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Policy Maps on Employment, Social Assistance, Long-term Care, Women and the Labour Market and Pensions

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1 PENSIONS
Section I
Pensions: the 1999 Welfare and Pensions Reform Act

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Pension reforms since 1986 have followed relatively similar paths. Indeed, both the Conservative and New Labour government have expanded private pension provision and means-tested state pension and scaled down the state occupational pension (State Earning Related Pension Scheme, SERPS). The 1986 Social Security Act sought to promote personal pensions by extending the right to opt out of the SERPS and cutting the benefits available. It also provided generous incentives for middle-class earners to build a private pension scheme. The new system relied on the private pension industry for its own regulation. Central government had and still has little control over the pension system. The New Labour government did not reverse the trend towards privatisation: the 1999 Welfare and Pensions Reform Act developed private pensions whilst at the same time providing a new safety net for poor pensioners.

This paper focuses on the political debates behind the adoption of these reforms, with a special emphasis on the 1999 Act. Section one describes the key features of the pensions system as in 1997, i.e. prior to 1999. This section also analyses Conservative policies, mainly the 1986 Social Security Act. Finally, it examines the position of key actors in relation to the 1986 and 1995 pension reform. Section 2 identifies the pressures for change as well as the key problems, which led to the adoption of the 1999 reform under New Labour. Section 3 analyses the positions of key actors concerning the 1999 Welfare and Pension Reform Act. Section 4 assesses the implementation of the 1999 reform.

1.1 The Pensions system prior to the implementation of the 1999 Welfare and Pension reform

1.1.1 Key features of the pension system prior to 2000

The British pension system is two-tiered with means-tested assistance for the least well-off. The UK first passed pensions legislation in 1908. However, it first became universal under the National Insurance Act 1946 following the recommendations of the Beveridge Report. (1942). The 1946 Act introduced the basic flat-rate pension, the first tier of the pension system. It consisted of a Pay as You Go (PAYG) basic state pension (BSP), which was never raised above the level of means-tested assistance for most people. |Poverty among pensioners was identified as a major issue by researchers in the 1960s (Abel-Smith and Townsend, 1966).

In 1975, the Social Security Pensions Act introduced a second tier system. Like the first tier, the second tier, also unfunded and compulsory, guaranteed contributors an additional 25% pension percentage of their earnings during the best 20 years of work. The 1975 Act indexed pensions to the growth in earnings and extended the basic state pension to include an earnings related component (the SERPS). Both the SERPS and the BSP come under the responsibility of the National Insurance Fund, which is administered by the Contributions Agency (CA), a semi-autonomous institution. The CA is placed under the overall responsibility of the Department of Social Security. The other part of the second tier system consists of personal and occupational pension schemes run by the private sector. In many jobs occupational pensions are considered a condition of employment. Employees contributing to an occupational pension scheme, which guarantees the same level of pension as SERPS, are permitted to opt out of the SERPS and be paid a reduced National Insurance rate. In tax-approved schemes, the employees' contributions receive tax relief at marginal rates so that contributions are effectively subsidised by the government. Pensions funds are now major investors in the equity markets and own about 40% of the UK's equity sector (Daguerre, 2002, Taylor-Gooby, 2002 and Leverhulme Centre for Market and Public Organisation, 2002). An overview of the pension system is presented in table 1.

Table 1: The UK Pension System 1979-2000

First Tier	PAYG Basic state pension (indexed to prices only 1980-88, then de-indexed)	
Second Tier state	PAYG SERPS (from 1979; in decline from 1988)	
Second Tier Private		Funded occupational **OR** Funded portable personal (from 1988)
Assistance	Means tested IS pension	

Source: Taylor-Gooby, 2002

1.1.2 Pensioners' characteristics and Expenditure on Pensions

In contrast to Continental and Scandinavian welfare states, the UK does not have a well-established, routinised and institutionalised pension system which provides substantial benefits. This makes it more vulnerable to welfare retrenchment in the 1980s (Pierson, 1994). SERPS was intended to provide benefits of 25 per cent of earnings but payments would not have built up to this level until the late1990s, and it was cut back before that date. This is illustrated by the fact that the UK spends relatively little (24 per cent of GDP) on pension provision compared to other European countries. The Government Actuary's estimate that the unfunded liabilities generated by pay-as-you-go state pensions are against 60 per cent for Italy, 102 per cent for France and 150 per cent for Sweden (Taylor-Gooby, 2002 and Daykin, 1998).

However, since the 1970s expenditure on pensions expanded owing to the maturation of the pension system and demographic changes (ageing population). Between 1971 and 1998 the number of retirement pensioners increased by 44%. Retirement pensioners constituted the largest group of benefit recipient and accounted for 46% of social expenditure. Virtually all men 65 and women aged 60 or older are entitled to state pensions. Among this group 52% received SERPS and at least 65% also received private or occupational pensions. Income support was paid to 22% of pensioners in 1998/99 (usually in addition to state pension). (Walker & Howard 2000).

1.2 Policy context and Conservative policies

In the 1980s, the Conservative government wanted to cut back public expenditure on pensions, promote pension privatisation and simplify the existing system. Although future UK demographic patterns were actually more favourable than those experienced during the post-war expansion of the demographic system and did not require major cutbacks in pension commitments, the Government used the demographic argument to justify its pension policies (Bonoli, 2000). Norman Fowler, the Secretary of State for Social Security, claimed that population ageing would increase the costs to an unsustainable level:

'We shall put a halt to the enormous growth in pension expenditure in the next century which the continuation of SERPs in its present form would have entailed' (DHSS, 1985a, p. 45).

1.2.1 Proposal for Reform: The Fowler Pension Review

The Conservative government initiated a major pension review in order to simplify and privatise the system. The Conservative Fowler pension review, described by the Secretary of State as 'a thorough review of the largest single element of social security provision in this country' (House of Commons statement, 2.4.84), was set up in November 1983. The pensions review team consisted of seven ministers and five senior figures from the pension industry. The review recommended:

- compulsory contributory occupational or portable private pensions, financed by employers and employees,
- minimum contribution to be four per cent of income, split equally, three per cent of it rebated from National Insurance contributions. These would be the Defined Contribution (DC) schemes, the resulting pension depending on the state of the annuity market at the time of retirement
- SERPS would be phased out over time, the basic state pension would be continued, but not uprated, and women and men should have equal rights (DHSS, 1985b, pp7-9).

These proposals implied a radical transition to a liberal market system following the market ideology of the Thatcher government. The state would be confined to the role of pensioner provider for the poor. Private pensions were to replace SERPS.

1.2.2 The new pensions system

Under the Social Security Act of 1986, the Conservative government attempted to radically privatise the pension system, especially the SERPS. However, the government had to withdraw some of its most radical proposals due to the strong opposition in Parliament. The 1986 Social Security Act thus allowed the SERPS to continue in a reduced form. It also introduced the new portable personal pensions (intended to supplant SERPS, which was drastically cut back) and simplified the regulatory regime for private and occupational pensions. The target rate for SERPS was cut from 25 to 20 per cent of relevant earnings, the pension was to be based on re-valued lifetime earnings rather than the 20 best years and surviving spouses' pensions were cut to half rather than all of the deceased contributor's pension. At the same time personal pensions were introduced on an optional basis, but with a Treasury subvention of 2 per cent of National Insurance contribution for those who switched before 1994.

Privatisation of pensions and retrenchment of state intervention were the main characteristics of the Conservative policies. To cut public spending radically was the overreaching goal of the Conservative government. The 'Portillo reviews' initiated by the Treasury in 1993 represented the pillar of this strategy. The Portillo reviews identified areas 'where better targeting can be achieved or from which the state can withdraw altogether' (Hansard, 8.2.93, col 683). They constituted a pro-active Treasury intervention in other policy areas, in contrast with the former reactive annual Public Expenditure Review system (Deakin and Parry, 1997). They presaged the 1997 Labour Government's 'Comprehensive Spending Review' and formed part of the process whereby direct Treasury control of a widening range of aspects of social policy was introduced. The reviews led to the justification of the final decision to equalise pension ages at the age of 65 rather than earlier (to be phased in by 2020), the abolition of a Guaranteed Minimum Pension requirement for portable pensions and the ending of SERPs indexation in the 1995 Pensions Act. The 1995 Act further tightened the rules governing the calculation of earnings on which the SERPS pension was based. Although the 1995 Bill to retrench SERPs was defeated in the House of Lords on the issue of pension splitting after divorce, the clauses were reinstated by the government. The Social Security Secretary, Peter Lilley, proposed that the state's role would be limited to 'basic pension plus' - whereby the government provided the basic national insurance pension and subsidised contributions to private sector schemes to continue the trajectory of privatisation in the run-up to the 1997 election.

1.3 The position of other actors

During the 1980s-2000s, the key actors can be identified as follows: the central government (the Department of Social Security and the Treasury), political parties (the Labour Party), the pension industry, the CBI and the TUC. However, their positions changed during the policy making process, which is why this section examines their positions in relation to first wave of pension reforms in the late 1980s and mid-1990s.

The Pension Industry: the National Association of Pensions Funds (NAPF) and the Institute of Directors

The free market Adam Smith Institute launched proposals for the transfer of social security funds to stock market investments as the basis for a complete privatisation. These approaches fitted that advocated by the NAPF in a paper published in April 1995 which recommended that state involvement should be confined to those on low incomes and proposals by both the Institute of Directors and NAPF to privatise the second tier of pensions in commentary on the election manifestos (Taylor-Gooby, 2002).

The Labour Party

The Labour party continued to advocate for the restoration of SERPs until the early 1990s. This line of thinking changed after the electoral defeat in 1992. The report of the Commission on Social Justice (1995), set up by John Smith in 1992, led the debate on remaking Labour's social policy. The report rejected the increase of the basic pension as too expensive and proposed a minimum pension guarantee, based on the combination of the basic pension and means-tested support (p.9). A universal second pension would supplement this, based on SERPs or a vaguely-described National Savings Pensions Plan. Occupational and personal second-tier private pensions would continue, under improved regulation.

Meanwhile Frank Field MP, who had developed a substantial reputation as chair of the House of Commons Social Services Committee, proposed an innovative 'Stakeholder' pension for compulsory second-tier provision, to be managed by mutual bodies rather than government, employers or for-profit insurance companies, in evidence to the Commission and in a series of books and articles (see for example, Field, 1996). This approach was officially disowned by Labour, in a statement by David Blunkett, Shadow Secretary of State for Education on 12.7.93, but was influential on Labour pension policies in 1997.

By the time of the election, the party policy was moving towards a combination of the means-tested guarantee for lower income pensioners and second tier regulated private or state second pensions for others - a substantial shift towards liberalism from its universalist social democratic position at the beginning of the 1980s, and the basis of its current policy position. Attempts to ensure that a full restoration of SERPS was included on the policy agenda had been rejected by the Labour leadership at the 1996 party conference.

The TUC

Since the 1980s pension reforms by the Conservative government until the late 1990s, the Trade Unions Congress (TUC)'s position on pensions centred around two demands: to restore the indexing of the Basic State Pension by average earnings (rather than prices), and to restore the full value of SERPS. Along with the Labour Party, the TUC opposed the introduction of private/personal pensions by the Conservative government (Bonoli 2000: 78-79). After the election of New Labour in 1997, the TUC and some unions took up Stakeholder Pensions with some enthusiasm, but without giving up the demand for substantial uprating of the Basic State Pension.

Section II:
Pressures for change

The 1986 Act dramatically cut back SERPS and extended the importance of the private sector in pension provisions. At the end of the 1980s some 40 per cent of workers were entitled to SERPS second tier pensions and 55 per cent to private, occupational or personal provision, so that about 15 per cent would be likely to have their basic pension supplemented to the means-test level by assistance (Agulnik, 1999, p. 59, DSS, 2000, ch 2). By 1999, the proportion in SERPS had shrunk to about 20 per cent, 29 per cent were in personal pension schemes and 30 per cent in occupational schemes (House of Lords, 1999). Personal schemes initially grew rapidly, but then stabilised as concerns developed. Over 90 per cent of those on incomes about £20,000 as against 40 per cent of those on £7,000 are in private or occupational schemes (Agulnik, 1999, p. 60).

1.4 The Key problems

The new pension scheme with its sharp expansion of reliance on private pensions caused various problems for individual pensioners, since the responsibility had been transferred from the state and the employers to the individual. The main problems were: poverty and inequality, cost to the state, complexity and regulation of the private sector.

1.4.1 Poverty –an unresolved issue

The new legislation led to a rapid change in pension provision. However, many personal pensions were too small to really lift people on basic state pensions out of poverty. Therefore, the poorest pensioners remained reliant on state pensions, supplemented by means-tested support (Taylor-Gooby, 2002). 30% of the pensioners were below the poverty line in 1998-99 although the pensioners' income as a whole had grown in real terms by approximately 70% over the last two decades (Paxon,W, 2000 and Daguerre, 2002; see also table 2 below).

Table 2: Source of Pensioners' Incomes 1999/00 by quintile of the income distribution £ per week, July 1999 prices

	Poorest	Q2	Q3	Q4	Richest	All
Pensioners couples						
Benefits	£125	£151	£161	£154	£139	£146
Occupational pensions	£13	£31	£57	£120	£297	£95
Investment income	£8	£10	$17	£33	£197	£53
Earnings	£1	£4	£10	£25	£145	£37
Other income	£0	£1	£1	£1	£8	£2
Gross income	**£147**	**£195**	**£245**	**£333**	**£746**	**£333**
Single pensioners						
Benefits	£74	£95	£111	£121	£129	£106
Occupational pensions	£4	£13	£20	£42	£110	£38
Investment income	£4	£6	£5	£11	£63	£18
Earnings	£0	£1	£2	£3	£31	£7
Other income	£0	£1	£0	£1	£5	£1
Gross income	**£82**	**£115**	**£139**	**£178**	**£338**	**£171**

Source: DSS Pensioners' Income Series 1999/00

The table illustrates that pensioners' incomes are markedly unequal. In 1999, the richest fifth of pensioners couples have incomes five times those of the poorest fifth (£746 versus £147 per week), while among single pensioners the ratio is £338 versus £82 per week (Taylor-Gooby, 2002 and DSS, 1999-00). Thus, income inequalities remained an unresolved problem. Moreover, it became an even more contentious issue due to the financial market crisis in the early 1990's and the lack of public control of the pension funds.

1.4.2 Increasing public expenditure

The personal pension scheme became so attractive that by 1993 nearly 5 million rather than the half million originally estimated had moved to personal pensions and the cost to the Treasury in tax relief exceeded £2 billion, against an original estimate of £500 million (Taylor-Gooby, 2002). The popularity of the personal pensions became therefore a disaster for the government and the pension industry. Reducing the rising public expenditure became, therefore, a key issue.

1.4.3 The Complexity of the System

Although the Conservative government intentions were to simplify the current system, it became even more complex with the introduction of the 1986 Act. People had difficulties in understanding the different pensions' alternatives and their implications. (Disney, Emmerson, Tanner, 1999).

1.4.4 Lack of Regulation- a prominent issue

The regulation of the private pension industry also became a controversial issue in the early 1990s. In the 1990s, a series of scandals involving misuse of pensions funds triggered public awareness of this issue. In 1991, the media revealed that a leading newspaper owner, Robert Maxwell, had misappropriated occupational pension funds to shore up unsuccessful businesses in 1991. This resulted in a loss of £1 billion from the pension funds and was referred to as the Maxwell scandal. The miss-selling of personal pensions constituted the second series of scandals. Individuals were encouraged by agents eager for commissions to opt out of SERPS even if it was not in their interests to do so. Nearly one million people were affected negatively by this. Older workers were particularly exposed as they did not have enough time to contribute and therefore generate an adequate fund (Taylor-Gooby, 2002, Waine, 1995, Goode Committee, 1994). This scandal rendered the regulation issue even more contentious for public opinion.

As a direct result of the Maxwell scandal, the House of Commons Select Committee on Social Security recommended that a committee be established to review the regulation of pension plans (called "schemes") in the United Kingdom. This committee—known as the Pension Law Review Committee or the Goode Committee—issued its report and recommendations in late 1993. The Goode Committee recommendations were set out in the Pensions Bill published by the U.K. Government in December 1994. (Gegelman, 1996). The Goode committee recommended stronger controls over private and occupational pensions and arrangements for the compensation of those who suffered as a result of mismanagement of funds. NAPF, the CBI, the TUC and the Securities and Investments Board endorsed these.

The CBI mounted a strong campaign, which succeeded in securing the crucial recommendations that employers would be in a majority on pension boards and that the employer should be able to make the key decisions on the nature of the pension scheme, despite opposition from the TUC. Concern was expressed by employees' representatives, the TUC and also by the Institute of Actuaries about the dilution of requirements for minimal solvency to a minimal 'level of funding' in the stipulations for the schemes. This effectively reduced the required margin funds to allow for changes in market conditions. The CBI lobbied successfully for the dilution of the minimum solvency requirement and for limitations to the ban on schemes investing their funds in the employers' company.

Action on miss-selling was subject to delay. After an attack on pension commission agents by NAPF in 1994, the supervisory body, Lautro, launched a series of enquiries into companies and demanded that they compensated those who had lost money as a result of bad advice. The TUC had identified the power of employers as a major issue in occupational and personal pensions from the Maxwell scandal in 1991 (for example, *Annual Report*, 1993, p. 60) but did not start to campaign on the issue of miss-selling until much later (the first reference to active campaigning in the Annual Report is in 1996, p.70). Some companies were fined for their unethical practices from the end of 1996 onwards, although it was not until 1998 that action was taken against the Prudential, the largest company and the one most prominent in miss-selling.

Despite these initiatives, pensioners remain unprotected from the fluctuations in the stock market.

In sum, these problems posed a new agenda for pension reform. The 1999 Welfare and Pension Reform Act represents New Labour's policies to address these problems, especially the issues of pensioners' poverty and rising expenditure.

1.5 Policy making processes behind the adoption of the 1999 Welfare and Pensions Act

The key actors of pension reform were the Department of Social Security, Frank Field, then Minister for Welfare Reform, the Treasury, and the pension industry. The TUC and the CBI were much less influential than the pension industry. One can distinguish two stages of the reform processes: Frank Field, then Minister for Welfare Reform, initiated the first series of proposals but these were opposed by the Treasury and the government. The second state of the reform was initiated by the DSS and the Treasury. The final proposals are included in the 1998 Green Paper Partnership in Pensions.

1.5.1 The initial proposals: Frank Field

The New Labour government held basic state pension uprating to price inflation for its first year (in a clear contrast to the plans of the party in the 1992 election). New Labour also set up a fundamental review of social security under Frank Field, who was encouraged by the Prime Minister to 'think the unthinkable' in his approach to policy innovation (Taylor-Gooby, 2002).

Frank Field, as Minister for Welfare Reform, initially experimented with the idea of stake-holder pensions, which was first rejected by the Labour party in 1993. In 1998, these ideas were back on the governmental agenda. However, there were considerable difficulties in achieving agreement by the industry and by civil servants on the details of such a scheme. Indeed, it would have a strong mutual element, would involve regulation and would be compulsory, although Field's deputy, Harriet Harman, floated the idea of compulsory stakeholder pensions in 1997 (Taylor-Gooby, 2002 and Guardian, 4.9.97). The proposals produced in the Green Paper: *New Ambitions for our Country: A New Contract for Welfare* were unspecific. They simply referred to the uprating of the basic pension and the development of new Stakeholder Pensions in the context of enhanced private-public partnership (DSS, 1998a). Both the pension industry and the Treasury opposed the proposals.

The Treasury

The Chancellor opposed Frank Field's proposals for two reasons. First, compulsory membership of the new scheme would imply a large Treasury subsidy and compulsory employers' contributions. Second, Gordon Brown was afraid of the consequences of compulsory savings, construed as tax increases, on work incentives, which were key to the Treasury's Welfare to Work Strategy (Taylor-Gooby, 2002).

The pension industry

The pensions industry expressed concerns about compulsion while welcoming the idea of a greater role for the private sector. For example, the Association of British Insurers suggested that the aim should be to create a climate in which people could understand the need to save for their retirement and were encouraged to do so' (ABI, 1998, p.6). Thus, a combination of Treasury and industry opposition redirected Labour pension reform in the late 1990s.

Field was unable to take his ideas forward, and resigned in August 1998. New government proposals were published in December 1998 by the Department of Social Security and the Treasury.

1.5.2 The final proposals (DSS White Paper 1998b and Welfare Reform Act)

Under the leadership of Gordon Brown, the Comprehensive Spending Review contributed to a real increase in basic pensions and in the Income Support rate for pensioners. This raised effected the means-tested Minimum Pension Guarantee in 1999 and in 2000.

The pensions White Paper: *A New Contract For Welfare: Partnership In Pensions* (DSSb, 1998) proposed a new insurance contract for pensions with three main elements:

- A means-tested The Minimum Income Guarantee (MIG), at a level to be increased year by year 'as resources permit', and intended to rise in line with earnings. This benefit is set at a substantially higher level than the previous means-tested Income Support pension it replaced.

- State Second Pension to replace SERPS for low earners (defined as those earning less than £9.000 a year).

- Regulated private Stakeholder Pensions targeted at middle earners (defined as those earning between £9.000 and £18.500 a year) to increase the level of private pension provision among this group.(Disney, Emmerson & Tanner, 1999).

The personal and occupational private pensions remain. The above proposals are designed to make private pensions attractive to new groups and improve state protection for low earners, without increasing state spending very substantially and without compelling people to take out particular schemes.

1.5.3 The parliamentary process

The Welfare Reform and Pensions Bill, 1999, was subject to much opposition from Labour back-benches. MPs were particularly concerned about the transition from the insurance-based provisions to means-tested benefits for disabled and incapacitated people. The Labour majority was cut from 160 to 47, and the Bill was defeated twice in the House of Lords on these issues, but ultimately passed. The revolt has to be understood in the context of the Labour plans to reject most hereditary peers from the House of Lords at the time (Taylor-Gooby, 2002).

The new scheme effectively codifies the means-tested minimum arrangements towards which the Treasury has been working. It adds the new regulated second-tier Stakeholder Pension and substitutes a new State Second Pension for SERPs. Thus compulsion is avoided and the transfer between state and private sectors will be gradual (Taylor-Gooby,2002).

1.5.4 Position of other actors

The Pension Industry

The pension industry had expressed concern about three aspects of the proposals:

- The fact that an individual cannot contribute to both stakeholder and occupational pensions;
- The possibility that some employers may move employees from occupational to the State Second Pension because it has a simpler and less onerous regulatory framework,
- The complexity of regulation which they would like further simplified (NAPF, 1999).

The concerns about regulatory structure and arrangements to opt out of the State Second Pension are echoed by the DSS's 'Pensions Provision Group', consisting of industry and trade union representatives (Pensions Provision Group, 1999). The government conceded the first point, whereby the State Second Pensions can supplement the incomes of those unable to afford adequate occupational pensions.

The CBI

The CBI welcomed the increased flexibility of the arrangements but would prefer even more flexibility in occupational pensions (*CBI News*, April, 1998).

The TUC

The TUC and New Labour have become estranged partners owing to New Labour’s determination to dissociate themselves from the unions, at least in the eyes of the public. Labour’s reliance on trade union funds has been criticised by the media and the Conservatives alike. The old left was seen by the public as soft on labour demands because of these financial links up until the mid-1990s - in contrast with Mrs Thatcher's comprehensive defeat of the mining unions in the 1980s. Tony Blair, the leader of New Labour, launched a major internal restructuring, which consisted of severing the links between the TUC and the New Labour elite. These issues have gained increased prominence since 2000. Moreover, the recent high-profile fire-fighters' strike over pay and other public sector pay disputes in education, health and social care, local government and transport mean that the Prime Minister cannot afford to be seen as soft on the unions. The lack of governmental responses to Unions’ concerns in relation to pension reform must be understood in this global political context.

The TUC broadly welcomed the new arrangements, but expressed some reservations about means-testing: 'The TUC cannot accept the idea that the Minimum Pension Guarantee should be means-tested, the uprating of the proposed second pension in line with prices only and the fact that employer contributions to the state second pension are not compulsory' (TUC *Annual Report*, 1999, p. 89). After the election of New Labour in 1997, the TUC and some unions took up Stakeholder Pensions with some enthusiasm, but without giving up the demand for substantial uprating of the Basic State Pension.

New Labour has paid little attention to union demands. By early 2000, the TUC was outraged by the £0.75 increase in the Basic State Pension in the 2000 budget. Their opposition has grown more assertive. At the July 2000 National Policy Forum, the TUC compelled the government to agree to hold a debate on pensions' policy, with particular reference to 'pensioner poverty'. The Chancellor signalled a significant increase in the Basic State Pension (in the 2001 budget) but refused to concede a return to indexation.

1.6 Assessment of the Reform

1.6.1 The New Regime

The 1999 Act aims to reduce public spending on pensions by increasing the role of the private sector in pension provision. At present some 60% of retirement income comes from the public purse and 40% from occupational and private pensions and private savings. The objective is, by 2050, to have reversed this ratio.

The new pension plans retain the key features of the previous system. Means-testing for the poor and private provision for the better off, with no commitment for a universal state pension - are preserved, although government plans a new contributory pension targeted at low earners and more regulation of the private sector. It is the SSP that undertakes the task of providing for those with irregular incomes or who spend substantial periods out of the labour market for care and other responsibilities in line with New Labour's commitment to opportunities. However this requires tax subsidies, and the benefits are consequently close to the means-tested GMP level for many pensions, to keep taxes low (Taylor-Gooby, 2002).

In sum, the 1999 Pension Act introduced three major reforms.

- First, the Minimum Income Guarantee (MIG) is a new means-tested benefit, based on the previous Supplementary Pensions, to ensure that no pensioner's income is less than £100 a week (by April 2003); indexed by earnings growth. To qualify for the MIG, the capital of a single person or a couple must be below £12.000 and capital between £6.000 and £12.000 reduced the amount of Income Support payable. (Meagher, 2002 & Paxton, 2000).
- Second, the Stakeholder Pensions came into force in April 2001. The target group for Stakeholder Pensions is full-time workers whose annual earnings fall between

£9,000-£18,500 a year (below the average income but above the low wage level). Additionally, members of occupational pension schemes who earn less than £30,000 a year can take out a Stakeholder Pension to enhance their entitlement by making additional voluntary contributions.

- Third, the State Second Pensions replaces SERPS in April 2002. It is designed to provide a better pension for the low paid, and to eliminate the need for means-testing pensions by 2050. Employees can contract out of S_2P (as previously from SERPS) provided they have an occupational pension, a private pension, or a Stakeholder Pension.

These reforms address the public spending commitment identified as a policy constraint earlier and to some extent the issue of pensioner poverty, but poverty is not entirely resolved, inequality will remain and the issues of complexity is made worse, with more schemes, and regulation of the private sector is not addressed.

There are three chief policy problems:

- poverty and inequality - uprating of the MIG is dependent on government generosity. The recent past has been a time of relatively buoyant public finances. The future is more uncertain.
- SSP provides benefits little better than MIG. If it is taken up by a substantial number of people it will reduce the tax demands of financing the MIG, but incentives to join the scheme may be limited except for those groups, such as women with interrupted working lives, who in case require tax subsidies for periods spent in unpaid care-work, thus limiting the savings.
- SHP is an unknown quantity. Part of the simplification regime limits annual management charges to 1 per cent of contribution. This generates little income for providers and may result in few SHP pensions being offered or only on unattractive terms.

1.6.2 Path dependency of the 199 reform

There is a strong pattern of continuity between the Conservative policies and those of New Labour. The current government has not reversed the trend towards privatisation endorsed by the Conservatives in the mid-1980s. The reason is to contain public spending. The emphasis on ideas of partnerships with the private sector, allowing it an enhanced role in the delivery of public policies, is still strong. None of the major new quasi-governmental agencies created by the Conservatives have been threatened with abolition. The move towards the hollowing out of the state has been reinforced. In the early period in office of the new Labour administration, there is no indication of a reversal of this trend:

“The two areas where some slowing or reversal of this trend appears to be occurring are in the move towards a regulating or contracting state, and in the restructuring of the organisations of the state. In both cases., however, much more would need to be done to show that the centre is assuming a stronger role.” (Gray, 2000:294).

However, the new system is more generous than the previous one as it introduced the MIG at higher levels than the previous Income Support. The extent to which the MIG will lift pensioners out of poverty has been called into question (Paxton, 2000, p.

240). Nevertheless, this means-tested pension floor is likely to play an increasingly important role, given the prominence of private systems only suitable for better-off people in stable employment in the new pension settlement. The basic insurance pension will continue, but will be at a level lower than the means-test in most cases.

Overall, the government tries to combine somewhat contradictory objectives: first, the need to provide better for people with low incomes figures prominently on the agenda; second, the will to shift responsibility in providing pensions provision away from the state towards the private sector, and to employers and employees is also a dominant goal. Government however has chosen to do this without compulsion, so that private sector providers are able to ignore poorer customers if they cannot make a profit from them.

1.6.3 Implications of the reform and current debates

The major problems with the new system as it operates in practice have been the reluctance of the pension industry to offer Stakeholder Pensions under the regulatory regime proposed, and the effective competition between the Minimum Income Guarantee and the return likely from a State Second pension. It is difficult to assess whether Stakeholder Pensions will develop in the future, particularly since they have been launched at a time of disruption in financial affairs. The SSP is likely to offer benefits for many groups only marginally above their means-tested entitlement. The Institute for Fiscal studies, estimates that, if the MIG is up-rated by earnings, by 2025 as many as three-quarters of pensioners will fall within it (Clark and Emmerson, 2002, p.13) so that incentives to save will be reduced.

It is difficult to combine a means-tested non-contributory pension for the poor at a decent level with contributory provision for those on lower-to-middle incomes, especially if the latter is not compulsory, but it is necessary to do so if the government is not willing to tax finance provision for all those for whom the market cannot provide adequate benefits. Previously, the UK system had sought to avoid this problem with a universal basic pension at a level which took many low-income people just above the means-test. However unwillingness to raise the hypothecated National Insurance contribution, which originally financed that benefit, or to increase subsidy from general taxation, meant that the basic pension fell to a level where it was unable fulfil this role, increasing the pressure on the means-tested pension. New Labour faces the conflict between a desire to civilise the market by being generous to those who cannot contribute and enthusiasm for a market-based system for all who can, including those barely able to do so (Taylor-Gooby, 2002).

1.7 Conclusion

The UK experience illustrates how a government in a relatively strong centralised state with few veto points and a liberal policy-making tradition can pursue private pensions, without paying much attention to opposition from the pensioners' or Trade Union lobbies. It also shows how such a government is relatively weak in the face of private industry if it is committed to a market liberal regime. It shows how the existence of a powerful private industry to which many pensioners look for incomes in old age can divide pensioner interests so that pensioners constitute a less powerful force in defence of existing state provision than in many other countries. It also shows that it is difficult to arrange regulation of a private pension industry in a way that will protect all those investing in it and enable companies to compete in providing attractive pensions, especially at a time of financial instability. In addition it indicates the problems faced by a government which wishes to use such a system to provide adequate means-tested pensions for the poor, but to contain its tax commitments by ensuring that those on relatively low wages still pursue contributory pensions (Taylor-Gooby, 2002).

Section III

The 2002 Pension Credit and Current Debates

The British pensions system has been reformed almost continuously since the introduction of SERPS in the 1970's. Most of these reforms have reduced the future generosity and costs of the state pension system and kept budgeting further state spending on pensions at a relatively constant level as a proportion of GDP (Disney, Emmerson & Tannar,1999). However, the latest pension reforms introduced by the New Labour government have been more generous than those of its predecessor. Particularly, their latest reform: the 2002 State Pension Credit Act can be seen as rather radical. The reform consists of two parts: a guarantee credit and a savings credit, which provides greater assistance to the poorer pensioners and ensures that savings are better rewarded. The latter is a new direction within British policies (Meagher, 2002 and DSS 9/11-2000a). In the following, this paper will examine the policy processes behind the reform. The paper is divided into five sections. The first section indicates the key problems that lead to the reform. The second section analyses the first part of the policy processes by presenting the key actors and their position as well as examines the main issues of the consultation process that lead to the governments' final proposal. The third section analyses the parliamentary debates and key actors' positions. The fourth section presents the main characteristics of the reform. The fifth section examines the current political debates on pensions and provides an overall assessment of the recent reforms including proposals of the 2002 Green Paper: S*implicity, Security and Choice- Working and saving for retirement*.

1.8 Pressure for Change

Since New Labour came into office in 1997, their main priority has been to help people living in poverty among them the poorest pensioners, whose income has fallen over the last 20 years compared to the incomes of all pensioners (Meagher, 2002). As a result, the government has focused on increasing the value of the Minimum Income Guarantee (MIG), which was introduced as part of the 1999 Welfare and Pension Reform Act. Thereby, the government has resisted the demands from within and outside the Parliament to restore the link between the increase in average earnings and the level of the basic state pension (Meagher, 2002). The tendency to focus primarily on helping the poorest pensioners has made the pension issue even more contentious. Particularly, three problems have appeared in the aftermath of the 1999 Welfare and Pension Reform: the complexity of the system, the information gap between the state and the people and the lack of incentive to save up for retirement due to the levels of the MIG. All result from the basic decision to reply on private pensions and the difficulty the UK state has in devising a regulation regime that is both simple and effective , while allowing freedom to the market. In the following, these three key problems will be analysed.

1.8.1 The Complexity of the Pension System

Instead of simplifying the current pension system, the 1999 Welfare and Pension Reform Act only added to its complexity. Appendix one illustrates this development of complexity within the pension system since the 1970s. Consequently this system leaves millions of people literally gambling on their future, since the public does not understand the current system for old age. They do not know what to expect from the state and to provide for themselves (IPPR 11/12-2001).

Moreover, the complexity of the claim process deters many pensioners to take up means-tested benefits (Meagher, 2002, DSS, 2000a). A written answer in November 2000 in the House of Common suggested that around 500,000 pensioners failed to claim the MIG (HC Deb, 13/11-2000 c519W). Moreover, a survey by the Department of Social Security in November 2000 indicated that 23% of pensioners in the survey did not claim Income Support although they are entitled to it. However, by being advised about their entitlements 40% said they would definitely make a claim, 18% said they would probably make a claim and 26% announced that they would not claim the benefit. The latter was primarily due to the stigma connected to receiving benefits (Meagher 2002, & DSS, 2000b). In addition, the claimant's obligation to turn up weekly for means-tested assessments with officials can also explain the low take up of the MIG (DSS 9/11-2000a)

1.8.2 An Information Gap

A recent survey from the IPPR illustrates that existing pensioners feel that the state has broken an implicit contract where citizens pay their taxes and in exchange are looked after in retirement. Several older workers are now realising that they need to save much more for a comfortable old age. Those on low-incomes can often not afford this and have to rely on the state after all. In relation to this, many older workers think that they have not received adequate advice about planning for their retirement and feel therefore they have been let down by the state. This indicates an information gap between the government and the future retirees (IPPR, 11/12-2001).

1.8.3 An Unfair system

The government's emphasis on securing the poorest pensioners by introducing the Minimum Income Guarantee (MIG) has worsened an already existing problem – the danger of discouraging thrift when a permanent system of pensions is subject to means test. Similar to its predecessor, income support, the MIG provides the poorest pensioners with an income safety net that tops up the flat-rate basic state pension. However, the topping-up is to a fixed level regardless of whether the recipients have a private income or not. Pensioners with small amounts of income in addition to the basic state pension have their income deducted pound for pound from the amount of top-up received (Meagher, 2002 & Clark 2002). Therefore, any pensioner with an income before means-testing below the MIG-level receives the same final income. Consequently, the 330,000 MIG recipients, who have an occupational pension, see no additional benefit from the contributions they made in the past. Moreover, those pensioners with an income just above the MIG level are only one or two pounds better off than those who did not save. Indeed, this distorts the incentive to save up for retirement by making saving unappealing for low-wage workers, who will be low income retirees (Meagher 2002, Clark 2002 and IPPR, 11/12-2001).

This pre-existing problem has become even more pressing due to the recent rapid increases in the value of the MIG compared with basic state pension. In 1998 the gap was just £5.35 compared with £19.65 in April 2001. The limit before for a pensioner's private income has an effect on his/her final income has roughly been tripled in the last three years. Therefore, the government's strategy of targeting help at the poorest implies that even more pensioners fail to be rewarded for their thrift (Meagher, 2002 & Clark, 2002). This unfairness seems also to be worsened by the existing capital rules, which penalises pensioners who have saved little (Department of Social Security, 9/11-2000b).

In sum, the 1999 Welfare and Pension Reform Act did not only add to the complexity of the pension system. The reform also caused negative side effects such as removing the incentive to save up for retirement and failed to provide security in retirement for future pensioners. In the following the government's responses to these negative effects are presented.

1.9 The First Stage of the Policy Process- the Consultation Document

The Pension Credit Reform was not part of the 1998 Green Paper: Partnership in Pensions (DSS1998). It was a government response to the criticism of their pension policy since 1997, especially in relation to the negative side effects of the MIG. The pension credit was announced by the Chancellor of Exchequer Gordon Brown in the March 2000 Budget Statement. It was part of the government's tax credit package that aimed at helping the most needy. In September 2000, Alistair Darling, Secretary of State for the then Department of Social Security, announced that a consultation document would be published later in the autumn with a view to introduce the necessary legislation in the next parliament (Meagher 2002 & DSS11/9-2000). The government launched the consultation paper: *The Pension Credit: A Consultation Paper* in November 2000. The document set out New Labour's plans for reform and the government consulted on these proposals until 28th of February 2001 (DSS 9/11-2002). The government received over 400 responses to the consultation document among them 57 were from trade unions, pensions and financial service organisations. Among this group of respondents, some actors were more influential than others. In the following, the proposal is outlined along with the position of the key actors. The key issues of the consultation process are also examined together with the main changes in the government's proposals.

1.9.1 Proposal for reform- The Consultation Document

The main incentives behind the Pension Credit aimed to tackle poverty, promote incentives to work and save, improve benefits take up, targeting support at the most needy and improve efficiency in customer service delivery. In order to achieve this, the policy instruments were:

- To simplify and increase the MIG payments from next year - leading to a guaranteed minimum income of over 100 pounds a week for a single pensioner and 154 pounds for couples in 2003 in order to take action to end pensioner poverty

- To reward Work and Savings in Retirement by abolishing the capital limits and introducing cash rewards for modest savings, earnings or second-tier pensions. These cash rewards are calculated as a proportion of all savings that exceed the saving credit threshold, which is the level of the basic state pension. The proportion is 60% of the difference between the proposed guarantee income level and the savings credit threshold up to approximately £13.8 per week for singles and £18.60 per week for couples. They are given to claimants aged 65 and over or to claimant couples where at least one partner is at least 65.
- To modernise the system by abolishing the weekly means-test and moving more into line with the tax system, which is based on an annual cycle, thus paving the way for further tax and benefit integration in the future (DSS 9/11-2000b).

With the introduction of the Pension Credit in 2003, the government aims at helping 5.5 million pensioners to be better off and three million are expected to gain from tax changes. Two thirds of these pensioners should be women because they tend to have smaller occupational pensions than men, live longer and are more exposed to a relative decline in their pension income (DSS 9/11-2000b). The cost of the reform was estimated to be 4.4 billion pounds.

The proposals imply a radical transition, since the government aims at not only helping the most needy, but also pensioners with modest savings. This was trumpeted by Alistair Darling when he presented the consultation document:

"For the first time ever the Pension Credit will make sure savings will be rewarded... The Credit will reward the thrift of millions of people who have worked hard to save for their retirement… Our aim is to end pensioner poverty and ensure that all pensioners share in the rising prosperity of the nation…" (DSS, 9/11-2000).

To ensure that all pensioners share in the rising prosperity of the country was also the goals of the 2001 New Labour's Election Manifesto. The government had included a detailed description of the proposed pension credit reform along with its other reforms aimed at helping the poorest pensioners (Meagher, 2002, The Labour Party, 2001, p. 21).

1.9.2 The Key Actors in the Consultation Process

Besides New Labour, the key actors in the Consultation process were Age Concern, Help the Aged, the Chartered Institute of Housing, the Pension Provision Group, The Financial Service Authority (FSA), the National Association of Pension Funds (NAPF) and Associations of British Insurers (ABI). The Institute for Fiscal Studies IFS and The Institute for Public Policy Research (IPPR) also provided the government with some influential research. Conservative Party and the Liberal Democrats were less influential. The ESRC Research Group, the Simulating Social Policy for an Ageing Society (SAGE) and National Pensioners Convention had also little influence in consultation process.

The National Association of Pension Funds

Although NAPF supported the principle of rewarding savings, they criticised the pension credit for being too complex. This complexity might, therefore, discourage people to save up for retirement, since they have difficulties in working out whether they qualify for the credits (NAPF 9/8-2002)

Associations of British Insurers

Although ABI warmly welcomed the Pension Credit they proposed an improved Pension Credit that would give more rewards to those on lower incomes in order to strengthen the savings message. They proposed to disregard the first £10 pounds per week for private income in retirement. ABI also urged the government to note that the FSA should play a crucial role in the creation of the supportive regulatory framework for promoting savings (ABI, 28/2-2001)

Age Concern, Help the Aged and the Chartered Institute of Housing

Age Concern, Help the Aged and the Chartered Institute of Housing overall supported the government's proposal of providing retirees with additional income. However, they continued to advocate for the restoration of the earnings link for the basic state pension. They believed this was the best way of ensuring adequate living standards for all (Age Concern 2001 and IPPR, 6/3-2002). In addition, Help the Age and Age Concern criticised the new system for being too complex. Help the Aged also argued that many older people contacting the government's advice line were confused by regular changes in the benefits names (Meagher 2002, Guardian 1/12-2002, and Forum Brief 15/4-2002). Consequently, red tape and increased complexity were expected to have a negative impact on benefits take-up, which was already a source of concern with the MIG (Forum Brief, 9/8-2002)

Age Concern and the Chartered Institute of Housing also recommended an option for designing the relationship between the Pension Credit, Housing Benefit and the Council Tax Benefit in order to prevent reduction in the value of these benefits when pensioners claim the Pension Credit. Their recommendation was to make no associated change to the treatment of Pension Credit income for HB and CTB purposes (Meagher, 2002).

The Pension Provision Group

The Pension Provision Group, which was established by the Secretary of State for Social Security in 1997 to contribute to the government’s pension review, produced a very critical response to the government’s proposals. Firstly, they claimed that the next year's increase in the basic state pensions would not have any significant impact on the long-term pensions policy although these increases were welcomed. Secondly, the amount of people gaining would depend on the government's changes in the Housing and Benefit and Council Tax Credit. Thirdly, the Pension Credit could end up with reducing rather than increasing the amounts some people save. Fourthly, the Pension Credit could jeopardise the government's long-term strategy for pensions announced in the 1998 Green Paper. Besides these criticisms, the Pension Provision Group also recommended that the Pension Credit should become a transitory scheme. Benefits would eventually be replaced by higher pension rights announced by the 1998 Green Paper reforms (The Pension Provision Group March 2001)

The Financial Service Authority

In their response to the government's proposals, the FSA argued that the Pension Credit would increase the complexity of the current system instead of simplifying it. In particular, they expressed concern that the Pension Credit could put two of its statutory objectives e.g. to increase public awareness and protect consumers, at risk. This was mainly due to the increased complexity of the pension system, which may add to individual need for personal investment advice when considering making private saving options. According to the FSA, such an advice would be more difficult to provide. This would mean that consumers would not be able make the right financial decisions or even worse not be bothered to save for old age altogether (Meagher, 2002).

IFS and IPPR

Similar to the Pension Provision Group, the IFS argued that the Pension Credit might have an unintended effect when it comes to savings. Instead of encouraging people to save up, the means-tested pension credit might have a financial disincentive. They argued was that the increasing rates of the MIG over the next years would unambiguously discourage savings due to an additional 500,000 pensioners would qualify for the Pension Credit (Clark, 2001 & Meagher, 2002).

In their recommendations to the Work and Pension Committee, the IPPR emphasised the complexity of the state pension system including the Pension Credit. They claimed that many people would miss out on means-tested benefits and live in poverty as a result. Therefore, IPPR criticised the Pension Credit for being an unsatisfactory, half way measure. They instead recommended an increase in the Basic State Pension to the level of the MIG and index it in line with earnings. According to the IPPR, this would provide a solid foundation for retirement income since it would end pensioner poverty and at the same time reduce unpopular means-testing (IPPR, 6/3-2002).

1.9.3 The Key Issues of the Consultation Process

A large number of respondents broadly welcomed the principles underlying the government's proposals both in terms of the principle of rewarding savings and the commitment to end pensioner poverty (Meagher, 2002). However, five key issues appeared during the consultation process. These were:

- The complexity of the calculation method used for the Pension Credit could lead to a reduction in take-up rates
- The Pension Credit should be carefully designed to allow interaction with other state benefits e.g. housing benefit and Council tax reduction
- The negative effect of pensions credit on the saving behaviour of people currently of working age
- Restoring the earnings link to the Basic State Pension
- The long-term viability of the different stands of government pension policy.

Almost all respondents stated that calculation method of the pension credit and the saving rewards were too complicated. Several respondents among them Age Concern and Help the Aged expressed that this would reduce the take-up of the benefits if potential claimants found it too difficult to work out their entitlement (Meagher, 2002). Moreover, several actors also criticised the government for complicating the claim process by abolishing capital rules and introducing yearly assessment of the claimants' entitlement to the benefits. The government responded positively to the criticism. Firstly, New Labour changed the yearly assessment arrangements to a five-year basis and introduced a new Pension Service, the purpose of which was to inform pensioners about their eligibility for the Pension Credit and their state pension. The government also decided to maintain the lower capital limit of £6,000 below which all capital is ignored. It also intended to abolish the upper limit of £12,000 pounds, which prevented pensioners with capital above this level from being entitled to the MIG (Meagher, 2002) By introducing these changes, the government hoped that the claim process would be simplified and that this would increase the take-up of means-tested benefits (Meagher 2002).

The second key issue of the debate concerned the interaction of the Pension Credit with other benefits such as the Housing Benefit (HB) and Council Tax Benefit (CTB). As already mentioned both Age Concern and the Chartered Institute of Housing proposed various designs to ensure that any gains from the Pension Credit would not reduce the value of other benefits. However, the government rejected their options for being too expensive. Instead the government proposed in their White Paper: *The pension Credit- The Government's Proposals* to raise the applicable amount for HB and CTB purposes by the amount of the maximum savings credit (Meagher, 2002, DSS 9/11-2001), and Explanatory notes, 2002). Consequently, claimants of the Pension Credit would also receive an increase to their HB and CTB.

Economists from the IFS, the Pension Provision Group and FSA pointed out the negative effect of the pension credit on the future retirees' saving behaviour. They claimed that the overall impact on saving would depend on two different factors: the income effect and the substitution or price effect. The income effect means the urgency to save is reduced if someone knows they are going to have a minimum income in the future. The price or substitution effect refers to the rate of return e.g. whether extra saving actually would produce a yield in the future. Consequently a low rate of return will discourage saving. Often these two effects can work in opposite directions. However, people with less than full Basic State Pensions would not receive much incentive to save due to a deficient contribution record. Pensioners with an income below the level of the savings threshold, which is the basic state pension, are not taken into account for the savings credit. Several actors among them SAGE and the Fawcett Society saw this potential inequity between people who do and do not receive a full basic state pension as unfair, particularly towards women. They proposed that the any savings income above the level of the basic state pension should render the individuals eligible for the saving credit. The government rejected this proposal on the grounds of complexity and equity. They argued that giving someone pension benefits as if they had made contributions when they have not, would be unfair to those who had (Meagher, 2002). In addition, the complexity of the pension system was also seen by both the FSA, the Pension Provision Group and IPPR as having a disincentive on peoples saving behaviour. The government did not answer these queries (Meagher, 2002).

The fourth issue concerned the restoration of the earnings link for the basic state pension. These responses came particularly from trade unions and groups representing pensioners. Their main argument was that this would help meeting the government's stated policy objectives. It would also reward savings and could provide an incentive for younger people to contribute to private pensions and build up other savings. However, New Labour, who saw such amendments as too expensive, rejected this recommendation (Meagher, 2002).

The long-term viability of the Pension Credit was a crucial issue identified during the consultation process. There was a potential conflict between the government's wish to target help at the poorest pensioners and the wish to reduce public expenditure on pensions. ABI had estimated that the Pension Credit would be payable to around 70% of all pensioners by 2025 (ABI 28/2-2001). The FSA, the Pension Provision Group and IPPR expressed concern about the long-term sustainability of the credit. IPPR was particularly strident in its criticism. In the IPPR report published in August 2001, experts questioned the complexity and the costs of the Pension credit (Meagher, 2002). Despite these criticisms, the government left the issue unresolved and it reappeared later on the political agenda in the House of Lords.

In sum, the consultation process indicated that only minor changes were made to the government's proposals to the Pension Credit as the analysis of the final proposals for the Pension Credit makes it clearer.

1.9.4 The Final proposals (The 2001 White Paper: The Pension Credit- the Government's proposal)

The Department of Work and Pension announced and introduced the final proposal before Parliament on 28 November 2001. The proposal set out the framework for the new Pension Credit. This new social benefit consists of a minimum income guarantee- and a savings credit.

- The Guarantee Credit is designed to ensure a minimum level of income for claimants over the age of 60. The credit intends to replace the MIG. It insures that no pensioner needs to live on less than £100 a week or £154 for couples. Capital assets below £6000 pounds are disregarded from and any pensioners with savings above this threshold will receive a notional of income set at around 10% compared with the current 20% rate for pensioners with income between £6000-£12,000
- The Savings Credit is available to claimants over the age of 65 and will provide an additional income for pensioners, who have low or modest incomes in addition to the full rate of the basic state pension. The savings credit can give up to a pensioner a maximum of £13.80 a week (or £717.60 a year) or £18.60 (or 967.20 a year) for couples depending on their savings in banks or second pensions. Pensioners above the guarantee level will qualify if their incomes are up to about £135 a week or £200 a week for couples (DWP 2001).

The interaction of the Pension Credit and the Housing Benefit and Council Tax benefit means that any pensioner receiving the Guarantee Credit will be entitled to full Housing Benefit and Council Tax Benefit. The means to do this is by raising the level at which pensioners qualify for help in line with the Pension Credit and also by mirroring the new rules on savings. However, the government intended to keep the current maximum savings threshold of £16,000 for people entitled for HB and CTB. In addition, the government also proposed to raise the age-related personal allowance by £240 over indexation in order to increase the gains from savings for pensioners with higher incomes (DWP 2001)

The final proposal was introduced for the first reading in the Parliament on in November 2001. In the following, the main issues of the debates are presented along with the positions of the other key actors.

1.10 The Parliamentary Process

The State Pension Credit Act received Royal assent on the 25 June 2002. During parliamentary passage the Act was subject to fierce opposition. Alistair Darling made a formal statement to the House of Commons about the government's proposals for the Pension Credit. In response, David Willetts, Shadow Secretary of State for Work and Pensions, argued that under the new proposals, the basic state pension would become less important in determining the income of a large group of pensioners. Approximately 50% of all pensioners would depend on means-test benefits. This would affect the government's general policy on savings, especially its policy to encourage the take-up of stakeholder pensions. Future pensioners would face benefit withdrawal rates of 40%. The Liberal Spokesperson on Work and Pensions for the Liberal Democrats, Steve Webb, argued that the Pension Credit calculation would be more complicated to claim than the basic state pension. He, therefore, questioned whether the take-up rate would be any higher than that for the MIG (Meagher, 2002). However, these critiques were ignored by the government. Similar rejection of criticisms appeared in the government's response to the Select Committee for Work and Pension and to the House of Lords.

1.10.1 The Select Committee of Work and Pension

Prior to their announcement of the report: *Pension Credit* in April 2002, the Select Committee for Work and Pension invited various interest groups to submit and discuss their assessment of the new credit at three meetings. Most of the issues raised were similar to those identified in the consultation process in 2000-2001. The meetings within the Committee took place from the 27th of February to 13th of March 2002. The results of the debates were published in the Committees report to the government. Overall the Committee supported the elements of the Pension Credit. However, they recommended that an inquiry concerning the immediate and long-term costs, benefits and affordability of the Pension Credit should be established. In addition, the Committee was also sceptical of the financial incentive for younger people to save up for old age. During the hearings of the Committee, Alistair Darling denied that the State Second Pensions were in practice ruled out in the current government's pension strategy. However, he failed to convince the Committee. The Committee argued that escalating Pension Credit costs would lead to a decrease in the financial value of the State Second Pension. These criticisms were similar to those of the IPPR, IFS, NAPF, the Pension Provision Group and ABI.

The Committee also urged the Government to reconsider its policy on the Credit's treatment of earnings. The committee proposals similar to the recommendations of the National Pensioners convention. Both recommended that the first £40 of all weekly earnings income should be disregarded in the calculation of the Pension Credit in order to encourage more pensioners to remain involved in the labour market (Select Committee on Work and Pensions, 12/4-2002).

The government agreed with the Committee's recommendations. However, New Labour opposed the proposed earnings disregard in the Pension Credit on the ground of costs (estimated to be £180 million a year) (House of Commons Work and Pension Committee, 26/6-2002). Moreover, the government did not accept the view expressed about the future viability of the State Second Pension. They claimed that the State Second Pension and the Pension Credit were essentially complementary. The State Second Pension rights would be rewarded in the Pension Credit. These two policy instruments would, therefore, greatly boost the retirement income of the most vulnerable future pensioners (House of Commons Work and Pension Committee, 26/6-2002). This indicates that the Select Committee's influence depended on whether their recommendations followed the overall policy of the government e.g. to help the most needy and to keep spending under control.

1.10.2 The Pension Credit's Progress in the House of Lords

During the Bill's progress through the House of Lords, issues identified in the previous consultation process reappeared: the financial incentive to save up for retirement, the long-term viability of the Pension Credit, the treatment of earnings and the complexity of calculation methods. However, the government simply ignored most of the criticisms (Meagher, 2002).

A new issue appeared on the political agenda during the Bill's passage through the house of Lords: the hospital downrating meant that people currently had their social security benefit down-rated after six weeks in hospital. Pensioners were most exposed to such reductions. Age Concern had advocated for a change in these rules as penalised old people for being ill. The House of Lord, the Royal College of Nursing, The Royal College of Psychiatrists and the College of Occupational Therapists supported this argument. However, the House of Lords led by Baroness Hollis had three main concerns regarding the changes.

- The administrative costs of such changes,
- The justification of the amount of benefits which are down-rated due to the absent of research in savings made by in-patients
- The difficulties patients face in restoring their benefits when discharged from hospital.

The government followed up on the recommendation of changing all hospital downrating rules. They announced that benefits would be down-rated after 13 rather than six weeks. However, the initiative was not incorporated as a part of the State Pension Credit, since such changes did not require primary legislation. The timing of these changes was to coincide with the introduction of the Pension Credit in 2003. The House of Lords welcomed the government's proposal, but Age Concern was still concerned that the government's changes would not solve the problem, since the rules still would continue to penalise around 6,000 old people (Meagher 2002 & Age Concern, 27/2-2002).

In sum, the Pension Credit Act went through the parliament without leading to any major changes to the government's initial proposals. However, both the Select Committee on Work and Pension and the House of Lord also influenced the policy process by initiating different proposals which enabled minor changes to the final proposal. Various interest groups also managed to influence the parliamentary debates via the public consultations in the Work and Pension Committee. Particularly Age Concern was successful in achieving their goal of changing the rules of hospital downrating. By contrast, both the Liberal Democrats and the Conservatives impact on the political debates was limited due to New Labour's power in majoritarian system.

1.10.3 The New Regime

The new regime's framework was faithful to the government's final proposals. The only amendments were:

- An increase in the benefit expenditure by £2 billion,
- The improvements in pension service delivery
- Changes in the hospital down-rating, which was not included in the Bill.

The Pension Credit is to be administrated by the new organisation "The Pension Service", which is placed under the overall responsibility of the Department of Work and Pension. Unrelated to the Pension Credit, the act also contained provisions of amendments of the legislation covering the contracting out of the SERPS. These amendments were aimed to promote gender equality between widows and widowers equally. (Explanatory notes, 2002).

The Pension Credit represents a further move towards a means-tested system. Consequently, this will along with the more generous policy of the government increase the number of pensioners entitled to the credit and the attendant bureaucracy and costs. In addition, several critics have claimed that the State Second Pension will become irrelevant compared with the Pension Credit, once the latter is implemented in 2003. This conflict between the government's overall pension strategy and its intentions of helping the most needy is also present in the more recent pension initiatives proposed by the government. This aspect is examined further in the following section, which focus on the current pension debates.

1.11 5- Policy debates: in search of a coherent governmental pension policy

1.11.1 The Key problems

In 2002, the most pressing issues arise from a combination of different factors. These were the occupational pension crisis, instability of the stock markets in an individualised system and lack of adequate personal savings for old age. These three key problems are analysed in the following.

The occupational pension crisis and the issue of regulation

A record number of companies are closing their generous final salary pension schemes to new staff (the Defined Benefit (DB) schemes). These are being replaced by Defined Contribution (DC) schemes. The problem is that in DC schemes the risk rests with employees since the value of their pensions depends on investment performance. Employers have also taken the opportunity to reduce contributions to DC schemes compared with DB schemes. According to the TUC: "they typically pay almost two thirds less. The average long-term employer contribution is 15.4%, in money purchases the figure is just 6%" (TUC, 2002). Employers guarantee only what gets saved towards a pension, not what is actually paid on retirement. Individuals build up their own savings funds which they will use to buy an annuity on retirement. The shift away from DB schemes has been justified on the grounds that increased life expectancy makes it more expensive for employees to provide generous pensions schemes. Business interests argue that pensions are becoming increasingly expensive for companies to run because of rising life expectancy and unnecessary regulations. These complaints are aimed primarily at the Minimum Funding Requirement (MFR)[1] and Financial Reporting Standard 17 (FRS 17). Although FRS17 and the MFR may have had a serious impact on final salary schemes, the problems facing employers, unions and government today have been emerging since the early 1990s. The most recent figures from the Government Actuary's Department (GAD) show a decline in the coverage of occupational pensions that predates any of the phenomena referred to above. GAD estimates suggest that the coverage of final salary schemes in the private sector fell from 5.6 million in 1991 to a projected 3.8 million in 2001, assuming that the rate of decline between 1991 and 1995 continued over the following six years. In June 2002, at the peak of the crisis in the pension schemes, the government has tried to defend its regulation regime. The former Work and Pension Minister, Alistair Darling accused British businesses of closing pensions schemes in order to cut costs. He also stressed that many companies were wrongly blaming closures on the new accounting regulation, FRS17, when in reality the reason was that firms wanted to cut costs.

Instability of the stock market

Three years of falling stock interest rates coupled with the fact that employers do not contribute enough to DC schemes pension industry means that investment risk lies solely with the individual scheme member. If the stock market dips before their retirement and if the level of employer contribution is declining - which has been happening over the past few months - their pension investment shrinks as a result and they will not be able to buy as large a pension. This will affect mostly future retirees, not current baby boomers who still benefit from DB schemes. Thus future retirees will get lower pension provision due to the deficiencies in DC schemes. This represents a

[1] Introduced in the 1995 Pensions Act to protect pensioners against a repeat of the Maxwell pension fund scandal.

radical break with the past and makes the government uneasy but also unable to reduce the level of individual risk, since compulsory membership is not an option due to the joint opposition of business interests and their best ally, The Treasury. As the TUC pointed out: "there was an understanding that making provision for retirement was a shared responsibility between the state, individuals and their employer. This social contract is now under threat with the state's retreat from pension provision being matched by employers' headlong rush away from DB pensions... If current trends continue the UK is heading towards a system in which DC dominates." (TUC 2002).

Lack of adequate personal savings for old age

Future retirees are not saving enough for retirement, which poses a threat to their living standard in an increasingly individualised pension system, especially in a DC schemes. Indeed, in a defined benefit pension scheme, members pay contributions in return for a pension promise that is related to the number of years over which they contributed. In a DC scheme, the saver buys an annuity at retirement, which guarantees an income for life. In the government's words, this means they are buying two products - a pension and an annuity - and need to make two choices. The government therefore encourages buyers to shop around for the best annuity, which fits well with the Third Way agenda: to promote people's personal responsibility and capacity to make their own choices provided that they have all the information required (DWP, 2002:53). Despite the multiplication of financial incentives to encourage these future retirees to save such as pension credit and stakeholder pensions. But future retirees retain a short-term perspective, which adds to New Labour's concern. Only when they get closer to retirement age do they actually shop around for the best annuities as the government is currently encouraging future pensioners to do so.

1.12 The government's proposals

The government has issued a series of consultation documents and set up two independent reviews in order to address the problem of employer's behaviour in the context of the generalisation of DC pension schemes. These reviews are the Sandler and the Pickering reviews[2]. The latest government proposals are the Green Paper S*implicity, Security and Choice- Working and saving for retirement.* The 2002 DWP Green paper is the response to the two previous reviews.

1.12.1 The Sandler review

The Treasury asked Ron Sandler, the former chief executive of Lloyds Bank, to look at ways of reducing the costs of pension products. The Sandler review suggested a new range of financial products that are easier to understand, and easier for the

[2] Headed up by Alan Pickering, former chairman of the National Association of Pensions Funds, the industry's main lobbying body, and Ron Sandler, former Lloyd's insurance market chief executive.

industry to sell and consumers to buy. The idea behind the Sandler review was to reduce miss-selling. Due to the complexity of the system, individuals had to rely on financial expert advice. However this was not a sufficient guarantee, not necessarily because of personal advisors' bad faith, but because the equity system had become so complex that it represented a challenge to advisors themselves.

Sandler pointed out that tax incentives have created more confusion. The report stated: 'Tax-based savings incentives affect composition of saving more than they do overall savings levels. Indeed, there is little evidence to suggest that tax incentives have a significant impact on overall savings levels, especially amongst the lower-income groups for whom increasing saving should be a priority. What is more, it is evident that such incentives generally increase the complexity of the regime as a whole, and that this complexity leads to higher costs". (Sandler 2002). The Review therefore recommended that, in future, governments should avoid introducing new tax-based savings incentives if their aim is to increase aggregate savings levels.' However, the Sandler review puts the onus on the consumer to learn more about the products they are buying (Guardian 6 July 2002). The emphasis on personal responsibility reflects New Labour's vision of ideal citizenship: responsible, alert and well-informed consumers are expected to shop around for the best product with the government's enabling hand. However, the government does not provide hands outs, even in a system which has become so complicated that is puzzles experts themselves.

1.12.2 The Pickering review

The Pickering review has delivered its report in July 2002. It recommended compulsory occupational pension scheme as part of employees work contract with their future employers. It also recommended the simplification of the current tax system by introducing primary legislation. It also advocated for the creation of new regulatory agency which would be more pro-active than the pre-existing occupational pensions Regulatory Authority. This new agency would act as an advisor and regulator. The new regime should place greater reliance on professionals and trade unions for helping consumers and providing guidelines. He also stated that regulations should be relaxed, especially in relation to the hereditability of pension rights by spouses, to encourage provision. Pickering also urged that the state pension age should be raised to70 years of age to tackle the funding crisis (Pickering 2002). The Pickering report has shaped the Green Paper's proposals.

1.12.3 The December 2002 Green Paper

The Department of Work and Pensions published its proposals on Tuesday 17 December 2002 . The government's main aim is to encourage people to save more money into pensions in order to build a nation of responsible retirees. This is a typically Third Way project to the crisis of DC scheme as the government emphasises people's individual responsibility in relation to old age. Privatisation is not being ruled out but simply regulated with an enhanced role for various semi autonomous regulatory agencies.

The policy instruments are:

- An increased role of the Occupational Pensions Regulatory Authority (which deals with occupational pensions) in order to regulate pension schemes and make them more transparent and user-friendly
- Dilution of MFR - should this be mentioned??
- A simplified and unified tax system which makes pension provision easier for employers and employees alike
- The creation of a regulatory agency in order to protect member schemes. The new regulator "will focus on protecting the benefits of schemes members. The new regulator will operate proactively to anticipate problems, concentrating its efforts on schemes where it assesses there is a high risk of fraud, bad governance or maladministration." (DWP, 2002: 6).
- The introductions of a flexible retirement age which enables people to "work a few years longer". People will be able to phase out their retirement and can carry on working part-time for the same employer if they wish too. This is not an option in the current system since they have to work for another business once they reach age 57 (Guardian, December 18 2002)
- People will also be financially encouraged to delay retirement as the government plans to add extra state pension for late retirees.
- Employers will have to build best practices policies and the government plans to end compulsory retirement and age discrimination. These measures will be built upon existing provisions such as the New Deal for the 55+, already a tremendous success according to the 2002 Green paper. However, employers will still be able to resort to early retirement if they wish to. There is no mechanism that ensures that employers will play by the rules: the government's policy is based on employers' good faith and on the hope that future retirees will carry on working. This option is already increasingly popular amongst current retirees and is likely to become the choice of future retirees. However, early retirement before 55 will be banned.

The government has ruled out three solutions:

- An increase in the level of the basic State Pension
- A significant increase in the MIG
- The introduction of a compulsory occupational pension system. There is to be an enquiry headed by Adair Turner on this, to report in 2-3 years' time.
- Raising the state pension age, a solution proposed by several pension organisations.

In line with the promotion of activation policies, the government believes that older people's increased life expectancy and improved health mean they will be able to work longer. If every able bodied must work, this applies to older people as well. This explains why under the New Deal for 50+ extra-help will be provided for those who return to work, even on a part-time basis. The government will thus not spend extra money on pensions due to the Treasury commitment to keep taxes low and to target help at the poorest pensioners (DWP, 2002).

1.12.4 The position of other actors

CBI's Position

Overall the CBI has generally supported the government's pension strategy. However, the CBI was very critical of the MFR, which has been abolished by the government. CBI described the government's Green Paper as "A useful first building Block" for stabilising the pension system. However, they are critical of the plans of making small firms obliged to provide financial advice (CBI17/12-2002).

The Pension Industry

The NAPF welcomed the Green Paper main proposals. The tax review makes a number of radical proposals which may make it easier for firms to retain their pension schemes, and offers the genuine prospect of some employers being able to offer schemes where there currently are none. The Green Paper is a positive contribution, picking up on much of what Alan Pickering and Ron Sandler proposed five months ago."

The NAPF particularly welcomed proposals for:

- Greatly simplified tax rules
- Measures to support flexible retirement
- Progress on replacement of the Minimum Funding Requirement, and
- A new, more risk-based, regulatory regime

Ms Farnish added:

"Having listened, however, the government must now act. One outstanding question mark hangs over the timing of these changes. The tax proposals involve a four month consultation process – which means no change for at least another 16 months. For many pension schemes and their members, this would be like getting your Christmas presents on Boxing Day.

"We are also disappointed that the government has failed to take this opportunity to simplify the state pension system, which is too complex and too reliant on means testing. "

The NAPF will play a full role in the consultation process, and will continue to press for further reforms aimed at boosting incentives for pension saving, and removing complexity.

Trade-unions

Since the 1980s pension reforms by the Conservative government until the late 1990s, the Trade Unions Congress (TUC)'s position on pensions centred around two demands: to restore the indexing of the Basic State Pension by average earnings (rather than prices), and to restore the full value of SERPS. Along with the Labour Party, the TUC was opposed to the introduction of private/personal pensions by the Conservative government (Bonoli 2000: 78-79). But, along with the 1997 (New) Labour Party, the TUC and some unions took up Stakeholder Pensions with some enthusiasm---but without giving up the demand for the serious uprating of the Basic State Pension.

Relations between the (New) Labour government and the trade unions have been no less tense than during previous Labour administrations, with the difference that New Labour has been set upon distancing itself from the trade unions. By early 2000, the TUC was restive over a number of issues (e.g. minimum wage; workers' consultation rights; union recognition) - and then outraged by the 75 pence increase in the Basic State Pension in the 2000 budget. Thereafter, the TUC has been contesting the government, starting with the showdown at the (July) 2000 National Policy Forum in which the TUC compelled the government to agree to a debate on pensions' policy, with particular reference to 'pensioner poverty', at the September 2000 party conference. The Chancellor signalled a significant increase in the Basic State Pension (in the 2001 budget) but refused to concede indexing to 'average earnings, or inflation, whichever is greater'.

Trade unions have failed to win indexing of the Basic State Pension by average earnings. They seem to have little influence on the government. However, S_2P, Stakeholder Pensions, the Minimum Income Guarantee, and the Pensioner Credit, all focus on improving the pension position of the lower paid, which meets some of the union demands. Whether the policies result from union pressure or from Gordon Brown's mission to raise the living standards of the poorest is an open question.[3]

TUC's response to the government's Green Paper is overall positive. However, their campaign for the creation of compulsory occupational schemes has failed. They mainly see the document as a step in the right direction (Press Release TUC 17/12-2002).

IPPR

IPPR has been the most critical of the Green Paper. They saw it as a missed opportunity to deliver a new pensions settlement that would command widespread support. In particular, they were disappointed that the government failed to raise the Basic State Pension to the level of the MIG and to phase out both the Pension Credit and SERPS/State Second Pension. IPPR described the Pension Credit and SERPS/State Second Pension as redundant (IPPR Press Release, 17/12-2002).

1.13 Assessments of New Labour's reforms

The problems faced by the British government are the direct consequences of a hybrid pension system, which tries to reconcile nature contradictory policy objectives. The Labour government wants to provide a decent living standard to the poorest[4] whilst it consistently increases the level of private funded provision in order to balance the budget. In this respect, the Pension Credit reform has been portrayed as a radical change, since it is the first time ever that future pensioners are rewarded for saving up

[3] The general strategy of improving the lot of the poorest is very much Brown's policy, supported by Alistair Darling, which is imposed on the government by virtue of the Chancellor's commanding position.

[4] The need to provide targeted state support is one of New Labour's mantra in social policy. But New Labour is also keen to avoid the politically damaging issue of rising pensioners poverty (hence the MIG and the pension credit).

for old age (Meagher, 2002 and DSS, 2001b). However, one should keep in mind that the Pension Credit is part of an overall reliance on the same type of policy instruments under New Labour in all social policy areas, e.g. means-test and tax credits. These tax credits bear the imprint of Gordon Brown. They also reflect the Treasury's reluctance to increase taxes and spending on pensions. Indeed, the government praises its own record on the sustainability front:
" The level of private funded provision is high by international standards and the value of UK pensions asset is similar relative to GDP to that of the US… The projections set out in HM Treasury recent report on the long-term sustainability of public finances shows that public spending on pensions is likely to remain relatively stable over the next five decades – fluctuating around 5% of the GDP, in marked contrast to other European countries." (DWP, 2002:3).

1.14 Conclusion

In sum, old age is increasingly being portrayed as a personal and private matter by the British government. This is a no longer seen as a direct governmental responsibility. Instead, individuals have to been persuaded that they should save enough for old age or else…work as long as they can. The fact that the termination of SERPS happened in April 2002, at a particularly critical time for future pensioners further illustrates the shift away from state to individual responsibility. Quite simply, there is no longer a social contract for the traditional risk of old age in the British system, even for middle class earners. As in other areas of social policy, the British government has not developed a coherent strategy in relation to pensions. Instead, it has issued a series of consultation documents and set up two independent reviews, with a third now underway, in order to address the problem of employer's behaviour in the context of the generalisation of DC pension schemes. The government is thus responding in a reactive way and seems to have lost its capacity to steer the direction of the debate. The main problem lies in the government's difficulty in regulating the pension industry and in imposing rules on reluctant employers, or in providing high-level state pensions, which would limit the scope for the private market. However, the recent Pension Directive from the EU may force the government to intervene due to its focus on securing employees pension rights.

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2 UK POLICY MAP: LONG-TERM CARE

Section I

The 1990 NHS and Community Care Act

Trine P. Larsen, Anne Daguerre and Peter Taylor-Gooby

2.1 Introduction

In 1989, the Conservative government introduced the 1990 National Health Service (NHS) and Community Care Act as a response to various critiques of the British long-term care system. The reform concentrated mainly on reducing public expenditure on long-term care by transferring the responsibility of long-term care from institutional care towards community care i.e. Local Authorities (LA) and the independent sector. Thus the reform was accepted by the Parliament in 1990. It was first implemented fully in 1993. Ministers' feared that the costs of the reform would push up the poll tax beyond politically acceptable bounds. (The Independent 10/1-1993). This paper analyses the policy processes prior to the 1990 National Health Service (NHS) and Community Care Act. The paper is divided into four sections. The first section describes briefly the British long-term care system as well as the British tradition of social care policies. The second section indicates the key problems that lead to the reform. The third section concentrates on the policy processes behind the drafting of the reform by presenting the key actors and their position as well as the main issues of the debate within the different committees. It thus focuses on the period of 1989-1990. The last section presents the main characteristics of the reform and assesses the impact of the reform on older people.

2.2 Background information

2.2.1 The British Long-term Care System

The British long-term care system is based on the principle that meeting the caring needs of older people is primarily a responsibility of the individual and the family rather than a responsibility of the state. Long-term care services are therefore means-tested instead of being free of charge. Only older people living at the minimum income guarantee level have usually free access to care. (Baldock, Forthcoming, p. 120f.). It is the state that plays a key role in funding and providing health and social care. It has delegated the service planning and resource allocation to the two institutions NHS and the LA, which are placed under the Department of Health. The two institutions operates within fixed, cash limited budget, which means that their resources are supply-determined and not a function of demand. The British long-term care system differs, therefore, from the rest of Europe. (Alaszewski, Billings, Baldock, Twigg & Coxon 2002). The NHS and LA's responsibilities are divided according to blurred definitions of health- and social care. The NHS is responsible for health care, which is free of charge for the individual and covers medical treatments, few geriatric hospital units and limited nursing care at the local level. Social care refers to different social services such as institutional care in nursing homes or residential homes, adult day care centres, assistant devices, domicilary services e.g. nursing care, personal assistance that includes lifting, washing, bathing, food delivery, rehabilitation service. The LA is responsible for this type of care but has partly contracted out the provision of the services to voluntary- and private organisations. In contrast to health care, social care is provided on the grounds of assessments of individual caring needs and is means-tested. (Shinoda-Tagawa & Koike 2002 and Lewis 2001).

2.2.2 The Traditions of British Social Care Policies

Findings from earlier research indicate that social care, has been a neglected policy area. Mainly because long-term care is seen as a family matter. It is a silent issue and has a low political profile. (Baldock forthcoming p. 11, Hall, Land, Parker & Webb, 1975, Means, Morbey & Smith 2002). As a result the important decisions of long-term care are often products of settlements between different sections within the bureaucracy, particularly between the Treasury and the spending ministries such as the Ministry of Social Security and the Ministry of Health. (Baldock, forthcoming, p. 133) This indicates that social care is dominated by a top-down approach, where the public rarely has any influence on the different outcomes.

2.3 Key Problems Prior to the 1990 NHS and Community Care Act

Similar to the rest of Europe, the British long-term care system faces new problems due to an ageing population and a decline of informal carers. The latter is primarily caused by the fact that more women enter the labour market and the number of single, separated and widowed elderly are increasing. However, these new problems did not figure on the political agenda prior to the reform. This may seem surprising, since particularly, the ageing population was one of the main arguments behind the 1988 pension reform. The problems debated were instead the disputes between the NHS and LA concerning the division of caring responsibilities, the problem of geographical diversities in care services and rising public expenditure. Rising costs were portrayed as the key issues.

2.3.1 The Disputes between the NHS and the LA

The blurred definitions of health- and social care have led to conflicts between the NHS and the LA since the late 1940's. (Lewis 2001) Each partner accuses the other one for not providing the care needed for older people in order to achieve an effective long-term care system. An example is when older people are discharged from hospital. The NHS then blames the LA for creating an ineffective system, since they do not provide the care services that enable the NHS discharge the patients. In contrast, the LA blames the NHS for discharging older people too early and thereby overloading the LA's care system. Lack of adequate funding has forced the institutions to minimise their responsibilities, which is along with the lack of ring-fenced governmental social care grants some of the reasons for the disputes. It has enabled local politicians to prioritise other policy areas to the detriments of social care. (Lewis 2001 and Means, Morbey & Smith 2002).

2.3.2 The Geographical Diversities in the Provision of Long-term Care Services

Social care provisions vary widely in the UK due to the lack of national homogeneity. Consequently, users have difficulties in knowing which entitlements are available and/or eligible. (Baldock forthcomming, Lewis 2001, Means, Morbey & Smith, 2002, Audit Commission 1986 and Griffith report 1988). The geographical diversities are caused by the inconsistencies in civil servants' assessment criteria and the complexity and disorganisation of the long-term care system. The latter is a result of the disputes between the NHS and the LA, the scarce resources provided for long-term care and the lack of ring-fenced funding. (Baldock forthcomming, Lewis 2001, Means, Morbey & Smith, 2002, Audit Commission 1986 and Griffith report 1988).

2.3.3 The Rising Public Expenditure

Rising expenditure appeared as a new problem prior to the reform. Within a decade the national expenses of social security escalated from 10 million pounds in 1980 to 2.6 Billion pounds in 1992. (Lewis & Glennester 1996 and Means, Morbey & Smith 2002). The rising costs were caused by changes in the rules under which people could claim board and lodging expenses in November 1980. If they lived with a landlady, in residential- or nursing homes older people could now qualify for public funding if they did not possess any capital. Most elderly could if they possessed any savings hand them over to their children before becoming officially poor and then claim the public support. (Lewis & Glennester 1996). The LA also acknowledged the possibility of sending older people to private and voluntary residential- and nursing homes in order to avoid funding the fees themselves. (Means, Morbey & Smith, 2002). Whether the politicians and officials were aware of this loophole in 1980 is uncertain. (Lewis & Glennester 1996).

2.4 The Key Actors and Their Positions

A variety of actors were involved in the policy-process prior to the 1990 NHS and Community Care Act. In order to classify them and their positions, this section is divided into two subsections. The first subsection focuses on the Audit Commission's 1986 report, Sir Roy Griffith's report 1988 and the 1989 White Paper. These documents provided the information on the current problems within the British long-term care system and proposed solutions, which can be seen as the starting point of the political debates in 1989-90. The second subsection analyses the position of the key actors within the political debate between 1989-90. These were the Conservative government, the Labour Party, the Treasury, the Department of Health (DoH), the Department of Social Security (DoSS), the NHS, the Institute of Health Services Management and representatives of LA and the independent sector as well as trade unions.

2.4.1 The Audit Commission, Sir Roy Griffith's report 1988 and the 1989 White Paper

The Audit Commission Report 1986

The Audit Commission is an independent agency responsible for overseeing LA spending. In 1986, it produced the report "Making a Reality of Community Care". The Audit Commission report can be seen as the trigger for the reform. It highlighted not only the key problems with the British long-term care system. It also pinpointed the inconsistency within the Conservative government's policies. The rising public expenditure conflicted with the Conservative's policy goal of wanting people to live in own residence as long as possible. Instead of enabling people to live at home, the government encouraged indirectly older people to enter residential- and nursing homes, since they funded their fees via the existing rules of social security benefits. The escalating social security expenditure also conflicted with the Conservative government's overall policy goal of minimising the role of the state (Audit Commission 1986, Lewis & Glennester (1996) and Means, Morbey & Smith 2002). In addition, to its criticism, the Audit commission also proposed various solutions to the problems and recommended a review of the British long-term care system. The latter was realised by the report by Sir Roy Griffith.

Sir Roy Griffith's Report 1988: Community Care: Agenda for Action

In December 1986, Sir Roy Griffith, Margaret Thatcher's trusted advisor on the NHS, was appointed to undertake an overview of the community care policy. The main purpose was to solve the problem with the escalating social security expenditure. (Griffith 1988). Sir Griffith was in favour of transforming the existing long-term care system into a market-based system, where the LA contracted out the provider role to the independent sector and the elderly were seen as consumers. Sir Griffiths' more specific recommendations were:

- To appoint a Minister of State to be responsible for community care
- To develop the mixed economy approach, where the LA is the leading agency for organising, designing and purchasing care facilities from the independent sector instead of being the main provider. Older people should be seen as consumers that can choose freely between the different care facilities.
- The LA should within the resources available develop local care plans with health authorities, voluntary- and private organisations, carers and clients
- Introduction of means-test for caring fees in order to reduce public expenditure.
- Provide LA with enough resources to match their caring responsibilities, although, annual limits should be given for each LA in order to prevent increases in the social security expenditure. Ring-fenced grants should be provided to ensure adequate management systems and that local objectives are in line with government policy. (Griffith 1988, Means, Morbey & Smith 2002).
- The Griffith report was also one of the starting points of the political debate that took place between 1989 and 1990.

The 1989 White Paper: "Caring for People-Community care in the Next Decade and Beyond"

The 1989 White Paper was produced within Whitehall and was highly inspired by the recommendations made by Griffith. This is, particularly, obvious when focusing on the six key objectives of the White Paper:

- To promote the development of domiciliary-, day- and respite care to enable people to live in their own homes.
- To provide support for carers
- To make proper assessment of need and good case management the cornerstone of high quality care

- To promote a flourishing independent sector and quality services
- To clarify the responsibilities of agencies notably the NHS and LA
- To secure better value for taxpayers' money by introducing a new funding structure for social care. (White Paper 1989 and Lewis & Glennester 1996).

By comparing the recommendations by Griffith and the six key objectives of the White Paper, it appears that Griffith's two recommendations to appoint a Minister of community care and to provide ring-fenced grants were not present in the 1989 White Paper. This indicates that other actors have been more influential in the process of producing the White Paper than Griffith. The recommendations of the White Paper can be seen as the centre of the political debate, since it was the Government's framework for the 1990 NHS and Community Care Act.

2.4.2 The Key Actors

The Main Political Parties

The Conservatives' policies of long-term care were based on the assumption that meeting the caring needs of older people was a private matter. They wanted to reduce the role of the state and to introduce a more market-based system. To reduce the public expenditure by introducing means-testing and encouraging domiciliary care were, though, their main goals. Moreover, the Conservatives supported to a large extent the recommendations made by Griffith. However, the Conservatives did not incorporate ring-fenced grant to the LA and the appointment of a Minister of Community Care in the White Paper, because this would have led to an expansion of the public sector. (Social Services Committee, 17/7-1990, p. 4) In contrast to the Conservatives, the Labour party was more in favour of a universal long-term care system, where care services were made free of charge. In addition, their policies focused more on improving the existing care services and equalising the geographical diversities than cutting public expenses. The Labour party also argued for increasing the involvement of older people and carers in the development of local care plans. (Standing Committee E 9/1-1990, Standing Committee E 11/1-1990, Standing Committee E 15/2-1990, Standing committee E 22/2-1990).

The Treasury, The DoH and DoSS

The main concern of the Treasury was to reduce the national expenses on social care. Although, the Treasury welcomed most of Griffith's recommendations, it wanted to avoid ring-fenced grant to the LA. Their main concern was that LA would expect a certain amount of money and would claim that the available resources were not enough. This would put the Treasury under pressure and restrict their policy manoeuvres. In contrast, the DoH and DoSS favoured ring-fenced grant to the LA since it would force the LA to use money on social care and thereby improve the services. (Social Services Committee, 17/7-1990, p.4). The DoH and the DoSS also supported the recommendations made by Griffith and the White Paper. However, the DoSS was sceptical of the introduction of means-test and the limited support given to older people under the new system. (Social Services Committee, 17/7-1990, p. 13f)

NHS, Representatives of LA and IHSM

The NHS's main goal was to transfer social care responsibilities to the LA whereby the NHS could focus only on medical treatment. The NHS was, therefore, in favour of the proposed solutions in the 1989 White Paper, since it proposed that social care should be a responsibility of the LA. (Social Services Committee, 17/7-1990, p.250).

The representatives for the LA such as the Association of Metropolitan Authorities (AMA), the Association of District Councils (ADC), the Association of County Councils (ACC) and the Association of Directors of Social Services (ADSS) argued for an increase in the social care funding for the LA to ensure the objectives of the White Paper. Moreover, these organisations also advocated for an increase in income support for informal carers and for improving social care services. The LA representatives were also in favour of ring-fenced grants. (Social Services Committee, 17/7-1990, p. 166f, 177f, p. 238f and p. 89).

Similar to the Labour Party, the IHSM supported a universal system with free charge of services. Moreover, they also welcomed the ideas of ring-fenced finances to the LA and the mixed economy approach launched in the White Paper. However, they feared that the independent sector's services would be more expensive than the public and that they would not provide better services than the public sector. (Social Services Committee, 17/7-1990, p. 102)

Representatives of the Independent Sector
The voluntary care organisations representing older people were Age Concern, the National Federation of Housing Associations (NFHA) and Carers National Association (CNA). These organisations advocated for better care services and an increase in income support for carers due to several older people already had financial crisis. They also welcomed the idea of ring fencing the financial resources delegated to the LA. (Social Services Committee, 17/7-1990, p. 196, p. 53ff, and p. 146). Age Concern was also critical of the fact that social care no longer was a duty but a responsibility of the LA. Age Concern also objected to funding people living in private or voluntary homes differently from those living in public residential homes. (Social Services Committee, 17/7-1990, p. 53ff).

Trade Unions
The Royal College of Nursing (RCN) and The Royal College of Psychiatrists (RCP) and the British Association of Social Workers (BASW) also advocated for ring-fenced grants. These organisations, particularly BASW, were also worried about the financial pressure faced by the LA if adequate resources did not follow LA's new responsibilities. Both RCN and RCP argued that elderly living in own homes should be entitled to the same services as older people living in nursing- and residential homes, since the number of informal carers were declining. Moreover, the RCN, RCP and BASW also advocated for a more transparent system and higher income support in order to make the new system efficient. (Social Services Committee 17/7-1990, p. 22, p.40 and p. 68.)

2.5 A Decision-Making process dominated by the Conservative Government

The political debates prior to the 1990 NHS and Community Care Act took place within the Standing Committee of the Parliament and the Social Services Committee.

The latter consisted only of Conservative MP’s, the Spending Ministries and various interest organisations.

2.5.1 The Political Debate in the Standing Committee

The political debates within the Standing Committee were characterised by the Conservative’s tendency to ignore the requests from the opposition. Most of the debates could not be characterised as actual policy-making, since the debates mainly consisted of the opposition asking questions to the responsible ministers who then reject or ignore the proposed questions. (Standing Committee E 9/1-1990, Standing Committee E 11/1-1990, Standing Committee E 15/2-1990, Standing committee E 22/2-1990). Moreover, responsible Conservative MP’s rarely appeared in the Standing Committee during the meetings. The Labour representative Ms Harriet Harman complained about the attendance of Conservative members. During a meeting she expressed:

“We are discussing the essential matter of people’s access to local services. Dos my hon. Friend agree that it is scandalous that 10 Conservative members, more than half of the Government members of the Committee, are not here to listen to the arguments” (Standing Committee E, 18/1-1990, p. 233)

As a result of the Conservatives attitude, the Labour Party could not resist the proposed solutions in the White Paper. Their recommendations tended to be either rejected or ignored by the Government. Their lack of influence is also evident when focusing on the final draft of the reform. The requests from the Labour party are hardly present. (see section four). This indicates that the Conservative government had the possibility to ignore the opposition without fear of the reform being rejected in the Parliament. The Conservative Party can, therefore, be seen as the most influential party in the Standing Committee due to their political power.

2.5.2 The Political Debate within the Social Services Committee

The political debates within the Social Services Committee indicate that only limited changes were made to the Conservative’s 1989 White Paper. Only a three-year ring-fenced grant given to the LA was added to the White Paper under the title of transitional grant. (Lewis & Glennester 1996). This grant was incorporated in the final draft of the reform thus the Treasury and the Conservative government opposed ring-fenced grants. In order to enforce the grant, the Secretary of State used her power available in the 1988 Local Government Act. In the Act she is able to give a specific grant to the LA for a designated purpose. (Lewis & Glennester 1996). This indicates that the ring-fenced grant only was incorporated in the reform due the power of the Secretary of State and not as a result of political debates where most key actors advocated for ring-fenced grants. This seems also to be supported by the fact that the grant only was available for a three-year period, whereas most of the key actors wanted a long-term agreement. The impact of the independent sector, the trade unions, the representative for LA, the DoH and DoSS was, therefore, limited. This is also supported by the fact that most of their requests were not reflected in the final reform.

Although most key actors advocated for better care services and financial support, the reform maintained the insufficient level of financial support and social care services, which were introduced in the 1989 White Paper (Social Services Committee, 17/7-1990, p. 145.). The LA's representatives did not achieve an increase in social care funding to cover the extra expenses of implementing the reform. The IHMC suggestion of making social care services free of charge was also ignored. This applies as well to the RCN, RCP and Age concern's request of equalising the opportunities for social care among older people living in own residences, public and private residential and nursing homes. In contrast, the NHS achieved their long-lasting goal of transferring care responsibilities to the LA. The Treasury also achieved its policy goal of reducing public expenditure whereas their target of preventing ring-fenced grants only was partly achieved. The Conservative government got most of their goals proposed in the White Paper presented in the final draft of the reform. However, they had to accept the three-year ring-fenced grant that was imposed by the Secretary of State.

In sum, only the Conservative Government's proposals got through the parliamentary process. Therefore, the most influential actor in the political debates is the Conservative government. This is also supported by the fact that the Conservatives were able to prevent a reform in the mid 1980's. This was mainly due to the Conservative Leader Margaret Thatcher. By contrast to the Conservatives and the Treasury, Margaret Thatcher denied cutting social security expenditure. Her main concern was that by removing the social security benefits small private homes, which were family businesses she approved, would go bankrupt, since their raison 'd'être were social security benefits. (Lewis & Glennester 1996). The reform could only proceed if this problem was solved. Griffith's suggestion of transferring financial resources to private providers rather than LA convinced Margaret Thatcher and, thereby, enabled the reform to proceed. Margaret Thatcher was, therefore, one of the veto points in the political process.

2.6 The 1990 NHS and Community Care Act

By comparing the 1990 NHS and Community Care Act with the reports of the Audit Commission and Sir Roy Griffith as well as the White Paper 1989, it appears that the reform is highly inspired by the recommendations of these documents. The recommendations in 1989 White Paper are practically identical with the legislation of the Act. The reform constitutes of four main concepts. One of the main concepts was the introduction of the Purchaser-Provider split, which is based on a mixed economy of care. The responsibility of long-term care was transferred from the institutional level to community care, where the LA became the leading agency. The LA had to contract out the provision of services to the independent sector such as the family, the voluntary and the private organisations. Through these organisations the individual could as a consumer purchase and choose between the different care services provided by the public and the independent sector. In order to make an incentive for the LA to contract out residential care and social care services, the reform also introduced a Residential Allowance only given to older people placed in an independent sector home. Along these lines, a three-year ring-fenced grant was also introduced to ensure that social care services reached the dependant. The grant was restricted by a 85% clause that compels the LA to allocate these funds to the independent sector. (White Paper 1989, Lewis & Glennester 1996, Means, Morbey & Smith 2002, Twigg 1999). The second main concept was the introduction of case managers, where one single social worker takes the responsibility of assessing, commissioning and co-ordinating and sometimes purchasing support for the client. The third main concept was the introduction of means-test and assessments of the individuals need for long-term care in order to ensure that people received the right care and that financial help only was given to people in need. (Twigg 1999) The fourth main concept was the Social Services Departments obligation to produce community care plans that reviewed the needs of their areas sat their objectives and priorities as well as discussed these issues locally with both citizens, voluntary- and private organisations. (Lewis & Glennester 1996).

In sum, the overall goals of the reform were to reduce the public expenditure and clarify the responsibility of social care. Improvements of social care services played only a minor role.

2.6.1 The Path dependency of the Reform

The initiatives indicate partly a new approach to the management of long-term care. Firstly, the introduction of social planning was seen as radical, since it was the first time this had been made a statutory requirement. Secondly, the introduction of the internal market approach was also a new phenomenon. Prior to the reform, the long-term care system had been based more on the central governmental management and the public service provisions than a mixed economy approach, where the independent sector was in focus. Thirdly, to provide free social care was no longer a mandatory for LA. These changes indicate that the 1990 NHS and Community Care Act cannot be seen as path-dependent.

2.6.2 The Implications of the 1990 NHS and Community Care Act

The introduction of user charge for older people made the reform very unpopular and was seen as one of the main implications of the reform. The population saw it not only as the state had broken its social commitment to provide long-term care. They were also unsatisfied with the fact that elderly, who entered private or voluntary nursing homes, now had to use their own savings and assets to pay for their stay. Particularly, house-owners, where the houses were owner-co-occupied were exposed to the negative effects of means-test. Families were often forced to sell the house in order to free capital to pay for the older persons caring fees. (Means, Morbey & Smith, 2002). The reform also pressured the LA's budgets, since the LA did not have capital to invest in social care facilities. Additionally, the LA's obligation to consult carers and users did not work in practice due to the difficulties in reaching the target groups. (Parker 2002). Moreover, the conflicts between the NHS and the LA continued to be a problem. (Lewis 2001).

2.7 Conclusion

The Agenda of the reform was dominated by the Conservatives. The opposition played a very limited role and their voice was hardly heard by the government. The community care legislation was a "Byzantine debate" with little if any involvement of a wider audience. The political structure of Whitehall and the majoritarian system account for the weakness of the opposition and the absence of veto points. .

Section II

The 1999 Royal Commission and the 2001 Health and Social Care Act

2.8 Introduction

Both the establishment of the Royal Commission on long-term care and the 2001 Health and Social Care Act can be seen as the New Labour government's responses to the unresolved and the newly created problems of the 1990 NHS and Community Care Act. In December 1997 the New Labour government established the Royal Commission. Its main purpose was to examine the options for a sustainable system of funding long-term care for elderly. In March 1999, the Royal Commission published its recommendations, but the New Labour government did not respond to the recommendations until July 2000. The 2001 Health and Social Care Act was part of the New Labour's replies to the Royal Commission. The draft of the reform concentrated on abolishing the Community Health Councils, enabling health secretaries to disclose patient information, which is in the public interest, transferring the responsibility of health and social care services to new care trusts and it offers free nursing care for elderly. (Guardian 12/3-2001 and NHS Plan 2000). In the following, this paper will describe and analyse the policy processes prior to the reform. The paper is divided into five sections. The first section examines the background for the establishment of the Royal Commission. The second section indicates the key problems that lead to the reform. The third section analyses the policy processes behind the reform by presenting the key actors and their position as well as the main issues of the political debate. It thus focuses on the period of 1999- 2001. The fourth section presents the main characteristics of the reform and assesses its impact on older people. The fifth section consists of the current political debate of long-term care.

2.9 Background Information – Pressure for Change

Since the 1990 National Health Service (NHS) and Community Care Act, long-term care has become an increasingly controversial issue. This is mainly due to the 1990 NHS and Community Care Act's transfer of the caring responsibility from the NHS towards the Local Authorities (LA) and the introduction of means test. Firstly, as social services after the reform included personal care services such as bathing and personal hygiene, the distinction between the NHS and the LA's responsibilities had become more blurred. It was often difficult to assess whether such services were the responsibility of the NHS or the LA, since personal care can be defined as both health- and social care. Therefore, instead of solving the conflicts between the NHS and the LA, which had been the rationale of 1990 NHS and Community Care Act, the reform added new conflict issues. (Henwood 1999).

Secondly, the blurred boundaries also had significant implications for the users, since social care services were chargeable whereas health services were free of charge. Together with the transfer of the caring responsibility towards the LA, this meant a shift of cost from the NHS to the LA and, thereby, the individual. Older people with an income and capital assets of more than 16.000 pounds including the value of their house had to pay the full cost of any home fees or services. Elderly having assets between 16.000-10.000 pounds were charged against means-test, whereas older people with assets less than 10.000 pounds received free care services. With average residential and nursing care home fees of more than £240 or £340 per week, respectively, savings and assets could rapidly be exhausted. (Henwood 1999). Consequently, this created negative reactions in the public who perceived it as a double betrayal. Many people saw it as the state had broken its social commitment to provide long-term care, since older people, who, previously, would have received free care services, were now obliged to pay for them due to the introduction of means-test. (Health Committee 1995-1996, Means, Morbey & Smith, 2002). Moreover, the inclusion of people's homes in the assessment of care was seen as unfair. Particularly, because the previous Conservative government had promoted home ownership and the possibility of cascading it down to generations as a right of citizenship since the early 1980's. Being obliged to sell their houses to receive care undermined this vision and was seen as a betrayal. (Henwood 1999).

This growing discontent among home owning electorates through the 1990's, the lack of the Conservative government's intervention in this area, the New Labour's pledge in their election manifesto to establish a Royal Commission that examined a fair system for funding long-term care, and the 1997 election result created the immediate background to the establishment of the Royal Commission. (New Labour, 1997 and Henwood, 1999). The Royal Commission was set up in December 1997 as an independent organisation and was chaired by Sir Stewart Sutherland. Within 12 months, the Commission had to report to the government about the short- and the long-term options for a sustainable funding system of long-term care for elderly and the costs of such a system in regard to the individual and the public funds. (Royal Commission, 1999). The Royal Commission's report can be seen as the starting point of the political debate prior to the 2001 Health and Social Care Reform. It diagnosed the key problems within the current system and proposed various solutions, which triggered the political debate prior to the 2001 Health and Social care Act. The Royal Commission's diagnosis of the key problems is presented in the following.

2.10 The Key Problems acknowledged by the Royal Commission

The Royal Commission acknowledged several problems within the current long-term care system, which they classified within five categories. However, the Royal Commission did not see the demographic "time bomb" as a key problem, although, it recognised that the number of elderly above 85 would increase dramatically. Its main arguments were that the UK already had lived through a period with an ageing population earlier this century and that higher productivity would make it possible to support a higher ratio of non-working people, even though, their caring needs might increased. In addition, the Royal Commission also announced that the availability of informal care would remain unchanged in the future and was, therefore, not a problem. (Royal Commission 1999). The key problems the Royal Commission recognised were instead grounded on problems within the current system.

2.10.1 The Confusion of NHS and LA caring Responsibilities

A key problem with the current system was its complexity since it caused confusion and the feeling of helplessness among the users. The blurred division of the NHS and the LA's responsibilities of providing health and social services mainly cause the complexities and confusion. Often the Health Service seemed to abnegate its responsibility for care and force people to rely on their own resources. The insufficient service deliveries were mainly due to LA's less centrally controllable (and more locally variable) system of finance, which produced variations in the implementation of the funding system. (Royal Commission 1999)

2.10.2 The Fairness of the Current System

Another key problem was the communication gap between Government and citizens when it came to the funding of long-term care. This lack of information had caused uncertainty and bitterness by large numbers of people and lack of preparedness of many. (Royal Commission 1999). As a result, large numbers of people perceived the current system as unfair and feel that the state had betrayed them. Mainly, because the system did not live up to their expectations. They believed they had paid into a system through the National Insurance Scheme and were, therefore, entitled to have their caring needs covered by the state for free. However, instead of free services, older people had to pay for such services themselves out of their savings and assets due to means-test. Therefore, old people felt they were penalised for saving up. (Royal Commission 1999). This belief of unfairness and betrayal is also seen in more recent research findings where old people express the injustice of the current system due to them having to pay for care while others who have not contributed to the society receive free services. In some cases old people even denied to pay for such services whereby the families had to take over the caring responsibility. (Henwood 1999 & Larsen, Baldock & Hadlow, forthcoming). Another aspect highlighted by the Royal Commission is that the LA do not monitor an individual's assets whereby many elderly continued to pay full charges, even though, they were entitled to state support. This also contributed to the unfairness of the system. (Royal Commission 1999). In addition, the Royal Commission also emphasised the aspect of unfair treatment in the current system when it comes to paying for care services. In contrast to people needing acute care such as treatment for cancer, people suffering from Alzheimer or dementia would have to pay for their care services thus both diseases are caused by bad health and not because people are old. This was mainly a result from the unclear definitions of health and social care. Moreover, the Royal Commission also emphasised the lack of support to carers. (Royal Commission 1999).

2.10.3 Maximum Choice, Dignity and Independence

A main problem was the lack of national homogeneity in the provision of long-term care services. In some areas domiciliary services were free, but not in others. Moreover, the levels of services also varied dramatically across the UK. Therefore, instead of having a free choice as intended in the 1990 NHS and Community care Act, the consumer's choice depended on what was offered locally and the state of the LA budget. As a result, the Commission concluded that under these circumstances there was an element of lottery when securing the most appropriate care for the individual. Another problem was as well that the current system had in-built financial incentives such as the Residential Allowances. This encouraged the LA to push people into residential care earlier than necessary instead of focusing on the individual's needs. Thereby, the LA compromised the individual's dignity and independence on the expense of financial incentives, since the two concepts meant avoiding residential care unless it was absolutely necessary. Moreover, the various schemes people had to complete to receive assistance were also complex and militated against both their choice and dignity. (The Royal Commission 1999& Henwood 1999).

2.10.4 Security, sustainability and adaptability

The Royal Commission also perceived the lack of sense of security for older people as problem. The funding system did not meet the caring needs of the individual and the procedures of complaint were too complex. Several elderly were, therefore, anxious about their future. Often admissions to residential and nursing homes were arranged at times of crisis such as following hospital admission. In such situations the current system failed to give sufficient time to consider the best caring options available to the individual and thereby maximising the scope for rehabilitation and recovery. (Royal Commission 1999 & Henwood 1999). Not only did this make the older person feel insecure, but it also questioned the sustainability of the system. Moreover, the current system provided in many cases no incentive for developing alternative care facilities in the private sector, since this would mean withdrawing sums from current patterns of provision in which the LA were locked with contracts and their own provision of care. (Royal Commission 1999). This indicates that the current system were relatively inflexible and not capable of adapting to peoples' needs.

2.10.5 Best Value and Quality

The current system is dominated by little definable relationship between quality and cost. An insurance that the individuals obtain the best value and quality services within the system, as a whole is questionable. Irrespective of appropriateness and best value for the individual the current system is clearly biased towards residential care due to its in-built financial incentives and lack of general standards. These are primarily a result of inadequate financial resources given to the LA to cover the extent of need. (Royal Commission 1999).

In sum, the Royal Commission concluded that the current system was failing and they recommended a major restructuring. By comparing the key problems with the problems prior to the 1990 NHS and Community Care Act it is seen that the conflict between the NHS and the LA still remain unresolved despite the reforms attempts to clarify their responsibilities. The geographical diversities in the service provisions, the complexity of the system and variation in the assessment criteria also continued to be key problems. Therefore, the former Conservative government only managed to reduce the rising public expenditure with the 1990 NHS and Community Care Act. However, this intervention created, as illustrated above, new problems such as the perverse incentive of sending people to residential home earlier than necessary, an unfair system and lack of quality services.

2.11 The Key Actors and their Position

During the period of 1999-2001 nine key actors can be identified: The Labour Party, especially the secretary of Health Alan Milburn and the Minister of Health John Denham, the Conservative Party, The National Assemblies of Scotland and Wales, the Treasury, the Department of Health, more precisely, the Select Committee on Health of the House of Common, the NHS and the LA. The Royal Commission, the minority group of the Royal Commission and centre-left think tanks such as the Institute for Public Policy Research also produced influential research. By contrast trade unions such as RCN, RCP and BASW, the Liberal Democratic Party and the SPAIN group especially Age Concern and Help the Aged only had a limited impact on the drafting of the reform.

The Royal Commission

As part of its report, the Royal Commission proposed 24 recommendations for change.[5] However, the Royal Commission had two main recommendations. Firstly, long-term care should be divided between living costs, housing costs and personal care. Personal care such as bathing and personal hygiene should be free of charge and financed through the general taxation. The rest should be co-financed according to means, where the levels of means-test should be changed from the existing £16.000 to £60.000. Secondly, a National Care Commission should be established to monitor trends such as demography, spending, ensure transparency and accountability in the system as well as representing consumers' interests and set national benchmarks, now and in the future. (Royal Commission 1999). These recommendations were based on the Royal Commission research, which had indicated that action had to be taken, mainly due to the complexity of the current system, the lack of clarity as to what people can expect, the unfair mechanisms of state support and the perverse incentive of sending older people to residential homes when this is not needed.

The Minority Group of the Royal Commission

The Minority group of the Royal Commission consisted of the two members Joel Joffe, an Human rights Lawyer and the Director and former Deputy Chairman of Allied Dunbar Assurance, and David Lipsey, the political editor of the Economist and a Public Interest director. They added a note of dissent to the report of the Royal Commission. They rejected the Majority report's recommendation of free personal care financed through general taxation. Their main argument was that free personal care for those qualified for it would add to the demand for such care and thereby impose an additional cost on top of that driven by demographics. Therefore, free personal care would increase public expenditure from £1.1 billion to at least £6 billions in 2051. Moreover, Joffe and Lipsey argued that free personal care would not necessarily increase spending on services for elderly by a single penny. Mainly because the incentive for people to provide for themselves privately would be weakened and free personal care would only transfer income and wealth to the rich and their families at the expense of those most in need. In addition, such service provisions would also pre-empt the resources of the state in this area, whereby funding for the Royal Commission's other proposals would not be available. (Royal Commission 1999). Joffe and Lipsey recommended, therefore, six proposals, which differed, modified or added to the recommendations in main report. These were:

- The Government should allocate additional funding, which we provisionally estimate at not less than £300m, to deal with the present shortfall of funding for nursing homes, residential homes and community care, including more money for home care, prevention and rehabilitation.
- The Government should alleviate the worst effects of means testing by:

[5] **The 24 Recommendations can be seen in appendix 1**

a. Putting in place a loans scheme, which would virtually guarantee that no elderly person would be forced to sell their home to pay for care while they retain equity in it.
b. Raising the ceiling for the means-test from £16,000 to £30,000 and reduce the tariff income for by those with assets over £10,000 from £1 a week per £250 of capital to £1 a week per £500 of capital.
c. Removing the anomaly that those in nursing homes pay for their nursing care, whereas those in hospitals, residential homes and in their own homes do not, following a detailed examination of the cost and other ramifications of such a change.
d. (David Lipsey only) Considering further whether to make personal care free to those who have been in residential or nursing care for four years or more.

- To promote a more genuine public-private partnership in the provision of care, the Government should review the tax treatment of pensions, with a view to removing obstacles to the use of pensions to fund policies providing for long-term care, and make the sale of long-term care insurance policies subject to conduct of business regulation.

- The Government should provide an extra £300m (inclusive of the funds already committed under "Caring for Carers") annually to provide help to carers, focusing the extra money on those with the greatest needs, and on poorer elderly people and carers.
- The various options for specific savings set out above, including the phasing out of uncompetitive Local Authority direct provision of residential and nursing care, measures to tackle bed-blocking and the introduction of a universal charging regime and means-test for home care, should be energetically pursued
- The Government should devote further effort to promoting joint health and social service budgets for care; and consider in due course whether these budgets should be invested in its proposed primary health groups

The Political Parties

In the NHS plan, which is the Labour government's response to the Royal Commission's recommendations and the White Paper for future reforms, the Labour government proposed various solutions to the current problems and thereby declared their position.[6] The Labour government followed roughly the position of the minority report, which indicates that Lipsey and Joffe, the authors of the minority report, were more influential than those behind the majority report.The government agreed that the ageing population was problem, since it meant a rise in public expenditure. Therefore, instead of supporting free personal care financed through general taxation, the government followed the recommendation by the minority report of only making nursing care free of charge. Their main argument was that their proposals would improve standards of care and fair access to services more efficiently and that free personal care would be too expensive for the public budget. The government also supported the argument that the NHS was under funded and that a National Care

[6] 'See appendix 1 for Government's response to the Royal Commission's recommendations

Commission should be established to secure general standards. Part of the government's suggestions were also the abolition of the existing CHC's and creation of new institutions for representing patients as well as giving health secretaries authorities to disclose patient information, which is in the public interest. (The NHS Plan 2000) Moreover, new Care Trusts should also be established to ensure better collaboration between the NHS and social services whereby bed blocking could be prevented. (The NHS Plan 2000). In sum, New Labour's position towards reforms was no longer a universal long-term care system with free services. Instead, Labour followed the former Conservative government's political line, which favoured means test and delegation of the care responsibility to the individual. However, New Labour's political line was at a more generous level than its predecessor. The New Labour Party is, thereby, compromising with their promises of their 1997 Conference speech made by Tony Blair, where he argues the value of peoples home should be excluded when assessing means. (Guardian, 1/3-2000).

Although the Conservative Party supported the government's rejection of free personal care, they opposed to the abolition of the CHC's, the extension of the health secretaries' power to use, for instance, confidential patient information for research. Their main argument was that these changes would create mistrusted in the current system due to the vague definition of public interest and that doctors might have to choose between breaking their pledge of patient confidentiality and breaking the law. Moreover, the Conservative Party blamed the government for being control freaks instead of democratic. (Guardian 22/3-2001)

The Liberal Democratic Party supported free personal care. Their main arguments were that the current system was unfair and morally wrong, since old people had to sell their homes to receive care and that people with Alzheimer's and Dementia had to pay for care where other patients receive such services for free. (Press Release of Liberal Democrats 2000).

National Assemblies

The Scottish national assembly favoured the recommendation of making both nursing care and personal care free of Charge. The Welsh assembly advocated for allocating a flat rate payment for older people needing registered nursing care. (Help the Aged 2002).

The Select Committee on Health

The Select Committee on Health supported overall the recommendations made by the Royal Commission. The Committee also advocated for integrating formally health and social care services. Moreover, they supported the idea of care in the home as the most feasible solution, which should be available for individuals as long as possible. In relation to this, they also recommended the government to learn from Danish experiences of providing long-term care. However, the committee acknowledged that for historical and financial reasons it would be impossible to transfer exactly the Danish method of onto the UK. Finally, the Committee emphasised that it would be a dereliction not to implement the recommendations made by the Royal Commission. (Select Committee on Health 1999a)

The NHS & representatives for the LA

The representative for the LA such as the Association of Directors of Social Services and the Local Government Association (LGA) supported the reorganisation of the NHS. However, they recommended that the matter of short, medium and long term financial planning were reconsidered along with amendments of governance and accountability of Care Trusts. Moreover, they also advocated for better services for the elderly. (Memorandum by the Association of Directors of Social Services 2001 & LGA Briefing 234, 5/30-01). The NHS also favoured free personal care.

The SPAIN group, RCN, RCP and BASW

BASW, RCP, RCN and the SPAIN group supported free personal care, since it otherwise would result in unfairness and discrimination. The organisations also advocated for a more transparent system, so elderly and their families could make the right choices for them. (Help the Age, March 2001). Moreover, they also declared that the definition of social care was unclear and particularly RCN advocated for free nursing care to all assessed to be in need. The organisations were also critical towards the proposal of making confidential patient information public (RCP 29/1-02) Except from this, the organisations supported the proposals launched by the Labour government in the 2000 NHS-plan. (RCN, 13/8-2001, RCP 29/1-2002**,** Age Concern 31/01-02, BASW Briefing1999).

In sum, the different actors had different positions towards the Labour Government's proposed solutions. In the following the political debates are analysed.

2.12 A political debate dominated by the Labour Government

The political debates prior to the 2001 Health and Social Care Act took place within the Standing Committee of the Parliament and the Health Select Committee of the House of Common. However, there were also ongoing debates taking place in the media, where several of the key actors pinpointed their views. The different interest groups were also invited for a consultation meeting prior to the reform. As a result, the public were to some extent better informed about the ongoing political debates than during the policy-making process prior to the 1990 NHS and Community Care Act.

2.12.1 The Political Debates within the Select Committee on Health

The political debates within the Select Committee on Health took place on the 11th of March 1999. (Select committee on Health (1999c) Almost six months before the Government published its responses to the Royal Commission. The participants were labour MPs, officials of DoH and Sir Stewart Sutherland (chair of the Commission). The purpose of the debates was to enable the Committee to examine the expenditure, administration and policy of the Department of Health and associated public bodies. (Select Committee on Health, 1999b). Therefore, most of the debates were characterised by the different MP's asking questions to Sir Stewart Sutherland in order to clarify different aspects of the Royal Commission's report. The results of the debates were published in the Select Committee on Health's report "The Long Term Care of the Elderly". The Committees recommendations, which are presented, in section 4.5, complied largely with the Royal Commission's recommendations. This indicates that the Royal Commission had an impact on the position of the Select Committee. In their response to the Committee's report, the government supported most of the Committees recommendations, except for the proposal of integrating health and social care services. (Department of Health, 1999). This indicates that although the Select Committee on Health was an influential actor in the political game.

2.12.2 The Political Debates within the Standing Committee

Similar to the political debates within the Standing Committee prior to the 1990 NHS and Community Care Act, the New Labour Government also tended to ignore the requests from the opposition during the meetings in the Standing Committee. Most of the debates consisted mainly of the opposition asking questions to the Minister of Health, John Denham, who then rejected or ignored the proposed questions rather than actual policy-making. (Standing Committee E 8/1-2001, Standing Committee E 18/1-2001, Standing Committee E 6/2-2001, Standing committee E 8/2-2001). As a result, neither the Liberal Democrats nor the Conservatives could resist the proposed solutions in the NHS plan. However, the Conservatives managed to get their request about keeping the Community Health Councils (CHC's) accepted by the Government. This was not due to their power in the Parliament, since New Labour had the majority of votes in the Parliament. (Labour 419 against the Conservatives 165, Liberal Democrats 46) (General Election Result 1997). The change was instead caused by Labour backbench rebellions, who refused to support the abolition of CHC's. The government had, therefore, to compromise on this topic in order to ease the bill's passage through the second and third reading. Moreover, the Scottish Executive decided to allow free personal care for Scottish elderly and the Welsh Assembly introduced a flat rate payment for older people needing registered nursing care, which put pressure on the responsible ministers to change track. However, none of these changes affected the government's position and the Bill was passed through parliament without any further radical changes. (Guardian 12/3-2001, LGA Briefing 5/30/01)) This indicates that the New Labour government had the possibility to ignore the opposition without fear of the reform being rejected in the Parliament as long as they had the support of the other Labour MPs. The Labour Party can, therefore, be seen as the most influential actor in the Standing Committee due to their political power.

2.12.3 The Public Debate in the Media and the 2001 Health and Social Care Act Consultation

The public debate in the Media and the consultation organised by the Department of Health in January 2001 indicates as well that the interest groups only had a limited influence. Despite most interest organisations repeatedly advocated for free personal care financed through the general taxation the government ignored this request. **(**Guardian, 29/7-2000, Guardian 1/1-2000, Guardian 10/1-2001, Alzheimer Scotland, 30/8-2001,Guardian 23/1-2001, Guardian 26/1-2001, Guardian 26/4-2001, Department of Health Consultations) The government also ignored the criticism put forward by various actors about using patients' medical files for research and the establishment of care trusts during both the Consultation meetings and the public debates in the media. (Guardian 23/1-2001,) This also supports the argument that the Labour Government was the most influential actor.

The analysis indicates that the actual policy-making took place within closed policy communities due to the lack of the other political parties, the media and various interest groups influence on the agenda.

2.13 The 2001 Health and Social Care Act

The Act was intended to deliver many of the aspects of the NHS Plan and the Governments responses to the Royal Commission's report that required changes to primary legislation. Despite criticism from the opposition, the reform followed largely the proposed solutions by the Labour Government. However, Scotland achieved an exemption that enables them to provide free personal care and the CHC's were kept although only for a limited period. The reform constituted of five parts. Part one introduced changes to the way the NHS including family health services are run and funded in England and Wales. The introduction of more public and patient involvement in the NHS was part of this section. Part 2 dealt with pharmaceutical services in England and Wales and some aspects of such services in Scotland. Part three provided the establishments of care Trusts and the transfer of staff in connection with partnership arrangements in order to improve the collaboration between the LA and NHS. Part four introduced changes to the funding and provision of long-term care in England and Wales. Among these changes was the introduction of free nursing care in Wales and England, whereas both nursing care and personal care were made free of charge in Scotland. Part five concerned the control of patient information and the extension of prescribing rights and various miscellaneous and supplementary provisions. (The 2001 Health and Social Care Act).

The overall goal of the reform was to improve the current system by introducing free nursing care and promote better services on long-term care as well as making the current system more transparent. (The NHS Plan 2000)

2.13.1 The Path dependency of the Reform

Although, the Labour Government similar to its predecessor emphasised that meeting the caring needs of an individual is primarily the responsibility of the family, the individual and the community, the reform indicated radical changes. Firstly, the reform introduced a fundamental restructuring of the NHS and the central governmental control was extended. (Department of Health (2001). The introductions of ring fenced grants, the rights to publish patient information are examples of this. Secondly, the new initiatives of modernising social services and the emphasis on improving the quality of services for carers and users are also radical compared with the former Conservative government. Most notably is the fairness of meeting the adequate needs of the individual and equity. The introduction of free nursing care is an example of the latter. These changes indicate that the 2001 Health and Social Care Act only to a certain extent is path-dependent, since New Labour follow the same general framework as its predecessor e.g. the desire to contain spending and use of means-test.

2.13.2 The Implications

The implications of the reform are still too early to assess, since the reform first will come fully into force in October 2003. The free nursing care is estimated to benefit around 35.000 people per year.

2.14 Recent Political Debates

Both before and after the implementation of the Act, the government launched a variety of new reforms. Among them are the establishment of the National Care Commission and the series of National Service Framework such as the 2001 framework for older people, which intend to establish more coherent service standards within the health and social care sector.. (White Paper on Modernising Social Services 2000). The initiatives from April 2001 concerning disregarding of the value of homes for up to a three months period and changed the limits for means test is also one of the government's attempt to improve the current system. New Labour changed the means test limits from £ 16.000 to 18.000, but it is still far from the limits suggested by the Majority and the Minority group of the Royal Commission (60.000 and 30.000 pounds respectively) (The NHS Plan 2000). New Labour also introduced the 1999 national strategy for carers, which intends to support carers in various ways (1999 National Carers Strategy). Some of the more recent attempts for change is the secretary of Health Alan Milburn's plans of tackling the democratic deficit within the health service by giving elected members of the public wide-ranging control over the new foundation hospitals. (Guardian 14/11-2001) The government has also announced a new contract for hospital consultants. The government has tried via different incentives to encourage hospital consultants to work more for the NHS than their own practices in order to reduce the waiting lists at the hospitals. However, consultants in England and Wales rejected the deal whereas consultants in Northern Ireland and Scotland have supported it. (Guardian 1/11-02). What the result is going to be is still uncertain. The most recent attempt by New Labour is the introduction of the delayed discharge bill, which has been subject to massive criticism both within the parliament, the House of Lords and the outside world due the finning of the LAs in case of delayed discharges. Another interesting aspect within the political debate is that the Conservative Party has recently changed their position regarding the inclusion of peoples' homes in means tests. Instead of supporting their previous policy, the Conservative leader Ian Duncan reported recently at the Conservatives' Party Conference that such assets should be excluded from the assessments (Guardian 10/10-02). This is a new discourse of Conservatives and new policies might follow this new direction.

2.15 Conclusion

The New Labour government dominated the political debate of the reform. The influence of the opposition was limited. They only managed to change the agenda due to backbenchers rebellion within the New Labour Party. Similar to the policy process prior to the 1990 NHS and Community Care Act, the political structure of Whitehall and the majoritarian system account for the weakness of the opposition and the absence of veto points within the debate. However, a new direction seems to appear. In contrast to former reforms, the 2001 Health and Social Care Act was debated more intensively within the media and thereby the public. Moreover, the Queens Speech in the opening of Parliament 2002 also indicated that social care for elderly would be a topic that will attract more political attention in the future. (Guardian 13/11-2002) The

Liberal Democratic Party's inclusion of long-term care in their Manifesto also indicates a time of change.

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Appendix 1: The Government's Responses to the Royal Commissions recommendations on Long-term Care

Table: The Government's responses to the Royal Commission's recommendations

The Royal Commissions Recommendations	Government Response
1. Personal care should be available after an assessment, according to need and paid for from general taxation	The Government is making an unprecedented new investment over the next three years in improving older people's services making them more responsive and more fairly funded. The Government's investment would fund the cost of the Royal Commission's recommendation. However the Government, does not believe that making personal care universally free is the best use of these resources.
2. The Government should establish a National Care Commission	Broadly **accepted** in December 1999 with the announcement of a single National Care Standards Commission, now enshrined in the Care Standards Act 2000
3. The Government should ascertain precisely how much money goes to supporting older people in residential settings and in people's homes	Any division between acute and long term health care spending would be somewhat arbitrary. The Government believes that it is more important to get the right incentives in the system to promote older people's independence and to provide care closer to home. This is what the proposals in the NHS Plan on intermediate care and associated services aim to do.
4. The value of the home should be disregarded for up to three months after admission to care in a residential setting and the opportunity for rehabilitation should be included as an integral and initial part of any care assessment	Both elements **accepted** in this response. Value of home will be disregarded for up to 3 months from April 2001, benefiting around 30,000 people a year.
5. Measures should be taken to bring about increased efficiency and improved quality in the system, including a more client centred approach	**Accepted**. Proposals in the NHS Plan for personal care plans and closer working between health and social care. Quality Strategy for Social Care to be published next month.
6. Other changes to the current system, such	Many suggestions **accepted** – free NHS

as changing the limits of the means-test, or making nursing care free (subsumed by recommendation 1)	nursing care from October 2001, benefiting around 35,000 people. Capital limits to be uprated to restore 1996 value from April 2001, benefiting around 20,000 people.
7. The resources which underpin the Residential Allowance in Income Support should be transferred to local authorities	**Accepted** – will be implemented from April 2002.
8. The Government should consider whether "preserved rights" payments in social security should be brought within the post 1993 system of community care funding	**Accepted** – will be implemented from April 2002, benefiting up to 65,000 people.
9. The Government's proposals on pooled budgets should be taken further, with pooled budgets being implemented nationally	Broadly **accepted** in the NHS Plan, with proposals for strengthening partnerships between health and social care.
10. Budgets for aids and adaptations should be included in and accessible from a single budget pool and Local Authorities should be enabled to make loans for aids and adaptations for individuals with housing assets	**Accepted** in principle for aids and minor adaptations. Potential for use of pooled budgets using Health Act 1999 flexibilities
11. The system for making direct payments should be extended to the over 65s	**Accepted** and implemented from February 2000.
12. Further research on the cost effectiveness of rehabilitation and the development of a national strategy on rehabilitation	**Accepted** in principle. Research is being undertaken on cost effectiveness of rehabilitation, and the National Beds Inquiry and NHS Plan proposals on intermediate care provide the context for developing a national framework for rehabilitation.
13 and **23**. Further longitudinal research is required to track the process and outcomes of preventive interventions	**Accepted** in principle. Work with the Office for National Statistics on proposal for a longitudinal survey of ageing.
14. It should be a priority for Government to improve cultural awareness in services	**Accepted** as important in the NHS Plan and

offered to black and ethnic minority elders	will be addressed as part of the National Service Framework for Older People. Reinforced for social care by project work with individual councils and inspection reports.
15. The role of advocacy should be developed locally, with backing from central Government	**Accepted** as important. Chapter 10 of the NHS Plan sets out our new proposals for patient advocacy services in the NHS.
16. There should to be wider consultation on the provision of aids and adaptations and on what should be free and subject to a charge	**Broadly accepted**. New powers in Care Standards Act 2000 will enable statutory guidance to cover fairer charging arrangements for services provided at home.
17. Better services should be offered to those people who currently have a carer	**Accepted** in principle. Additional resources for carers' services provided in the Spending Review.
18. The Government should consider a national carer support package	Accepted, as above, and through the Government's National Carers' Strategy
19. The National Care Commission should be made responsible for making and publishing projections about the overall cost of long-term care	Agreed that this is an important task, but it is not central government's responsibility. The Department of Health has commissioned the Personal Social Services Research Unit at the LSE to make projections
20. The Government should set up a national survey to provide reliable data to monitor trends in health expectancy	The Government **agrees** that a national longitudinal data may be valuable for measuring trends in health expectancy. Approval for this is being considered
21. The Government should conduct a scrutiny of the shift in resources between various sectors since the early 1980s	The Government believes joint commissioning has developed significantly and that the new partnership arrangements (including pooled budgets) in the Health Act 1999 are also changing the allocation of resources and therefore remove the need for such scrutiny
22. A more transparent grant and expenditure allocation system should be established	**Accepted**. The Government intends to issue a Green Paper in September 2000 on improving the way funding is allocated to local government.
24. The Government should consider how the provision of care according to need would	This recommendation relates to recommendation 1

relate to Independent Living Fund provision for the personal care needs of younger disabled people	

Source: The NHS Plan 2000

3 Women and the Labour Market

The National Childcare Strategy including Sure Start and the Integrated Child Credit

Trine P. Larsen, Anne Daguerre and Peter Taylor-Gooby

3.1 Introduction:

The National Childcare Strategy, the Sure Start Programmes and the Integrated Child Credit can be seen as the New Labour government's responses to its predecessor's lack of initiatives to improve women's access to the labour market. In 1998, the New Labour government announced the National Childcare Strategy, the Sure Start Programmes and the Childcare Tax Credit as part of their work package. Their overall purpose was to support families, particularly women's return to the labour market and children's ability to attend day-care by introducing various means. The Childcare Strategy concentrated on improving the supply and quality of formal childcare provisions. (National Childcare Strategy, 1998) The Sure Starts Programmes aimed at tackling child poverty, social exclusion and increasing the number of working families in disadvantaged areas. (Sure Start 2002) The Childcare Tax Credit's (CTC's) objective was to help working families with the costs of childcare. In 2002 New Labour improved the CTC by introducing the Integrated Child Credit (ICC) as part of the "2002 Tax Credit Act". The ICC concentrated on combining the existing income-related means of support to families into one single seamless system, redirecting the payment to the main carer, increasing the limits for means-test, giving continuing support irrespective of adults work status and creating a fairer system for both one- and dual earners. (HM Treasury & Inland Revenue, 2002). In the following, this paper will mainly describe and analyse the policy processes prior to the ICC reform. The paper is divided into five sections. The first section examines the background for the new reforms of New Labour and gives a brief outline of the National Childcare Strategy, the CTC and the Sure Start Programmes. The second section indicates the key problems that lead to the ICC. The third section analyses the policy processes behind the ICC reform by presenting the key actors and their position as well as the main issues of the political debate. It, thus, focuses on the period of 2000- 2002. The fourth section presents the main characteristics of the reform and assesses its impact on women's access to the labour market. The fifth section consists of the current political debate of women and the labour market.

3.2 Background information- Pressure for change

Lack of affordable and adequate childcare facilities became an increasingly controversial issue during the 1990's. Mainly because, users of childcare demanded more services, sessions and flexible opening hours and that inadequate childcare and high day-care prices were seen as the main barriers for women's particular lone mothers', return to the labour market. (Land & Lewis 1998). The economic activity of British women with children were relatively low 54% in the mid 1990's. (Land & Lewis 1998). Particularly, the numbers of unemployed lone mothers were relatively high 58% compared with Finland 35% and France 15%. (Kilkey and Bradshaw 1999). The main reason was that among the group of working mothers, only those with higher incomes could afford to pay the high day care prices. Poorer women had to rely on family and friends. Therefore, mothers,' particular lone mothers, unable to rely on such sources were often unlikely to take up paid employment. (Land & Lewis 1998). Although, the former Conservative government acknowledged these problems, little was done to solve them. They saw childcare primarily as a private matter and expected the market, family and friends to meet the childcare needs of the women. This discourse is also reflected in the child care initiatives launched by the Conservative government.

3.2.1 The Conservative Government's Initiatives to Improve Women's access to the Labour Market

In 1991, the Conservative government launched the initiative Employers for Childcare. With the initiative the government hoped that employers would offer childcare facilities and would, thereby meet the demands from the public. However, the initiative failed and was quietly closed down in 1998. Only 4% of the employers, mainly councils and the NHS, offered childcare services and the number of available places were limited. (Guardian 11/10-200). A means-tested childcare supplement for the low wage earners and the nursery voucher schemes based on an internal market approach were also part of the Conservatives strategy of encouraging mothers, particular lone mother's, to take up paid employment and improving the existing day-care facilities. However, these initiatives were also unsuccessful. Relatively few claimants benefited from the means-tested childcare supplement introduced in 1994. The poorest already received the maximum family credit and most of them relied on day-care provided by family or friends, which was excluded from criteria for childcare support. (Land & Lewis 1998) Instead of creating better and more extensive nursery school provisions, the nursery voucher schemes from 1996 had the opposite effect. Although, parents of four-year old children were giving vouchers worth 1.100 pounds a year to towards the cost of private, voluntary or public nursery education, many still chose public schools. Firstly, most parents valued continuity of care very high and welcomed, therefore, the opportunity to send their children to the same school in which they would attend primary school. Secondly, some head teachers informed parents that their child would stand better chances for being accepted at the particular primary and secondary school if their child attended the schools nursery. Consequently, the service level decreased since the Local Authority schools recruited more four-year olds than their capacity. They were fearful of loosing funding and numbers of children to the independent sector. Moreover, the nursery provisions did often not expand, since the public, private and voluntary nursery schools did not have the capacity to do so. (Land & Lewis 1998 and Guardian 13/3-1997). Therefore, the Conservative government did not manage to respond to the demands of the public concerning improved and affordable care services.

This growing discontent among users of childcare concerning the high day-care prices and inadequate services, the fiasco of the nursery voucher schemes, the New Labour's election manifesto pledge to meet the childcare needs of the electorates and the 1997 election result created the immediate background for better childcare services. Coming into office in 1997, New Labour abolished both the nursery voucher schemes and the existing childcare supplement and replaced them with their own National Childcare Strategy, the Sure Start Programmes and the Child Tax Credit. Their main intention was not only to improve the current childcare facilities. They also wanted to encourage more women, particularly lone mothers to return to the labour market, since it would benefit the national economy by reducing the number of families relying on means-tested benefits. Particularly, Harriet Harman, the former minister of Education and Employment, had advocated strongly for these initiatives. She had managed to convince a sceptical Chancellor of Exchequer Gordon Brown that inadequate childcare facilities were the main reason for the low level of British working mothers compared with Scandinavia and France. This enabled the initiatives for improving the provision of childcare facilities. (Guardian 11/10-2000). This indicates that Gordon Brown in particular can be seen as a veto point within the New Labour government. Without his content, reforms seldom become a reality due to the power of the Treasury. In the following, the National Childcare Strategy, the CTC and the Sure Start Programmes are presented.

3.2.2 The National Childcare Strategy & the Childcare Tax Credit

The National Childcare Strategy was launched by the publication of the Green Paper: *Meeting the Childcare Challenge* in 1998. Its main purpose was and still is to support families particularly women's access to the labour market by increasing the supply and quality of formal childcare provisions. (National Childcare Strategy, 1998). Over a five-year period the national childcare strategy intends, to make out of school childcare available in every community, which needs it, in order to help one million children over a five-year period. It consists of four key objectives such as quality of childcare, affordability of childcare, accessibility of childcare and partnership for the age group 0-14 and 0-16 for children with special needs.

The means used to achieve the objectives vary. Firstly, higher quality and standards are achieved by the Office for Standards in Education inspections of childcare facilities funded by the government and by training employees as professional carers. Secondly, free part-time nursery education is made available for all eligible four-year olds and funding has been given to expand free care for three-year olds. To eliminate geographical diversities in the service provision funding is given to establish childcare facilities in areas where such services are lacking. Thirdly, childcare is made affordable by the introduction of the Childcare Tax Credit, which is an integrated part of the Working Family Tax Credit (WFTC) announced in the 1998 budget and implemented in 2001. (For information about the WFTC see chapter on poverty and social exclusion) The Childcare Tax Credit is a means-tested tax credit, which is eligible for parents, who work more than 16 hours a week and rely on registered childcare e.g. nurseries, playgroups and registered childminders. The credit covers 70% of the childcare costs up to a maximum of 100 pounds for families with one child and 150 pounds for families with two or more children. (Budget 1998, National Childcare Strategy 1998 and Rake 2001) Fourthly, the development of partnerships is regulated by the local authorities through programmes such as Early Years Development and Childcare Partnerships. Their main purpose is to identify potential demands for childcare, outline childcare plans and establish and run information centres about childcare facilities. (The National Childcare Strategy 1998). In sum, New Labour therefore, follows the political line of its predecessor although the government's policies are more generous. Means-test and funding given to support the development of private and voluntary day-care facilities instead of direct benefits payments and establishment of public nurseries seems to support this.

3.2.3 The Sure Start Programmes

Building on the National Childcare strategy and the Government's various reforms to support children and their families, the Sure Start Programmes were launched in July 1998. The programmes are one of the cornerstones of the Government's aim to tackle child poverty and social exclusion. In 1998/99 about 24% of British children lived in households whose incomes were below 60% of the national average (Office of National Statistics 2001) Sure Start aims to improve the health and well being of families and young children under four, particularly those living in disadvantaged areas. (Sure Start 2002) The first 260 programmes are already in operation and at least 500 programmes are expected to be set up by 2004. Parts of the programmes concentrate on increasing the number of working families in deprived areas by creating pathways out of poverty and improving childcare facilities for 0-3 year olds. (Sure Start 2002). In relation to this, a recent EU Survey illustrates that it is primarily women that tend to live in workless households. (Franco & Winqvist 15/2002)

The Sure Start programmes are implemented through community based programmes, where local areas are required to form a partnerships of statutory and voluntary agencies, parents and other members of the community to plan and manage the programmes. (Sure Start 2002 & Sure Start- National Evaluation 2000).

3.3 The Improvements by the National Childcare Strategy, the CTC and Sure Start

The National Childcare Strategy, the Child Care Tax Credit and the Sure Starts Programmes have improved the childcare situation of many families and enabled more women to re-enter the labour market. Recent surveys indicate that there in 2001 is one childcare place for every 6.9 children under eight compared with one in nine in 1997. (Guardian 3/3-2001). In addition, the economic activity for women has raised from 66.8% in 1992 to 84.1% in 1999. (Daguerre, 2002). Despite these improvements, a large percentage of lone mothers are still unemployed and the most common working pattern for dual earners was the male full-time/female part-time worker in 2000. (Franco & Winqvist 9/2002). Moreover, a recent survey indicates that 24% of non-working mothers are prevented from taking up employment, since they have to look after their children and one out of 10 mothers working part-time would like to work, if childcare was made more affordable (Guardian 26/3-2002). This indicates that the British childcare system still have problems meeting the care needs of working families. In the following, the key problems prior to the Integrated Child Tax Credit reform will be presented.

3.4 The Key Problems Prior to the Integrated Child Credit Reform

Various surveys funded by the government and the EU indicates various problems within the current childcare system. These problems have been classified into the following three categories.

3.4.1 Affordable Childcare & The Child Care Tax Credit

The British childcare fees are among the highest in Europe. A typical nursery place for a four-year old costs €135 (€203) per week in inner London and £90 (€137) per week in the Northeast of the country. In sum this is more than £4700 per year, which is more than an average family with two children uses on food. (Guardian 3/2-2001).

This geographical variation in the childcare prices is not acknowledged by the Childcare Tax Credit. All claimants are means-tested against the same criteria no matter where they live. Therefore, there is an element of lottery regarding childcare prices, where parents living in London and the Southeast benefit less from the tax credit due to the ceilings of the CTC. (Guardian 3/2-2001). Moreover, the 70% ceilings of the CTC along with the high day care prices and low wages of lone mothers was also seen as a major impediment to women's paid employment. Often the high childcare costs and the low wages meant that most of the salary went to pay for the fees. The incentive for taking up paid employment, thereby, disappeared. (Rake 2001 & Guardian 26/3-2002). Moreover, single mother's lost their social security network when entering the labour market. The LA would no longer help them to force absent fathers' to pay their child supplement. Therefore, it would be more disadvantaged if single mother's applied for work. (Hadlow & Baldock 2001).

The current criteria of the CTC have also had a negative impact on women's ability to find new jobs when made redundant. Claimants often have had to give up their childcare place in case of redundancy, since they lost their entitlements to the credit and could, therefore, not pay the fees. The criteria for the Childcare Tax Credit also prevented a large group of families to benefit from the tax credit. The credit does not include informal care and people working less than 16 hours per week. Therefore, graduates wishing to retrain after having children saw it as an impediment that they could not claim the credit due to the 16 hours rule. (Guardian 5/12-2000 and Hadlow & Baldock, 2001). Another side effect of the ICC was also that the work incentive of families without children became relatively poor compared with families with children. Families with children would be nearly £50 better off per week while working while unemployed families without children returning to the labour market only had a surplus of £20 per week. (Treasury 29/11-2001). Moreover, the means-tested threshold also contained an unfair aspect towards families with only one earner. A one-earner family where the income was £40.000 p.a. was not entitled to the CTC whereas a dual-earner family, where both parents each earned £30.000 would receive full credit. (Conservative, 21/2-2001).

3.4.2 Information gap, Inflexibility & Geographical Diversities of Childcare Provisions

An information gap was also seen as a major problem with the CTC. Although, the National Childcare Strategy had established information centres about various entitlements, a large majority of lone parents entitled to the credit did not claim it. They were often not aware of the existence of the benefit. In relation to this, the complexity of current system often worsened the awareness of the different supplements. (LITRG 2000). The inflexibility of the opening hours of the day-care facilities was also seen as a barrier for women to take up employment. Most day-care facilities opens at 8.45 p.m. and closes at 5.10 am. Therefore, childcare facilities are not available for shift- and weekend working parents such as cleaning ladies, cashiers and bus drivers. (Hadlow and Baldock 2001, Larsen, Baldock and Hadlow, forthcoming) A main problem is also the lack of national homogeneity in the provision of childcare facilities. A recent survey indicates that Mothers' queue for day-care facilities due to insufficient level of facilities. (Chevalier & Viitanen 2002). This is particularly seen in rural areas where parents often have to drive miles to bring and fetch their children from the day-care facilities. (Hadlow & Baldock, 2001 & Larsen, Baldock & Hadlow, forthcoming).

3.4.3 Retraining of Women

Another problem that appears from the New Labour's different initiatives of getting more women into the labour market is that they mainly focus on the provision of childcare facilities and not retraining. Although, the New Deal for Lone Parents provides training opportunities for single mothers, this remains insufficient to upskill this section of the labour force. One of the side effects of the government's initiatives is that retains women, particularly lone mothers, in low paid jobs. Indeed, lone mothers often have low educational skills. Thus, failure to address this problem implies that they cannot find employment above the minimum wage and improve their living circumstances. Consequently, the government's initiatives may, therefore, not have the intended effect of getting women and, thereby, children out of poverty. (Rake 2001).

In sum, most of the key problems appear as a result of year's neglect of childcare provisions and in works benefits. However, the problems seem to be worsened by the pressures from the EU. The Lisbon target of raising the employment rate by women by 60% and reducing the number of redundant lone mothers by 2010 puts indirectly pressure on New Labour. Also the fact that Britain belong to the group of member states with the largest percentage of children living in poverty seem to pressure the government to intervene. The 2002 Tax Credit Reform including the ICC is an example of the New Labour government's initiative to anticipate some of the problems connected to the CTC. The positions of the key actors participating in the political processes behind the reform are presented below.

3.5 The Key Actors and their Position

During the period of 1999-2001 seven key actors can be identified: The Labour Party, especially Tony Blair and the Chancellor of the Exchequer Gordon Brown, the Treasury, the Inland Revenue, the Social Services Select Committee, the CBI and Trade Unit Congress (TUC) and the Fawsett society. Think Tanks such as Institute for Fiscal Studies and the Women's Budget Group also produced influential research. By contrast, the Liberal Democratic Party and the Conservatives only had a limited impact on the drafting of the reform due to them being in opposition.

3.5.1 Political Parties

The New Labour Government

In the 1999 budget and the 2001 Inland Revenue consultation paper, New Labour proposed various solutions to the current childcare problems and thereby declared their position. Inspired by the American, Australian and Canadian tax and benefit systems, the Labour Government proposed that the ICC would be a single seamless system. The ICC would replace the support currently available through the CTC, the Child element of WFTC and the child elements of Income support. The means-tested ICC would be paid in addition to the Child Benefit. It is payable to families with children, who receive the employment tax credit and work jointly a minimum of 30 hours per week and those families on in work benefits. The administration of ICC for families on work benefits will be transferred from the Benefit Agency to the Inland

Revenue. Employers will administrate the ICC for families in work. Part of the ICC would, therefore, be incorporated in the Employment Tax Credit and not the ICC reform. Moreover, the government proposed that supplements would be paid into bank accounts in order to insure that all family members have access to the supplement. The government also put forward that payments were directed to the main carer instead of to the main provider, that the age-limit of ICC would be 16 years and that the supplement would cover various groupings of children such as children placed in care or under hospital treatment. (Inland Revenue, 2001 and Budget 1999) In sum, the New Labour's position towards the reforms followed the former Conservative government's political lines, although their policies were more generous. Similar to its predecessor, New Labour continued to rely on means-test and tax credits instead of direct benefits when supporting families in their caring needs.

The Conservatives

The Conservatives were critical towards the redistributive mechanisms of the new tax credit reform including the ICC. In their 2001 Manifesto: *"Time for Common sense"*, they claim "that the task of bringing up children is made much more harder when families keep less of what they earn, because the government is taking more. (Conservative Party Manifesto, 2001 and Daguerre & Taylor-Gooby 2001). The Tories also accused New Labour for attempting to abolish the universal child credit by making it means-tested. (Guardian 1/6-2001). In addition, the Conservatives introduced the proposal of a new Married Couple's Allowance worth up to £1.000 a year for families with children 11. One parent could, thereby, choose to stay at home or work part-time to look after a child. (Conservatives 31/5-2001). This indicates that the Conservatives still see childcare as a private matter. Their 2001 Manifesto seems to support this, since it does not contain any state support for childcare and tend only to provide a minimum support for families. (Conservative Party Manifesto, 2001 and Daguerre & Taylor-Gooby 2001).

Liberal Democrats

The Liberal Democrats were sceptical towards the ICC. They believed that the reform would impose increasing administrative costs for small businesses. According to the Liberal Democrats, the ICC would also leave 1.4 million families worse off due to the changes of the minimum threshold for the entitlement of the ICC. (Liberal Democrats 19/11-2001 & Liberal Democrats 23/10-2000). The IFS came to similar estimations, since they assessed that around 1.1 million better-off families would loose money by the new system (Brewer, Clark, & Myck, 2001).

3.5.2 Ministries and Governmental Departments

The Treasury & Inland Revenue

The Treasury and the Inland Revenue supported the introduction of the ICC. They also favoured that the Child Benefit administration should sit alongside with the ICC, since it would improve delivery and reduce bureaucracy for families with children. They also supported the idea of better collaboration between the different professional bodies and the Inland Revenue. (Treasury 5/3-2001 and the Inland Revenue, 2001)

Social Security Committee/ Select Committee on Work and Pension

The Social Security Committee, which later changed to the Select Committee on Work and Pension, welcomed overall the introduction of the ICC. However, they recommended that the universal Child Benefit should continue to play a substantial role in supporting children and should be a separated supplement from the ICC. They also recommended that a specific budget for research of families' need for the ICC should be established and that the government consulted various professional bodies during the policy-making process. Inspired by the Australian and Canadian childcare system, the Committee also advocated for one seamless system, where all families with children are included and a maximum award of the ICC is given. According to the Committee, this along with a better co-operation between the different benefits departments and the Inland Revenue would reduce the complexity of the current system. The Committee also favoured a no age-related element in the rate of child credit per child and that the ICC rate would not distinguish between the first and subsequent children. Moreover, they advocated for redirecting the tax credits towards the main carer instead of the main provider, where the option of either paying into bank accounts or giro cheques should be given. (Social Services Committee, 2001).

3.5.3 Social Partners

CBI

The CBI also welcomed the introduction of the new tax credit system as a valuable way of incentivising work. They supported the extension of the principle of tax credits to employees without children. However, they opposed to the administration of WTC through the pay packets, as this would place a substantive administrative burden on businesses, particularly small enterprises, which do not have the capacity to cope with such administrative burdens. The administrative costs of the system would cost employers 220million. Therefore, the CBI recommended that the Inland Revenue should administrate the credits. However, if this was seen as impractical, the employers, especially smaller enterprise had to receive compensation for the administrative costs associated with the implementation of the scheme. (CBI 2000).

TUC

The TUC broadly supported the 2002 Tax Credit reform and thereby the ICC. Part of their key message was to reform the policy on transitions into employment whereby the need to disrupt benefit claims was minimised as much as possible during such transition. TUC also welcomed the redirection of the delivery mechanisms of the ICC, where the payment went directly to the main carer instead of to the main provider. According to TUC, this would reverse the WFTC's negative impact on the gender gaps within families. In some families, the organiser of childcare may not the same as the main provider whereby the support giving may not be directed to where it is needed. Moreover, TUC also favoured the incentive to build on to the Universal Child benefit instead of making the Child Benefit means-tested. (TUC, 16/11-2001, see the section on poverty for more information on Universal Child Benefits)

3.5.4 Think-tanks and Voluntary Organisations

Women's Budget Group

The Women's Budget Group is an increasingly influential think tank. It brings together a unique configuration of women economists and social policy experts from academia, voluntary organisations and unions to reflect upon gender implications of economic and social policy. In their responses to Social Security Select Committee and the Inland Revenue's consultation paper on the ICC, the Women's Budget Group supports the main initiatives of the ICC. They recommend that all taxpayers contribute to the support of children and that payments for children and childcare are paid to the main carer. They also advocate for excluding parent's employment status regarding their entitlement to the ICC and that women's financial autonomy should were possible be encouraged. In addition, the Think-tank also favour a separation of the ICC and the Employers tax credit, since it otherwise would limit the role of childcare to the provision of care whilst parents are working. They are also critical towards the payment methods of the ICC, since payments via bank accounts rather than giro cheques would enable one partner to obtain the supplement freely within the consent of the other partner. (Women's budget groups 2000 and Women's budget group 2001).

The Low Income Tax Group of the Chartered Institute of Taxation (LITRG)
The LITRG also welcomes the ICC, since it successfully would reduce child poverty. However, they were critical towards the complexity of the tax credits and advocated for clarity and simplification. In their response to the Social Security Committee and the Inland Revenue, they also advocate for a broader collaboration between the Inland Revenue and professional bodies in order to achieve a more coherent approach towards tackling child poverty. (LITRC, 2000 & LITRC, 2001).

The Fawsett Society
The Fawsett society is one of the leading campaigning organisations for equality between men and women in the UK. They supported the introduction of the ICC, but were sceptical towards the inclusion of the ICC in the Employers Tax Credit, since it would transfer money from women to men. Fawsett Society therefore supported the idea of paying the ICC to the main carer. Moreover, they also advocated for annually assessment of parents' entitlement to the ICC and that the entitlement to ICC was made independent of parents' employment situation. (Fawsett Society, 2000).

3.6 A debate dominated by Openness

The political debates prior to the ICC reform took place within the Social Services Select Committee of the House of Common, a public consultation issued by the Inland Revenue and the Standing Committee of the Parliament. Due to the public consultation and the debates within the media, the political debate prior to the ICC reform represented a more democratic policy-making process than previous reforms. Various interest groups had the possibility to participate and influence the process-policy process, since the public consultation promoted an open debate with the possibility to change the proposed solutions of New Labour.

3.6.1 The Social Security Committee/ Select Committee on Work and Pension and the Government's Responses

The political debates within Social Security Committee took place from the 1st of November 2000 to the 17th of January 2001. Almost six months before the Government published its draft for public debate on the ICC reform. (Social Security Committee, 21/11-2000). The participants were labour MPs, officials from the Social Services Department, the Treasury and the Inland Revenue as well as various professionals and organisations. The purpose of the debates was to enable the

Committee to examine the expenditure, administration and policy of the Department of Social Security (and any associated public bodies). The Committee first invited interested parties to submit written evidence and then decided to take oral evidence from academics, think-tanks, officials and interest groups. (Social Services Committee 2001). Therefore, the debates were characterised by various professionals and organisations giving their view on the government's draft of the ICC published in the 1999 Budget. The Women's Budget Group, the LITRG and the Fawsett Society recommended that the ICC supplement were given to the main carer instead of the main provider. Particular, the Women's Budget Group recommended that options to the payment method were given to the main carer. The LITRG recommended that the current system was simplified and that collaboration between the involved agencies and departments was intensified. These recommendations are reflected in the Social Services Committee's report "Integrated Child Credit". This indicates that these groups were relatively influential. However, the Women's Budget Group and the Fawsett Societies recommendation of separating the ICC and the Working Tax Credit was not incorporated in the Committee's report. This indicates that other actors may have been more influential.

In their response to the Committee, the government overall supported the Committees' recommendations outlined in the report on Integrated Child Credit. Most of the recommendations by the Committee are also reflected in the Inland Revenue consultation paper from the 19th of July 2001. Inviting various professional bodies to a public consultation was also one of the main recommendations by the Committee. (Select Committee on Work and Pensions, 2001). This indicates that the Social Service Committee was an influential actor in the policy-process.

3.6.2 The Public Consultation issued by the Inland Revenue

On the 19th of July 2001 the Inland Revenue issued the consultation document *"new Tax Credits- Supporting Families, Making Work Pan and Tackling Poverty"* inviting comments on the proposals for implementing the new tax credits including the ICC from 2003. Responses were requested by October 12th. This open debate can be seen as rather radical. Most of the invited actors praised this new discourse of New Labour in their responses to the Inland Revenue. (Women's Budget Group 2001, LITCG 2001, Fawsett Society 2001). The key issues for consultation were the idea of paying the ICC to the main carer instead of main provider, the age of the dependent children and the children covered by the ICC. (Inland Revenue 2001). The Inland Revenue received 170 responses from various groups and invited several actors for formal and informal meetings. Most of respondents welcomed overwhelmingly the proposals set out in the consultation paper. However, some respondents questioned parts of the reform. Concerning the ICC, some respondents were sceptical towards the calculation of working hours when deciding whether parents are qualified for in-work support. This aspect the government promised to continue to discuss this with the respondents in order to find the most appropriate measures. Despite scepticism from some respondents concerning the opportunity of combining working hours, the government decided to go along with this approach. Although, some respondent among them the Women's Budget Group and the Fawsett Society requested a separation of the Childcare tax Credit from the Employers Tax Credit, the government did not follow this. Most respondents agreed with the government that the main purpose of removing barriers to work would disappear with such a change. In addition, the government promised to continue discussions with employer representatives such as the CBI, to simplify the administrative costs of them regulating the part of the ICC given to working families. TUC's and the Social Services Committee's request of building the ICC on top of the Child Credit was also supported by the government and the majority of respondents. (Treasury 29/11-2001). The public consultation indicates that the political debate was perceived as more open than previously debates, since various interest groups had the possibility to influence and comment on the proposals launched by New Labour.

3.6.3 The Standing Committee

Similar to the political debates prior to the reforms on long-term care, the New Labour government tended to ignore the requests from the oppositions during the meetings in the Standing Committee between the 15th to the 24th of January 2002. (Standing Committee A, 15/1-2001, Standing Committee A, 17.1-2002, Standing Committee A, 24/1-2002). As a result, neither the Liberal Democrats nor the Conservatives could resist the proposals published in the Inland Revenue's Consultation Paper. The Conservatives criticism towards the redistributive mechanisms of the ICC was along with their proposal for a New Marriage Allowance ignored by the government. Gordon Brown also denied the accusation of the Tories concerning means-testing the Child Benefit. The Liberal democrats' request that changes had to be made to prevent 1.4 million families losing up to £520 each due the thresholds of the ICC was partly ignored by the government. Although, they acknowledged that this was a delicate area, the government consciously did not want to draw unnecessary attention to the Liberal Democrat's request, since the estimates were not particularly robust. Therefore, the government prevented that up to date calculations were circulated among the other MPs by making such calculations unavailable. (Guardian 22/11-2002). In sum, the reform was passed through the Parliament without any radical changes on the 8th July 2002. This indicates that the New Labour government had the possibility to ignore the opposition without fear of the reform being rejected in the Parliament. The New Labour can, therefore, be seen as the most influential actor in the Standing Committee due to their political power.

In sum the Labour government can be seen as the most influential actor, since they had the power to either accept or ignore the requests from the opposition and various interest group. However, the public consultations along with remarks from the various interest groups in their responses to the government indicate that the actual policy-making debate was more open than previously debates on childcare. This new direction towards open debates could be because childcare and tax credits recently has become controversial issues with a high political profile. Lack of information about the practical implications and function of the current system could also be a reason for the new direction by the government. This seems also to be supported by the political debates within the Standing Committee where most of the opposition's requests were ignored.

3.7 The Integrated Child Credit reform

The Integrated Child Credit reform is part of New Labour 2002 Tax Credit reform, which comes into force 2003. The 2002 Tax Credit reform consists of the ICC and a Working Tax Credit for working households facing low income including those in which an employee is disabled. The two credits are *"intended to create a single* *income-related strand of support for families with children, complemented by a single strand of support for adults in work."* (Explanatory Notes to Tax Credit Act 2002). The 2002 Tax Credit Act sets out the administrative framework for the new credits and the conditions of the entitlement to the credits and the elements of them. The means-tested ICC draws together all the existing income-related means of support for families with children into one payable credit. These means are the child element in income support, income –based jobseeker's allowance, WFTC, DPTC and the CTC. The ICC is available to households with at least one child under 16 or 19 if the child is under education irrespective of the employment status of the family. The credit consists of a basic family element and an element in respect of each child or young person. The latter element will be higher in case of disabled children. (Explanatory Notes to Tax Credit Act 2002). The thresholds for the ICC are along side the Child benefit £54.25 a week for the first child for families with an income of less than £13.000 per year and £26.50 a week for the first child for families with an income of less than £50.000 a year. Although, the working tax credit is payable to families irrespectively of children, the credit also contains a childcare tax credit element for families with an income of maximum £14.000, working minimum 16 hours per week and using registered childcare. Families with children can receive up 70% of eligible childcare costs of up to £135 per week for one child and £200 pounds per week for two or more children. This illustrates that the thresholds have been extended compared with those of the ICC and the WFTC. In addition, the children's tax credits are all to be paid to the main carer instead of the main provider. (Treasury & Inland Revenue, 2002 and Explanatory Notes to Tax Credit Act, 2002). Similar to the Australian system of integrated child payments, the gross household's annual income will be the assessment criteria of the ICC. (Explanatory Notes to Tax Credit Act 2002 & Social Services Committee 2000).

The objectives of the 2002 Tax Credit Act including the ICC are; to support families with children by recognising the responsibilities that follow parenthood, tackling child poverty by offering help to those in need and increase the incentives for people to take up paid employment. (Treasury & Inland Revenue 2002). Therefore, the overall goal is to improve the current system by removing barriers to paid employment for particular women and to make the current system more transparent. The improved childcare supplements conflicts with the government's intention of restricting the budget. This is particularly seen lately, where Gordon Brown has been forced to borrow money to finance the economic gaps in the 2003 budget. (Guardian, 27/11-02)

3.7.1 The Path dependency of the Reform

The introduction of the ICC in 2003 represents a radical change from traditional New Labour childcare tax credits. Firstly, making more families eligible for the new tax credits represent a swift change. Secondly, drawing together existing family support into the ICC as well as administrating the ICC to all families regardless of their employment status also signals a radical change. It indicates a more inclusive, simplified and coherent family policy that effectively can ease the transition into paid employment. Thirdly, the closer collaboration between various departments administrating the tax credits and exemptions also indicates a radical change, since the payment of such benefits prior to the tax reform was claimed various places. Fourthly, redirecting the childcare support to the main carer also represents a radical change from previous tax credits, since it used to be paid to the main provider.

Despite these changes, the policy instruments remains similar to those used previously by both New Labour and its predecessor. Fiscal administration rather than the Benefit Agency are the instruments used to encourage families' particular women to take up paid employment. Moreover, funding is given to support the development of private and voluntary childcare facilities instead of creating public nurseries. Therefore, the 2002 Tax Credit Reform is only radical in the sense of simplicity and generosity.

3.7.2 The Implications of the Reform

The implications of the reform are still too early to assess, since the reform first will come into force in April 2003. However, both the Inland Revenue and the IFS have made assessments of the possible effects of the new reform. The Inland revenue estimates that the ICC will create a more secure system of support for families by removing the distinction between support paid to working and non-working families with children. They also assess that the new credit system will deliver higher quality service to the recipients due to the simplification of the current system. In addition, employers compliance cost are estimated to be reduced by 11 million per year, since the current system will be simplified and awards will be paid by the Inland Revenue. (Inland Revenue, 2002). The IFS estimates that the ICC will cost the Exchequer 31.8 billion a year. Around 5.7 million families will receive the ICC and 3.8 million families will be better off than now. (Brewer, Clark & Myck, 2001). However, the IFS's also reports that the new tax credit will cause loss for better off families, since they will not be able to claim the CTC due to the changed thresholds. Therefore, the ICC reform may have both positive and negative effects on women's access to the labour market.

3.8 Recent Political Debate

Both before and after the political debate of the ICC, the government launched a variety of new initiatives and reforms to solve some of the key problems within the current system. Among these initiatives is the broadcasting of information about the different tax credits available to families in order to make people aware of the different supplements. The 2001 interdepartmental childcare review, which examined the whole childcare system and the different programmes running is also one of the government's initiatives. Closer collaboration between the different programmes within New Labour's childcare package such as Sure Start, Early years and childcare provisions was also a new attempt from the government. (Guardian18/7-2002). In addition, the government has also extended the finances given to the creation of new childcare facilities. The government also introduced flexible working for workers caring for a child under six, a two weeks paternity leave and extended maternity leave with eight weeks in order to help families reconcile work and caring responsibilities. Despite these new initiatives, the opening hours of the day-care facilities and retraining of women still remains untouched issues. Moreover, there are doubts whether the government will be able to reach its target of the national child care strategy by 2004.(Guardian 2/11-2002). In addition, the discussion about how many families that will loose or benefit from the current system has reappeared on the political agenda. The government has been blamed for hiding crucial information about the winners and losers under the new assessment system. (Guardian 22/10-2002). The government is also faced with a financial gap within next year's budget. The Chancellor of Exchequer Gordon Brown has been forced to find money elsewhere. Whether this will affect the different childcare initiatives including the implementation of ICC is uncertain.

3.9 Conclusion

The New Labour government dominated the political debate of the reform. The influence of the opposition was limited. They hardly managed to change the political agenda although particularly the Liberal Democrats had evidence that the ICC reform would harm a large group of people. The political structure of Whitehall and the majoritarian system account for this. However, a new direction seems to appear. In contrast to former reforms, New Labour invited various interested groups to participate in a public debate about the new changes of the tax credit system. Therefore, the increased openness to discussion of proposed policy changes might illustrate a new way of governance by the government.

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4 Low Pay and Social Assistance: Minimum Wage and Tax Credits

Anne Daguerre and Trine P. Larsen

This paper examines the evolution of policies for the low-paid during the period 1985-2002. These are activation polices since they aim to move as many people of working age as possible into the labour market. Their main target was low-income families. However, low income single people are also becoming a target of making work pay strategies.
To achieve this general goal, two main policies have been implemented: in work benefits designed to make work pay and the National Minimum wage. Family Credit introduced in 1988 was replaced by the Working Family Tax Credit (WFTC) in October 1999 whilst the minimum wage was implemented in April 1999.This paper focuses primarily on the WFTC and the new tax credits to be introduced in January 2003 since the NMW is also part of the government's making work pay strategy.
This paper is divided into four sections. The first section provides some brief background information concerning the social assistance system prior to 1999. The second section analyses exogenous and endogenous pressures for change, which led to the introduction of the WFTC in June 1999 (Tax credit Act 1999) and the minimum wage in July 1998 (National Minimum Wage Act adopted in July 1998) under New Labour's legislature. It also provides a description of the key actors. The third section analyses the policy processes which led to the implementation of the two reforms. It identifies the diagnoses of the problem (competing policy paradigms), the proposed solutions and analyses the decision-making processes. The fourth section provides a brief assessment of the 1999 reforms. It also identifies the remaining causes for concerns and unveils the government's plans for a Working Tax Credit and an Integrated Child Credit.

4.1 Poverty trends and the social assistance system before 1999

4.1.1 Poverty trends

In the UK the main trade-off of deindustrialisation and cost-containment policies has been a significant increase in low-income households. The number of people with incomes on or below the state's safety net has increased by three-quarters since 1979. By 1997, 14 million people were officially qualified as poor[1]. The number of people living on low incomes was fairly static during the 1960s, 1970's and early 1980s, fluctuating between 10 and 15 %. It then rose steeply from 1985 to reach a peak of 21 % in 1992. There was then a slight drop and the proportion has remained at around 18% over the last four years (Social Trends, 2002:99).

Groups at risk are: individuals in workless families, families with children, single female pensioners, individuals living in households headed by a member of an ethnic minority community, individuals containing one or more disabled people, individuals leaving in the North East, and, on after housing costs only, London, were also at particular risk of low incomes (see Households Below Average Incomes Survey, Report for the period 1994/5 - 2000/1, table 3.3).

Although there is no official definition of the *working poor* - a term imported from the USA - the percentage of people on low wages (21%) is higher in the UK than in the EU (15%) as table 1 in the appendix shows. A **low-wage** employee is defined here as an employee whose **monthly** wage is lower than a nationally defined threshold. In 2002, **more than one employee in five in the United Kingdom is on low wages** (Eurostat, 2002).

There were 767,000 families in receipt of Family Credit in 1997-1998. . Annual expenditure on Family Credit in 1998/99 was estimated at £2,612 million.

4.1.2 The main characteristics of the social security system before 1999

The British welfare[2] system has long been characterised by a continuous development of means-tested benefits. In the UK more than 70% of the population live in households benefiting from social transfers other than pensions (unemployment benefit, illness/disability allowance, family allowance, housing benefit, etc.) as table 2 shows (Eurostat, 1999). Non-contributory benefits are administered by the Social Security Administration; that is, the Benefit Agency placed under the responsibility of the Department of Social Security. Contributory benefits based on National Insurance contributions (such as pensions or maternity leave) are administered by the National Insurance Contributions Fund, also a semiautonomous agency.

In work means-tested benefits represent a traditional characteristic of the British social assistance system (referred to as National Assistance). Britain was one of the first European countries to offer financial assistance to low-income families on work (Walker, 1999:103). In 1971, family income supplement (FIS) was introduced as a temporary measure. FIS was a means-tested benefit for families with an adult working at least 24 hours a week and with a dependent child. Low-income families and more particularly lone parents were the main targets of this benefit. FIS was administered by the social security administration placed under the responsibility of the Department of Social Security. In 1988, FIS was renamed family credit (FC). FC was the main UK in work benefit from 1988 until October 1999. It was much more generous than FIS and was designed to encourage working-poor families to take up paid employment. A family with children needed to have one adult working 16 hours or more per week to qualify for WFTC. FC was payable for 6 months at a flat rate regardless of changes in the claimants' circumstances. More importantly, it was paid to mothers even when the eligibility was in respect of father's earnings. The average payment at the end of 1996 was £57 a week (IFS, 1999).

4.1.3 Policy context and Conservative policies

For reasons that have been explained elsewhere (Holmwood, 2000; Lloyd and Payne, 2002), Britain has a low-wage and low-skill labour market. From 1979 onwards the Conservative government pursued a constant strategy of labour market deregulation and actively helped business in keeping low wages, not only to avoid inflationary pressures, but also to maintain the profitability of British capital:

“The British case is one in which employers are weakly co-ordinated, and therefore enlists the state in the task of deregulating labour markets to support low-cost-competitive strategies…The neoliberal revolution of Thatcherism is best seen as a restoration, both in the long-run historical sense and in the economic sense of restoring the incentive-compatibility of labour market structures with other supply-side governance structures in the UK.” (Wood, 2001:408-409). A low-wage equilibrium meant that replacement rates of social assistance benefits – which increasingly replaced contributory-based benefits such as the Unemployment Benefit - should be kept at a minimum in order to avoid poverty traps and work disincentives. If benefits are higher than wages, why bother to work? To counteract the adverse effects created by this system, it then made sense to “make work pay”. This characteristic also helps to explain why the Conservatives constantly tried to cut social security benefits and to freeze them. This move was not dictated by ideology but by the need to maintain the competitiveness of the British economy. This explained the expansion of in work benefits since the 1970s, as Holmwood (Holmwood, 2000) cogently argues:
“In order to sustain an apparent relative advantage of low wages, it became necessary to order social welfare policies accordingly. There is a requirement that benefits should be lower than wages for available jobs and as wage in unskilled jobs fall so, too, must benefits.” (Holmwood, 2000: 471).

Before the introduction of the National Minimum Wage (NMW) in April 1999, some workers were earning as little as £2 an hour or even less In this context, benefits levels would always be too high in comparison to wages.

The politics of means testing, the deregulation of the labour market and the expansion of in work benefits cannot be analysed as separate phenomena. Such a policy had an adverse effect: to cut down wages and benefits levels can help create a British *underclass* characterised by welfare dependency. To encourage this population to return to the labour market implies to improve in work benefits to counteract the problem of low wages and was therefore part of a relatively cheap activation strategy.

4.2 Pressures for change and policy debates in the 1990s

4.2.1 Exogenous pressures for change

Exogenous pressures (Europe, OECD) did not set the agenda for change although some policy paradigms were transferred from EU social policy documents or the OECD.

4.2.2 Europeanisation

Tony Blair wanted to place Britain at the heart of the EU. The new government was thus much more sympathetic towards European social policies and employment rights than the Conservative government. The British opt-out of the Maastricht Social Protocol was to be removed. However, the Labour government made it clear that it would not support a large extension of European Social policy.

However, the creation of the Social Exclusion Unit located within the Prime Minister Office was an indication of the adoption of a more pro-European stance. Indeed, the French concept of social exclusion was channelled to the British policy debate through EU documents (see also the New Deal 1998 paper for a more complete explanation).

4.2.3 American influences

The American in work benefit, the Earned Income Tax Credit (EITC) which was expanded under Clinton's presidency as part of a making work pay strategy for the working poor, became THE reference for British reformers in the second half of the 1990s (Deacon, 2002). For instance the House of Commons Social Security Select Committee visited the USA to examine the EITC.
This thinking was particularly influential amongst policy advisers to Tony Blair and Gordon Brown, not least because of the links between the New Democrats and New Labour.

4.2.4 The OECD

In the second half of the 1990s, the Anglo-Saxon world became increasingly concerned with the problem of the working poor. The OECD played a leading role in this debate. The expression "to make work pay" appeared in 1996: the title of chapter 2 of the OECD Employment Outlook was "Making Work Pay." (OECD, 1996). In 1998 the OECD published a report *The Battle Against Exclusion*: *Social Assistance in Australia, Finland, Sweden and the UK*, which explicitly contrasted the Liberal welfare regime with the Social-Democratic regime. The existence of unemployment traps and the issue of the minimum wage were also mentioned in the UK case. In Australia and the UK the dilemma of social policy was to maintain a sufficient safety net (basic replacement rates of unemployment and social assistance benefits) whilst at the same time creating enough work incentives for the low-paid (OECD, 1998). Thus the lack of statutory wages coupled with a low-pay equilibrium were causes for concern and identified as challenges to the British welfare state. In fact, as in the case of the EU, New Labour used these views as a justification for the development of in-work benefits and the introduction - at a very low level - of a minimum wage. However, make work pay strategies were not introduced in the UK as a result of changing policy paradigms in the OECD as it is sometimes assumed.

In fact, these policies were already in place since 1971 with the FIS. Thus in work benefits were not adopted as a result of changing international policy debates per se. They developed owing to an increased awareness of the issue at the domestic level, which resonated well with the diagnosis proposed by various OECD reports in the second, half of the 1990s. Had such problems not been a long-term challenge for the British welfare state, the recommendations of the OECD would not have been taken into account. In this respect, it is not pure coincidence that Continental and Scandinavian welfare had not a working poor agenda in the 1990s: the scope of the phenomenon was much less developed in these countries and therefore did not require political treatment.

4.3 Endogenous pressures for change, diagnoses of the problems and key actors

4.3.1 Domestic pressures played a much greater and direct role than exogenous pressures for change.

In 1997 the main cause for concern for the new administration was twofold:

1- The rise in workless households - between 1979 and 1996, households with no one in employment had more than doubled from less than one in ten to just less than one in five working-age households, making a total of 3.4 million households (DSS, 1998b: 3).
2- Social exclusion and child poverty: 4.3 million children were declared poor in 1997, a situation which was described as a scar on the soul of the nation.

Whilst big levels of worklessness had been a cause for concern for the Conservatives (see the JSA paper) since early 1990s, child poverty was definitely a Labour problem. In fact, social exclusion and child poverty never figured on the Conservative agenda, in sharp contrast to New Labour. However, New labour did not want to be seen as a tax and spend party and stuck to the Conservative plans under the leadership of Gordon Brown. Thus redistribution was given a low profile and the government continuously repeated that to raise the level of benefits would not solve the problem of child poverty and social exclusion (Hewitt, 1998).

4.3.2 Diagnoses of the problem

The 1998 Green Paper A New Contract for Welfare claimed that the welfare state had created disincentives to take paid employment. The fact that low skilled people were stuck in low-paid employment and/or long spells of unemployment owing to extremely low wages was also mentioned. Family Credit was believed to be too complex as there was some evidence that some families simply did not take advantage of this opportunity, although information campaign tremendously increased benefit take-up in the mid-1990s (OECD, 1998). Lastly, child poverty was mainly due to worklessness. Low levels of social assistance benefits were not identified as a possible explanation for child poverty in the 1998 Green Paper. New Labour wanted to balance budgets as much as its predecessors and wanted to break free from the image of a high tax and spend party which had led to electoral disaster in 1992 (Deakin and Parry, 1998; Taylor-Gooby, 2001).

The introduction of a national minimum wage was one of the first reforms undertaken by the government in order to reward work. Also, the fact that even a deregulated labour market like the USA had a national minimum wage (about $5 an hour) did play a role in the decision to introduce a minimum wage in the UK.

4.4 Key actors

Within the government, the key actors were: The Prime Minister and the Minister for Welfare Reform, Frank Field, appointed by Tony Blair in May 1997, the Department of Social Security, the Treasury (Gordon Brown), the Inland Revenue and the Department of Trade and Industry. The Social Exclusion Unit was also influential, at least at first.

On the minimum wage, the key actors were the Low Pay Commission, the Treasury and the Department of Trade and Industry. In July 1997 nine members of the independent were appointed: Professor George Bain (Chairman), The Low Pay Commission drew its members from various backgrounds, including business and employees' associations. As well as studying 500 written submissions, they took oral evidence from a wide range of organisations, and held over two hundred meetings throughout the United Kingdom. The LPC initiated a large consultation process heard from large and small employers, trade unions, individual employees including homeworkers, and a range of other interested organisations. The Commission was set up to make recommendations to Government on the level at which a National Minimum Wage should be set.

The Conservatives and the Liberal Democrats were in opposition.

Among social partners, The Confederation of British Industries (CBI) and the Trade-Union Congress (TUC) were the most crucial actors.

On the research side (think tanks), the IFS, the Joseph Rowntree Foundation and the Child Poverty Action Group offered advice and policy recommendations to the government.

4.5 Policy making processes behind the adoption of the National Minimum Wage and the expansion of in work benefits

The minimum wage underpinned the reform of the tax and benefits system and intended to make work pay, in particular by removing the work disincentives faced by very low-paid workers. The minimum wage was to be linked to reform of the tax and benefit system, with a 10p starting rate for income tax and introduction of earned income tax credits if it was to reduce poverty (Financial Times, October 14 1997). Georg Bain stated that the LPC aimed to set up a NMW, which would encourage people to move from welfare to work.

The original idea of the WFTC was to integrate the tax and benefit system in order to make work pay. The government was willing to consult and listen. During the first six months of Labour term a plethora of ministers, working parties outside advisory groups and task forces were appointed to review the benefit and tax system. This gave rise to confusion. However, the Treasury increasingly took the lead in the design of in work benefits.

4.5.1 Proposed solutions

The NMW

The Low Pay Commission (LPC)

In June 1998 the Commission published its first report.

The Commission's main recommendations on the National Minimum Wage were:

- Consistent with introducing the wage at an early date and the Commission's aim to proceed with prudence, the initial rate should be £3.60 per hour introduced in April 1999. The Commission advised that the appropriate rate should be £3.70 per hour in June 2000.

- An initial Development Rate of £3.20 per hour should be introduced in April 1999. The Commission advised that the appropriate Development Rate in June 2000 should be £3.30 per hour.

- A minimum Development Rate should be available for 18-20 year olds. It should also be available for those aged 21 or over for up to a maximum of six months for workers beginning a new job with a new employer and who are receiving accredited training.

- All those aged 16 and 17, together with those on apprenticeships, should be exempt from the National Minimum Wage.

The Department of Trade and Industry

The DTI was the department responsible for the new legislation. The LPC reported to the DTI and the Prime Minister. The DTI (Margaret Beckett was the President of the Board of Trade) accepted the recommendations of the LPC but was even more cautious than the LPC in relation to the rates of the NMW, especially for young workers. The DTI accepted a main rate of £3.60 per hour before deductions with effect from April 1999. When combined with the Working Family Tax Credit and other benefits, for a one-earner couple with two children, this meant an effective wage of more than £7 per hour.

The Treasury

Margaret Beckett had wanted to implement the LPC's recommendations in full, especially with a wage as "high" as £3.20 an hour for people aged 18-21. However, the Chancellor had overruled her because of fears about the impact of the youth rate on the Government's New Deal for Young People.

The WFTC

Proposals for integration fell into two main categories: a negative income tax, under which the tax system was extended to cover those whose incomes were below the tax threshold so that their liability to tax incomes became negative; and, a social dividend or basic income guarantee, under which all individuals were paid a basic income free of tax.

4.5.2 Frank Field's proposals

Frank Field, former director of the Child Poverty Action Group and the Low Pay Unit, became chairman of the House of Commons Select Committee from 1990 to 1997. During these years, the Committee conducted inquiries into the benefit system. Frank Field became convinced that welfare fraud was not an invention of the tabloid press. Within New Labour, he was one of the architects of the idea that the social assistance system created disincentives to work. He also firmly believed that redistribution should be given a low profile and that a simple rise in benefits levels would not tackle the problem of poverty.

He spelled out his main proposals for reform in his book *Making Welfare Work* (1995). The book proposed to motivate low-paid people back into work by extending the coverage of insurance benefits that are not mean-tested. Available resources would be put into a new insurance scheme that would replace means-tested provision. He also proposed to create a stakeholder welfare by virtue of which people own the welfare capital created by their contributions and those of their employers. Everyone in paid employment would be required to contribute to a stakeholder scheme which provided cover against sickness and unemployment, and also take out a second private pension which would run alongside the National Insurance scheme. The right to benefits should thus be akin to property rights since they would be paid out of an identifiable fund to which the recipient had contributed (the stakeholder scheme). This iconoclast thinking by Social-Democrat standards attracted Tony Blair's support. Indeed, "stakeholding was already something of a buzzword in British politics in the mid-1990s." (Deacon, 2002:46). Tony Blair appointed Frank Field as Minister for Welfare Reform in May 1997.

There were two main problems with Frank Field's proposals: The complexity and the costs. The Secretary of State for Social Security, Harriet Harman, was opposed to the scheme. So was Gordon Brown, the Chancellor of the Exequer, who devised the Treasury proposals for **making work pay**.
Frank Field's proposals were not mentioned in the DSS Green Paper, a New Contract for Welfare, which was presented to Parliament in March 1998. He was effectively sacked in July 1998, not least because of the intervention of Gordon Brown. Since July 1998 any proposals which would involve an increase in National Insurance contributions were systematically ruled out by the Treasury (Deacon, 2002:114).

4.5.3 The Treasury

The Government announced in May 1997 the formation of a task force to consider the streamlining and modernisation of the interaction between the taxation and benefit systems. In the Budget speech in July 1997, the Chancellor announced that the task force would look at proposals for an Earned Income Tax Credit and that its findings would inform the Spring Budget. The Chancellor appointed Martin Taylor, Chief Executive of Barclays plc. The "Taylor Task Force" brought together officials from the Treasury, the Inland Revenue, the Department of Social Security and the Department for Education and Employment.

Martin Taylor ruled out the idea of a full integration of the benefit and tax system because the two systems have different aims. Social Security benefits cannot be considered as a form of negative taxation. Thus the two systems - the benefit and tax system- should be kept separate. Instead, the Task Force proposed that WFTC should replace FC.

In his Pre-Budget Statement to the House on 25 November 1997, Gordon Brown announced that a new tax credit for working families would be one element of the government's welfare to work strategy (Hoc Research Paper 98/46, p. 10).

4.5.4 The Social Exclusion Unit

The Social Exclusion Unit was created in December 1997 under a former Treasury official, Moira Wallace. Geoff Mulgan, the director of the think tank Demos, had thought up the unit. The original focus of the unit was health and education, crime, social housing and continued economic regeneration, plus welfare to work (Financial Times, 30 September 1997). This represented a slight lose of turf for the Treasury, which also put social exclusion on the top of the government's priorities (Deakin and Parry, 1998:52). The Social Exclusion unit had a specific remit, involving the co-ordination of work across departments. The Unit reported directly to the Prime Minister (PM) and combined civil servants and others from outside Whitehall including the police, probation, business and local government. It aimed to improve understanding of the problems, to encourage more co-operation across departments (including persuading Whitehall to listen and learn from what works on the ground) and to make recommendations to tackle exclusion more effectively (Bochel and Bochel, 1998: 68). The Social Exclusion Unit was not involved at first in the design of the new Tax Credits, which were Gordon Brown's territory.

4.6 The final proposals

4.6.1 The NMW

The National Minimum Wage Act 1998 received the Royal Assent on 31 July 1998. The NMW was of £3. 60 an hour. The Act ensured that all workers except the self-employed were covered. The Act set out a separate for young people aged 18-21 year old – in order not to discourage employees to recruit young workers and to protect youth employment - at £3 an hour. The goal of the reform was to abolish the unemployment trap and to move low-paid people from welfare into work. The DTI estimated that about 2 million workers (1.4 million of whom would be women) would benefit from higher pay as a result of the NMW (HC research Paper 99/18). The Act also provided for the establishment of the LPC on a statutory basis and contained a battery of enforcement mechanisms. This was in line with the LPC's recommendations according to which the NMW should be properly implemented.

On 11 September 1998, the DTI published Draft National Minimum Wage Regulations for First Consultation. The Contribution Agency and the Inland Revenue (which were to be combined into a single body in April 1999) would have overall responsibility for enforcing the NMW.

The government laid the final regulations before Parliament on 16 February 1999.

4.6.2 The WFTC

The government accepted most of Martin Taylor’s proposals. The government's intentions were announced in the Budget on 17 March 1998. From October 1999, the WFTC was to replace Family Credit. In parallel a tax credit for working people with disabilities was to be introduced — Disabled Person's Tax Credit (DPTC) — to replace Disability Working Allowance. Both WFTC and DPTC included a new childcare tax credit and will be administered by the Inland Revenue. From April 2000 these tax credits were payable through the wage packet.

The goals of the WFTC can be summarised as follows:

1- As announced in the DSS Green Paper 1998, to build an active welfare state: this was the overall goal of welfare reform. Thus the new tax credits were part of a more general activation strategy designed to make work pay
2- To abolish the unemployment trap for the low-paid: indeed, under Family Credit, people could be better off in benefits than in paid employment owing to the fact that FC was a passport to housing benefits;
3- To abolish the poverty trap: “half a million working families, with children, whose pay is so low that they receive in work benefits, are still required to pay income tax” (HC Deb. 17 March 1998)
4- To rebuild popular support for the welfare state by ending the stigma attached to welfare benefits: negative income tax was not part of the Social Security budget and was considered in a much more positive fashion by beneficiaries and taxpayers alike.

Overall, the WFTC drew on the previous FC and had the same goals, i.e., to make work pay. However, the policy instruments differed in two major ways.

First, the WFTC was more generous than the FC, with increased earnings for children, a higher earnings threshold, a reduction in the taper from 70 per cent to 55 per cent (so WFTC is removed more gently than the previous FC) and the availability of childcare credits for all WFTC claimants. The total number of families estimated to benefit was 1.4 million rather than half a million under the previous system (HM Treasury, 1999, p.32). An important part of the increased generosity of WFTC was the childcare credit (see paper on child care strategy).

Second, the method of payment was radically different: the WFTC was administered through the pay packet rather than the benefit system in order to reinforce the distinction between the rewards of work and remaining on welfare. It was administered and assessed by the Inland Revenue rather than by the Benefit Agency’s Family Credit. From October 1999 to March 2000, payments of WFTC were made directly by the Inland Revenue to whichever partner the couple had nominated. From April 2000, payments were made through the pay pocket for people on PAYE. Self-employed people and others not on PAYE received payments direct from the Inland Revenue.

4.6.3 The position of other actors

A- The NMW

The NMW Act was relatively controversial. Conservatives members voted against, while Liberal members supported the Government. It was debated in Standing Committee D for nearly 70 hours over nineteen sittings from 22 January to 17 February 1998. This included a record 26-hour sitting. Few amendments were made and most were technical.

The Conservatives were fiercely opposed to the NMW on the grounds that this policy would "take us back to the strikes and the inflation of the 1960s… We have consistently argued for a minimum income rather than a minimum wage – with benefit top-ups for families that need the extra." (HC research paper 99/18).

The TUC and the CBI welcomed the NMW. However, both agreed that young workers should not receive a lower minimum wage than older employees. Adair Turner, then director general of the CBI (now Chairman of the LPC) said that while the 3.60 figure was "at the top end of what is acceptable to business, overall it should not place too much pressure on inflation or lead to major job losses" (quoted in HC Research Paper 99/18, p.15.

Trade Unions welcomed the NMW as an "historic victory for the low paid" but claimed that the rates were too low.

B- The WFTC

There was relatively little debate in the House of Commons and the Bill was adopted without major political disputes.

The HC Select Committee

The HC Social Security Select Committee in the 1999/2000 session was extremely critical of what it described as slowness on the part of the relevant departments and public bodies. It also criticised the timetable of the implementation of the WFTC, pointing out that this timetable was probably unrealistic.

The committee remained critical of the government's failure to progress reform of housing benefit and therefore to address the very high marginal tax rates, which had continued to exist for many tenants in low-paid work.

The committee was also critical of the government's reluctance to rigorously examine fraud within FC and by implication to assess properly the scope for fraud and manipulation of WFTC, especially for employers

The transfer from women and children to men in poor families was also an issue for concern. The government's original intention was that WFTC would be paid through the pay packet to all those on PAYE (self-employed people and others not on PAYE would receive payments from the Inland Revenue). The Committee expressed considerable amount of concern concerning this provision, which led to a change in that decision, such that among those on PAYE, the couple could choose to have WFTC paid like a cash benefit to the partner not in PAYE employment.

The Conservatives

The Conservatives supported the principles of in-work benefits but pointed that this was already the aim of FC. They criticised the method of payment which would increase the administrative burden on employers and added that “the move from FC payable to the mother as a benefit in the post office to a WFTC payable to the father would shift income from half a million women to their husbands. To soften this the Chancellor has given couples the right to choose to have the benefit paid to the mother. This could create a source of discord in low income households.” (HC research paper 98/46, p.27).

The Liberal Democrats welcomed the extra support to low paid workers but were concerned about the lack of integration of housing costs into the credit.

The CBI and the TUC supported the introduction of the WFTC in October 1999 since they agreed it would help reduce poverty and raise the incentive to work. However, both the TUC and the CBI opposed administration through the pay packet albeit for different reasons.

The TUC

The TUC supported the proposals for WFTC but urged the government to focus welfare reform on transitions into employment. Making work pay was too narrow since it did not facilitate the transition into paid employment, assuming that paid work should be a prerequisite for help with childcare costs. More importantly, the TUC opposed the delivery mechanisms of the WFTC.

The CBI

The CBI supported the principle of WFTC since it can tackle poverty and raise incentives to work. However, the CBI opposed administration of WFTC through the pay packet. Therefore, it recommended that overall responsibility for the administration of the Credit should lie with the Inland Revenue (CBI, 1998:1). The Institute of Directors described to the Social Security Committee the administrative burden which the WFTC involved, including entering the amount of WFTC on the payroll system; aligning the award with the pay periods; readjusting a payment at the end of the period of an award; and dealing with other employers concerning employees who have commenced employment elsewhere or been taken on part-way through the period of an award. (HC report, 1999).

The research community and feminist groups

The Joseph Rowntree Foundation and most feminist researchers welcomed the adoption of the WFTC. However, the WFTC was criticised on the grounds that it widened the gender gap since it was delivered through the pay packet: it favoured the wallet (men) rather than the purse (women) whereas women are still the main carers:

"The choice of a tax credit as the vehicle of delivering support low-paid families has consequences for gender equality within families…It is already clear that for sole earner couples payment of the WFTC through the wage packet is likely to exacerbate economic inequality between men and women…Credit may result in a direct transfer from purse to wallet." (Rake, 2001: 218).
The WFTC was far from being gender neutral and was been criticised by the academic community feminist groups such as the Women's Budget Group, the Fawcet Society and some women Labour MPs. Moreover, if the objective was to end child poverty, this method of payment could be very detrimental to children well being since research showed that women spent more on their children than men did (Mc Laughin, Trewsdale and McCay, 2001:168).

The IFS

The IFS agreed that the reform could help "some people "to move into paid employment. But it also pointed out to the limits of the reform since it would not change the structure of the labour market (low-paid employment):
" But no respectable research has ever shown that tax or benefit incentives can transform the labour market."(Quoted in the HC Research Paper 98/46, p.28).

The LPC

The LPC welcomed the WFTC but expressed some concern over the administration and flexibility of the new system. Like the IFS, it noted that "the low paid labour market is more insecure than ever and unless the new system can deal with his, work disincentives will persist".

4.7 Assessment of the reforms and new tax credits in 2001

The WFTC can be described as a "re-packing" of the previous Family Credit. Only policy instruments, especially the method of payment, differed. Whilst the Family Credit was administered by the Benefit Agency to the main carer, the WFTC is administered as a top- up earning for low wages and is thus administered directly through the pay wallet by employers. However, the goals remained identical with those of the Family Credit: to make work pay for low-income families with children, with an increased focus on families. The reform also enabled the Treasury to tighten its grip on the Welfare to Work agenda.

4.7.1 The new regime: main features and assessment

A- The NMW

The NMW is placed under the responsibility of the DTI but overall responsibility for implementation lies with the Inland Revenue. The Treasury has thus a leading role in the implementation of the legislation. In October 2001 main and development rates of the national minimum wage increased to £4.10 and £3.50 respectively.

B- The WFTC

Family Credit	Working Family Tax Credit
Administered and assessed by Benefit Agency's Family Credit Unit	Assessed and administered by Inland Revenue. This required a transfer of BA staff to the Inland Revenue.
Claimed by woman in couple	Claimed by man or woman according to couple's choice
Paid by order book, or direct debit to account of claimant's choice	Paid through wage packet by employer or direct from the Inland Revenue to nominated partner
Main earner must be working 16 hours per week or more	Main earner must be working 16 hours per week or more
Extra credit for those working 30 hours or more	Extra credit for those working 30 hours or more
Paid over six month period after which claim can be renewed	Paid over six month period after which claim can be renewed
Started to be withdrawn once net income reached £80.65 (from April 1999) One adult credit per family plus additional, age-related credits for children	Starts to be withdrawn once net income reached £90. One adult credit per family plus additional, age-related credits for children. Same rate as under FC
Reduced at rate of 70p for each extra pound earned over threshold	Reduced at rate of 55p for each extra pound earned over threshold

Source: HC Research Paper 99/13

4.7.2 Assessment of the reforms

A- The NMW

The NMW had effectively benefited low-paid workers although the figure was less impressive than the government's initial target (2 million workers). Nevertheless, ONS figures confirmed 1.2 - 1.5 million workers had benefited from the NMW by April 2000.

The rates remained too low, especially for young people. It has been suspected that employers recruit young people aged 18-21 because they are attracted by the lower youth rate but fire these workers once they reach 22 years of age.

The increased role of the Treasury

Although the Treasury's influence is less direct than in WFTC, the Department of Finance has nevertheless a leading role. The fact that responsibility for the management of the reform has been transferred to the Inland Revenue is very telling in this respect. It confirms that the Treasury is taking overall responsibility for the working poor, as the enforcement mechanisms to implement WFTC also make it clear.

B- The WFTC

The predominance of the Treasury

The Treasury became a dominant actor in directing social policy to the detriment of the DSS (Deakin and Parry, 1998). John Hills noted the new role of the Treasury as follows:

The dominance of the Treasury in making welfare and social policy is new and striking. Not only have most of the significant arrangements been made as part of its budget and spending arrangements, but the tax system is also being used as an explicit instrument of social policy (Hills, 1998:29).

The WFTC also initiated a new division of labour within Whitehall in relation to activation policies. Indeed, the WFTC was part of an overall activation strategy, just like the New Deal. Under the new and implicit division of responsibilities, the Treasury was taking direct responsibility for a system which redistributed money to the working poor (the WFTC and other tax credits) while the DSS retained responsibility for the Child Support Agency and those out of the labour market (the New Deal).

The WFTC redistributed money to low income families. The family was the reference and the norm of Brown's policies. Indeed, the Chancellor gave two-parent families the same status as lone parents and set up an implicit model of a family with children headed by a married couple, both in work (Deakin and Parry, 1998:49).

Finally, the Chancellor also took the lead in the battle against child poverty.

4.7.3 Key problems arising from the implementation of the WFTC

The main problems of the WFTC had to do with the method of payment. We can identify seven problems that have been left unsolved by the implementation of the WFTC.

- The transfers of cash from purse (the main carer, i.e., and the woman) to the wallet (the man) is not being solved by the current voluntary system. The WFTC significantly redistributed personal income from individuals in social categories with low personal incomes – women and children - to those in a social category with comparatively high personal incomes – men
- There was increased potential for fraud and error; as a result, enforcement mechanisms had to be implemented for employers who failed to pay WFTC to employees when directed to do so by the Inland Revenue
- Although New Labour had promised to deliver a seamless system of family support for families and their children, the WFTC was tremendously complex. The amount of red tape was increased under the management of WFTC, for families, employers and the Inland Revenue

- The WFTC's redistributive impact was less important than expected by the Treasury: according to the HBAI survey 200/2001, working family tax credits recipients were skewed towards the bottom of the income ladder (DWP, 2002:75)
- Low take up of the WFTC has been a source of concern for the government. The WFTC take-up rate was 62%, lower than that of FC (72% in summer 1999). Only 72% of entitled families with children had claimed the children tax credit by December 2001 (IFS, 2002). It was suggested that the complexity of the WFTC deterred potential recipients from applying. It was thus crucial to create a tax credit and benefit system which was easy to understand and easy to use from the recipient's perspective.
- Single people with low-paid jobs were relatively disadvantaged by the WFTC since only low-income families with children were eligible.
- Lastly, the minimum wage remained too low, especially for single people over 25 and without children. Minimum-wage work still paid little relative to staying on benefit: a single parson over 25, without children, renting an earning £4.10 an hour received £115 a week when out of work, £136 when working 30 hours and £148.32 when working 40 hours (IFS, 2001). Work disincentives remained high due to the predominance of a low-paid, deregulated and insecure labour market. A significant proportion of low-paid people would still be slightly better off on welfare than in work given the low rates of the minimum wage. In this respect, it is very telling that the government prefers to raise in work benefits – this is the purpose of the new working tax credits to be implemented in January 2003 – rather than the minimum wage.

4.7.4 The new tax credits: Key features and assessment

In Budget 2000, the Chancellor announced the introduction, from 2003, of two separate income tax credits:

- a Working Tax Credit - to tackle in-work poverty and improve work incentives, by making work pay for those in low-income households or with disabilities; and
- a Child Tax Credit for families with children - building on the foundations of universal Child Benefit, by providing a seamless, secure system of income-related support for families with children, whether that family is in or out of work.

These credits will replace the existing credits (Working Families' and Disabled Person's Tax Credits, Children's Tax Credit, the New Deal 50plus Employment Credit) and the child-related payments in Income Support and income-based Jobseeker's Allowance. The Government's reforms to help improve work incentives are designed to tackle two key problems:

- the unemployment trap, when those without work find that the difference between in- and out-of-work incomes is too small to provide an incentive to take a job; and
- the poverty trap, when those already in work are discouraged from working longer hours or taking a better paid job because it may leave them little better off. (HM Treasury, 2002).

On 27 November 2001, Gordon Brown in a Pre-Budget Speech to the House of Commons announced that:

" We will later this week introduce legislation for the next step: extending the principle of the WFTC to make work pay for those without children as well… On top of universal Child Benefit we will integrate into one payment all-income related support for children, as we advance towards our goal of abolishing child poverty." (Gordon Brown, Budget Statement, HC, 27 November 2001).

The Tax Credit Act was passed by Parliament in July 2002.

The government establishes a distinction between in work benefits available to all working age individuals and benefits to support families with children regardless of the work status of the carer. The WTC has a clear **making work pay** purpose and is, together with the more universal and enhanced New Deal, one of the pillars of the government's overall activation strategy. This strategy consists of consists of moving as many people of working age as possible into the labour market (HM Treasury 2002, chapter 4).

4.8 Key features of Working Tax Credit (WTC)

The employment tax credit aims to reduce poverty and improve work incentives amongst those without children. Its key features can be summarised as follows:

On its introduction, the Working Tax Credit will guarantee minimum incomes of:

- £183 a week for a single earner couple without children, aged 25 and over and working full time on the minimum wage; and
- £237 a week for a family with one child and one earner working full time on the minimum wage.
- Entitlement to the Working Tax Credit will be based on annual income, in line with the Child Tax Credit and the rest of the tax system;
- eligibility will be extended to people aged 25 and over without children or a disability - those most likely to face poor work incentives or persistent poverty - who work 30 hours or more a week;
- those with children or a disability will be eligible for Working Tax Credit provided they work 16 hours a week or more.
- A 30 hour premium will be available to couples with children who jointly work 30 hours or more a week, and to disabled workers who work 30 hours or more.
- The childcare element of the Working Tax Credit will be paid directly to the person with main responsibility for care of the children - usually the mother - alongside the new Child Tax Credit. This childcare element recognises the extra costs faced by working parents with childcare needs, mirroring arrangements in the WFTC and the DPTC.
- The arrangements for payment of tax credit via the employer, including the application procedure for advance funding, will be simplified to help both recipients and employers (HM Treasury, 2002; see also table 3).

4.8.1 Assessment

WTC represents an important step in a long-term trend towards topping up low incomes for individuals and couples with earnings from work. It is the first time that more general support of this type has been paid on a national basis, not restricted to people with particular characteristics such as having children or a disability. Certain categories, however, are still excluded from this wider entitlement: under-25s and part-time workers without children or disabilities.

The impact of the WTC on those without children is straightforward: people working full-time but on a sufficiently low income to qualify for some credit will see their income rise. Entitlement to the WTC for those without children is limited to those on low incomes: couples will need a joint weekly income of less than about £255 or £185 for the more and less generous options respectively to be entitled to anything, and single people less than £175 or £120 a week. The overall distributional impact of non-pensioner families without children is relatively small. The more generous option goes to 450,000 families and costs around £370 million, and the less generous option goes to 3000,000 families and costs around £290 million. The direct impact on poverty is negligible: a fall of 0.4 of a percentage point (IFS, 2002:79)

The Institute for Fiscal Studies (IFS) estimates that the reform for families with children will cost the Exequer around £1.8 billion a year, and that around 5.7 million families will receive the integrated child credit, of whom around 3.3 million will be made better off. Extending the WTC to workers without children could benefit around 400,000 families at an approximate cost of £350 million (IFS, 2001).

However, the problems identified under the implementation of the WFTC have not disappeared. In particular, the WTC will not suffice to address the problem of the unemployment trap given the low level of the minimum wage: £4.20 an hour for workers aged 22 and over and £3.60 for workers aged between 18 and 2 in October 2002. This remains insufficient.

4.9 Conclusion

The British government is traditionally characterised as a powerful agent at the agenda-setting and formalisation stages of the public-policy making but is usually considered relatively weak at the initiation, implementation and evaluation stages. In particular, it used to have weak delivery mechanisms and to depend on local bodies for policy implementation. This changed under New Labour, which tremendously reinforced control mechanisms and tried to implement an evidence-based policy.

Another striking feature of New Labour reforms for the working poor is the dominance of the Treasury. Indeed, the Chancellor has gained direct responsibility for the implementation of the WFTC and the NMW through the transfer of responsibilities to the Inland Revenue. This trend is reinforced by the latest tax credits reforms. On 25 June 2001, the Prime Minister announced that responsibility for Child Benefit in Great Britain would be transferred to the Inland Revenue in January 2003 on the grounds that it makes sense for a single department to administer both Child Benefit and the new tax credit for families with children. This means that Gordon Brown will directly supervise family support families as well as policies for the working poor.

Neither the NMW nor the WTC can be as considered path-dependent reforms. These policies mark a break with previous policies since it is the first time in British history that an employment tax credit will be administered on a universal basis. Moreover, despite the persistently low rates of the NMW, the April 1999 reform is relatively revolutionary in the British context. However, it should be noted that these reforms aim to move people from welfare to work rather than tackle poverty. Ministers remain reluctant to radically modify the structure of the labour market and are torn between conflicting objectives in this respect.

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4.11 Appendix

Table 1- Low wages in the EU – General level and breakdown by reason (%)

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	UK	EU
Total low-wage employees	9	7	17	17	13	13	18	10	16	16	16	6	21	15
Breakdown by reason:														
(1) Part-time working	63	41	41	12	32	39	30	28	26	65	44	24	55	43
(2) Low rate of remuneration	24	38	42	73	54	39	44	57	53	17	40	52	21	37
(3) Both	7	18	12	9	7	13	19	10	17	13	9	10	12	11
(4) Neither*	6	4	6	7	7	9	8	4	3	6	7	15	12	8
Total (1)-(4)	100	100	100	100	100	100	100	100	100	100	100	100	100	100

(*) "Neither" refers to low-wage employees working 30 hours or slightly more and/or whose rate of remuneration is equal to or just above the low rate of remuneration.
Source: Eurostat, 2002

Table 2: Recipients of social transfers other than pensions and share of these transfers in total income, in %

	Recipients of transfers (other than pensions)	Share of transfers (other than pensions) in total income		Recipients of transfers (other than pensions)	Share of transfers (other than pensions) in total income
B	70	14	I	17	3
DK	75	16	L	66	8
D	55	7	NL	68	13
EL	18	2	A	64	10
E	37	8	P	63	5
F	63	10	UK	73	12
IRL	81	12	EU-13[1]	52	9

Source: Eurostat 1999

Table 3: The principal elements of the WTC: 2003-04 amounts

Basic element	29.20
Couple and lone parent element	28.80
30 hours element	11.90
Maximum credit for lone parents and couples	69.90
Childcare element	
-maximum eligible cost	200
-maximum eligible cost for one child	135
-percentage of costs covered	70
Income below which maximum Working Tax Credit is payable	97.00

Source: HM Treasury 2002

5 UNEMPLOYMENT

Section I

The 1996 Jobseeker's Allowance Act (JSA)

Anne Daguerre and Trine P. Larsen

This paper will be divided into four sections. The first section describes the system before the implementation of the reform as well as unemployment trends in the first half of the 1990s. The second section explores endogenous and exogenous pressures for change and the general political climate which underlain the proposals for the reform of the unemployment protection system, the Jobseekers Allowance Act implemented in October 1996. The third section analyses the policy-making processes behind the drafting of the Jobseekers Allowance Bill. It thus focuses on the period 1994-1995. The fourth section describes the main characteristics of the new regime and assesses the agenda for reform in 1996-1997.

5.1 Labour market trends and the unemployment protection system before 1996

5.1.1 Labour market trends

The UK was affected by the two major economic recessions in the mid 1970s and early 1980s. Conservative governments' neo-liberal policies of accelerating the process of de-industrialisation and deregulation of the labour market contributed at first to rising unemployment levels which reached around 12% in the mid 1980s. In the second half of the 1980s unemployment subsided but rose rapidly again after 1990 to a peak of 10.5% in 1993 (see table 1 below).

Table 1

Standardised unemployment rates (unemployment as a percentage of the civilian labour force)

1975	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 (Jan)
4.1	6.2	11.5	7.1	8.9	10.0	10.5	9.6	8.7	8.2	7.0	6.3	6.1	5.5

Source: 1960-1974. OECD (1988) Historical Statistics 1960-1986; 1960-1997: OECD (1999): Historical Statistics 1960-1997; 1998-2000: OECD *Main Economic Indicators*,

Overall labour force participation and employment rates rose throughout the 1990s. The UK has a high proportion of working-age people who are not in work but not classified as unemployed either. Since the early 1980s there has been a substantial increase in sickness rates in Britain.

5.1.2 Unemployment protection in the early 1990s

The UK has a unique form of benefit support for unemployed people. First, social partners have no role in the administration of contributory benefits. Instead, the delivery of both contributory and means-tested social security benefits has remained centralised, top-down and integrated. Second, the government determines the terms and conditions of any type of income maintenance, with (in the mid 1990s) the Department of Social Security as the responsible agency for the delivery of benefits. The administration of benefits was run by an executive agency, the Benefits Agency under the responsibility of the Department of Social Security. Jobcentres carried out training and labour market policies and were placed under the responsibility of the Department of Employment.

Following the Social Security reforms of the mid-1980s, the unemployment protection system was divided between a contributory benefit, the unemployment benefit noted UB and a means tested social assistance scheme, the Income Support or IS (previously Supplementary Benefit). UB was available to claimants who were capable of and available for work. It was paid as a weekly amount for the claimant with an addition for an adult dependant. The maximum entitlement period was 12 months. It was financed out of the National Insurance Fund. Those who did not meet the contribution conditions, or who had exhausted their entitlement, were able to apply for tax-funded means-tested support. IS, still in existence in 2002, covers the basic living expenses. In the mid 1990s IS was not payable to people in full time work (not working for more than 16 hours per week). Families with children and at least one person in work could claim means-tested in-work benefits (Family Credit).

5.1.3 Policy context and Conservative policies

Job seeking behaviour became the major focus in unemployment protection reforms in the early 1990s. A compulsory 'Restart' interview after six months of unemployment had already been introduced in 1986. The Social Security Act 1989 introduced new rules which stipulated that claimants had to provide evidence that they were ‘actively seeking employment’. Tighter benefit entitlement and annual performance targets also pushed stricter enforcement of rules. Evidence showed that the implementation of a 'stricter benefit regime' did have an impact on getting people back into work (Clasen, 2001).

Conservative policies since 1979 consisted of deregulating the labour market. They effectively served business interests in the sense that they enabled to create and maintain a disposable, cheap labour force at the employer’s disposal, the so-called working poor. It was hardly surprising, therefore, that the CBI and other major business should support these policy interests. However, by the early 1990s the CBI put an increasing focus on the need to train the labour force. It was being acknowledged that more money should be spent on training. The objectives of the National Education and Training Targets for Foundation and Lifetime Learning were first formulated by the Confederation of British Industry in 1991 at the prompting of the Organisation for Economic Co-operation and Development. They proposed the creation of a learning society through a process of skills revolution (Mainly, 1998: 50).

5.2 Pressures for change and policy debates in the 1990s

Policy reforms in the 1990s were driven by three chief motives: to cut social security benefits, to move people back in the labour market and to increase work incentives.

5.2.1 Exogenous pressures for change

Cost containment and reducing public sector borrowing became more relevant in the early 1990s because of the impact of the recession and rising unemployment which led to a rapid increase in social security spending. The Conservative government projected the rising costs as disproportional (DSS 1993a). It referred to similar problems faced by other industrialised countries (DSS 1993b). Targeting benefits at those in real need became a major justification in social security policy. **Check the figures on means-tested benefits.**

The Maastricht Treaty

Although it is difficult to assess the direct influence of the Maastricht Treaty on the Jobseekers Allowance proposals defined in the 1994 DSS and DoE White Paper, it can be listed as an exogenous pressure for change in an era of financial austerity and monetarist policies.

The OECD Jobs Study published in 1994 promoted an activation strategy for job seekers which consisted of linking benefits to participation in programmes for getting people back into work. In 1993, the UK was among the OECD country that had gone furthest in adopting such policies (Financial Times, 27 June 1994). In the UK, the OECD jobs strategy cannot be considered as an exogenous pressures for the paradigm shift towards “workfare” because this change had already taken place at an early stage with the election of Margaret Thatcher in 1979 and the subsequent deregulation of the labour market.

5.2.2 Endogenous pressures for change and diagnoses of the problem

To cut expenditure on unemployment related benefits (UB and means-tested benefits) became target for the government, for three reasons. First, expenditure on unemployment-related benefits increased from about 9% of the overall social security budget at the end of the 1980s to around 12% by 1993/4 (table 2 below). The will to cut social expenditure was closely related to the increased role of the Treasury under the leadership of the Chancellor of the Exchequer, the radical Conservative Michael Portillo. The so-called Portillo reviews constitute a Treasury intervention into the territory of the spending departments, in contrast with the former reactive annual Public Expenditure Review system. They presaged the 1997 Labour Government's Comprehensive Spending Review, contributing to the extension of direct Treasury control of a widening range of aspects of social policy (Taylor-Gooby, 2001).

Table 2
Total social security expenditure and spending on unemployed people, 19901-2001/2, 1998/9 prices

	Grand total benefit spending (billion)	On unemployed people Billion	%	Unempl. Rate (1)
1990/91	72.3	6.8	9.4	7.1
1991/92	79.9	9.1	11.3	8.9
1992/93	87.8	10.9	11.5	10.0
1993/94	93.6	11.5	12.3	10.5
1994/95	95.0	10.4	10.1	9.6
1995/96	96.5	9.4	9.7	8.7
1996/97	97.6	8.1	8.3	8.2
1997/98	95.7	6.1	6.4	7.0
1998/99	95.6	5.4	5.6	6.3
1999/00	97.3	5.1	5.2	6.1
2000/01	96.2	5.2	5.4	5.5
2001/02	98.3	5.2	5.3	

Source: DSS (2000) *The Changing Welfare State: Social Security Spending*,

Second, unlike in the early 1980s when policies aimed at removing vulnerable groups from the official statistics by using welfare without work instruments (Walker and Howard, 2000), the early 1990s were characterised by requiring unemployed people 'to take the low paid jobs being generated in the deregulated labour market' (Finn, 1998: 109). Third, the government believed that of lack work ethic on the part of some behaviour claimants prevented a faster fall in unemployment rates. Particularly in some areas, such as London, some unemployed people were regarded as either not looking for work effectively or not actively seeking employment (DE 1988). Moreover, Peter Lilley, the Secretary of State for Social Security launched a major campaign against welfare fraud which became a highly sensitive topic in the early 1990s. Whether this campaign was a response to popular concern raised by the media, especially the tabloid press, or an entirely autonomous governmental initiative remains to be investigated more thoroughly. In any case, the campaign against welfare fraud enabled the government to draw a sharp line between the deserving poor and the undeserving poor, thus building on the Poor Law tradition.

Rise in unemployment related benefits, behavioural problems on the part of jobseekers in terms of a) unrealistic wage expectations and b) lack of work ethic were diagnosed by the Secretary of the State for Social Security Peter Lilley and the Secretary of State for Employment, David Hunt, as the major causes for concern.
Right wing think tanks strongly influenced by American authors such as Murray and Mead launched an intellectual crusade against welfare dependency. The neo-liberal political and ideological climate provided a window of opportunity for the government in the context of a complete lack of opposition from the Labour movement (King, 1995). The Labour party was as its lowest in 1992-1993 following its electoral defeat in 1992 and trade unions were unable to resist any governmental initiatives. In this context, the Conservative government enjoyed tremendous freedom

in putting forward its proposals for a major reform of the unemployment protection system in 1993 (announced in the Budget in 1993 following the Portillo review).

5.3 Policy making processes behind the adoption of the Job Seekers Allowance Act: 1993-1995

5.3.1 The initial project: the unification of Income Support and Unemployment benefit

The Jobseekers Allowance proposals were announced in the 1993 Budget. The Secretary of State for Employment, David Hunt, a moderate Conservative, was a leading influence. The idea behind the Job Seekers' Allowance was to merge unemployment benefits and Income Support into a single benefit and make it more conditional on participation in training programmes and job search activities. This was a typical workfare strategy which would eventually make social assistance conditional on participation in the labour market or work-related activities, thus effectively suppressing the right to a contributory-based unemployment benefit. The JSA proposals also supported the move towards a making work pay strategy since they provided a Back to Work Bonus to the unemployed. Lastly, the control of job search behaviour was to be reinforced through mandatory visits to the Jobcentres and possible benefit cuts if the job seeker turned down a job offer without a very strong reason. The latest idea was inspired by the experimental adoption of American welfare to work programmes in 1992-1993. Overall, the most fundamental and innovative proposal consisted of the unification of unemployment and social assistance benefits. This was also the most controversial proposal within Whitehall.

5.4 The final proposals (White Paper 1994)

The Jobseeker Bill was to be put forward as a joint initiative in the 1994-1995 Parliamentary session by the DSS and DoE. The Department of Employment wanted to take over the DSS's responsibilities in running and delivering the new allowance, which was to be implemented in April 1996. The Department of Social Security opposed this plan. The two departments reached a compromise in June 1994 according to which the Employment Service and the Benefits Agency would run jointly the new allowance. Employment Service was to be responsible for advice and tests such as availability for work whilst financial aspects, including the calculation and payment of the benefit, would remain the responsibility of the Benefits Agency (Financial Times, 22 June 1994). This meant that the unification of unemployment and social assistance benefits, which was one of the main goals of the Bill, could not be achieved. .

In October 1994, Peter Lilley and Michael Portal, the new Employment Secretary who replaced David Hunt in July 1994, signed the 1994 White Paper (cm 2687). The proposals intended to simplify the benefit structure for the unemployed, to provide a simple gateway service and to activate jobseekers into the labour market. These three major goals were matched by a set of policy instruments: 1- a new benefit with stricter entitlement rules (since the benefit lasts only 6 months instead of 12 under UB); 2 - the move of the staff of the BA and the ES in an unique location, e.g. jobcentres, and 3- increased powers for employment offices staff in controlling job search behaviour.

The proposals raised important security concerns among the staff of the Benefit Agency. The civil service trade unions, representing the staff who would administer the new benefit, were worried about working without protective screens. They feared that angry customers facing a cut in benefit could become violent.

5.4.1 The parliamentary process

The Jobseeker's Allowance was very controversial. The Labour party in the House of Commons and the House of Lords opposed its introduction. Labour and the TUC argued that it would be punitive and push people into inappropriate jobs. Labour MPs fiercely opposed the Bill as shown by the discussion at committee stage but the government was not hearing them. This was pointed out by the Financial Times:

“Anyone seeking the allowance must answer the question: 'What is the lowest wage you are willing to work for?' The amount has to be before tax, national insurance contribution or any other deduction and must not include bonuses or overtime. When asked repeatedly by Mr Ian McCartney, shadow employment minister, if there was any minimum wage figure that would be acceptable as a condition for receiving the Jobseeker's Allowance, Miss Widdecombe said there was none. ”

(Financial Times, 1 February 1995).

Despite this opposition, New Labour under the leadership of Tony Blair carefully avoided to commit the party to the abolition of the JSA for fear of being seen as soft on the unemployed. Tony Blair insisted that the JSA would stay in force under a Labour government. This is indicative of Labour’s approach to the unemployed under the auspices of the Third Way. In fact, the two main political parties reached an implicit intellectual consensus on the need to implement a tougher approach on the job shy. This was becoming New Labour’s mantra under the rhetoric of rights and responsibilities.

5.5 Assessment of the reform and alternative proposals in 1995-1996

The new regime had a difficult start: whilst its implementation was scheduled for April 1996, it came into force in October 1996. Policy instruments were not in place to regulate the new regime. Furthermore, the JSA was characterised by an extreme complexity. The need to simplify benefit administration was left intact by a Byzantine regime which led to increased confusion due to its incremental nature. This was the key to chairman of the Commons Social Security Committee Frank Field’s proposals. He argued that only a radical welfare reform could satisfactorily address the complexities and the inconsistencies of the unemployment protection system.

5.5.1 The new regime: the Jobseekers Allowance

Jobseekers's Allowance (JSA) replaced unemployment benefit and income support for unemployed people from 7 October 1996. There are two different types of JSA. Contribution-based JSA is paid to people who have satisfied the National Insurance contribution conditions; income-based JSA is paid to claimants who pass a means test. To qualify via either method, the claimant must be under pensionable age and cannot be in work for more than in 16 hours a week but must be capable of starting work immediately and be looking actively for employment. They also must have a current agreement with the Employment Service. If a claimant takes down a job offer without good reason, he may be denied further payments of JSA. Contribution-based jobseeker allowance can be paid for up to 6 months. Claimants cannot receive income support (IFS, 2000). Those who do not qualify for contribution-based jobseekers' allowance may be able to receive income-based jobseekers allowance if they have a sufficiently low income. Claimants cannot receive income support and must not be working more than 16 hours a week. Income-Based Jobseeker allowances are paid as long as the conditions are met (unlike contributory JSA, see table 3 below).

Table 3: The JSA

Membership	Compulsory
Waiting period	2 days
Qualifying condition	1. Contribution-based JSA (CB JSA) minimum 25 contributions to National Insurance Fund paid and 100 credited within last 2 years 2. Income-based JSA (IB JSA) Means-tested; savings over £3000 will affect the level of JSA, savings over £8000 disqualifies; disqualified if partner works for 24 hours per week or more; earnings for work below 24 hours will affect the level of benefit
Level	1. CB JSA and IB JSA: 18-24 year olds: £31.95 per week 25 and over: £53.05 per week 2. additions for IB JSA only: couple: £42, £53.05 or £83.25 (depending on age of partners) lone parents: £42 (under 18), otherwise £53.05 depending children (until 16 years of age): £31.45; older dependent children (until 19): £32.25 3. premiums: family: £14.50 Disabled child: £30 Carer: £24.40 Severe disability: £41.55 Pensioner: £39.10 (single); £57.30 (couple)

Maximum duration	CB JSA: 6 months IB JSA: in principle indefinite
Obligations	Availability, capability, actively seeking work Signing Jobseeker's Agreement specifying actions to find work and which type of employment Fortnightly interviews to re-establish benefit entitlement and review Jobseeker's Agreement

Source: Clasen, 2001.

5.6 Assessment of the reform and key problems

The JSA was delayed by 6 months due technical difficulties with its implementation. According to government officials, the delay was caused by problems in getting a new information technology system to deliver the benefit in time. There were also delays in training staff at the 1,200 Benefit Agency offices to operate the new benefit rules.

The new law achieved little in terms of rationalisation of the system. In fact, it increased the complexity in the management of an already tremendously piecemental and fragmented system. The JSA statutory regulations ran to more than 160 pages made up of 13 parts, eight schedules and 172 clauses (Financial Times, 21 August 1996).

The diagnosis of the opposition in 1995-1996 was that Conservative hire and fire policies created rising “job insecurity”. Gordon Brown, the shadow chancellor, claimed that 8.7m people experienced at least one spell out of work since the last general election (Financial Times August 1996). In this context, the JSA could only make matter worse. Long-term unemployment remained a major problem and a rising number of people experienced spells of unemployment, mainly due to low levels of skills. Therefore a more inclusive activation programme for the unemployed was in order. But in contrast to the TUC, Labour never called for the restoration of the 12 months entitlement period for contributory JSA. Moreover, New Labour was cautious not to attack new benefit entitlement rules as studies showed tougher eligibility criteria had a positive impact on getting people back in the labour market (see above). Moreover, one of the major reasons of Labour’s lack of opposition was the concern with welfare fraud, which was at the heart of the Conservative rhetoric behind the JSA. The fear of being seen as soft on “free riders” became one of the underlying factors of Labour’s lack of opposition to the JSA in the context proposals in 1996-1997. New Labour was committed to the advent of a responsible society, which meant that free riders would no longer be tolerated.

5.6.1 Alternative proposals

Labour proposed to launch special programmes for the under 25 since youth unemployment was a major problem. Frank Field's approach to welfare reform was integrated active inclusion. More modest proposals came from the Labour's Social Justice Commission in 1994.

5.7 Conclusion: a path dependent reform?

The JSA was in line with past Conservative policies and can be for this reason labelled as a path-dependent reform. Indeed, despite the original intentions of the Employment Secretary, David Hunt, the JSA went only halfway towards an integrated social activation strategy. The JSA was an unfinished business, as Frank Field was prompt to point out. Although unemployment rates started to decline in 1993, the British labour market remained highly polarised. The JSA left intact the problem of the working poor, long-term unemployment, regional disparities and lack of skills.

However, the JSA also represented a turning point in terms of its impact on New Labour's thinking since it reinforced the intellectual consensus on employability as a key solution to unemployment across the political spectrum. Indeed, in the mid-1990s Tony Blair was imposing the focus on supply-side policies after an internal battle between Old Labour and New Labour. New Labour ruled out demand-side reforms and accepted the emphasis on employability which was at the core of the Conservative agenda. However, Labour's proposals took into account the need to increase low-paid work through the re-introduction of wage regulation (the adoption of minimum wage).

6 The New Deals: 2001 Onwards
Section II

This paper is divided into four sections. The first section provides some background information regarding labour market trends and the structure of the unemployment system in 2001. It also describes New Labour policies. The second section explores endogenous and exogenous pressures for change which underlain the proposals for the redesign of the New Deal in 2001. Four main changes are being currently implemented. 1- An administrative revolution in the Public Employment Services through the creation of Jobcentres Plus, which consists of merging Employment Services and Benefit Agencies in order to create a single point of access to all benefit claimants; 2- the introduction of conditional social assistance; 3- Targeting resources at those who are hardest to help; 4- The introduction of more demand-led policies aimed at meeting employers needs. The goal is to move the vast majority of people of working age back in the labour market; receipt of means-tested benefits is becoming increasingly conditional upon attendance in work-focused interviews. The third section analyses the policymaking processes behind these f changes. The fourth section identifies the trajectory of welfare reform in 2002.

6.1 Background information

6.1.1 Labour market trends

In the UK, low levels of GDP growth in the second half of 2001 and the first quarter of 2002 suggested that unemployment might start to rise. Despite this, unemployment generally continues to decline. However, economic inactivity has started to increase marginally. This has been more evident amongst some population groups that had until recently benefited from improvements to their labour force position - particularly lone parents, ethnic minorities and older workers.
Moreover, employment growth has tailed-off since mid 2001 and some areas of the UK have experienced rises in unemployment (the North of England, Wales and Northern Ireland). Some sectors (manufacturing) are declining due to the macro-economic situation whilst others continue to grow strongly and are experiencing shortages (service industry, especially in the public sector; see also table 1 in the appendix). As the Work and Pension Committee put it in its third report: “The consequences for the Government's strategy are clear. Firstly, demand for jobs may grow at a slower pace than overall growth in the economy; secondly, new entrants and re-entrants will have to be equipped to higher standards of basic employability.” (HoC Select Committee on Work and Pensions, 2002).

6.1.2 Unemployment protection in 2001-2002

The extent to which the New Deal has involved a pattern of localisation of social assistance remains unclear. The New Deal for Young People (NDYP) has been at the forefront of the Government's intention of marrying national mainstream labour market policy with local flexibility (Millar, 2000). The Government emphasises that the NDYP involves an important degree of decentralisation and that it is delivered by local partnerships between the Employment Service (ES) and other agencies, mainly private providers. The Chief Executive of the Employment Service, stated that there should be "the maximum degree of flexibility" for the partners to decide how they would plan and contract the delivery of the New Deal Programme (Education and Employment Committee 1998, p. 19). While the basic structure of the programme is the same across the country - (a Gateway of four months followed by one of four Options and then a Follow Through) – there are variations in the partnership structures, delivery models and contractors used in the 144 different Units of Delivery (UoDs). In fact, the Employment Service maintained a firm grip over the New Deal. Typically, the New Deal involved a pattern of delivery fragmentation at the local level between Employment Services, local authorities and contracted out providers. However, responsibility for the system design remained located within the Employment Service, i.e., the central level (Lodemel and Trickey:2001).

The administrative division between passive and active policies was left intact by the New Deal: the Employment Service (ES) was supervising active labour market polices (training and control of the behaviour's claimant) under the responsibility of the Department of Education and Employment (DfEE) whilst the Benefit Agency (BA) placed under the responsibility of the Department of Social Security (DSS) was in charge of passive employment policies (benefit delivery). In practice, BA staff was located in the ES agencies, the jobcentres, in an attempt to create a single point of contact for jobseekers. Until 2001 the DfEE played a key role in the design of the New Deal. This was recently subject to changes due to a transfer of labour market prerogatives to social security. In June 2001 the Department of Social Security was renamed Department of Work and Pensions (DWP). DWP was formed from the Department of Social Security and the former DfEE, now called the Department of Education and Skills (DfES). The Department for Work and Pensions was created after the last May 2001 General Election with the principal aim of implementing the Government's Welfare to Work strategy.

The New Deal could potentially lead to major changes in the administration of the social security in line with a workfare strategy. Indeed, section 57 of the Welfare Reform and Pensions Act of 1999 specifies that benefit claimants under the age of 60 may be required to take part in a work-focused interview as a condition of benefit receipt. This section applies to income support, housing benefit, council tax benefit, widow's and bereavement benefits and all categories of disability benefits[1]. Although these new regulations were not yet implemented in 2000, the 1999 Welfare and Pensions Reform Act clearly provided the legal instruments to render social assistance benefits conditional on attendance in work-focused interviews.

6.1.3 New Labour policies in 1999-2000

The New Deals were extended gradually to other claimant groups in 1998-1999 (see the New Deal 1998 document for details). The New Deal has introduced a set of policies aimed at intensifying the job-search process and easing the transition into paid employment. The 6 New Deal programmes (New Deal for Young People, New Deal for Long-term Unemployed, New Deal for Lone Parents, New Deal for 55+, New Deal for Disabled and New Deal for Partners of Unemployed People) are part of a consistent supply-side model. This model is based on a range of 'joined-up' policies, linking labour market policies with efforts to 'make work pay' (minimum wage, tax credits) and other services which increase incentives to move off benefits and into work (Clasen, 2001). Thus demand side policies are virtually non-existent, which may raise future problems in case of recession (Work and Pension Committee, 2002). The New Deal programmes are also part of an evidence-based policy, which has gained renewed currency in the context of the current Labour government's commitment to modernise government (Sanderson, 2002:4). The government's activation strategy is based on a constant array of in-house, commissioned and independent evaluative research, which feeds into new pilot and experimental schemes in order to adapt and expand existing programmes. However, such policies are in fact limited in scope since they take place in an overall context of a **low-wage, low-inflation equilibrium, which is still dominant in the UK despite the introduction of the minimum wage at a relatively low level**

6.2 Pressures for change and policy debates in 2000-1

The government's strategy consists of broadening welfare to work programmes through mandatory programmes for all economically inactive people and changes in administrative delivery. Several influences are at play in this process. Exogenous pressures - apart from American influences- are relatively marginal in setting the agenda for change in 2000. Change in programme design is due to endogenous pressures, mainly messages from research.

6.2.1 Exogenous pressures for change

The OECD

Shifting claimants from receiving monetary transfers towards participation in training, job creation, work experience and other forms of labour market integration measures is a common trend across many countries. However, the OECD has advocated for the need to provide a single integrated service for all working age people, a recommendation which resonates well with the creation of a network of Jobcentres plus across the country (OECD 1998).

European influences

The European Union (EU) Joint Employment report (COM, 2001) does not mention the integration of Public Employment Services (PES) into a single agency in its recommendations to the UK. However, the report advocates for the improvement of existing local partnerships in order to render labour market policies more responsible to local needs. To some extent, this recommendation was taken into consideration by the National Action Plan in 2002. The EU report also recommends to target efforts on most vulnerable groups such as older workers, lone parents and ethnic minorities. The extent to which the redesign of the New Deal can be considered a response to the EU employment strategy remains, however, very unclear.

American influences

Welfare reform in the UK is influenced by American influences in three major ways. First, the current government is promoting a *Work First approach*[2] whilst at the same time defining targets for job retention. The *Work First Approach* is the main rationale for the current reform administrative of Public Employment Services, i.e. the creation of jobcentres plus. When announcing the creation of Jobcentres Plus, the Secretary of State for Work and Pensions, Alistair Darling declared:

" Why are we setting up Jobcentre plus? The main reason is so we can provide everyone with the help they need to get into work, or if they lose their job - to get back as quickly as possible. It is a work first approach." (Pioneer, issue 7, January 2002).

Second, the decision to establish a one single point of service to all benefits claimants is at least partially based on the American welfare reform experience. Policy learning from the USA is the explicit aim of frequent visits at the administrative, academic and evaluation level. Alistair Darling emphasised the need to move from a benefit eligibility culture to a culture of personalised assistance with job search, which implied the removal of screens in the New Jobcentres. To justify this step, he referred to the American experience:

“ On the screens, I have made it clear to staff that we cannot deliver the sort of service we want, under Jobcentre Plus, of seeing people, helping them into work from behind a glass screen…But I was in America a couple of years ago and I went to an area in New York which was a pretty tough sort of area and they had taken down their screens and they have had not any trouble since.” (Select Committee on Social Security, May 2001).

Third, the move towards compulsion under the current redesign of the New Deal for Lone Parents and Disabled People is also based on American welfare to work, but there are differences between the UK and US approaches. In particular, a crucial element of *Temporary Assistance for Needy Families* (the programme for lone parents on welfare benefits) consists of imposing a five year time limit for receiving passive benefits. Time limits are not considered a viable option and do not appeal to policymakers. The Work and Pension Select Committee ruled out the idea of time limits after a visit to the USA in June 2002:

“ How can so-called 'inactive' groups be encouraged to participate in the work programmes on offer, and should the Government be seeking to enforce its "work first" message by threatening penalties, as it does for participants in New Deal for Young People (NDYP) and New Deal 25 Plus (ND25+)? On our study visit to the United States, we had the opportunity to observe the US welfare system - limited in the main to lone parents - where the "work first" ethos is reinforced by an absolute federal time limit of five years on claiming welfare and where participation in welfare to work programmes is obligatory, with the imposition of sanctions (extending to "full family sanctions" - the loss of all benefit for the family) - in some states if the lone parent does not comply. **We reject the options of time limits on benefits and requiring lone parents to work as a condition of receiving benefit” (HoC, 2002, 815).**

However, the Work and Pension Select Committee - where Labour MPs are the majority, the Chairman being a Liberal democrat - accepted the notion of work-focused interviews for benefit claimants, especially for lone parents but also for disabled adults. The endorsement of a *work-first approach* therefore entails the adoption of local workfare based on regular control of benefit claimants behaviour.

6.2.2 Endogenous pressures

As the New Deal has been based from the start on a continuous evaluation exercise (see the 1998 New Deal document), messages from research have played an important role in the redesign of the programme. The Work and Pension Select Committee, on the one hand, and the Employment Select Committee on the other hand, have enabled to gather the views of the relevant local actors (the partners of the New Deals). This does not mean that they played an actual role in the decision-making process.

6.3 Key actors, problems and diagnoses of the problem

6.3.1 Key actors

At the national level, the Conservative Party and the Liberal Democrats had little influence if any on the redesign of the New Deal, not least because the opposition has been muted since its second defeat in the May 2001 General Election. Within Whitehall, the former DfEE under the leadership of David Blunkett, then secretary of State for Education and Employment, was a key player in the redesign of the New Deal. The Employment Service was also a leading agency in the process due to its direct involvement in the monitoring of active labour market policies, but has now been transferred to the JobCentre Plus under the leadership of the DWP.
The DSS and later the DWP equally played a key role in the redesign of the New Deal. For instance, the DWP has a social research division which commissions external research and evaluation and carries in house evaluation. The Employment Service has pursued the same policy.
By contrast to the Employment Service, the Benefit Agency was not an important player. In fact, under the leadership of Alistair Darling, the DSS tried to regain some control on the management of the social security system and confined the BA to a more subordinate position.
Although the Treasury was not formally involved in the design of the New Deal, the Treasury was a key player because of the close monitoring of departmental spending. Alistair Darling and Gordon Brown maintained a close working relationship. The Social Security Committee mentioned that the DSS had little autonomy, if any, vis-à-vis the Treasury. Lastly, the Department of Trade and Industry was also involved in the design of the New Deal.

Parliamentary debates are almost non existent in the New Deal. In contrast to the Job Seeker Allowance there has been no Act of Parliament concerning the New Deal, apart from the 57 section of the Welfare Reform and Pension Act.

The Confederation of British Industries has been described as the real leader of the opposition (The Times, 12 November 2002). It should be noted that the government –

especially the Treasury and the Cabinet Office- has deliberately avoided to confront capital, which explains why the politics of employability has been dominated by business interests.
The extent to which the TUC can be regarded as an important player is highly debatable as there is no evidence of a strengthened labour movement. However, the New Deal is based on the notion of local partnerships. Providers have also been able to play a limited role. One leading agency is Working Links, which is partly owned by the Employment Service. Working Links has obvious links with the American contractor America Works (Financial Times, 22 January 2001).

6.3.2 Identification of the problems

In 2001, two problems were identified as major causes for concern in relation to active labour policies: persisting level of worklessness amongst disadvantaged groups; stubbornly low levels of employment and persisting high levels of inactivity in certain areas such as the North of England, Wales and London.

Diagnoses of the problems: competing explanations

Persisting levels of worklessness among disadvantaged groups were already a major cause for concern. The policy discourse is becoming more sophisticated as the government establishes a distinction between the youth who have no good reason to be idle and truly disadvantaged groups such as older workers, lone parents and the disabled. The youth have no excuses for being idle in the current system as the education Secretary, Charles Clarke, recently pointed out (the Times, 13 November 2002).
The explanation for high levels of inactivity for disabled adults and lone parents combine two competing explanations. The first is that both groups are not taking available jobs due to a poor work ethic (the classic dependency culture argument). The second focuses on barriers to employment such as lack of adequate childcare, relevant skills and lack of labour market attachment due to long inactivity spells. The second explanation for understanding inactivity therefore focuses on the hardest to employ as those who are job-ready are now back into the labour market.

High levels of inactivity in certain areas such as the North of England, Wales and London pose a serious dilemma to the government. Indeed, individual employability measures are not sufficient to fight unemployment in deprived areas as various New deals evaluations repeatedly point out. There has been a tendency for the Government to downplay the regional variations. The Work and Pensions Select Committee Third Report quoted various testimonies from local authority representatives. “Mr Webster, Glasgow City Council When asked for potential solutions to the regional differences said that: The most helpful single thing that the UK Government... could do would be to stop saying that there are not any important local jobs gaps and start saying that they expect all levels of government to promote maximum employment growth in the areas which have the most difficult labour markets." (HoC Work and Pensions Committee, 2002).

In light of these hard facts, the government is reluctantly accepting that a lack of demand for labour may be in some areas a major cause of low employment rates. The Employment Zones were a response to this problem. Since April 2002, the government is experimenting pilot job creation schemes such as Step 1. More demand led policies may then become necessary, which raises the issue of the compatibility of demand-led strategies with the government's reluctance to regulate the labour market.

6.4 Policy making processes behind the redesign of the New Deal

6.4.1 Proposed solutions

The overarching goal of welfare reform in 2001 is to "transform a passive benefit system into an active welfare state" (Cm 5260, 2001: 73). This policy is clearly based on a *Work First Approach*: " Although the progress on raising employment rates has been encouraging, there are still many people who are on benefit when they could be working. We believe that nobody should be written off or be allowed to write themselves off (Cm 5260, 2001: 73).

The solutions to the problems identified in section 2 are fourfold: 1- a change in the Public Employment Services through the creation of Jobcentres plus; 2- the expansion of conditional social assistance; 3- Targeting resources at those who are hardest to help; 4- the introduction of more demand-led policies aimed at meeting employers needs.

1 - The creation of Jobcentres Plus: The creation of a network of *Jobcentre Plus* was announced in the government's Green Paper *Towards Full Employment in a Modern Society* in March 2001 (Cm 5084). The new agency integrates social benefits delivery (the former Benefit Agency) and labour market measures (the former Employment Service). This administrative change is being implemented gradually. Starting in October 17 areas Jobcentre Plus pathfinder offices are offering a fully integrated work and benefit services. However, the DWP acknowledges that "it will take several years to integrate the entire local office network of Jobcentres and Benefits Agency offices fully. During this time, services will continue to be provided in local social security offices and Jobcentres, which will be part of the Jobcentre Plus network." (DWP website).

2- The gradual introduction of conditional social assistance for all working age benefit claimants: "With the start of Jobcentre Plus, everybody making a claim to benefit in those areas will be required to take part in work-focused interviews, to find out about the options available to them (Cm 5260:73). This recommendation is based on the provisions of section 57 of the 1999 Act. Since April 2002 all lone parents are required to attend annual work-focused interviews before applying for Income Support (Cm . 5260, 2001: 79). Participation in the New Deal remains voluntary. In practice, personal advisors will scrutinise the needs of all benefit claimants since all people will have a work-focused interview to discuss the opportunities available for taking up work. People on incapacity benefits are now required to attend work-focused interviews as a condition of benefit receipt as announced by the Secretary of State for Work and Pensions, Andrew Smith. Moreover, they will lose 20% of their benefits if they fail to attend (Guardian, 19 November 2002).

3- Targeting resources at those who are hardest to help. The DWP has committed itself to pursuing active labour market interventions regardless of the stage in the economic cycle. It recognises that its efforts towards the harder-to-help categories of non-employed must be increased if the labour market turns downwards:
"If the economy is weakened, it is not the newly unemployed who would be most affected, but those farthest away from the jobs market Jobcentre Plus and other measures targeted at particularly disadvantaged individuals and areas are the right ones to pursue whatever the stage of the economic cycle." (HoC 2002). Special effort is given to the childcare needs of single parents: by 2004, there should be a childcare place for every lone parent entering employment in the 20 most disadvantaged areas. A childcare co-ordinator will be introduced in every Jobcentre in April 2003. The DWP is trying to help the hardest to employ who are now on the welfare rolls.

4- The implementation of a demand-led strategy. This was a major theme of the Government's Green Paper *Towards full employment in a modern society.* The Green Paper emphasises the importance of moving the New Deal and the workforce development system as a whole from being supply-driven (developing clients' skills generally) to demand-led (where the starting point is engaging employers in the design of training and work experience and using their hiring requirements to define programme content and the basic standard of job readiness clients need). The strategy requires Jobcentre Plus to have a 'dual-customer focus,' both serving the needs of benefit claimants and also employers.

6.4.2 The leading role of the Department of Work and Pensions

Tony Blair himself announced the creation of Jobcentres Plus as they are clearly an example of the government's "work-first approach" to benefits (Guardian, June 10, 2002). The Treasury also plays a leading role although the New Deal is not formally a Treasury policy. Frank Field, the former social security Minister, argues: "All the big initiatives in that ministry are planned in the Treasury. Some departments have become, in Bagehot's phrase, little more than "the dignified parts of the constitution." (Guardian, 16 April 2002). The Treasury is now considering options to "tighten up" the New Deal - aimed at underlining "the right to work if you can". The chancellor said the changes were likely to affect the registered unemployed, rather than lone parents or people with disabilities. The Chancellor said that despite the success of the New Deal, thousands had fallen through the net, "able to work but unwilling to do so". The new measures would ensure that "the opportunities offered are matched by the obligation to make the most of them" (Financial Times, 17 September 2002). The advisor on labour market issues is at present Paul Gregg, from the University of Bristol.
The DWP has been confirmed as the leading department in the implementation of welfare reform. The new Secretary of State for Work and Pensions, Andrew Smith, who replaced Alistair Darling in June 2002, was previously Treasury chief secretary.

The main departmental responsibilities are located within the DWP, but the DfES (the ES in particular), the Treasury and the Department of Trade and Industry equally play an important role (see table 2 in the appendix). The DWP has been reorganised around three key client groups (working age, children and families and pensioners) to reflect the different policy and service strategies of each. The Working Age Group Director was Ursula Brennan.

Within Whitehall, the DWP has taken over responsibilities of the Employment Service and there was thus a considerable transfer of competencies from the DoEE towards the DWP. The Chief Executive of JobCentre Plus is Leigh Lewis, previously at the Employment Service. In the DfES Ivan Lewis is the under secretary of state for adult learning and skills. His area of responsibilities includes employability and competitiveness – skills agenda as well as links with the DWP.

6.4.3 The positions of other actors

The Conservatives are still relatively muted due to 1) their defeat in the 2001 General Election 2) their internal divisions (cf. the crisis of the leadership of Iain Duncan Smith) and 3) the consensus about the desirability of welfare-to-work strategies.
Some Labour MPs on the left criticise the compulsory approach and point out that unemployed and economically inactive need more help, no compulsion since they have structural barriers to employment such as lack of skills, alcohol or/and drug abuse problems (Financial Times, 16 September 2002).
Likewise, the Child Poverty Action Group is opposing plans to tighten up the un0employment protection regime on the grounds that it is already the strictest regime ever. In their view, noting else can be done to reinforce the powers of the Personal Adviser (Financial Times, 16 September 2002).

The CBI supports the new schemes and welcomes the emphasis on employer needs.

The TUC has reservations about the compulsory element of the programmes. The TUC has accepted the principle of a one work-focused interview for benefit claimants. However, the organisation notices the important mile-stone represented by the work-focused interview obligation now imposed on lone parents (and other groups, such as disabled people): " For the first time there is an employment-related benefit criterion applied to claimants who are not counted as unemployed. This is a new feature of the British social security system, and is an important element of the way it is moving from being 'passive' to "activation." (TUC news, 2002). It has also consistently argued for a job creation supplement to the New Deal, a proposal which had been partially implemented in April 2002 with the launch of a Step UP programme on a experimental basis. The new scheme is strongly supported by the TUC since very closely resembles the intermediate labour market programme they proposed more than two years ago - recruitment concentrated on people with the most severe problems, work paid at least the national minimum wage, time off for jobsearch and help throughout from a support worker.

The Public and Commercial Services Union (PCS), the union that represented civil servants and other workers in the Employment Service and the Benefit Agency, opposed the removal of the screens in the new Jobcentres plus for security reasons.

6.5 Assessment of the reform and on-going concerns

6.5.1 Path-dependency of the re-design of the New Deal

The reforms implemented in 2001-2002 do not involve a substantial re-casting of the New Deals. Change is incremental and does not require a transformation of policy goals. The government is pursuing its workfare approach, which was already the main rationale for the creation of the New Deal in 1995-1996. In fact, the government is remarkably consistent in its attempt to move all people from welfare to wok using a combination of sticks and carrots. The government is adopting a tougher stance on jobseekers. The main impetuous for reform is the change in the nature of the benefit claimant population, which requires the development of old and new policy instruments.

Old policy instruments – by New Deal Standards – are: subsided employment, enhanced opportunities for job seekers, sanctions in case of non compliance with programmes requirements, especially work-focused interviews and personal assistance with job search. Personal advisers are given increased powers and are now responsible for assessing clients' eligibility to benefits regardless of their status. This duty used to be the responsibility of benefit agencies.

New policy instruments involve a radical managerial and cultural revolution within the Public Employment Services. The launch of JobCentre plus can be thus regarded as a new policy instrument although the creation of one-stop services has been a on-going goal since the implementation of the JSA in October 1996.

New policy instruments also involve the development of specific programmes in order to address severe and structural barriers to employment such as drug and alcohol abuse, mental health problems (chronic depression is labelled as “lack of self-esteem in the New Deal jargon) and homelessness. For instance, the DWP has set up a special programme for drug addicts, "progress2work". It is already piloting a scheme which compels participants who need to beef up their literacy and numeracy to take courses, under pain of benefit sanction. In 1998-99, about 275,000 benefit sanctions were imposed on people who were deemed not to be making enough effort to find, or stay in, work (Financial Times, 16 September 2002).
These new programmes are expanding as the claimant benefit population is changing: job-ready people have found paid employment and those who remain on benefits are, in some cases, just not employable under current labour market conditions.

Demand-led strategies have led to the implementation of job creation schemes such as Step 2 on a Pilot basis. The key policy instruments are the Innovation Fund, one the one hand, and Step Up 1- and 2, on the other hand. The government launched the Innovation Fund in 1999 in order to test the intermediary approach. Intermediaries can be public, private or not-for-profit and need not be New Deal contractors. Intermediary organisations can provide specialised pre-employment and post-placement services. They can help unemployed and disadvantaged people to get, keep and advance in jobs and careers. They help to define business requirements and offer assessment and then education and training that are specially customised for employers. Many provide support services and skill development after job placement along with training for front line supervisors. They have an employer-focused, demand-led approach. Likewise, personal advisors are required to identify employers' needs and gently persuade them to recruit. Whilst job seekers are subject to an increasingly compulsory regime, no compulsion or regulation will be applied to reluctant employers. The politics of persuasion is the only policy instrument at the government's disposal to address the problem of labour skills shortage and lack of demand for labour in declining sectors and deprived areas.

6.5.2 Ongoing debates and concerns

Trade-Unions, Labour's Left and welfare organisations are increasingly uneasy about the radical move towards a workfare regime. This has been an on-gong concern since at least 1996. Another source of concern is related to the stigmatisation of the poor. The problem is how to draw a line between the deserving and the undeserving poor under the tougher stance on voluntary joblessness announced by Gordon Brown in his speech against "those who are able to work but unwilling to do so". (FT 16 September 2002).

Another on-going problem concerns the issue of *job retention*. In fact, many claimants, especially the most vulnerable, keep going back to the JSA or income support after short periods of paid work. In the case of the New Deal for Young People, which is the most successful of all New Deal programmes, 20 % of benefit claimants come back to the JSA after short period of paid employment, that is, less than 13 weeks. Indeed, the official definition for *sustained employment* is a work experience of 13 weeks, which is in fact very short (less than four months). Moreover, 29% of NDYP participants leave the programme for unknown destinations (National Audit Commission, 2002).

Lastly, there is some concern concerning the performance of the New Deal in case of a recession (DWP, 2002).

6.6 Conclusion

In sum the reform of the New Deal can be best characterised as path-dependent despite the creation of new policy instruments. These developments suggest a process of convergence within New Deal. The programme is increasingly becoming compulsory for all categories of clients and places an even greater emphasis on flexible, short-term support for job search. In the future, the New Deal should become the same for all clients although individuals would draw upon different aspects of the programme: " Should this come about, it would mean that New Deal would be less a set of targeted programmes and more a mainstream activity of Jobcentre Plus." (Hasluck, 2001:234).

The involvement of the Treasury remains equally clear and Welfare-to-Work coupled with the implementation of a work first approach is jointly designed by Tony Blair and Gordon Brown with the full approval of the DWP.

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6.8 Appendix

Table 1: Employment change by region and sector, 2001-2001

Employment change by region - employees, UK, seasonally adjusted (Standard Statistical regions)				
Men & women	**Dec-00**	**Dec-01**	**Annual Change**	
East Anglia	905,000	912,000	+7,000	+1%
East Midlands	1,724,000	1,740,000	+17,000	+1%
London	4,047,000	4,073,000	+26,000	+1%
North West	2,629,000	2,641,000	+12,000	0%
Northern	1,148,000	1,141,000	-8,000	-1%
Northern Ireland	644,000	648,000	+4,000	+1%
Scotland	2,215,000	2,190,000	-25,000	-1%
South East	4,927,000	4,926,000	-2,000	0%
South West	2,013,000	2,057,000	+44,000	+2%
Wales	1,079,000	1,070,000	-8,000	-1%
West Midlands	2,270,000	2,271,000	+2,000	0%
Yorkshire and Humberside	2,071,000	2,072,000	+1,000	0%
Total	**25,671,000**	**25,741,000**	**+71,000**	**0%**
Employment change by sector - employees, UK, not seasonally adjusted (SIC 92)				
Men & women	**Dec-00**	**Dec-01**	**Annual Change**	
Agriculture and fishing	280,000	252,000	-27,000	-10%
Energy and water	177,000	179,000	+2,000	+1%
Manufacturing	3,904,000	3,745,000	-159,000	-4%
Construction	1,161,000	1,245,000	+84,000	+7%
Distribution, hotels and restaurants	6,158,000	6,244,000	+86,000	+1%
Transport and communications	1,552,000	1,547,000	-5,000	0%
Banking, finance and insurance, etc	5,018,000	4,990,000	-28,000	-1%
Public administration, education & health	6,270,000	6,392,000	+122,000	+2%
Other services	1,288,000	1,288,000	0	0%
Total	**25,809,000**	**25,884,000**	**+ 75,000**	**0%**

Source: House of Commons Select Committee on Work and Pensions, Third Report: "The government's employment strategy".

6.9 Table 2: Main Departments' responsibilities in relation to ALMPS

Ensuring macro-economic stability	Treasury
Promoting competition, enterprise and innovation	DTI
Tackling discrimination	DWP and DTI
Making work financially worthwhile	Treasury and DWP
Broaden welfare-to-work programmes to focus more on those who are economically inactive and long-term unemployed adults, as well as improving the delivery and responsiveness of the New Deal. Make the New Deal a permanent deal, and continually seek to improve it.	DWP
Investment in learning to ensure that people have the skills and to update and add to these skills in response to a changing economy - help break the "low pay, no pay" cycle and help people stay and progress in work.	DfES
Put employers at the centre of the strategy and ensure that improvements in skills training are based on the needs of employers.	DWP
Promote diversity and create opportunities for all.	DTI
Assist the hardest to help	DWP
Improve the service for all people of working age, who are either claiming benefit or seeking work and apply the principle of employment first for all working age benefit claimants.	DWP

Source: House of Commons Select Committee on Work and Pensions, Third Report: "The government's employment strategy".

[1] See Rhodes M. (2000), " Social democracy and the third way in British welfare", *West European Politics*, p. 178-179.

[2] Welfare in this context equals means-tested cash benefits such as Income support, disability benefit and the like. Contributory-benefits based on National Insurance contributions are not part of the welfare system. Child Benefit, being a universal allowance, is not included in the welfare category.