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ABSTRACT

The study examines British public assistance (Supplementary Benefits) and other income maintenance programs for employables. These are viewed as one policy set to analyze their incentives and disincentives to see if the incentive structure is consonant with a goal of promoting work. Sanctions applied to recipients are also analyzed. Relatively high benefits are found to result in higher reliance on sanctions than on incentives. Training programs targeted at the welfare poor are more sanctions than effective training. Implications for the U. S. are: (1) training programs for welfare recipients can easily degenerate into ineffectiveness, except as sanctions; (2) the experimentation now possible under Comprehensive Employment and Training Act (CETA) is an opportunity to devise structures in which incentives and sanctions are consonant with the goal of promoting employment, and in which training programs for welfare recipients feed into and are part of the mainstream of general manpower policy, so that they can do an effective training job. The study contains a bibliography of British works and a reader's guide to British welfare programs. (Author)



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New York University
Graduate School of Public Administration

PUBLIC ASSISTANCE AND MANPOWER POLICY:
U.S. IMPLICATIONS OF THE BRITISH EXPERIENCE

by

Bruno Stein

**Institute of
Labor Relations
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This one will be for
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Public Assistance and Manpower Policy: U.S. Implications of
the British Experience

ABSTRACT

A policy that requires work or training of able-bodied persons as a condition for receiving public assistance raises 2 sets of micro policy questions: 1) what work incentives, disincentives and sanctions are inherent in any income maintenance system, and 2) how do existing manpower policies integrate with public assistance so as to assist in the transition from dependence to labor market participation. A comparative study of the British experience was undertaken to see how these issues are treated in another country and what implications may be derived for U.S. policy. The conclusions can be summarized as follows:

1. All income maintenance programs contain implicit and explicit policies regarding the labor market behavior of clients. These are reflected not only in explicit policy statements but also in the sanctions and incentives that make up the practices and benefits. The latter constitute the implicit policies, and these dominate the policy set.

2. The entire income maintenance system applicable to able-bodied persons must be considered together when one tries to infer the system's labor market policies. The various separate programs in a system interact with each other. The result can lead to an uncoordinated structure of incentives. This, in turn, can encourage behavior that is not in keeping with the explicitly stated goals of any one program.

3. A high ratio of benefit income relative to clients' wage opportunities leads to reliance on sanctions and administrative controls to induce or compel return to the labor market. The obverse of this is that means-tested systems with such control can afford higher benefit levels than systems that rely entirely on financial incentives.

4. Manpower training programs can serve two functions with respect to public assistance. One is to increase earning power and thus increase the opportunity cost of remaining on welfare. The second is to serve as part of the sanctions and control mechanism. The two functions do not work well together, and the second tends to dominate the first.

5. The economic goals of general manpower policies (e.g. growth, productivity) conflict with social goals such as the rehabilitation of hard to employ workers and the reduction of welfare dependency. There is a tendency to shift "hard" cases into programs that are outside the mainstream of manpower policy and programs are less likely to be effective training mechanisms.

6. In order to overcome the problems that stem from the dichotomous goals of training, a training structure should be developed that feeds clients into the mainstream of training and placement programs. At the same time, care must be taken in the design of the income maintenance system so that its incentives are consonant with the goal of encouraging people to undertake training and to enter the labor market.

7. The elements for a graduated training structure are present in Britain. However, the structure does not in practice permit much progression from the low level training of the workers in need of basic skills to regular courses that endow workers with salable skills. In the U.S., the components of a graduated structure are also present. It would be useful, however, to take advantage of the opportunity for experimentation offered by CETA to develop new training structures that feed disadvantaged and hard-to-employ trainees into mainstream training programs.

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PREFACE

There is something about the subject of public assistance - welfare, in the American terminology - that brings an emotional element into discussions of the topic. This quality adds to other difficulties of analyzing what is inherently a complex problem, one that impinges on the lives and well-being of poor people. No economist who writes in the comfort of a tenured academic position can capture the pain and rage of poverty, and I would not pretend otherwise. It is my belief, however, that a rational analytic attitude is a necessary condition for the solution or amelioration of social problems - the more so when the problem in question is complex and involves a conflict among social goals and ideals that are held by reasonable men and women.

It is a widely held belief in most of the world that healthy adults should, generally speaking, contribute to the community's social output. In the U.S., this view is reflected both in the historical traditions of public assistance and in such legislation as the Work Incentive Program. More to the point, and perhaps more controversial, is that American policy requires that the contribution to output be made through the labor market. Yet, among the non-jobholding adult population, there are many who are literally, too poor to get work. These are people who have been excluded in some ways from access to the labor market, or denied the chance to acquire human capital. If we expect people to work to support themselves and their families, then logic (not to mention common decency) requires that people be given the necessary opportunity to work. This requires not only a level of demand for labor that is high enough to absorb the available labor supply, but also the manpower services that are necessary

to correct for the malfunctioning of labor markets and of the mechanisms by which human capital (at the very least) is distributed. Unless both the macroeconomic and the microeconomic conditions are met, some part of the population will be out of work and in need of income transfers. If we cannot devise an economy that can employ everyone, then we can hardly complain that some people are on welfare.

The emphasis of this study is on the microeconomic conditions and on the policies that are pertinent to them. The British experience with public assistance and manpower training has been examined here in the hope that this will contribute toward a better understanding of our own microeconomic policies and problems. The opportunity to observe a foreign system is also an opportunity to re-observe ones own. That is what I really set out to do, since my interests lie in the improvement of American social policy and not in criticism of the British.

A study of this sort must rely on impressions as well as on data. I was fortunate in receiving considerable help from British sources. This included visits to the sites of centers operated by the Department of Employment and the Department of Health and Social Security, and interviews with civil servants both at operating and at higher levels. In many cases, their comments were quite frank (and off-the-record). My thanks go to all of them, and to the two Departments for the official and courteous cooperation that was extended to me. DISS made some unpublished data available to me, as did Messrs. Adrian Ziderman of Queen Mary College and Michael Hill of the University of Oxford, and I want to express my gratitude for their kindness.

Additional thanks are due to the staff of the Department of Social Science and Administration at the London School of Economics who invited me to be an Academic Visitor, and who gave of their time to teach me the ropes and to establish contacts for me. Professors Garth Plowman and Brian Abel-Smith were especially helpful, as was Mr. David Piachaud, and I benefitted greatly from the advice of the late Professor Richard Titmuss. My research headquarters were established at the Centre for Studies in Social Policy, which honored me with a Visiting Fellowship. I am especially indebted to I. S. Isserlis, Rudolf Klein, Vera Morris, the invaluable Susan Johnson, and my fellow visiting fellow, Professor Vera Shlakman of Columbia University. On this side of the pond, my thanks go to Herman Lasken, who believed in the value of the project, and to M. L. W. for his assistance and criticism. None of the foregoing is responsible for the errors that have undoubtedly found their way into the work. Since I intend to pursue the topic, comments and criticism from readers are herewith solicited.

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LIST OF ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
CETA	Comprehensive Training and Employment Act
CPAC	Child Poverty Action Growth
DE	Department of Employment
DHSS	Department of Health and Social Security
ESA	Employment Services Agency
FAM	Family Allowances
FAP	Family Assistance Plan
FIS	Family Income Supplement
GTCs	Government Training Centres
HMSO	Her Majesty's Stationary Office
IRUs	Industrial Rehabilitation Units
ITBs	Industrial Training Boards
MDTA	Manpower Development and Training Act
NA	National Assistance
NI	National Insurance
OECD	Organisation for Economic Cooperation and Development
RB	Redundancy Benefit
SB	Supplementary Benefit
TOPS	Training Opportunity Scheme
TSA	Training Services Agency
UB	Unemployment Benefit
WIN	Work Incentive Program

CHAPTER ONE

WORK, WELFARE AND TRAINING

INTRODUCTION TO THE STUDY

This study explores the relationship between manpower policy and income maintenance by examining the British experience with both. As such, it is an essay in comparative social policy. However, the intent of the work is also to develop policy ideas that are applicable to the American scene, and to contribute to the emerging literature on work and welfare.

The interplay of income maintenance and labor market behavior has received renewed recognition in the U.S. in recent years. At the same time, the need to develop our human resources has been expressed in legislation ranging from the original Manpower Development and Training Act to the present Comprehensive Training and Employment Act (CETA), and ancillary legislation. The policy goal of CETA is to "enable individuals to secure and retain employment at their maximum capacity."¹ One would assume that there is a link between policies to improve all human resources, and programs to do this for the recipients of income transfers. The latter, after all, is only a special case of the former. However, the link has not been firmly established as yet in the U.S. There is a tendency to treat the training of relief clients as something special and apart from the training of other people, as though the act of going on welfare were a more important operative category than the state of poverty, skill deprivation, or other labor market difficulty that an individual might suffer from.

This dichotomous view of the problem stems from the "crisis" in welfare, and the first part of this chapter will review the "crisis" in order to trace the emergence of employable relief recipients in a program that was never really intended to aid employable persons except on a temporary basis. The second part of the chapter explores some labor market problems posed by the existence of employable relief recipients. These two parts are prologues to Chapter 2, which lays the basis for comparison with Great Britain.

The "Crisis" in Welfare in the U.S.

The "crisis" in welfare has become something of a household word. Most crises pass, in that the problem either gets solved, solves itself, or passes from public consciousness as the public becomes accustomed to a new state of affairs. The present debate over welfare payments is nearing the end of its first decade on a well sustained note of hysteria, and a never-failing sense of urgency. What was considered in the nineteen forties and fifties as a small set of public charitable programs is now viewed by members of the public as a social problem. People have been known to condemn life in the central city because of the pollution, the crime, and the welfare, as if what was once an attempt to solve a social problem has now become a social dysfunction.

The focal point of the crisis consists of beneficiaries who are, to use an old phrase, "able-bodied," i.e., men and women who are capable of working. There has been little debate over the desirability of helping the aged poor, or the poor in the other "adult" categories. The

aged, the blind, and the disabled have been treated as if they were supposed to be out of the labor market or, at least, as if labor market participation were entirely optional to them. The fact that a good many poor persons who are aged, blind or disabled can work (and often want to work) has been recognized in recent years, and is reflected in the negative tax provisions of the new Supplementary Security Income System. There is, however, little overt pressure to get them into the labor market. The same was never true for adults of working age, except for mothers who were caring for children. And this is where the change in attitude has occurred.

The sharp growth in the number of cases of Aid to Families with Dependent Children (AFDC) became noticeable in the early 1960s, and quickly became a matter of concern. The number of cases grew from 800,000 in 1960 to 2.5 million in 1970, an increase of 310% in a ten year period. Every year saw an increase in the relative as well as the absolute number of recipients. By the end of the decade, the "crisis" was seemingly permanent. The problem, if defined as too many families on relief, did not pass from the consciousness of the public, despite the fact that the total budgetary costs of the cash programs never exceeded 5% of all government expenditures. Welfare became a crisis, but not because it involved a large amount of money or large numbers of people. The amount of money was trivial, and the numbers of people were not all that large, as D. P. Moynihan has pointed out. Even in impacted cities the financial burden, although not trivial, was far from unbearable. In New York, famed for the size of its welfare population, only 10% of local tax dollars in 1971 went to public

assistance, including the adult categories that have now been shifted to the Supplementary Security Income Program.³

Not only did the AFDC caseload rise sharply, it did so during a decade of almost unparalleled economic growth and prosperity, a period when the proportion of families living in poverty declined from 22% to 12% of the population. A number of explanations have been given for this puzzling phenomenon, and these are reviewed below.

Varieties of Explanations

One explanation lies in the benefit level increases that occurred over the period, that made more persons potentially eligible. The average monthly AFDC payment rose from \$28 to \$50 per month between 1960 and 1970. Part of the rise came as various states raised benefit levels, and part of the rise came from the migration that shifted potential welfare recipients from low benefit states to high benefit states. The rise in benefits was greater than the rise in wage levels during the period. Although this had the beneficial effect of raising the abysmal living standards of welfare recipients, it also increased the opportunity cost of working and of keeping a family intact. This was more a reflection of the low wage levels available to the unskilled than of the generosity of benefits. It is not necessary to attribute all family instability at the poverty level to the effect of welfare benefits that rise relative to wage alternatives. The sociology of ghetto life is complex, but it is safe to say that the benefit-wage effect did not help to strengthen family ties, and may have been a contributing factor to a weakening whose primary causes lay in other factors.

A second cluster of explanations concerns the administrative changes that were said to have made it easier for applicants to qualify for welfare payments and to remain in receipt of them. A variety of hypotheses has been offered, including suggestions that easier welfare payments were a response to urban rioting, that caseworkers were being radicalized, or that the combination of civil rights and welfare rights pressures succeeded in extending access to welfare to more and more people. If income of female-headed households is a rough measure of eligibility, then there is reason to believe that the welfare system had failed, at the beginning of the 1960s to pick up a lot of eligibles.⁴ The increase that occurred, therefore, was said to be a matter of more efficient service to needy people.

The labor market also yielded possible explanations of the sharp rise. Notwithstanding the decline in unemployment during the decade, there was an actual erosion of labor market opportunities for the uneducated and unskilled. Much of the decline in the unemployment rate of men with low levels of education stemmed from a decline in the group's labor force participation rate rather than from a rise in its employment. Killingsworth has calculated that the U.S. economy generated a net increase of 10.5 million new jobs for men between 1962 and 1969, but that the upper two-thirds of the male labor force got 13.4 million new jobs, while the lower third lost about 3 million. Labor markets at the lower level were characterized by scarcity, discouragement, and declining relative earnings. This situation probably contributed to the rising welfare caseloads at a time when measured unemployment rates were falling.⁵

The structure of American categorical relief by which unsupported mothers are the primary eligible adults, to the virtual exclusion of other prime age adults, undoubtedly put considerable pressure on the AFDC category. A consequence of this was that both observers and reformers put their emphasis on the actual clients of the AFDC category (i.e. the welfare mothers and their children), without much realization of the interrelationships between the clients and the social, familial, and economic parameters within which they tried to function. The mothers were (and are) available for study, and are the direct objects of policy change. The missing fathers, by the nature of their absence, escape observation and social control.

Reforms and the Emphasis on Work

The 1962 amendments to the Social Security Act sought to extend aid and social services to the AFDC clientele by increasing the social work facilities available to them. Whether the approach would have been useful even in a stable situation is doubtful,⁶ especially if a reduction in the caseload was the political measure of success. But caseloads soared upward, and attempts to apply the small-scale private charity casework method to the large-scale operations of a municipal welfare department were futile. It is not astonishing that the next round of reform, the 1967 amendments, put stress on getting the mothers into the labor market. If one could not deal with the fathers, and if other relatives were exempted (for good reason), and if casework would

not enable the mothers to be self-supporting then--logically speaking-- there was no other method for reducing the caseload then to get the mothers into the labor market.

The 1967 amendments marked a considerable shift in attitude toward the employability of mothers who were heads of households. The founders of the Social Security Act had viewed the mother as a homebody (and an unwelcome competitor in the labor market) and the subsequent extension of social insurance to widows of workers caring for children reflected a similar view.⁷ Rural southern welfare departments never shared this attitude, and even urban northern welfare departments kept a work requirement of sorts in the regulation books. However, the rising labor force participation rate of women, including married women with children of school age, made the working mother a commonplace spectacle on the American scene. As a result, the idea that a mother's socially proper place was at home, rearing children, became increasingly foreign. If going to work was good enough for the working class mother, then it certainly seemed good enough for her poorer sister.

This became the new social judgment. It reflected itself in legislative debates, in the 1967 amendments, and in subsequent legislation.

The relief tradition in the U.S. was never intended to deal with the able-bodied at all, except to give temporary help. The unsupported mothers were a federal category because mothers, in 1935, were not fully able-bodied in the labor market sense of the term. The fact that many worked anyway was a reflection both of the low benefit levels and of the

powerful stigma attached to the receipt of welfare. Although the Great Depression made both the states and the federal government into purveyors of public assistance, the notion that this was more than an emergency measure was fiercely resisted by all levels of government. Most of the aid that was offered was work relief or job creation. The only social insurance program for the able-bodied that came out of the Depression was Unemployment Insurance. This offered temporary succor to men and women who had "earned" it through their previous work, and required beneficiaries to look for work. Indeed, all income maintenance programs for able-bodied persons have been run on the proposition that such persons have an obligation to support themselves and their dependents. A program that would sustain a work-eligible person indefinitely seems culturally and politically inconceivable in the U.S. at the present time.

What happened to the welfare mothers around 1967 was that they were promoted to the ranks of the able-bodied, and attitudes toward the able-bodied were applied to them. To some extent, these attitudes hardened in the late 1960s and early 1970s when the boom of the 1960s came to an end. I have argued elsewhere that the slower the rate of economic growth, the harder the choice between public and private goods. As public goods become relatively more costly, social priorities are reordered. Helping poor people of working age is likely to rank low under such circumstances.⁸

THE PROBLEM OF "EMPLOYABLE" RELIEF RECIPIENTS

High and Low Unemployment

The welfare problem will manifest itself differently, depending on whether employment conditions are favorable or not. In periods of high unemployment, or in regions where unemployment is chronic, there is nothing startling about the presence of able-bodied men and women who are in need of assistance for long periods of time. Extended unemployment insurance has been one response, and even welfare becomes less stigmatized when the "respectable" elements in the community need to resort to it in relatively large numbers. In periods of low unemployment and in areas of rapid economic growth, the long term unemployed are more likely to be viewed as work shy. Special justification must be asserted for their absence from the labor market, such as the need to care for a child, a lack of saleable skills, or cultural deprivation. The justifications may be--and often are--quite accurate. It is just that that question "why don't you get a job" is more likely to be asked in good times even though it may not be much more trenchant then, as Killingsworth's analysis suggests.

Political Issues

A number of political issues have developed with the rise in the number of able-bodied welfare recipients. One has been a taxpayers' revolt in the face of what is perceived to be a growing "welfare burden." Since welfare is administered at the state or local level, people see it as competing for funds with other local activities. Rising and regressive state and local taxes have made themselves felt in taxpayers' pocketbooks.

It is safe to say that welfare expenditures are viewed by taxpayers as being made for an inferior social good when compared with education, police, and public transportation. The squeeze on state and local budgets that developed in 1970-1972 was translated, in part, into cuts in welfare benefits and in a tightening of administrative procedures.

This restrictive behavior was predictable from the behavior of the welfare system even during the early 1960s when public attitudes toward the poor were still favorable.⁹ Since welfare policy decisions are made at the state and local level, the voters' comparisons of welfare outlays with other public services are inevitable and unfavorable.

There is another level at which the presence of employable adult welfare recipients present a problem, and that is where the welfare system creates inequities between welfare recipients and lower income workers. And it is a potent problem, indeed.

If benefit levels are close to or greater than the after-tax earned income of workers, then horizontal inequities can be considerable, and are likely to find political expression. Leisure is a scarce resource and a valuable commodity. People who must work to support a non-luxurious living standard and who have, let us say, a working spouse, expect that publicly supported leisure should be maintained at a sufficiently low living standard so that the taxpaying workers feel compensated for their foregone leisure.¹⁰ Since this would, in some cases, put welfare living standards at socially impossible low levels, there has always been a certain amount of political tension here. The balancing variable is the stigma of welfare dependency that serves to depress the utility of welfare income below the utility of earned income.

The matter is complicated when welfare incomes rise above earned incomes. The British solution to this problem has been the wage stop, by which Supplementary Benefits to the unemployed cannot exceed their usual wage. Wage stop has never been adopted in the U.S., and it would present enormous problems in its application to mothers with dependent children--note that the British do not apply it to this group on the presumption that there is no social or political necessity for mother to go to work. Since there are low wage labor markets in the U.S., there are workers who are caught in this inequity. Furthermore, since the choice between work and welfare is not a free one, it is often impossible, or at least costly, for a family to make the shift from low wage employment to welfare.

Still greater complications have emerged from the Congressional decision to encourage work by welfare recipients by abolishing the 100% tax on earnings. Since work-related expenses are "disregarded" in computing earned income subject to negative taxation, it becomes possible for a welfare recipient to earn more for the same work as a non-recipient. In states where Medicaid is available only to welfare recipients, there may be considerable value to being on welfare, since there is no medical insurance available on the market, which is as open ended as Medicaid. Aside from questions of work incentives that this may raise, it should again be noted that the option of choosing welfare and attendant benefits is not freely available to all low wage working families.¹¹

The drafters of the Family Assistance Plan (FAP) were aware of the inequities that welfare imposed on the working poor. FAP was to have dealt with the matter by extending benefits to all working poor families,

regardless of their status when they entered the welfare system. This would have removed the inequity between welfare recipients and the working poor.

Humanitarian Issues

Whatever the changes in political judgments may have been, the humanitarian issues that surround relief to the able-bodied poor and their children remain with us. The original and ostensible justification of Aid to Dependent Children (the earlier name of the AFDC program) can be seen in its name: the emphasis was on the welfare of children. Like the blind, disabled and aged, children are the objects of special sympathy. Furthermore, public sympathy is not confined to persons who are incapable of earning their own way by reason of age or physical disability. The public level of sophistication is great enough for there to be an awareness that physically able-bodied adults may have difficulty in competing for work on the licit labor market for a variety of cogent reasons. Accordingly, reforms that set out to reduce the size of welfare caseloads by making access to welfare more difficult face the problem that they have a great impact on persons who are in need of the help. There is nothing difficult about reducing welfare outlays and increasing human misery.

Labor Market Issues

Income maintenance systems have an impact on labor supply. This point is often lost in discussions of welfare that focus on the unemployment of various categories of welfare recipients, for what is really

meant is unemployability by the social standards of the community. The principal impact of welfare is on the supply of cheap labor for "low scale" jobs. Undoubtedly, a restriction of welfare would increase the supply of labor in both the licit and illicit labor markets. Given any level of demand for this type of labor, its wage would decline. Thus, the price of unskilled and labor-intensive services might decline (at least relatively). Workers who are presently employed in such labor markets would be affected because the new entrants are good substitutes for existing workers, especially at the lower wages. Since labor markets are linked to each other, the wage decline would spill over into adjacent labor markets. This leads to the proposition that income maintenance programs for employable adults serve a function similar to the function of minimum wages: they protect the labor standard of those who are employed. Indeed, income maintenance complements minimum wages.

Welfare benefit levels serve--although very imperfectly--as a sort of lower bound to labor market earnings. They do this imperfectly because it is possible to earn less than welfare benefits on the labor market even at full time work, but their effect should not be ignored. By the same token, welfare payments, like any transfer payments, impose costs upon the economy to the extent that they induce losses of output that stem from withdrawals from the labor market. The costs may be outweighed by various benefits, such as an element of social stability whose absence might lead to greater output reductions. The point is merely that transfer payments are not costless in the economic sense, and it is a mistake to treat them as such.¹²

Regulating the Poor

All income transfer systems that are means-tested raise questions of administrative power. The more discretionary the system is, the more power it places in the hands of individual administrators who may use it in an arbitrary and capricious manner. The point has been raised in a variety of ways, ranging from the belief of Piven and Cloward that the intent of welfare is to regulate the behavior of the poor as a group¹³ to the widespread concern for the civil liberties of welfare recipients expressed both by partisans such as the National Welfare Rights Organization and by disinterested observers. Emphasis on labor market participation easily translates into administrative coercion. Where administrative coercion is "proper," i.e., consists of a fair interpretation of the rules, it substitutes for the coercion of the labor market as a form of social control. The smaller the scope for using incentives, the greater will be the reliance on coercion. Thus, hassling the client predictably becomes a policy tool.

The Role of Manpower Policy

The increasing emphasis on labor market participation for the welfare dependent population has given manpower policy a new dimension. Many of the manpower training programs have had, as their target population, persons whose poverty was attributable to a lack of skill or lack of social development needed to compete on the labor market. However, helping to upgrade the skills of poor workers has been only one of the purposes of the federal manpower programs. Much effort has also gone into

retraining experienced workers whose skills have become obsolete, and into training programs designed to break skill bottlenecks in growing industries. It must be remembered that a major purpose of the original Manpower Development and Training Act was to facilitate economic growth and to make compatible two seemingly incompatible goals: price stability and low unemployment. Training of the dependent poor, that is, of persons collecting public assistance was a secondary aspect of the programs. The number of welfare recipients in manpower training programs in the mid-1960s (i.e., before the 1967 change in the welfare law) only ran between 8-1/2% and 9-1/2% of the total number of trainees.¹⁴

The 1967 welfare amendments not only introduced work incentives into the structure of AFDC welfare benefits, but also created the Work Incentive Program. The WIN program, by the mandate that it received, should be one of the largest training programs in existence. It was, after all, intended to help all employable persons over 16 in AFDC families. However, the actual number of people trained has remained relatively small.

Whatever the difficulties may be with WIN and other training programs aimed at the very poor, it is clear that the tenor of welfare policy in the 1970s will be to promote the labor force participation of both male and female welfare recipients, including mothers with dependent children. Some linkage between income maintenance and manpower training has been established as a policy direction, but the linkage with overall manpower policy remains loose.

SUMMARY

During the 1940s and 1950s, the relatively low take-up of public assistance benefits in the U.S. kept the subject from impinging on the public consciousness. By and large, public assistance was aimed at people who were not "eligible" to participate in the labor market, either temporarily or permanently.¹⁵ Exceptions were made here and there, depending on individual circumstances, or on the generosity of local administrators or case workers. Accordingly, little or no interrelationships were perceived between public assistance as a form of income maintenance and labor market policies, if any.

Indeed, the principal recognized labor market policy in the U.S. was to maintain aggregate demand at full employment, subject to the constraint of relatively stable prices. This was the intent of the Employment Act of 1946. The policy tools were fiscal policy and, after 1953, monetary policy. Beyond that, government did not really have any set of micro-economic labor market policies and it was assumed that, except for periodic recessions (or "rolling readjustments"), anyone who needed a job could get one. The Manpower Development and Training Act (MDTA) of 1961 marked a major departure from that view, as did such related statutes as the Area Redevelopment Act. The growth of the welfare system in the 1960s occurred at the same time that manpower training established itself as a labor market policy to aid workers who needed to retrain or upgrade their skills. As time passed, a greater role for training developed in public assistance. This raised a number of labor market issues. Among such issues were the relationship of wages to benefit levels, implicit tax rates, work incentives, impact of programs on family structure, and

similar manifestations of an interactive system. The issue remains troublesome because of its complexity. Since the American experience is not necessarily unique, an examination of another system may be fruitful.

Great Britain has welfare programs that are generous relative to the wage alternatives open to unskilled persons. In addition, Great Britain has an active manpower policy that is probably more highly organized than ours. It may help to gain some perspective on the American problem if we examine the parallel phenomena in Britain. The basis for the comparison is laid in the next chapter, and an appendix gives a tabular presentation of the major British benefits relevant to prime age adults.

NOTES TO CHAPTER ONE

1. Comprehensive Employment and Training Act of 1973, P.L. 93-203, Title I, Sec. 101.

2. A similar point is made by the National Manpower Policy Task Force in The Comprehensive Employment and Training Act: Opportunities and Challenges (Washington: April, 1974), p. 9.

3. Bruno Stein, "Poverty and the Present Welfare System" in Welfare: A National Policy (Los Angeles: Institute of Industrial Relations, University of California, 1973), p. 17.

4. For example, see the calculation by M. Cox as reported in P.S. Albin and B. Stein, "The Constrained Demand for Public Assistance," Journal of Human Resources 3 (Summer, 1968), pp. 310-311.

5. Charles C. Killingsworth, "Employment as an Alternative to Welfare" in Welfare: A National Policy, pp. 45-47. Note that while Killingsworth's "split-level" labor market resembles the dual labor market thesis, the two concepts do not fully coincide. An excellent attempt to summarize the reasons for the growth in welfare dependency in one place - New York City - is found in Larry A. Jackson and William A. Johnson, Protest By the Poor (New York: N.Y.C. Rand Institute, August, 1973), pp. 223-241.

6. See Sar A. Levitan, Martin Rein, and David Marwick, Work and Welfare Go Together (Baltimore: John Hopkins University Press), pp. 26-35.

7. That is, benefits in Survivors Insurance are available only if the widow does not hold a full time job.

8. Bruno Stein, "The Crisis in Services to the Poor," American Journal of Orthopsychiatry 42 (October, 1972), pp. 758-759.

9. Peter S. Albin and Bruno Stein, "Determinants of Relief Policy at the Sub-Federal Level", Southern Economic Journal, Vol. XXXVIII (April, 1971), pp. 445-457.

10. I am not here discussing the economics of the labor supply and the questions of income and leisure with respect to it. The concern is with the politics of the issue, and the reader is reminded that political behavior, unlike economic behavior, can be non-rational.

11. For a good handbook on the question of multiple benefits see Vee Burke and Alair A. Townsend, "Public Welfare and Work Incentives: Theory and Practice," in 93rd Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, Studies in Public Welfare Paper No. 14 (Washington: U.S. Government Printing Office, 1974).

12. The recognition that transfer payments are not costless has emerged from analyses concerned with the development of comprehensive income maintenance systems such as the Negative Income Tax. See Glen G. Cain and Harold Watts, "Introduction" to their Income Maintenance and Labor Supply (Chicago: Rand McNally College Publishing Co., 1973), pp. 4-5.

13. Frances F. Piven and Richard Cloward, Regulating the Poor: The Functions of Public Welfare (New York: Pantheon, 1971).

14. Training of Public Assistance Recipients under the MDTA, Manpower Evaluation Report No. 6 (Washington: U.S. Department of Labor, Manpower Administration, April, 1966), p. 2.

15. Except for the General Assistance category in various states, which was not funded by the federal government.

CHAPTER TWO

BACKGROUND TO BRITAIN

THE BASES FOR COMPARISON

Much of the planning and debate over income maintenance programs in the U.S. has taken place without reference to the experience in other nations. Some of this merely reflects the sort of insularity for which Americans are often noted, and some of this was based on the perfectly sensible notion that each country's institutions are unique, and its social programs cannot therefore be exported. However, it would still seem that western industrial countries do have a good deal in common, and that there are policy ideas to be learned by examining the theory and practice of social programs in the industrial world.

Great Britain¹ was chosen as a good place for an international comparison for a number of reasons. To begin with, Britain and the U.S. have a number of more or less common historical traditions with respect to work and welfare, and these traditions are reflected in current policies and practices. There is a strong work ethic in Britain that antedates the Protestant reformation and was, if anything, reenforced by it. This manifests itself in the stigma that attaches to welfare dependency, although the stigma is probably not as great in Britain as in the U.S. It is not that the British - or at least, the English - are passionately devoted to work as an end in itself, as has been said of Germans, or Japanese. Leisure is a highly valued commodity, but income from work has a higher status than income from welfare for persons below the pensionable age. (Income from property has an even higher status, however.)

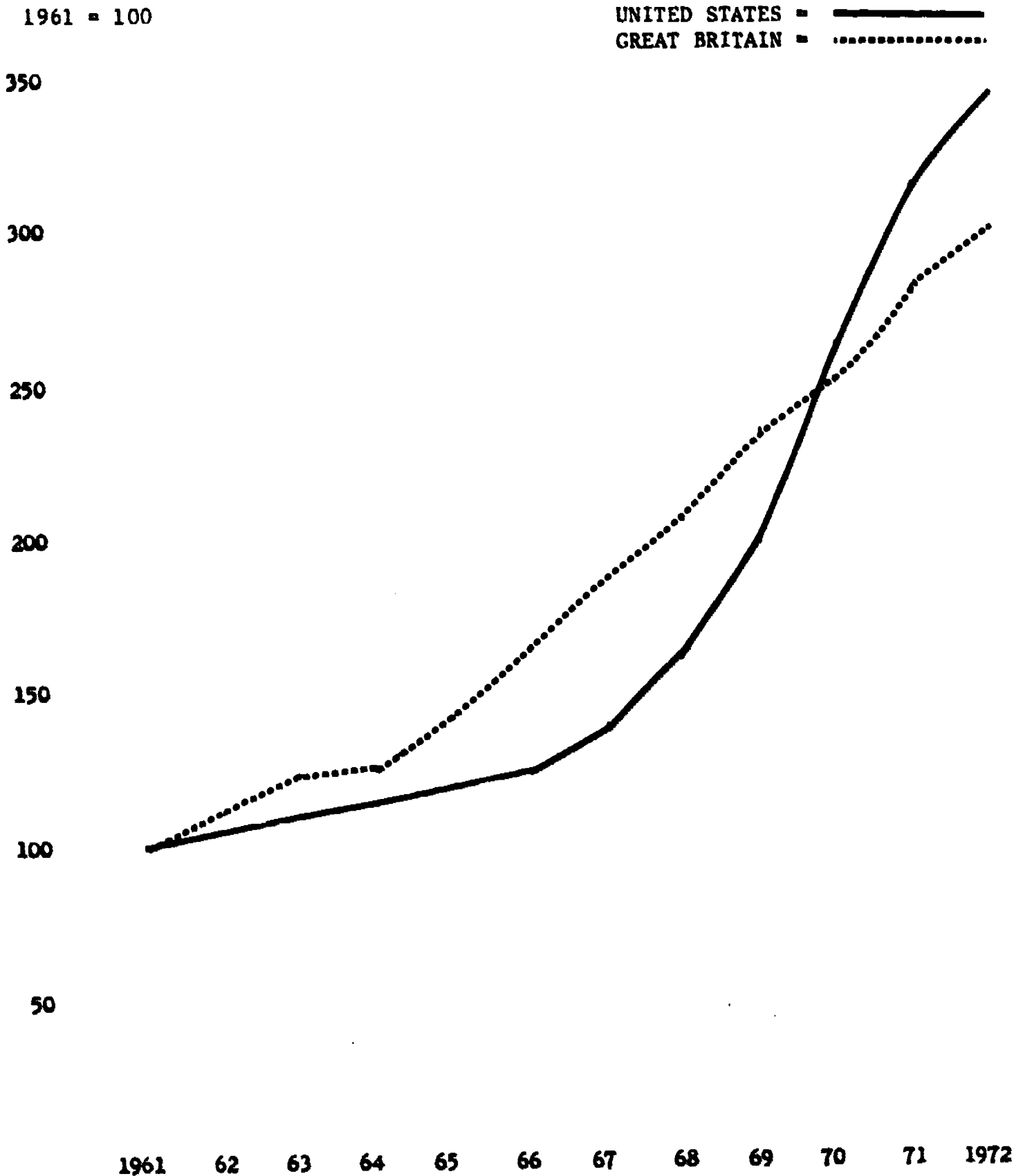
The number of welfare mothers in Britain has been rising at a rate comparable to that in the U.S. (see Figure 2-1). To date, this has not been viewed as a problem in Britain.

Social attitudes towards female heads of households are still markedly different in Britain, and unsupported mothers are under less social and administrative pressure to work than is the case in the U.S. Some of this probably stems from the high regard that the British have for children, some of it from a somewhat less enlightened attitude towards women. Strictly speaking, an unsupported mother in Britain has no legal obligation whatsoever to seek work. She is free to collect her Supplementary Benefit until the last child is sixteen years old. However, complaints by welfare rights groups that welfare mothers are being harassed into work are some indication that the social values of some administrators differ from the official judgment that the fatherless household has an unqualified legal right to public support.

Some of the similarity in attitude towards public assistance can be attributed to the common descent of both the British and the American system from the Elizabethan Poor Law. Strictly speaking, the term "Poor Law" was abolished in the 1948 reform. Public assistance was called National Assistance (NA) until 1966, when its name was changed to Supplementary Benefits (SB). The change in terminology was made by the Labour government in an effort to destigmatize the benefits. The suggestion is that SB merely supplements the existing National Insurance benefits which like our social insurance benefits are not means tested. As a practical matter, SB retains a strong concern for work, notwithstanding

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FIGURE 2-1: COMPARATIVE GROWTH OF PUBLIC ASSISTANCE CASELOADS, 1961-1972
MOTHERS WITH DEPENDENT CHILDREN



Source: Computed from data on British women under sixty with dependent children receiving supplementary benefit. Department of Health & Social Security, Social Security Statistics: 1972 (London: HMSO, 1973). The American data are based on the AFDC caseload. U.S. Department of Health, Education and Welfare, Social Security Bulletin: Annual Statistical Supplement, 1970 (Washington: U.S. Government Printing Office, 1973).

its innocuous title. As will be shown in a later chapter, a considerable effort is made to induce and coerce able-bodied claimants² to get a job. The ultimate sanction is jail. It is a criminal offense to refuse to maintain oneself or one's dependents, and a handful of men actually spend a few weeks in jail each year for what amounts to refusal to work.

At the time that the research proposal was formulated, it was believed that the links between manpower and income maintenance policies were better developed in Britain than in the U.S., and that a policy model could be found there. In her seminal work on European programs, Beatrice Reuber noted that the British saw reduction in welfare expenditures as an important reason for placement and training activities aimed at the hard to employ, including those that are "work shy."³ However, a closer look at British manpower programs shows that the mainstream of formal manpower policy is really directed at eminently employable persons who wish to upgrade their skills. The primary purpose for the British mix of manpower programs is to encourage economic growth. In practice, the special programs for the hard to employ are, as is the case in the U.S., poorly linked with respect to those clients that are physically able-bodied.

In Britain, just as in the U.S., there has been a rising interest in the financial incentives and disincentives that are inherent in maintenance systems. A number of British benefits for the working poor are keyed to income; some have negative tax rates, such as is found in Family Income Supplement (FIS) which pays 50% of the difference between the earnings of a fully employed head of household and a poverty line for a family of his size and composition, up to a maximum of £5.

Indeed, the negative tax concept in Britain is a cultural import from the U.S. and may be extended further there in proposed negative tax legislation. The British version, called Tax Credits, stands an excellent chance of being enacted.⁴

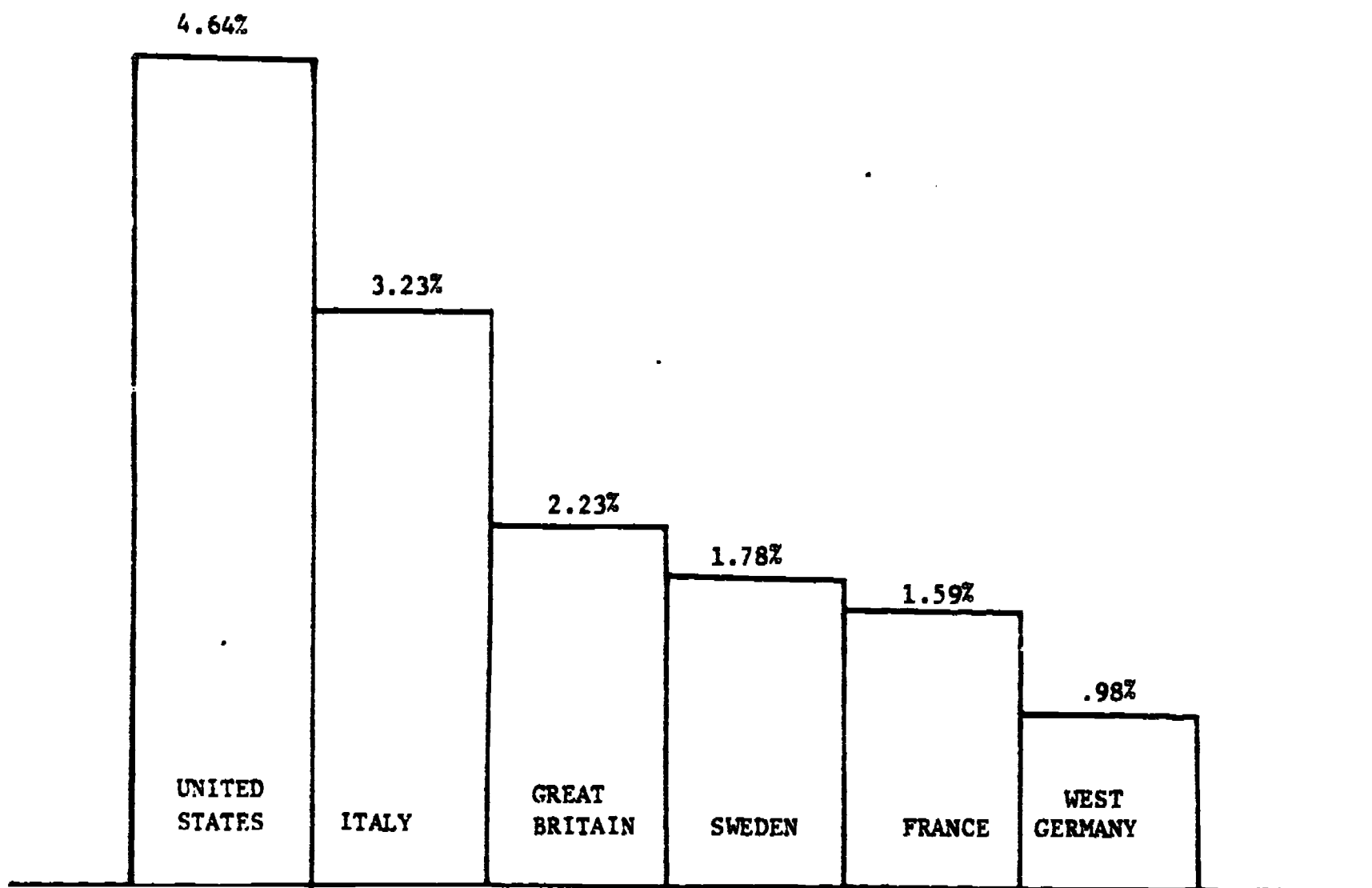
Similarity of Economic Problems

Comparisons between Britain and the U.S. are further facilitated by the existence of a number of similar problems. Among these are relatively high levels of unemployment, at least by European standards, together with chronic balance of payments problems that limit the scope of full employment policy. There is also a variety of structural imperfections in the labor market that bear resemblance to some of ours. Similarity does not, of course, imply identity. Some labor market problems in Britain are quite different from ours, but the similar ones are worth looking at in some small detail.

Unemployment

Britain has a greater political commitment to full employment than does the U.S. However, it has suffered from unemployment rates that are consistently higher than those found in the advanced industrial countries of western Europe, excepting Italy. (See Figure 2-2) By the same token, the peacetime unemployment rate in the U.S. has not been sustainable at a rate below 5% without loss of price stability. Although it has been widely believed in the U.S. that cyclical unemployment does not have much influence on caseloads, new evidence is emerging that a

FIGURE 2-2: AVERAGE UNEMPLOYMENT RATES 1962-1971 IN SELECTED COUNTRIES,
ADAPTED TO U.S. CONCEPTS



SOURCE: Constance Sorrentino, "Unemployment in Nine Industrialized Countries" Monthly Labor Review (June, 1972), p. 30.

relationship does exist.⁵ Even without this evidence there has always been good reason to believe that unemployment will have some impact, at least at the margin, on the labor force behavior of the poor.

Some of the unemployment that both nations have experienced comes from structural problems and other labor market imperfections that do not lend themselves to treatment by the usual macroeconomic policies to stimulate demand. (Even in this respect, both nations have faced similar constraints on demand stimulation that come from balance of payments problems.) As in the U.S., there are depressed areas in Britain, notably in the Southwest and north of England and in Wales and Scotland. Another similarity to the U.S. is found in the underinvestment in human capital among a segment of the population. Racial and ethnic problems also manifest themselves in the labor market, both on the demand side through discriminatory hiring practices, and on the supply side through lack of skills and through cultural deprivation. Unfortunately, there is relatively little statistical information available on race and ethnicity in Britain, even though race problems are quite acute. No data exist on claimants to most benefits by race or ethnicity,⁶ and very little data are available on anything else pertaining to race. This situation is now being corrected with the gathering of some statistical series based on place of birth and parents' place of birth. These are census categories, but they also identify race.⁷

Differences between Britain and the U.S.

The similarities in some labor market and other problems that invite comparison have been noted above. There are important differences, however, that must be stressed in any comparative analysis, for the common language tends to disguise (at least for the casual visitor) some substantial differences between Britain and the U.S.

Unemployment

Although levels of unemployment have been high by the standards that have prevailed in western Europe, they have generally been low when compared to the U.S. In the decade of the 1960s the rate of unemployment in Great Britain, when adjusted for comparability with the U.S., ranged from a low 2.1% to a high of 4.0%. Even the 1971 rate, which was the highest since World War II, only reached 5.3%.⁸ By contrast, the U.S. unemployment rate in the 1960s ranged from 6.7% to 3.5%, and the low rates are widely believed to be unsustainable without inflation. If we distinguish between the income maintenance and productive systems of an economy,⁹ there has been relatively more room for people in the productive system in Britain than in the U.S. The obverse of this coin can be found in the relatively low wages and living standards found in Great Britain. Thus, a median male wage earner with a wife and two children earned £1550 per year in 1971 if fully employed, which would leave an income of £1533 after all taxes and benefits.¹⁰ Given an exchange rate of £1 = \$2.40, this comes to \$3,680 per year. The exchange rate undoubtedly understates purchasing power, but if we generously assume a coefficient of 2 (based on crude observation), we still only get an annual income of \$7,360 in U.S. purchasing power.

Arguably, the less productive British economy is able to employ relatively more people, at lower wages, and thus put less pressure on the income maintenance system to correct undesirable shortfalls, at least with respect to population of working age. If poverty is viewed as a relative concept, then the greater equality in the British distribution of income makes poverty in Britain a somewhat less acute matter than in the U.S. At the same time, it brings the socially acceptable minimum level of income closer to the average. The socially acceptable minimum income in an advanced industrial country is surely affected by the living standards in neighboring countries with which much of the population and most of its elites have contact. The result is a squeeze between wage opportunities and the minimum income as defined, in Britain, by the level of Supplementary Benefits. A low wage earner (say, one who earns 2/3 of average earnings if fully employed) with a wife and two children who qualifies for SB could receive 82% of his earnings in benefits if not at work. With four children, the SB benefit would be close to 100%.¹¹

Cultural and Political Attitudes

An important difference between the U.S. and Britain can be found in attitudes toward the role of women, and concern for the welfare of children (as well as for the aged and others incapable of working). British women have about the same labor force participation rate as their U.S. counterparts but, to the casual observer, the older cultural norms prevail with respect to attitude. That woman's place is in the home is still something of a British ideal (at least, for men) which is, perforce, honored in the breach. This translates into less political pressure to send poor women to work than is found in the U.S. or even on the continent

of Europe. For example, SE is relatively gentle with middle aged widows who have had a career as housewives. As for women who are caring for dependent children, their right to assistance is unqualified.

The attitude toward mothers with children also seems a function of a strong British compassionate streak for children. Whether or not adult poverty is well deserved, children are never thought to be at fault. They did not choose their parents, nor are they in any position to alter their own circumstance. Child poverty seems particularly abhorrent to the British(possibly more so than to Americans). Perhaps this is a hangover from the heartless attitudes that prevailed in the 19th century. Whatever the reason, both major political parties have a traditional concern for child welfare. Not surprisingly, the principal lobbying group for the poor is called the Child Poverty Action Group (CPAG).

One reflection of this concern for children is shown in Family Allowances (FAM). FAM is payable to all families with two or more children, at the weekly rate of ninety pence for the second child and £1 for each additional child. More to the point, FAM is payable directly to the mother, on the hypothesis that she, more than the father, has the child's welfare at heart. Hence, FAM is more than just a redistribution of income toward families with children as might be the case in France or Canada. An effort is made to make sure that the children themselves will get the benefit of the payment, lest the father use the money for drink at the neighborhood local.

A 1968 change in FAM sought to concentrate the benefits of increased payments on poor families. It did this through "claw-back," by

which a fifty pence increase in benefits was just offset by an equivalent reduction in the portion of income that is free of taxes. Since FAM is taxable, the full benefit of the increase went to families whose incomes were low enough to place them below the tax threshold.¹²

The Family Income Supplement Program (FIS) was a further attempt, this time by a Conservative government, to help low wage families with children. Eligibility for this wage supplement (see the Appendix to this chapter) hinges on the presence of children in a low wage household. FIS was enacted in response to a perceived political demand to help poor children, and was a Tory substitute for a broader and more universal Family Allowance program proposed by the Labour Party. The Tory measure reflected a political need to respond to Labour demands for broadened family allowances, i.e., an income maintenance measure focused on children.

If there can be such a thing as a poverty lobby, its political strength is relatively greater in Britain than in the U.S. Some of this strength comes from what Americans would call the welfare establishment, i.e., social workers and social planners in public and private agencies as well as in academia. The late Professor Richard Titmuss was a strong influence on this group, insofar as he developed social administration as the academic field of study from which the relevant experts are drawn. Not only did he build it up to its present importance in Britain, but he also imprinted it with his political views and analytical methods, especially the notion that a primary function of the welfare state is to help people who are in need. The tradition survives in the students and disciples that he produced for several decades at the London School of

Economics, and it would be difficult to appoint a distinguished panel of British experts without naming one of Titmuss' co-workers or students. There is no comparably unified intellectual force in social welfare in the U.S., although our schools of social work probably have somewhat parallel views.

In general, the "socialism" of the British welfare state puts heavier emphasis on distributive justice than on economic growth as the means toward a better society. This differs from the U.S. emphasis on economic growth as a means to help the poor.

A comparison with Great Britain must also note that somewhat different role of cash relief in the panoply of social welfare benefits. Since everyone has access to the National Health Service, there is no need to qualify for welfare in order to obtain health benefits (except for free prescriptions, glasses, and dental care). Family Allowances are not means-tested. Public housing is not designed (as in the U.S.) for the very poorest, but serves a broad spectrum of working class people, reaching well into the middle income ranges. There is also a variety of means-tested benefits that do not require total poverty as the principal qualification of eligibility. Among these are free school meals, rent rebates, and other benefits available to the working poor. Some of these like rent rebates or FAM, are not additive to SB, and thus shift some of the expense away from the SB budget. This puts a slightly lesser burden of the total cost of income maintenance on the formal public assistance system. Furthermore, although SB is a passport to the many means-tested benefits available in Britain, it is not the exclusive one. FIS also serves this function. Accordingly, there is a lesser need for persons in search of one particular benefit to try to qualify for the whole package - including SB - in order to obtain the benefit. Unbundling is easier.

There are other major differences in the role of SB, as compared to AFDC, which will be noted here for further development in a later chapter. SB is a broader program in that it covers intact families, and in that it supplements social insurance benefits that fall short of British minimum social standards. In this respect, it covers a larger pool of potentially eligible people than its American counterpart. The political consequence is that a larger proportion of working people in Britain are likely to have at least potential contact with public assistance than is the case in the U.S. where, for most people, AFDC is something for "them" and not "us". Accordingly, the attitude of the British electorate can be expected to be more benign toward public assistance because of the greater likelihood that the ordinary voter will have occasion to use it.

The foregoing establishes a basis for comparing Britain with the U.S. insofar as problems of income maintenance for able-bodied persons is concerned. The appendix to this chapter is a readers' guide to British welfare benefits. It is not intended to be complete, but it may be helpful to readers who have not yet been initiated into the mysteries of the welfare state. The inclusion of training allowances in the list of benefits reflects the idea that training is a relevant alternative to unemployment. In the chapter that follows, a close look will be taken at British social insurance and public assistance, and at the manner in which the various programs interact with each other to create a structure of incentives with respect to the labor market.

NOTES TO CHAPTER TWO

1. Strictly speaking, Great Britain is the United Kingdom without Northern Ireland, and the term will be used in this meaning throughout the work. Northern Ireland has a somewhat separate administration for public assistance (Supplementary Benefits) and for some other programs. In view of the special problems of that unhappy land, it seemed wisest to omit it from consideration here. Great Britain, in turn, consists of Scotland, England and Wales, the last two of which are usually (but not always) administratively the same for program purposes. Some local government (local authority) programs differ as between Scotland and England. However, the major programs examined in this work are uniform throughout Great Britain.

2. Recipients of social benefits in Britain are called claimants. The term was introduced for the deliberate purpose of destigmatizing the benefits by emphasizing the fact that all benefits, whether means-tested or universal, are a matter of right. Persons "claim" what they are entitled to receive.

3. Beatrice Reubens, The Hard to Employ: European Programs (New York: Columbia University Press, 1970), p. 51.

4. Or did, before the onset of the energy crisis and the change in government.

5. This is shown in three forthcoming studies, one for the U.S. as a whole, one for New York City, and one for Detroit. The first is P. Albin, H. Kelejian, and B. Stein, Unemployment and Welfare Benefits, being prepared by the Public Assistance Project of the Institute of Labor Relations at New York University. The second, by C. Peter Rydell et al, Dynamics of New York City's Caseload, is to be published by New York City Rand Institute, #R-1441-NYC. The third is Daniel H. Saks' "Relation between the Labor Market and the Welfare System through Time," an unpublished working paper (1974).

6. Citizens of the Irish Republic have had free entry into Great Britain with the right to work and to receive benefits. There is a significant amount of ethnic hostility against the Irish in England.

7. See C. A. Moser, "Statistics about Immigrants: Objectives, Sources, Methods and Problems," in Central Statistical Office, Social Trends No. 3 (London: HMSO, 1972), pp. 20-30.

8. Constance Sorrentino, "Unemployment in Nine Industrial Countries," Monthly Labor Review (June, 1972), p. 30.

9. The distinction was developed by Michael Piore in "Notes on Welfare Reform and the Design of Income Maintenance Systems," unpublished MS, (1972).

10. Gross median weekly earnings in Central Statistical Office, Annual Abstract of Statistics, 1971, p. 152.

Income net of taxes and benefits was computed by interpolation from Central Statistical Office, "The Incidence of Taxes and Social Service Benefits in 1971", Economic Trends No. 229 (November, 1972), Table 1, p. xix.

11. Central Statistical Office, Social Trends No. 4 (1973), p. 106.

12. For analysis of "claw-back" and the genesis of Family Income Supplement (FIS) see Martin Rein, "Work Incentives and Welfare Reform in Britain," B. Stein and S. M. Miller (eds.), Incentives and Planning in Social Policy (Chicago: Aldine Publishing Co., 1973), pp. 170-173.

APPENDIX TO CHAPTER TWO

MAJOR BRITISH INCOME MAINTENANCE PROGRAMS

NATIONAL INSURANCE

This is the backbone of the British social insurance system, and corresponds roughly to the American notion of social security. All prime age adults are required to participate by the payment of contributions (i.e., taxes). Employed workers have their contributions withheld from their pay, and employers are also required to contribute. Additional funds for the system come from the Exchequer out of general revenues. Benefits are generally based on family size and composition, and some of them pay an earnings-related supplement for the first six months. Where benefits fall below the poverty line, they may be supplemented by Supplementary Benefits (see below). The principal programs relevant to employable adults are:

<u>Unemployment Benefit</u>	Payable for unemployment of from two days to one year at the standard rate. Earnings related benefits are payable from the 13th day to six months. Total benefits cannot exceed 85% of usual earnings. Married women who have chosen to con- tribute at a lower rate than men do not qualify.
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Sickness and
Invalidity Benefit

Payable for illness of from three days to one year at the same rate as Unemployment Benefit. After 168 working days it is supplemented by Invalidity Benefit at a rate that declines with the claimant's age.

Maternity
Benefits

All women are eligible for a grant of £25 per child per confinement. Working women who are pregnant can receive a weekly allowance equal to the standard unemployment benefit for single men for a period beginning 11 weeks before confinement and ending six weeks after confinement.

Retirement
Pension

Available to men at age 65 and women at age 60 who work no more than 12 hours weekly and earn less than £9.50. Earnings limitation ceases at 70 and 65, respectively. Payable at the same standard rate as other benefits, but a graduated amount is payable to those who chose to pay an additional contribution. The system

is currently shifting over to greater emphasis on employer pension plans.

Widows'
Benefits

All widows receive an allowance for 26 weeks following the death of their husband, at the standard rate plus earnings related benefits. Widows with dependent children receive a widowed mothers' allowance with benefits for each minor child. At the expiration of the allowance, widows over 40 receive a pension which ranges from £2.03 at age 40 to the standard rate of £6.75 at age 50 or over.

INDUSTRIAL INJURIES

This is essentially the British version of Workmen's Compensation. It is financed by contributions levied on employees and employers, and further subsidized by the Exchequer. Benefits may be supplemented by Supplementary Benefits. The principal benefits are:

Injury Benefit

Payable up to 26 weeks. The basic rate is higher than the rate for sickness benefit.

Disablement Benefit

Based on medical assessment of the extent of claimant's injury, from 20% disability (paid with lump sum) to 100%, plus additions for various situations such as unemployability, unfitness to return to regular job, need for constant supervision, &c. Payment of the above pension does not necessarily disqualify claimants from National Insurance benefits.

Death Benefits For Widows and Dependents

Allowances for minor children at the standard rate of NI. A 26 week allowance of £9.45, and a pension similar to NI Widows' Benefit. The two types of pensions are mutually exclusive.

FAMILY ALLOWANCES

Families with two or more children receive a weekly allowance of 90 pence for the first two children, and £1 for each additional child. The allowance is financed entirely by the Exchequer out of general revenues, and is paid directly to the mother, where possible.

Benefits are taxable as ordinary income. There is no means test or other condition of eligibility.

However, Supplementary Benefits are paid net of Family Allowances.

FAMILY INCOME SUPPLEMENT

Payable to families with incomes below a sort of poverty scale based on family size. The benefit pays 50% of the difference between actual income and the designated amount on the scale, up to a maximum of £5 per week. Financed out of general revenues. Claimants are automatically eligible for certain other welfare benefits, such as free eyeglasses, dental treatment, school meals, etc.

SUPPLEMENTARY BENEFITS (Supplementary Benefits Commission, Department of Health and Social Security)

This is the basic public assistance program, financed by the Exchequer out of general revenues. Claimants are automatically eligible for certain other benefits, such as free eyeglasses, prescriptions, dental treatment, school meals, etc. Rent and rate rebates must be claimed, and are subtracted from benefits.

Supplementary Allowance

To bring family resources up to the "appropriate level of requirements" set by Parliament, for persons below pensionable age, i.e., a poverty line. Thus, benefits are means tested. A scale of payments exists, based on family size and age of children, plus housing costs and exceptional needs. SB cannot be used to supplement full time earnings (see FIS) and part time earnings above £2 are taxed at 100%. Benefits cannot exceed full time earnings in claimant's usual occupation (wage stop). Employable claimants must register for work, except mothers caring for minor children.

Supplementary Pension

Essentially the same thing for persons of pensionable age.

MISCELLANEOUS LOCAL AUTHORITY WELFARE BENEFITS

Council Housing

Local authorities build and maintain public housing for local residents, subject to a rather generous needs test.

The last government directed authorities to move all rents up toward competitive levels.

Rent Rebates and Allowances

Rent subsidies administered at local levels and income tested, with implicit marginal tax rates of 17% to 25%.

Rate Rebates

Income tested reductions in local property taxes.

Free School Meals

Remission of the charge for school lunches for poor children.

Higher Education Grants

Maintenance grants to students in higher education, income tested to parents.

DEPARTMENT OF EMPLOYMENT BENEFITS

A number of cash benefits are administered by the Department of Employment as part of its responsibility for British manpower policy. The principal ones are:

Redundancy Payments

Lump sum payments to workers dismissed for economic reasons. The amount is a function of length of service and the

age during which the service was performed. Payments are made by the employer, but half the payment is then recouped from a fund which is financed by a payroll tax on employers.

Training Allowances

Weekly allowances to trainees under the Training Opportunities Scheme, at Government Training Centres or Colleges of Further Education. The scale is similar to NI benefits, but slightly higher. Allowances are slightly lower for Industrial Rehabilitation.

Employment Transfer Scheme

Benefits to aid workers to move to another locality because of actual or impending unemployment. The program is limited to workers who earn less than £2650 per year. Benefits include payment of fare to the job interview, a weekly allowance of £6.58 while the worker's family remains at the old home,

cost of moving personal effects, a lump sum toward incidental expenses, and aid in selling and buying the home. Special benefits exist for movement into less developed ("assisted") areas.

The purpose is to promote labor mobility, but the numbers involved have been small.

SOURCES FOR APPENDIX TO CHAPTER TWO (in alphabetical order):

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CHAPTER THREE

THE INTERPLAY OF SOCIAL INSURANCE AND PUBLIC ASSISTANCE PROGRAMS

HISTORICAL BACKGROUND

British income maintenance before World War II was, like its continental counterparts, oriented towards the social insurance principle. This meant linking eligibility with participation in the labor market, and using a fund, preferably contributory, to finance claims. The use of a fund was considered "sound" among policy-makers who feared any system with an unlimited claim on general tax revenues. The same sort of reasoning underlies American Social Security with its payroll taxes and its trust funds.

By 1939, four funds were in existence: health insurance, unemployment insurance, agricultural unemployment insurance, and pensions for the aged, widows and orphans. These had been developed over time in a piecemeal way. However, coverage was far from comprehensive, benefits were limited and administration was complex and costly. The concept underlying the services was that of making special provision for the minimum requirements of groups that were in particular need.¹

The backstop program to these funds was public assistance, which was the old Poor Law in its final stage. As in the U.S., public assistance was primarily a local matter, although its form and content were mandated to the localities (local authorities) by Parliament. The indigent who were not eligible for aid by the funds, and who could not get other aid, were the potential clients of the Poor Law, which served as the net below the net.

However, the high levels of unemployment that began in the mid-1920s exhausted the unemployment insurance fund and put strains on public

assistance. The Poor Law was not, in any event, designed to help able-bodied workers. A crisis that developed from this situation led to the enactment of a second type of public assistance, called Unemployment Assistance. This was funded out of general revenues and administered by a national board.

The Unemployment Assistance program used the means test to dole out its benefits. In this respect it followed the general principle behind assistance, in contrast to social insurance. Since the volume of claims on assistance is limited only by circumstance and not by the size of a fund, the need to economize funds requires a rationing device. The means test experience that was developed under the Poor Law seemed most applicable to the situation. Coverage under Unemployment Assistance was quite broad, which gave a far greater proportion of the population some experience with the means test than had been the case with the old Poor Law. One political consequence was that the means test became unpopular, a factor that undoubtedly played a role in the post-war reform of British social services.

The Goals of the Beveridge Plan

The formation of the British welfare state after World War II was heavily influenced by the Beveridge Report.² One aspect of the reforms coming from the Beveridge Report was that the various patchwork programs were consolidated into one comprehensive system. The backbone of the Beveridge plan for income maintenance was a contributory form of social insurance. Heavy emphasis was placed on the prevention of poverty

by the use of family allowances, a comprehensive health and rehabilitation service, and by a Keynesian full employment policy. The contributory social insurance benefits were set at subsistence. In a sense, this was all that the state owed the citizen, and Beveridge envisioned the development of private insurance schemes to supplement the basic subsistence benefit for those who might choose this form of saving. Since the social insurance system was contributory, the benefits were clearly a matter of right, earned by the recipient. The stigma of public charity, and the indignity of the means test, were thus to be dispensed with.

There was still a need to provide for those who might be in need but did not qualify by virtue of direct or indirect attachment to the labor market. National Assistance was to meet this need. In essence, NA was the nationalized form of the locally administered Poor Law, together with the Unemployment Assistance program, pension supplements, and similar odds and ends. In this respect, the public assistance patchwork was, like the insurance system, made comprehensive.

It was believed in Britain, just as in the U.S., that public assistance would be a minor part of British social security, especially as time moved the younger generation through full coverage. This did not turn out to be the case, and the number of persons receiving Supplementary Benefits (the present name for National Assistance) as their primary form of income maintenance is 30% as great as the number of National Insurance beneficiaries.³

The actual welfare state that emerged from the post-war reforms differed from the Beveridge blueprint in a number of respects. Of the

policies to prevent poverty that were enacted, only the National Health Service emerged in full form. Family Allowances (FAM) never became a great enough income transfer device to bring many people out of poverty. Although a full employment policy was pursued, and kept unemployment below U.S. levels it encountered the following interrelated problems: 1) It proceeded on a stop-go basis, since balance of payment problems recurrently forced policymakers to truncate each boom, and 2) a persistently low rate of real economic growth left relatively little scope for raising real wages for workers in the low wage sector and therefore for using economic growth to reduce the number of the poor.

Conflict Among the Goals

In the enactment of the operative social security scheme, three basic Beveridge goals came into conflict with each other. One was the proposition that social security benefits should be paid out at a flat rate set at what can be called a social minimum income. The second goal was that all needy families should receive, as a general rule, a social minimum level of income. The third was that social insurance benefits should somehow be felt to be preferable to assistance benefits.⁴

If assistance were to be felt as less desirable than insurance, one would have expected it to offer lower benefits. But this was not the case, since both were supposedly set at a "minimum" level. Furthermore, national insurance benefits tended to fall below assistance benefits when rent and other variables were taken into consideration. Since national assistance was used to supplement national insurance if the latter benefits

fell below the minimum, some proportion of national insurance claimants were always entitled to national assistance. These, it should be noted had fulfilled their side of the social bargain, in that they had directly or indirectly "earned" their benefits. At the same time, the policy that a minimum benefit was available to all in need removed the economic difference to the claimants between the two programs. There remained, of course, the indignity of the means test and the stigma of charity with respect to assistance, but this was blunted by the presence of claimants with overlapping coverage.

If the assistance benefit levels represented the society's calculation of a minimum standard of living, then the insurance benefits could, by themselves be economically less desirable even if "morally superior." The goal of setting social insurance benefits at a flat subsistence was not achieved. At the same time, it was difficult to assert that the insurance benefits were somehow more desirable when, in fact, they were economically inferior.

There were several roads that might have led out of this dilemma, and British policy moved along all of them. One was to keep certain assistance benefits low, a second was to raise the insurance benefits, and the third was to use assistance as a supplement to insurance. Each presented problems, and all of them together served to complicate matters.

It is difficult to assert that everyone ought to be guaranteed some socially determined minimum income while simultaneously deciding that some people should, after all, receive benefits below this. Yet, this is what wage stop does. Wage stop is a device that limits the level of

assistance benefits to what the principal wage earner could earn on the labor market. This made national insurance economically preferable to national assistance for disemployed wage earners in the lowest wage brackets, but at the politically uncomfortable cost of specifying that they were to be supported at a level below the social minimum.

The move to raise insurance benefits, relative to assistance, came via the introduction of earnings-related benefits, first for pensions (in 1961), and then for unemployment and sickness benefits (1966). This removed the Beveridge assumption that all benefits would be at some flat-rate basic level. The introduction of earnings-related benefits made it possible for workers to receive benefits above the minimum scale, subject to an upper limit and to the constraint that the combined benefit (basic plus earnings related) could not exceed 85% of average weekly earnings.⁵ In order to maintain the actuarial soundness of the scheme, it was necessary to depart from still another Beveridge notion, the flat-rate contribution, and to add a proportional payroll tax (applied to an upper limit of £30 per week in wages) to the flat rate. Since the point at which the earnings-related benefits come into play is a low one, the overlap between assistance, and insurance has not been removed for much of the working population.

As noted above, it is British policy to supplement inadequate national insurance benefits, and a considerable overlap in coverage exists. Under the circumstances, it has been hard to maintain that one benefit should be felt to be "less desirable" than the other. This dilemma was resolved when the Ministry of Social Security Act of 1966 moved to destigmatize National Assistance for all claimants. The program was renamed

Supplementary Benefits (SB), and divided into two components: Supplementary Pensions, and Supplementary Assistance.⁶ Claimants were given an explicit "right" to benefits, based entirely on the rules of qualification. The purpose of this move (by itself, it made no practical difference) was to remove the mantle of public charity from the assistance benefits. In other words, two of the Beveridge goals gave way to the third and most fundamental goal: the right of all persons in need and unable to work to receive a minimum level of money income.

This must be qualified (somehow, grand principles are never neat) by two provisos: 1) the definition of who is unable to work, i.e. not expected to look for work, and 2) the wage stop. The most important difference between the United States and the British statutory definitions of "able-bodied" lies in the treatment of female heads of households caring for children, or what the British call unsupported mothers. There is no legal obligation for an unsupported mother to seek work. She is entitled to support from the state at SB levels, although this does not remove the legal liabilities of husbands, fathers, or co-habiting males for her maintenance or the maintenance of the children. The work test is not applied, at least by statute, to unsupported mothers, regardless of whether they are "able" to work and earn at least the equivalent of the benefit.⁷

Households where an able-bodied male head is incapable of earning the social minimum income on the labor market are not entitled to receive it from SB. This is the qualification to the notion of a social minimum that is introduced by the wage stop. It appears to condemn a portion of the lowest paid population to perpetual sub-poverty --

sub-poverty because the SB benefit itself is considered to be a kind of poverty line -- in order to maintain a work incentive.

INTERRELATIONSHIPS: NATIONAL INSURANCE AND SUPPLEMENTARY BENEFITS

As we have seen above, insurance and assistance are not two separate income maintenance devices with separate clienteles and separate functions. They are sub-systems that interact with each other. The result of the interaction has been to change the role of assistance from the simple one of the "net below the safety net" into a sub-system of the larger income maintenance system. In the larger system, assistance serves as a supplement to and as a substitute for the other public income transfer schemes, as well as for the income distribution that is carried out through the private sector. It is merely one of a variety of public measures that substitute and supplement (as the case may be) private income, and which serve not only to redistribute income in general, but also to shift the burden of income transfers from relatives (and friends) to the taxpayers at large.⁸ Public income transfers, where applicable, are a substitute for private ones, although private transfers continue to play a role of unknown dimension as licit and illicit supplements to public transfers. The particular mix of income transfer components that are available to any particular claimant, and the level of support it offers, is much more a matter of circumstance than whether the benefit has been "earned" (and is thus "deserved") by the claimant.

This can be seen more clearly if we look at income maintenance by function rather than by program, and since this work concerns the able-bodied,

the example might just as well be drawn from unemployment. Ostensibly, the major program in aid of the unemployed is the national insurance system's Unemployment Benefit (UB). It covers workers who have paid the full flat and graduated contribution for at least six months, and who are out of work and looking for work. The benefit lasts for a year at the flat rate, but the earnings related supplement runs out after six months. Take a household consisting of working husband earning £30 per week, non-working wife, and two children, paying £6 in rent. Assume that the combined value of savings and redundancy payments is no greater than £325, which might easily be the case for someone who has been working for less than ten years on a job. Unemployment Benefit, including earnings-related supplement, will be in the neighborhood of £22 per week; add about £3 to this for rent rebate and FAM, and his benefit will amount to about £25, of which £7 will have been the earnings-related supplement. If unemployment persists for more than six months, the £7 supplement ceases. However, this brings the family below the minimum for Supplementary Benefits which, in this case, would be about £21 (including FAM and rent rebate). Since the family is entitled to claim SB, the loss in income is closer to £4 than to £7. This is the true size of the earnings-related supplement in the above case, the rest being a taxation and bookkeeping device.

From the point of view of the family's financial welfare, the change in the administrative mix of income transfer programs is less significant than the fluctuations in family income that the changes entail. In the first six months of the spell of unemployment, the components of the public income transfers to this family would consist of UB, both flat

rate and supplemented, plus FAM for the second child, plus rent rebate. In the second six months, the mix changes somewhat, as part of UB drops out and is replaced, in part, by payments from SB. Should the unemployment continue past twelve months, the rest of the UB drops out and is replaced by SB, calculated net of FAM and the rent rebate.⁹

Just to spell out this mix of benefits, and the changes in the mix that can occur is to underscore the proposition that assistance (SB) is merely one of a set of benefits rather than a separate program. Hence, SB in Britain has passed the point where it is residual, except in the administrative sense. It follows that the 1966 legislation in which assistance was renamed and destigmatized was less a reform than a confirmation of what was already true in practice.

In the U.S., by contrast, the assistance and insurance systems remain separate with respect to unemployment. Receipt of unemployment benefits generally precludes receipt of public assistance. The eligibility focus that is placed on female household heads in the U.S. means that the role of assistance as an unemployment benefit is far more indirect than it is in Britain. The response of public assistance expenditure to unemployment is difficult to measure in the U.S. In Britain, the relationship is pretty clear, as can be seen in Table 3-1.

Since the eligibility focus in Britain is the householder, the function of assistance (SR) is to ensure that the unemployed claimant received the social minimum level of benefits which is represented by the SB scale rate (basic benefit level) plus rent. If the Unemployment Benefit pays at least this much, then SB is not involved. If UB falls short of it,

Table 3-1

Unemployment and Supplementary Benefit Claims

<u>Year</u>	<u>% Unemployment</u>	<u>No. of Unemploy- ment Claimants [in 000s]</u>	<u>No. of Unemployed SB Claimants [in 000s]</u>	
			<u>With Unemploy- ment Benefit</u>	<u>Without Unemploy- ment Benefit</u>
1961	1.5	209	45	86
1962	2.0	281	89	113
1963	2.5	390	62	123
1964	1.6	220	38	93
1965	1.4	188	34	78
1966	1.5	208	77	102
1967	2.4	361	86	138
1968	2.4	331	73	147
1969	2.4	309	71	157
1970	2.6	327	73	166
1971	3.6	438	129	258

Source: Central Statistical Office, Annual Abstract of Statistics, 1972,
London: HMSO, 1972.

then SB makes up the difference. If the unemployed worker is not eligible for UB, then SB carries the entire burden. The latter case would include new entrants into the full time labor market, including children aged sixteen even if living at home, re-entrants, and persons moving from self-employment to unemployment. Wives are not householders, and are eligible only for UB, and then only if they had opted to pay the full contribution.

The condition for receiving the Supplementary Benefit is availability for work if the claimant is able-bodied and not an unsupported mother. Availability is evidenced, at minimum, by registration at the Employment Service. As a practical matter, the pressure to get a job is applied with differing intensities to different categories of people. For example, middle aged widows will be exempted if they have no work experience, and registration is only a formality for older men who are among the long term unemployed.

The role of SB for unemployment illustrates the shift in the respective roles of assistance and insurance in the British social security system. The last moved quite a distance from the Beveridge concept of income maintenance, a concept that was far more conservative than the present system. Of the various conflicting goals that the Beveridge Plan tried to encompass, the goal of a social minimum income, subject to a work requirement, overrode all the others. The work test is satisfied by efforts to find work on the labor market, a condition that will be discussed in the chapter that follows.

Supplementary Benefits emerged not so much as the ultimate residual benefit but as a substitute for and supplement to National Insurance benefits. The latter are themselves substitutes and supplements.

to private savings and private transfer payments, including intrafamily transfers and loans. Insurance benefits do not directly interfere with savings and private transfers, since the social insurance notion excludes the use of the means test. Nevertheless, the presence of National Insurance reduces the need for intrafamily transfers and thus reenforces the decomposition of the extended family. Similarly, NI reduces the need to save for various contingencies. Since the principal financing mechanism for the system is a payroll tax, the ability to make transfers or accumulate savings is also diminished on the assumption that the incidence of payroll taxes falls on workers, regardless of where tax is collected. All this, of course, reflects the Bismarckian proposition that socialization of savings and insurance against certain contingencies is a course of action that advances the general welfare and political stability of the community.

Hardly anyone quarrels with the need for social insurance, although there may be disputes both over its extent and its use -- or lack of use -- as a device for vertical redistribution of income. However, the coexistence of SB and NI in the roles described above, creates a number of problems:

1. If NI benefits are to be "preferable" to SB, they must pay substantially more in money income.
2. If money benefits from NI, NI/SB, and SB are not substantially different in magnitude, then the utility (satisfaction) from each f of SB must somehow be less than the utility of a f of NI if the preferable status of the latter is to be maintained. This implies a function for stigma, harassment, and the other unpleasanties usually associated with public

assistance. The function is to affect the behavior of potential claimants, but it will also affect the behavior of those who administer the two systems. The very process of administration of a means-tested benefit will reenforce this attitude among both claimants and administrators.¹⁰

3. A reduction in stigma and associated unpleasantness may be desirable both for humane and for political reasons (given the wide role of SB). However, a consequence of such reduction will be the growth of incentive to claimants to avoid the NI system, and to choose SB to the extent that this may be possible at the margin. High contribution rates for NI also provide this incentive. Avoidance can take lawful or unlawful forms.

For example, married women who are employed may pay NI taxes at a lower rate and receive less coverage, i.e. the lower rate does not entitle them to unemployment benefits under NI.¹¹ Hence, the choice of coverage for a "rational" married working woman requires her to predict the probability and length of unemployment for herself or her husband, not to mention predicting the stability of her marriage.

To give another example, there may be an advantage to a worker to be "self-employed," not only for reasons of income tax advantages (including the possibility of greater tax evasion), but also in order to pay a lower National Insurance contribution.¹² If the benefit is going to be pretty much the same, which would be the case in the lower-than-average wage brackets, then it makes sense to choose the cheapest option. In some lines of work, the option of choosing between employed and self-employed labor is available. The most notorious example is the

construction trades, where the growing number of "self-employed" laborers, (i.e. they are independent contractors) is called "lump labor". Construction is a low-wage trade in Britain. Accordingly, many workers who need to claim unemployment or pension benefits will get the SB rate regardless of their contributions to NI.¹³ Payment of the NI contribution at the full rate would be economically irrational for such workers.

Family Income Supplement and Supplementary Benefits

The two types of payments, FIS and SB, are mutually exclusive. Accordingly, one would not expect a direct interaction between the two. However, as is often the case in social welfare programs, the existence of one benefit affects behavior with respect to the other.

FIS was legislated in 1971 as a form of wage supplementation for low paid working families with at least one child. There is a "prescribed amount" of income for each family by the number of children. Income consists of all earnings, except those of children, plus family allowances. The prescribed amount corresponds roughly to a poverty line. Families with incomes below the prescribed amount are entitled to a supplement of half the amount by which family income falls below the prescribed amount, up to a maximum of £5.

The benefit, as described above, gives the appearance of a special negative tax system with a negative tax rate of 50%. An important reason for the enactment of negative tax systems is to enhance the incentive to seek work in the labor market, that is, to make earned income financially preferable to welfare income.¹⁴ This was the prime motivation

of the Family Assistance Plan legislation, at least according to President Nixon. The negative tax aspects of FAP were supposed to turn welfare into "workfare" by raising the incomes of the working poor (in families) relative to the incomes of families subsisting entirely on welfare. This was to solve the problem of the welfare mess.

Like a number of other observers, I had viewed FIS in this light before coming to Britain. The British,¹⁵ however, found this attitude puzzling. The principal purpose of the legislation, in British eyes, was to help families who were in poverty despite the fact that the head of the family engaged in full time work. FIS was an alternative to a sharp increase in the size of Family Allowances and the extension of FAM to families with one child. Indeed, the target population was poor children. Where such children had non-working parents, SB brought them up to the poverty line. But FAM, paying 90 pence per week for the second child, and £1 for each subsequent child came nowhere near filling the poverty gap.

Expansion of FAM would have involved a substantial transfer cost, which was why it was favored by the British left and by those who prefer universal benefits for their absence of stigma and administrative discretion. A 1968 increase in FAM had been financed, in part, by "claw-back," i.e. by adjusting income taxes so as to recapture the benefits from taxpayers whose incomes were great enough to place them into the "standard rate" bracket (which was then 32%). However, by 1971, a combination of inflation and tax reform had raised large numbers of low income wage earners above the tax threshold, paying a standard rate of 30% (plus NI contribution), which was also the lowest marginal tax rate. But these

same low income families were the target for proposed benefits. Accordingly, there was no scope left for the use of claw-back to concentrate the benefits on the target population.¹⁶

What became clear, once I was in Britain, was that the function of the negative tax in FIS, (plus the absolute limit on the size of the benefit) was to concentrate the benefits on the desired target as precisely and economically as possible. As a result, FIS became a program of modest size, with 85,000 claimants by the Fall of 1972. Of these, 53% received benefits of less than £2 per week, and 75% received less than £3 per week.¹⁷ Furthermore, much of the discussion about work incentives centered around the disincentive effect of an implicit marginal tax rate of 50%, especially when added to the tax rates implicit in the other benefits available to this population. FIS, by serving as a "passport" to other benefits, presumably encourages the take-up of additional benefits and therefore implies an implicit tax rate of well over 50% for its beneficiaries. This phenomenon is called the poverty trap because the high "tax" on additional earnings keeps the worker in poverty.¹⁸ Suffice it to say, FIS was not primarily intended to provide work incentives for an otherwise work-shy population. Although the discussions in the House of Commons on the bill paid lip service to the work ethic, it did not seem to be much of a genuine issue.

In British eyes, FIS marked a radical departure from previous welfare policy in that cash benefits became available to working people for the first time since the demise of the Speenhamland system in the early 19th century. The Poor Law reform of 1834 had made work and welfare mutually exclusive, except inside the workhouse, and the tradition

persisted into the twentieth century. Rather more to-do than necessary was made of this in Britain, considering that the in-kind benefits already available to this population are a substitute for cash and would affect behavior in a manner very similar to cash benefits. However, the relative attractiveness of SB to low wage workers must have been on the minds of the FIS planners. Strictly speaking, the incentive to move from low paid work to SB should be blunted by the wage stop, which would keep SB benefits from being greater than wage earnings. Thus, there should be no interaction between FIS and SB, since if the rules of wage stop are enforced, the former is not really necessary to protect the latter from economically rational but low paid workers whose benefits on SB would exceed their wages.

Wage stop is not applied to female heads of households, and presumably SB is preferable to low wage work to this population, even without considering the cost of child care. The advent of FIS has altered this calculation at the margin. For example, an unsupported mother with two children, aged six and nine, would receive £11.65 plus rent from SB. If she worked at least thirty hours per week and earned, say, £14.00, she would receive 90 pence from FAM and £4.80 from FIS. Thus, she was better off at work to the extent that her rent and work expenses were less than £8.00 per week.¹⁹

Not surprisingly, some unsupported mothers have taken advantage of FIS. There are no data that would show the shift, if any, from SB to FIS. However, no less than 38% of FIS claimants are one-parent families headed by a woman. The distribution of such families, by family size

benefit, and earnings is given in Table 3-2. As would be expected, the largest proportion (69%) consists of families with one child, since the earnings ability relative to the cost of child care falls off sharply after the first child. Still, about 20% of the claimants have two children, which implies earnings (net of FAM) ranging from £11.70 to £20.70, which are on the low side when one considers that at least thirty hours a week of work are involved.

Much of the controversy over FIS in Britain has hinged on the relatively low rate of take-up. The 85,000 claimants at the end of 1972 represent only sixty per cent of an estimated target population of 140,000.²⁰ This raises some wonderment about a program that has trouble giving away money. To the American reader, however, the disproportionate use of FIS by unsupported mothers suggests that there is scope for a wage supplement in aid of single mothers who prefer to work. On the American scene, some of this done by the provisions of AFDC that enable the recipient to keep 33% of earnings above \$30 per month, with disregard for work-related expenses. However, there is an important difference between the two programs that must be noted. The British program is more universal; application can be made by filing a form at the nearest post office, and eligibility is established by proof of employment, earnings, and family status. The American program focuses on the woman who is unemployed at the time of application, and thus discriminates against the woman who expresses her desire and ability to work simply by working.

Family Income Supplement interacts with Supplementary Benefits in yet another manner, and that is in connection with wage stop. It will

Table 3-2

Mothers With Dependent Children Receiving Family Income Supplement, October 1972

No. of Children	Weekly Amount of FIS Payment												
	Under F 1			F1 - 1.90			F2 - 2.90						
	All No.	Amounts %	Est. ^a Earnings	No.	%	Est. ^a Earnings	No.	%	Est. ^a Earnings	No.	%	Est. ^a Earnings	No.
All families	32,525	100.0	n.a.	4019	100.0	n.a.	7935	100.0	n.a.	7755	100.0	n.a.	6441
1 child	22,562	69.3	20.00	2672	66.5	20.00	5519	69.6	18.00	5459	70.4	16.00	4491
2 children	6566	20.2	21.60	960	23.9	21.60	1680	21.2	19.60	1620	20.1	17.60	1181
3 children	2323	7.1	23.10	245	6.1	23.10	491	6.1	21.10	502	6.5	19.10	531
4 children	687	2.1	24.60	120	3.0	24.60	153	1.9	22.60	125	1.6	20.60	121
5 children	243	0.8	27.60	16	0.4	27.60	71	1.0	25.60	16	0.2	23.60	41
6 children or more	142	0.4	n.a.	5	0.1	n.a.	22	0.3	n.a.	33	0.4	n.a.	41

^aIncluding Family Allowance in cases of 2 or more children.

Source: Department of Health and Social Security, unpublished statistics, Earnings estimates are derived from benefit formula to the mid-point of the earnings range. This method does not permit estimates for category of 6 or more children. Percentages may not add to 100 because of rounding.

Statement, October 1972

£2 - 2.90			£3 - 3.90			£4 - 4.90			£5		
No.	%	Est. ^a Earnings	No.	%	Est. ^a Earnings	No.	%	Est. ^a Earnings	No.	%	Est. ^a Earnings
7755	100.0	n.a.	6547	100.0	n.a.	3828	100.0	n.a.	2547	100.0	n.a.
5459	70.4	16.00	4799	69.8	14.00	2632	68.8	12.00	1789	70.2	11.00
1620	20.1	17.60	1189	18.5	15.00	682	17.8	13.60	436	24.4	12.60
502	6.5	19.10	574	8.3	17.10	344	9.0	15.10	207	8.1	14.10
125	1.6	20.60	125	1.9	18.60	109	2.8	16.60	55	2.2	15.60
16	0.2	23.60	49	0.8	21.60	49	1.3	19.60	44	1.7	18.60
33	0.4	n.a.	44	0.7	n.a.	22	0.6	n.a.	16	0.6	n.a.

Estimates are derived by applying the
 does not permit estimates for the open-ended
 of rounding.

be recalled that the purpose of wage stop is to limit benefits under SB to the claimant's wage alternatives where the latter are smaller than the scale rate (i.e., basic rate). In computing the alternative income available to the claimant on the labor market, his FIS entitlement is taken into account and treated as if it were wages. The result has been to raise the benefits of claimants subject to wage stop, and to eliminate the wage stop altogether for much of the previously wage stopped SB population.

Redundancy Benefits

Redundancy Benefits (RB) are paid as a lump sum to workers who are severed from employment for economic reasons. They apparently combine the concept that workers have a property right in jobs faithfully performed, with the function of aiding workers during the transition toward other jobs or toward retirement. The latter function is also performed by National Insurance and Supplementary Benefits for unemployed workers, so that this benefit joins the array of benefits available to certain of the unemployed. There is no direct interaction with NI, in that both benefits are of the social insurance type, and are additive. Being unemployed is not a condition for receiving RB, since the award will be made regardless of whether the claimant has another job lined up or, for that matter, wishes to withdraw from the labor force. There may be an indirect interaction, in that RB may enable workers to prolong their job search, remain unemployed longer and therefore draw more in Unemployment Benefits from NI.

The relationship to SB is similar, except that Redundancy Benefits are partially a substitute for SB. This is because RB is treated as part

of the family's resources in calculating eligibility and the level of benefits. Under the British system, the presence of assets does not disqualify claimants from receiving SB. Capital below the value of £325 is disregarded entirely. Above that amount, weekly benefits are reduced by 5p weekly for every £25 up to £800, where the implicit tax rises to 12-1/2p per £25. Furthermore, the value of an owner occupied house is disregarded.²¹ Since most RB payments are below £325 (the average is £200) no substitution takes place in these cases. As with NI, any interaction is indirect in that it may prolong the claimant's willingness to remain unemployed.

Training Allowances

The British manpower training program, known as the Training Opportunities Scheme (TOPS) provides cash allowances for workers who are enrolled in the training program. The program itself will be described in a subsequent chapter. It is useful at this point, however, to look at the level of allowances as compared to SB and NI. Although training allowances are not commonly thought to be a form of social security, they serve an income maintenance function for persons who might otherwise be unemployed. Indeed, some unemployed persons who might have the opportunity to enroll in TOPS might have to consider the opportunity costs involved, since training allowances are not uniformly higher than SB, which might be an available alternative.

To the extent that training allowances and SB are mutually exclusive, they do not interact directly. The same is true of training

allowances and unemployment benefits under NI. As with other alternatives, the presence of one may affect behavior with respect to the other. The incentive to "choose" one or the other is limited, of course, by administration of the relevant rules governing eligibility and by the limited number of places available in the training program.

It is instructive to examine the benefit levels of the three programs, and this is done in Table 3-3. The benefits under training allowances and NI include Family Allowances where two or more children are involved, so as to facilitate comparison with SB. Earnings-related benefits have been excluded because persons whose unemployment benefit is primarily SB will have exhausted their eligibility for such benefits. The reader is reminded, however, that the training allowances and NI benefits in Table 3-3 understate the actual benefits for workers who in recent previous employment were earning over £9 per week.

SB is cited at the scale rate, i.e. without rent. Since the benefit varies both with family size and age of children, I have simplified the table by assuming that all children are either under five years old or, at the other extreme, between the ages of thirteen and fifteen.²² This establishes the range of the scale rate.

The columns headed "Equalizing Rent" show the difference between the Training Allowance and the SB scale rate. Thus, the cash benefit under the Training Allowance is equal to or greater than SB when the rent (or housing cost) is equal to or less than the equalizing rent factor. It is assumed that all families collect the relevant rent rebates and allowances.

Relation of Training Allowance to National Insurance and Supplementary Benefits,
for Comparable Cases, 1972-1973

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Family Size and Composition	TA + FAM ^{a,b}	NI + FAM ^{a,b}	SB Scale Rate			Equalizing Rent Factor			Average Rent ^{b,c}
			Children			Children			
			None	Young	Older	None	Young	Older	
Man, no dependents	11.75	6.75	6.55				5.20		2.46 ^c
Man and wife	14.90	10.90	10.65				4.25		2.73 ^c
Man, wife, 1 child	16.50	13.00	12.55	14.05			3.95	2.45	3.59 ^c
Man, wife, 2 children	18.60	15.10	14.45	17.45			4.15	1.15	4.10 ^d
Man, wife, 3 children	20.70	17.20	16.35	20.85			4.35	-.15	4.50 ^d
Woman, no dependents	10.75	6.75	6.55						2.46 ^c
Woman, 1 child	12.35	8.85	8.45	9.95			3.90	2.40	3.59 ^c
Woman, 2 children	13.55	10.95	10.35	13.35			3.20	.20	4.00 ^d

^aPlus earnings-related benefit, where applicable. Training Allowances cited here are for living at home. Trainees also receive lunch, carfare (if the Centre is more than two miles from home), and credit for NI contributions.

^bFAM is included in order to establish comparability with SB.

^cAverage rents are taken from Department of Health and Social Security, Annual Report, 1972, p. 118.

^dCrude estimate.

Sources: Department of Employment, Training Opportunities Scheme, Rates of Allowance During Training, PL 394 (rev.) 10/72; British Information Services, Social Security in Great Britain, R 5455/73.



Training Allowances are greater than NI unemployment benefits-- even for women. (women are entitled to lower Training Allowances than men). This was a deliberate policy to encourage unemployed persons to take up training. A spokesman for the Department of Employment pointed out to me that Training Allowances were also greater than the SB scale rate, and said that this too was a deliberate policy to encourage training. However, the comparison between the latter two types of benefits is not so simple, because of the roles played by age of children and level of rent.²³

Training Allowances tend to more generous than SB for single persons and for very small families who were not likely, in 1972, to be paying £4 to £5 in housing costs--at least, outside of London. Presumably, this would include unsupported mothers. The younger the children, the greater the relative advantage of Training Allowances over SB, since the SB scale rate varies with the age of the children.

The above implies that Training Allowances (relative to SB) favor younger workers to the extent that workers with young children are likely to be younger than those with older children. The age distribution of single persons and couples without children is bi-modal. However, since many of the workers with fully grown children are likely to be too old to be candidates for training,²⁴ the inclusion of single persons and households with two adults does not alter the conclusion that Training Allowances are biased toward younger workers. The relative advantage is extremely great where one adult can train while the other works. A working spouse does not disqualify the family from Training Allowances, but would disqualify it from SB.

The effect of favoring younger households may be desirable from a cost-benefit point of view. Benefits in cost-benefit analysis are the present value of the future stream of earnings increments, and it is the nature of the formula to assign greater values to younger workers. However, if a policy goal is greater employability for the long-term unemployed, including workers suffering from technological unemployment in mid-career, then the relative incentives of Training Allowances and SB are behaving perversely.²⁵

A similar perverse effect is occasioned by the variation that rent (and other housing costs) induces in the total benefit level of SB, and in the relative advantages of Training Allowances to SB. Rents are highest in urban centers, and especially high in the London region. But employment opportunities are greatest in such places, especially in the high rent London area and its conurbations. Thus, the payoff to training is greatest here, but the short-run incentive is weakest, and the signal sent by the two benefits is confusing.

Arguably, a comparison of SB and Training Allowances is misleading in that training involves long term expectations. Thus, even though SB benefits exceed Training Allowances for any given family, the difference constitutes part of the family's investment in the trainee's stock of human capital. There is nothing unusual about foregoing present consumption for the future, and it is certainly done by trainees who enroll directly from other jobs or who have wage alternatives that exceed the Training Allowance. In 1971, some 40% of applicants to Government Training Centres were employed at the time of application,²⁶ and these took

a reduction in income in order to engage in training. However, unemployed parents in their middle years who have school-aged children, have less of an economic margin for investment than younger couples, especially if their housing costs are high.²⁷

The direction of financial incentives appears to be consonant with other relevant policies, although the consonance may be unintentional. At the operative level, training programs tend to discriminate against older persons and the long-term unemployed. Older persons are said to have more problems, to be harder to work with, and to require more help. Managers of training facilities measure their success by graduates and placements, so that the older men present greater risk of failure not only to themselves but to the trainers' success indicia.

Consonance also exists with FIS, which has made job-holding relatively more advantageous for unsupported mothers. The relative benefits of Training Allowances to SB for a woman with one child lie in the same direction. Data are not available on the extent to which such women are in training, or the training opportunities that exist for them. However, the planned expansion of TOPS includes an expansion of training opportunities for women, and this will incidentally pick up some of the mothers.

When income maintenance programs are viewed as a net, their benefits are seen to constitute a structure of incentives and disincentives that affect labor market behavior. This structure is not necessarily consonant with the set of explicit goals that are intended by the various programs. As American readers know, the less generous American structure

suffers from a similar kind of program irrationality stemming from the interaction of apparently separate programs.

The behavior of potential claimants is affected not only by incentives, but also by sanctions. And it is to these that we now must turn.

NOTES TO CHAPTER THREE

1. J. F. Sleeman, The Welfare State: Its Aims, Benefits and Costs (London: George Allen & Unwin, 1973), pp. 33-36.
2. Social Insurance and Allied Services, Cmd. 6404 (London: HMSO, 1942).
3. Excluding double counting by subtracting from the total of all NI claimants those claimants whose benefits are supplemented by SB. The data are for 1971.
4. See John Walley, Social Security: Another British Failure (London: Charles Knight & Co., 1972), especially pp. 66-129. Sir John was a senior civil servant who played a key role in the development of the post-war British national insurance system.
5. The purpose of this constraint, like wage stop, is to maintain the incentive to work.
6. Note that the stigma-laden term "assistance" did not quite disappear.
7. However, complaints are heard that administrative officers occasionally cry to pressure claimants into getting work. See Dennis Marsden, Mothers Alone: Poverty and the Fatherless Family (London: Allen Lane, The Penguin Press, 1969), pp. 182-186.

8. Piore makes the point with respect to public assistance, but it applies to all public income transfer devices. See Michael J. Piore, "Notes on Welfare Reform and the Design of Income Maintenance Systems," prepared for the Secretary's Committee on Work in America (Department of Health, Education and Welfare, June 14, 1972) Unpublished xerox copy, p. 2.

9. The rent rebate or allowance would, by then, have risen to the highest rate available to the family with curtailed income, but the rise would not affect the family's net income since SB is calculated net of the rent allowance. Again, we see that the benefit, in this case, is a bookkeeping device.

10. For a view of the ambivalent attitudes of administrators, see Michael J. Hill, "The Exercise of Discretion in the National Assistance Board" (London: Royal Institute of Public Administration, 1969), pp. 86-87 (reprinted from the Spring, 1969 issue of Public Administration). A broader discussion of stigma is found in Olive Stevenson, Claimant or Client (London: George Allen & Unwin, 1973), pp. 13-37.

11. Payment of the full tax, i.e. flat rate plus graduated contribution entitles a married woman to considerably lower benefits than would be available to a man or a single woman.

12. There are three classes of contributions: Class 1-employees; Class 2-self-employed; and Class 3-non-employed persons.

13. The point is stressed by Walley, Social Security..., pp. 131-134.

14. D. P. Moynihan notes the similarity between FAP and FIS. See his Politics of a Guaranteed Income (New York: Random House, 1973), p. 5.

15. "The British" here pertains to my conversations with leading British academics, social workers, and civil servants who were concerned with the enactment and administration of FIS.

16. For an excellent summary of this argument, see Martin Rein, "Work Incentives and Welfare Reform" in B. Stein and S. M. Miller, Incentives and Planning in Social Policy (Chicago: Aldine, 1973), pp. 170-173.

17. Data for the proportions come from unpublished statistics provided by the Department of Health and Social Security and are for October, 1972. The 1972 Annual Report of the Department of Health and Social Security (London: HMSO, 1973) gives the number of claimants as 84,000 at the end of 1972.

18. Bruno Stein, "Tax Credits: Poverty Trap", The Spectator (September 8, 1973), pp. 322-323.

19. See "For Your Client's Benefit," Social Work VIII, 1 (April 5, 1973), p. 7.

20. This is a rough estimate made for September 1971 and is said to represent the single best available figure from a range of 110,000 to 170,000.

See John Stacpoole, "Running FIS," New Society (January 13, 1972), p. 65.

21. Department of Health & Social Security, Supplementary Benefits Handbook (rev. ed.) Supplementary Benefits Commission, SBA Paper No. 2 (London: HMSO, 1972), pp. 12-14.

22. At the time of the study, fifteen was school-leaving age in Britain.

23. A number of the persons I interviewed in the Department of Employment believed that Training Allowances were "greater" than SB in order to provide an incentive to train. This indicates a policy perception contrary to facts, a condition that is as common in the U.S. as it is in Britain.

24. Approximately 80% of applicants for Government Training Centers in 1971 were below age forty. Unpublished data from the Queen Mary College Survey of Government Training Centres, courtesy of Mr. Adrian Ziderman.

25. Except to the extent that they are modified by wage stop which would reduce the level of SB for unskilled labor.

26. Queen Mary College Survey.

27. The QMC Survey shows that the ratio of unemployed to employed applicants at Government Training Centres was 2:1 in the North and Northwest regions, and 1:1 in London. Ibid.

CHAPTER FOUR

THE CONTROL PROCEDURES

PUSHES AND PULLS

The devices that encourage or compel labor market activity by public assistance claimants may be divided into pushes and pulls. Pushes, in general, are rules and practices that make the claimant worse off by not working. Worse off, however, includes not only practices that punish economically, but also those that include other pressures. Pulls, on the other hand, are policies that make the claimant better off in an incentive sense. Although the latter have become more important in recent years, especially since the development of negative income tax ideas, the pushes remain an important aspect of public assistance labor market policy. Indeed, when benefits are high relative to the claimants' realistic alternatives in the labor market, then the reliance on pushes will be great, since economic incentives become costly in terms of public funds.

Benefits that encourage work and training are Family Income Supplements (which were previously discussed) and the Training Opportunities Scheme with its training allowances which will be covered in more detail in Chapter 5. In the pages below we shall examine the pushes: control procedures that include the four-week rule, periodic review of claims, direction to attend a Re-establishment Centre, and prosecution for failure to maintain oneself or dependents. Additionally, the wage stop will be discussed although, strictly speaking, it is more of a pull than a push. Nevertheless, it functions in a punitive fashion like some of the other controls.

The Four-Week Rule

In areas where jobs for unskilled men are generally available (areas so designated by the Department of Employment), a claimant who is unskilled, single, and under 45 years of age must re-apply for Supplementary Benefits at the end of four weeks. The period may be shorter if seasonal work is available. The process of re-application involves a review of the applicant's job search activities, and reasons for not obtaining work. The claimant also reports to his Labor Exchange, operated by the Department of Employment, who try to place him, and who make the actual SB payment. The operation of the control is summarized in Table 4-1.

A number of things emerge from Table 4-1. One is that the actual numbers involved are relatively small in relation to total claims. In 1971, four-week awards constituted 5% of all awards, and in 1972 they were .05% of all awards. The rule, as can be seen, is extremely sensitive to aggregate unemployment conditions. What is equally of interest is the relatively small number of renewal applications at the end of four weeks. In 1971 these were 10% of all four-week awards; in 1972 they had risen to 13%, which is still a small figure. This implies that the rule may be successful as a control mechanism, in that it either encourages claimants to engage in active job search because they know that they will be subjected to scrutiny at the end of four weeks, or that it discourages re-applications from persons who might otherwise be eligible.

Table 4-1

Operation of the Four-Week Rule, 1971 and 1972

	<u>1971</u>	<u>1972</u>
Total SB claims from unemployed persons	1,160,000	2,800,000
Number of Four-week awards	62,250	14,500
Number of renewal applications	6,479	1,900
Renewals refused	1,663	323

Source: For 1971, Department of Health and Social Security, Annual Report, 1971. For 1972, unpublished data from DHSS.

However, there may be other explanations for the low rate of reapplication. The labor market for the unskilled will, even during a period of high unemployment, provide a fair amount of turnover, so that one would expect a certain number of men to have found jobs by the end of the period. Another contributing factor might be the delay involved in getting Unemployment Benefits; these, in many cases, are high enough to disqualify claimants from SB once payment on them begins. In terms of the ratio of benefits to wage alternatives, unskilled single men do not have a powerful incentive to engage in scrounging, beyond resting up a bit between jobs. The scale rate for a single householder is £6.55 weekly, plus the addition for net rent; even if rent is calculated generously at £5 (the Commission can disallow "unreasonably high" rents), the total is still well below what the labor market will bring. For persons living with their parents, the addition for rent is 70 pence; if they are young enough, say 19, the £7.20 might be enough, for a while, as pocket money, and the incentive for staying on SB might be greater than is indicated by the ratio of benefits to wages. The fact of the matter is that no one knows.

Whether or not the four-week rule is a functionally operative control, either directly or through deterrence, it does serve the politically important function of helping to satisfy the public that "something is being done." This, at least, is the view of one civil servant, whose general outlook was not one of excessive sympathy for claimants.

The Process of Review

Another example of controls which appear to be a mix of help, hassle, and threat are the reviews conducted both by local office Unemployment Review Officers or staff performing this function, and by the regional UROs. Claimants whose cases are reviewed are called in for interviews. As a general proposition, the local officers tend to concentrate on short term claims, and the regional UROs put emphasis on longer term claims and on claims that are made with excessive frequency.

It is believed in Britain that the review process succeeds in reducing the SB caseload. Existing data appear to bear this out, although the data are too sparse to provide a firm basis for this conclusion. In 1972, 73,000 persons were called for special interviews by their local office, and 40,000 "went off the books" before or shortly after the interview. Regional UROs called 40,000 persons, of whom 19,000 went off the books before or shortly after.¹ Some of this is normal turnover, and some undoubtedly involves "turning the pile," since data do not exist to show how many of the men reappear on the rolls.

A more detailed breakdown is not available for 1972. However, unpublished statistics for one month in 1970 show that 15.5% of claimants called for interview went off the "E" load (i.e. list of employable claimants) before the date of the interview, and another 24.2% went off shortly after one or two interviews. About 10% of those actually interviewed had their allowances limited or withdrawn. There was considerable variation from region to region in this behavior. The relative number of cases in which allowances were limited or withdrawn correlates roughly with the level of employment opportunities.²

The interview process is supposed to be helpful to the claimant and the Supplementary Benefit Commission puts great stress on this. At the same time, the Unemployment Review Officers, and others exercising a similar function, view as one of their tasks the ridding of the rolls of scroungers. Indeed, this view is pervasive enough so that individual staff members may judge the success of their efforts by the number of people who leave the "E load" as a result of their efforts. Local office staff are said to have strong views on the subject, and these views may be strengthened where staff are paying out benefits to unemployed workers that are greater than their own salaries.

According to the Commission itself:

The Unemployment Review Officer is operating in an area where society's attitudes to the Commission's functions are ambivalent. On the one hand, the Commission are urged to deal firmly with "scroungers and layabouts" content to "sponge upon the State": on the other it is accused of "chivvying" and labeling as "work shy" those who are unable to get work, perhaps when unemployment is rising.³

Regional Unemployment Review Officers now take a two week course at the School of Social Work at the University of Leicester, and there is a general trend toward moving UROs along a road toward social work.⁴

Re-Establishment

The next level of severity in the control procedures is the suggestion - or requirement - that the claimant attend a Re-establishment Centre. More will be said of these in the chapter that follows since they have an interesting but unused potential for retraining. The Centres.

which are operated by DHSS under Section 34 of the 1966 Act are the lineal descendents of the workhouse. Long term unemployed men - but never women - may be referred to them for the purpose of helping them "back into the habit and routine of a normal working life, for which they have become unfitted." There is something quaint about the wording of this text; alternatively, it conjures up visions of a 21st century camp where layabouts are reprogrammed into hard-working proles. In fact, as we shall see in another context, the Centres are an almost forgotten activity. They deal, in all, with about 2,000 men per year.⁶ Although only about 2% of the men are there under the explicit threat that their allowances would otherwise be reduced, it is widely believed that many of those who attend on a voluntary basis do so for essentially the same reason. The Centres should not be confused with Reception Centres, which are operated by DHSS for homeless men. The confusion is often made in Britain, even by officials of the Supplementary Benefits Commission (including one member) who were interviewed by the writer; the confusion is understandable when one learns that a number of these are run jointly.

With respect to the control procedures discussed so far, the underlying sanction has been reduction or suspension of the Supplementary Allowance. It should further be noted that most of the persons in question were also subjected to administrative pressure to find a job through their contact with the Department of Employment's Labour Exchanges. Unemployed SB claimants must register for work (unless they fall into the exempt categories of unsupported mothers, late middle aged widows, &c.) along with claimants for Unemployment Benefits under National Insurance. This means that refusal to take a suitable job and similar malingering behavior

comes under the scrutiny of the staff of the Employment Exchange. For most claimants, it also means queuing up weekly, a process which may keep them from accepting their unemployed status as permanent. Legally, the process of reducing or withholding allowances is likely to require some certification by the Employment Exchange that the claimant is shirking possible work, under circumstances similar to those that would threaten his eligibility for National Insurance Unemployment Benefits. The usual penalty is a reduction of benefit by 40% of the single householder scale, for a maximum of six weeks. This amounts to £2.60 per week, or about 10% of the benefit that a married householder with two children, paying £5 rent, would receive. Benefit can be refused under some circumstances, but only for the individual, and not for his dependents (except a "fit" wife without children). In effect, this amounts to a 31% reduction in benefits for a family like the one above.

Failure to Maintain

The ultimate sanction is prosecution for "persistent failure or neglect to maintain himself or any other person he is liable to maintain." The number of men who are actually prosecuted is a miniscule percentage of the caseload of long term unemployed men (never women), and it has declined in recent years. In 1971, 85 men were considered for prosecution, of whom 64 were actually prosecuted; only one man was acquitted (case dismissed) and only 11 men actually served jail sentences.⁷ The number prosecuted dropped to 17 during 1972⁸ because the Department of Health and Social Security did not have the staff time available to do a proper job. Since the Department's record of convictions is 99% (404 out of 409

in the period 1968-71), it is clear that some care is taken in the preparation of each case.

One is tempted to wonder who the sacrificial victims are, and how they are selected. Olive Stevenson suggests that some of the men who are prosecuted are "the least adequate of a group who evade work."⁹ In view of the fact that the British system is very oriented toward considering the welfare of the client and his family, and very understanding of personality problems, family problems, illness, and a long number of etceteras, the visitor is inclined to agree that anyone with a minimal amount of wit can escape prosecution. But the logic of the system demands prosecution, since cutting off family benefits is not an available alternative. Presumably, some level of prosecution is needed to maintain the credibility of the threat.

Wage Stop

In Britain, as in the U.S., the wage that an individual worker can command in the labor market is not related to family size. The Family Allowance, Family Income Supplement (for low wage workers only) and tax relief (similar to exemptions for dependents in the U.S.) do combine to introduce some variability into net family income in accordance with family size. This variability, however, is nowhere as great as the variability in income from Supplementary Benefits. This is because SB payments are, in theory, based on need, and need is seen as an increasing function of family size, and housing costs. In the low wage sector

of the labor market it easily becomes possible that benefits will be greater than the relevant wage opportunity. Wage stop is an administrative device applied to those claimants who are required to register for work. It limits their benefit so that their income while unemployed is not greater than it would be if they were fully employed in their normal occupations.

At first glance, wage stop looks like a version of the old Poor Law concept of less eligibility, under which benefits were always supposed to be lower than any wage that might be available in the labor market. Strictly speaking, less eligibility referred to the lowest existing wage, and thus provided a standing incentive to work, since work always yielded a greater income. In its heyday, it was a cruel device not merely because the lowest existing wage was a very low real wage, indeed, but also because it was commonly applied to persons who might not, by today's standards, be expected to go to work. Much of the bad reputation that it earned in the 19th century stems from the latter aspect. Wage stop, however, might be thought of as "no-more-than-equal" eligibility. It only applies to claimants who are required to register for work, which is to say that it excludes unsupported mothers from its provisions.

The Supplementary Benefits Commission insists that wage stop is not intended to be an incentive to get work. The basis for wage stop is equity, the reasoning being that it would be "unfair to the man who was working but whose income was less than the supplementary benefit level if his counterpart who was unemployed received more in benefits."¹⁰ If an anomaly is seen, it comes from the situation that either some wages

are too low or that some benefits are too high. Since the British interpret their SB scale rates as their poverty line, they view wage stop as "a harsh reflection of the fact that there are many men in work living on incomes below the Supplementary Benefits standard."¹¹

The issue of incentive is not so easily disposed of. Wage stop may place a man on the point of indifference between work and non-work, leaving to the controls the task of overcoming a natural preference for leisure under those circumstances. But it also reduces a positive disincentive to work, albeit at the ethically uncomfortable cost of asking such claimants to live at levels below those approved by Parliament for others.¹² The difference between an incentive and a non-disincentive is surely one of degree rather than kind. The total sort of neutrality that the Commission imagines wage stop to have could be achievable only by extraordinarily brilliant administration, which this measure certainly does not enjoy. This is because there is considerable judgment involved in estimating what a man's net earnings (after taxes, expenses, &c) might be if he were regularly employed, especially in an economy where earnings variations introduced by overtime are common. Estimation difficulties are especially great for persons who are likely to fall afoul of the wage stop, that is, men with a history of relatively low paid unskilled work and long spells of unemployment.

As a result of the amount of discretion involved in the application of wage stop, some benefits have undoubtedly been stopped down too low, while others have been assessed at levels too high with respect to the policy. As a result, wage stop has functioned as an incentive

mechanism with regard to persons in the former category. Perhaps this was not always unintentional on the part of the civil servants who make the assessment; people who have to exercise judgment are human and do not always leave their policy ideas at home. But the reverse is also true; wage stop has undoubtedly also been applied too lightly, or not at all, in many cases where official policy would have required it. Few people in the British civil service genuinely enjoy playing Scrooge.

In order to reduce the amount of discretion in the system, the Supplementary Benefits Commission adopted some reforms in 1967. It accepts, as a measure of earnings opportunities, the collectively bargained wage set by the National Joint Council for Local Authorities for manual workers employed by local governments. This is used where no obviously proper wage can be established, and serves as a minimum.¹³ Since it tends to be on the high side of the low end of the labor market, it weakens the incentive (or non-disincentive) feature of wage stop. Generally speaking, it favors people in the lower paid northern regions, as against the higher wage southern labor market. As was seen in Chapter 3, the Family Income Supplement has also reduced the impact of wage stop. An unintentional incentive feature remains where inflation proceeds faster than either adjustments in scale rates or the administrative reviews of other benefits to which claimants are entitled.

NOTES TO CHAPTER FOUR

1. Unpublished data, Department of Health and Social Security.
2. Unpublished data, Department of Health and Social Security.
Also see Report of the Committee on Abuse of Social Security Benefits (Fisher Committee) Cmd. 5228 (London: HMSO, March, 1973), pp. 120-121.
3. Department of Health and Social Security, Training of Staff Supplementary Benefits Administration Papers No. 3 (London: HMSO, 1972), pp. 34-35.
4. Olive Stevenson, Claimant or Client? A Social Worker's View of the Supplementary Benefit Commission (London: George Allen & Unwin, 1973), pp. 115, 230-232.
5. Supplementary Benefits Handbook, p. 55.
6. According to the Department of Health and Social Security Annual Report for 1971, 2066 men attended. See p. 123. The Fisher Committee Report gives the number as 2126 voluntary, plus 47 "under direction." See Report...on Abuse of Social Security Benefits, pp. 116-117.
7. Ibid., p. 207.
8. Department of Health and Social Security, unpublished statistics.

9. Stevenson, Claimant or Client?, pp. 123-124.
10. Supplementary Benefits Handbook, pp. 25-26. Also see Ministry of Social Security, Administration of the Wage Stop Supplementary Benefits Administration Paper No. 1 (London: HMSO, 1967 reprinted 1972).
11. Supplementary Benefits Paper No. 1, p. 2.
12. See Walley, Social Security..., p. 119.
13. Supplementary Benefits Handbook, pp. 25-26.

CHAPTER FIVE

BRITISH MANPOWER POLICY

BACKGROUND TO THE POLICY

In the preceding chapters, I have tried to show that any income maintenance policy subsumes a labor market policy - or set of policies - for its target population. The policy set can be inferred from benefit levels, rules of eligibility, and administration. As is frequently the case, inferred policies may differ from official or stated goals. The target population that we have been considering here consists of persons who are "fit," i.e. potentially employable. Broadly speaking, such persons are also the potential subjects of a nation's manpower policy. Income maintenance and manpower policies overlap, in that both deal with the labor market performance of their constituents. In the pages that follow, we shall look at the integration - or lack of integration - of the two policies in Britain. First, however, it will be useful to describe the background to British manpower policy and the major programs that are of specific relevance to this study.

The origins of British manpower policy lie in the relatively poor performance of the British economy in the late 1950s and early 1960s, at a time when many other western European nations (including non-members of the EEC) began their remarkable period of economic growth. In Britain, then as now, any boom that might have developed had to be aborted quickly because of its rapid translation into inflation and balance of payments problems. The latter were probably

aggravated by the role of sterling as a reserve currency and a concomitant need to "defend" the pound, but the fundamental problem was a structural one. Accordingly, the emergence of an active manpower policy in Britain was in response to a perceived need for a more efficient utilization of human resources. As such, the Industrial Training Act of 1964 can be seen as part of a policy set that included measures 1) to shift employment from service industries to manufacturing (Selective Employment Tax), 2) to encourage the movement of firms from the crowded southeastern region into less developed areas by the use of investment grants, tax allowances, employment premiums and similar devices, and 3) to encourage, but only minimally, the flow of labor from areas of surplus to areas of shortage (Resettlement and Employment Transfer Schemes). The last was very half-hearted, and bears little discussion.¹ Since some of these programs were expected to "shake-out" the labor market, a form of severance pay (Redundancy Benefit) was legislated, both to ease the economic impact on disemployed workers and to reduce the resistance of unions to the disemployment of less productive labor.

The Industrial Training Act of 1964 was designed to promote the development of formal training programs by employers on an industry basis. Thirty Industrial Training Boards (ITBs) were created, with representatives from management, unions, educational establishments, and government. The ITBs were required to plan the establishment of training facilities in order to meet their industry's assessed manpower needs. Each industry could develop its own methods, including

formalized on-the-job training, employer-sponsored training programs, industry training centers, courses at educational institutions, and so forth. ITBs were also empowered to levy a tax on their members, and to use the funds to make grants in support of the training programs. The entire system was somewhat loosely coordinated by a Central Training Council in the Ministry of Labour (later called the Department of Employment). In addition to the funds generated by the levies, the government made grants and loans to the ITBs. This training establishment was largely preserved in 1973 legislation that reorganized the employment and training services, although some changes in financing were made to relieve the cost burden on employers.

Gary Hansen has noted that the Industrial Training Act was designed primarily to provide skill training for those who leave school, and only secondarily to retrain workers who have been made redundant. In both instances, the intent was to relieve skill shortages rather than to cope with unemployment.² From their inception, the Boards resisted attempts to extend their responsibilities beyond their own industries and beyond any policy goal except training to increase productivity for their industry. The obligation to maintain full employment at the macroeconomic level rested with government, and so did the obligation to provide for the social welfare of the unemployed. It was felt that an industry might try to retrain its own redundant workers for its own redeployment, but that was, and still is, the furthest extent of the role of the ITBs with respect to the unemployed.

The ITBs were the most important training facilities to emerge in the 1960s, and one usually associates Britain's active manpower

policy with the Industrial Training Act. As can be seen, however, the ITBs are not a vehicle for the retraining of the longer-term unemployed workers whom the officials of the Supplementary Benefits Commission and the Employment Service are trying to return to the labor market. Quite the contrary: workers displaced from their employment are obliged to fall out of the industry-based stream of training; they become, as Santos Mukerjee has put it, "hard luck cases" for whom other forms of retraining are not easily available.³ Thus, certain government-sponsored programs to increase industrial productivity can generate some long term and permanent unemployment among workers, and Supplementary Benefit payments become their means of support after National Insurance benefits have been exhausted. Part or all of the Redundancy benefits may be retained, as explained in a previous chapter, as a sort of consolation prize.⁴

Government Training Centres

The British government has operated some vocational training facilities since 1917, when "instructional factories" were established to train disabled war veterans. The Government Training Centres (GTCs) survived as a minor sort of operation to help the unemployed after 1925. With the exception of World War II and the immediate post-war period, the GTCs role was social rather than economic, with a target population of ex-servicemen, unemployed, and disabled workers. By 1962 there were only thirteen GTCs in operation, with fewer than 2,500 training slots.

In 1963, the GTCs became part of Britain's active manpower policy. In the following years, the number of Centres rose to fifty-two, with 11,000 training slots.⁵ Plans are now being made to open another seventeen GTCs and to bring the total number of training slots up to 30,000.⁶ The expansion is part of the new Training Opportunities Scheme (TOPS),⁷ which encompasses expanded adult vocational education at Colleges of Further Education, as well as the use of spare training capacity in employers' establishments.

The training expansion that occurred after 1963 brought with it a shift in policy away from the social goal of helping unemployed workers and toward the economic goal of furthering economic growth by increasing the supply of skilled labor in shortage occupations.⁸ This led to an admissions policy at GTCs that favored workers most likely to succeed, i.e. younger workers whose education and experience made them most suitable for training to upgrade skills. In this sense, the GTCs paralleled the ITBs' rejection of a social role. Note that both were part of an effort to increase productivity, an effort that, if successful, would create technological unemployment. Unlike the ITBs, however, the GTCs were available to unemployed workers, who always constituted a fair proportion of their clientele.

A survey of GTC trainees conducted in 1968-69 showed that 23.3% were not working before entry, and an unspecified proportion were holding "fill-in" jobs while waiting to enter.⁹ Perhaps more to the point, 29.1% of all trainees indicated that leaving their usual or last job was not entirely their own choice. This group tended to be older (over 43) than those who left under their own volition.¹⁰

More recent information on the use of GTCs by unemployed workers will be forthcoming from a survey of GTC trainees that was carried out by Queen Mary College in 1972, at a time when unemployment was higher than in 1968-69. Unpublished data from the study show that 55% of the trainees in the sample were unemployed at the time of their application to a GTC. Twenty-one per cent had no regular employment six to twelve months before entry, which means that the earnings related portion of their NI benefits had been used up. Of the trainees who had regular work six to twelve months before entry into the GTC, the reasons for leaving were:

Made Redundant	28.2%
Fearing Redundancy	4.8
Discharged from Armed Forces	20.6
Ill Health	3.3
To Take Training	35.3
Other	20.6
No answer	<u>1.8</u>
TOTAL	100. %

The QMC Survey only included persons accepted for training, and no data are available in the proportion of applicants who were unemployed or expecting unemployment. However, some insight into the role played by government training in the expectations of unemployed men can be gained from the University of Oxford survey of unemployed men conducted in Coventry, Hammersmith, and Newcastle, October of 1971.¹¹ The published data show that a substantial number of men did not even know of the existence of government training: the percentages were 43.8 in Coventry, 28.0 in Hammersmith, and 23.9 in Newcastle. Unpublished data from the survey that were made available to me indicate that the proportions of the sample who had applied for government training (both

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GTCs and IRUs) were 8.9% and 7.3% in Coventry and Hammersmith, respectively, and 22% in Newcastle. The last is in a depressed area of long standing, which may help to explain the relatively high number. Not all applicants were rejected, of course: some had withdrawn their applications and others were still awaiting word. The majority of those who applied and were rejected were unskilled workers. Age also played a role in the rejections.¹²

The Training Opportunities Scheme (TOPS)

The Government Training Centres are a part of the expanding Training Opportunities Scheme, and can be discussed in this larger context. The basis for TOPS lies in a document called Training for the Future which sets out the goals of current British manpower training policy. The primary goals are seen as providing:

1. training arranged by particular employers to meet their own immediate or foreseeable needs;
2. training going beyond the obvious needs of particular employers but necessary to meet the foreseeable needs of an industry;
3. training given to individuals to meet national economic needs, going beyond the obvious needs of particular industries; and,
4. training given to individuals to enable them to take new - or better - jobs which they cannot get without first acquiring new skills.

The document stresses the need to integrate training schemes with adult education. Accordingly, TOPS reflects an added emphasis on vocational education in various forms: part-time, full-time, "sandwich courses," and so forth. In general, Training for the Future suggests that the burden of meeting industry needs continues to lie with the Industry Boards and other employer and union programs, whereas training to meet the needs of individuals will be carried out under TOPS.¹³

The new emphasis on the needs of individuals does not, however, detract from the older and larger goal of training for economic growth rather than for social purposes. This is not said in order to fault the scheme but merely to clarify what is being done. The aim of TOPS is to help men and women become fit for better jobs. For this purpose, workers who already hold jobs are the major target group. TOPS is not aimed at persons who have just left school. The training of new entrants into the labor market is held to be the responsibility of employers.

Training is carried out at GTCs, and at Technical Colleges. A small but interesting part of the plan is to run short courses in employers' own training establishments where spare places are available.¹⁴

The Planning for TOPS involves setting a national target and breaking this into regional targets on the basis of the supply of places and the demand for training. Estimates of the demand for training are made not only from data on unemployment but also from applications that come from persons currently employed or currently out of the labor market, such as housewives. Selective advertising is used to stimulate the applications and to test the market.

The Employment and Training Act

Training for the Future led to 1973 legislation¹⁵ that created a Manpower Services Commission to coordinate training and placement. The new Commission is a tri-partite body, the intent being to give responsibility for manpower services to representatives of employers, unions, and local government authorities. Presumably, this would help insulate manpower policy from national politics. The training and placement functions of the Commission were put into two separate agencies: the Training Services Agency (TSA) and the Employment Services Agency (ESA). They are both statutory corporations (i.e. legally independent of the Department of Employment) whose governing boards are appointed by the Commission.

Social Goals versus Economic Goals

There is little doubt that the primary function of manpower policy as carried out by the ITBs and TOPS is economic rather than social. This emerged in my discussions with both middle and higher level officials at the Department of Employment and at visits to training sites. One official who was closely involved in planning the new programs said that American emphasis on training the hard-core unemployed was misdirected, in that assistance for the disadvantaged was a separate problem from training. The implication was that this was a kind of social work to be carried on elsewhere, and not to be confused with the goal of making an economy more efficient. According to this official, TOPS was certainly interested in unemployed workers, but there was no expectation that the program would have any impact on the long term unemployed.

Discussions with people closer to the operating level of GTCs revealed a similar indisposition to train older or longer term unemployed workers. It was felt that they were harder to train, more set in their ways, and likelier to have health or personal problems that would interfere with training. The suspicion of being work-shy tended to attach to long term unemployed men, and GTCs did not want to be the enforcement arm of the Supplementary Benefits Commission. GTCs take pride in their ability to place graduates in employment, and their admissions process tries to cream the pool of applicants in the relevant catchment area.

Nevertheless, a number of older men manage to enter Government Training. The Queen Mary College Survey shows that 20% of the sample of 1,060 trainees in the survey were over forty years old. As can be seen from Table 5-1, unemployment is the more prevalent status among the older applicants, no doubt because older men with secure jobs are less likely to make mid-career changes and apply for training. Thus, those older men who do apply are more likely to do so because they are unemployed. However, Table 5-2 shows that relatively few of the older men were completely without work for six to twelve months before Government Training. Most of them had mixed spells of employment and unemployment. As for long term unemployed workers, they are simply not accommodated by the GTCs. It may be a mixture of ignorance (as suggested by Hill), self-rejection, and rejection by the system. The financial incentives for older, lower paid men run toward claiming SB

Table 5-1

Employment Status of GTC Trainees, At Application

<u>Employment Status</u>	<u>Under 40</u>		<u>40 or Older</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
Unemployed	436	51.1	157	75.8
Occasionally Employed	32	3.8	2	1
Regularly Employed	377	44.2	48	23.2
Don't Know	8	-	-	-
Total	853	100	207	100

Source: Queen Mary College Survey on Government Training Centres (unpublished).

Table 5-2

Employment Experience of Trainees 6-12 Months
Before GTC

<u>Employment Status</u>	<u>Under 40</u>		<u>40 or Older</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
Always unemployed or sick	20	2.3	11	5.3
Unemployed and Employed	576	67.5	167	80.7
Always Employed	257	30.1	29	14
Total	853	100%	207	100%

Source: Queen Mary College Survey on Government Training Centres
(unpublished).

for as long as possible, since this tends to pay more than Training Allowances. The administrative pressure to look for work appears to diminish as men get older. Once they are into their mid-fifties, the overt pressure is reduced and they no longer need to report weekly to the Employment Service.

The logic of the process suggests that a fairly cold-blooded social decision is at play here. A policy goal of raising productivity or curbing aggregate demand will disemploy workers. Older workers will find the labor market adjustment more difficult. If they fall out of the mainstream they become, as Mukerjee has suggested, "hard luck" cases. It is easier, apparently, to pay them off in Redundancy Benefits and SB, even though this is a form of discard from the productive sector of the economy.

The OECD examiners who studied British manpower policy compared the expenditure of £60 million spent on redundancy payments for 264,000 workers with the £12 million expenditure on GTCs for 10,000 workers and asked:¹⁷

is it socially equitable and economically rational to give most of the money used to alleviate the readjustment of redundant workers to a great number of persons...but only very limited sums and incentives to a very limited number of persons for covering expenditure on actual cost and efforts for funding new employment, such as following a training course seeking work in distant areas, or actually moving house?

This imbalance has been somewhat reduced by the growth of GTCs and other training under the Training Opportunities Scheme.

The fact that many unemployed workers, including older ones, are not suitable for training by the strict standards that prevail has troubled some British experts and interested parties. The problem may be alleviated in the future by the extension of TOPS into semi-skilled occupations with shorter and more simplified training programs than are needed for the skilled occupations.¹⁸

THE HARD TO EMPLOY

It is difficult to make a fine distinction between those workers who have trouble finding work because of age and the state of the labor market, and those who, although physically fit and not mentally retarded, are characterized as "hard to employ." Among the latter are the socially handicapped, the long-term unemployed, and displaced older workers.¹⁹ Facilities exist in Britain that are intended to help such workers, and these are described in the pages that follow.

Industrial Rehabilitation Units (IRUs)

IRUs are workshop-type training centers for disabled persons, operated by the Department of Employment, and form a part of the services offered to disabled persons to help them obtain and keep work. They are of interest to this study because eligibility for industrial rehabilitation is not confined to obviously disabled persons. Their purpose is to give to people who "have been out of employment for a time either because of injury or illness or for other reasons a chance to build up their physical capacity for work and...their confidence again to work."²⁰

There are twenty-five IRUs in Great Britain, with 2,407 places. Twenty-three IRUs are combined with Government Training Centres,²¹ although the combination is, in at least some cases, more nominal than real. The emphasis is not on training for a specific skill. Instead, the purpose is to get the client back into the rhythm of work under simulated industrial conditions, and with considerable medical and social work support. An important part of the program is to observe each client carefully and to provide an assessment of his capacity and aptitude for work or further training. Allowances paid to trainees are below the levels of Training Allowances for GTCs, but higher than National Insurance benefits.

Graduates of IRUs are eligible for entry into Government Training Centres, and there is a presumption that further training is one of the options open to them. At the time this study was made there were no data on the number of persons who actually made this transition, but there is reason to believe that it is not very great. The 1968-69 survey of GTC trainees conducted by Hunt, Fox, and Bradley showed that only 2.4% of their sample of trainees came from IRUs,²² and my rough observations confirm this as a correct order of magnitude.

What we observe here is the categorization of certain long term unemployed as disabled, and their incorporation into part of the welfare state's mechanism for dealing with the disabled. There seems to be a tendency to classify them as suffering from nervous and mental disabilities, including neurosis, psychosis and mental handicap. Registration as a Disabled Person is voluntary, and the Department of Employment notes that

people with mental illness and mental handicap are less likely to register than other disabled persons.²³ Nevertheless, such men and women form one of the two biggest groups of disabled people seeking the Department's services.²⁴

Formal status as a disabled person is not needed for entry into an IRU, but the nature of the selection, intake and referral processes is such as to lead to the assumption that there must be something "wrong" with the client: indeed, why else would he have trouble getting or holding a job? If the client is not physically disabled, mentally retarded, or certifiably psychotic, then the category of "neurosis" is broad enough to cover what remains.

Not all of the physically fit trainees at IRUs are officially categorized as neurotic, but caseworkers tend to dwell on the personal deficiencies and difficulties of such clients. Thus, the test of the labor market becomes an operational test of mental health.

The relative number of physically fit trainees at IRUs has been rising. This may reflect a growth of sophistication in dealing with psychological problems. However, it creates problems for IRUs that are essentially geared to servicing people whose handicap is physical disability. I encountered complaints by the manager of one unit that it had become top heavy with mental problems, drug addicts, schizophrenics and alcoholics whose attitude toward work was poor. It was believed by a number of officials at the operative level that "genuinely" disabled persons had a better attitude, and were more anxious to succeed. Fear was expressed that the non-disabled would destroy the motivation of the physically handicapped trainees.

The 1973 Employment and Training Act placed IRUs in the Employment Services Agency instead of in the Training Services Agency. The mainstream of government training will be in the latter, and this placement of IRUs suggests that rehabilitation is not considered to be a real manpower training function.

The Socially Disadvantaged

Persons are socially disadvantaged if they are handicapped in getting work by some non-medical cause such as personality defect or domestic difficulties. This definition, formulated by the Department of Employment, was used in the development of an experiment aimed at identifying such workers in order to give them special help in the placement process.²⁵ The study took a sample of persons at an Employment Exchange in a poor neighborhood who were unemployed for over three weeks. Using depth interviews, the researchers found that one-third of those who were unemployed for more than three weeks could be classified as socially disadvantaged. Of these, 25% were known to a social work agency, and 80% were receiving Supplementary Benefit.²⁶ Further study and experimentation has been proposed by the Department of Employment. Among the directions in which action is contemplated is referral of such clients to IRUs.²⁷

The Department of Employment clearly accepts responsibility for helping disabled and socially disadvantaged workers to find work. This is a statutory obligation, and there is internal debate over whether to extend its "resettlement policy"²⁸ to socially disadvantaged workers

It is so, whether it is them with the physically and mentally disabled. People who are work-shy are not considered to be socially disabled.

The relevant part of the further proposed programme states:

It is important that nobody should be initially written off as work-shy. The number of the work-shy is expected to be small and those whose motivation to seek work is undermined by high rates of social security benefits as compared with any rate of pay they can be expected to earn should be excluded as being the responsibility of [the Department of Health and Social Security].²⁹

The attribution of responsibility for work-shy persons to DHE is interesting. It suggests that DF is very reluctant about its social work role, and dislikes being the enforcement arm of the welfare state. Indeed, one of the possible reasons for its interest in the socially disadvantaged is to get them out of the regular Employment Exchanges and into special facilities. The Department of Employment (and, presumably, the new Employment Services Agency) is anxious to make its employment service more appealing and competitive with private agencies. To this effect, the management of unemployment benefits will be organized as a service separate from the employment exchanges. This will serve to make the new Employment Service more acceptable to employers and workers by getting the misfits and the benefit claimants out of the way.

Re-establishment Centres

A kind of training establishment for men who are long term unemployed and long term claimants of Supplementary Benefits is operated by the Supplementary Benefits Commission. It consists of thirteen

Re-Establishment Centres³⁰ created,

for the re-establishment of persons in need thereof through lack of regular occupation or of instruction or training...where...such persons may attend or may be maintained by the [Supplementary Benefits] Commission and...may be afforded by the Commission the occupation, instruction or training requisite to fit them for entry into or return to regular employment.³¹

According to the Supplementary Benefits Commission, the purpose of the Centres is to help long term unemployed men become fit for employment and more acceptable to employers. The area covered begins where the IRUs and GTCs leave off. The underlying theory is that men who have been unemployed for a long time lose their work habits, and will benefit from a relaxed, unpressurized work environment in which they can become accustomed to getting up in the morning, going to work, mixing with their fellows and completing undemanding tasks (mostly carpentry and metal work). In this fashion, it is said, the clients can regain sufficient confidence in themselves to obtain and hold jobs when they leave.³²

The location of Re-Establishment in the Supplementary Benefit Commission rather than in the Department of Employment suggests that the Centres are not seriously considered to be part of Britain's manpower training system. Although the notion exists that the Centres might be a link to IRUs and GTCs, very few of the clients make the transition. Men who successfully complete the course are "routinely" considered for reference to IRUs, but it is rarely done in practice. Of the 2,291 who were discharged from Re-Establishment Centres in 1970, only six men went on to IRUs, and none to GTCs.

As was mentioned in Chapter 4, the Centres form part of the control mechanism for inducing men to return to the labor market. The selection process usually originates when Unemployment Review Officers review long term SB claims and interview claimants to ascertain the reason for claimants' failure to get work. References can also be made by ordinary Review Visitors (case workers) if they find a man deteriorating. The decision to offer re-establishment is made by the local SB office, subject to confirmation by the Regional Office, and by the Centre (if there is a waiting list).

The course varies in length from six to thirteen weeks, depending on an assessment of each client's needs.³³ The men receive a medical examination upon entry, and physical and mental handicaps are thereby detected. Since the Centres are small, with ten to forty places at a time, the staff has an opportunity to get to know the men. Considerable emphasis is placed on enabling the men to talk, gripe, discuss their grievances against the world, and so forth. There is no positive economic incentive to attend, except for the possible fear of losing Supplementary Benefits.

Reference to the Centre can also be made by the Appeals Tribunal of the Supplementary Benefits Commission in cases where a man is suspected of being work-shy. In 1970, the Tribunal (a sort of appeals court) permitted the Commission to impose re-establishment as a condition for receiving benefits in 157 cases. Thirty-eight men thereafter went off the rolls and found work. Of eighty three men whose continuation of benefit was conditional on re-establishment, only thirty-nine started the course, and forty-four had their benefits withdraw. As table 5-3 indicates, the

Table 5-3

Men Directed To Attend Re-Establishment Centres, 1970:
Disposition of Cases

Started work:	38
Benefit Withdrawn	44
Awaiting further action	7
Being prepared for prosecution	5
Change in circumstances	24
Started course	<u>39</u>
TOTAL	<u>157</u>

Source: Supplementary Benefit Commission.

requirement of re-establishment shook more than half the group off the rolls, thus performing the classic function of the workhouse test. The data do not, however, indicate the length of time that the men remained off relief.

It is commonly believed that the trainees who are under compulsion provide a focus of discontent and hinder progress among other men. The manager of a Centre that I visited told me that of four such men last year, three were very disturbed. The only one with potential for being helped was one-eyed and partially disabled. Nevertheless, the SRC believes that,

the power to make benefits conditional upon attendance is...useful in that its existence may influence men who are not in need of re-establishment but who are not making any effort to find work to look around rather harder and obtain work rather than go to a Centre under compulsion.³⁴

Re-establishment apparently does promote employment activity among its clients. This can be seen in Table 5-4, which shows that about 30% of the trainees found jobs. The proportion that do so varies with the state of the labor market, and it must be remembered that many of the voluntary dropouts probably also found employment.

The lack of follow-up data makes it impossible to say how much of the re-establishment process is useful, and how much consists of "turning the pile." It is noteworthy that there is no urge on anyone's part to find out. Formal cost-benefit calculations are impossible; cost figures are not available for Re-Establishment Centres because they are combined with Reception Centres (i.e. places for homeless persons). However,

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Table 5-4

Outcomes of Courses at Re-establishment Centres, 1972

Individuals Who Completed Courses:

Obtained Employment	680	
Remained Unemployed	<u>702</u>	
Total		1,382

Reasons for Those Who Did Not Complete Course:

Physically or Mentally Handicapped	55	
Voluntary Drop Out	406	
Sick	315	
Domestic Circumstances	92	
Other	<u>55</u>	
Total		<u>919</u>

Total

2,301

Source: Note prepared for the author by the Supplementary Benefits Commission.

attempts are made to keep costs down: workshop supervisors are paid less than their colleagues in GTCs, and are not as skilled. The professional support that can be found in the IRI's is absent. Clearly, a rough and ready decision has been made that a heavy investment in these clients will not pay off.

The idea of offering special labor market services for socially disadvantaged persons has considerable potential, but it has not really been fully explored in Britain. The several services are not even well coordinated, since they fall between two agencies, and are popular with neither. What appeared from a distance (i.e. overseas) as an integrated progression from Re-Establishment to Industrial Rehabilitation to Government Training turned out, on closer examination, to be more or less separate activities with separate purposes. Government training is part of a growth oriented manpower policy; industrial rehabilitation (for the able-bodied) and re-settlement are outside the mainstream of manpower policy. Furthermore, they do not necessarily serve the function of increasing the earning power of their clients in the usual human capital sense - i.e. by endowing the client with a salable skill.

Current bureaucratic attitudes in Britain are well represented by the dialogue between Michael Meacher, a Labour party member of Parliament, and D.P.F. Turner, Under Secretary of the Treasury Division, Department of Employment. It is reproduced in its entirety here so that the full flavor of the thing will not be lost:

Mr. Meacher: Could I ask whether re-establishment centres will come into the purview of the National Training Agency

Mr. Turner: Rehabilitation Units?

- Mr. Meacher: Not industrial rehabilitation units, re-establishment centres, to reestablish those who, in the jargon of oratory, are unemployed or who have lost the habit of work?
- Mr. Turner: These are, I think, centres which are at present run under the jurisdiction of the Department of Health and Social Security.
- Mr. Meacher: Yes?
- Mr. Turner: No, these would remain outside the work of the Agency.
- Mr. Meacher: Do you think that is desirable?
- Mr. Turner: I have not considered the point, to tell you the truth. I am not in the Department responsible for these centres, and I think really your question ought to be put to that Department in the first place.
- Mr. Meacher: Yes, I appreciate that, but since the National Training Agency has been set up to co-ordinate on a much wider scale manpower training, it perhaps is a slight anomaly that this has been left out of the main stream?
- Mr. Turner: I would not regard the activities of these centres, insofar as I am acquainted with them, as training. I would not say that they are training people. I would say that they are conditioning people to the idea of employment, and I think that is a very different matter from training.³⁵

NOTES TO CHAPTER FIVE

1. For an excellent discussion of British manpower policy, see Organisation for Economic Cooperation & Development, Manpower Policy in the United Kingdom, Reviews of Manpower and Social Policies No. 7 (Paris: OECD Publications, 1970). Also see the references to Britain in Margaret S. Gordon, Retraining and Labor Market Adjustments in Western Europe, U.S. Department of Labor, Manpower and Automation Research Monograph No. 4 (Washington: U.S. Government Printing Office, 1965).
2. Gary B. Hansen, Britain's Industrial Training Act: Its History, Development and Implications for America (Washington: National Manpower Policy Task Force, 1967), pp.60-62, 64-65.
3. Santosh Mukerjee, Changing Manpower Needs: A Study of Industrial Training Boards (London: P E P, 1970), pp. 110-111.
4. For a critical view of the Redundancy Payments Act, see Santosh Mukerjee, Through No Fault of their Own: Systems for Handling Redundancies in Britain, France and Germany (London: Macdonald & Co., 1973).
5. Department of Employment, Training for the Future: A Plan for Discussion (London: HMSO, 1972), p. 18.

6. "News and Notes," Department of Employment Gazette (June, 1973).
7. This is the new name for the Vocational Training Scheme under which the GTCs were operated.
8. OECD, Manpower Policy..., p. 76.
9. Audrey Hunt, Judith Fox and Michael Bradley, Post-Training Careers of Government Training Centre Trainees, Office of Population Censuses and Surveys, Social Security Division (London: HMSO, 1972), p. 17. The report states that 76.7% of trainees had been in a job immediately before entry, 5.3% came straight from the armed forces, 10.5% were unemployed, and the remaining 7.5% had been sick or came from an Industrial Rehabilitation Unit. IRUs will be described below.
10. Ibid., p. 19.
11. M. J. Hill, R. M. Harrison, A. J. Sargeant, and V. Talbot, Men Out of Work: A Study of Unemployment in Three English Towns (Cambridge: Cambridge University Press, 1973).
12. Ibid., pp. 99-101. Unpublished data courtesy of Michael Hill. Persons who were accepted by GTCs and had begun training would not have been picked up by the sample.

13. Department of Employment, February 1, 1972. Strictly speaking, TOPS was announced in August, 1972. The consultative paper "Training for the Future" uses the older term "Vocational Training Scheme."
14. The obverse is also done: employers can arrange for GTC courses for their own employees.
15. Employment and Training Act, 1973 (Chapter 50) (London: HMSO, 1973).
16. Strictly speaking, there is no geographic catchment area, and trainees may go to any GTC that has room and offers training in the desired trade. A special allowance for lodging is granted to persons who train away from home. However, the majority of trainees attend Centres within travel distance of their homes.
17. OECD, Manpower Policy..., p. 179.
18. See House of Commons, Seventh Report from the Expenditure Committee, (London: HMSO, 1973), pp. xxvii-xxix, and 251-253.
19. See Beatrice G. Rubens, The Hard to Employ: European Programs (New York: Columbia University Press, 1970), especially the discussion of definitions on pp. 1-6.
20. House of Commons, Seventh Report..., p. 56.

vi. House of Representatives, Report..., pp. lxxix-lxxvii.

vii. I estimate the training time to ten weeks. This is arrived at by dividing the number of training places by the number of trainees.

viii. Ibid., p. lxxv.

ix. Ibid., pp. 193-194.

CHAPTER SIX

CONCLUSIONS AND POLICY IMPLICATIONS

British income maintenance policies differ markedly from their American counterparts. Nevertheless, an examination of the British experience can be used to gain a perspective of American problems that may be helpful in the design of income maintenance programs and for a better linkage between income maintenance and the nation's manpower policy. The conclusions that emerge from this study that may be policy-relevant to the U.S. (and, for that matter, to Great Britain) can be summarized as follows:

1. All income maintenance programs contain policies regarding the labor market behavior of their clients. Such policies may be explicitly stated, but there is always a set of policies that are implicit in the structure of sanctions and incentives - the pushes and pulls - that make up the practices and the benefits of the system. When the explicit and implicit policies conflict, it is the latter that govern. The reality that the client faces is not the broad mandate of the legislature but the specific rules developed by the agency and administered by the individuals who comprise the bureaucratic structure. This point may be overlooked in policy debates over whether a particular category of client should or should not be induced (or compelled) to enter the labor market since an operative policy may actually be in effect that is not obvious to observers.

2. It is necessary, for analytic purposes, to examine all of the components of a national income maintenance system and not merely one program in the set. The various programs, although developed for different purposes, can interact with one another, both when they are additive and when they are mutually exclusive. When viewed together, the set of programs presents a structure of incentives and disincentives. If the structure is not coordinated, it may encourage behavior on the part of clients that is not necessarily in keeping with the explicit goals of any one program.

An example may help to illustrate this proposition. A purpose of reducing Unemployment Benefit (National Insurance) in Britain after six months, and eliminating it after a year's unemployment, is to pull the claimant back into the labor market. Where the income deficiency resulting from this is made up by Supplementary Benefit, then no change has occurred in the economic incentives faced by the claimant, and reliance will be placed on administrative sanctions to supplement the claimant's own motivation to seek work.

3. A high ratio of benefit income to potential labor market income puts a relatively great burden on the administrative devices and control measures used to induce or compel a return to the labor market. The transfer cost of an incentive-oriented high benefit system, such as a generous negative income tax, is very great, even without reference to the real costs that might be generated by lost output. The obverse of this is that means tested systems can afford to maintain income at higher levels, given the society's willingness to make income transfers of a given size. It is noteworthy that neither the British nor the American

negative tax proposals (Tax Credits and Family Assistance Plan, respectively) are genuine substitutes for public assistance to persons out of work. Accordingly, administrative sanctions are likely to remain imbedded in an income maintenance system. Whatever the drawbacks of this may be, it enables needy families without resources or employment to receive support at income levels that are closer to the society's social minimum than might otherwise be the case.

4. When unemployment is high, administrative sanctions are of limited effectiveness, especially with respect to claimants whose employability and earnings capacity are curtailed by reason of age, obsolescent skill, prejudice, or social disadvantage. However, the bureaucracy may be under political pressure to apply some controls in any event. The targets are likely to be the "least deserving" of the claimants, that is, those that are least favored in the political and social judgment of the society. This role seems to be played in Britain by unskilled men below the age of 45, in that they are subjected to greater pressures than skilled men who receive SB. It is useful to temper the policy with some realism, however, and this is done by varying the pressure of the control devices in response to the state of the labor market. In the above example, the "four-week rule" that requires unskilled men to re-apply for benefits at the end of every four weeks is suspended in areas of high unemployment. A similar trigger mechanism might prove to be equally workable in the U.S.

5. A way to relieve the burden on control mechanisms, with their attendant harassments and administrative cruelties, is to raise the opportunity cost to the claimant of remaining on welfare. Obviously,

this can be done by reducing the real value of the benefits, but this is not the course of action that I would recommend. Given brisk labor markets, the opportunity cost of remaining on welfare can be altered by raising the earning powers of claimants (at least some portion of them) by the use of training programs.

6. National manpower policies that are oriented toward economic growth will tend to slough off "hard" cases as something for the social rather than the economic policy mechanism of government. The conflict and trade-off possibilities between social and economic goals of manpower programs need to be further explored. Note that the ordinary cost-benefit analysis does not lend itself to this exploration, since benefit is ordinarily measured by the growth variable.

7. Employment and training programs for the "hard cases" that are segregated from the mainstream of labor markets do not lend themselves well to the task of enabling clients to enter the mainstream. For example, Government Training Centres in Britain tend to be biased against long term unemployed persons. GTCs are in the mainstream, Industrial Rehabilitation Units are not. An able-bodied person who enters an IRU course, is, by definition, neurotic, psychotic or retarded; none of these labels make him appealing to potential employers.

8. Out-of-the-mainstream manpower programs may serve as part of the control mechanism of the income maintenance policy. In this respect they perform the classic Poor Law function of the workhouse test. Additionally, they may have a "Potemkin Village effect" in persuading the public, and even possibly some clients, that something is being done

... a problem. For programs, this suggests that training programs created specifically for welfare recipients be designed and evaluated with an eye toward the discovery and prevention of the "Potemkin village effect," i.e., a situation where the presence or absence of training makes little or no difference to the desire and ability of clients to earn income on the labor market.

9. To the overseas observer, the British Re-Establishment Centres, CTCs and CTCs imply the presence of a graduated structure of training. In practice, the structure is not unified, and the three elements serve purposes that are separate from each other. But it does suggest that there is something to be said for developing a more unified structure of training where clients in need of basic education and fundamental work skills could enter at a relevant step in the structure and move upward. The process could be designed to feed into the regular training programs and employment services that constitute a manpower supply. The elements for such a structure already exist in the U.S. The problem, therefore, is not so much one of inventing something new but of a more optimal fitting of existing pieces.

The decentralization of training in the U.S. under the new Comprehensive Employment and Training Act (CETA) affords a valuable opportunity for experimentation with new training models and structures. Experimentation along the above lines - carefully integrated with a consonant structure of controls and incentives - should be undertaken now, before the patterns that emerge in each locality harden into systems that will be difficult to alter at a later date.

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