incentivises providers maintaining employment for participants for more than a year – yet this can be achieved by participants simply moving swiftly between several different temporary positions. This is entirely consistent with a wider growth model dependent on an abundance of low-paid jobs; the UK approach to active labour market policy helps to create the workforce suitable for the Anglo-liberal growth model.

The replication of elements of UK active labour market policy in other European countries has to be seen, therefore, in the context of the Anglicisation of wider economic strategies in Europe. As

such, they have also imported some of the pernicious elements of the UK labour market. Most notably, inequality in Germany grew considerably throughout the 2000s, with the labour market polarising between high-skilled and low-skilled workers, with the latter also experiencing a significant under-employment problem (OECD, 2011). Karen Nielsen Breidhal and Sanne Lund Clement (2010) studied Denmark's employment support services from the perspective of social exclusion, finding that participation in employment support programmes – even where resulting in employment – had no impact on the relative social exclusion (measured in terms of social network density, self-esteem, and stigmatisation) of unemployed people. The implication is that Anglicisation of the Danish labour market has broken the traditional relationship between work and social inclusion; we can perhaps infer that this is related to the type of employment opportunities associated with these programmes, although the researchers do not make this claim. A study of 'active job search' programmes in Austria found that they are much more likely to lead to sustainable employment and higher earnings if they are provided only *after* participants have undertaken retraining measures (Lechner & Wiehler, 2013).

The 'work first' approach to active labour market policy typified by the UK is invariably associated with strong conditionality in out-of-work benefits. This comes in two main forms: an obligation to search for work while in receipt of benefits, and sanctions for those in receipt of benefits that refuse opportunities for employment (or training). There is little evidence on the impact of sanctions on employment in the UK. The use of sanctions has been assessed in several European countries – mainly Germany, the Netherlands, Switzerland, Norway and Denmark – and is associated with high levels of short-term benefit exit and job entry. However, sanctions are also associated with poorer quality, lower-paid and unsustainable employment over the long-term, and higher crime rates (Arni *et al.* 2009; Grigg & Evans, 2010). Moreover, where sanctions have been used most systematically, in the United States – which has a similar approach to active labour market policy to the UK – evidence on their effectiveness is inconclusive (Grigg & Evans, 2010).

Furthermore, the effectiveness of sanctions is undermined, firstly, by the fact that most benefit recipients are unaware of the nature of the conditionality regime – it is not an important influence on behaviour (Grigg & Evans, 2010; Newman, 2011: 97-8). Secondly, a high proportion of unemployed people do not claim out-of-work benefits in the UK. Table 8 shows that the UK generally has higher non-claimant rates than all comparable European countries for which data is available. This means that many unemployed people are not receiving benefit income that may be desperately required to support living standards – perhaps in fear of the conditions attached to these benefits. And more importantly for this paper's purposes, non-receipt of out-of-work benefits means that individuals are not available to participate in employment support programmes.

[8] Proportion of unemployed people not in receipt of out-of-work benefits by age and duration, 2012<sup>17</sup>

		Under 1 month	1-2 months	3-5 months	6-11 months	12-17 months	18-23 months	24-47 months	48 months and over
Austria	15-24	60	58	55	67	na	na	na	na
	25-64	33	30	28	27	32	na	na	na
Denmark	15-24	85	75	68	68	70	na	na	na
	25-64	27	16	13	10	na	na	na	na
France	15-24	40	34	na	21	23	na	32	na
	25-64	24	14	na	10	11	na	14	21
Italy	15-24	48	47	42	40	40	34	44	58
	25-64	43	41	35	35	44	35	45	60
Netherlands	15-24	94	94	90	90	78	na	na	na
	25-64	73	49	40	36	43	44	61	63

Sweden	15-24	78	57	39	26	21	na	na	na
	25-64	43	21	13	7	9	na	na	na
Spain	15-24	39	42	30	19	16	33	18	na
	25-64	17	12	12	9	10	10	11	14.5
United Kingdom	15-24	93	74	61	58	61	52	40	33
	25-64	83	66	53	53	51	60	42	37

The long-term ineffectiveness of sanctions is also indicated by significant evidence of ‘cycling’ between employment and benefit receipt. Bonoli (2012: 15-16) argues that although employment outcomes are higher for ‘sanctioned’ benefit recipients than non-sanctioned recipients, the sanctioned have a much higher probability of becoming unemployed again after finding work. They also tend to earn less. We know that, in the UK, almost 70 per cent of new JSA claimants have claimed the benefit previously; between 1982 and 2006, people who had experienced unemployment had become newly unemployed an average of four times during this period. Young people are more likely to experience cycling (McCullum, 2013). Clearly, assessing the UK unemployment rate at any single point provides a misleading picture of the actual livelihoods of those at the bottom end of the labour markets. Evidence of cycling also creates a misleading impression of the success of Jobcentre Plus in finding employment for benefit recipients relatively quickly.

Crucially, David McCullum (2013) shows that cycling is more likely to occur in buoyant labour market conditions. In the UK, London and the South East have both the highest employment rates, and the highest rates of cycling. This may be because people have less incentive to remain in work, knowing that they will be able to find another job quickly. A more persuasive explanation, however, is that labour market buoyancy in the UK in recent years has been associated with increasing employment insecurity, predominantly in the services sector. Most cycling is involuntary. John Adams and Ray Thomas’ (2007) assessment of the success of the Labour government’s active labour market policy in Scotland (predominantly ‘New Deal’ programmes) also finds the same association between cycling and labour market buoyancy. Unemployment in Scotland receded, but primarily in areas where it was already lowest. The areas with the lowest exits from unemployment also had the highest entry rates into unemployment, and vice versa.

The New Deal was introduced by the Labour government in 1998, aimed predominantly at young people. It represented an attempt to broaden the approach of UK active market policy away from simply job-search and related services. The New Deal for Young People (NDYP) offered people aged under 25 that had been unemployed for six months intense job-search support for four months, generally through Jobcentre Plus. If this programme failed to lead to employment, participants were offered one of four options: full-time education or training for a year, subsidised employment in the private sector for six months (with some support for on-the-job training), subsidised employment in the voluntary sector, or a six-month public sector work placement via the Environmental Task Force. Participants continued to receive JSA during their time on the New Deal (or slightly higher payments if in subsidised private sector employment). Participation in the New Deal was mandatory, if individuals wished to continue to receive JSA. A similar programme was available to people aged 25 or over that had been unemployed for eighteen months, and there were tailored New Deal programmes for older workers, disabled people and lone parents.

It is clear that the vast majority of New Deal expenditure was committed to job-search and related services. By 2004, 87 per cent of UK active labour market policy was directed to job-search, compared to around 90 per cent today – although spending on job-search was actually higher, within a higher active labour market policy budget overall. In Labour’s first term, expenditure on employment subsidies and direct job creation (but not training) rose noticeably, although this commitment was not sustained.<sup>18</sup> Over the life of the New Deal, very few participants undertook subsidised private sector jobs; those that were placed into subsidised jobs were far more likely to be placed in the public or voluntary sectors. This tells us that the New Deal participants most likely to be offered subsidised employment were those that were relatively less ‘job ready’ and

therefore not attractive to private sector employers (and this helps to explain why little was spent on training, as this was a constitutive element of subsidised private sector employment). This may demonstrate the success of the New Deal in the initial job-search phase of enabling participants to work (and of course Jobcentre Plus more generally), yet also of the labour market more generally, meaning that the New Deal catered for less employable individuals than had originally been envisaged.

As such, active labour market policy focused on job-search and related services is strongly pro-cyclical. It is effective when there are jobs available, but is afflicted by significant 'deadweight' costs as participants are matched to jobs that they may have been able to acquire independently. Evidence of deadweight undermines the notion that job-search services are cost-effective; it is impossible for analyses to control for deadweight as policy interventions occur in a dynamic economic context. Similarly, the New Deal in practice helped to buttress the prevailing growth model by (in combination with benefit conditionality) compelling individuals to take any available job, irrespective of quality or pay, before they became entitled to alternative forms of support (although we do not know how the New Deal would have fared in more challenging labour market circumstances). This helps to explain that while unemployment fell, the New Deal failed to address the deeper-rooted employability problems experienced by disabled people, lone parents and ethnic minority groups, despite the existence of tailored support (Dolphin & Lawton, 2013). Job-search providers are incentivised to 'cream' the most job ready programme participants (and cycling meant they may have come through the system several times, with each exit from unemployment categorised as a success, however fleeting); more intense support for those furthest from the formal labour market is made available only once unemployment becomes entrenched, and with far fewer resources available. Arguably, the emphasis placed by services sector employers on soft skills and work experience means today's young people are exhibiting characteristics of structural labour market disadvantage, which cannot be addressed by job-search services alone.

In 2007, the Labour government under the leadership of Gordon Brown ostensibly abandoned the New Deal after commissioning David Freud to report on UK active labour market policy and welfare-to-work strategies. Freud's work was framed by then Work and Pensions Secretary John Hutton's stated belief that many benefit claimants in the UK exhibited a 'can't work, won't work' and 'something for nothing' culture (cited in Grover, 2007). Freud recommended a stricter bifurcation between Jobcentre Plus for the newly unemployed, and private contractors for the long-term unemployed and economically inactive. He rightly recognised the success in provision in terms of employment outcomes for the newly unemployed (but made no reference to low pay, insecure unemployment or job quality, or indeed the possibility that young people are structurally disadvantaged). However, rather than recommending more intense forms of support for the hardest cases, Freud's plan involved withdrawing the bulk of spending dedicated to training and employment subsidies, and instead strengthening benefit conditionality, especially for lone parents (see Freud, 2007; Grover, 2007). Freud's plan was introduced in 2009 as the Flexible New Deal. By then, however, the recession had hit and Labour had already re-introduced elements of the original New Deal, as discussed below. It was left to the coalition government to champion the Flexible New Deal, albeit rebranded as the Work Programme – with Freud, now a Conservative peer, appointed to a crucial ministerial post in DWP.

It is also worth reiterating here that many countries with a similar approach to active labour market policy, most notably the Netherlands, offer substantial 'supported employment' opportunities for those furthest from the labour market, primarily disabled people. While the UK has sought, without significant success, to integrate disabled people into mainstream employment, the Netherlands appears to acknowledge the difficulties faced by the most severely disabled recipients in a 'work first' environment with low level of out-of-work benefits, and instead operates a secondary labour market with 'sheltered' jobs. Interestingly, as Denmark moved towards UK-style active labour market policy throughout the 1990s, it also incorporated these practices for the severely disabled (Etherington & Ingold, 2012). The UK has, in fact, traditionally offered some (limited) funding for such services, through Remploy factories. But although in 2006 the Labour government sought to offer greater support to Remploy through more public procurement, direct subsidisation was generally reduced under Gordon Brown, and

withdrawn altogether by the coalition government. Remploy now operates as an employment support provider for disabled people; it is therefore an instrument of mainstream active labour market policy in the UK, rather than an alternative form of support for disabled people.

#### *Training and vocational pathways*

Spencer Thompson (2013) posits three distinct skills development models in Europe:

1. Countries that facilitate high levels of company-funded, on-the-job training. Employees develop skills which are specific to their own employer rather than transferable, but benefit from strong job security due to high levels of employment protection.
2. Countries that focus on education-based vocational training, albeit typically outside the workplace so that skills obtained are relevant to broader industries or occupations rather than a single employer. Benefits typically offer a high replacement rate, with limited conditionality, so that individuals are incentivised to seek work that matches their skills.
3. Countries that offer little education-based or on-the-job training due to limited government and employer interest in a high-skilled workforce. Coupled with low employment protection, and low and conditional out-of-work benefits, individuals are encouraged to develop generic and portable skills so they can enter (and exit) different industries as market conditions dictate.

The UK clearly belongs in the third camp. Insofar as training is offered through active labour market policy interventions, it is focused on unemployed adults, so as to facilitate swift returns to employment. Yet it is difficult to establish the value-for-money of expenditure on training, given that, as discussed above, there is an under-supply of higher-skilled jobs. The evidence on the cost-effectiveness of training programmes in the UK, in terms of both employment and earnings outcomes, is therefore mixed, with more positive outcomes recorded for programmes that are small-scale, focused on specific work opportunities, and targeted at those furthest from the mainstream labour market (Wilson, 2013). It follows therefore that large-scale attempts to 'upskill' individuals that are already employable are not worth pursuing in isolation from broader attempts to create higher-quality jobs. However, it is also the case that training programmes are not assessed over a long enough time-frame; training programmes tend to show greater positive impacts on employment and earnings than less intense forms of employment support when assessed over the long term (Wilson, 2013). Tony Dolphin, Kayte Lawton and Clare McNeil (2011) also argue that the cost-effectiveness of training needs to be assessed at the macro-level; at the micro-level, specific schemes are often shown to be poor value-for-money insofar as participants are 'locked in' to scheme participation and therefore not able to move into employment as opportunities arise. But in terms of overall employment, training expenditure has a more positive impact than other forms of active labour market policy.

On-the-job training, offered by employers, is not a significant feature of the UK growth model. It is generally high-skill sectors which provide strong vocational pathways. According to Rachel Nicholls and W. John Morgan, in-work progression is hampered by the fact that 'the primary purpose of training programmes and active labour market intervention for welfare recipients is to ensure the pace and progress of participants into work and that any educational element or advancement in work is secondary' (2009: 81). Nicholls and Morgan's assessment of NDYP found that over time the policy was re-focused 'away from skills investment [and] towards shorter-term interventions and an implied philosophy that "any job is a good job"'. They also found 'a significant departure away from encouraging employers to invest in the intermediate level skills of New Deal employees' (2009: 93). As Graeme Cooke (2013) points out, not only do the conditions attached to out-of-work benefits in the UK specify the need to seek work, rather than further training, recipients of benefits such as JSA are actually *penalised* if they spend too much time in education or training each week (there is generally a 16 hour limit).

The provision of training opportunities signifies wider features of economic statecraft. The UK's 'demand-led' approach to skills development, in which public authorities seek to respond

to rather than shape employers' skills needs, is clearly consistent with a neoliberal or pro-market economic policy perspective. The demand-led approach was entrenched by the Labour government after the Leitch Review in 2006, which called for renewed investment in skills development by government and employers, yet argued that strategic priorities must be dictated by existing employers. Various agencies have played a role in implementing skills policy for adults in recent years in England (with similar arrangements in the devolved nations), most notably the Learning and Skills Council (LSC), which was replaced by the Skills Funding Agency (SFA) during Labour's third term. Despite the creation of Employment and Skills Boards (ESBs) at local authority-level, and Sector Skills Councils (SSCs) at sector-level, very few resources are directed towards skills development at the sub-national level. The main function of the LSC/SFA is to fund and oversee adult education in further education colleges, representing a highly centralised approach to skills development. The main function of ESBs and SSCs is to engage employers so that their views can feed into LSC/SFA operations – but they have no role in overseeing the quality of employer-provided training. The irony of a skills policy dictated by employer demand is that employers lack the broader labour market intelligence to know where and how to invest in human capital, and so rely on tried-and-tested low road business models, meaning that the UK's approach to skills development exhibits an 'over-reliance on centralised state-led programmes and institutions to fill the gap left by the market' (Lanning & Lawton, 2012). There have been attempts to better integrate employment support and skills policy, but this has mainly taken the form of encouraging Jobcentre Plus to more effectively signpost advice about training opportunities, and these initiatives have not received significant funding. Following the recession, Labour sought to introduce a more strategic integration of skills and industrial policy through the Regional Development Agencies (RDAs), but these bodies have been abolished by the coalition government (Dolphin *et al.* 2011).

Throughout Europe, Scandinavian and German-speaking countries have traditionally offered a radically different approach to skills development. Sectoral partnership bodies (including employers, trade unions and public authorities) develop broad qualification frameworks, and local agencies determine the content, form and assessment procedures for educational programmes, and regulate the quality of on-the-job training. Employers are centrally involved in setting strategic priorities, but negotiate with both government and unions in order to obtain the support required to develop their workforces. These rich networks are also a source of finance and business support (Lanning & Lawton, 2012). As such, these countries are representative of Thompson's second model of skills development regimes in Europe. Clearly, Thompson's categorisation of three European skills development models maps only imperfectly onto the categorisation of active labour market policy approaches earlier in this paper, despite training being a key element of active labour market policy in many countries. Sweden and Germany represent different approaches to active labour market policy, but similar approaches to skills development; as noted above, this is because Sweden's vocational training programmes are generally delivered through education policy rather than employment policy, whereas in Germany the reverse applies. Crudely, Sweden subsidises jobs for highly-skilled workers, while Germany subsidises training so that workers can obtain skills.

It would of course be wrong to see either country as a paragon in terms of training expenditure. Sweden has a high youth unemployment rate, and even though Germany has a very low rate of youth unemployment relative to other European countries, both countries have since the late 1990s moved away traditional active labour market policy arrangements and towards a UK-style approach, as part of the Anglicisation of their growth models more generally. Germany now spends little on retraining for the long-term unemployed, as skills policy has become more dominated by the short-termist perspective of employers (Heyes, 2012). Germany now commits more resources to short-term training programmes – not dissimilar to those offered as part of job-acquisition services in the UK (Bonoli, 2012).

The international evidence on whether increased investment in training programmes is an effective response to economic downturns is mixed. Some studies suggest that the opportunity cost of training programmes is lower during recessions, as participants are less likely to be in work if they were not in training (Wilson, 2013). Similarly, Bonoli argues that training is more effective when unemployment is higher, because individuals with higher cognitive ability who



would otherwise be in employment are available for vocational training (2012: 10-11). Evidence from the Swedish 1990s recession, however, suggests it is more difficult to design programmes to meet future labour demand during a downturn (Wilson, 2013). Neil Gilbert and Douglas Besharov (2011: 302) argue that training people during a recession is an important part of ensuring future productivity gains – the UK's sluggish productivity growth, apparent despite the strong recovery in overall growth throughout 2013, adds weight to this perspective (see Berry, 2013: 20). The Labour government had hugely increased investment in training after 2008 through Train to Gain (TtG), initially established in 2006 by the LSC (and abolished by the coalition government). TtG subsidised employers' expenditure on training, although there is (unsurprising) evidence of limited employer engagement and demand, including from a National Audit Office (NAO) inquiry. Demand increased after eligibility was widened in 2008, but it is likely that this simply increased the deadweight costs associated with the scheme (NAO, 2009; Lanning & Lawton, 2012). Of course, the longer-term impacts of the scheme have not been thoroughly assessed. The Welsh government (through ReACT) has used its own funds to maintain elements of TtG, with support focused on training subsidies for individuals made redundant as they take up new jobs.

The UK's weakness in vocational training is typified by the limited and almost *ad hoc* apprenticeships available for young people (Heyes, 2012). There is only skeletal national framework for apprenticeships. They are afflicted by low educational content (often with little or no training away from normal work duties) and limited employer engagement (with SSCs responsible for defining quality frameworks at the sector-level). Often apprenticeships simply accredit skills already being demonstrated by existing employees and lead to only low-skilled positions, and the qualifications that arise have limited currency in the wider labour market (especially in the services sector, where there is no tradition of apprenticeship pathways) (Dolphin *et al.* 2013; Jones, 2013). The National Apprenticeship Service (established in 2008) disseminates information about apprenticeships and co-ordinates their funding, but does not appear to accredit schemes or determine strategic priorities. Since the recession higher subsidies have been available for apprenticeships in health and social care in the UK (OECD, 2010: 54) – but Katy Jones' (2013) study of apprenticeships in social care demonstrates the poor quality of these opportunities. We know that the supply of apprenticeships by employers is failing to keep pace with demand, with far more applicants than vacancies. Furthermore, apprenticeships are now less likely to be offered to young people: between 2009/10 and 2012/13, there was a promising 40 per cent rise in people aged 19-24 in apprenticeships, yet a 300 per cent rise in the number of people aged 25 or over in apprenticeships (suggesting that these apprenticeships are being used by employers to merely accredit the skills of existing employees), and a reduction in the number of people aged 18 or under (Allen, 2014; Skills Funding Agency, 2014).

The UK experience stands in stark contrast to the German system, in which the design, provision and accreditation of apprenticeships is a key element of the wider vocational training system, overseen by corporatist arrangements. However, despite government efforts to protect apprenticeships, and evidence of the success of apprenticeships in preventing youth unemployment, German employers withdrew a sizeable portion of their financial support when negotiating the three-year national 'training pact' in 2009 (Heyes, 2012; Thompson, 2013).

#### *Incentives and subsidies*

Active labour market policy interventions throughout Europe incorporate various forms of employment subsidies; principally to hire new employees, but also to subsidise the cost of employing existing employees. Hiring subsidies may be made available in the private, voluntary or public sectors (although the direct creation of jobs in the public sector by governments is also a form of subsidy). Hiring subsidies in the private and voluntary sector may take the form of unpaid work, while participants are still able to claim out-of-work benefits, or paid work with wages funded wholly (gross) or partially (marginal) by the state. Partial hiring or retention subsidies may be offered by reducing employers' social security costs, and many countries offer financial support for unemployed people to become self-employed. Finally, wage supplements offered to individuals directly through the benefit system – such as the UK's tax credit system – can be conceived broadly as a form of wage subsidy (although they are not discussed in this sub-section).

Evidence, including from the UK, suggests that hiring subsidies are more effective, in terms of employment outcomes, in the private rather than public or voluntary sector (Dorsett, 2006). Yet the public and voluntary sectors tend to be over-represented in hiring subsidy schemes – meaning that subsidised jobs are less likely to lead to sustainable employment outcomes (the so-called ‘ghettoisation’ effect of public and voluntary sector hiring subsidies). A 1990s subsidy scheme in Denmark placed fifteen participants in public sector jobs for every one in the private sector (Gilbert & Besharov, 2011: 300). This is partly due to a ‘drift’ away from private sector placements throughout the life of schemes, as the most employable participants are ‘creamed’ earliest. It also highlights, however, the importance of economic context and labour market conditions: in a growing economy, private sector employers do not desire subsidised workers, and in a buoyant labour market, the most employable unemployed people are usually able to find non-subsidised work. This is one of the reasons that subsidies targeted on the most disadvantaged groups – who face structural barriers to employment irrespective of current labour market conditions – have tended to show the most significant positive, long-term employment outcomes (Gilbert & Besharov, 2011: 299).

Hiring subsidies in the private sector, however, run the risk not only of deadweight costs (subsidising new jobs that would have been created anyway) – like all active labour market policy interventions – but also substitution and displacement effects. Subsidised workers may be replacing non-subsidised workers, making the employment impact neutral; for this reason, employment subsidy schemes are very difficult to administer, given the checks required to ensure subsidised jobs are genuinely new. Alternatively, firms with subsidised workers may gain a competitive advantage over those without subsidised workers, therefore simply creating unemployment elsewhere to counter-balance the new subsidised jobs (Arranz *et al.* 2013).

As noted above, the New Deal in the UK incorporated subsidised jobs, in the private, voluntary or public sector. Economic conditions meant they were used only sparingly, and predominantly in the public and voluntary sector, for the least employable New Deal participants. Hiring subsidies had in fact been employed by the Conservative government in the mid-1990s, through the Workstart pilot schemes for those unemployed for more than two years – with little or no positive impact on employment. The StepUp programme, which ran from 2002 to 2004, provided a subsidised job for a year to people for whom the New Deal had failed (Dolphin *et al.* 2011; Gilbert & Besharov, 2011). Hiring subsidies were re-introduced by the Labour government after 2008 in the form of the Future Jobs Fund (FJF), available to people aged 18-24 who had been unemployed for more than six months, and some older people in areas with high unemployment. The FJF offered a subsidised job for six months, of at least 25 hours per week, paid at the national minimum wage (with a maximum government contribution of £6,500 per job). Crucially, subsidised jobs had to demonstrate a ‘community benefit’. Qualitative studies of the FJF demonstrate positive results, both in terms of participants’ experience and employers’ attitudes towards young unemployed people (even if the scheme did not result in formal employment for the participant). In terms of employment outcomes, 43 per cent of participants obtained a job via the FJF, usually with the same employer. It is estimated that around half of these would still be in the same job a year later. However, the FJF was heavily focused on the public and voluntary sector – partly by design, as public and voluntary sector employers were more able to demonstrate the community benefit of subsidised posts (Fishwick *et al.*, 2011). It is worth noting that some local authorities in the UK have recreated elements of the FJF following its abolition by the coalition government, most notably Wales, Glasgow and Birmingham.

Many countries of course routinely subsidise jobs for unemployed people. A study of marginal subsidies in the late 1990s and early 2000s in Finland found very positive results, with limited substitution and displacement. However, firms receiving the subsidy had to guarantee a permanent contract at the end of the subsidy period for the participant, and the subsidy generally covered only one-third of wage costs (there is local discretion over the level and duration of subsidies). Subsidised posts were generally very low-skilled jobs (Kangasharju, 2007). It seems likely that the absence of substitution and displacement effects is counter-balanced by very large deadweight effects (although this is not reported in the study) as firms are offered a small subsidy – in order to counter the risk of taking on less employable individuals – for jobs that would have been created anyway, as they are in similar non-subsidised firms. Gross subsidies

in Sweden, which spends more than any other European country on employment incentives (around 0.5 per cent of GDP), also show positive results, in terms of employment outcomes. After a six-month subsidy, participants were 15 per cent more likely to be in employment than non-participants (Bonoli, 2012: 14-15).

The evidence base, however, is rather mixed. An evaluation of a hiring subsidy in Germany which operated from 1998 to 2003 compared outcomes between both participants and non-participants in general, and also participants and non-participants with a similar labour market record as participants who obtained a non-subsidised job during the same period. The German scheme was similar to the Finnish model, with local discretion of the level and duration of subsidies (a typical subsidy was 50 per cent of salary costs for a year) and a requirement for employers to retain participants post-subsidy. Compared to non-participants, employment and earnings outcomes were very positive (assessed three years after the subsidy), but compared to non-participants that had found a non-subsidised job, there was little difference in outcomes (Jaenichen & Stephan, 2011).

Many European countries have introduced or strengthened subsidies in response to the recession (generally gross rather than marginal subsidies). Many others have reduced employers' social security costs, for either recruitment of new workers or retention of existing workers. The OECD reports that the impact and cost-effectiveness of the latter are meagre, and are best used at the height of recession as a stimulus for employment recovery (although there is a stronger argument for maintaining these schemes for the most disadvantaged groups irrespective of labour market conditions). In terms of subsidies, there has been a general drift towards supporting the general unemployed population rather than focusing on the groups furthest from the labour market. It is unusual for gross rather than marginal subsidies to be used in these circumstances, although the OECD (albeit with little evidence) approves of this change insofar as it helps to create the conditions for a job-rich recovery, mitigating against the hysteresis effect that recessions tend to produce due to skills deterioration. The OECD warns, however, about the potential inequity of long-term subsidies for otherwise employable individuals who are likely to find work as the economy recovers anyway (OECD, 2010: 47-48, 77-82).

One of the principal policy responses across Europe to the rise in unemployment associated with the economic downturn was 'short-time work', which enabled employers to reduce the working hours of new or existing staff. Short-time work is not a conventional active labour market policy, although can be seen as part of a broader supply-side employment strategy as it involves deregulation of labour market protections. Many short-time work schemes were already in place before the recession, alongside compulsory or publicly-subsidised training for participating employees, but have seen a much greater take-up in recent years (OECD, 2010: 50-52). The increased prevalence of short-time work schemes is worth noting because their use probably helps to explain why few countries have increased marginal hiring subsidies in response to the recession; reducing working hours is a less expensive form of employment incentive for the general unemployed population (or more accurately, those at risk of unemployment) than marginal subsidies, yet gross subsidies have been retained for the most disadvantaged groups (albeit often with wider eligibility). However, in Germany, short-time work has been made more available alongside marginal employment subsidies as Germany sought to promote the creation of new part-time jobs (with precise arrangements determined at sector level through corporatist mechanisms). This represents the so-called and seemingly unique 'German answer' to the European jobs crisis. The measure has, however, been 'abused', according to Karl Brenke, Ulf Rinne and Klaus Zimmerman (2013), as there has been a significant rise in short-time working in industries unaffected by the recession, exacerbating the Anglicisation of the German labour market. Jason Heyes (2012) reports that very few short-time posts created since the recession encompass training opportunities.

In the late 1990s Denmark moved towards subsidies for disabled people in mainstream employment, and away from sheltered jobs in secondary labour markets. 'Flex jobs' are accompanied by a subsidy of a half or two-thirds of salary costs. Evaluations suggest very limited deadweight costs, and a high probability of flex jobs leading to permanent employment

(Etherington & Ingold, 2012). The UK actually introduced greater support for unemployed disabled people in 2006, which included a subsidy in the form of an earnings supplement paid directly to individuals for a year. Only 13 per cent of Pathways to Work participants took up the subsidy (in contrast, around 70 per cent of disabled employees in Denmark are in flex jobs), and the programme – which also included the provision of sheltered jobs – was absorbed into the Work Programme by the coalition government (Etherington & Ingold, 2012). There remain some conventional employment subsidies available for young disabled people in the UK through Work Choice.

## 5. The coalition government's approach

This section looks briefly at the evolution of UK active labour market policy evident under the Conservative/Liberal Democrat coalition government. In general, the coalition government has reinforced existing practices in this policy area, abandoning the changes put in place by Labour during the recession (although these changes should not be exaggerated).

The most important aspect of coalition policy in this area is the Work Programme. After a year in receipt of JSA, or nine months for those aged 18-24, employment support for unemployed people is handed over to Work Programme providers (some people classified as economically inactive are also eligible to enter the programme). These providers are private companies commissioned centrally by DWP, although provision is organised regionally rather than nationally; the Work Programme therefore establishes a strict divide between Jobcentre Plus support for the newly unemployed, and privatised provision for the long-term unemployed.

Work Programme providers focus almost exclusively on job-search services, and related services such as training in job-acquisition skills. Given that the Work Programme is delivered entirely by private contractors, issues around commercial confidentiality mean it is difficult to gain a comprehensive picture of the kinds of support available to Work Programme participants; the system is based on a 'black box' whereby DWP funds providers to deliver whatever forms of support providers deem effective – they are paid (largely) by results, irrespective of methods. However, we can be reasonably certain that job-search and related services dominate the Work Programme, partly because of the limiting funding made available by the coalition government and partly, as Steve Fothergill remarks, because of the 'tell-tale sign' of the small volume of work sub-contracted to specialist providers (2013: 63). The government's expectation was that primary contractors would sub-contract the provision of support for the most difficult cases to specialist providers, although there is little evidence this has come to pass. This almost certainly indicates large-scale 'creaming' whereby providers with very large numbers of participants in their schemes are able to make profit simply by helping the most employable individuals into work, and 'parking' the most difficult cases. Ian Mulheirn (2011), the former director of the Social Market Foundation and one of the architects of the Work Programme model, had also warned, before the policy was implemented, that the financial model would prove unviable for smaller, specialist providers due to the outcome risk they would be asked to shoulder.

In general, the payment-by-results model incentivises creaming, and hinders up-front investment by providers in more intense forms of support (Dolphin *et al.* 2011). Crucially, the 'result' is not simply the acquisition of a job by a participant; full payment depends on employment being maintained for a year in most cases. However, it does not depend on a single position being sustained for twelve months; as noted above, providers can obtain full payment by placing participants in several temporary jobs over the course of a year. Furthermore, it does not depend on any considerations around levels of pay or job quality. Despite the coalition criticism of the Flexible New Deal, payment-by-results is the only major aspect of the Work Programme that differs substantially from the approach adopted by their predecessor in 2007, which also encompassed a larger role for private contractors, a 'black box' approach to services and a lower level of funding (O'Brien, 2010). Indeed, the similarities faded even further when, on the eve of implementation, the financial model for Work Programme was altered to enable partial payments to providers up-front.

In the first two years of operation, the Work Programme has performed below expectations. The measure devised by the Centre for Economic and Social Inclusion (CESI), based on participants obtaining employment for a year, shows the programme has performed consistently below a minimum performance level (that is, an estimation of the deadweight level). Performance has improved since 2011, but CESI argues that it plateaued in 2013. CESI suggests that this is due to the sluggish nature of the recovery, with fewer jobs being created (CESI, 2013). However, it seems more likely that the opposite is true. UK employment growth actually improved *more* when overall growth ‘flat-lined’ during the coalition government’s first two years in office, and slowed as growth returned to the economy in general (Berry, 2013: 18). As such, the poor performance of the Work Programme is probably due to the capacity of the UK economy to produce a relative abundance of low-paid jobs for the most employable individuals, despite sluggish growth, meaning that Work Programme caseloads contain more challenging clients than originally envisaged. Crucially, while the unemployment rate has fallen, the UK has also experienced unusually strong population growth since the recession, largely due to immigration, reducing the need for employers to create opportunities for the most disadvantaged jobseekers.

Although the coalition government has sought to modify the provision of means-tested benefits by introducing Universal Credit, the provision of tax credits to supplement low wages remains an enduring feature of the UK labour market. Despite the imposition of a cap on indexation, the remarkable stagnation in earnings levels, discussed in the first section, means that the tax credit bill is much higher than the coalition government expected, and is one of the reasons for the failure of its deficit reduction timetable (Cooke, 2013).

The coalition government has sought to utilise more conventional employment subsidies. The Youth Contract encompasses marginal subsidies for unemployed 18-24 year-olds; it is not intended that new jobs will be created, but rather that the subsidies will make young applicants more attractive to employers. Initially available only to Work Programme participants, it was subsequently expanded to all young people that has been claiming JSA for more than six months. The programme has suffered from extremely low take-up rates, with less than 5,000 placements made, from 160,000 available, in the first year of its operation (DWP, 2013). The limited funding available via the Youth Contract, and negative publicity about the opportunities created by the programme, helps to explain this failure. But so too does the structural barrier that young people face in obtaining work in the services sector. The 2013 Autumn Statement also announced a reduction in employer National Insurance contributions relating to employees aged under 21, and the government has also offered greater support for people in receipt of out-of-work benefits to become self-employed, through the New Enterprise Allowance (which essentially continues JSA payments for the first six months of self-employment) and start-up loans of around £5,000, offered on commercial terms. Ian Brinkley and Naomi Clayton (2011) of the Work Foundation have, however, been highly critical of the New Enterprise Allowance. Most subsidised entrepreneurs will enter industries with very low barriers to entry – where margins for existing businesses are extremely tight, meaning the subsidy carries a significant risk of displacement. These sectors also have very high failure rates, and there is little evidence that a brief experience of self-employment improves individuals’ employability more generally. There is therefore ‘a great risk of swapping one form of precarious, low income existence for another with no long-term benefit’ (2011: 49).

In 2011, the coalition also introduced Mandatory Work Activity (MWA) for JSA claimants, in advance of the Work Programme, which primarily consist of four-week work placements of up to 30 hours per week (delivered by private contractors). The scheme became notorious when one claimant, Cait Reilly, took legal action against the government for incorrectly compelling her to undertake an unpaid work placement in Poundland (BBC, 2013). Clearly, MWA has more to do with increasing benefit conditionality than improving employability. Incredibly, in the first year of MWA, 46 of those referred to the programme by Jobcentre Plus either gave up JSA voluntarily as a result, or had it removed when they failed to complete their placement (DWP, 2012). Furthermore, Freedom of Information requests by campaign group Boycott Welfare showed that 62 per cent of local authorities (of the 271 respondents) were using government unpaid work schemes, principally MWA – despite clear evidence that employment subsidies in the public sector represent poor value-for-money, as discussed in the previous section (Malik,

2014). In this sense, the welfare-to-work agenda can be located, perhaps inadvertently, in the wider context of austerity politics, as the government cuts funding for local authorities but at the same time offers councils a stream of unpaid workers through benefit conditionality. The coalition also announced plans to introduce its Help to Work (HTW) scheme – for benefit claimants that failed to find a job through the Work Programme. Through HTW, people who have been unemployed for around three years will lose JSA unless they agree to a six-month ‘community work placement’, attend a JCP site every day to report on jobseeking activity, or enter an intensive JCP engagement programme.

In terms of training, the coalition government abolished the TtG programme, replacing it with Skills for Growth, with approximately 5 per cent of TtG’s funding. Despite little evidence of employer appetite to upskill their workforces, the government believe employers are best placed to determine how to meet skills needs. Tess Lanning and Kayte Lawton argue that ‘policy documents reveal little understanding of why employers do not train or how to improve employer commitment to skills policy and funding’ (2012: 3). In general, coalition policy reflects an acceptance of the hollowing out of the UK labour market, and as such has reduced incentives for poorer young people to obtain intermediate and high skills. The government has scrapped the Educational Maintenance Allowance (EMA) which covered living costs mainly for 16 and 17 year-olds undertaking vocational education in further education colleges, and radically increased fees for higher education courses. The EMA has been partly replaced by a bursary for the very poorest students, paid to colleges rather than the individual, and the government intends to relax the maximum number of studying hours permissible for 16 and 17 year-old JSA claimants undertaking unpaid traineeships.

As important as the specific programmes is the skills infrastructure around training initiatives. The government’s abolition of RDAs demonstrates its apparent lack of interest in active industrial policy (although we should not exaggerate the role that RDAs played under the Labour government, and there is in fact some evidence of an increased commitment to activist industrial policy within the Department for Business Innovation and Skills under Vince Cable (see Craig, 2013)). They have suggested that the ‘black box’ approach of the Work Programme is sufficient to ensure the integration of skills policy and employment support, having abandoned the Leitch Review ambition to integrate these two policy areas more systematically (albeit via a highly flawed demand-led skills development approach).<sup>20</sup> RDAs have been partially replaced by Local Economic Partnerships, public/private partnerships organised primarily by coalitions of local authorities on a city-region basis. They are overseen directly by the Department for Communities and Local Government, and have few powers and very limited resources.

## 6. Towards a new approach

Those attempting to reform UK active labour market policy are confronted with an immediate dilemma: minor reforms to modify (or strengthen) the existing policy framework will be easier to implement, but offer the possibility of only moderate improvements in outcomes. On the other hand, more radical reforms may have a transformative impact on the labour market, but may carry greater risks (and higher costs), and in fact require further, complementary economic reforms to ensure their suitability. Active labour market policy does not function in isolation from wider social and economic practices, and radical reform therefore must be associated with, in crude terms, the adoption of a demand-side strategy for employment through industrial policy – an approach which would flow into policy on skills, education, investment and employment support. The two sides of this dilemma offer different answers to the question of whether we need active labour market policy at all. Ostensibly, the existing framework is useful insofar as it smooths the function of the labour market, shortening periods of unemployment. It may also improve the prospect of finding work for the most disadvantaged groups. Although these features would remain present under an approach in which supply-side and demand-side interventions were more co-ordinated, active labour market policy would be most useful insofar as it helped to engender the skilled workforce required by ‘high road’ economic development.

This section discusses both types of reform. Neither is privileged: while it has been argued here that the existing approach exemplifies a flawed (and failed) growth model, we should not under-estimate the potential pitfalls and transitional costs of an alternative approach. In large part, prescriptions will vary depending on diagnoses of the problem that needs to be fixed: unemployment in general, youth unemployment, precarious, poor quality and low-paid employment, or wider economic problems. The benefit to individual livelihoods and well-being of producing more and better jobs in the short-term, albeit within the existing growth model, should not be dismissed. The section therefore also discusses issues around the funding and cost-effectiveness of active labour market policy.

#### *Improving the existing system*

The most obvious reforms required to UK active labour market policy concern the design of the Work Programme. Firstly, the sub-contracting model is clearly flawed. Private companies with large contracts have little incentive to enter into arrangements with specialist service providers, and the latter cannot deliver the more intense forms of support required in more challenging cases based on second-hand payment-by-results. Specialist services should be commissioned or delivered directly by the state, with alternative funding arrangements. The Work Programme suffers from the more general problem of lower budget allocations under the coalition government, influenced by an unsupported view of private sector efficiency and inaccurate characterisations of the Labour government as profligate and statist.

Furthermore, and secondly, it seems unlikely that job-search and related services can be delivered privately, especially with a 'black box' approach, without endemic creaming and parking. Large contracts create opportunities for economies of scale, but offer providers opportunities to make profits (other things being equal) while creaming the most employable participants. This problem is exacerbated by limited up-front funding. As noted above, however, views on the acceptability of creaming may depend on views about the problem active labour market policy is trying to solve. Creaming does of course mean that many individuals are placed into employment relatively quickly, and their greater employability means they are probably more likely to maintain employment. It also means significant deadweight, but at a lower overall cost to taxpayers. Creaming is a substantial flaw, however, if the objective is to minimise deadweight and provide employment opportunities for people with greater barriers to formal employment.

Giuliano Bonoli argues that job-search services should focus not simply on job-acquisition, but also enabling participants to develop professional networks; exclusion from such networks is one of the structural barriers to employment in the services sector seemingly faced by today's young people (2012: 18). This approach would dictate a substantial localisation of job-search services. Currently, most local authorities have an extremely limited role in UK active labour market policy, yet there is a strong rationale for DWP and Jobcentre Plus co-ordinating or jointly delivering services with local authorities. Crucially, local authorities' links with local schools and local employers, and public procurement activities, could be levered to support services. Active labour market policy is delivered primarily by local agencies in many European countries, although this is usually based on much greater involvement of both employers and trade unions. However, Canada's Labour Market Agreements (which operate at the regional level) embody the approach outlined here. Localisation may, to some extent, make services more efficient, but this approach would be problematic if it required increased investment in job-search services by local authorities without additional funding – it could, for instance, lead to funds unhelpfully being taken away from local skills or economic development budgets.

Debates on service delivery usually centre, understandably, on the relative merits of national and local, or public sector and private sector. Amy Tarr (2011), however, advocates greater personalisation of employment support budgets, based on the success of the Netherlands in this regard. Arguably the complex barriers to employment for many people are best understood by individuals themselves. The Netherlands' operates separate employment support services at local and national levels. Under Personal Reintegration Budgets (PRBs) at the local level,

individuals are able to submit self-designed support plans to the provider, with a caseworker's assistance. The local authority recoups any of the budget allocated that has not been spent by the time the participant enters employment. National services are outsourced to private contractors (with 50 per cent of payments determined by results), but under Individual Reintegration Agreements (IRAs) individuals are able to select which provider they would like to work with. Both programmes demonstrate greater success than traditional approaches to budgetary control, but are also generally more expensive. There is strong evidence of customisation and innovation, especially at the national level. This is one of the reasons that costs associated with disabled participants were actually lower as a result of personalisation.

Labour, in opposition, has advocated re-introducing a hiring subsidy through the Compulsory Jobs Guarantee. People claiming JSA for more than two years (or one year if aged under 25) would be guaranteed, and compelled to accept, a subsidised job, which would pay at least the minimum wage for 25 hours per week, and include training of at least ten hours per week. As suggested by the discussion above, the threat of sanctions will have little effect, other than convincing some people to forgo claiming out-of-work benefits. Generally speaking, employment subsidies improve individuals' employability, in improving soft skills and work experience, and preventing skills deterioration for the newly unemployed. However, they also tend to be more cost-effective when targeted at the most disadvantaged groups. Of course, the individuals who would become eligible for the subsidy under Labour's plan, the long-term unemployed, are generally synonymous with the most disadvantaged groups. The requirement for subsidised jobs to encompass training is understandable, as an attempt to prevent jobseekers cycling between unemployment and poor quality or precarious jobs. However, the available evidence suggests that the groups implicitly targeted by Labour's plan are those for whom training schemes will be least effective. Training is more likely to be effective in helping those who are able to find non-subsidised jobs, to find better jobs. The German experience, noted above, where subsidised jobs were no more likely to lead to sustained employment for participants than non-subsidised jobs, suggests that, for this group, more time should be available for searching for a job, rather than or as well as training. This logic probably applies less, however, to young people – the UK's poor vocational pathways means they may benefit more, at the beginning of their career, from the training opportunities offered under this approach.

Although not ostensibly an active labour market policy intervention, a higher national minimum wage (NMW) may be an effective way of increasing levels of pay, consistent with the existing framework of active labour market policy in the UK. Indeed, the coalition government has recently suggested raising the NMW (although they have no formal power to set the NMW), and Labour advocates a stronger role for the (higher) living wage in setting rates of pay. One complication is the accompanying youth rates of the NMW. There is no evidence that the NMW youth rates lead to higher youth unemployment – in fact, the employment rate among young people increases when they reach the adult rate at age 21 (especially low-skilled individuals). However, this fact highlights the underlying problem with any NMW policy: in increasing wages, they act as a work incentive, which may mean young people are attracted away from education or training at 18 or 21, and into jobs which offer a short-term income boost, but may not be sustainable in the long-term. This is precisely what happened during Spain's construction boom in the 2000s, and helps to explain Spain's substantial youth unemployment problem. Allowing wage levels to be determined via corporatist arrangements at the sectoral level, alongside training provision, mitigates against this problem – but the UK lacks the collective bargaining mechanisms to enable such an approach. Furthermore, while NMW youth rates in the UK do not cause youth unemployment, they do appear to prevent firms taking on apprentices, as wage levels for apprentices are too high to justify additional, simultaneous expenditure on training. It remains to be seen, however, whether the new apprentice rate for the NMW (in England) will address this problem (see Thompson, 2013).

#### *Beyond active labour market policy*

Active labour market policy typifies a supply-side strategy to employment, but a focus on the supply-side alone will not address the UK's labour market problems. The UK economy produces



a relative abundance of jobs, albeit increasingly low-paid, low-skilled and precarious jobs. Many people cycle between employment and unemployment, and a small but significant minority face structural barriers in seeking employment, exacerbated by the poor quality of the opportunities available at the 'bottom end' of the labour market. Arguably, the current economic environment, in which the economy is growing strongly but many individuals are 'left behind' due to low pay and under-employment (and chronic unemployment for some groups), creates the political space for a more radical approach.

The call to 'upskill' the UK workforce through training (and retraining), is common among those hoping to instil a more progressive approach to active labour market policy. Labour's plan to offer extensive training to Compulsory Jobs Guarantee participants, and the additional funding they made available in government for subsidising employer training schemes during the recession, were noted above. Graeme Cooke (2013) of IPPR, in outlining his plan for replacing out-of-work benefits for 18-24 year-olds with a 'youth allowance', argues that far greater training opportunities should be available to unemployed young people. Although ostensibly inspired by the Dutch and Danish benefits systems, which have very limited conditionality for young claimants (on the basis that young people should be encouraged to complete education or training before being compelled to find work), Cooke's youth allowance would largely replicate the JSA sanctions regime. However, it would abolish restrictions on how much time can be spent in further education or training for 18-24 year-olds, and indeed allow either 'purposeful training' or job-seeking as legitimate activities in return for benefit receipt.

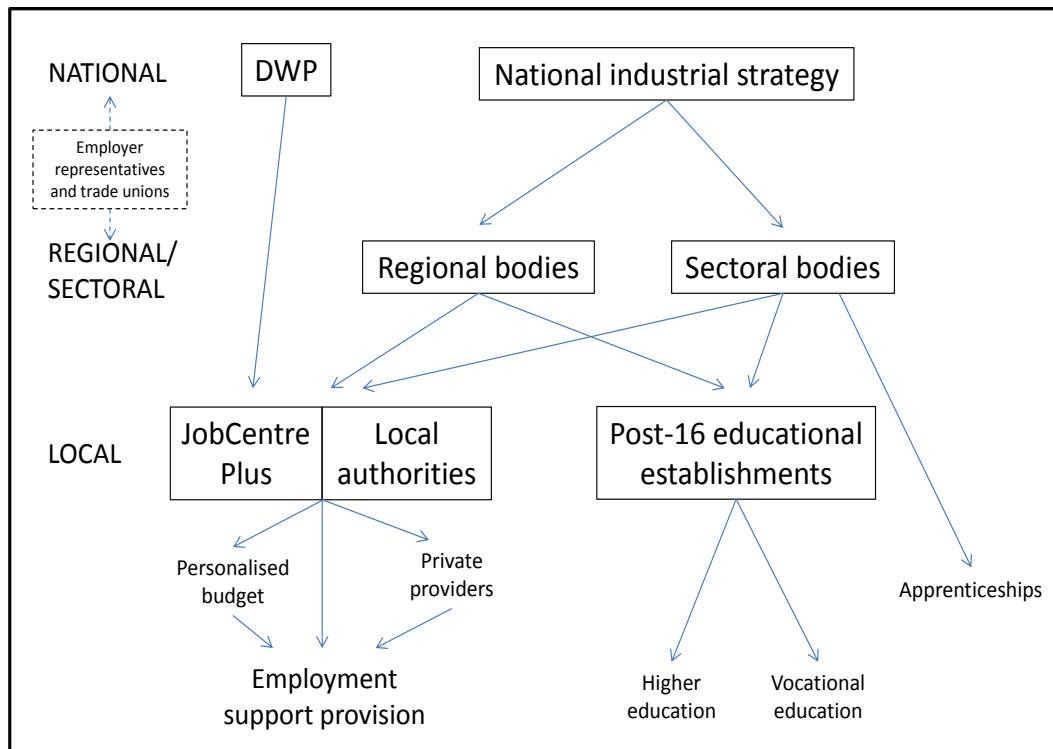
Around 700,000 young people would therefore become newly eligible for out-of-work benefits, that is, those currently excluded due to undertaking substantial training or further education. The youth allowance would support them to complete their training, as well as enabling others to upskill. The youth allowance is, in part, a reinstatement of the EMA, albeit probably at a higher rate. To fund this additional support, Cooke suggests means-testing the youth allowance based on parental income for those aged under 21, based on the assumption that most in this group will be living with their parents. There are two major problems with Cooke's plan. Firstly, any training initiatives linked to the receipt of out-of-work benefits will be hampered by the UK's low claimant rate, which is especially evident among young people. The fact that full-time training, in addition to job-seeking, enables participants to satisfy benefit conditions may mitigate against this problem. However, the fact that the allowance would be means-tested will encourage many not to take it up (it could of course operate without the means-test, at a higher cost to the state).

Secondly, Cooke's plan is, like many demands for investment into training or retraining, ambiguous regarding the actual content of training schemes, that is, what it is that youth allowance claimants should be trained to do. The efficacy of training depends on sufficient high-skilled jobs being available, yet the UK already has a significant skills under-utilisation problem, exacerbated by lack of strategic oversight regarding the educational choices individuals make. Training is, in isolation, a supply-side intervention, when there is already an over-supply of skills.

Upskilling interventions clearly need to be taken more strategically, with broad priorities and funding for active labour market policy determined by public bodies focused on skills development, operating at both regional and sectoral levels. These bodies would shape the training content of localised employment support delivered by Jobcentre Plus and local authorities, who would be able to determine jointly how support is delivered. This policy delivery infrastructure already exists, to some extent, as discussed above, but clearly would need to be significantly strengthened. RDAs, which both directly funded some industrial policy interventions and, more generally, sought to co-ordinate economic regeneration efforts, could be reinstated – but would need greater powers and funding. A stronger demand-side employment policy, however, would remain dependent on a national-level industrial policy strategy, with higher levels of public investment, which would determine the level of funding afforded and strategic priorities for the regional and sectoral bodies (although some regional funding would be untied). Figure 9 shows a highly stylised outline of how institutions could work together to deliver employment support and vocational education to deliver a radical approach to active labour market policy. Delivering high-quality apprenticeships for young people would be at the heart of this strategy, with an employer-led approach to providing apprenticeships eschewed. While employment subsidies,

discussed above, may be useful in some circumstances, in general subsidy expenditure should be used to support apprenticeships so that young people are offered training before they enter long-term unemployment. In fact, Graeme Cooke (2013) also recommends a 'youth levy': a financial penalty for those firms (above a certain size) that fail to offer good apprenticeships.

**[9] Institutional framework for delivery of radical active labour market policy**



The notion that UK active labour market policy fails to engage actual employers appears to have become part of the conventional wisdom on employment among policy-makers. It is, to some extent, inaccurate, with current skills policy designed to be employer-led. Insofar as employers are disengaged from active labour market policy in general, it is due to reluctance of employers to invest in upskilling, rather than a failing of policy-making structures. The notion reflects a quintessential employment dilemma for UK policy-makers, between accepting the labour market status quo – with high employment, but too many poor quality jobs – and encouraging employers to adopt new business models. If the objective is to improve the existing framework of active labour market policy, greater employer engagement will make only a marginal difference. If the objective is more radical reform, employer engagement will be crucial, on the basis of modifying the incentive structures around business strategies through higher levels of public investment in industrial policy (although not discussed in this paper, banking sector reform would also be required to ensure finance for 'high road' business models is readily available). Crudely, the UK cannot import elements of the German or Scandinavian labour markets without importing elements of these countries' wider economic statecraft.

The role of trade unions will be vital too; trade unions should be engaged in active labour market policy, alongside employers, at local, regional, sectoral and national levels – co-opting employees' own interest in personal development to deliver more effect supply-side interventions. Corporatist mechanisms are paramount to ensuring that active labour market policy is focused on issues of job quality and in-work progression, not simply initial employability. The influence

of trade unions in strategic decisions around employment and industrial policy is generally associated with higher levels of employment protection; the UK has a relatively unregulated labour market, and therefore fewer incentives for employers and government to involve trade unions in policy-making, and fewer incentives for trade unions to negotiate at these levels. The impact of employment protection on European labour markets is not straightforward. In terms of young people, for instance, it is logical to assume that an unregulated labour market accelerates labour churn, and therefore creates employment opportunities for young people. However, strong employment protection tends to increase the duration and quality of young people's early jobs, and incentivises employers to invest in training as it is more difficult to dismiss workers. Strong employer protection *does* represent a barrier for those without good vocational education, but conversely, high-quality vocational education mitigates against the problem of fewer vacancies being created by improving job-matching (Thompson, 2013). Employers benefiting from subsidised employees (or apprentices) should be required to offer a longer-term contract to participants when the subsidy period ends.

#### *Cost-effectiveness and approaches to funding*

Value-for-money assessments of active labour market policy in the UK tend to show that job-search and related services are highly cost-effective. However, there are reasons to believe that financial evaluations of interventions in this area are flawed. Determining success in terms of individuals finding a job by the end of a particular scheme is clearly too narrow, and marginalises concerns about the sustainability of employment, pay, and in-work progression. It also overlooks the status of non-participants. Furthermore, the notion of assessing the cost-effectiveness of active labour market policy needs to be seen in the context of the wider strategy for economic growth of which it is constitutive. It may be useful, therefore, to look at overall economic gains from alternative approaches to active labour market policy. The UK's focus on job-search and related services may be effective at placing people into employment, but also helped to facilitate a low-paid workforce and 'low road' business models, which have contributed to deepening socio-economic inequalities, high benefit expenditure on tax credits, and ultimately the recent recession and several years of economic stagnation (Hay, 2013). Minor reforms to the existing framework may cost less in immediate terms, but marginalising the demand-side of employment clearly has wider economic costs.

Clearly, value-for-money assessments need to become more sophisticated. This means, firstly, considering impacts over a longer time-frame. Secondly, outcomes should be assessed in terms of the labour market conditions of an entire local area, including levels of pay and benefit expenditure as well as unemployment. Thirdly, assessments of active labour market policy initiatives (particularly training) must take greater account of wider economic circumstances: programmes should not be considered unsuccessful if they are, for instance, located in areas of low labour demand, or skills under-utilisation. Analysis by Lyndsey Macmillan (2012) for the Commission on Youth Unemployment (organised by the Association of Chief Executives of Voluntary Organisations (ACEVO) and chaired by David Miliband), found that youth unemployment in the UK cost the Exchequer £4.2 billion in benefit expenditure in 2012, plus £600 million in tax revenue that would have been captured had all young people been in work. The economy lost a further £10.7 billion in potential output due to unutilised workers. These costs are, hypothetically, replicated each year, but also magnified by the 'scarring' effect of youth unemployment, creating further costs of £700 million in benefit expenditure each year, £2.2 billion in tax foregone, and £6.3 billion in lost output. In terms of tax foregone and lost output, Macmillan's analysis is problematic, in that it assumes that sufficient jobs are available for young people to fill. On the other hand, Macmillan's analysis does not include the fiscal impact of low-pay, that is, the tax credit expenditure which buttresses the Anglo-liberal growth model.

Adopting a broader approach to cost-effectiveness may enable innovative funding approaches for active labour market policy. There is a strong case for the reduced benefit expenditure resulting (or expected) from successful active labour market policy interventions to be 'recycled' into more intense forms of employment support, including upskilling and employment subsidies for the most challenging cases. This should include tax credit savings, as well as

reduction in out-of-work benefit expenditure, resulting (or expected) from higher job quality. The Labour government actually experimented with a narrow version of this approach, in 'Employment Zones' established to offer more intense employment support services in areas of high unemployment. David Freud's 2007 review had actually recommended more expenditure recycling, although it has not been taken forward by the coalition government. The approach is of course problematised by the reality of work/welfare cycling, meaning that successful employment outcomes do not necessarily translate into long-term reductions in benefit expenditure. This approach would therefore require a wider transformation in employment policy, and may increase costs to the taxpayer in the short-term in order to achieve long-term fiscal efficiency. Benefit expenditure recycling, whether applied strictly or nominally, would be an important part of greater localisation in employment support. Local authorities must be enabled to reap the financial rewards of any investments they make into local labour markets. It also seems likely that localisation would enable greater devolution of budgetary control to the front line of policy delivery (Wilson & Gallagher, 2013).

Irrespective of achieving greater fiscal efficiency, higher levels of public investment into active labour market policy are justified, in combination with a strong demand-side strategy. The UK spends less than any comparable European country in this area, and comparatively little on all forms of other intervention other than job-search and related services. Of course, views on this depend on views on the objective of active labour market policy; significantly higher spending is probably not justified if the goal is merely low unemployment. But it is paramount if objectives include achieving better outcomes for those who face structural barriers to employment, creating higher-quality employment opportunities, and indeed rebalancing the economy to minimise the risk of future economic crises. The ACEVO commission suggest 'social impact bonds' to increase investment in active labour market policy interventions: providers would issue bonds for private investors to enable up-front investment in more intense services, and bondholders would be repaid as the providers collect revenue from government under a payments-by-results model. The model may provide an innovative source of finance for voluntary sector providers, for whom credit markets are less accessible. However, the commission offer no convincing justification of why social impact bonds would be preferable to investment funded directly by government borrowing. Government clearly benefits from lower borrowing costs than the private and voluntary sectors, and although social impact bonds would ostensibly transfer some of the performance risk from the state to providers, taxpayers would still shoulder the more intangible risk of positive employment outcomes *failing* to significantly reduce overall benefit expenditure due to work/welfare cycling and low pay.

The personalisation of employment support advocated by Amy Tarr could also give rise to an innovative funding approach. Currently, young people entering higher education are offered a loan by government to cover fees and living expenses. Similar schemes could be established for other forms of human capital investment, for young people not entering university. The endowment or loan could be invested in an approved list of activities or initiatives – including training, further education, setting up a business, etc. – and could be repaid once the investment delivers a return, as with student loans and income-based repayments.

## Conclusion

The UK spends comparatively little on active labour market policy. This may be somewhat surprising given then emphasis placed on a supply-side economic strategy, typified by attempts to improve employability at the micro-level, by UK policy-makers since the 1990s. However, this apparent anomaly reflects the fallacy of pursuing intense forms of employability improvements in the absence of a demand-side strategy geared towards improving job quality, transforming business models and ultimately rebalancing the economy. Faced with this dilemma, UK policy-makers have persistently opted to prioritise active labour market policy spending on job-search and related services. Generally speaking, unemployed people in the UK are supported (and, as part of a wider welfare-to-work pathology, *compelled*) to find any job, as quickly as they can. This

is a largely pro-cyclical strategy which performs well in buoyant labour market conditions, albeit based on a narrow view of cost-effectiveness.

Many countries across Europe have moved closer to this approach, in part inspired by its pre-crisis success in the UK. Despite the Labour government's flirtation with more intense forms of supply-side intervention in the wake of the financial crisis, the coalition government's approach represents the 'hyper-Anglicisation' of UK active labour market policy, as spending is reduced, the emphasis on job-search services is intensified, the private sector is contracted to deliver employment support services, and benefit conditionality is tightened.

Active labour market policy cannot be understood as simply a *response* to unemployment, or particular forms of unemployment. Equally, active labour market policy seemingly helps to facilitate and shape particular labour market practices. The development of active labour market policy in the UK is indelibly associated with the desire among policy-makers to create a 'flexible' workforce, arguably necessitated by the emergence of greater labour market volatility and the labour-intensity of new forms of employment, as the economy reoriented towards the services sector. As such, active labour market policy is constitutive of the wider model for economic growth that has prevailed in the UK in recent decades. 'Low road' business strategies create an abundance of low-paid and low-quality employment opportunities in the services sector; active labour market policy helps to create a workforce amenable to such opportunities. The partial Anglicisation active labour market policy across Europe therefore reflects the partial Anglicisation of European economies more generally.

This is not to suggest, however, that active labour market policy in the UK is effective, even judged on its own terms. It reflects an approach to economic statecraft that is seemingly successful at maintaining a high employment rate, but not able to dismantle acute barriers to employment for some groups, such as disabled people and the long-term unemployed and, perhaps most worryingly, young people. A low claimant rate for out-of-work benefits in the UK means that many in these groups do not in fact participate in employment support programmes. Furthermore, regional labour market inequalities appear endemic, and even 'headline' success in terms of the employment rate may be illusory insofar as it masks large-scale work/welfare cycling as jobs become increasingly precarious.

Improvements to the existing framework may be possible, on the basis of greater levels of public investment, and would help to partially repair the contradictions in the UK growth model. However, arguably the political space for a bolder approach in which supply-side interventions supplement a wider demand-side strategy now exists – precisely because the headline success of the labour market is not reflected in many people's actual experience of work. This approach would encompass a transformation of the growth model as well as the form of economic statecraft of which active labour market policy in its current form is constitutive.

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## Notes

1. ONS data, available at <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-287493>.
2. Eurostats data, available at [http://epp.eurostat.ec.europa.eu/portal/page/portal/employment\\_unemployment\\_ifs/data/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/data/main_tables).
3. OECD data, available at [http://www.oecd-ilibrary.org/employment/employment-and-labour-markets-key-tables-from-oecd\\_20752342](http://www.oecd-ilibrary.org/employment/employment-and-labour-markets-key-tables-from-oecd_20752342).
4. Eurostats data, available at [http://epp.eurostat.ec.europa.eu/portal/page/portal/employment\\_unemployment\\_ifs/data/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/data/main_tables).
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12. ONS data, available at <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-287493>.
13. Ibid.
14. Eurostats data, available at [http://epp.eurostat.ec.europa.eu/portal/page/portal/labour\\_market/labour\\_market\\_policy/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/labour_market_policy/main_tables). Data for Australia, Canada, Japan and United States is from the OECD, available at [http://www.oecd-ilibrary.org/employment/data/oecd-employment-and-labour-market-statistics\\_ifs-data-en;jsessionid=v1fgcumcs4ms.x-oecd-live-02](http://www.oecd-ilibrary.org/employment/data/oecd-employment-and-labour-market-statistics_ifs-data-en;jsessionid=v1fgcumcs4ms.x-oecd-live-02). It is worth noting that the OECD reports a higher level of expenditure than the European Commission for Italy, and a lower level of spending for Ireland.
15. Eurostats data, available at [http://epp.eurostat.ec.europa.eu/portal/page/portal/labour\\_market/labour\\_market\\_policy/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/labour_market_policy/main_tables).
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17. OECD data, available at <http://www.oecd.org/edu/eag.htm>.
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20. See CESI policy guide, available at <http://www.cesi.org.uk/keypolicy/integrating-employment-and-skills>.

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