

New Welfare Delivers More Jobs, But Are They Any Better?

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Summary

Much discussion of welfare state policy for people of working age centres on what might broadly be termed work-centred welfare or ‘new welfare’ (activation, social investment, pre-distribution) as opposed to traditional tax-and-spend. This paper reviews the background to this approach, notes that in practice (at least in times of real growth) work-centred approaches seem more successful in mobilising people into work than in reversing disappointing poverty and inequality trends, draws attention to exogenous factors (more intense international competition, falling wage share, the rising return to skill) bearing on these outcomes and presents some recent analysis. This suggests that stronger contractual rights, which do not receive so much attention in much new welfare debate also have a role to play in ensuring that the proceeds of social investment are shared more equitably.

Addressing the policy trilemma for working age welfare

The ‘Double Crisis’ of long-run pressures on the traditional model of the European welfare state and the more immediate economic crisis and subsequent stagnation have been extensively discussed elsewhere. In this paper I consider some possibilities for welfare state provision for people of working age, addressing issues of unemployment, low pay and limited opportunities in work. There is a separate and extensive debate about the more expensive areas of health and social care and pensions directed primarily at older people, and

about the impact of demographic shifts, family change, shifts in expectations and the extension of the private sector in this area.

What might be termed the left trilemma is particularly difficult in relation to working age welfare: the point that successful policy-making must be effective (deliver the promised benefits), electorally attractive (appeal to sufficient voters) and progressive (advance collective and inclusive ideas). This is a trilemma for progressives, since policies that meet two of these goals are likely to offend the third. The most difficult issue from a political viewpoint is that many voters reject inclusive policies that effectively embrace groups seen as undeserving. From an economic standpoint it is that inclusive, generous policies that would actually work cost a great deal. From a social standpoint it is that effective and attractive policies are likely to exclude undeserving groups and fail to address poverty. For market liberals the trilemma is easier to resolve, since the equivalent constraint to progressivity concerns advancing market flexibility from this perspective. Welfare policies for those of working age can be targeted and designed to enhance incentives within a framework that distinguishes deserving and undeserving groups (Taylor-Gooby 2013, ch3).

New welfare

A substantial literature in recent years points to the development of new directions in state welfare, variously been termed, the ‘new welfare state’ (Bonoli and Natali 2012), ‘social investment’ (Morel, Palier and Palme 2012), ‘active social welfare’ (Eichorst et al. 2008), the ‘Third Way’ (Giddens 2001), ‘new risk’ welfare (Armingeon and Bonoli 2006; Taylor-Gooby 2004), the ‘new welfare state’ (Esping-Andersen et al, 2002) and ‘pre-distribution’ (Hacker 2011). While there are differences in scope and emphasis in the programmes described (or promoted) by commentators there is sufficient commonality in general direction across states and across regime types to justify grouping them together under the general family heading of the ‘new welfare state’. This is defined by Bonoli and Natali as ‘an institution that puts the emphasis less on income replacement and more on the promotion of labour market participation through activation and investment in human capital’ (Bonoli and Natali 2009, 8). Activation approaches are entrenched in reforms across the major regime types of European welfare state. Social investment has been extensively discussed and figures in current EU policy programmes (EC 2013, 2014). The related approach of predistribution has been promoted by Jacob Hacker in the US and Labour leader Ed Miliband in the UK.

These approaches seek to circumvent the trilemma. The cost/effectiveness issue is tackled by addressing poverty (and bottom end inequality) through regulation (of benefits and other sources of labour market inflexibility) and specific spending (child-care, education). The issue of progressivism is tackled through the assumption (reinforced by a tradition of left writing stretching from Marx to Sennett and of more centrist argument from Durkheim to Castells) that work (of adequate quality) tackles inequalities, reduces alienation, promotes expression of ‘species-being’ and underpins social cohesion. Work-centred welfare seeks to expand employment opportunities and to improve the quality of jobs. The issue of electoral

acceptability is mitigated because the poor are presented as workers rather than passive, dependent claimers.

More and better jobs

At the core of these approaches to welfare state problems is the assumption that ‘new welfare’ (broadly policies centred on work rather than on tax-and-spend) will lead to higher employment (and, toward the social investment end of the range, higher productivity) and lower poverty. This is attractive to business (a larger, more productive work-force without higher taxes), to different sections of the electorate (depending on whether concerns about policies which address new social risks as barriers to work, opportunities in the labour market or low income are more pressing), and to government (since it combines national economic and social goals).

Figure 1 attempts to set out the various strategies in diagrammatic form, moving from a liberal market-centred programme on the right through various activation, social investment and predistribution strategies to a worker’s empowerment strategy on the left. There is considerable dispute about the effectiveness of existing policies in EU countries in tackling poverty and mitigating the trend to greater inequality in market outcomes. The work of Cantillon and others demonstrates the importance of access to work in tackling poverty (Cantillon 2011; Cantillon and Van Lancker 2013; Pintelon et al 2013). Activation arguments Bonoli 2009 started out by placing the stress on removal of labour market inflexibility and the strengthening of negative incentives by limiting benefit entitlements and contractual rights. As the OECD jobs strategy developed there was greater attention to more positive aspects of activation that stressed the enhancement of individual capacity to gain employment (2011, 31). Social investment with its concern with human capital builds on this and extends it further, stressing the role of early education, lifelong learning and fairer opportunities in work (Morel et al, 2012, Jenson 2012).

One difficulty is that a strict investment strategy might tend to focus resources where the return was greatest, which is unlikely to include the most vulnerable groups at the bottom of the labour market and to direct attention only to productive workers (BIS 2012, Nolan 2013). Broader versions of social investment include a wide range of provisions on the grounds that a high quality social context is more likely to enable people to work their way out of poverty and in any case promotes social cohesion (Vandenbroucke and Vleminckx 2011, Jenson 2009,). Predistribution strategies draw on a different stream of work, contrasting the position of workers in a modern more globalised world with those of the 1950s (Hacker 2011). They argue for interventions across the labour market to ensure that wages are adequate and, in broader versions, that the services most people use are affordable. This leads to a stress empowering workers so that they can protect their position through stronger contractual rights.

As one moves from right to left across the diagram, two points are evident. First, there is a stronger concern with the quality of jobs rather than the mere fact of access to employment.

Secondly, the focus of policy broadens from the labour market and the individual poor person of working age *to the social context* and to the political power of workers. In the current context access to employment is important in lifting individuals out of poverty, and in general government and EU policies have been reasonably successful in mobilising people into employment in many EU countries. Yet, trends in poverty and inequality, even during periods of secure growth such as the early 2000s, have been disappointing. This leads to a further reflection. cursory examination of the politico-economic context identifies a number of trends that appear to increase inequality and make it more likely that those at the bottom end will fall into poverty. These include the greater dispersion of incomes, especially at the top-end as Atkinson, Piketty and Saez have shown, and the falling wage share of growth, so that, even when economies are performing well, the proportion of the increment in resources available to workers is growing smaller (Bailey et al. 2011; ILO 2013).

These developments are explained in a number of ways including shifts in the values governing remuneration, the impact of globalisation, technological change, the decline of a stable mass-employment manufacturing sector in the west, the growing return to skills which are unequally distributed, the growth of the welfare state and the decline in worker's contractual rights. These factors are likely to interact in complex ways. Trends to globalisation and to technical changes in production are likely to play a major role in setting the context in which the other factors operate. At the root of much of the new welfare debate is a concern to produce policies that improve both the quantity and quality of jobs. They may be doing so in a context which limits their capacity to deliver the anticipated outcomes. My recent exploratory work examines these issues understand in crude terms as employment and poverty rates (full paper available from the author, Gummy, Otto and Taylor-Gooby 2014).

Employment and poverty outcomes 2001-7

The data displayed in Table 1 examines 17 European countries for which data is conveniently available for the relatively benign period of 2001-7. It shows that core policies of the social investment approach (spending to promote parental leave and lifelong learning and stronger individual human rights against discrimination) are successful in promoting employment. Union membership is also helpful. The pattern in relation to poverty is very different. Human rights tend to enhance poverty as does spending on active labour market policies. Conversely contractual rights are associated with lower poverty rates.

Tables 2 and 3, based on pooled time-series analysis with panel-corrected errors, emphasize the contrast between policies which improve employment rates and policies which reduce poverty. In the multivariate model, lifelong learning has some effect in the desired direction (higher employment and lower poverty) but by far the most powerful policy is stronger worker rights. Activation spending actually tells in the reverse direction. This exploratory analysis suggests how the new welfare programme is able to offer different benefits to different groups and thus to form part of policy-making involving compromise and negotiation, in the way described by Bonoli and Natali (2012). For our purposes, it indicates real issues with the objective of advancing progressive goals through relatively painless

policies that will both increase (high-quality, productive) employment, thus satisfying capital, and increase the quality of jobs and reduce poverty, thus satisfying labour.

Emerging points: who gets the proceeds of social investment?

Much recent European debate about the future of welfare has centred on clusters of policies designed to meet both economic and social goals in a context where the capacity of government for traditional tax-and-spend intervention is constrained. This paper suggests that the resulting policies have been much more successful at mobilising people into paid work than in improving the quality of jobs and the return from labour. From a class perspective they have benefitted capital rather than labour. The regulation of work and policies which empower labour against capital have received much less attention. These policies require little direct spending and might command support from substantial groups in the electorate. In terms of the progressive trilemma, they meet the social constraint, since they are work rather than dependency centred, and the political constraint, if they can command sufficient support. How far they meet the economic constraint of effectively delivering the goods is unclear. From a long-term perspective, it is not obvious that they would be any worse than the alternatives on offer which argue for more flexible labour markets and better quality of employment, assuming that these goals can be made compatible without addressing the empowerment of workers. New welfare has expanded beyond individual incentives to embrace social investment, interpreted to include a broad range of valuable social objectives. The inclusion of policies to strengthen workers' rights against employers might help ensure a more equitable distribution of the anticipated economic benefits.

Table 3: Employment rates, poverty and new welfare policies, 2001-7 (Pearson correlations)

Lifelong	Employment		Poverty	
Employment				
Parental leave	0.44	***	0.08	
ALMP	-0.10		0.34	**
Human Capital				
Lifelong learning	0.42	***	0.14	
Non-Discrimination				
Human rights index	0.42	***	0.22	*
Women's economic rights index	0.08		0.18	^
Labour market institutions				
Contractual rights	-0.16		-0.41	***
Union Membership	0.38	***	0.16	
Employment ratio			-0.14	

N=119;

^ p<0.06; * p<0.05; ** p<0.01; *** p<0.001

Table 4: New welfare policies, institutions and employment rates, Prais Winsten regression with Panel Corrected Standard Errors (PCSE), 2001-2007

	β	PCSE	
Constant	56.56	(3.29)	***
Employment			
Parental leave _(t-1)	5.22	(2.37)	*
ALMP _(t-1)	-3.66	(0.92)	***
Human Capital			
Lifelong learning _(t-1)	0.28	(0.08)	**
Non-Discrimination			
Human rights index _(t-1)	0.32	(0.23)	
Women's economic rights index _(t-1)	-0.55	(0.24)	*
Labour market institutions			
Contractual rights _(t-1)	1.99	(0.62)	**
Union Membership _(t-1)	0.08	(0.03)	**
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N	118		
Wald χ^2 (df)	95.42 (7)		***
Rho	0.8268		
R²	0.9356		

Note: Prais Winsten regression with AR1 autocorrelation parameter and panel corrected standard errors (PCSE). Model estimated with Stata SE 11.1 with xtpcse command with AR1 option.

*p<0.05; **p<0.01; ***p<0.001

Table 5: New welfare policies, institutions and poverty, Prais Winsten regression with Panel Corrected Standard Errors (PCSE), 2001-2007

	Model 1		Model 2	
	β	PCSE	β	PCSE
Constant	29.53	(2.96) ***	32.20	(3.32) ***
Employment				
Parental leave _(t-1)	-0.67	(2.10)	-0.33	(2.11)
ALMP _(t-1)	2.93	(0.35) ***	2.74	(0.32) ***
Human Capital				
Lifelong learning _(t-1)	-0.10	(0.04) *	-0.09	(0.04) *
Non-Discrimination				
Human rights index _(t-1)	0.25	(0.12) *	0.30	(0.12) *
Women's economic rights index _(t-1)	0.26	(0.36)	0.26	(0.37)
Labour market institutions				
Contractual rights _(t-1)	-3.38	(0.73) ***	-3.39	(0.67) ***
Union Membership _(t-1)	0.01	(0.02)	0.01	(0.02)
Employment ratio _(t-1)			-0.05	(0.02) **
N	118		118	
Wald χ^2 (df)	117.89 (7)	***	156.81 (8)	***
Rho	0.7287		0.6884	
R²	0.8826		0.8757	

Note: Prais Winsten regression with AR1 autocorrelation parameter and panel corrected standard errors (PCSE). Model estimated with Stata SE 11.1 with xtpcse command with AR1 option.

*p<0.05; **p<0.01; ***p<0.001

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Figure 1: Beyond Tax-and-spend: A Diagram of Interventionist Anti-poverty Strategies

High	← Welfare State Intervention →						Low	
<i>Collectivism</i>		Predistribution		Social investment		Activation		<i>Individualism</i>
<i>Empowering Workers</i>	<i>Living Standards</i>	<i>Contractual Terms</i>	<i>Extended</i>	<i>Strict</i>	<i>Positive</i>	<i>Negative</i>	<i>Liberalism</i>	
Strong contractual and bargaining rights; Trade union rights; representation on remuneration committees; Cooperatives?	Control of Utility Prices, Transport and Housing costs	Minimum Wage;	Housing, Transport, Health and Social Care etc.	Education, Lifelong learning, Equality of opportunity, Family friendly work	Training, support into work, Wage top-ups; Flexi-curity	Curtailed benefit rights and employment protection	Deregulation, Privatisation	